

Monitor

Making the health sector
work for patients

Guidance on the 2015/16 annual planning review for NHS foundation trusts



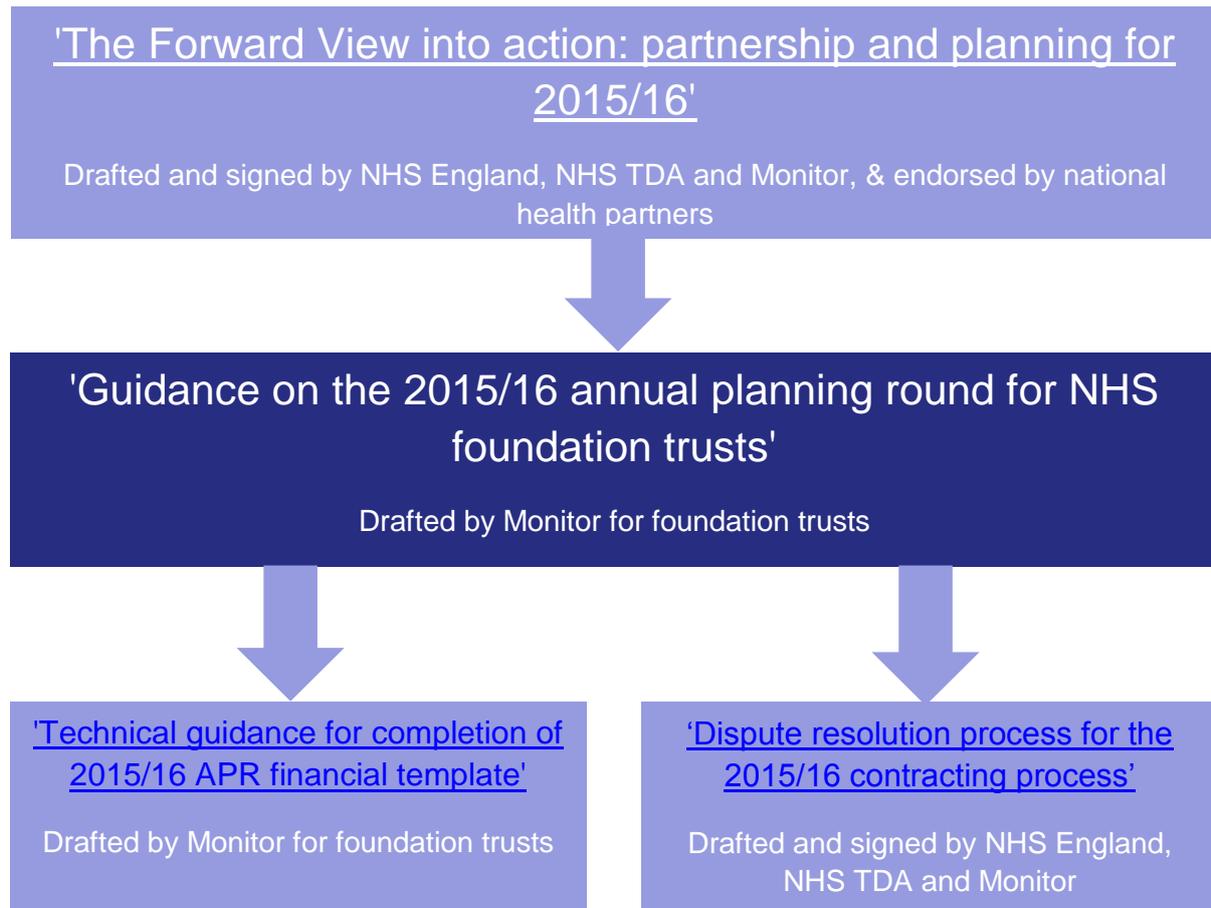
About Monitor

As the sector regulator for health services in England, our job is to make the health sector work better for patients. As well as making sure that independent NHS foundation trusts are well led so that they can deliver quality care on a sustainable basis, we make sure: essential services are maintained if a provider gets into serious difficulties; the NHS payment system promotes quality and efficiency; and patients do not lose out through restrictions on their rights to make choices, through poor purchasing on their behalf, or through inappropriate anti-competitive behaviour by providers or commissioners.

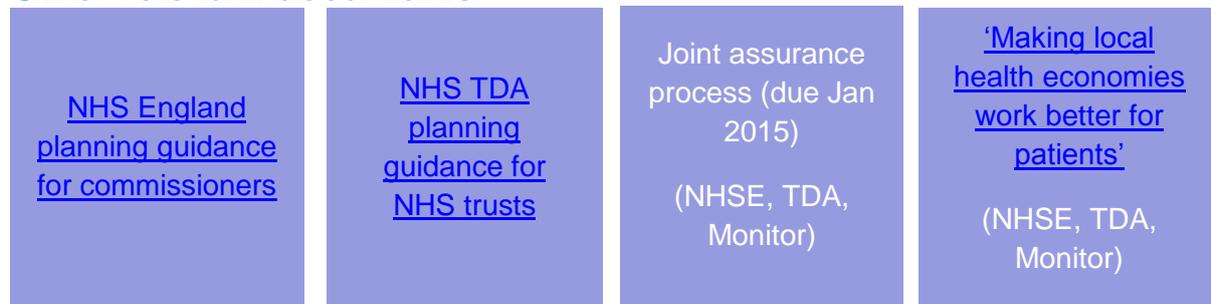
2015/16 planning guidance: how to use this document

This document is Monitor's foundation trust-specific guidance on the 2015/16 annual planning review (APR) and our regulatory approach to it. It should not be read in isolation, but rather alongside, and in the context of, the joint planning guidance set out in '[The Forward View into action: partnership and planning for 2015/16](#)' (see below).

Suite of planning guidance, 2015/16



Other relevant documents



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1 APR 2015/16 at a glance

<p>Five Year Forward View: what are our expectations of foundation trusts?</p>	<p>The 'Five Year Forward View'¹ highlighted that major system changes are required to protect high-quality, sustainable care for patients now and into the future.</p> <p>In this context, Monitor has two main expectations of foundation trusts:</p> <ul style="list-style-type: none">• To address any performance issues engaging appropriately with health system partners. This means meeting operational and financial requirements and having the flexibility and capacity to overcome unexpected short-term difficulties along the way. For ease, we refer to this as 'resilience'.• To put together, deliver and evolve a credible strategy for achieving the required performance levels into the long term. We refer to this as 'sustainability'.
<p>What role does annual planning by foundation trusts play in addressing these expectations?</p>	<p>Plans are not the goal in and of themselves. However, without a robust process to consider the case for change, prioritise the strategic options available and consider how these will be implemented on a practical level, it is unlikely that these expectations will be met.</p> <p>Plans are the output of this process – they can and should underpin the delivery of both resilience and sustainability.</p>
<p>What type of plans are being requested from foundation trusts in the 2015/16 planning round, and when?</p>	<p>We require a one year operational plan only, sitting within the context of your overarching strategy:</p> <ul style="list-style-type: none">• High-level draft plan by midday on 27 February 2015. This major change is a response to the current level of risk in the sector, and the need for early foresight of the potential risks and challenges ahead.• Final detailed plan by midday on 10 April 2015.• Additional reporting requirements for financially distressed foundation trusts.• Submission of a new five year strategic plan is not required for 2015/16. A new strategic plan may be

¹ See <http://www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf>

	requested later in 2015, with 2016/17 being 'year one'.
What do we expect foundation trusts to consider when creating their operational plans?	<p>Sustainability:</p> <ul style="list-style-type: none"> • How last year's strategy has been updated (recommitted to, refreshed or recreated): in light of <ul style="list-style-type: none"> a) the foundation trust's 2014/15 performance b) any changes to its internal/external environment • How the foundation trust will achieve progress against that strategy in 2015/16 with particular reference to 'The Forward View into action: partnership and planning for 2015/16' <p>Resilience:</p> <ul style="list-style-type: none"> • How quality, operational and financial requirements will be met in 2015/16. • Plans should be underpinned by strong supporting financial projections.

2 The role of annual planning

2.1 Section overview

This introductory section sets out the purpose of this document, a contextual background to the 2015/16 planning round, Monitor's general expectations of foundation trusts, and the key role of planning.

2.2 Purpose of this document

This guidance sets out Monitor's individual planning requirements for foundation trusts, based on the common priorities and assumptions agreed by the national health partners.

It should not be read in isolation, but rather alongside, and in the context of, the joint planning guidance set out in '[The Forward View into action: partnership and planning for 2015/16](#)'.²

2.3 The context for the 2015/16 planning round

While recognising tangible efforts throughout the foundation trust sector to improve strategy development, and huge efforts elsewhere to tighten the grip on day-to-day operational pressures, we need to recognise the scale of the challenges. Due to a combination of internal trust factors and wider pressures across the health system, there has been a marked deterioration in operational and financial performance over the 18 months spanning 2013/4 and the first half of 2014/15.^{3,4,5}

- The sector's overall financial performance has deteriorated significantly:
 - Based on current performance, the sector forecasts a 2014/15 year-end net deficit⁶ of £271 million; this would represent the first ever year of aggregate deficit in foundation trust history. In 2012/13 the sector had an aggregate surplus of £491 million.

² See <https://www.gov.uk/government/publications/annual-planning-review-201516-guidance-for-foundation-trusts>

³ See 'Performance of the foundation trust sector: 6 months ended 30 September 2014', available at <https://www.gov.uk/government/publications/nhs-foundation-trusts-quarterly-performance-report-quarter-2-201415>

⁴ See 'Performance of the foundation trust sector: year ended 31 March 2014', available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319396/BM1447_Q4_NHS_FT_Performance.pdf

⁵ See 'Report to Monitor Board, 2013/14 Annual Plan Review, 24 July 2013', available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284608/indepthreviewBM1386_APR_201314.pdf

⁶ This is defined as surplus/(deficit) before impairments and gains/(losses) on transfer by absorption.

- At Q2 2014/15 81 foundation trusts were in deficit, compared to 16 in Q4 2012/13.
- On current run rate, 2014/15 will represent the second year in a row where the financial performance of the sector as a whole is materially worse than plan. In 2013/14 EBITDA⁷ margin was 0.5% behind plan; for Q2 2014/15 it is 0.8% behind plan.
- Foundation trusts continue to underperform against a number of key operational targets, showing a like-for-like decline from last year:
 - The number of foundation trusts breaching A&E waiting time guidelines tripled from 11 in Q2 2013/14 to 33 in Q2 2014/15.
 - The number of foundation trusts failing cancer waiting time targets rose from 20 in Q4 2012/13, and 12 in Q2 2013/14, to 32 in Q2 2014/15.
 - The number of foundation trusts breaching the referral to treatment (RTT) standards for admitted patients more than tripled from 14 in Q4 2012/13 to 50 in Q2 2014/15.
- Many foundation trusts do not yet appear to have viable long term solutions in place to counter these challenges. Our analysis of the June 2014 strategic plans suggests we can only have confidence that approximately 30% of the foundation trust sector strategic plans articulate a clear path to sustainability.
- The scale of the task facing foundation trusts is unlikely to reduce in 2015/16. Demand for services continues to rise, and this year in particular presents a raft of new challenges: the introduction of the Better Care Fund (BCF), pension reforms, and uncertainty about changes in spending and health policy that may follow the 2015 general election.

2.4 Monitor's expectations of foundation trusts

In this context, we have two key expectations of foundation trusts connected to the annual planning process:

- 1) We expect foundation trusts to develop their strategic position, engaging with health system partners in the process, to address issues of poor performance. This means meeting the operational and financial requirements set out in the Monitor provider licence and NHS mandate; and to have the flexibility and capacity to overcome unexpected short-term difficulties along the way. For ease, we refer to this as '**resilience**'.

⁷ Earnings before interest, taxes, depreciation, and amortisation.

- 2) We expect foundation trusts to put together, deliver and evolve a credible strategy for achieving the required levels of performance into the long term. We refer to this as '**sustainability**'.

2.5 The role of strategy development and planning

Planning is not a goal in itself. However, foundation trusts are unlikely to be able to deliver on our expectations without a well-articulated vision for change, robustly underpinned by a clear and coherent roadmap for delivery. This means:

- An ambitious long-term strategy for delivering **sustainability**. Each foundation trust's strategy development process – the output of which should be a credible **strategic plan** for delivery – should remain live, evolving in response to changes in internal performance and external factors. Monitor's '[Strategy development toolkit](#)' offers guidance for this process.⁸
- A detailed **operational plan**, which sets out how the foundation trust will meet our expectations of progression of its strategic agenda for **sustainability**, whilst also focusing on tackling performance issues and ensuring short-term **resilience**.

Both strategic and operational plans form a core part of Monitor's planning cycle for foundation trusts. Operational plans will be requested annually, and strategic plans at less frequent intervals. The exact timing of strategic plans will in part depend on the external context, for instance a major change in the policy environment.

Monitor and the TDA are hosting two free conferences early in 2015 (details of which can be found [here](#)) which are focussed on strategy development, and will be an opportunity to discuss the strategy development toolkit in more detail, as well as the implications of the Five Year Forward View and Dalton Review for local strategies. These are development events, and Monitor's Annual Planning Review team will be available for questions on both days.

⁸ See Monitor's 'Strategy development toolkit', available at <https://www.gov.uk/government/publications/strategy-development-a-toolkit-for-nhs-providers>

3 The annual planning round for 2015/16

3.1 Section overview

This section sets out Monitor's expectations for the 2015/16 annual planning round. This will include: the revised submission timetable and process; a summary of what we expect foundation trusts' plans to include; our approach to reviewing and feeding back on those plans; and a round-up of the various regulatory actions we might consider in response.

3.2 Where does 2015/16 sit in Monitor's planning cycle?

In the 2014/15 planning round we asked foundation trusts to develop robust strategies for achieving sustainability, and requested that these be explained in strategic plans submitted in June 2014.⁹

Although we expect each foundation trust to evolve its strategy, in most cases this does not mean fully recreating them – in fact, we would generally consider this counter-productive.

We are therefore asking for a **refreshed operational plan** only, that shows how each foundation trust plans to meet our expectations (see Section 2.4).

Monitor, the NHS Trust Development Authority (TDA) and NHS England will continue to work together to establish a foundation for longer term planning based on the '[Five Year Forward View](#)'. We expect a new round of strategic plans by providers and commissioners to be announced later in 2015/16, with 2016/17 likely to be the first year of the plans. We will keep the sector updated when a timetable for future planning rounds has been agreed.

3.3 Developments to planning in 2015/16

3.3.1 Update on the planning timetable and requirements

Please note that there have been two major changes to Monitor's requirements following the initial planning timetable published in November's 'FT Bulletin'. These are in response to the financial fragility, both individually and in aggregate, currently shown by the foundation trust sector, and the need for Monitor and the Department of Health (DH) to plan ahead and better understand the risks:

- Period of financial projections reduced to **one year only (2015/16)**

⁹ The summarised versions of these plans have been published online, together with foundation trusts' 2014/15 Continuity of Services Risk Ratings. See <https://www.gov.uk/government/publications/nhs-foundation-trust-directory/nhs-foundation-trust-directory>

- Introduction of high-level **draft plan submission on 27 February 2015**, against which we will be able to provide meaningful feedback ahead of the final plan submission in April (as set out in Section 3.6).

By focusing on forecasts for 2015/16 only, and by introducing this additional assessment and feedback phase into the planning cycle, we hope to enable final plans to be more robust and better aligned with those of local health partners, as well as obtaining an earlier view of risks in the sector.

3.3.2 Weekly contract tracker

In order to encourage the alignment of foundation trusts' plans with those of commissioners we now require foundation trusts to take part in a weekly contract tracker¹⁰.

Beginning 29 January 2015, this process will involve Monitor collecting weekly updates from foundation trusts (every Thursday) on the status of their contracts, in order to track their progress and highlight risks of misalignment.

3.3.3 Financially distressed foundation trusts

In response to changes to the DH statutory funding framework, there are additional reporting requirements of those foundation trusts which currently, or expect to, require DH funding. Please see Appendix 2 and our accompanying [technical guidance](#)¹¹ for further details of these additional reporting requirements.

3.3.4 Involvement in dispute resolution process

This year we are encouraging foundation trusts to take part in the contract dispute resolution process run by NHS England and the NHS TDA, in order to help ensure that all commissioners and all providers have in place mutually agreed contracts prior to the start of the financial year.

During the most recent contracting round, Monitor was contacted by a number of foundation trusts seeking a more formal mechanism for dispute resolution. Ensuring that this process is available to foundation trusts, recommending its use in appropriate cases is therefore seen as a proportionate and helpful response in the limited number of cases where disputes are not resolved by local discussions.

Please note that this is a voluntary process for foundation trusts; the arbitration stage will not be mandatory. However, Monitor may regard an unsigned contract as a risk in their review of plans.

¹⁰ The contract tracker and guidance for submission will shortly be available at <https://www.gov.uk/nhs-foundation-trusts-planning-and-reporting-requirements>

¹¹ See <https://www.gov.uk/government/publications/annual-planning-review-201516-guidance-for-foundation-trusts>, which serves as a reference tool for completion of both 2015/16 financial templates.

Please see '[Dispute Resolution Process for the 2015/16 Contracting Process](#)'¹² for further guidance.

3.4 2015/16 planning timetable for foundation trusts¹³

Action	Date
Jan 2015	Publication of revised national tariff, standard contract for 2015/16
Jan – 11 Mar 2015	Contract negotiations – including voluntary mediation
13 Jan 2015	Submission of initial headline plan data (CCGs, NHS England, NHS Trusts)
From 29 Jan 2015	Weekly contract tracker to be submitted each Thursday (CCGs, NHS England, NHS Trusts and foundation trusts)
13 Feb 2015	Checkpoint for progress with planning measures and trajectories (CCGs, NHS England)
20 Feb 2015	National contract stocktake – to check the status of contracts
27 Feb 2015	Submission of full draft plans (CCGs, NHS England, NHS Trusts, foundation trusts)
27 Feb – 30 Mar 2015	Assurance of draft plans (CCGs, NHS England, NHS Trusts, foundation trusts)
6 Mar 2015	Checkpoint for progress with planning measures and trajectories (CCGs, NHS England)
11 Mar 2015	Contracts signed post-mediation (CCGs, NHS England, NHS Trusts and foundation trusts)
12 – 23 Mar 2015	Contract arbitration (CCGs, NHS England, NHS Trusts, foundation trusts as relevant)
By 25 Mar 2015	Arbitration outcomes notified to commissioners and providers (CCGs, NHS England, NHS Trusts, foundation trusts as relevant)
By 31 Mar 2015	Plans approved by Boards of CCGs, NHS Trusts and foundation trusts
10 Apr 2015	Submission of full final plans (CCGs, NHS England, NHS Trusts and foundation trusts)
From 10 Apr 2015	Assurance and reconciliation of operational plans

¹² See <https://www.gov.uk/government/publications/annual-planning-review-201516-guidance-for-foundation-trusts>

¹³ Revised to incorporate the changes to APR set out in Section 3.3.

3.5 Contents of operational plans

3.5.1 Draft operational plan

Foundation trusts' draft operational plans for 2015/16 should be submitted to Monitor by **midday on 27 February 2015**. This includes:

- A summarised financial template¹⁴: this is in much less detail than the full template, but is consistent with it in terms of both inputs and outputs. It will provide high-level financial projections, with relevant underlying assumptions, for 2015/16.
- A brief narrative, not expected to exceed three pages, setting out what the key assumptions are, as well as the basis and degree of confidence in these. As part of this foundation trusts should explain the key drivers of financial performance and the resulting impact. This narrative should also set out the extent or otherwise of alignment with main commissioners and reasons for material variances.

3.5.2 Final, detailed operational plan

Foundation trusts' final operational plans for the year 2015/16 should be submitted to Monitor by **midday on 10 April 2015**.

The final operational plan should contain:

- an operational plan narrative (see Section 4 for further details)
- a redacted summary of the operational plan narrative, in a format suitable for external publication (see Section 3.9 for further details)
- the full, final financial template (revised for this planning round), which requires the completion of one year of detailed financial forecasts.

3.5.3 Practical guidance on the submission of plans

Financial templates – for both the draft and final operational plans – have been built and customised for each foundation trust. Each trust's templates are available at, and should be submitted via, the relevant MARS portal¹⁵.

¹⁴ Please see Monitor's technical guidance, available at <https://www.gov.uk/government/publications/annual-planning-review-201516-guidance-for-foundation-trusts>, which serves as a reference tool for completion of both 2015/16 financial templates.

This document does not need to be read in full, but should be referenced in tandem with the completion of individual template worksheets. Should you have any further queries about the template that are not covered within the technical guidance document, please refer these to compliance@monitor.gov.uk

¹⁵ Guidance on uploading your template can be found in the supporting [technical guidance](#)

3.6 Monitor's review of draft operational plans

We will conduct a high-level desktop review of foundation trusts' draft operational plans, to identify key issues and/or concerns that we consider should be addressed or explained in foundation trusts' final operational plan submissions.

The focus will be on three areas:

- The **key assumptions** underpinning the financial projections. At the draft plan stage we will not be seeking to test the substance of the assumptions, which will form part of the main review, but instead to identify where these seem to be outside expected parameters.
- We will also review the **cohesion, plausibility and risk** of the draft financial projections in their entirety.
- Degree of **alignment** to main commissioners. We will undertake a triangulation exercise alongside NHS England and TDA to identify risk and misaligned plans.

Where assumptions are outside expected parameters, or where there is material misalignment with commissioner plans, we will either seek immediate further clarification, or feed it back to the foundation trust in mid-March which should be explained or revised in the final submission.

3.7 Monitor's review of final operational plans

3.7.1 Our key considerations

As previously stated, Monitor will assess whether foundation trusts' plans adequately provide for resilience and sustainability. As set out in the table below, our analysis will focus on a number of short and long-term considerations that we believe should underpin delivery of these expectations. It will also focus on whether a series of connected board declarations are successfully corroborated by the content of the plans. Section 4 sets out in more detail what we expect a robust operational plan to include.

Key consideration		Declaration
Sustainability	Has the board considered and understood the strategic context (performance in 2014/15 and changes to external factors); and its impact on how, if necessary, the strategy needs to evolve?	A refresh of the 'Declaration of sustainability' made within the 2014/15 strategic plans.
	Does the plan demonstrate meaningful progress against delivery of the foundation trust's overarching strategy ?	
Resilience	Quality: Does the plan address internal, local and national priorities with regard to quality?	'Continuity of Services condition 7: Availability of Resources'; and, if necessary, 'Interim / planned term support requirements'
	Operational: Does the plan adequately provide for short-term activity and demand pressures (for instance addressing winter capacity issues)?	
	Financial: Has the plan defined a robust programme of initiatives which, taken with everything else, will ensure the trust's financial resilience? Is this resilience underpinned by financial projections that are well-modelled and based on reasonable assumptions?	

3.7.2 Our review process

We will undertake a risk-based, desktop review of the final operational plans. The review will be undertaken during April and May 2015 and will also incorporate the quarter four returns. Alongside the usual quarterly process this will involve Monitor undertaking:

- A review of the operational plan narrative against the key considerations above.
- Application of simple tests to the foundation trust's own financial projections, based on a limited set of sensitivities. Above all we will consider whether the foundation trust appears both financially resilient over the next year (based on continuity of services risk rating (CoSRR) metrics as defined in the Risk Assessment Framework¹⁶) and positioned to be financially sustainable over the longer term (based on its underlying performance, eg margins).

¹⁶ See <https://www.gov.uk/government/publications/risk-assessment-framework-raf>

- Some areas of joint risk-assessment with our tripartite partners, in recognition of the key impact of local health economy (LHE) interactions on individual organisations (see Section 3.7.3).
- Initial discussions with the foundation trust. Please note that the operational plan should be sufficient in its own right and we would expect any discussion to focus on clarification rather than seeking evidence.

3.7.3 Tripartite engagement in the review process

Although Monitor alone decides on any regulatory response to circumstances at individual foundation trusts, our analysis of trusts' plans will naturally draw on information shared by NHS England and TDA through our joint assurance processes. We will continue to work closely with these organisations to ensure that foundation trust plans can deliver high quality sustainable services across LHEs, and that the actions of any organisation do not generate behaviours that work against patients' interests.

Plans need to reflect local priorities for patients, and we expect commissioners and providers to work together when planning. It is therefore expected that providers' plans will be aligned with those of the wider LHE and that key assumptions will be shared. Where these are materially unaligned, we will expect differences to be clearly explained.

In order to test the alignment of key assumptions, Monitor, NHS England, and TDA will triangulate provider and commissioner income and activity plans. We intend to place greater emphasis on this process than last year.

This exercise is undertaken to highlight any material inconsistencies in the planning approach of the respective parties within the LHE. Please note that there is no intention to prejudice the position of any provider or commissioner, and no information will be shared without first contacting the appropriate party.

3.8 Outcomes and feedback from Monitor

We may, where appropriate, provide feedback to foundation trusts in March 2015, following review of the draft operational plans.

We will then provide feedback to each foundation trust in June 2015, setting out our risk-based assessment of the final operational plan and our regulatory response to the quarter four submission.

3.8.1 Support for realistic planning

Individual foundation trust boards, Monitor and fellow regulators should have a realistic view of the scale of the financial challenge faced over the next few years.

This needs to be based on sound assumptions, both of the level of pressures and the likely impact of initiatives to address these pressures.

We know that there is some concern in the sector that showing a financial deficit or the true level of challenge in foundation trust plans may trigger a greater degree of regulatory scrutiny and intervention. We want to reassure you that our primary concern is that foundation trust boards are basing decisions on the best and most realistic view of the future.

We will consider situations on a case-by-case basis. However, in general, we will be most concerned by a lack of engagement in the process or by overly optimistic planning, as these can indicate broader failures of governance. Where boards have identified risks to sustainability or resilience at an early stage, we will want to engage in a supportive manner and discuss what can be done to help.

3.8.2 Regulatory action

There are likely to be circumstances where regulatory action is appropriate. This action may include, but is not limited to:

- **Enhanced scrutiny.** Where foundation trust plans appear weak or insufficient to address the nature of challenge, particularly if combined with evidence of a lack of strategic planning, we may require additional assurance about the plan in part(s) or whole. The type of required assurance will be decided on a case-by-case basis, but it could include a relationship visit or meeting to discuss the plan in more detail, or a request for additional supporting information or explanation.
- **Re-submission.** Where foundation trust plans have significant weaknesses, or are clearly insufficient to address the nature of the challenges facing the foundation trust, we may require a re-submission of the plan and request external assurance to support the robustness of the re-submission. Reasons for re-submission may include overly optimistic financial planning, plans that are significantly divergent with commissioner assumptions, material changes that become apparent after submission, or apparent weakness in the trust's approach to planning.
- **Investigation.** Where foundation trust plans are very weak or highlight a level of unmitigated risk which could indicate a potential licence breach, we may open an investigation under the 'Risk assessment framework'. Reasons for opening an investigation might include a significant risk to any of financial stability, quality or significant longer term sustainability.

3.9 Publications

Monitor and foundation trusts have a duty of candour and transparency. Accordingly, we intend to publish foundation trusts' operational plans on our website, whilst ensuring that commercially sensitive information is not made public.

We intend to achieve this through asking foundation trusts to submit a separate summary of the full operational plan narrative that is suitable for external communication, which we will then publish on the website. This should exclude any commercially sensitive information, but be consistent with the full version.

In addition we will publish forecast risk ratings for each foundation trust as set out in the 'Risk assessment framework',¹⁷ together with Monitor's aggregate view of the foundation trust sector based on these plans.

¹⁷ See <https://www.gov.uk/government/publications/risk-assessment-framework-raf>

4 Format of operational plans

4.1 Overview

Operational plans should address the key considerations set out by Monitor in Section 3.7.1. In doing so, foundation trusts should determine the approach that best works for them. This section provides a guideline for completion of the operational plans, designed to be helpful rather than prescriptive.

No template for operational plan narrative: Based on our principle of not being prescriptive, there is no set template for the narrative element of operational plans. Instead, we set out below our expectations as to what the plans need to demonstrate and foundation trusts can choose a format most appropriate to them.

Structure: Below is an example structure and set of detailed considerations that reflect our key priorities for this planning round. The structure is a refreshed version of the 2014/15 operational plan, to reflect the position within an overarching strategy.

Style: Bullet point form is perfectly acceptable (but not mandatory). We would also encourage the use of tables and charts, in order to support commentary and show the impact of key assumptions.

Length: As a guide the operational plan should not exceed 20 pages and we have set out a suggested page count for each section to guide the level of detail required.

4.2 Publications

As discussed in Section 3.9, foundation trusts should submit a separate summary of the full operational plan narrative that is suitable for external communication, which we will then publish on our website. This should exclude any commercially sensitive information, but otherwise be consistent with the full version.

4.3 Executive summary

We would not expect this year's operational plan submission to require an executive summary, on account of the modest length of document we have asked for. However, should your plan be larger and more detailed than requested, please provide a short executive summary briefly outlining the content of each sub-section.

4.4 Establishing strategic context – max. 3 pages

We expect foundation trusts to have a robust strategy to deliver high quality care for patients sustainably. Each trust's overarching strategy should have been set out in its strategic plan submission to Monitor in June 2014.

However, strategy development and planning should be an ongoing process and we therefore expect boards to have considered if, and how, the strategy needs to evolve as part of this operational plan.

The process of evolving the strategy will involve, primarily, a review of the performance (financial, operational and quality) of the foundation trust in 2014/15 and consideration of the trust's external environment. Such analysis might include, but not necessarily be limited to:

- Significant variations in performance on strategic goals or in the progress of strategic initiatives: this involves effective performance tracking and open recognition of both good and poor performance.
- Changes in the overall performance of the foundation trust, such as a deterioration in financial or quality performance (in particular we would expect some brief commentary of performance against plan in 2014/15 and drivers of any major variance), or significant missed access targets.
- Significant changes in the external environment, such as an unexpected merger of other healthcare providers, deteriorating financial stability at the commissioning organisation, the collapse of a local provider or part of the primary care system, or the emergence of previously unavailable strategic options.
- Local commissioning assumptions and affordability restraints, so the foundation trust only puts in place initiatives that the LHE has the resources to support.
- Significant changes in government or regulatory policy: such as post-election shifts in policy on access targets, tariff levels and structure; organisational restructuring; or changes in regulatory standards.

Depending on the outcome of this analysis, this section of the operational plan should briefly explain how the board has, or intends to:

- 1) **Recommit** to the strategy: If the strategy's underpinning assumptions are still accurate, and implementation is on track, the foundation trust is likely to recommit to the strategy. This means briefly revisiting its delivery and ongoing development.
- 2) **Refresh** the strategy: If the foundation trust is happy with its strategy but the external environment has changed, it may want to refresh its strategy. This would involve checking whether it needs to change any assumptions or outputs.

- 3) **Recreate** the strategy: If the foundation trust does not have a strategy to meet its goals – perhaps because the LHE has changed or the trust has identified new performance issues – it is likely to need to recreate its strategy.

Additional material can be found in the ‘Deliver’ and ‘Evolve’ stages of the [Strategy development toolkit](#). Please see Appendix 1 for further details.

4.5 Progress against delivery of the strategy – max. 5 pages

The operational plan needs to set out how the foundation trust will achieve sufficient progress on its strategic agenda, ie how the strategy will be delivered over the plan period. We would expect this section to include:

- A summary of how the foundation trust and its LHE partners intend to respond to the [‘Five Year Forward View’](#), particularly in the context of the joint planning guidance set out in [‘The Forward View into action: partnership and planning for 2015/16’](#).
- Translation of the strategic initiatives into goals, targets and KPIs by year, so that they are reflected in the operating plan from year one onwards.
- Clear actions to address any poor performance identified, as part of effective performance management undertaken in the strategic context.
- A summary of productivity, efficiency and CIP programmes¹⁸, including key themes and the extent to which these are tactical or transformational schemes. This should include plans to improve efficiency and productivity through the more effective use of information and technology (may also be addressed in the capital programme).
- A description of the capital programme, with particular reference to how it supports the strategic agenda.
- How resources have been reallocated over the period to reflect strategic priorities. This will mean agreeing responsibility for delivery and providing individuals with the support they need.

Additional material can be found in the ‘Deliver’ stage of the [‘Strategy development toolkit’](#). Please see Appendix 1 for further details.

¹⁸ See ‘Making local health economies work better for patients’, available at <https://www.gov.uk/government/publications/making-local-health-economies-work-better-for-patients>

This document identifies a number of service efficiency opportunities, through which individual providers can take steps to maximise value for patients and taxpayers whilst pushing forward innovative new programmes.

4.6 Plan for short-term resilience

Not only should a foundation trust demonstrate sufficient progress against its long-term sustainability agenda, but this should also be balanced with the need to improve resilience in the immediate term. The latter should involve consideration of the foundation trust's quality priorities, its operational requirements for the period, and what this all means for the financial forecasts.

4.6.1 Quality priorities – max. 2 pages

The foundation trust should have a series of **quality priorities** for the next year, which connect to the needs of the local population and to the NHS mandate. It should do this by considering:

- national and local commissioning priorities
- the foundation trust's quality goals, as defined by its strategy and quality account
- an outline of existing quality concerns (from Care Quality Commission or other parties) and plans to address them
- the key quality risks inherent in the plan and how these will be managed.

4.6.2 Operational requirements – max. 3 pages

Foundation trusts should outline their assessment of **operational requirements** over the next year, based on robust activity and capacity modelling, and building on lessons from this year's winter and system resilience planning. This section should cover:

- an assessment of the inputs needed (such as physical capacity, workforce, workforce development, IT and beds), based on the foundation trust's understanding of its expected activity levels
- an analysis of the key risks, and how the foundation trust will be able to adjust its inputs to match different levels of demand.

4.6.3 Financial forecasts – max. 7 pages

This should all connect to the **financial forecasts** in the foundation trust's final operational plan. These will comprise one year of financial projections, and should

be well-modelled and based on reasonable assumptions.¹⁹ The forecasts should also be supported by a clear financial commentary narrative.

Collectively these should articulate the impact of:

- 1) **financial pressure**, being the local reflection of the planning assumptions set out in the joint planning guidance preceding this document
- 2) **activity**, relating to underlying demand movements and the impact of commissioning intentions
- 3) **other** key movements, such as investment in quality or non-recurrent income or expenditure
- 4) **strategic initiatives**, such as, but not limited to, CIPs, service developments and transactions.

The financial template has been refreshed for 2015/16 to reflect these four key drivers, and it now has a number of summary tables and bridges which you may wish to include in the narrative document to support the commentary.

The first three items of the list above collectively represent the baseline or 'do nothing' scenario. The strategic initiatives (in item four) are the tactical and transformational responses by the foundation trust designed to close this gap.

The narrative financial commentary should address:

- assumptions underpinning these drivers.
- impact of these drivers on the overall financial forecasts, and in particular on forecast risk ratings and liquidity
- consideration of any sensitivity analysis²⁰
- material variances between the financial projections for 2015/16 in last year's five year plan, and forecasts for the same one-year period in this year's operational plan (this should either be explained in silo or cross-referred to the strategic context).

¹⁹ See our separate technical guidance for further information, available at <https://www.gov.uk/government/publications/annual-planning-review-201516-guidance-for-foundation-trusts>

²⁰ There is a separate 'Sensitivity Analysis' worksheet, which allows foundation trusts to sample alternative scenarios and perform real-time sensitivity analysis on the numbers in the template based on a select number of Monitor assumptions. Ultimately this enables the foundation trust to sense-check its data prior to submission.

Please note that material variances between the financial projections for 2014/15 in last year's plan and the actual 2014/15 outturn should have been covered in the strategic context.

Because of the required submission dates (27 February 2015 and 10 April 2015), each foundation trust's draft and final operational plans will be developed before a final 2014/15 year-end financial position is known. Therefore foundation trusts should use a projected year end outturn for 2014/15 based on the most up-to date and relevant information available.

We expect the 2014/15 outturn to be an accurate and carefully-considered indication of the foundation trust's year-end position. The outturn will be compared to the actual results reported in the quarter four submission. Unreasonable variances, which may constitute an indication of poor governance, may be subject to further investigation.

The template to be completed by foundation trusts for the 2015/16 quarterly submissions will also be amended, so that it reflects the key changes we have made to the annual planning template.

4.7 Board declarations for sustainability and resilience

We are asking foundation trust boards to make a number of declarations alongside their operational plans. The narrative should clearly support the declarations and trusts may wish to explicitly reference this:

- **Sustainability.** We expect boards to be able to refresh the declaration of sustainability made in the 2014/15 strategic plans based on the 2015/16 strategic context and expected progress against the strategic agenda over the next two years.
- **Resilience.** Based on the analysis undertaken we would expect boards to be able make a judgement on quality, operational and financial resilience over the next two years, as asserted in the 'Continuity of Services condition 7: Availability of Resources' and 'Interim/planned term support requirements' declarations.

Appendix 1: Strategy development toolkit

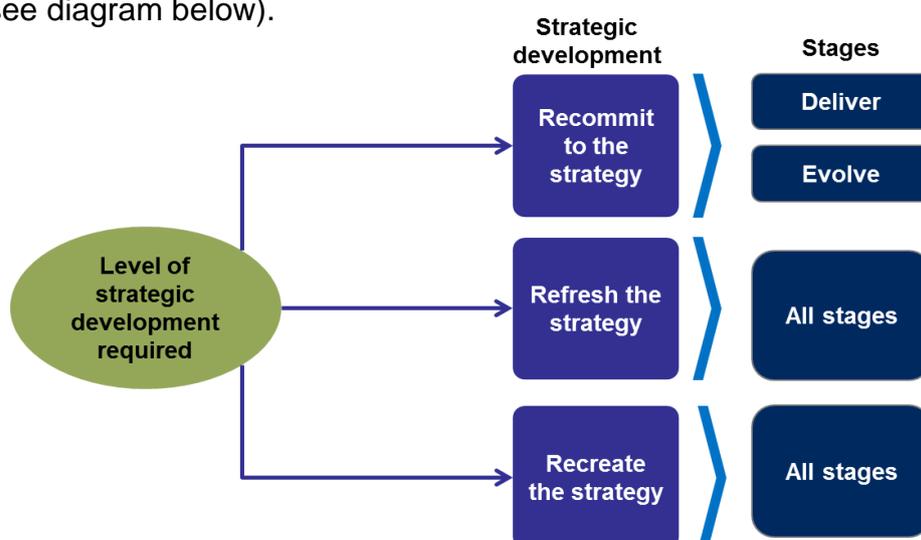
'Strategy and planning' represents a core component of Monitor's 'well led' governance framework. In October 2014 Monitor launched the '[Strategy development toolkit](#)'²¹ to assist foundation trust boards in planning strategically and robustly. The toolkit is a comprehensive resource providing practical guidance and relevant case studies for every stage of the strategy development process; it is not prescriptive but an optional source of support.

Ultimately, foundation trust boards will need to be confident that they have a strategy that will deliver high-quality, operationally and financially viable services for patients, now and into the future. In doing so, they should continually ask themselves three overarching questions, which the toolkit will assist in answering:

- Do we understand our external opportunities and challenges and internal strengths and weaknesses?
- Do we have robust solutions to address the opportunities and challenges, given our strengths and weaknesses?
- Do we have the capability and a credible plan to deliver our strategy?

For the 2015/16 planning round, we will require foundation trust boards to demonstrate that they have developed and evolved the strategies articulated in the June 2014 strategic plans. This evolution should be based on the board's analysis of the trust's 2014/15 performance and on engagement with internal and LHE stakeholders.

The toolkit, and in particular its 'Deliver' and 'Evolve' stages, can be used by boards as they recommit to, refresh or recreate their strategies off the back of this analysis (see diagram below).



²¹ See <https://www.gov.uk/government/publications/strategy-development-a-toolkit-for-nhs-providers>

Appendix 2: Guidance for providers in financial distress

Background

The Department of Health (DH) may give financial assistance to any foundation trust in financial difficulty, including the provision of 'interim support' or 'planned term support' (for more information, see [Secretary of State's guidance under section 42A of the National Health Service Act 2006](#)²²).

Interim support is defined as short-term financial support that can be provided by DH to foundation trusts in financial difficulty, to support the continued delivery of services on a finite basis. It is not available until all cash reserves and internally generated cash have been fully exhausted. Interim support is only available if Monitor supports a trust's application to DH and, apart from exceptional circumstances, if a trust is already in breach of its licence.

Planned term support is defined as financial support which DH can make available to foundation trusts in financial difficulty, to support the delivery of a credible recovery plan which demonstrates how an organisation will be viable and sustainable on an ongoing basis. Other than in exceptional circumstances, planned term support is only available if Monitor supports a foundation trust's application to DH and if a trust is already in breach of its licence.

Any foundation trust that expects to need financial assistance from DH in 2015/16 will be expected to provide additional information within their APR submission (see below).

Distressed finance timetable

All foundation trusts expecting to require **interim support** in 2015/16 must submit a draft financial template and a final financial template in line with the timetable set for all foundation trusts (see Section 3). They will also be required to provide additional information within those templates. Please see the [technical guidance](#) for further information on what additional information is required in each case.

Those foundation trusts that did **not** receive interim support in 2014/15, but that expect to require interim support in 2015/16, should contact their Monitor Relationship Manager by **31 January 2015** (ie prior to submitting their draft financial template).

All foundation trusts expecting to require **planned term support** in 2015/16 should contact their Monitor Relationship Manager by **31 January 2015**. The recognition, or

²² See 'Procedures, criteria, terms and conditions for providing loans, public dividend capital or guarantees of payment to trusts', available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/365134/SofS_Finance_Guidance_under_Section_42A.pdf

otherwise, of planned term support funding within the draft financial template and final financial template will be considered by Monitor on a case-by-case basis.

It is expected that all final APR returns submitted to Monitor on or before 10 April 2015 by foundation trusts requiring DH interim support in 2015/16 will have been signed off by foundation trusts boards. Foundation trusts will also be required to explain any material variances between the interim support funding requirements forecast in the draft financial template and those forecast in the final financial template.

Monitor's responsibilities

We are responsible for presenting interim support and planned term support funding requests to DH and/or the Independent Trust Financing Facility ('ITFF') on behalf of foundation trusts. We will therefore seek to ensure that their requirements are met at all times.

In the case of interim support **revenue** funding, this means we provide assurance that financial forecasts are robust and appropriate. In the case of interim support **capital** funding, this means we provide evidence to demonstrate that all capital expenditure meets the conditions of being both necessary and urgent. DH may also require evidence to demonstrate that an appropriate decision-making process has been undertaken - for example, appropriate business case approvals - before funding is agreed.

In the case of planned term support, foundation trusts' recovery plans will be expected to carry substantial assurance from Monitor that the trust can deliver the improvements it has forecast in its financial performance.

Please note: our information requirements may not be limited to those summarised above. We may need to ask for additional information, for example a summary of all discretionary revenue expenditure items; or, where appropriate, we may require foundation trusts to commission external assurance of financial forecasts/plans.



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