

South Tees Hospitals

NHS Foundation Trust

Meeting / Committee	Council of Governors Meeting (Part 2)	Meeting Date	20 January 2015
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Title	Annual Planning Paper
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Purpose	For discussion at the Council of Governors meeting to highlight the Trusts obligations for annual planning and to identify the approach for financial annual planning ahead of the Transformation and Trust Board strategy day.
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Summary	<ul style="list-style-type: none"> • A high-level draft plan is required by Monitor 27th Feb 2015. • The detailed operational plan is required by Monitor 10th April 2015. • The maximum length of the high-level plan is 3 pages with the detailed plan maximum length being 20 pages. • Plans should be a refresh of the recovery plan and not a complete rework. • The finance department are actively engaging with budget holders as part of financial planning. <p>The operational plan will be the focus of the Transformation Board and Trust Board strategy day in January.</p>
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Prepared by	Maxime Hewitt-Smith Acting Director of Finance and Performance	Presented by	Maxime Hewitt-Smith Acting Director of Finance and Performance
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Recommendation	The Council of Governors is asked to note the Trusts planning process.
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Implications	Legal	Financial	Safety & Quality	Strategic	Risk & Assurance
		X	X	X	X

Background and Context

Guidance was published by Monitor, the Trusts Regulator on 19th December 2014.

This section outlines the background and context as identified in Monitor's planning guidance.

Planning cycle

Monitor asked Trusts to develop robust strategies for achieving financial sustainability as part of 2014/15 planning. The Trust developed a robust strategy and submitted this to Monitor on 30th September 2014, this is commonly referred to internally as the 'recovery plan'.

Monitor has explicitly asked in their guidance that Trusts submit a refreshed operational plan only.

External planning developments and requirements

The timetable and requirements have changed since the originally published timetable (published in November). This reflects Monitor's response to the financial fragility of the sector. As a result there have been a number of changes:

- Financial projections will only be required for one year (2015/16)
- A high-level draft plan submission will be due on the 27th February 2015
- From the 29th January 2015 Monitor will collect weekly updates from the Trust on the status of our contracts and track their progress and alignment
- Monitor are encouraging Trusts to take part in contract dispute resolution (run by NHS England and the NHS TDA) to ensure mutually agreed contracts prior to the start of the financial year.

Key considerations from Monitor and Trust declarations

	Key Consideration	Declaration
Sustainability	Has the board considered and understood the strategic context (2014/15 performance 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 with 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 planned support requirements.
	Operational: Does the plan adequately provide for short-term activity and demand pressures (e.g. 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?	

External timelines and process

Draft operational plan

The draft operational plan for 2015/16 should be submitted to Monitor by midday on 27th Feb 2015. This includes:

- Summarised financial template
- A brief narrative (no more than 3 pages) setting out the key assumptions, confidence levels in these assumptions and the key drivers of financial performance. It should also include a summary of the extent of alignment with main commissioners.

Monitor will perform a high-level desktop review of operational plans to identify key issues/areas for concern. The focus will be on:

- Key assumptions
- Plausibility and risk
- Degree of alignment to main commissioners.

Feedback will be provided in March 2015 where appropriate. As the Trust is in recovery this is likely.

Final detailed operational plan

The final operational plan for 2015/16 should be submitted to Monitor by midday on 10th April 2015. This includes:

- Operational plan narrative (no-more than 20 pages)
- Redacted operational plan narrative for external publication
- The full financial template

Monitor will undertake a risk-based desktop review of the final operational plans in April and May 2015, this will include:

- A review of the operational plan against the key considerations on sustainability and resilience
- Financial sensitivity analysis
- Risk-assessments with tripartite partners (NHS England and the TDA)
- Discussions with the Trust.

Feedback will be provided in June 2015 to all Trusts.

Submission Trust Roles and Responsibilities

Included within this section is a summary of the key operational plan narratives and the full financial template.

The Director of Finance and Resources will be responsible for the overall plan delivery, closely supported the Chief Executive.

Heading	Responsible Officer	Independent Senior Review	Suggested Length
Establishing the strategic context	Maxime Hewitt-Smith	Tricia Hart	Max 3 pages
Progress against delivery of strategy	Maxime Hewitt-Smith	Tricia Hart	Max 5 pages
Plan for short term resilience			

<ul style="list-style-type: none"> • Quality priorities • Operational requirements • Financial forecasts 	Ruth James TBC – Dev Opp Brian Simpson	Rob Wilson Maxime Hewitt-Smith Maxime Hewitt-Smith	Max 2 pages Max 3 pages Max 7 pages
Detailed Financial Template	Brian Simpson	Maxime Hewitt-Smith	N/a

Guidance can be found on the Monitor website on the detailed content of each of these sections:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/390070/APR_guidance_Dec14.pdf

The Chief Executive, Director of Finance and Performance and Director of Communications and Engagement will review the document for internal consistency before submission to the Board of Directors.

The detailed Financial Template will not be submitted to Board of Directors, however a summary will be produced and included within the papers.

The operational plan details will be discussed in detail at the Trust Board and Transformation Board session on the 20th January 2015.

Process for developing financial plan including budget setting

Overarching financial planning process

- Model 2014/15 outturn and assumptions into the Trusts LTFM to ensure consistency with the key assumptions in the recovery plan.
- Perform operational budget setting with Centres in two phases:
 1. Develop expenditure budget on the basis of delivering consistent activity with 2014/15
 2. Develop activity plan based on 12month activity, known changes and demographic assumptions.
- Price the activity plan based on the tariff guidance
- Develop several central reserves:
 1. Marginal cost reserve, where there is planned activity changes the costs associated with that activity will be added into a central reserve.
 2. Pay inflation reserve based on the assumptions
 3. Non-pay inflation reserve based on the assumptions, note excluded drugs and devices income and expenditure assumptions will be matched
 4. Service developments reserve as appropriate and agreed with commissioners
 5. Contingency reserve, value to be determined
 6. CIP reserve, where CIP phasing and modelling will be reflected centrally before devolving to Centres.
- Review income versus expenditure after above process has been completed and refine as required.

Process for budget setting and financial annual planning

Expenditure budget setting

Key Stakeholders	Summary of activities
Management Accountants	Bottom-up costing of all cost centres and areas. Sense checked by a colleague using a buddy system
Budget Holders (Directorate Managers et al) Management Accountants	Management Accountant to meet with each budget holder at Directorate Manager level to review the budget and sign-off the budget. Or take sign-off subject to resolution of (x) noted issues/queries. Reconcile to safe staffing levels – where appropriate. Query resolution.
Chiefs of Service Managing Directors Head of Nursing Head of Financial Planning and Performance Deputy Director of Finance and Performance and/or Director of Finance and Performance Management Accountant	Query resolution. Consolidation into Centre positions. Preparation of bridges: •14/15 Budget v Proposed 15/16 Budget •14/15 Forecast outturn v proposed 15/16 Budget Challenge and confirm meeting with Centre and Finance.
Managing Directors Head of Financial Planning and Performance Management Accountant	Query resolutions.
Chiefs of Service Managing Directors Head of Nursing Head of Financial Planning and Performance Deputy Director of Finance and Performance and/or Director of Finance and Performance Management Accountant Director of Nursing and/or Medical Director HR Director	Summary of non-contractual cost pressures. Sign-off meeting: Agreement of cost pressures. DRAFT sign-off.
Corporate Finance Business Partner Head of Financial Planning and Performance Deputy Director of Finance and Performance Head of Financial Governance and Control	Consolidation of Trust position.
If required Chiefs of Service Managing Directors Head of Nursing	Summary of non-contractual cost pressures. Sign-off meeting: Agreement of cost pressures.

Head of Financial Planning and Performance Deputy Director of Finance and Performance and/or Director of Finance and Performance Management Accountant Director of Nursing and/or Medical Director HR Director	FINAL sign-off.
Management Accountant Chiefs of Service Managing Directors Head of Nursing Head of Financial Planning and Performance	Physical sign-off and acceptance of budget.
Finance	Budget transacted into the ledger. Budget extracted from the ledger as the basis for the Monitor annual plan.

Activity Planning

The start point for the trusts 2015/16 demand model is the 12 month period 1st October 2013 to 30th September 2014. (including A&E attendances, admitted patient care and outpatient attendances, together with other associated contract currencies such as critical care, diagnostic imaging, radiotherapy and chemotherapy, renal dialysis and excluded drugs and devices).

The 12 month 'snapshot' reflects the seasonality and case mix variance inherent in the way acute demand actually presents. The specific 12 month period was chosen because it represents the most up to date data available. (Please note, therefore, that this is not the 2014/15 forecast outturn).

Taking the above outputs gives us a first cut model. We then make adjustments in respect of:

- Anticipated demographic changes affecting demand
- Drugs/devices – new/removed exclusions
- List changes
- Non-recurrent changes required to achieve sustainable RTT list size

This gives us a second cut model.

Finally we will produce a third cut model which will take into account:

- Anticipated impact of BCF/IMProVE/Fit for the Future and other commissioning intentions
- PYE/FYE of new and existing developments
- Impact of transformation projects

The data will be processed using the 2015/16 consultation HRG grouper, applying mandatory tariffs for 2015/16 where applicable and local tariffs, adjusted for nationally prescribed cost uplifts and efficiency factors. Block Contracts for services such as the Spinal Injuries Unit, Wheelchairs, Patient Transport, Orthotics etc. will be rolled forward with known

growth built in where possible and the net cost uplift/efficiency factor applied to complete the model. This will give us a fully priced indicative demand plan based upon our best assumptions.

There will be opportunities for Centres to discuss and input to the development of the demand plan and we aim to have final agreement and sign off of plans by Centres by the end of January 2015.

Key Assumptions

The below assumptions reconcile to those assumptions included within the recovery plan and agreed with Monitor, as more information becomes available through tariff guidance, contract negotiations and inflation forecasts these will be updated and refined.

Inflationary Assumptions	
NHS Clinical revenue deflation	(1.5%) TBC
Non-NHS Revenue inflation	2.5%
Pay inflation	2.5%
Drug inflation	8.0%
Clinical supplies inflation	2.5%
Non-clinical supplies inflation	2.5%
Other expenses	2.5%
PFI operating expense inflation	2.5% TBC
Population growth - Elective	0.47% TBC
Population growth - Non Elective	0.13% TBC