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Independent Regulator
of NHS Foundation Trusts

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To: Foundation Trust Applicants
Foundation Trust Unit
Foundation Trust Network

Dear Colleague,

I am writing to advise you of some changes to Monitor's financial assumptions used in the assessment of applicant trusts and in risk rating foundation trust investments and transactions. Consistent with our approach last year, Monitor has reviewed its financial assumptions in light of the Government's 2009 Pre Budget Report and 2010 Budget, and the publication of the Department of Health's Operating Framework for 2010/11.

As a result we have concluded that we need to change the downside assumptions to ensure they reflect a realistic view of the risks in the system. This letter sets out these changes. These revisions will come into effect for all authorisations from 1 May 2010 onwards, and NHS FTs should have regard to these financial assumptions in their annual planning.

As you will be aware, our current assumptions for acute and mental health providers were put in place on 1 May 2009. These assumptions were based on implied efficiency assumptions as set out below.

Current Financial Assumptions:

	10/11	11/12	12/13	13/14
Assessor Case Implied efficiency requirement	3.5%	4%	4%	4%
Downside Case Implied efficiency requirement	4%	4.5%	4.5%	4.5%

Following the 2009 Pre Budget Report and the 2010 Budget and the publication of the Department of Health's Operating Framework for 2010/11, Monitor has decided to retain the implied efficiency assumptions as set out in the current assessor case. There will however be some changes to the cost and tariff inflation assumptions to reflect the latest information in the 2010/11 Operating Framework.

Assessor case:

	10/11	11/12	12/13	13/14	14/15
Implied efficiency requirement	3.5%	4%	4%	4%	4%

Monitor has decided to adopt revised downside cases for acute and mental health providers as follows:

Acute Provider Downside case:

	10/11	11/12	12/13	13/14	14/15
Implied efficiency requirement	4.5%	5.1%	4.8%	4.6%	4.5%

Mental Health Provider Downside Cases:

	10/11	11/12	12/13	13/14	14/15
Implied efficiency requirement	4.5% and 5%				

For acute providers, we have concluded that the level of risk and uncertainty in overall health care expenditure should continue to be reflected by a 0.5% differential between the assessor and downside case from 10/11 onwards as in prior years. However, an additional adjustment has been made to reflect additional risk on providers from this year relating to demand growth.

The 2010/11 Operating Framework introduced a new 'marginal non elective tariff' and gave commissioners the power (with appropriate checks and balances) to suspend tariff. This represents a new risk on acute providers relating to demand management. In considering the downside case we have taken this into account as well as the likely response in local health economies through time i.e. we expect acute providers and commissioners to work together in time to ensure that demand can be managed to affordable levels through for example minimising avoidable emergency non elective admissions. The cumulative effect of these factors is reflected in the incremental efficiency requirements above the 0.5% differential.

Mental health providers face a different set of risks to those in the acute sector. Historically during periods of financial pressure in the healthcare system, expenditure on mental health activity has fallen more rapidly than expenditure in other areas. To reflect this risk Monitor will assess trusts in this sector against two downside cases of 4.5% and 5% efficiency requirement in each year.

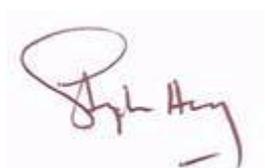
We recognise the scale of the productivity challenge that these efficiency requirements imply. However, it is important that the financial assumptions reflect the economic outlook and current policy framework. Monitor will continue to review these assumptions in light of any changes to either the economic outlook for the health sector or the policy framework. Whilst these assumptions reflect the risks facing the sector as a whole, we also recognise that providers in individual local health economies will face a specific individual set of circumstances, and we will continue to look at specific mitigations on a case-by-case basis.

Monitor will be writing separately to all applicant trusts shortly to provide more details of how the revised downside efficiency assumptions will be applied through the long term financial model. This letter will provide more details on the implied income inflation assumptions and costs pressures from unfunded activity growth.

This letter is being copied to SHA provider development leads for onward circulation to aspirant foundation trust applicants. The Foundation Trust Network should circulate this letter to their members.

Should you require any clarification on this letter please contact Richard Guest or Miranda Carter at the following email addresses: Richard.Guest@monitor-nhsft.gov.uk, Miranda.Carter@monitor-nhsft.gov.uk

Yours sincerely



Stephen Hay
Chief Operating Officer

CC: SHA Provider development leads