EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST

REPORT TO:	**BOARD OF DIRECTORS – 30 JANUARY 2014**
SUBJECT:	**FULL BUSINESS CASE FOR THE RECONFIGURATION OF PATHOLOGY SERVICES – THE CREATION OF THE KENT PATHOLOGY PARTNERSHIP (KPP)**
REPORT FROM:	**DIVISIONAL DIRECTOR FOR CLINICAL SUPPORT SERVICES**
PURPOSE:	**Decision**

CONTEXT / REVIEW HISTORY / STAKEHOLDER ENGAGEMENT

The modernising of Pathology services has been central to the Department of Health objective which commissioned the 2006 and 2008 Lord Carter of Cole's independent reviews. The first report targeted the importance of modernising, centralising, standardising, and to create a leaner Pathology service. This review offered a number of recommendations that, if followed would then allow the consolidation of the service as outlined in the 2008 Lord Carter of Coles review which suggested that 25% savings could be obtained by undertaking this exercise.

SUMMARY:

With the emergence of the Clinical Commissioning Groups (CCG's), the focus on high quality and realistic cost has been paramount in that Commissioners are no longer obliged to use local providers. They can tender services from any provider to obtain highest quality at lowest price.

Between both trusts the annual direct access income is in excess of £16 million.

Key drivers;

- 'Do nothing' is not an option as this will render the Pathology services of both trusts to be of high cost and uncompetitive, and therefore (as noted above), there would be an inevitable loss of the £16 million direct access revenues due to the CCG's going to the alternative competition.
- There will be improvements in patient outcomes and clinical quality by providing integrated Pathology services across Kent to a consistent high standard, meeting regulatory and professional requirements.
- This would allow the development of a new and more sustainable way for delivering Pathology services in Kent at a reduced cost in order to sustain competitiveness.
- There will be (as a result of improved competitiveness), the ability to seek new markets in order to further reduce future unit costs.
- This initiative secures an NHS run Pathology service within both trusts.

The preferred option, as put forward in the full business case is as follows;

- The centralisation of Microbiology and Histology at the Maidstone Hospital site. The ‘cold’ Pathology work undertaken for all samples with a turnaround time of two hours will be centralised for Blood Science at the William Harvey Hospital.
- For those samples that require a less than two hour turnaround i.e. essential services, then an essential laboratory will be created at Pembury Hospital, Maidstone Hospital, Kent & Canterbury Hospital, and the Queen Elizabeth the Queen Mother Hospital. Those samples at the William Harvey will be analysed via a separate track that is affiliated with the main cold sample track.
- It is anticipated that the Kent Pathology Partnership (once approved by both trusts), will start as of the 1st April 2014. It is envisage that within one year of this start date that the bulk of the services which require moving will have occurred.
- To facilitate this there is a need for a Managing Director for Pathology who will lead the implementation and will be the accountable executive responsible to the KPP Chair and the CEO’s of each partner trust. The Managing Director will be responsible for the quality of the service provided, ensuring statutory compliance with all aspects of KPP, financial performance, and observer of both strategic and operational goals and objectives.

The KPP full business case outlines the potential of securing £5 million per annum savings target. It is believed that further savings are potentially possible downstream, and that the KPP will secure a competitive service within local CCG requirements, as well as provide the platform to exploit the expertise and service other locations within the South East and indeed England

IMPACT ON TRUST’S STRATEGIC OBJECTIVES:

- It will ensure that the Pathology service is competitive within the marketplace.
- Will secure the £16 million annual direct access contracts for Pathology service with CCG’s.
- It will ensure that the Pathology services between both Trusts are provided from an NHS base.
- It will place KPP in a position whereby it will be competitive and therefore be able to acquire new markets and therefore further reduce unit costs.
- It will ensure that financial instability does not occur for both trusts if the direct access income were to be lost.

FINANCIAL IMPLICATIONS:

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m	£m
Net Revenue Saving	(2.5)	1.7	4.1	4.9	4.9	4.9	4.9
In-Year Cashflow	(5.5)	1.8	4.3	5.0	5.0	5.0	5.0
Cumulative Cashflows	(5.5)	(3.7)	0.6	5.6	10.6	15.6	20.7

It should be noted that, as a non-cash movement, fixed asset impairments[1] are not included in the above.
The preferred option has the following key features over the seven years modelled:

- Generates a positive net cashflow of £20.7m.
- Delivers on-going long term revenue savings of £5.0m pa representing 11.5% of current costs.
- £5.5m additional revenue costs during 2014/15 largely due to a combination of redundancy and project implementation costs.
- Payback of the initial capital investment is achieved during Quarter 4 2016/17.
- Overall the integrated KPP service will, when on-going annual CIPs plans are added, reduce its cost base by 26.6% over the six years once the core savings are in place (i.e. from 2015/16). This equates to an average compounded rate of 5.0% pa. i.e. equivalent to a CIP rate of 5.0% p.a. for each of the six years modelled.

In order to achieve this, the following deliverables are essential:

- Estates reconfiguration work being completed to enable a phased movement of staff to their new locations over the period 1st February 2014 to 31st March 2015.
- A new merged MLS contract being in place by 1st April 2015.
- An integrated IM&T system being in place by 1st September 2014.
- Staff consultation commencing in mid February 2014 with a phased implementation being fully effective by 30th June 2015.

The Key requirements for ensuring the successful implementation of the preferred option include:

- Recruitment of a senior management team with the appropriate clinical and commercial expertise.
- Putting in place effective project planning and project management during the implementation process.
- Achievement of the key procurement milestones.

Development of the commercial, financial and legal aspects of the Joint Venture.

[1] The revenue charge incurred when a fixed asset is immediately fully depreciated as it has no further useful economic value

LEGAL IMPLICATIONS / IMPACT ON THE PUBLIC SECTOR EQUALITY DUTY:

Legal advice has been obtained from DAC Beachcroft.

They have given

- Advice on the management structure of KPP
- Advantages/disadvantages of a joint venture
- Advice on workforce models
- Advice on procurement and competition

Advice from Monitor has also been obtained regarding application of merger control rules to Pathology service configurations.

The Trust Secretary has also reviewed the recent decisions on Pathology mergers in London and the criteria applied. It is clear that the joint venture does not fall within the scope as the turnover is well below the £70m threshold; and is forecast to remain so over the next five years.

PROFESSIONAL ADVICE TAKEN ON ANY NOVEL OR CONTENTIOUS ISSUES
The following benchmarking has been undertaken:

- Extensive use of National Benchmarking data – Keele
- Use of Department of Health reference costs
- Independent review of ESL at Margate re wte required
- Feedback from the Management consultant that created Carter of Coles data
- FOI request from Trusts in England
- Feedback as to ESL wte requirements from a number of Pathology departments that have or will be undertaking similar changes

BOARD ACTION REQUIRED:

(a) to consider the recommendations and either support, reject or modify
(b) to note the report
(c) to discuss and determine actions as appropriate
(d) *(Delete as appropriate)*

CONSEQUENCES OF NOT TAKING ACTION:

"No Change"

The option to sustain the status quo i.e. the continuation of current Pathology services has significant risks and problems and these are highlighted below:

- Benchmarking data suggests that Blood Science is marginally competitive in East Kent but uncompetitive at MTW. This makes both vulnerable (especially MTW), to a loss of direct access (GP) business where commissioners market test the service and a private provider or other NHS provider seeks new markets at any cost to obtain increased market share.

- Pathology undertakes 45% of its activity for GP's and 55% for the acute.
- GP activity generates significant income for Pathology (£10 million for East Kent and £6 million for MTW). This is seen as a means by which inpatient/acute activity is subsidised by this income stream.
- Commissioners (CCG's) are no longer obliged to use local providers.
- Commissioners have cost pressures and therefore are seeking new ways to reduce costs and improve efficiencies.
- The commissioners can tender services from any provider to obtain highest quality at lowest price.
- The loss of the GP work would result in a loss of the income (provided above) for Pathology.
- A considerable reduction in activity would follow and consequently a reduction in the size of Pathology services would be needed. This will equate to substantial job losses.
- It would also represent a large financial problem for each trust.
- It is notable that, within the 45% of total activity for a Pathology department that undertakes work for GP's, the variation of number of tests involved is small. Of the hundreds of tests available, 87% of all GP requests are made up of twenty routine tests. This makes GP work extremely attractive to external providers, and if this service was lost to another provider it would present a significant risk to the financial stability of both trusts.
- By having 'no change' the unit cost will make both Pathology services at each trust uncompetitive.
- With this un-competitiveness new markets will not be found and exploited.

External NHS providers and especially private providers such as TDL, SERCO, and IPP are seeking to exploit vulnerable Pathology departments who utilize inefficient and ineffective ways of working. This option is untenable.

Advantages and Disadvantages KPP v Private Sector

OUTSOURCING	
ADVANTAGES	**DISADVANTAGES**
Avoids any capital investment requirement	Current relative immaturity of commercial market and recent concerns regarding safety of service provision
Probable reduction in cost in early years of agreement	Lack of internal control and potential of “cost increase creep” in respect of future contract variation requirements
Passes risk relating to the provision of services to 3rd party	Profit margins are enjoyed by commercial provider
	Subject to the nature of agreement, little potential for material financial benefits in respect of new business generation.
	Little control over cost increases in respect of subsequent retendering
	Likelihood that any price reductions would be small as a result of the fact that the profitable Direct Access work is not in the gift of both Trusts.
	Timescales for a full market testing process would probably result in delayed revenue cash positive benefits for Trust
	Potential adverse reaction to market testing process from Commissioners and others