Monitor
Making the health sector work for patients

tda Trust Development Authority
Quality. Delivery. Sustainability.

Foundation Trust Network

Strategy development and transactions event

16 October 2014

GOV.UK/monitor

Strategy development planning

- Ralph Coulbeck, Director of Strategy, NHS TDA
- Mark Turner, Regional Director, Monitor

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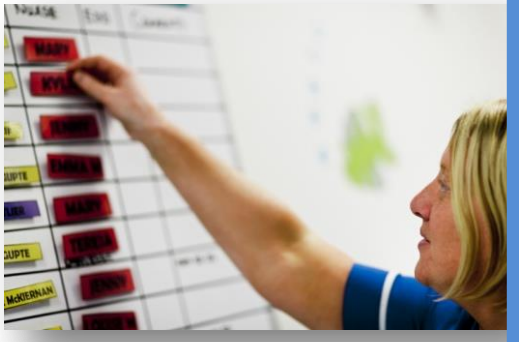
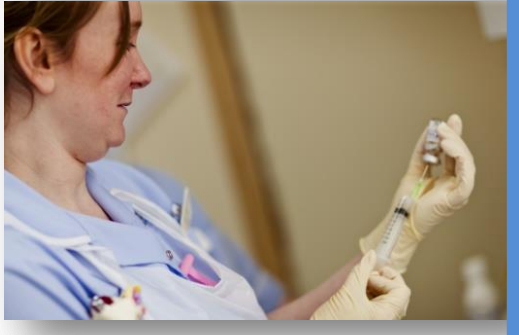
NHS trust 5-year plans: feedback and next steps

Ralph Coulbeck
Director of Strategy

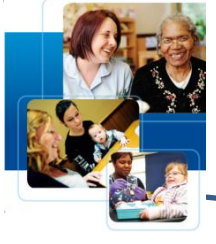
The sheer scale of the 5-year plans is dizzying





The NHS trust plans cover an awful lot of healthcare. For the 96 NHS trusts alone, the plans cover:

- 480 years of provision
- 13.5 million elective episodes
- 11.9 million emergency admissions
- 101 million outpatient appointments
- 44 million A&E attendances
- 3-4 episodes of care for everyone in England



There are some consistent themes and challenges for NHS trusts

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A small number of issues consistently provide challenges to NHS trusts in reaching sustainability:

- **Site configuration** – organisations with multiple sites see the distribution of services between sites as a major barrier
- **Estates** – the cost, quality and flexibility of estates is a common issue for many NHS trusts, particularly acute trusts
- **Commissioner intentions** – relying on commissioner plans is a frequent concern; the potential for large-scale tendering is also a challenge, particularly for non-acute trusts
- **Efficiency** – assumptions are highly variable across the sector

We want to use the plans to clarify the path to sustainability for every remaining NHS trust

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We envisage segmenting the 96 NHS trusts into 6 categories in order to clarify intentions for each organisation and for the sector as a whole. This will allow the TDA to target its development support more effectively at cohorts of organisations with a similar scale of challenge.

We want to use the plans to clarify the path to sustainability for every remaining NHS trust

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A1 Organisations with a credible plan to reach FT status within 2 years

A2 Organisations with a credible plan to reach FT status within 4 years

A3 Organisations with the potential to reach FT but no clear timeline. A small group for intensive support

B1 Organisations that cannot reach FT and where acquisition is likely to be the best route to sustainability

B2 Organisations that cannot reach FT and where a franchise or management contract may be the best route

C Organisations where further work is needed. A small group with final decisions to be taken by April 2015

Strategic plans will need to remain dynamic and respond to a range of local and national changes

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Key upcoming national developments:

- Dalton review – enabling a wider range of provider forms
- 5 Year Forward View – focus on new care models and system
- National tariff and planning guidance for 2015/16 and beyond

Most common local developments:

- Changes to commissioner intentions & local service models
- Better Care Fund plans and impact of local integration efforts
- Impact of Chief Inspector visits and broader regulatory activity

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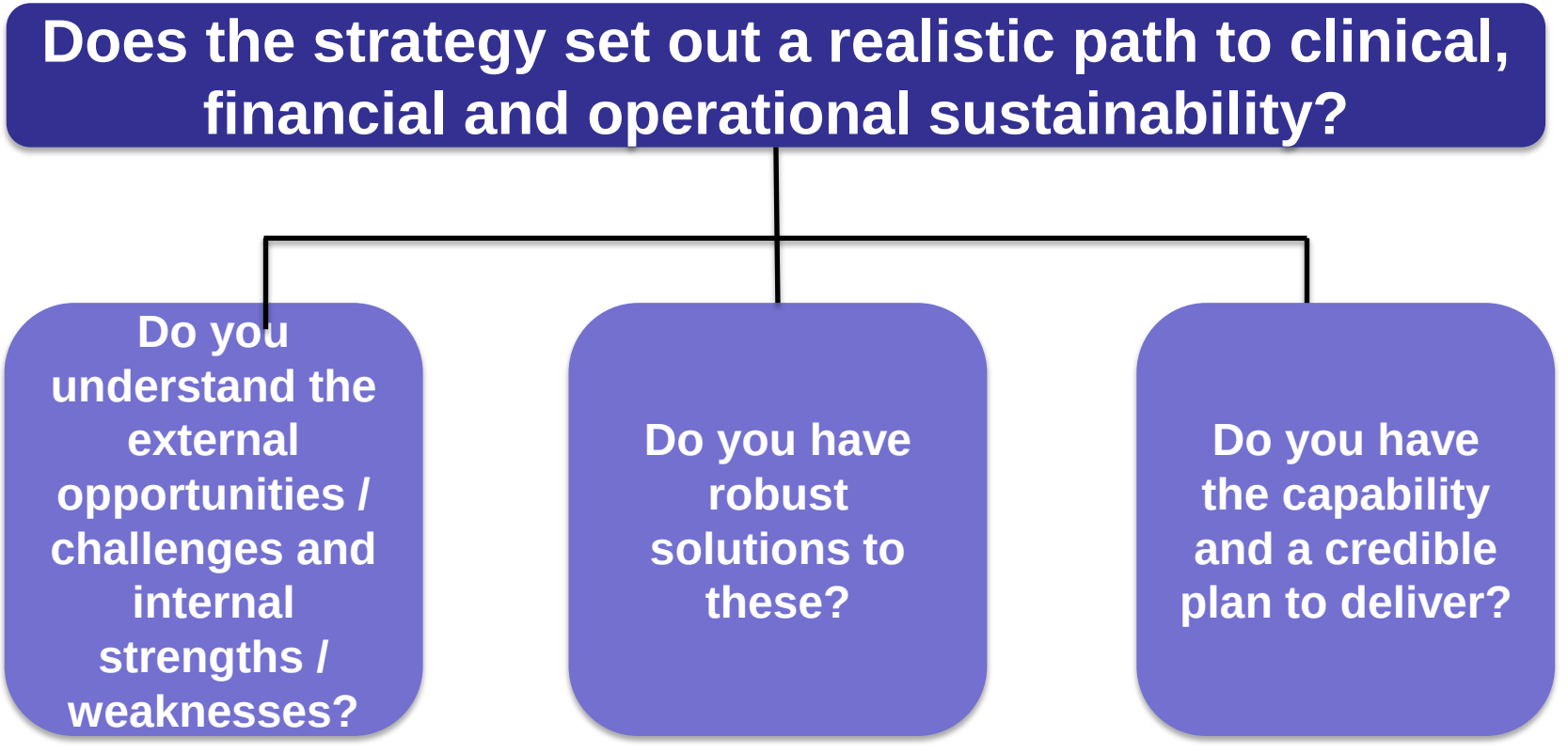
Strategic planning – an APR perspective

Mark Turner, Regional Director, Monitor
16 October 2014

Background to 2014-15 strategic planning round

What does a sound strategy look like?



Historical performance of foundation trusts

- Evidence that long-term planning by FTs has not been robust enough
- 2014/15: we launched 5-year planning process on back of this

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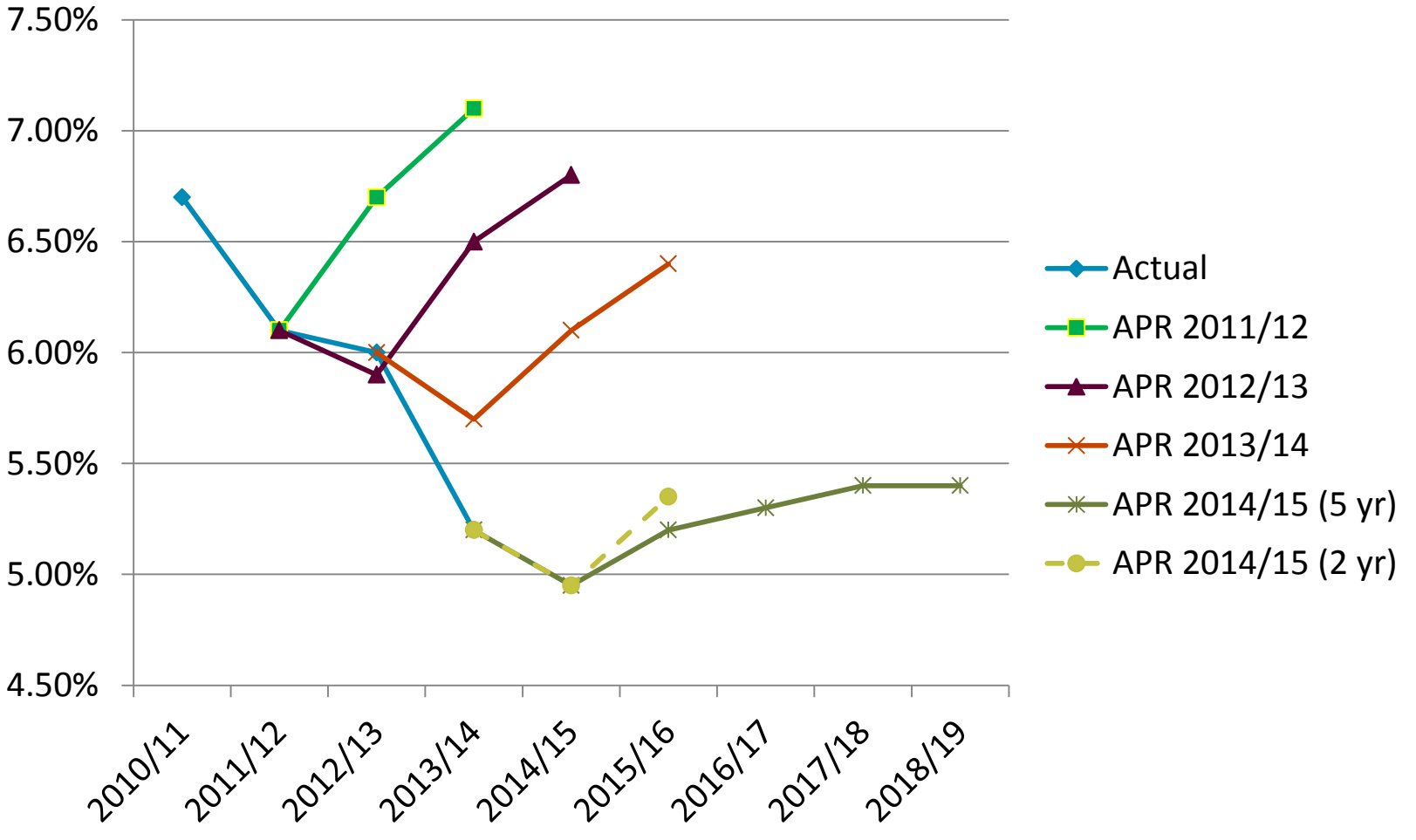
EBITDA margins: optimism bias

EBITDA margin for all FTs



EBITDA- Earnings before interest, taxation, depreciation and amortisation is an expression of a trust's surplus from normal operations and a measure of profitability.

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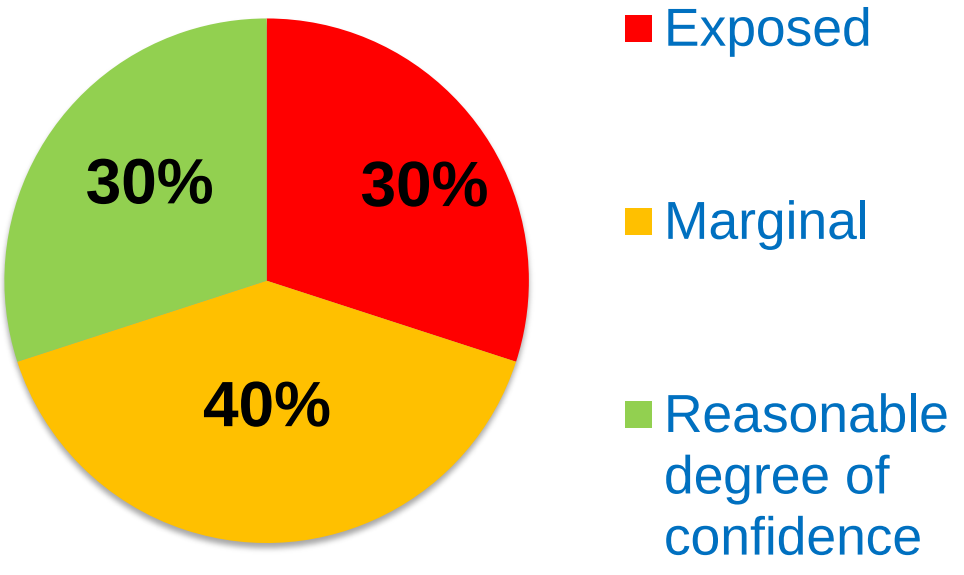
Overview of 2014/15 strategic plans (1)

Sector outlook

- In light of optimism bias, we sensitised FTs' plans
- Our analysis showed the following:



Monitor's response

- Where plans appear potentially exposed, we will seek to:
  - identify with trusts what further work may be required to secure plans that can deliver sustainability
  - agree additional support/resources necessary to accomplish this

Overview of 2014-15 strategic plans (2)

✓ In spite of tough clinical and financial climate, some evidence of better planning across FT sector:

- Optimism bias less pronounced
- Some cross-LHE transformational changes
- Providers & commissioners working more closely
- Higher quality of diagnosis & analysis

✗ However, key deficiencies still not addressed:

- Under-modelling of financial pressures
- Traditional CIPs look ambitious vs historical delivery
- Transformational changes not widespread
- Poor alignment with commissioners' plans

Sustainability is the Board's responsibility
This is likely to mean transformational changes

What is Monitor doing to help?

Strategy Development Toolkit

- Voluntary resource for Boards to encourage more robust strategy development & planning processes

Extra support for individual FTs

- Meetings with Monitor to discuss plans in more detail & identify any additional support required
- High level sustainability reviews

Learning from experience

- Insight gained from joint support work
- Taking positives from experience of failure regimes
- Learning from successful transactions, e.g. Frimley

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Strategy development programme and toolkit

Suzie Bailey
Development Director, Monitor
16 October 2014

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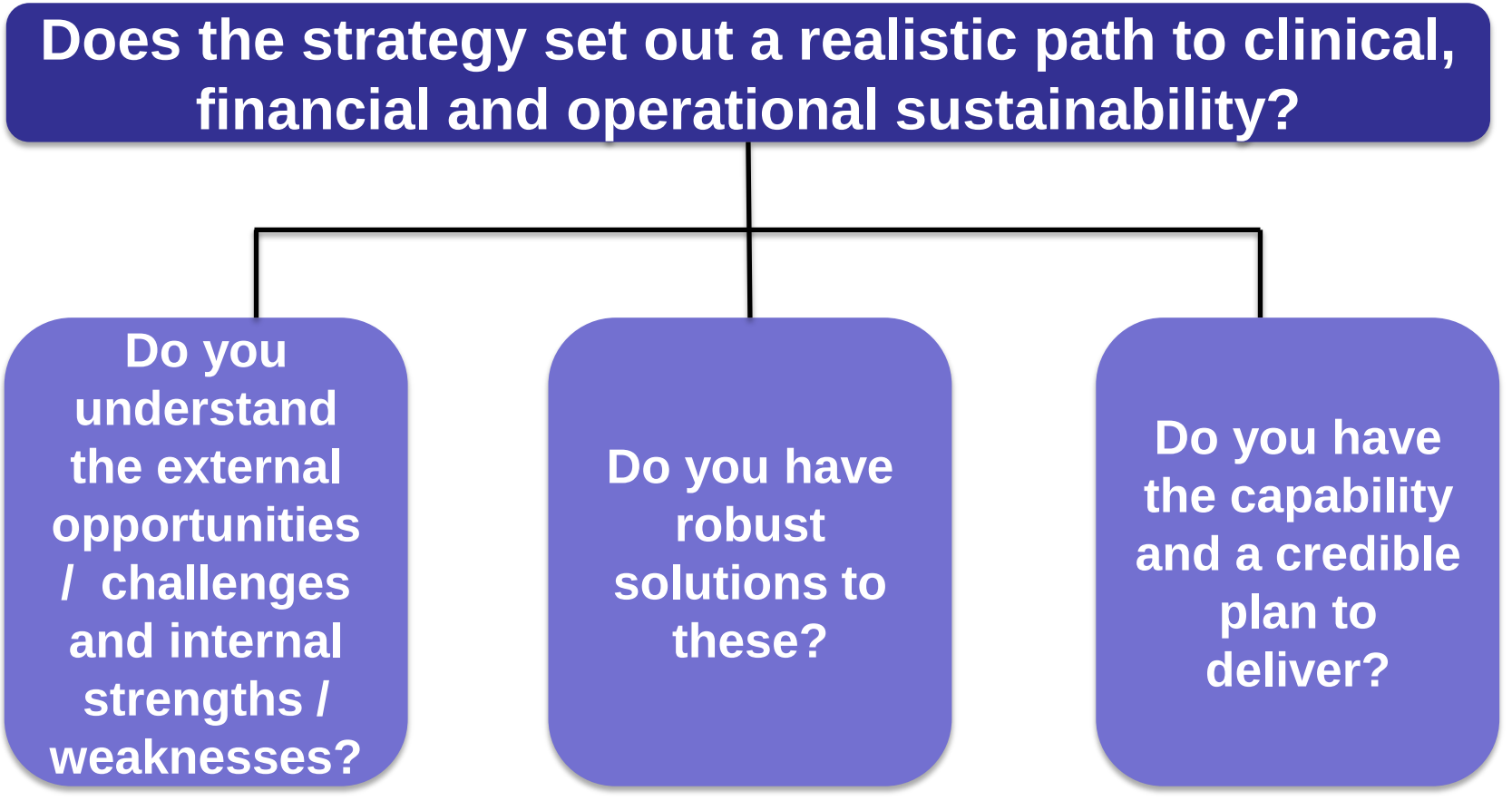
Strategy development toolkit and programme

Where we started from



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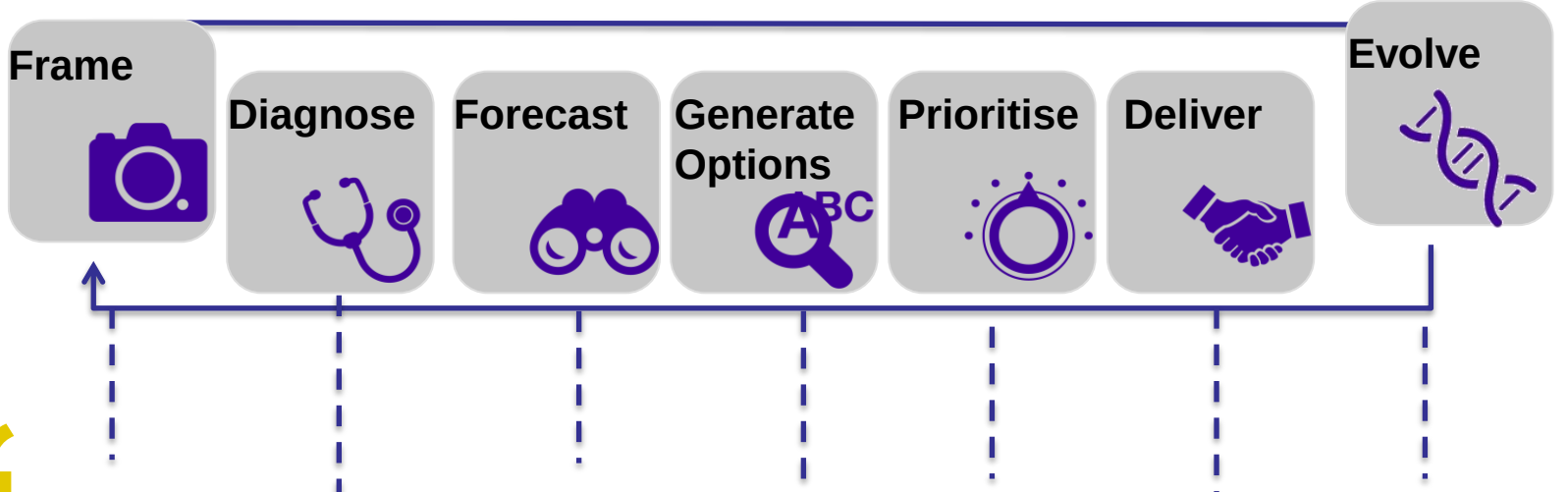
Seven steps in the toolkit



What questions do you need to answer?

What determines your performance?

What futures do you need to plan for?

Where and how could the FT change?

What is the best strategy for your FT?

How can you support making your strategy a reality?

How can your FT learn and adapt when the world changes?

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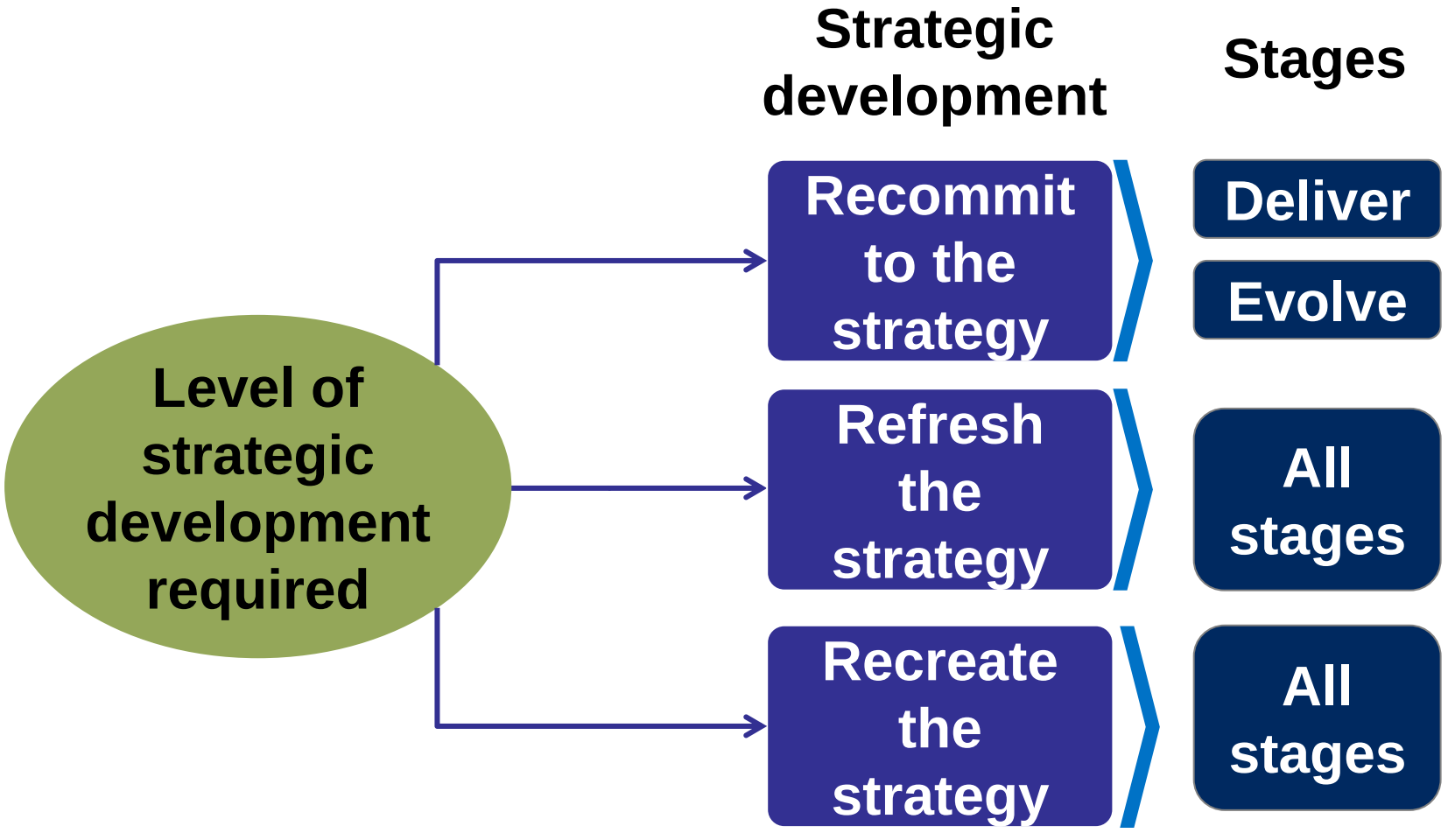
Selecting stages that are important to you



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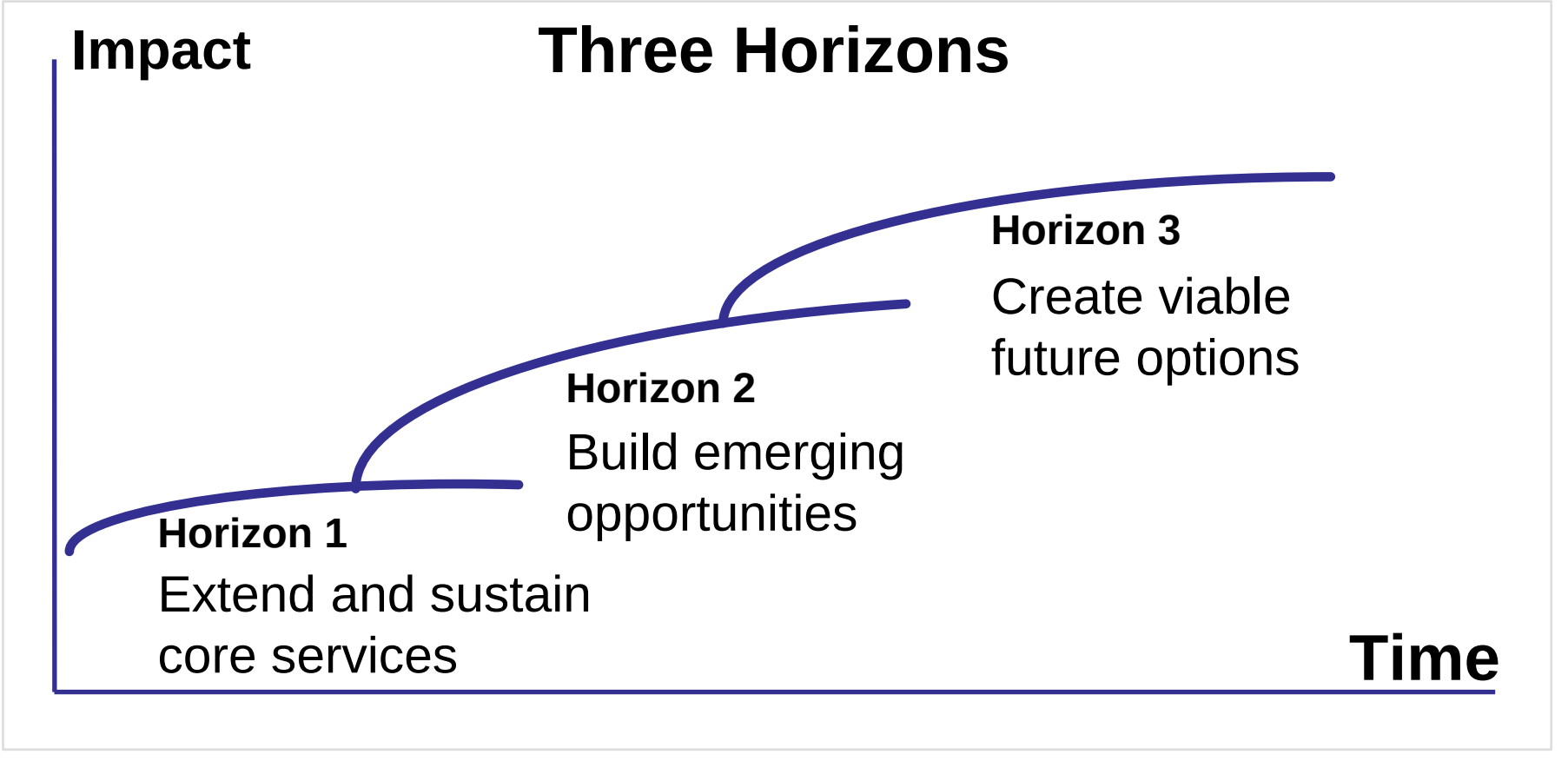
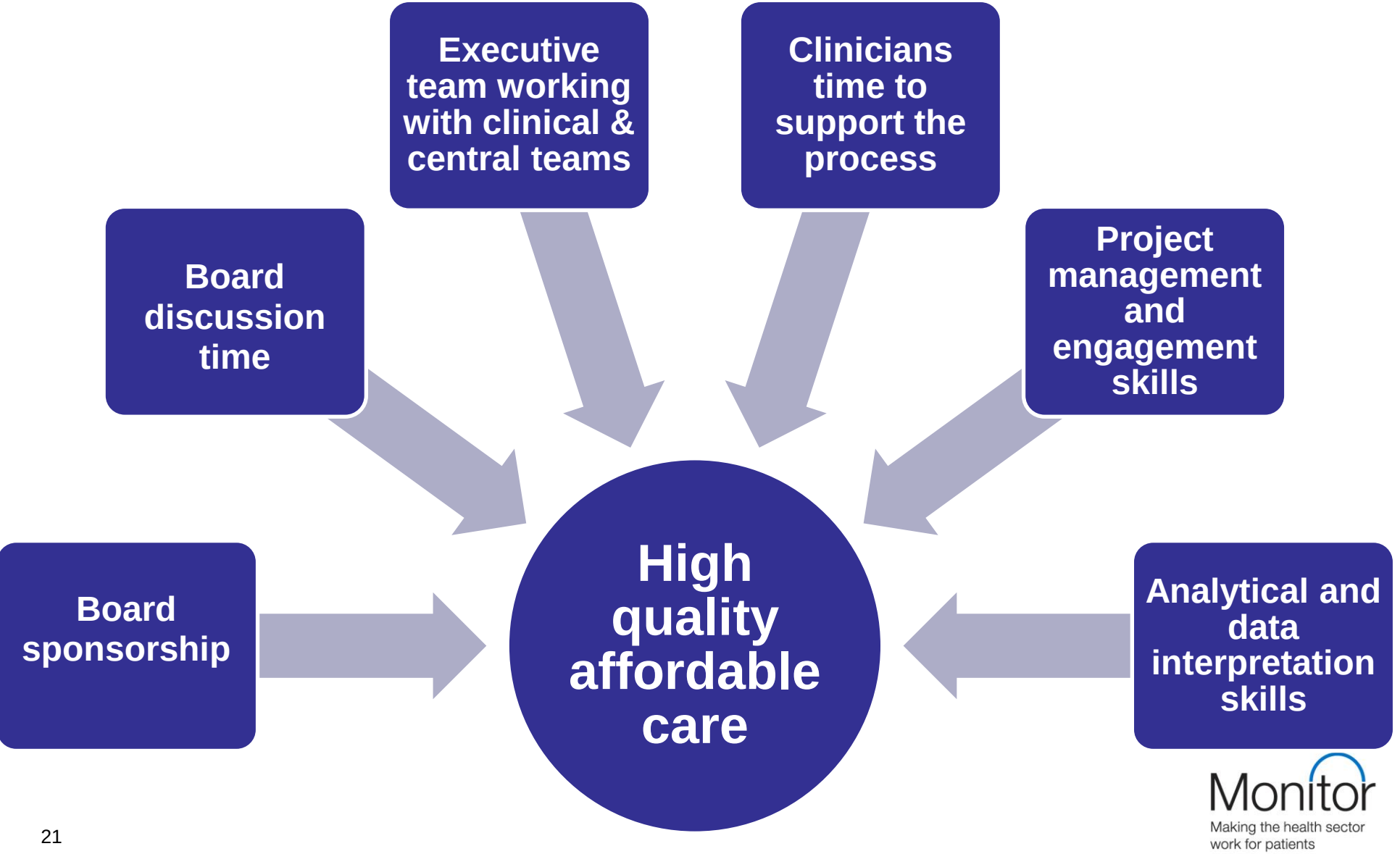
Which horizon are you planning for?



Source: Baghai, M., Coley, S. and White, D. (2000) *The Alchemy of Growth: Practical Insights for Building the Enduring Enterprise.* Basic Books.

Skills and capabilities needed to create an effective strategy



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Next steps: overview of activities

Q3

Development event for chairs & CEOs

FTN NED Regional network events

Q4

Exec director development events

Podcasts, webinars & social media

Evaluation

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With us today from the 5 foundation trusts involved

- **Rob Elek** - Moorfields Eye Hospital NHS Foundation Trust
- **Jane Marshall** - Lincolnshire Partnership NHS Foundation Trust
- **Jack Sharp** - Salford Royal NHS Foundation Trust
- **Christine Allen** - James Padget University Hospitals NHS Foundation Trust
- **Neil Griffith** - University College London Hospitals NHS Foundation Trust

“Please give your reflections on strategy development following your work with us over the summer?”

Mergers and acquisitions (Pathology)

Brighton and Sussex University Hospitals NHS Trust

- Matthew Kershaw, Chief Executive

Brighton and Sussex University Hospitals NHS Trust

Surrey and Sussex Healthcare NHS Trust

BSS Pathology

Brighton, Surrey and Sussex Clinical Pathology Services

A Joint Venture for the development and delivery of a pathology service at the cutting edge of diagnosis

Approved by our Boards of Directors September 2014

- Assurance
- Value for money
- Reliability
- Fast and convenient
- Expert clinical advice

Our ambition

Our vision

- ✓ To place pathology at the heart of service delivery.
- ✓ To have a pathology service that brings added value to clinicians and patients.

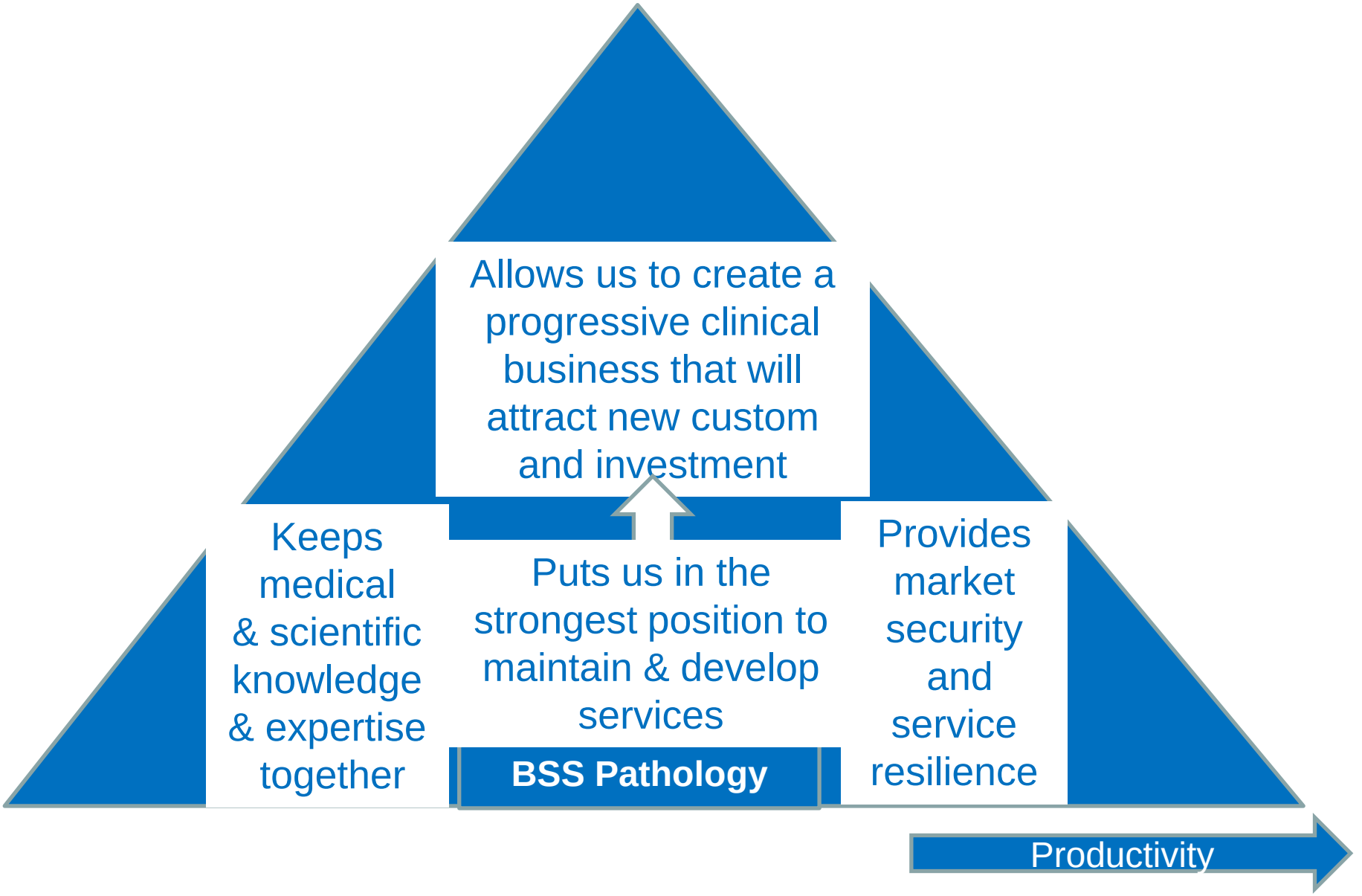
BSS Pathology

A development integral to clinical strategy.

- ✓ Pathology is core NHS business.
- ✓ It requires resilience and development.
- ✓ There is a high level of clinical and scientific buy-in.
- ✓ There are very good inter-organisational relationships.
- ✓ It's what we need to do with our pathology service.

Our JV

Our Joint Venture



Productivity benefits

~~BSS Pathology~~

We have exhausted scope for efficiency as stand alone services but we still have significant tariff and inflationary pressures which will deliver a decline in contributions and a minimum cumulative deficit.

BSS Pathology

Coming together enables the following cost reductions and improved resilience:

- ✓ Reduction in costs of laboratory staff;
- ✓ Reduction in non pay costs through larger critical mass;
- ✓ Improvement in Net Present Value;

Generates additional income opportunities.

Quality benefits

Quality benefits

External Drivers

- UKAS ISO15189-replacing CPA – stricter, more detailed
- Blood Safety & Quality Regulations 2005
- Pathology Quality Assurance Review-Jan 14 (Dr Ian Barnes)
- Additional Quality Standards-drawn from “How to assess the Quality of a Pathology Service”-Oct 2011-RcPath

BSS Pathology

Proceeding with the Joint Venture enables the service to develop, strengthen and maintain the ever increasing regulatory and mandatory standards relating to pathology services:

- ✓ Developing integrated single quality management system;
- ✓ Single pool of experienced staff capable of working across sites;
- ✓ Create single unified Quality Unit within our JV;
- ✓ Good Lab Practice (GLP) compliance for commercial trials;
- ✓ Increases credibility and assurance with commissioners.

Wider organisational benefits

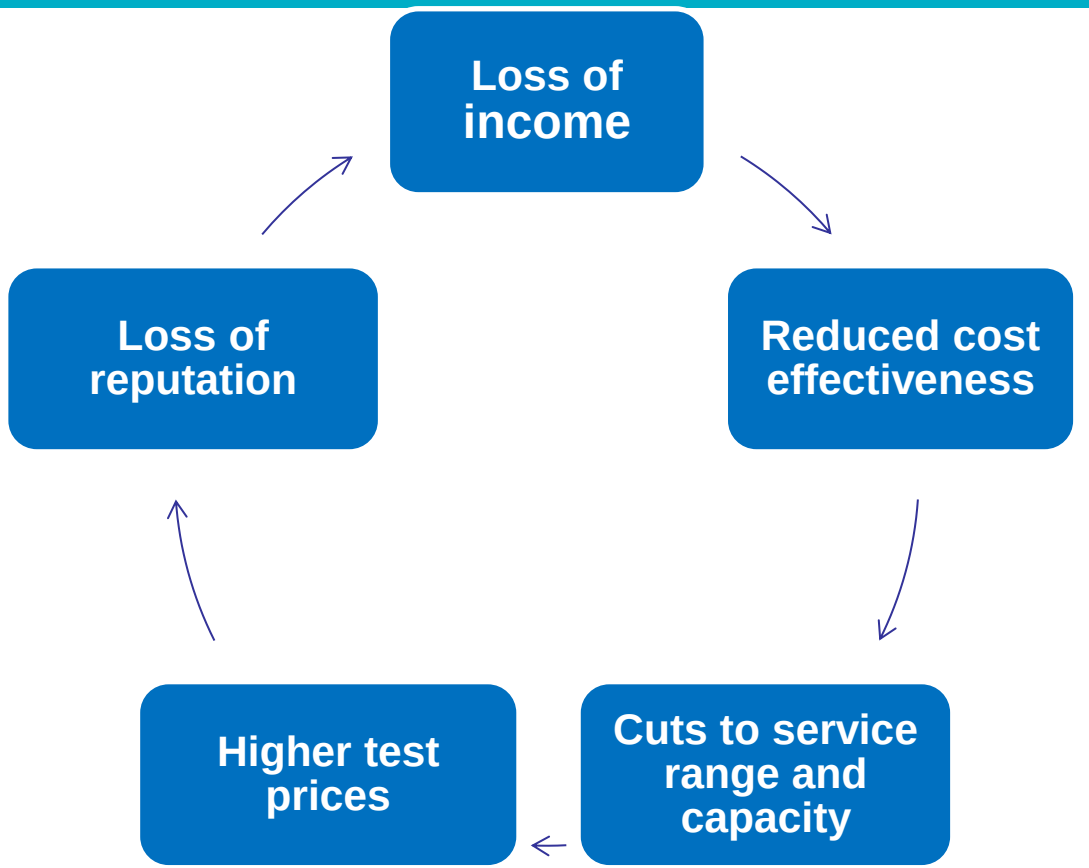
Wider organisational benefits

BSS Pathology	Keeps pathology services local, to the benefit of:

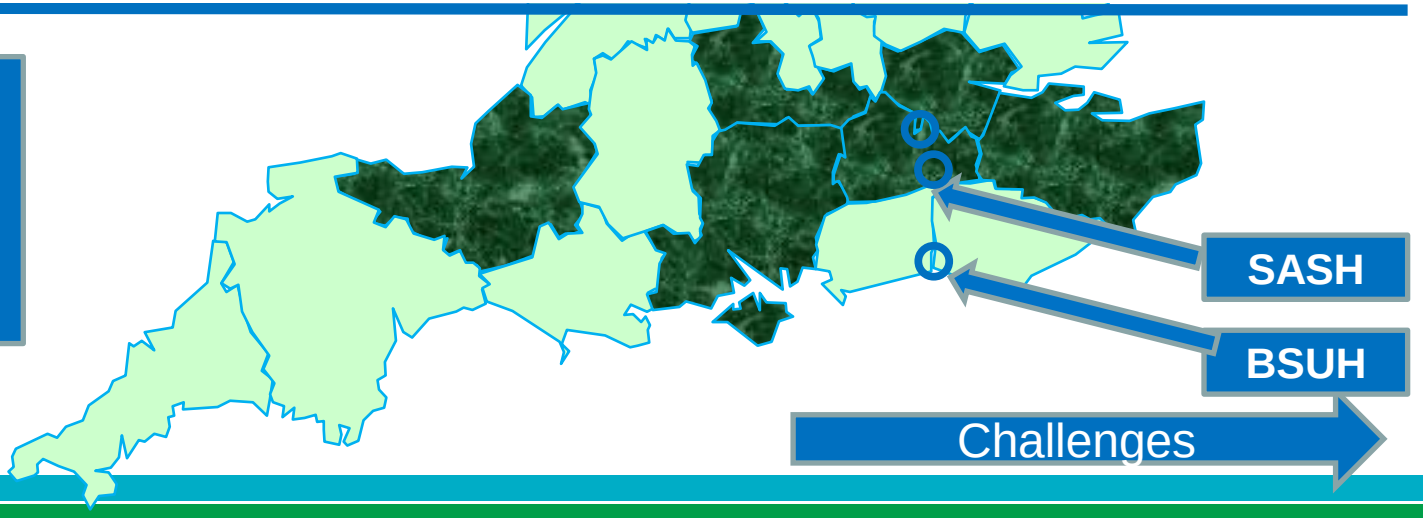
- ✓ Continuity of patient care between our hospitals, and between our GP's and us;
- ✓ Our clinical departments having a say in the development of Pathology services;
- ✓ Incorporating Pathology into ways of improving care pathways;
- ✓ Developing point of care testing according to the needs of our Trusts' clinical services;
- ✓ Supporting academic departments, the medical school and Public Health England.

Avoiding

Avoiding a vicious cycle



And mindful of developments elsewhere



Challenges

December 2012 — **Agreement to progress Pathology Joint Venture to next stage**

- To approach CCP or not? Others were just moving forward but one Board named this as a specific requirement.
- This was new territory for the NHS.
- It did not feel like a level playing field to those in the service.
- Delay before the actual CCP process got underway.
- Maintaining Board support over this extended period.
- Maintaining staff/Trust Council support over an extended period.
- CCP process required us to look back, we were trying to plan forward for implementation .. distraction.
- Learning curve on both sides – it was 12 months in total.

1 October 2014 — **Proposal for JV agreed by BSUH and SASH Boards**

For BSS - relationship of trust and mutual respect – shared ambition

Key learning

BSS Pathology

Key learning

The CCP process was not a threat but an opportunity to refine our thinking and re-state our case.

We opted to use our internal team to make the application – we didn't need any legal support just dedicated internal support.

There were no unreasonable requests - where we did not have an answer CCP worked with us to find a way through.

There were a couple of surprises but nothing that we could not manage between us.

Clinical leadership is always key, especially when a service is venturing into new territory – ours was superb.

NED concerns about using a JV agreement as our preferred structure for this collaboration based on their experience in other sectors.

Knowing what we know now we could have been clearer about time frames, both with our staff and our Boards.

And next time

And next time …….

Do again

- ✓ Use the CCP rigour as an opportunity to stress test our case. Was it really putting pathology at the heart of service delivery? Were the benefits for patients clearly articulated?
- ✓ Use the time to set the stage for a new relationship with our commissioners, Public Health England and our suppliers.

Do differently

- ✓ Allow time for an approach to CCP directly at the earliest opportunity - just view as a routine part of getting the job done.
- ✓ Strengthen internal programme support up front rather than waiting for approval of the case before we could release the resources to proceed at pace.
- ✓ Set the expectations differently with our Boards. This was a case for investment and sustainability, not a short term CIP.

BSS Pathology → Better together! → Questions?

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Monitor's approach to transactions

Martin Smith
Director – Provider Appraisal (Mergers and acquisitions)
16 October 2014

Why does Monitor review certain transactions?

All transactions reviewed

No review

- Stifle innovation and change
- Quality implications?
- Resource implications

Focus on "high risk" transactions

- More failure
- Enforcement action
- Quality implications?

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New approach to transactions: Why change?

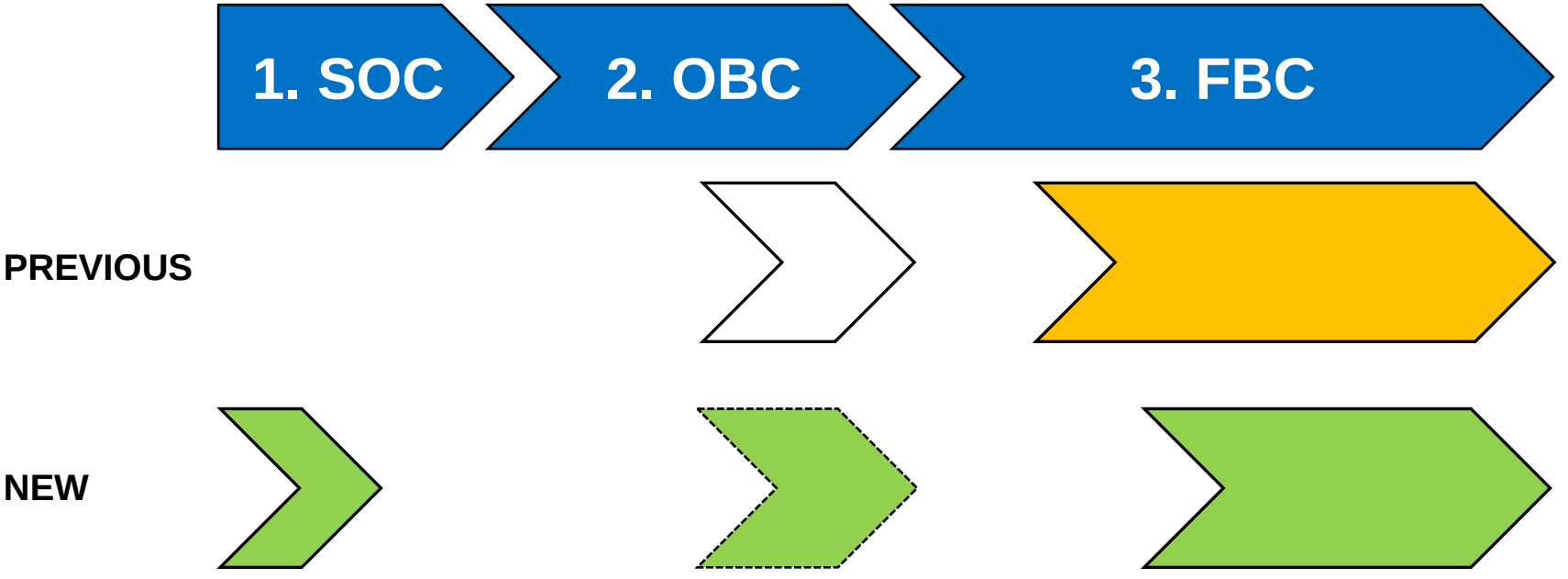
1. Pick up “deal breakers” early, including competition risk
   - Early engagement with trusts, 3 stage review

2. Threshold for review was based only on relative size
   - Other risks now considered in determining whether review is necessary

3. Clarity on good practice
   - New transaction guidance

4. Risk ratings unclear for the sector (FRR + GRR)
   - One RAG transaction risk rating

Early engagement



- Discussion on strategic rationale
- Desktop review of competition issues

- "Red flag" review of key documentation
- Engagement with Monitor on SLC, Patient Benefits

- Detailed review
- Scope can be tailored
- B2B if required

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Transaction classification

<10%	>10% >40%	>40%
Small	Consider other risk factors to determine classification	Significant

Illustrated additional risk factors include:

- Leverage
- Experience of services provided by target
- Acquirer quality
- Acquirer financial
- Target quality
- Target financial

Classification	Requirement
Significant	Detailed review
Material	Board certification
Small	No requirement

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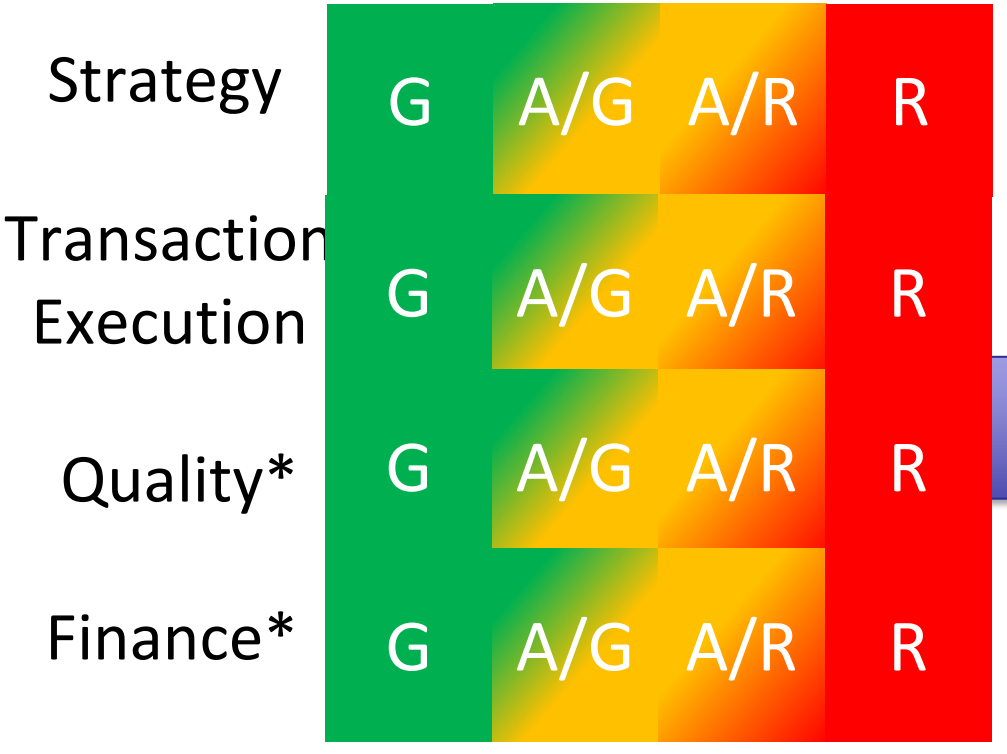
Scope of detailed review

- Largely unchanged although greater focus on strategy
- Four areas of review for mergers and acquisitions:
  - Strategy
  - Transaction execution
  - Quality
  - Finance
- Scope may be tailored according to specifics of transaction eg capital investment

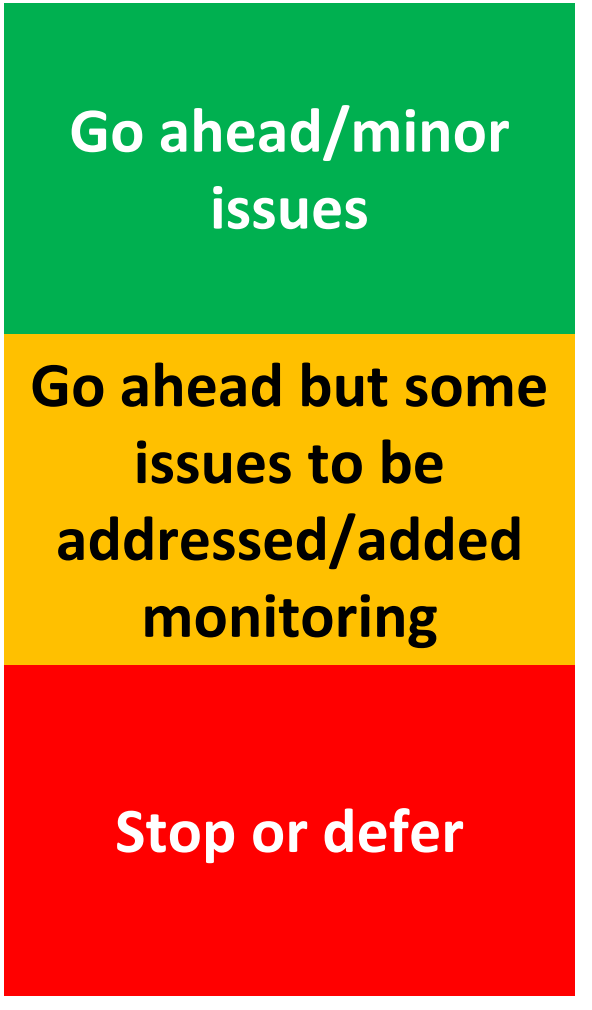
Single transaction risk rating

Internal assessment of each area



*Post investment adjustment score

Output:
Single transaction risk rating



- Transaction rating does not affect ongoing CSRR/governance approach, however, FTs may be able to agree investment adjustments

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Investment adjustments

- Application to be made to Monitor during the FBC review period
- Consideration on a case-by-case basis
- Short term, time limited
- If Monitor approves, alleviation of short term impacts of CSRR and/or governance rating
- Trajectory of improvement agreed and monitored post transaction

world class expertise local care

Royal Free London NHS
NHS Foundation Trust

Significant Transactions – the Royal Free London NHS FT and Barnet and Chase Farm NHS Trust

David Sloman, CEO
Caroline Clarke, Deputy CEO & CFO
Oct 16th 2014

Outline

Strategy & Rationale
Process
Reflections

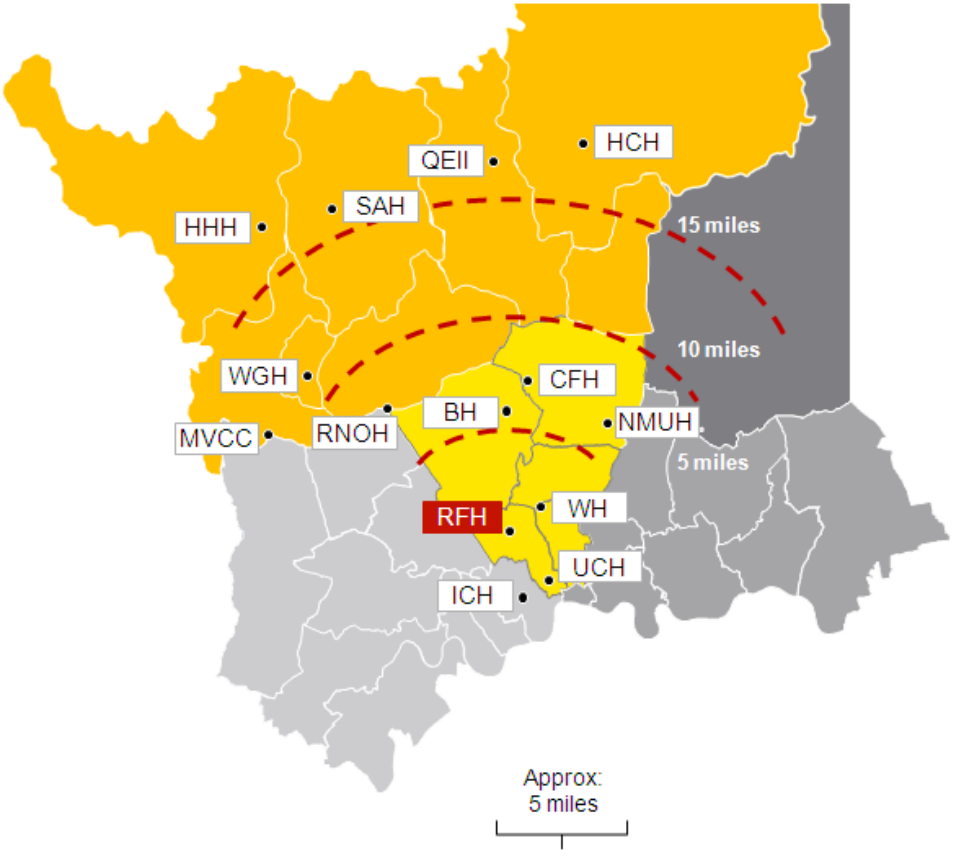
Royal Free London NHS
NHS Foundation Trust

Strategy and Rationale

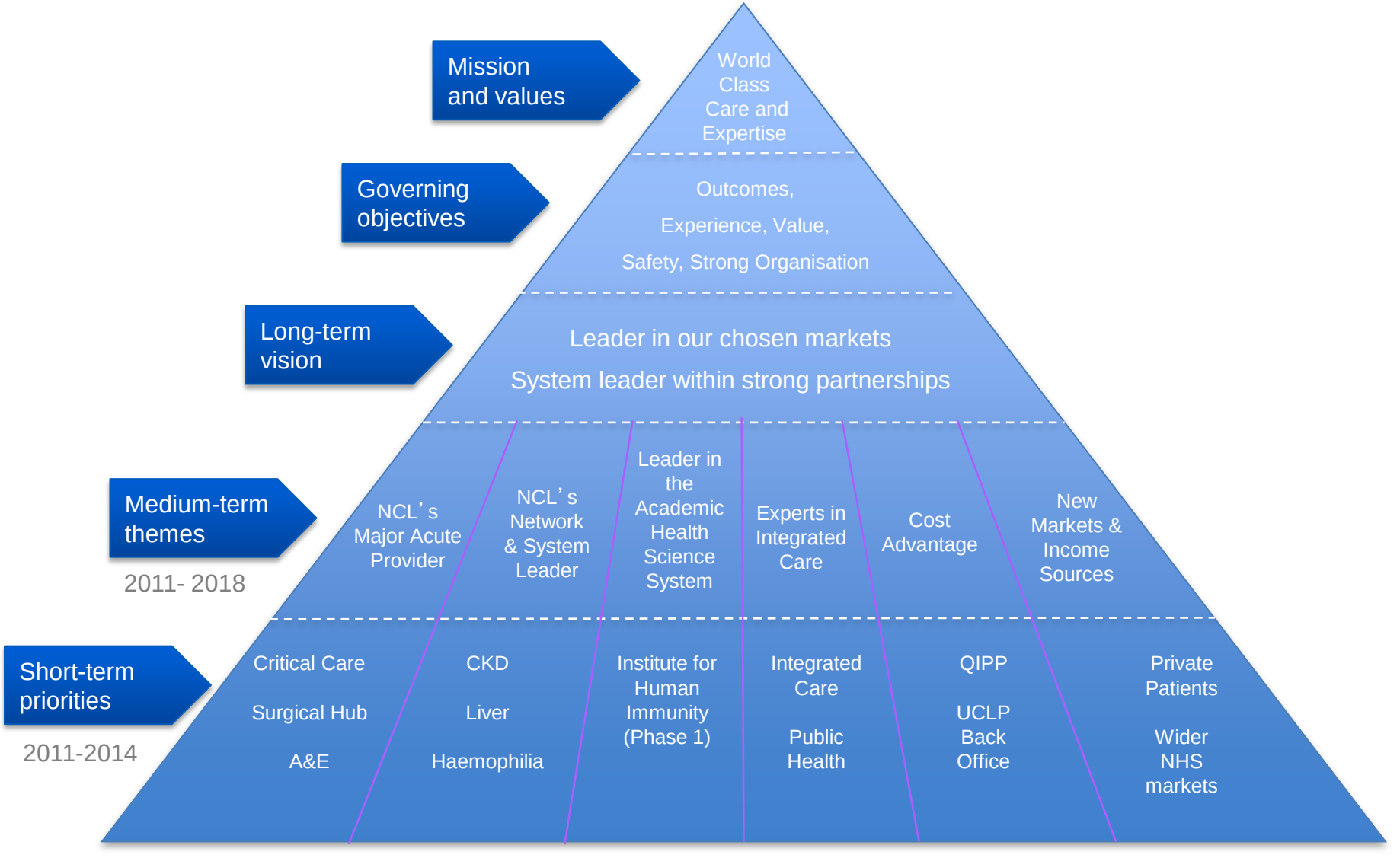
world class expertise local care

Context – The Royal Free in 2012

- The Royal Free became a Foundation Trust on 1 April 2012.
- The trust had a 2012/13 turnover of £577m
- We employed approximately 5,300 staff
- We provided local services to an area of around 600,000 people each year,
- Our geography covered north Camden, south and mid Barnet, east Brent and west Haringey
- An even split between specialist and local services



Our Rationale: The Royal Free's Strategy in 2012



Rationale: How the Acquisition Supports Our Strategy (1)

Medium term strategic theme	How the acquisition supports delivery of the strategy
NCL's Major Acute Provider	- RF becomes the major acute provider for NCL - General medicine and general surgery volumes above average for London - Paediatric volumes move from lowest in London to one of the highest in London
NCL's Network and System Leader	- Scope and scale makes RFL go-to organisation for system leadership e.g. referral management and integrated care - Increased clinical volumes make RFL natural choice as clinical network leader e.g. breast
Leader in the Academic Health Science System	- A larger referral population will strengthen our specialist services portfolio and academic activities - Increased population base provides potential for larger clinical trials and greater alignment with UCLP translational research agenda - Opportunities for further sub-specialisation e.g. extension of Moh's surgery

Rationale: How the Acquisition Supports Our Strategy (2)

Medium term strategic theme	How the acquisition supports delivery of the strategy
Experts in Integrated Care	- 7 CCGs have agreed the generic pathway for the new clinical model e.g. pathways based on standardised 1º and 2º care protocols - 7 CCGs have agreed referral management further upstream - 6 wave 1 specialties rapidly undertaking system-wide redesign
Cost Advantage	- Extends QIPP opportunities (standalone RFL may run out of road) - Trust-wide operating benchmarks give reason to believe that there is considerable headroom for efficiency improvement e.g. length of stay for medicine and care of the elderly - Back office synergies of between 1-2% of total combined cost base
New Markets and Income Sources	- Access to new markets to the North and West - Ability to repatriate tertiary referrals from BCF e.g. oncology work currently referred to providers north of BCF - Opportunities for further development of specialist private practice

Context – The Royal Free in 2014

- The new Royal Free London NHS Foundation Trust:

- 1.6m population

- 10,000 staff

- Key service lines include acute medicine, obstetrics, renal

- >£950m turnover p.a.

- 1500 beds

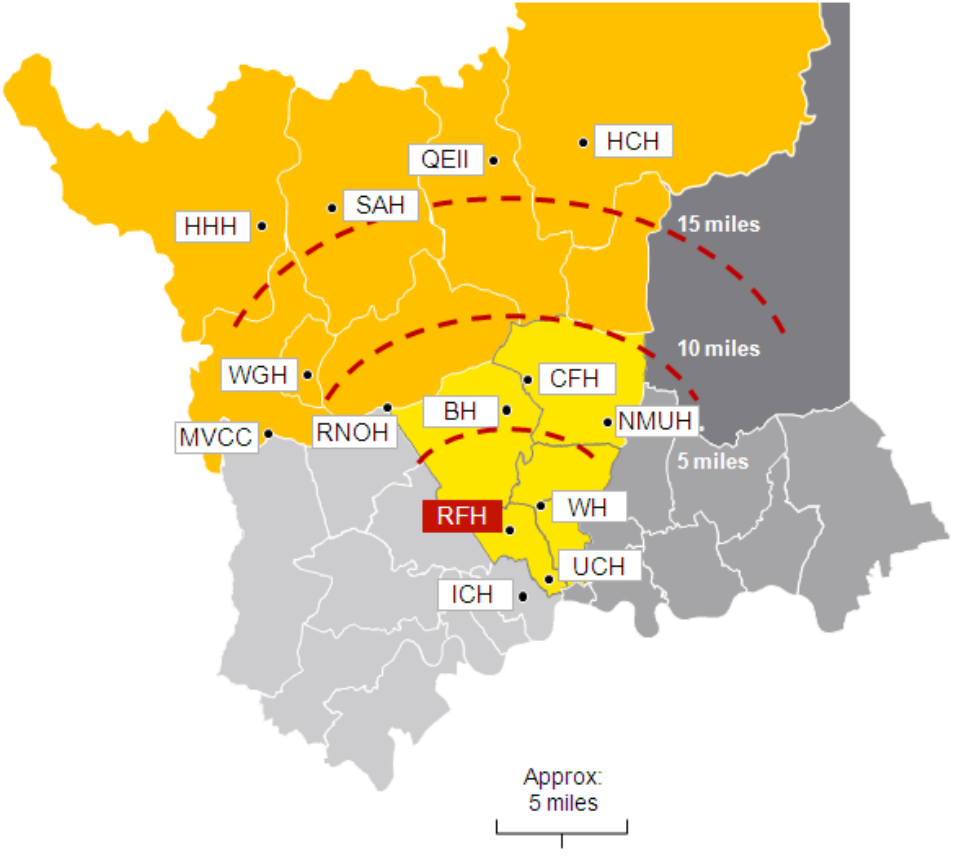
- 3 main sites, 16 other satellites

- 2 A&Es, one urgent care centre

- Planned EBITDA 5-6% over 5 years

- Transitional relief from Department of Health and NHS England for 5 years

- Capital programme of >£400m

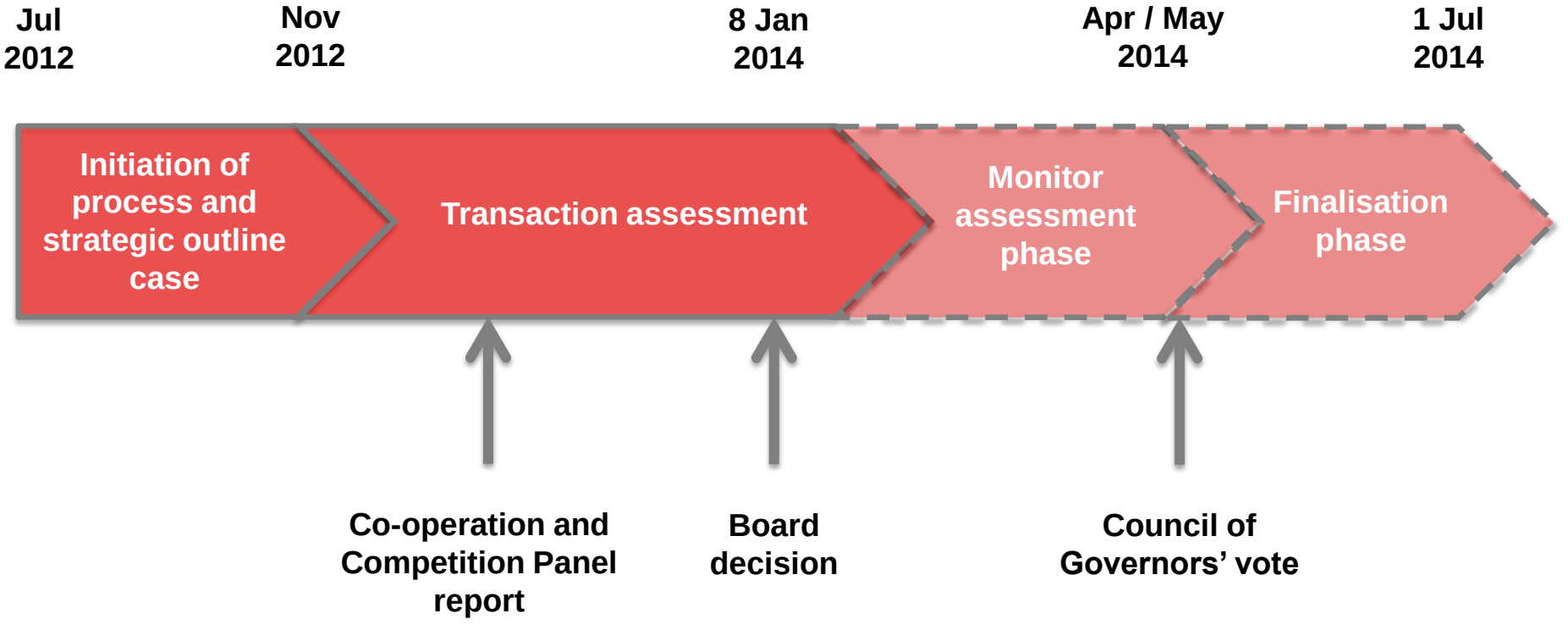


Royal Free London NHS
NHS Foundation Trust

Process

world class expertise local care

Overview of the process



Not to scale

The Ten Elements To Our Approach

Strategy

1. A clear strategy and benefits framework
2. A jointly agreed clinical model for the local health economy
3. Decisive investment to tackle root causes of under-performance - especially Chase Farm

Organisational Model

4. RFL service line and clinical engagement philosophy
5. RFL governance and data disciplines
6. Evidence-based interventions for improving and sustaining operating performance
7. A multi-site operating model for site “grip” within service-led strategic direction

Integration

8. A staged approach to integration that puts safety first
9. The right level of new resources in the right places
10. An activist board stance on governance and oversight of progress

Approvals

Managing through the process:

- 19 levels of approval
- over 50 board meetings
- governors
- regulators
- 7 CCGs
- clarity on funding sources and approvals

Integration planning

Day 1

- focus on safety

Day 100

- first year focus on key targets and financial control

Medium term

- integration of key clinical services
- new clinical models
- hospital rebuild

Royal Free London NHS
NHS Foundation Trust

Immediate Reflections

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Is it what we expected?

Yes

Multiple sites require a different operating model

Staff are willing to engage and problem solve

Cultural integration is key and takes time

Data free zone

Broken systems

No

Controls (financial and operational) are weaker than we'd expected

Complex stakeholder relations

Lack of "modernisation"

Questions?