

Plymouth Hospitals NHS Trust Business Case for replacement Managed Equipment Service

Purpose

The Business Case describes and seeks approval to award the contract for the replacement of the existing Pathology Managed Equipment Service (MES) to the preferred supplier. This option has been selected through the scoring of the Economic, Benefit and Risk appraisals and the three responses to the specification to the Invitation to Tender (ITT). This commits to a whole life cost of £31.445m through contract novations over the seven-year initial term. The contract will:

- Replace the current Blood Sciences MES with a Whole Pathology MES with added value;
- Include Microbiology and Histopathology, which are not currently part of the existing MES;
- Modernise technology and equipment to automate processes to increase quality, decrease test turnaround times and maximise efficiency;
- Deliver new partnerships to innovate with emerging technologies;
- Require the supplier to work with clinicians and users to optimise patient pathways and provide savings for the wider healthcare community;
- Deliver a lean and agile commercial structure to grow business through the development of new markets.
- Deliver significant financial benefits compared with the current arrangements.

Introduction

Plymouth Hospitals NHS Trust has an existing MES for a Blood Sciences contract, which is due to expire on 31st March 2016. The contract commenced in 2006 and has not been market tested since. A new MES contract is required to replace existing failing equipment and procure the latest Pathology solutions, to enable the continued delivery of a quality service and increase efficiencies.

The case for change is based around this very real and timely need.

The estimated spend within the proposed procurement contract is circa £31.445m million over a seven year initial contract term. The preferred option is affordable and offers optimum value for money.

The spending proposal is in synergy with both the Trust's vision 'to be led by patients' needs and become one of the country's leading specialist centres, delivering excellent care, teaching, training and research, and the Plymouth Pathology Vision 'to provide the best quality service possible for our patients and clinicians in Plymouth and the Peninsula'. Importantly, it will contribute to the overall sustainability of the Trust by reducing costs.

The Business Case was prepared in accordance with H M Treasury Green Book Guidance on the standards and format for Business Case, using the 'Five Case Model', and is designed to meet the requirements of the Trust Development Authority (TDA).

Strategic Case

The replacement of the Pathology MES addresses all relevant aspects of the Trust's overall and clinical strategies. The Pathology Vision supports that of the Trust and the priorities are aligned, specifically: to ensure that our services are consistently safe, with excellent patient outcomes and experience.

The Case for Change

The current MES contract expires on 31st March 2016 and while a 12-month contract extension with an option of three months' notice to cancel is now in place, the contract must be replaced as soon as possible for the following reasons:

- Equipment is ageing and since the Outline Business Case instances of equipment failure are increasing; replacement equipment is essential to ensure service continuity for the care of our patients.
- The current contract has not been market tested for best value since 2006 and the new contract with the preferred supplier offers increased value for money.
- The new MES offers modern technology and equipment to achieve new efficiencies.
- Around 25% of the current workforce is over fifty years of age. There have been retirements and loss of expertise during the tender process and with further retirements in the coming years, new solutions are required to manage the impact of this loss.
- There is opportunity to exploit commercial expertise to increase income and VAT efficiency; market test further areas of Pathology as existing contracts end throughout the lifetime of the contract; and continually innovate and reconfigure services to ensure a sustainable Pathology solution for the future.

The Trust was awarded Outline Business Case (OBC) approval by the Trust Board 4th September 2015 and by the TDA on 23rd December 2015. The procurement Invitation to Tender (ITT) was issued on 17th July 2015 and the process of identifying the preferred supplier was concluded on 2nd February 2016. Full Business Case approval was awarded by the Trust Board on 26th February 2016 and by the TDA on Monday 6th June 2016.

Pathology has already delivered significant improvements and has incorporated recommendations from the Carter Review and learnings from the collapse of the Peninsula Pathology Project. The Trust also held extensive conversations with another local Trust about the potential for a smaller NHS collaboration and presented a detailed paper outlining a 'Ten year plan', which the replacement of the current contract is central to. The paper explored two options 1) outsource the entire Pathology Service 2) replace the managed equipment service with an innovative contract with a commercial partner. Option 2 was selected and endorsed by the Trust Board.

At this time, there is no agreement to collaborate with another NHS Trust. However, PHT will look to continue to identify this opportunity and will be in a stronger position following the award of the contract to the preferred supplier.

The new MES contract will implement a partnership with the commercial sector, which will support and enable growth and innovation to maximise benefit from PHT's position as a tertiary laboratory for the Peninsula.

Economic Case

The Critical Success Factors (CSF's) for the replacement of the existing MES were identified as

- Improvement of quality of service provision.
- Delivery of planned financial benefits.
- Maintenance of GP income.
- Modernisation of analytical equipment.
- Innovation.
- Business support to increase income.

Funding Options

The new MES will be funded from current revenue spend and will result in an overall reduction in revenue spend. The MES will maximise potential VAT savings during the early years of the new contract.

The procurement process

Two companies responded to the ITT and one of the suppliers submitted a variant bid. The three responses were scored against the technical specification, which ensured that the solution met the CSF's.

The result of the technical evaluation is shown in the table below.

Scored Requirement	Available score	Winning Bidders Score	Other bidder's score for primary bid against criteria	Other bidder's score for variant bid against criteria
Innovation & partnership	15%	10.69%	9.19%	9.19%
Service & support	10%	6.64%	6.00%	6.00%
Technical & analytical reagent performance	35%	23.71%	21.50%	21.19%

Table 1 – Scoring Summary – Non-Financial Criteria

Economic overview of shortlisted options

A detailed review of Pathology non-pay spend identified a net spend of £5,076,589 as being in scope of the new MES. Financial assessment of the economic value of the tender responses has been used to evaluate the three bids on financial grounds excluding the impact of VAT and capital charges.

The three responses were compared to the 'Do nothing' Option 1 and the Public Sector Comparator (PSC).

The savings for each option are defined as the difference between the forecast spend in that option and the forecast spend in option 1 (Do nothing):

Option	1	2	3a	3b	PSC
	£'000s	£'000s	£'000s	£'000s	£'000s
Capital		125	125	125	6,844
Direct Access Income	0	0	0	0	0
Other Income	0	(1,383)	(1,383)	(1,383)	0
Pay	0	(2,598)	(2,598)	(2,598)	0
MES	0	*	*	*	0
Fixed	0	*	*	*	0
Semi-fixed	0	*	*	*	0
Variable	0	*	*	*	0
Novated	0	6,236	6,236	6,236	0
Asset replacement	0	1,631	1,631	1,631	0
Other Contracts	0	(15,262)	(15,262)	(15,262)	(9,743)
Non Pay Out of Scope	0	0	0	0	0
Total Revenue		*	*	*	(9,743)
Total Cashflow	0	*	*	*	(2,899)
Present Value	0	*	*	*	(2,014)
Rank	5	1	4	3	2

Table 2 – Difference between “Do Nothing” and other options

*Figures removed as these are considered commercially sensitive

The economic Whole Life costs of the preferred option are shown below:

Economic Whole Life Costs - MES	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL
	£'000s	£000s	£'000s						
Whole Life Cost	125	3,200	3,985	4,570	4,725	4,886	4,989	5,090	31,570

Table 3 – Economic Whole Life Costs

After discounting, the profile of the savings were compared over the life of the contract. Option 2 delivers the highest saving.

The Overall Summary (Economic, Benefit, Risk)

The overall economic, benefit and risk summary from the FBC confirms the preferred supplier, Option 2 as the recommended option.

Overall Scores and Rankings	Option 1: Do Nothing	Option 2: Pan Pathology MES	Option 3a Pan Pathology MES	Option 3b: Pan Pathology MES	Public Sector Comparator	Weighting
%age Benefits Score	0%	94%	76%	76%	35%	40
%age Risk Score	40%	57%	62%	58%	66%	20
%age NPV score	0%	100%	21%	32%	42%	40
Overall Score	8%	89%	51%	55%	44%	
Overall Rank	5	1	3	2	4	

Table 4 - Overall Economic Scores and Rankings

The preferred supplier, Option 2, provides the most benefit and delivers the best economic outcome, however the option has a higher risk score than the other two MES options, reflecting the significant change in technology and the introduction of innovative solutions. The preferred supplier is a global leading diagnostics company with experience of delivering similar, solutions to 33 UK and over 120 European laboratories. Along with the Trust's previous experience of contract migration, the risks to the continuity of Service of this option are considered minimal.

Efficiencies

The preferred supplier will utilise its global, commercial expertise to market a PHT brand and introduce further profit from new income. This will be achieved through access to new assays and technologies to provide rapid innovation into our diagnostic repertoire allowing the Trust to provide cost-effective services to smaller UK hospital laboratories and private opportunities in the UK and abroad.

The preferred supplier will deliver an integrated solution providing pre-analytics, post-analytics and analytical platforms that will introduce new efficiencies and increase quality through new processes across traditional disciplines. Common processes and Pathology IT middleware will facilitate workforce redesign to deliver new pay savings.

The procurement process and contract novations from the commencement of the contract will deliver further, significant non-pay savings. In partnership with the commercial partner, PHT will drive a continual programme of improvement to support cost reduction, cost avoidance and revenue increase. Drawing on ideas from other industries, the commercial partner will provide a benchmark of the current status and continually highlight areas of opportunity.

Recommendations

The Recommendation following the full economic evaluation is that the Trust seek TDA approval to enter into a contract for Managed Pathology Services under Option 2 and commence migration to the new arrangements as soon as possible.

Commercial Case

Introduction

Following receipt and evaluation of compliant tenders, a preferred supplier has been selected to support the Trust requirements for a Pathology Managed Service provision.

Based on the preferred supplier tender response, a new Managed Equipment Service Contract has been drafted to form the basis of a partnership which will support and enable growth and innovation . The contract is based on standard NHS terms and conditions, Trust specific clauses are being reviewed by the Trust's legal advisors and the Trust's VAT advisors have confirmed that the draft contract meets HMRC requirements for VAT efficiency. The Trust has not committed any expenditure at this stage and will not formally contract for services until approval is received from Trust Board and TDA in relation to this Business Case.

Outline Scope

The preferred supplier will provide an initial equipment refresh where specified, novate existing agreements and provide innovative and integrated analytical solutions to replace equipment throughout the life of the contract. This extends further than the existing Pathology Managed Equipment agreement, and covers other areas of Pathology to make a complete pan-pathology service provision.

The preferred supplier will be responsible for the day-to-day management and performance of all aspects of the Contract. This does not include any line management responsibility of any NHS employee, but shall provide the resources necessary to enable the PHT pathology team to provide a 24/7 service.

Service Streams and Required Outputs

Following award of the Contract, the successful service provider will deliver the Contract in accordance with desired outcomes and outputs. These outputs will be measured using the key performance targets within each service stream, which will be validated during quarterly business reviews.

Proposed Charging Mechanisms

The current contract is based on an annual payment in advance, in order to maximise the level of discount achieved at minimal risk to the Trust. The preferred supplier business model is retrospective payment based on volume of service (tests) performed in any given month. The additional benefit of this model is in that there is no requirement for quarterly or monthly reconciliation, which would result from any advance payment as well as providing more efficient financial management of the Contract.

Financial Case

Introduction

The underlying assumptions for the financial evaluation are the same as those used in the Economic evaluation but take into consideration the impact of VAT on costs and savings (where applicable) and of capital charges on the Trust's finances.

Contingency

As part of the implementation programme, there is a requirement for minor works to make adjustments to accommodate new equipment and processes. A contingency has been made for unexpected costs (£150k capital and £55k staff costs).

Summary (Revenue)

The savings for each option are defined as the difference between the forecast spends in that option and the forecast spend in the 'Do nothing' Option 1:

Option	1	2	3a	3b	PSC
	£'000s	£'000s	£'000s	£'000s	£'000s
Capital	0	150	150	150	8,213
Direct Access Income	0	0	0	0	0
Other Income	0	(1,383)	(1,383)	(1,383)	0
Pay	0	(2,598)	(2,598)	(2,598)	0
MES	0	*	*	*	(20,285)
<i>Fixed</i>	0	*	*	*	
<i>Semi-fixed</i>	0	*	*	*	
<i>Variable</i>	0	*	*	*	
<i>Novated</i>	0	6,236	6,236	6,236	
<i>Asset replacement</i>	0	1,631	1,631	1,631	
Other Contracts	0	(17,773)	(17,773)	(17,773)	14,698
Non Pay Out of Scope	0	0	0	0	0
Dpn and cap charges	0	(417)	(417)	(417)	5,285
Total Revenue	0	*	*	*	(301)
Total Cashflow	0	*	*	*	2,626
Net Present Value	0	*	*	*	2,801
Rank	4	1	3	2	5

Table 5 – Summary of Savings Compared Against "Do Nothing"

*Figures removed as these are considered commercially sensitive

There is a net cost in 2016/17 in options 2-3b from the non-recurring pay costs to implement the new contract, and some depreciation and capital charges from the works contingency. Costs and savings have been modelled on the basis of full contract implementation on 1st April 2017. In reality, elements of the contract will commence before the profiled 2017/18 implementation. This will deliver savings to

offset the contingency costs in year one (implementation year), although the extent of savings cannot be determined until the detailed migration plan has been developed post-contract award.

After discounting, the highest savings in year eight are delivered by Option 2, the preferred supplier.

Overall Affordability

The proposed contract with Option 2, the preferred supplier, is considered affordable, since it offers significant savings on the current situation, and thereby contributes to the Trust's financial recovery plan and overall sustainability.

Management Case

The project has continually embraced the Managing Successful Programmes (MSP) methodology and PRINCE2 principles and by applying them practically has ensured that the correct frameworks are in place, that control and accountability measures have been confirmed and that the agreed plans can successfully deliver the Managed Equipment Service project in adherence to the following five strategies:

- Programme and project management
- Risk management
- Change management
- Benefits realisation
- Project evaluation

Governance Structure

Project Governance is overseen by the Pathology Board which is accountable to the Trust Management Executive. The Pathology Improvement Steering Group acts as an enabler for the MES project and the wider Pathology Programme.

Following notification of the outcome of preferred supplier, the Project Implementation Board is to be established to strategically plan the delivery of the implementation phases of the project ensuring continuity of the Pathology service during the transformational period. In conjunction with internal Project Management and appointed specialist leads, the Project Implementation Board will utilise the partnership with the preferred supplier to successfully plan, monitor and control the service change whilst continuing to deliver business as usual.

Pathology has commenced interdepartmental discussions with Estates and IM&T to scope the preparatory activities and extent of responsibilities involved for the successful delivery, installation and commissioning of the analytical equipment and middleware, whilst securing this provision and availability of key stakeholder resource.

Day-to-day operational management will be coordinated by the Project Implementation Team. Leads are appointed to deliver and report on each of the Project Workstreams:

- Procurement & Finance
- Analytical Solutions (discipline specific)

- Deliver new partnerships to innovate with emerging technologies;
- Require the supplier to work with clinicians and users to optimise patient pathways and provide savings for the wider healthcare community;
- Deliver a lean and agile commercial structure to grow business through the development of new markets.
- Deliver significant financial benefits compared with the current arrangements.

The next steps will be:

- Finalise the contract with the preferred supplier, utilising the support of the Trust's legal advisors.
- Agree the final implementation plan in partnership with the preferred supplier
- Implement the management structure and controls for the MES migration.
- Manage the ongoing review of benefit realisation and its communication to stakeholders following the implementation stage.
- Ensure the established service change is maintained by embedding the new working practices and systems into business as usual.