

NORTH KENT A NEW SHAPE FOR ACUTE SERVICES



HSJ Local Briefing is our new in-depth analysis of the key issues facing the NHS's major health economies

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In brief

Issue Medway Foundation Trust and Dartford and Gravesham Trust are currently seeking to merge, with implications for both the north Kent health economy and its neighbours.

Context Both trusts currently operate from only one main hospital site and have concerns about their long term viability, both financially and clinically. As a result, Medway FT is seeking to acquire Dartford and Gravesham in order to secure their future with no loss of core services. However, they face challenges from the Co-operation and Competition Panel and Monitor before they can proceed.

Outcome A successful merger will create a trust covering a population of 630,000, with potential to develop its specialist services and secure long term viability. If the bid fails, both trusts face acquisition by larger neighbours.

The north Kent health economy's two acute providers, Medway Foundation Trust and Dartford and Gravesham Trust, are currently seeking to merge.

They argue that the acquisition of Dartford and Gravesham by Medway is needed in order to ensure their long term viability, both from a financial view point and in terms of service quality.

They have been considering a merger since early 2011. The two organisations already work in partnership across a number of areas, including ear, nose and throat services, urology and dermatology.

The decision to work towards a complete merger was formalised last autumn when the boards of the two trusts agreed there were "significant benefits in coming together". The stated aim was to complete the process within 12 months.

The proposed integration is being driven by a range of factors, with both organisations currently facing challenges that they perceive will intensify over time and could leave them unsustainable.

Both trusts are relatively small, with one district general hospital each, and both have experienced recent financial difficulties and been criticised by regulators. Dartford and Gravesham is also seeking a route to

FT status.

They have so far compiled a draft outline business case, setting out a "future vision and strategic aims" for the north Kent health economy under the title Better Care Together.

The trusts concluded an initial phase of public consultation to gather comments on the proposed integration at the end of April.

The proposed merger is currently being assessed by the Co-operation and Competition Panel to see if it meets the requirements of the health service's Principles and Rules for Co-operation and Competition.

HSJ understands NHS South of England has been positive about the outline business case. A full business case is currently being worked up and should be complete over the next month or two.

A second consultation phase is planned once the more detailed plans have been developed. These will also be submitted to Monitor and the Department of Health.

This article examines the reasons behind the merger, the potential barriers to it taking place and what it might mean for the local and surrounding health economies.

Dartford and Gravesham

The opening sentence of the draft

business case for the merger states that neither trust in their current form is "clinically or financially sustainable".

"A strategic solution is required to prevent a deterioration of clinical services and a diminishing quality of care and patient experience," it says.

Dartford and Gravesham, which has a turnover of around £157m, provides services to around 270,000 people from its main site at Darent Valley Hospital. The trust finished 2011-12 with a deficit of £1.2m, though this was better than its planned deficit of £1.6m. It also finished 2010-11 with a £1.4m deficit and 2009-10 with a £1.7m deficit.

However, the main financial issue relates to Darent Valley Hospital itself, which opened in September 2000. It was built and is maintained under a private finance initiative.

Being locked into the 30 year PFI deal limits the financial flexibility of the trust and is seen as a particular barrier to it becoming an FT on its own.

Dartford and Gravesham was identified by McKinsey as one of seven trusts that required on-going structural support from the DH in relation to its PFI commitments, as revealed by HSJ in November 2011. It expects to receive £4.5m this financial year as a result.

The trust was among the organisations that failed last year's Care Quality Commission spot checks on essential standards on dignity and nutrition.

Medway

Medway has a turnover of around £218m and serves a population of around 360,000, mostly at its main site Medway Maritime Hospital. In contrast to Dartford and Gravesham, its estate includes some buildings built more than a century ago.

Medway finished 2011-12 with a small deficit of around £400,000

and had an "unplanned" Monitor financial risk rating of two at the end of the previous financial year.

As a result, Medway has been in breach of the terms of its authorisation as an FT since April 2011. In particular, Monitor noted concerns relating to "board level scrutiny and assurance processes concerning financial planning and performance".

These current financial challenges could be compounded by future loss of income through more general services being potentially taken on by the area's two community providers.

In addition, both trusts, as small to medium sized organisations, are concerned they could lose further income from specialist services to larger neighbours in the longer term.

A senior source described the "increasingly icy financial environment" as a major factor driving the merger.

The current plan

The trusts have stated that they do not intend to reduce core services should they merge. Both hospitals will continue to provide full A&E, maternity, children's and outpatients services. However, there will be some movement of specialist services between the two sites, in order to "develop and differentiate" them.

From a financial point of view, they plan to reduce overhead costs and increase efficiency. These are outlined in the draft business case and a letter from the trusts' transition programme director, Jeremy Moon, to the Co-operation and Competition Panel.

Mr Moon's letter states: "Integration will involve the redesign and restructuring in back office and support services, maximise efficiency and minimise waste, bureaucracy, duplication and management overheads to release

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savings.

“Additionally, it will allow for greater economies of scale which will bring increased procurement and purchasing power.”

For example, the outline business case estimates that merging board roles – and their associated admin support – would save £0.8m over the first three years after integration, while £3m could be saved in overall back office functions over the same period.

In addition, the business case says that, while Dartford and Gravesham is unable to reduce its estate due to the PFI deal, it is considered a “key driver” at Medway. It suggests £2.3m could be unlocked through the disposal of 14,911m² of estate, which would reduce the total to 78,516m².

The trusts believe the merger will both make their existing services sustainable in the long term, while also allowing them to develop a market share in new specialist areas.

The business case notes that at present they are “unable” to meet population size requirements to continue to provide some services, such as oncology, or develop specialist services.

Royal colleges stipulate that hospitals providing regional services should have a population of 500,000 or more in order for clinicians to retain safe levels of practice for some procedures.

The new single organisation would serve a population of 630,000, meaning local services would “remain viable for the future”.

In addition trust documents note that the increase in size would also mean “some services for which patients have to currently travel into London, could be developed locally”.

“Clinical teams will join forces across both hospital sites enabling us to safeguard services and develop new specialist services not currently

available at our hospitals. A wider range of local, specialist services is a significant benefit for our local population,” they state.

The move is backed by local clinical commissioning groups, which have been consulted on the plans.

There are three in the trust’s catchment area, covering Medway, Swale and Dartford, Gravesham and Swanley. They are working collaboratively and are understood to have set up a joint board to synchronise the commissioning system across north Kent with that proposed for the acute sector.

Peter Green, lead GP for Medway CCG, told HSJ: “The CCGs support the merger on the basis that it offers the opportunity to reduce costs through shared ‘back office’ working, freeing more resource for maintaining and improving patient care.

“And, by having a bigger catchment for a single provider, it allows the development of more specialist services closer to patients.”

The regional context

The trusts are surrounded on all sides by larger acute providers.

They border with services in south Essex – though the Thames forms a natural barrier – and in south east London.

Like other trusts bordering London, their patients regularly choose to make use of specialist hospitals in the capital – notably Guys and St Thomas’ FT and Kings College Hospital FT – and they have documented trouble in attracting and retaining staff due to the better pay and prestige on offer there.

However, Dartford and Gravesham has also increasingly developed a secondary market for providing services to patients in the London borough of Bexley. Since the closure last year of A&E and

maternity services at Queen Mary’s Sidcup, it has boosted its percentage of clinical income from south east London from 8 per cent in 2010-11 to 17 per cent in 2011-12.

Future commissioners for the capital have indicated to HSJ that they do not view the merger as negative but have highlighted potential areas of concern that require solutions.

Howard Stoate, chair of Bexley Clinical Commissioning Group, said: “The hospitals share the same challenges and have a natural synergy. It makes sense to rationalise services rather than duplicate them, but key issues such as patient travelling time and site location have to be resolved.”

Dr Stoate added: “Our priority is a strong stable trust that can deliver the best healthcare. If a merger achieves that goal, then that’s something I support.”

The NHS South Essex primary care trusts cluster currently makes around 1,000 referrals a year to Dartford and Gravesham, mostly in communities near the river crossings at Dartford. The specialities that receive the majority of referrals are obstetrics and gynaecology, trauma and orthopaedics.

In a statement, the cluster said it believed the proposed merger of the trusts would “not have a detrimental impact on service provision for our patients”.

Meanwhile to the south and east are the local county giants of Maidstone and Tunbridge Wells Trust, serving around 500,000 patients, and East Kent Hospitals University Foundation Trust, with its five hospitals and 720,500 patients.

The merger between Dartford and Medway would create an organisation in this league with around 630,000 patients, and the potential to both maintain and develop its specialist services.

As a result, while it could mean fewer patients choosing to travel to London for specialist and tertiary services, it could also spell greater competition for referrals across the Kent health economy itself.

The business case notes that last year Maidstone and Tunbridge Wells Trust removed maternity services and downsized A&E at its Maidstone site, which is the closest hospital to Medway FT.

Medway has therefore seen an increase in A&E attendances and births from the Maidstone area. It anticipates market share, and therefore income, in these clinical areas would increase further following a merger and associated increase in profile of the new organisation.

Medway FT chief executive Mark Devlin told HSJ he thought their neighbours were taking a “very neutral” stance on the potential merger and were “basically getting on with their own business”.

He noted however that the trusts intended to maintain and strengthen the existing links they had with neighbouring organisations, such as cancer networks.

“Hospitals throughout the NHS are going to have to work more in a networked sense going forward,” he said. “This is about the two hospitals coming together but working more effectively and within a wider network of acute and community facilities in Kent.”

Threats to the plan

The Co-operation and Competition Panel began reviewing the merger proposals on 15 February and on 11 April decided to escalate them to phase II of its process, after identifying concerns relating to choice and competition.

The CCP concluded that there was a “realistic prospect” that a merger between the two trusts might result

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in a “material adverse effect on patients and taxpayers”.

It highlighted that it was likely to remove a competitor to each organisation across a range of services in Medway and Kent – namely routine elective, non-elective, community/outpatient and specialist/tertiary.

Despite these problems, history suggests they are not insurmountable. Of the 12 other merger cases that have been escalated to phase II, nine have subsequently been approved – mostly with some form of condition, assurance or remedy.

Only one was rejected outright, that of Norfolk and Waveney Foundation Trust with Suffolk Mental Health Partnerships Trust. However, Monitor went on to give it the green light, arguing that it was in “patients’ interests” due to “pressing clinical quality and safety issues”.

The risk register contained in the outline business case categorises the risk of delay from the CCP as “red”, though the risk of the project being cancelled because of the CCP is rated as “green”.

Several other factors are rated in the register as representing “amber” risks to the merger plan.

These include a potential loss of middle and top management due to a lack of job security, resulting in interim appointments; the risk of Dartford and Gravesham not receiving its recurrent PFI financial support from the DH; and a lack of external funding for restructuring and transaction costs being forthcoming from commissioners.

Probably most significant is the risk of delay posed by Medway’s continuing breach of its terms of authorisation, which is also rated as “amber”.

HSJ understands the trust intends to come out of breach at some point before the end of 2012.

Likely future scenarios

Without the preferred merger, the two trusts would most likely be acquired separately by their larger neighbours.

The outline business case warns that Dartford and Gravesham “cannot remain a standalone NHS trust”, stating that “should the integration not progress, alternative partnerships would need to be sought”.

While the need is not so pressing for Medway in the short-to-medium term, its viability as a single hospital FT is questionable in the longer term.

Medway may have its own challenges but any other alternative suitors for Dartford and Gravesham would not have the same practical geographical and population fit.

However, the trusts have significant barriers to get over before the plans become reality.

Medway must come out of its authorisation breach before the process can proceed – seemingly the highest fence to get over – while both must convince the CCP that other benefits outweigh the risk to its competition rules.

Based on previous CCP cases, the most likely outcome would seem to be an eventual approval but with conditions imposed. They must then get their plans approved by Monitor, the Department of Health and, of course, the public.

Despite these challenges, the trusts do have some important factors on their side. Engagement from and local patients and politicians is understood to have been largely positive so far, notoriously not always the case in such situations.

Equally, key personnel involved in the transition process have told HSJ they have seen a “unique” level of engagement and support from clinical leaders within the trusts.

Selling the plans to the workforce

may have been smoothed by the fact Mr Devlin was chief executive of Dartford and Gravesham for the five years prior to taking on the leadership of Medway in 2010.

A senior source said: “There’s a lot of trust in Mark from both hospitals. I think that makes the job of engaging with staff much easier.”

Mr Devlin himself told HSJ he was “confident” the merger would take place.

He said: “We have a great deal of synergy between the two hospitals in terms of the population we serve and we’ve got very compatible clinical cultures. We could develop a much stronger and really interesting service profile between us.”

“I think it’s a convincing case and it will happen, but the question is when,” he added.

The most likely scenario would therefore see the plans go ahead but at high risk from delay. The original target date for integration of summer 2012 has already been scuppered by the fact that the CCP does not expect to complete phase II of its review till August.

There remains a lot of work to get through during the next nine months in order to meet the current target date for integration of spring 2013.