

BARNET AND CHASE FARM THE FUTURE



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 Barnet and Chase Farm Hospitals Trust must find a merger partner to achieve foundation trust status, it admitted earlier this month. But with hospital mergers and acquisitions showing a track record that is patchy at best it is unclear who would want to take over the trust.

Context The search for a partner for Barnet and Chase Farm comes as NHS London tries to solve as many of the big reconfiguration problems in the capital as it can before its abolition next April. Consultations on major service changes are also underway in south west and north west London.

Outcome Although it is still early in the merger and acquisition process, many figures in the sector believe the Royal Free London Foundation Trust is best placed to take over.

Barnet and Chase Farm's dilemma

Barnet and Chase Farm Hospitals Trust this month announced it was seeking a partner for merger, after an analysis found it could not become a foundation trust on its own.

The north London trust now plans to cease operating as an independent organisation by September 2013.

As HSJ went to press the trust was writing to all NHS providers within a 25-kilometre radius, asking if they were interested in a merger or acquisition.

Absorbing Barnet and Chase Farm would be a major undertaking for even the largest providers. The trust has a turnover of £351m, operates from two sites and has commissioners who ended 2011-12 with significant deficits.

It is also moving ahead with the Barnet, Enfield and Haringey clinical strategy, a contentious service reconfiguration that will see maternity and A&E services downgraded at Chase Farm. These services will largely be transferred to the neighbouring North Middlesex University Hospital in Edmonton.

The move was highly politicised and local Conservative MPs criticised the health secretary's decision in September last year to let it go ahead.

The need to act now

Andrew Lansley set a deadline for all NHS trusts to achieve foundation trust status by April 2014. Although the Department of Health has since been forced to admit some trusts will not hit this target, the DH is still charged with getting organisations through Monitor's authorisation process as soon as possible.

NHS London has a poor record in getting its trusts to foundation status, with more than a dozen still to go. But, with only eight months until the strategic health authority's abolition, a flurry of activity has seen mergers proposed or agreed at five trusts. Barnet and Chase Farm's announcement brings that number to six.

The decision by the trust's board followed a long-term financial modelling exercise commissioned for the organisation by the NHS North Central London primary care trust cluster and NHS London in May. This concluded that in order to reach a state of sustainability the trust would have to make unrealistic and unprecedented savings over a sustained period.

After the approval of the Barnet, Enfield and Haringey clinical strategy, which will see Barnet and Chase Farm lose roughly £50m of its income, health secretary Andrew

Lansley ordered a review of the feasibility of merging the trust with the North Middlesex.

The review concluded in December 2011 that there would be scant benefit in such a move. It also saw the cluster commission long-term financial modelling exercises for the three remaining non-foundation trusts in the region: Barnet and Chase Farm, North Middlesex and the Whittington. These concluded that while North Middlesex could be viable on its own, Barnet and Chase Farm could not.

The trust will spend the next two months considering its options before submitting its strategic outline case to NHS London in October.

If a full business case is approved by NHS London and then the health secretary next summer the new merged organisation will begin operating in September 2013.

Potential merger partners

Barnet and Chase Farm is asking for expressions of interest from all NHS providers within 25-kilometres of their sites, so potential bidders could include any of London's acute, mental health or community service providers, or one of Hertfordshire's trusts.

Closest to home, the two largest trusts in the North Central London region are the Royal Free London Foundation Trust and University College London Hospitals Foundation Trust, with turnovers of £500m and £700m respectively.

Far smaller but also nearby are Whittington Health Trust and North Middlesex University Hospital Trust, which have annual incomes of £277m and £174m respectively.

North Middlesex's board is widely known to be against any further entanglement with Barnet and Chase Farm. Senior figures in the sector said a Whittington merger would not

be viable.

An options appraisal in April ranked 11 different scenarios. HSJ understands this identified the Royal Free merger as the best fit.

Another possibility that was considered was the Royal National Orthopaedic Hospital Trust in Stanmore, north west London.

The £111m-turnover specialist trust is considering how it will reach foundation trust status and included merger among the options it will consider.

With the trust also awaiting approval for a private finance initiative scheme to improve its dilapidated estate it is not considered a strong contender by sources in the sector.

HSJ was told the options appraisal from April should be considered largely superseded, since North Middlesex's decision to go it alone rendered many of the modelled scenarios obsolete.

The options the Barnet and Chase Farm - led by chief executive Mark Easton since February last year - will consider at the end of September will not include a private franchise or partnership.

The trust has opted for an options appraisal process rather than a formal competitive tendering, as the transaction rules allow it to do. HSJ understands this effectively shuts out a private option, although it is not clear whether this decision was made at the trust or in NHS London.

The benefits for a merger partner

Considered part of a troubled health economy for some time, Barnet and Chase Farm has been debt-ridden since its creation in 1999.

HSJ reported that in April of that year the trust was formed from the Wellhouse Trust and Chase Farm Hospitals Trust with between £4m and £6m of combined debt.

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But the historic decision to downgrade Chase Farm taken last September suggests there is a sense in the cluster that the health economy can be put back into balance.

The trust has brought its legacy debt down from £20m in 2008 to just over £8m now.

Any potential suitor will want an agreement from the DH or NHS Trust Development Authority to take care of this debt before they commit to a merger.

There is precedent for this, with the DH considering stretching loan repayments over a longer period to help trusts meet Monitor's financial metrics, as it did in Southampton.

HSJ understands any merger bid would have to be for the whole trust and both sites.

There are marked differences in the quality of the estate, with Barnet Hospital boasting a well-equipped and affordable PFI rebuild and large parts of the Chase Farm site facing significant backlog maintenance issues.

Nevertheless a merger with the trust could be attractive for a number of reasons.

In clinical terms, the trust is proud of its cardiology services. It also has a stroke unit that, while not one of London's eight hyper acute stroke units, is well regarded and the first in the cluster to get gold accreditation from the North Central London Cardiovascular and Stroke Network. It also has large neurology and orthopaedic services.

One source in the sector put the total value of the trust's elective work at around £100m - activity that carries a significant profit margin under the payment by results tariff system.

Another pointed out that merging with an organisation the size of Barnet and Chase Farm should yield some large scale efficiency savings.

Likely outcomes

Although both trusts are tight-lipped about it there is a consensus elsewhere in the cluster and further afield that the Royal Free would be the most natural fit to take over Barnet and Chase Farm. University College London Hospitals is regarded as the second most likely suitor.

The Royal Free already serves some of the Barnet population from its Hampstead base. In addition to this, there are existing clinical links between it and Barnet Hospital on some vascular and neurology services.

Sources outside the North Central London provider sector said in five years' time the most likely outcome was for the Royal Free to have taken over the trust but then divested itself of Chase Farm, most likely to North Middlesex.

Other sources stressed it was still early in the process. Work would have to be undertaken to prove the clinical and population benefits before any further discussion is had.

The Royal Free is only recently authorised as a foundation trust, with Monitor approving the trust's application in April this year.

Sir Robert Naylor, chief executive of University College London Hospitals, has said before that there are too many individual trusts in London and that he predicts a consolidation to as few as 12 over the medium term.

HSJ understands East and North Hertfordshire Trust, Barnet and Chase Farm's nearest neighbour to the north, is not interested in merger. The work commissioned on the North Middlesex option last year put the cost of a merger transaction at £3m and said it could yield 2.53 per cent efficiencies.

HSJ understands NHS London would work with Barnet and Chase Farm and any potential suitor to cover the transaction cost but that

there has not yet been any discussion of longer term support.

There is precedent for NHS London providing ongoing cash support to help with a large merger. Barts Health Trust is receiving £93.5m this year and other sums in subsequent years to give their three-way merger the liquidity required to get off the ground.

Although no approach has yet been made to them, it seems the Royal Free is best placed to take over Barnet and Chase Farm.