Outline Business Case

Public summary document

Proposed merger between

North Essex Partnership University NHS Foundation Trust
&
South Essex Partnership University NHS Foundation Trust

This is a copy of the Public Summary Document that was submitted to SEPT's January 2016 Board and published on the SEPT Intranet site.

Executive Summary

At the December Board meeting in private the Outline Business Case (OBC) was discussed in detail and agreed. The OBC builds on the Strategic Options Case (SOC) approved by Trust Board in September to explore a merger with North Essex Partnership University NHSFT. This document is a summary of that paper which excludes items of commercial sensitivity.

The OBC takes as its starting point the preferred option of merger and covers four new areas that were not detailed in the SOC:

- Regulatory, governance and timetable issues to achieve the merger
- Initial benefits realisation plan
- Financial model for a merged organisation
- Risk assessment of the merger proposal

The regulatory issues include how approval is planned to be gained from the Competition & Markets Authority by demonstrating that the merger does not represent a "significant lessening of competition" and that any residual competition concerns are more than offset by "relevant customer benefits". Governance issues cover how the project is structured and resourced and its reporting lines; and the need for both Trusts to approve an interim Board during the Full Business Case (FBC) stage. The target date of the merged organisation to be authorised has changed to the 1st April 2017 to allow for all regulatory processes to be completed.

The initial benefits realisation work builds on the headline ideas put forward in the SOC that have been tested with clinical and managerial teams in a series of workshops held in November 2015. This demonstrates that leaders within the organisations are starting to identify and validate a number of synergies to deliver better patient care within the resources given by commissioners such as reducing the need for tertiary referrals, providing access to more specialised services closer to home, reviewing the utilisation of estate to reduce out of area patients and developing service refinements in PICU and Tier 4 CAMHS services. Non clinical corporate services can also identify and validate a number of areas where efficiencies can be made, such as reducing overall corporate costs by 15%, moving to a single Board structure and better use of the purchasing power of a single organisation that will generate cash releasing savings to allow for proportionately more investment in front line clinical and clinical support services.

Importantly benefits can be mapped that will advantage commissioners as well as patients. The merger overall supports the recommendations made by the Essex Strategic Review of Mental Health Services that is being approved by all commissioning organisations in Essex. The general principle of a merger has been supported by commissioners and confirmed in their letter to Andrew Geldard, Chief Executive of NEP on 4th January 2016.

The financial model shows that both Trusts individually can plan for viable financial futures but only with some significant CIP (Cost Improvement Plan) assumptions that are extremely challenging – e.g. NEP needing to deliver an average 4.5% CIPs for five years and SEPT needing to deliver average 3.6% CIPs for five years. The merged organisation, taking into account the net savings that can be delivered from merger has the opportunity to achieve a Financial Sustainability Risk Rating score of 3 by 2018/19 and sustaining it thereafter, based on delivering a much more achievable average CIP of 2.9%.

The risk assessment indicates that the merger is achievable but with a number of high risks. The OBC outlines a clear risk management strategy in place and the assessment of risks and mitigating actions will be refined and further work undertaken if approval is given to move to the FBC stage.

Strategic Position

Strategic Environment

South Essex Partnership University NHS Foundation Trust (SEPT) and North Essex Partnership University NHS Foundation Trust (NEP) provide specialist mental health, learning disabilities and substance misuse services to the people of Essex. SEPT also provides a significant portfolio of community services in Essex and Bedfordshire. NEP also provides some specialist services in Suffolk as well as some primary care GP services in Essex.

NEP serves a population of c1 million people and employed just under 2,000 staff (as of April 2015). These staff work from 60 sites including a number of in-patient units totalling more than 300 in-patient beds.

SEPT serve a population of c.2.5 million people throughout South Essex, West Essex, Bedfordshire and Luton, employing over 4,600 staff (as at April 2015) who work from more than 150 sites, including community hospitals, health centres, inpatient units and social care services.

Both Trusts were inspected by the Care Quality Commission in Autumn 2015. SEPT's report was published in November 2015 and rated the Trust overall as "Good". NEP's report has yet to be published.

For both Trusts:-

- services are mainly community-based and delivered through integrated health and social care teams;
- the majority of patient contact is in community settings, in very many cases at a patient's own home.
- services are integrated across the mental health pathway, with community crisis teams preventing admission and smoothing the pathway back to community services;
- there is limited integration with physical healthcare, although work is ongoing to improve this, including in the frailty and marginalised adult pathways and in specific initiatives and training in physical health care;
- competition for services is intense which has led the Trusts to bid jointly together for work in recent years. They have won the 5-year contract from Essex County Council (ECC) for the specialist substance misuse service, but were unsuccessful in their bid for the jointly-commissioned contract to provide an all-Essex Tier 2 and 3 CAMHS (Child & Adolescent Mental Health Services) service.

Nationally the need to allocate more funding and commissioning attention to mental health services has been recognised since 2013/14 and the introduction of the notion of "parity of esteem". This means mental health should receive the same focus as physical health services.

This has continued with the publication of *Delivering the Forward View: NHS planning guidance 2016/17 – 2020/21.* Mental health access targets and diagnosis of dementia targets are national "must do" for every health system. More encouragingly is the confirmation that commissioners must continue to increase investment in mental health services each year at a level which at least matches their overall expenditure increase.

Whilst the themes of the NHS mandate have found their way into the national planning guidance, local CCGs have also been obliged to focus on winter pressures, Accident & Emergency waiting times and the financial positions of CCGs and Essex acute providers. This has impacted on their ability to prioritise mental health services.

The push to enhance IAPT (Increasing Access to Psychological Therapies) services and the close monitoring of the 15% prevalence rate has forced CCGs to review their arrangements for IAPT services, often requiring service expansion and development. Additional funding has not, however, been made available and the need to deal with these additional costs within baseline CCG funding has led the CCGs to adopt a very different strategy to IAPT services than that initially envisaged. Local IAPT service specifications are being expanded beyond the original evidence-based national template and the extra money needed is being resourced principally by reducing money for secondary care mental health.

Impact of Local Commissioning Plans

There is concern that the cumulative impact of these actions by the CCGs could result in serious negative issues for secondary mental health care in the county.

The need to produce year-on-year efficiency saving, the loss of income from mental health care clusters 1 – 4 as CCGs move them to IAPT services and the potential transfer of some specialist community mental health staff into other existing and new organisations has the potential to create an unsustainable financial position for both SEPT and NEP as individual organisations in the medium to long term..

For SEPT, community service commissioning can also be unpredictable, with fragmentation of existing contracts. The key risk is that large competitors can bid successfully at marginal cost leaving SEPT with stranded costs. To mitigate this risk SEPT is fully engaged with the Essex Success Regime and working closely with commissioners in all areas to understand their requirements for community services.

Irrespective of the position with community mental health services, CCGs and NHS England will still need to commission clear and sustainable provision of specialist / high-cost mental health services for:

- Regional forensic inpatients;
- Low-secure inpatients;
- Tier 4 CAMHS inpatients;
- Specialist mother & baby inpatients;
- Acute inpatient services;
- Crisis and home treatment services;
- Remaining specialist mental health community services.

For NEP, the main issue is how to ensure the sustainability of specialist mental health services.

Unsustainability for both NEP and SEPT puts the safe delivery of mental health services, particularly of specialist services, at risk. We see clearly that decommissioning parts of the service cannot be considered without planning for the whole mental health, acute and primary care system and this has been recognised by system leaders in Essex who commissioned a strategic review of NHS services in the county.

Strategic Mental Health Services Review (2015) and Essex Success Regime

A whole-system Essex Strategic Mental Health Services Review (ESMHSR) started in June 2015, and involved all CCG and local authority commissioners and providers in detailed discussion about options for the future provision of mental health services locally. Boston Consulting Group (BCG) presented their emerging findings, draft recommendations and options for commissioners in July 2015. The final report was published in September 2015.

The strategic review has mapped a path that ensures not only financial sustainability, but also service-delivery sustainability in terms of workforce, clinical and managerial expertise and governance. The review recognised that the status quo is not an option and organisations are approving their support for its recommendations during their November and December governance processes. The key recommendations from the review are:

Commissioner recommendations (CCG and Local Authority)

1. Simplify the commissioning landscape
1a Clarify the integration agenda: refine the scope of mental health services [and] agree a more uniform integration timeline.
1b Align around a clear commissioning path
1c Work through how best to deploy social workers as the integration agenda plays out
1d Agree a plan to re-align funding between CCGs:
1e Define where dementia services should sit:

2. Create a common language and use to clarify needs and expectations
2a Agree a common language such as mental health clusters
2b Clarify the desired provider capabilities
2c Optimise section 75 partnership arrangements
2c Work with providers around The Care Act compliance

3. Generate and share more data across the system
3a Conduct robust needs assessments
3b Develop and track better outcomes
3c Share the output of ongoing needs assessment work in dementia

4. Work more jointly
4a Create a pan-Essex MH commissioning team
4b Optimise AMPHs arrangements
4c Work together to ensure all-age, cross-system care

Provider Recommendations

1. Focus on the core portfolio of services
Providers should review the current portfolio in order to focus on what is core defining their key competencies.

2. Build greater depth of capability
In collaboration with commissioners and service users, they should seek to build greater depth around the capabilities which are seen as ‘requirements’ by commissioners

3. Consider the form and scale required to deliver within the confirmed timeframe
For providers, the recommended path creates clarity around timelines – and provides them with space to pursue an appropriate strategy around form and scale for their core services. Doing this economically may involve collaboration or merger.

Both NEP and SEPT expect the insights and recommendations of the Strategic Mental Health Services Review to inform the Essex Success Regime. The programme's stated emphasis is on internally-generated, whole-system solutions. However, the programme of work is reviewing its governance arrangements and will finalise its scope in February 2016. At present it looks as if the scope will exclude any consideration at a system level of mental health services, as this was felt to be covered by the Essex Strategic Review of Mental Health Services, and indeed the overall focus is no longer Essex-wide. Only those areas without established plans for integrating care are in the purview of the Success Regime meaning a focus on Basildon, Mid Essex and Thurrock.

Competition

Following the agreement by both Boards of the SOC in September 2015 Monitor asked for additional information on the analysis of competition by the Trusts. This was submitted in October 2015 and was covered in the OBC seen by both Trust Boards. This information is commercially confidential and is not reproduced in this public summary of the OBC.

A further session with Monitor was held to consider the competition elements of the SOC and to help the Trusts consider what the Competition and Markets Authority (CMA) may require. A full explanation of the regulatory environment of the CMA is given a Section 7 Regulatory Considerations.

Monitor's further analysis requested information on how the two Trusts perceive competition for the market – that is the competition to win new business or retain existing contracts; the competition in the market – that is how patient choice affects service delivery. Both Trusts were asked to return individual submissions rather than a joint view.

Choice

The submissions of both Trusts of October 2015 to Monitor confirmed that patient choice had almost no impact on their service delivery. For NEP less than 6% of activity came from non-Essex CCG patients and for SEPT the figure was even lower at 1.6%.

Patient choice in mental health services has been challenging to implement because the common understanding of what constitutes choice is not compatible with effective service models. NHS England has issued revised guidance on choice, *Choice in Mental Health Care* (April 2014) but the conditions are limited.

Patients are only offered choice of provider for an elective first out-patient appointment and associated episode of care. Choice does not apply to urgent or crisis care, care under the Mental Health Act, Secure services, or care for people already being treated by a healthcare professional for the same condition.

An additional restriction is that out of area specialist mental health services are not obliged to travel to the patient. Depending on patient needs, this may be considered clinically inappropriate, and the patient will be referred back to the GP. Given that most people referred to specialist mental health care have serious or long term conditions, it is likely that the choice option will only apply to a very small proportion of people known to services.

In addition, as a result of financial pressures, commissioners' contracts have increased the threshold for eligibility to the most seriously ill people. This will result in fewer potential patients for whom choice will be a meaningful or realistic option.

Meaningful choice can be provided *within* a mental health service organisation, because governance and quality assurance processes can ensure personalised integration of care

and reduce the risk of patients falling between services. Personal care budgets provide additional opportunities for patient choice.

Competition for contracts

The October 2015 submission to Monitor from each Trust also included a more detailed competition analysis that was covered in the OBC. This is commercially confidential information and is not detailed in this public version of the OBC.

Competition for contracts, whether winning new business or retaining existing work, is characterised by intense competition and high levels of choice for commissioners. As both Trusts experienced with respect to CAMHS services in Essex, this is a choice that is exercised by commissioners.

Both Trusts can identify a high number of potential competitors for their core services in Essex both from private, third sector and NHS bodies. As SEPT delivers community services in south east and west Essex as well as Bedfordshire the number of potential competitors increases still further.

Conclusion

The overall assessment of both Trusts in their submissions to Monitor was that any commissioner in a broad definition of the south east of England requiring competition in the market has access to a significant number of willing and able providers. The proposed merger does not alter this fact: even within Essex commissioners will find that they have access to a large pool of potential providers to enable effective competitive assessments. For commissioners outside of Essex a new merged organisation will represent an additional strong provider to add to the competitive mix.

Following a meeting with Monitor's Cooperation & Competition Directorate in December 2015 a further analysis of competition is being undertaken to answer some outstanding questions.

As explained in Section 7 Regulatory Considerations, providing compelling evidence to Monitor and in turn the CMA that there is an intense competitive environment already and a merger will not alter this fact is very important to the timeline, complexity and cost of the merger proposal.

Options appraisal and evaluation

This section reviews the main options considered by the (SOC) in September 2015.

Options

In July 2015 both Boards considered a number of options for future direction. These are shown below with the final ranking given in the SOC and a brief description of each option:

Options	Rank
A. Maintain SEPT and NEP as sustainable organisations in their current forms	6
B. SEPT and NEP work more closely together, sharing back-office and some corporate functions	4
C. Full merger to create specialist mental health-only Trust	2
D. Full merger to create a new Foundation Trust to provide specialist mental health and community services	1
E. Other merger options wider than between SEPT and NEP	3
F. Creative use of SEPT and / or NEP Foundation Trust "shells"	7
G. Allow mental health specialist services to become part of existing acute Trust structures and / or developing ICOs	5

Table 3 Options considered in July & September 2015

What challenges faced by the trust does the strategy seek to address?

The SOC puts forward that the drivers for considering a merger within the strategic plans of both organisations are:

- The recommendations of the Essex Strategic Review of Mental Health Services that commissioners should form a pan-Essex commissioning team for core mental health services; providers should ensure they can deliver those core services.
- The local commissioning landscape of Essex has a greater emphasis on integrating community and acute services under the Essex Success Regime; and commissioning services for less severe mental health conditions as part of this more integrated approach leaves core specialist mental health services less sustainable.
- The overall competitive environment: the main challengers to NEP and SEPT in winning tenders are typically larger organisations with greater access to resources. This has prompted NEP and SEPT to bid for some services jointly under the Essex Health Partners banner and for each to bid with other organisations in partnerships.
- The financial sustainability of both current organisations over the next 3 to 5 years is challenging: both organisations financial future is predicated on very high levels of CIPs being delivered (+4.5% each year for three years for NEP); these are increasingly difficult to make in smaller organisations.

- The draft Long Term Financial Model (LTFM)for the merger presents a more positive route to financial sustainability than either of the models for each Trust alone.

Conclusion

Merger remains the best way to secure patient and clinical benefits within a financially sustainable organisation. It is recognised that merger is not the only way to achieve the benefits outlined in the OBC. Some benefits could be achieved by closer collaboration but the additional management cost and infrastructure of a partnership arrangement as opposed to a formal merger under a single management structure would reduce the benefit to be obtained.

Summary of Benefits

This section of the OBC outlines some of the high level benefits the proposed merger will bring. The FBC will provide a fully detailed and costed plan for each benefit to give the Boards assurance that the benefits are both realistic and achievable.

The benefits listed here are the results of a number of workshops that have been held with senior managers and leaders from clinical and corporate management services of both the current organisations. In turn these benefits have been used by the financial teams to start to model the long term financial viability of a merged organisation

The benefits have been examined against the following criteria:-.

- Realisable:
    - the benefit must accrue, or be expected to accrue, within a reasonable period as a result of the merger.
      This is taken as being within a three to five year period from the date of the new organisation being authorised by Monitor.

    - is unlikely to accrue without the merger or a similar lessening of competition.

- Customer:
    - current, potential and future patients: concerned with overall quality of care, innovation and choice.

    - current, potential and future commissioners: focus is value for money as assured by competition as well as quality and innovation.

- Benefit
    - lower prices, higher quality or greater choice of goods or services; or greater innovation in relation to such goods or services

Patient and Clinical Benefits

These sets of benefits are focused on improving quality, innovation, patient outcomes and patient experience. It is found often that these types of improvements can also deliver financial cost savings, although their focus is on improving clinical care and quality. The proposed merger should generate the following patient benefits:-

a. Improved Quality

   Harmonising the 'best of both' systems will increase capacity to deliver, innovative "best in class" support that will improve the quality of care for our service users and our ability to meet and exceed CQC standards.

   Stronger and improved clinical and corporate governance arrangements will be implemented more quickly through the shared learning and the development of greater expertise across both organisations. The result will be a quicker and better delivery of the action plans to the direct benefit of service users.

b. Reduction in tertiary referrals and development of specialist services

   There are many different clinical skills and experience embedded in the individual

members of the clinical workforce of each Trust. Bringing this expertise together in a single pool will give patients easier access to specialist opinion and will mean:

- patients can receive effective second opinions near where they live, improving service delivery and reducing the cost to the health economy
- improved access to expert opinion delivering a better patient experience.
- reduce overall cost and so making more resources available for patient care.
- allow the merged Trust, with greater patient volumes and scale, to consider developing regional centres of excellence for conditions such as Attention Deficit Hyperactivity Disorder, Obsessive-Compulsive Disorders and Personality Disorders. In turn these services could become a realistic choice for patients in neighbouring areas such as Suffolk or Hertfordshire who may not have access to such levels of expertise.

c. Clinical leadership delivering better out of hours care

Merger creates a single organisation with a single management structure allowing a clinical leadership model to be developed whose purpose is to implement the scale and pace of change required to develop new ways of working. In particular changes to the clinical management of rotas will allow for better access to clinical and support services, such as pharmacy out of hours. Thus laying the foundations to achieve seven day working in line with emerging NHS priorities.

A larger merged organisation also opens up the opportunity to review the governance processes for community services. Within a larger integrated Trust there is a possibility for community and mental health services to become separate “business units”. This allows greater autonomy from the central service to set standards that are more directly relevant to each service.

d. Improved recruitment and retention for key clinical posts

As a single employer it will be easier to attract students from University placements. An enlarged Trust would also be able to offer broader and more challenging placements.

e. Removing current inequalities across Essex.

Each current Trust has developed a series of services in response to its own commissioners, internal service needs and local catchment areas. The effect of this has been to create inequalities of access to services across the county. For example, SEPT clinicians reported that NEP has access to Family Group Conferences, perinatal mental health services, Post-Traumatic Stress Disorder and some adolescent services that SEPT does not provide. Having a joint workforce and single contracts with commissioners would facilitate reducing this “postcode” lottery for patients within Essex. Work is already underway as part of the FBC to better ‘map’ services with clinicians and identify all the areas where this will bring major benefits to service users.

f. A step change in developing and implementing a single Essex wide patient record.

While much of this work is already underway, having a single clinical IM&T support service will accelerate and concentrate the input of mental health services. The benefits of the Essex Health Information Exchange (HIE) are fully accepted and described in the business case that agreed the investment.

The benefit from the merger will be the effect of scale and the reduction of complexity

from having a single organisation representing mental health services as the EHI is fully deployed. Indeed the IM&T benefit is not realised until it is utilised and the greater combined experience of the IM&T teams of successfully deploying and implementing IT based change is also a benefit.

g. Review of current service delivery in Psychiatric Intensive Care Units (PICU).

Another important clinical area to be explored in detail is that both Trusts deliver PICU services and experience capacity problems where dedicated estate and clinical workforce is not utilised fully.

Reviewing the capacity and demand for PICU across the whole county will allow an improved clinical model to be put forward potentially even able to offer a PICU service to neighbouring areas, ensuring optimum utilisation and generating income for the merged Trust.

h. Review of current service delivery in Tier 4 CAMHS services.

Both Trusts offer Tier 4 CAMHS services. There has been and will continue to be an increasing demand for secure services in CAMHS. Capacity and demand will be reviewed at the detailed FBC stage with the aim of redesigning services to see if there is scope for the estate to support creating specialist units, e.g. focussing on 14 – 25 year olds that would help deliver greater access for patients.

It is important to note that benefits in this area can only be realised by merger and would not happen otherwise. The individual Trusts effectively compete with each other for Tier 4 contracts with the commissioner and, as such, this type of review would not occur simply by means of closer collaboration due to the operational difficulties it would generate.

i. Electronic Prescribing and Medicines Administration System (ePMA)

Introducing an ePMA across the merged organisation is likely to be more affordable than for both Trusts to do so separately due to the economies of scale in terms of implementation and change management. An ePMA brings defined benefits of its own to both service users and clinicians that will be increased across the merged organisation.

j. Increased research opportunities for clinicians leading to patient access to “best in class” treatment pathways

Both NEP and SEPT have a strong research basis and are involved in national and international research and trials. SEPT’s research studies have helped several clinical initiatives develop and sustain momentum. NEP’s research team are currently involved in national and international projects including genetic markers for different mental health conditions and has a strong track record in publications in academic journals.

Both organisations work closely with academic partners. NEP’s partnership with the University of Essex includes the Foundation Degree in Health Science which has seen more than 110 staff successfully graduated with many going on to more advanced posts or full Nurse Training. The Trust also supports a Doctorate in Clinical Psychology programme at the University. NEP also works extensively with Anglia Ruskin University on veterans’ services and dementia. SEPT has been central to the development of the Postgraduate Medical Centre at Anglia Ruskin University which fosters collaboration between academics and clinicians. This relationship has launched a number of exciting

studies in addition to a recent successful European Bid. The partnership supports research in primary care, community health and mental health also providing the Trust with access to Health Economists, Statisticians and research design services.

This would give a merged organisation a significant academic and research platform to enhance both research and staff development, so adding significantly to services for patients.

Corporate Benefits

a. Reduced corporate costs

A merger will release substantial 'back office' cost savings. It is estimated that 15% of corporate costs can be reduced, mainly through a reduced staffing establishment. Additional savings could also accrue by exploring any corporate services that could be outsourced or shared with other organisations to further reduce cost and improve efficiency.

b. Single Board and governance costs

A merged entity will only need a single Board and this is expected to be delivered at almost half the cost of the two current Boards.

c. Estate utilisation and rationalisation

More efficient utilisation of estate initially will help to ensure the maximum benefit is gained from the assets owned by the new Trust.

Currently, for example, commissioners in north Essex are paying for many patients to access in-patient facilities outside of their commissioned activity with NEP. Patients are placed with other providers, often private sector providers, usually at a higher cost than NHS providers and sometimes many miles from a patient's family and friends and their support networks. Better use of estate across both Trusts should be able to reduce this burden both to patient and commissioner.

A review will also be taken to consider an estate rationalisation to generate further savings. For example, two headquarter buildings will not be required and the review of estate will include optimisation of inpatient and community facilities.

d. Greater purchasing power reducing corporate costs

Several corporate functions can map scale to buying power and potential savings. Telephony services, agency staff, payroll services, occupational health and medical devices training are all examples where volume translates into cheaper unit costs.

All these cash releasing benefits outlined above will allow for more money to be available for front line clinical services

Commissioner Benefits

There is a general observation that a merger of the two Essex providers directly flows from the recommendations of the Essex Strategic Review of Mental Health Services. In fact those recommendations were for CCGs, local authority commissioners as well as providers.

For mental health services to be commissioned more effectively there needs to be a provider capable of responding to more effective commissioning.

The Finance section of the OBC also demonstrates a merged organisation will be able to deliver the enhanced services likely to be required by commissioners over the next five years within the resources that are likely to be available.

An important issue for local authority commissioners is that a merged organisation will bring benefits specifically for them with regard to greater integration and cooperation between health services and social care:

a. Improving the Section 75 Partnership Arrangements.

   Essex County Council currently has two separate s75 Partnership Arrangements in place with SEPT and NEP for the provision of mental health services. Not only is this commissioning arrangement and its social care resource models different, it is a fragmented commissioning approach that is not cost-effective or sustainable in meeting the Council's statutory duties and responsibilities, and reducing budget.

   Optimising and standardising s75 arrangements will generate savings and lead to a better service for both ECC and directly to carers. It also holds out the real opportunity to have a single service across the whole of Essex, including the other two unitary authorities of Thurrock and Southend.

b. Optimise Approved Mental Health Practitioner (AMHP) service arrangements.

   Currently both Trusts manage day-time AMHP services, and both experience the same challenges regarding lack of sufficient AMHPs, difficulties accessing s12 doctors, waiting times for police and ambulance, etc.

   NEP has recently established a new AMHP hub service that supports effective professional delivery in all their localities, and focuses on the improved experience of the service user/family and the workforce. This approach should improve recruitment and retention of AMHPS and could inform the current AMHP service review, recently begun by the local authorities, that is considering the both daytime and out of hours AMHP service across the county

   A single shared service/ rota will provide economies of scale, reduce complexity of pathways, improve management of the service, increase capacity and promote flexibility. This will improve access to pathways for people in mental health crisis, give an improved and consistent approach to safeguarding; improve services to carers and minimise the current 'post code lottery' for service users and carers.

<u>Conclusion</u>

Although presented in separate sections of this OBC realisable and tangible customer benefits and financial modelling are two sides of the same challenge. The benefits will drive the savings and the savings will be reinvested in the benefits. Corporate spend as a percentage of total income will fall as a result of merger and direct clinical expenditure will rise. The pressure on clinical front line services to deliver Cost Improvement Plans (CIPs) will be reduced as merger savings will initially come from the corporate and managerial costs.

At this OBC stage detailed development and analysis of benefits has not been completed. However, we believe that the information set out in this section gives sufficient assurance to the Boards to recommend proceeding to the detailed development of a new operating model for a merged organisation and the detailed preparation of benefits realisation to be fully described in the FBC.

Financial Case

This section of the OBC provides the financial overview of the proposed merger based on our month position. Much of this information is commercially sensitive information and is not reproduced in this public summary.

The financial models are created using the Long Term Financial Model (LTFM) template for mergers and acquisitions provided by Monitor.

South Essex Partnership University NHSFT (SEPT)

Table 5 – CIP Target (SEPT)

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CIP %	5.0%	3.7%	3.2%	3.1%	3.0%
CIP Value £m	12.1	7.1	6.1	5.9	5.8

Financial Sustainability Risk Rating (FSRR)

Based on the financial projections for SEPT the projected risk rating is shown in Table 6.

Table 6 – Risk Rating (SEPT)

	2016/17	2017/18	2018/19	2019/20	2020/21
FSRR	3	3	3	3	3

North Essex Partnership University NHSFT (NEPT)

Table 8 – CIP Target (NEP)

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CIP %	4.5%	4.6%	4.8%	3.9%	4.1%
CIP Value £m	4.6	4.7	4.9	3.9	4.1

Financial Sustainability Risk Rating (FSRR)

Based on the financial projections for NEP the risk rating is summarised in Table 9.

Table 9 – Risk Rating (NEP)

	2016/17	2017/18	2018/19	2019/20	2020/21
FSRR	2	2	3	3	4

Conclusion

Based on the current projections both organisations will show a loss over the short term but will return to profitability in the medium term which will be sustained.

However, to model this position CIP requirements for both organisations are challenging. NEPT must achieve an average of 4.4% over the period to deliver its financial results, with SEPT having to deliver an average of 3.6%. The expected realistic sustainable CIP delivery for the NHS is between 2.0%-2.5% (Source: *NHS Five Year Forward View*, 2014 p36). In other words for NEPT to show a sound financial future it must deliver savings almost double that which is expected nationally; SEPT will need to deliver almost half as much again as the upper national forecast. Both organisations CIP delivery assumptions also rely on the delivery of some non-recurrent CIP's each year, which reflects the difficult challenge of identifying sufficient recurrent CIP's over the planning period.

As stand-alone organisations SEPT would be able to maintain a risk rating of 3 throughout the period, however NEPT would not be able to maintain a Monitor continuity of service rating of above 2 in the first 2 years. However, assuming the savings could be delivered, NEPT would move to a risk rating of 3 from 2018/19 onwards.

Financial benefits of merger

Following a series of workshops with leading clinical and corporate services staff to describe probable and possible benefits from a merger, both organisations finance teams have modelled some of the benefits that may arise.

The key assumptions that underpin those benefits and other opportunities are as follows:

- A reduction in overall corporate staff and clinical management costs achieved through rationalising posts and by undertaking a review of services that may be outsourced at a reduced cost relative to in-house provision
- A reduction of due to fewer overall Executive Directors and very senior management posts; this is a 40% reduction on the current cost of two Boards
- Procurement savings as a result of joint purchasing power
- IM&T savings can be generated from improved purchasing power and lower depreciation.
- Other benefits planned for the latter part of the planning period include benefits to the wider health economy including an anticipated reduction in the number of patients placed in out of area, mainly private, facilities through better estate utilisation and management, it is anticipated that this can be eliminated following discussions with commissioners to generate savings and further income to the new organisation.
- Future opportunities in greater efficiencies driven by better estates utilisation and rationalisation. This covers considerations of both clinical services – for example both organisations have under-utilised PICU estate – and non-clinical services – only one headquarters building will be required for example.

Long Term Financial Model of a merged organisation

The LTFM of the merged organisation, using the same Monitor model and assumptions in the guidance, and building on baseline assumptions of each Trust's shows a financial position of deficit £11.3m (deficit) in 2017/18 moving to sustained surplus from 2018/19. The position is summarised in Table 11

Table 11 – Merged Financial Model

	SEPT			Merger Yr	Merged Organisation				
	2014/15 (£m)	2015/16 (£m)	2016/17 (£m)	2017/18 (£m)	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Income	324	248	241	300	301	302	303	304	305
Expenditure	(323)	(284)	(242)	(311)	(300)	(300)	(299)	(302)	(304)
Net Surplus/(Deficit)	**1.3**	**(35.6)**	**(1.2)**	**(11.3)**	**0.9**	**2.4**	**3.7**	**2.5**	**1.8**

Note the financial model used by Monitor uses the larger organisation as the comparator in merger situations: Table 11 therefore shows SEPT's financial position for 2014/15 to 2016/17 and then shows the merged position rather than seeking to combine SEPT and NEP for 2014/15 to 2016/17.

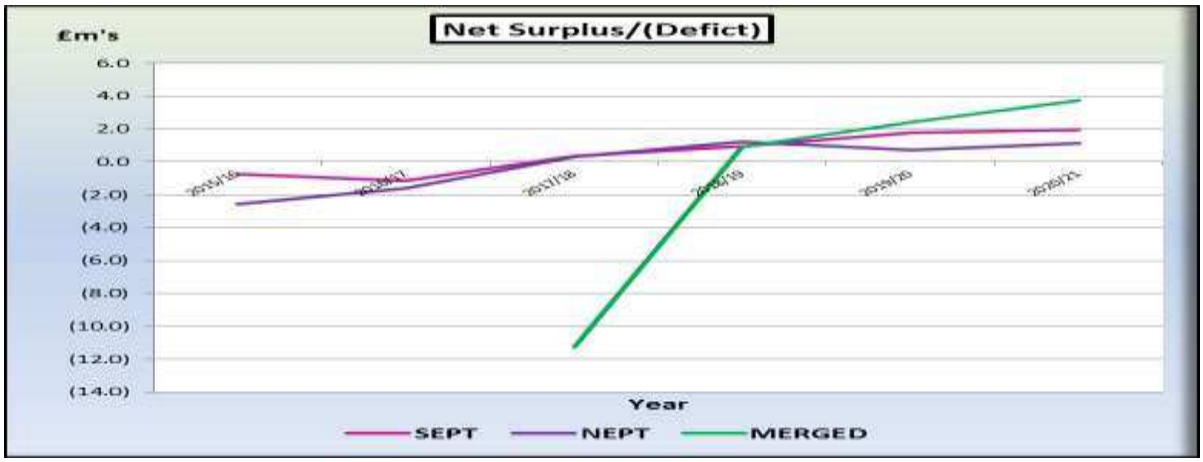
Planning Assumptions as per Monitor Guidance used in the model are shown in Table 12.

Table 12 – Inflation Rates

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CIP	-3.0%	-2.0%	-3.0%	-3.0%	-3.0%	-3.0%
Overall Inflation	1.9%	3.1%	2.7%	2.8%	2.9%	2.9%
Demographic Growth Funding	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Income deflator Block	**-0.6%**	**1.6%**	**0.2%**	**0.3%**	**0.4%**	**0.4%**
Economic Assumptions						
Pay and Pensions (inc drift and mix effects)	1.5%	3.3%	3.0%	3.0%	3.0%	3.0%
Drugs	6.3%	4.5%	2.9%	2.7%	3.3%	3.3%
Capital costs	3.5%	3.1%	3.5%	3.1%	3.1%	3.1%
Other Operating Costs	1.6%	1.7%	1.6%	2.1%	2.6%	2.6%
Overall	**1.9%**	**3.1%**	**2.7%**	**2.8%**	**2.9%**	**2.9%**

The graph below shows the position both over a 6 year period as separate entities and as a merged organisation.

Graph 1 Net Surplus of individual Trusts and merged organisation



(Underlying Position for 2015/16 – excluding technical adjustments)

To realise the recurrent benefits of the merger there are a series of non-recurrent costs associated with merger that affect the financial position of the new organisation in its first two years which have been included in the analysis.

The level of CIP required is 3.2% in 2017/18 reducing to 2.5% - this is more realistic and in line with NHS planning assumptions. The average CIP for the period is 3%. This is shown in Table 13.

The merged position for the CIP delivery assumes recurrent delivery of the CIP's over the planning period.

Table 13 – CIP Target (Merged)

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
CIP %	3.2%	3.6%	3.2%	3.0%	2.1%	2.5%
CIP Value £m	9.5	10.7	9.3	8.8	5.9	7.1

Financial Sustainability Risk Rating (FSRR)

Based on the financial projections for the merged organisation the risk rating is summarised in Table 14.

Table 14 – Risk Rating (Merged)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
FRSS	2	3	3	4	3	3

Conclusion

High level modelling of the potential benefits of merger indicates that the new organisation has a good chance of achieving a Financial Sustainability Risk Rating score of 3 from Monitor by 2018/19 and sustaining it thereafter, based on delivering a much more achievable average CIP of 3%.

More detailed modelling of individual benefits plans, and their relevant phasing, will take place as part of the Full Business Case: the point here is that the overall benefits modelling indicates that the only viable choice for each organisation is to actively pursue a merger with a very clear management focus on benefits realisation in the first three years of operation.

After both Boards have approved the OBC for submission to Monitor there is a significant body of work to be undertaken developing the competition analysis, refining the benefits case to produce more detail of the proposals and the phasing of their delivery and engaging in initial pre-notification discussions with both Monitor and the CMA.

The objective of this work is to present to the CMA the strongest case possible that identifiable customer benefits can be delivered in an acceptable timescale to outweigh any possible competition concerns.

Process for Achievement and Timeline

This section sets out the overall timeline for a merger and the governance of the project to achieve merger by the preferred date of 1st April 2017. This section also introduces the outline Post Transaction Implementation Plan (PTIP) that will form the core of the FBC.

Timetable

An overview of the process and timetable to progress the proposed merger from the original SOC approval to "business as usual" for the new organisation is shown below.

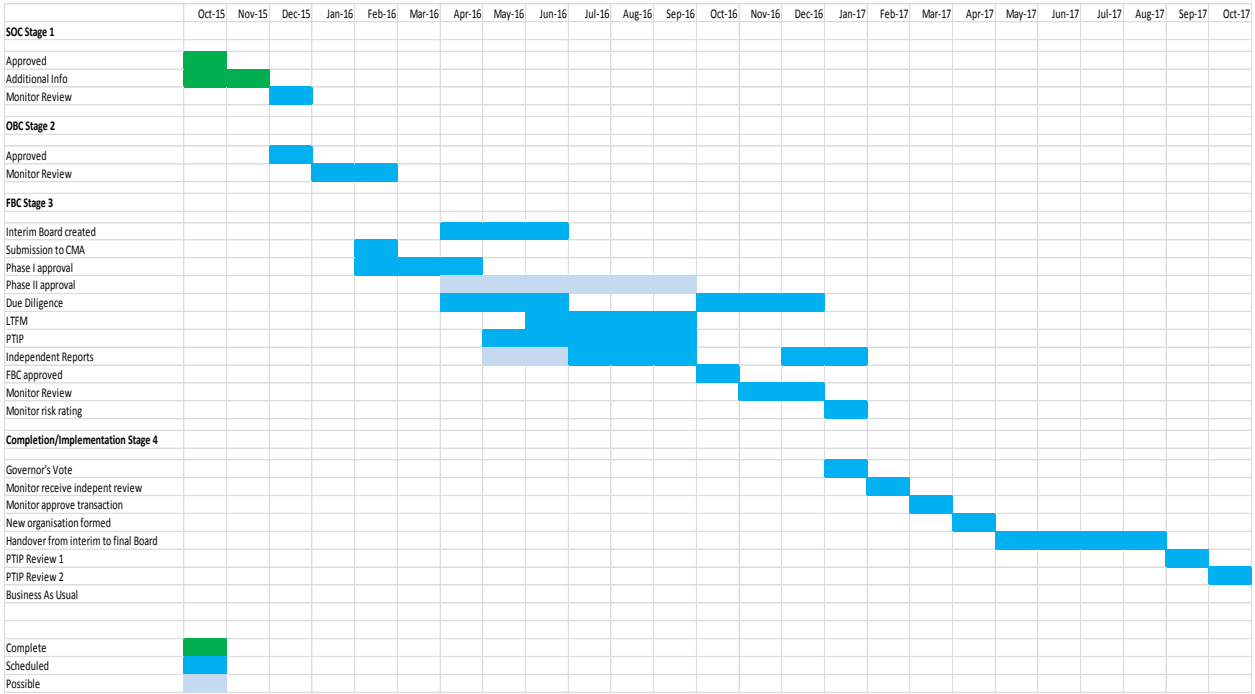


Table 14 Overview of merger timeline

Project Governance

A formal project has been set up to examine the proposed merger. The Project Team is jointly led by Mike Chapman, Director of Strategy at NEP and Nigel Leonard, Executive Director of Corporate Governance at SEPT. The Project Team formally reports to the Strategic Alliance Working Group (SAWG) which is chaired jointly by the Chairs and Chief Executives of both Trusts; in turn the SWG reports directly to each Trust Board.

There is a formal project plan, that will be revised if this OBC is approved, which establishes five work streams:

a. OBC/FBC Drafting – this is concerned with drafting the documents, gaining relevant sign offs and ensuring that all the information required by the Boards to make a decision is available

b. Regulatory & Legal – this is concerned with early engagement of the regulatory authorities and ensuring that appropriate legal advice is obtained and implemented with regard to Confidentiality Agreements, Information Barring Agreements, Heads of Terms and planning for the Due Diligence exercises to be undertaken by each party to fully inform the FBC

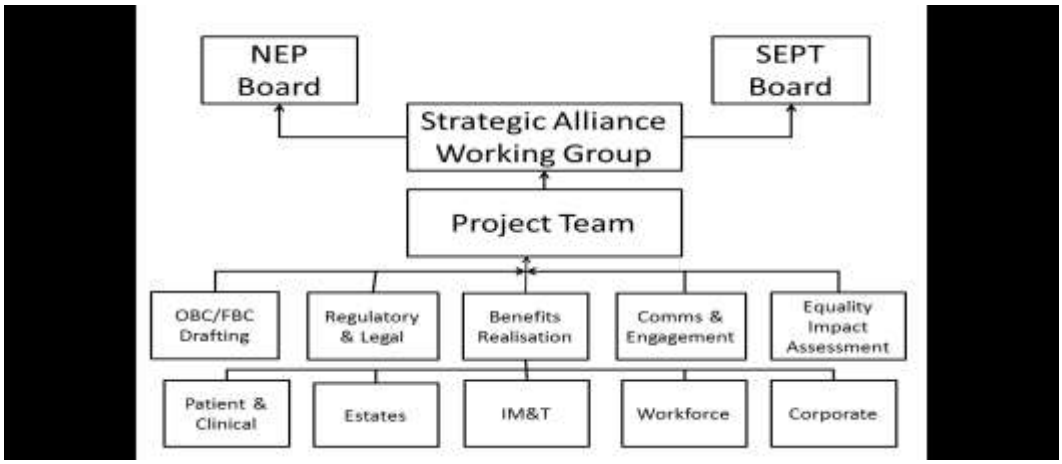
c. Benefits Realisation – this work stream will test the benefits assumed in the SOC and developed with subject matter experts from clinical teams, estates and IM&T managers to ensure they are credible foundations on which to build a benefits realisation plan for the FBC. All financial benefits are included in this work stream.

d. Communications & Engagement – a high level outline communications & engagement plan has been developed. This work stream is extremely important and needs to be properly resourced as the merger will not progress without stakeholder support and if implemented in the face of lukewarm support risks failing to realise the benefits.

e. Equality Impact Assessment – as public bodies both Trusts have a legal obligation to promote equality. A full Equality Impact Analysis (EIA) will be undertaken to ensure that the transaction is implemented in such a way as to fulfil the Trusts' general equality to:
   - Eliminate unlawful discrimination, harassment and victimisation
   - Advance equality of opportunity between people who share a protected characteristic and those who do not.
   - Foster good relations between people who share a protected characteristic and those who do not.

   An initial screening undertaken as part of the project creation did not suggest that an EIA is required at the OBC stage.

The project structure overall is shown below:



Post Transaction Implementation Plan

The core of the next phase of work of an FBC is the detailed Post Transaction Implementation Plan (PTIP). The PTIP will assure the Board, Governors and Monitor that all aspects of merging two complex operational organisations into a single fully functioning entity have been considered. The PTIP in turn will be require information from a due diligence process undertaken by each Trust on each other. Appropriate information sharing and non disclosure agreements are being drawn up to provide proper governance and protection to each organisation.

Many of the current senior management team have experience of undertaking such transactions, not least when SEPT acquired the Bedfordshire & Luton Partnership NHS Trust in 2010. The core of that successful acquisition plan is now the basis of the NEP and SEPT PTIP; this will form the basis of the merger PTIP with lessons learnt being reviewed to

ensure as successful a merger as possible. A copy of the SEPT:B&LPT PTIP is enclosed as Appendix 2 for reference; this will form the basis of the merger PTIP with lessons learnt being reviewed to ensure as successful a merger as possible.

Conclusion

The timeline set out for the merger proposal is realistic given the scale of the work involved in safely merging two complex operational organisations into one, high performing organisation that can deliver customer benefits within its first six months.

Conclusion & Recommendation

The ESRMHS recommends that the structure and behaviour of the commissioning of mental health services in Essex changes in the next two years. It also recommends that local provider Trusts adapt to those changes and the new challenges they pose. To achieve this will mean much greater collaboration between to Trusts to the extent that an analysis of the level of collaboration required is so great that a full merger is the most sensible option.

The environment that both NEP and SEPT operate in is, in any case, extremely competitive and shows no signs of changing, even with the recommendations of the ESRMHS.

Initial work indicates that there are significant opportunities to deliver service efficiencies and developments by closer working between NEP and SEPT that will deliver a better service to patients, service users and commissioners and that those benefits will only properly be realised as part of a formal merger between the Trusts.

The financial position of both Trusts can be shown to be stable over the medium term but that is dependent on delivering cost improvement plans that are between one and a half time and double the rate that national planning bodies expect the NHS as a whole to deliver and to do this recurrently for three years. Failure to deliver these savings, from within a decreasing cost base, will result in both Trusts being unable to maintain a financially stable position to support the delivery of clinical services to patients and commissioners.

The identified service synergies when placed in a merged organisation give a sustainable organisation delivering a surplus each year from Year 2 based on a saving target of 2.9% a year.

The risks of delivering a merger have been assessed and can be managed and represent a more manageable set of issues than alternative options. A merger has broad stakeholder support and regulatory approval should be achievable.

Glossary

ADHD	Attention Deficit & Hyper-activity Disorder
AMHP	Approved Mental Health Professional
CAMHS	Child & Adolescent Mental Health Services
CCG	Clinical Commissioning Group
CMA	Competition & Markets Authority
ECC	Essex County Council
EIA	Equality Impact Assessment
ESRMHS	Essex Strategic Review of Mental Health Services
FBC	Full Business Case
IAPT	Increasing Access to Psychological Therapies
LTFM	Long Term Financial Model
Monitor	the health sector regulator in England
NEP	North Essex Partnership University NHS Foundation Trust
OCD	Obsessive Compulsive Disorder
OBC	Outline Business Case
PICU	Psychiatric Intensive Care Unit
PTSD	Post Traumatic Stress Disorder
s12 doctors	a doctor who is approved under s12 of the Mental Health Act 1983 to make a recommendation for the compulsory admission of a mentally disordered person to hospital, or for reception into guardianship
s75	s75 of the Health & Social Care Act, a mechanism allowing local government and NHS bodies to pool budgets and share resources
SEPT	South Essex Partnership University NHS Foundation Trust
SOC	Strategic Options Case
TIER 4 CAMHS	The highest level of a CAMHS service with in-patient facilities and commissioned by NHS England; Tier 1 to 3 are outpatient services and are commissioned by Clinical Commissioning Groups.