

SOUTH LONDON HEALTHCARE TRUST 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 South London Healthcare Trust is the first in the country to be made subject to the failure regime, also known as the Unsustainable Provider Regime. A report by newly appointed special administrator Matthew Kershaw recommending what should happen to the trust is expected to be presented to the health secretary by the end of October.

Context The eyes of the acute sector are on south London as trusts nationwide either work to progress their foundation trust applications in the face of demanding savings targets or decide they are not viable on their own and seek merger partners. The administrator has been specifically tasked with considering services across the primary care trust cluster, with potential knock-on effects across south London and Kent.

Outcome Mr Kershaw's interim report seems most likely to recommend the trust be broken up. Neighbouring Lewisham Healthcare Trust's future is likely to be tied to that of South London's Queen Elizabeth Hospital in Greenwich. Fierce competition is expected for control of the most profitable parts of the trust.

The issue and context

South London Healthcare Trust is the first in the country to be placed in the failure regime, after ending last year with a deficit of £69m on a £459m turnover.

Former Department of Health foundation trust pipeline boss Matthew Kershaw has been appointed special administrator to the organisation. He must present an interim report on what should be done with the trust by 29 October and last month asked for expressions of interest from public, private and third sector bodies.

Mr Kershaw had received 39 expressions of interest by the 14 September deadline - more than many observers had expected.

He will make a final recommendation to the health secretary in January 2013 and Jeremy Hunt's decision, no later than a month subsequently, could be of profound importance to the direction of travel for the NHS.

Further use of the failure regime is expected this financial year.

A DH letter obtained by HSJ said it was a possibility at Mid Yorkshire Hospitals Trust and Barking,

Havering and Redbridge University Hospitals Trust is widely thought to be another candidate.

This first use of the 2006 legislation will be seen as totemic of whether the coalition government will allow further private franchise management of NHS hospitals, like that at Hinchingsbrooke Health Care Trust, or break up large trusts with significant financial problems.

South London's recent history

The trust runs three main hospital sites, Queen Elizabeth Hospital in Greenwich, Princess Royal University Hospital in Bromley and the Queen Mary Hospital in Bexley. It was created from the merger of three trusts in 2009.

The Bexley hospital's maternity and accident and emergency units were downgraded two years ago after concerns about whether they could be staffed safely. There remain full services in Greenwich and Bromley - both of these hospitals have significant private finance initiative obligations.

HSJ revealed in November that South London was among the seven

trusts that had been identified by the DH for support with their PFI.

The promised support is thought to be roughly £20m per year but one senior source told HSJ this PFI support from the DH was unlikely to be enough to cover Queen Elizabeth Hospital's repayments.

Expressions of interest

Of the 39 expressions of interest received, HSJ has learnt that less than a third are being taken forward for further consideration, although not all of these bids are known.

The special administration process does not preclude the trust continuing in its current form, although a solution to its deficit and PFI issues would still have to be found.

There appears to have been no expression of interest for taking over SLHT in its entirety.

Lewisham Healthcare Trust's interest

One expression of interest being taken forward was from Lewisham Healthcare Trust, which runs the district general hospital and community services in the borough adjacent to Greenwich and Bromley.

HSJ understands £222m-turnover Lewisham is looking at some form of partnership with Queen Elizabeth Hospital, something that could have implications for its own non-PFI A&E.

The failure regime process could spell the end for Lewisham's long-term strategy of maintaining independence from the organisations that form South London, which lie to its east and south, and from the larger foundation trusts to its west and north.

Lewisham confirmed its foundation trust application, submitted to the DH in June, "will [now] need to be rewritten".

A statement from the trust said: "Our FT application will be delayed

until we know the outcome of the review because we need to be assessed by Monitor on our plans for the next five years. It is clear there will be significant changes to the health economy in south east London."

East Kent Hospitals Foundation Trust

The biggest surprise among the expressions of interest is East Kent Hospitals Foundation Trust, which is the bidder furthest away from South London's three main clinical sites.

The £485m-turnover FT is interested in the potential for collaboration on back office functions such as payroll and HR, which it already runs on a significant scale.

HSJ understands there is also thought to be scope for looking at what specialisms East Kent could collaborate with the South London hospitals on, although the organisation is not interested in taking over the running of whole sites.

Other NHS organisations expressing an interest

Dartford and Gravesham Trust is South London's district general hospital neighbour to the east and sits within 12 miles of the Greenwich and Bexley sites.

While it waits for its merger partner Medway Foundation Trust to resolve financial problems and the confirmation of the same DH PFI support South London is getting, Dartford and Gravesham is understood to be interested in expanding its elective work and using part of the Bexley site.

The Kent trust has seen large spikes in A&E and obstetrics attendances since the closure of those facilities on South London's Queen Mary's Hospital site in Sidcup. Oxleas Foundation Trust, a mental

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health trust that took over the running of community services in Bexley and Greenwich last year, submitted an expression of interest but it is unclear what parts of South London it is interested in. It has previously been linked to the Queen Mary Hospital site.

The biggest single provider group known to have expressed interest in South London are the King's Health Partners trusts.

King's Health Partners is the academic health science centre comprising King's College Hospital, South London and Maudsley and Guy's and St Thomas' foundation trusts plus King's College London university.

Acting together they are understood to have an interest in running the Bromley hospital and some of South London's elective work.

The two inner-London teaching hospitals have significant amounts of specialist activity referred to them from the rest of south-east London and further out into Kent and Sussex, and a full business case for the merger of the King's Health Partners trusts will be presented to their respective boards early next year.

The move would create a £2.1bn-turnover organisation, the biggest in the NHS.

Private sector and social enterprise interest

- Private sector firms expressing an interest include Virgin Care, Capita, Serco and Circle – although none of these has indicated a desire to take over the management of whole sites.
- Circle already runs Hinchingsbrooke Health Care Trust in Cambridgeshire and Serco has already partnered with NHS organisations in the West Country and Warwickshire.
- Circle has submitted a very general expression of interest but

HSJ understands it has a particular interest in cardiology services, possibly in partnership with another provider.

- Care UK is understood to have replied to Mr Kershaw's invitation for expressions of interest but it is not clear what particular aspect of the South London offering it was interested in.
- There has been no bid from Helios, the German private hospital group.
- Consultancy McKinsey brokered a meeting between Mr Kershaw and the firm last year, when he was head of provider development at the DH.
- McKinsey are the lead consultancy on the £2m contract to support Mr Kershaw's failure regime work at South London.
- Many of the 39 expressions of interest were on too small a scale to be taken forwards as partners.
- An approach from Bromley Healthcare, the social enterprise created when Bromley primary care trust split from its provider arm in April 2011, is believed to have fallen into this category.
- Some other bidders in this category were small charities interested in specific service lines.

Potential conflicts

One senior source told HSJ there had been "lots of keenness on assets, surgery, cardiology and the Bromley private practice" but that "everyone was less keen on Greenwich's PFI".

As such, Mr Kershaw will have to set out a proposed configuration of services for the area with lots of candidates for the parts that are profitable under the tariff system, with no-one keen to take over the loss-making services without an inducement.

One source told HSJ the Queen Elizabeth Hospital in Greenwich needed to be re-profiled so it was not doing so much emergency work.

Outer London and Kent

commissioners are believed to be interested in repatriating some of the specialist work that currently goes to Guy's and St Thomas' and King's, and the bids from East Kent and Dartford could play into this.

Commissioners have an uncomfortable choice between sending their patients into London and paying a significant market forces factor premium, intended to reflect the higher costs they face there, and keeping sufficient scale in services offered by outer London providers.

The East Kent bid could also see an NHS body competing with the traditional outsourcing companies for parts of South London's back office function, although East Kent FT already has a commercial relationship with Serco.

Competition for all or part of the Bexley site also seems inevitable.

The problem at South London Healthcare Trust

When then health secretary Andrew Lansley wrote to South London's former chair in June to say he was considering placing the trust in special administration he cited finance and long-term sustainability as his reasons.

He also mentioned quality concerns, saying "the different hospitals have in the past consistently and variously struggled to provider timely care in A&E and elective care". However he had to admit to "recent improvements" and raised performance in mortality rates, infections and maternity.

With the biggest deficit in the NHS and an inability to forecast a break-even position for 2012-13, the problems were blamed largely on a big PFI contract, with senior sources in the NHS at pains to defend the leadership of former chief executive Chris Streater, who had been at the helm since the trust's creation in

2009.

Sources in the south east London health economy say the real picture is more nuanced, with inefficiencies in the trust accounting for between £10m and £20m of last year's deficit, PFI costs counting for a further third and activity for which the trust is not properly reimbursed making up the rest.

The last factor was alluded to by NHS London chief executive Dame Ruth Carnall when she said the SHA was looking for a whole health economy solution.

One figure close to the process told HSJ there was a significant cost problem for South London caused by the failings of social care in the area, and another said Bexley's social care was a specific problem.

What is little known about South London is that its agreement with its commissioners saw it placed on what amounted to a block contract, something any new provider will be keen to avoid.

The likely outcome

The most likely outcome is South London Healthcare Trust being broken up.

One scenario outlined to HSJ would see Lewisham supported to take over Greenwich with an extra capital injection from sold-off South London estate in Bexley and Orpington, plus some of the primary care trust properties Lewisham has inherited.

One source said the shortfall in the ongoing DH support for the Greenwich PFI could be overcome if the trust "used a one-off capital receipt to reduce overall recurrent costs".

An unpublished estimate put the maximum sale value of parts of the South London estate, including Orpington Hospital, at £28m.

One senior figure told HSJ that "if it was decided the number of A&Es in

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the sector was unaffordable”, Lewisham would be the likely loser.

Another added that this strategic position was compounded by Lewisham’s solid Labour politics, where, unlike other areas of southeast London, there were no coalition seats at risk.

Queen Elizabeth Hospital in Greenwich appears to be the least popular part of South London’s hospital portfolio among those expressing an interest in parts of the trust.

Some senior figures expressed concerns that the NHS could be left holding the loss-making services like A&E, paediatrics and maternity while losing the elective services that subsidised them.

A widely mooted scenario was a mixed use of the Bexley site by private and NHS providers. Suitors are thought to include Dartford and Gravesham, Oxleas and private providers.

One senior figure in the sector told HSJ it would be important not to underestimate the scale of political opposition if there was a perception that Bexley was being significantly downgraded. However, the “temporary” closure of A&E and maternity in Bexley now stretched over two years meant that this already was the case.

King’s Health Partners, probably the contender whose stock is highest, seems best placed to win control of the Princess Royal site in Bromley.

HSJ was told one idea that had been circulating was combining Bromley and Croydon Health Services Trust, although this had now been abandoned.

Although the deadline for producing the interim report is the end of October it is expected earlier than that.