

Date of Meeting: 17 January 2012	Agenda Item No: 6.1	Enclosure: 3
Intended Outcome:		
For noting ✓	For information ✓	For decision
Title of Report: Progress Report for the Acquisition of North Cumbria University Hospitals NHS Trust.		
Aims: To inform and update the Trust Board on the acquisition process and identification of a preferred bidder and reserve bidder.		
Executive Summary		
<ul style="list-style-type: none"> • All Phase 1 milestones have been met and the Deloitte report on the financial and non-financial evaluation was presented to section 2 of the Trust Board meeting in November. The Stakeholder Feedback report was also presented at this meeting. • The Trust Board discussed both reports and considered the evaluation undertaken to date. The Board was satisfied that the financial and non-financial evaluation undertaken to date was comprehensive, very detailed and robust. • The Trust has received various comments from key stakeholders and bidders that it would be in the interest of all bidders and the Trust to find a way of shortening the original contemplated dual phase selection process. • The acquisition was originally formulated to be a flexible process which provides the Trust with the freedom to revise it, if appropriate. The Trust Board therefore decided to exercise that freedom and extended Phase 1 and thereby dispensed with Phase 2 (Invitation to tender). • Phase 1 was extended to include a Supplementary Process aimed at establishing the level of transitional support required by each bidder in order to reach an acceptable revised Risk Rating from Monitor (Supplementary Questions). • This Supplementary Process commenced in November and the report on the viability position for each bidder with associated assumptions will be presented to a Private Board meeting on 31 January. • Submissions to the supplementary financial questions have been received from both bidders. • The Supplementary Process will be conducted on the basis that the Trust Board will make a recommendation to the North of England SHA as to the preferred bidder and reserve bidder. • This recommendation will identify which submission will best meet the Trust's objective based on the evaluation of bidder's submissions to the entirety of Phase 1 (including bidder's responses to the supplementary financial questions). • Identification of a preferred and reserve bidder will be followed by a period of detailed negotiation between commissioners and the preferred bidder which will be led by the SHA. The other bidder will be held in reserve in the event that the negotiations are not concluded. 		

- FT interest in the acquisition continues to be very positive amongst the two remaining bidders.
- Following appointment of the preferred bidder, the acquiring Foundation Trust will be required to work with the Trust to develop the acquisition business case for submission to the Department of Health and approval by the Secretary of State. Prior to submission to the Secretary of State the business case will be sent to CCP and Monitor for consideration.
- The Trust has started preparation for requesting approval of the acquisition from the NHS Cooperation and Competition Panel. This is likely to be a two stage process taking a minimum of six months.

Supplementary Process and Questions

The Board requested an extension to the process involving supplementary questions to bidders which identify the transitional financial requirements for each of the Foundation Trusts expressing an interest in the transaction. This extension is being conducted in a way which is consistent with the open fair and competitive approach which has been consistent throughout the acquisition process.

The supplementary questions have been designed in line with the 'Objective' which is to provide the best solution for the population of North Cumbria. The process commenced on 20 November 2011 when the Trust issued instructions on the process to Northumbria Healthcare NHS Foundation Trust and Cumbria Partnership NHS Foundation Trust which is leading the 'Alliance' with Newcastle upon Tyne Hospitals NHS Foundation Trust.

This supplementary process requires bidders to develop the financial projections for the proposed acquisition and to produce three key outputs with supporting information:

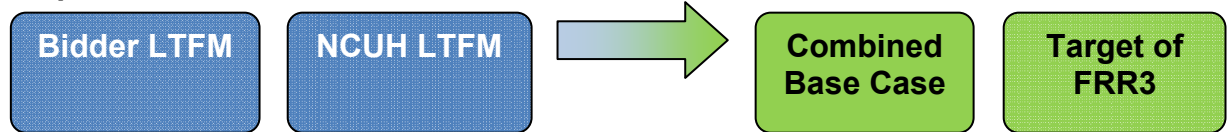
1. Base Case financial projections ('as is' financial position)
2. An adjusted case (post merger savings and costs)
3. An assessed viability position (which involves identification of required transitional support).

Output for points 1 and 2 above have been requested in the form of a consolidated LTFM for the merged entity. The output for point 3 was requested using a pro-forma only.

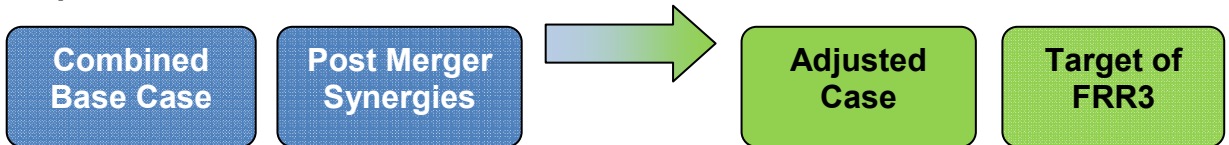
All bidders were instructed to assume the acquisition is 'as is' including continuation of all current services provided by the Trust unless otherwise specified and agreed by the Trust.

The format of the supplementary process is therefore:

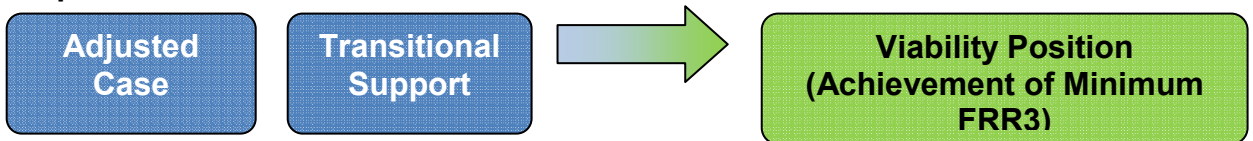
Output 1



Output 2



Output 3



Bidders were asked to provide a description/commentary on the following for each output:

- Rationale for the assumptions, i.e. an explanation of the assumption in their model
- Evidence to support their assumptions, i.e. previous delivery, trend data or benchmarks
- Critical dependencies required to support their assumptions
- The level of confidence relating to the assumption and potential downside

In order to support this supplementary process the Trust enhanced the Virtual Data Room contents, provided a wide range of clarification meetings and undertook Vendor Due Diligence as described below.

All information was provided through the Virtual Data Room including additional information collated by the Trust. The information provided from 22 November included:

- Clinical service profiles
- Trust assets
- Performance data
- Contractual and financial performance (M7)
- Cost improvement programme and turnaround plans (current and updated)
- Clinical commissioning intentions
- Governance information
- Outputs from the Clinical Strategy

- The latest draft of the business case for the redevelopment of West Cumberland Hospital

In addition to the information listed above, the Trust provided an updated (Q2) Long Term Financial Model (LTFM) and commissioned KPMG to undertake Vendor Due Diligence (VDD) and provide a report for the bidders. The purpose of the report was to assist bidders in developing their response to the specification requested in the supplementary questions. The bidders were also given access to KPMG for clarification meetings immediately following the publication of the report.

In addition to the Q2 LTFM and VDD report the Trust continued to update and extend the information in the Virtual Data Room and responded to any specific questions or suggestions relating to the content. Automatic updates were sent to all subscribers and information was shared simultaneously including answers to any questions. Bidders also had the facility to request any additional information or contact Trust staff through the Virtual Data Room.

In addition to the Virtual Data Room the Trust offered both bidders identical access to Trust representatives for the purpose of clarification (see Appendix A for meetings held). In requesting meetings bidders were asked to specify the following:

- Purpose of the meeting (clarification requirement)
- Bidder representatives attending the meeting
- Specific clarification questions to be answered

The Trust also arranged a clarification meeting for each bidder with Cumbria Clinical Commissioners. Clarification meetings with various patient panel groups were also arranged.

The Trust Board will consider the information provided through these supplementary questions with the aim of identifying the preferred bidder at a private Trust Board meeting on 31 January 2012.

Project Plan and Timescales

The programme of activities and timescales for the supplementary questions are shown below.

Activity	Start Date	Completion Date
Bidder Instructions issued for Supplementary Questions	8 November 2011	20 November 2011
Access to enhanced Virtual Data Room provided	18 November 2011	20 November 2011
NCUH Q2 Long Term Financial Model issued to bidders	25 November 2011	25 November 2011
Undertake Vendor Due Diligence and issue report to bidders	18 November 2011	14 December 2011
Bidder clarifications meetings with NCUH representatives (on request through the Virtual Data Room)	28 November 2011	12 December 2011

Activity	Start Date	Completion Date
VDD bidder clarification meetings with KPMG	w/c 12 December 2011	19 December 2012
Bidders develop responses to outputs requested and submit response by noon on 9 January	18 November 2011	9 January 2012
Review bidder submissions	9 January 2012	20 January 2012
Clarification of Bidder Submissions	9 January 2012	20 January 2012
Prepare Trust Board report on recommendations on preferred bidder and reserve bidder	20 January 2012	25 January 2012
Inform bidders of outcome	31 January 2012	31 January 2012
Agreement of transitional financials followed by preferred bidder appointment	1 February 2012	28 February 2012

The Trust will continue to retain flexibility to amend the acquisition process where necessary to achieve the Objective.

The Trust received submissions from both bidders by the deadline of 9 January 2012 and is in the process of reviewing the submissions. The review will be completed by 25 January and due to the commercially confidential information in the submissions the review will be reported to a Private Board meeting on 31 January 2012.

The Trust Board will make a recommendation to the North of England SHA following this meeting. The transitional financial negotiations which follow will be led by the SHA and are expected to take several weeks involving Cumbria CCG, the PCT Cluster and the acquiring FT.

Following appointment of the preferred bidder, the acquiring Foundation Trust will be required to work with the Trust to develop the acquisition business case for submission to the Department of Health and approval by the Secretary of State. Prior to submission to the Secretary of State the business case will be sent to CCP and Monitor for consideration.

External Stakeholder Reference Group 7 December 2011

The External Stakeholder Reference Group met on 7 December. The Group received a comprehensive progress report summarising the rationale for the Trust Board decision to extend the phase 1 process (with Supplementary Questions) and dispense with phase 2.

The Group supported the need to establish the viability position and transitional funding required for each bidder. Details of the Supplementary Process were discussed and agreed by the External Stakeholder Group.

FT Pipeline Monitoring by Department of Health (November)

The Trust is required to submit a monthly performance report to the SHA linked to the Tripartite Agreement which includes achievement of key milestones for the acquisition,

Monitor's Compliance Framework, a financial risk rating and a range of covenant tests relating to the redevelopment of West Cumberland Hospital and financial turnaround.

The Trust's assessment in November improved to Amber/Green from Amber/Red as a result of the Programme Management Office arrangements for the cost improvement programme.

Next Stages and Key Issues for the Board to Consider

The Board will receive a report on each of the bidder's response to the Supplementary Questions. This report needs to be considered in the context of the overall Phase 1 process including the previous evaluation of financial and non-financial criteria and Stakeholder feedback.

The Trust Board will meet on 31 January to consider the entirety of the phase 1 outputs and will be asked to identify a preferred and reserve bidder. Detailed negotiations with the preferred bidder and commissioners will be led by the SHA.

Specific implications and links to the Trust's Strategic Aims:

Ensure we provide high quality, safe and effective care for all our patients including meeting essential standards of safety and quality as set out by the CQC	
Develop a viable integrated clinical strategy for secondary care services which is sustainable and affordable	
Develop a new healthcare facility in West Cumbria that is fit for the 21st century	
Achieve sustainable financial balance through the delivery of the Trust's internal Cost Improvement Programme, securing a viable contract income from our GP commissioners and contributing to the system wide cost reductions	
To develop and implement a successful merger or acquisition plan that enables the Trust to become part of an existing NHS Foundation Trust	✓

Recommendations:

That the Trust Board:-

- a) Notes the outcome of the Trust Board Discussion in November and the development of the Supplementary Questions and Process which commenced 20 November
- b) Notes the process supporting the supplementary questions and the open fair competitive approach
- c) Notes the continued market response for the Supplementary process and submissions received from both bidders
- d) Notes the improved DoH RAG rating for the Trust's process
- e) Notes the External Stakeholder Group support for the process

Prepared by: Caroline Griffiths, Director of Acquisition and Strategic Planning	Presented by: Dr Neil Goodwin, Interim Chief Executive
-------------------------------------------------------------------------------------------	------------------------------------------------------------------

CLARIFICATION MEETING SCHEDULE FOR SUPPLEMENTARY QUESTIONS

Meeting Subject	Northumbria	Agenda		Alliance	Agenda
Clinical Services	1 December 2011 All day	Surgical Division Family Division Medical Division Including a tour of CIC		9 December 2011 All day	Surgical Division Family Division Medical Division Tour declined
Governance	28 November 2011 1.00pm Additional governance meeting offered but not required	Acting Director of Governance		1 December 2011 Additional meeting on 5 January 2012	Acting Director of Governance Acting Director of Governance Medical Director/Acting Director of Nursing/ CPFT Medical Director
Clinical Commissioning	13 December 2011	NHS Cumbria CEO and CCG representatives		13 December 2011	NHS Cumbria CEO and CCG representatives
Patient Representatives	5 December 2011 2.00pm	Trust Project Team		5 January 2012 3.00pm	Trust Project Team
Site Visit to WCH and meeting with Obstetrics and Emergency Teams	19 December	Trust Project Team		Tour only 9 January 2012 2pm	Trust Project Team
Finance Visit	9 December 2011 9.00am	NCUH Director of Finance		19 December 2011 10.00am	NCUH Director of Finance
VDD meeting with KPMG	Monday, 19 December 12 noon			Monday, 19 December 3pm	
PCT Finance Meeting	21 December 2011 at 12.30pm	PCT acting Director of Finance		22 December 2011 at 9.00am at Penrith	PCT acting Director of Finance