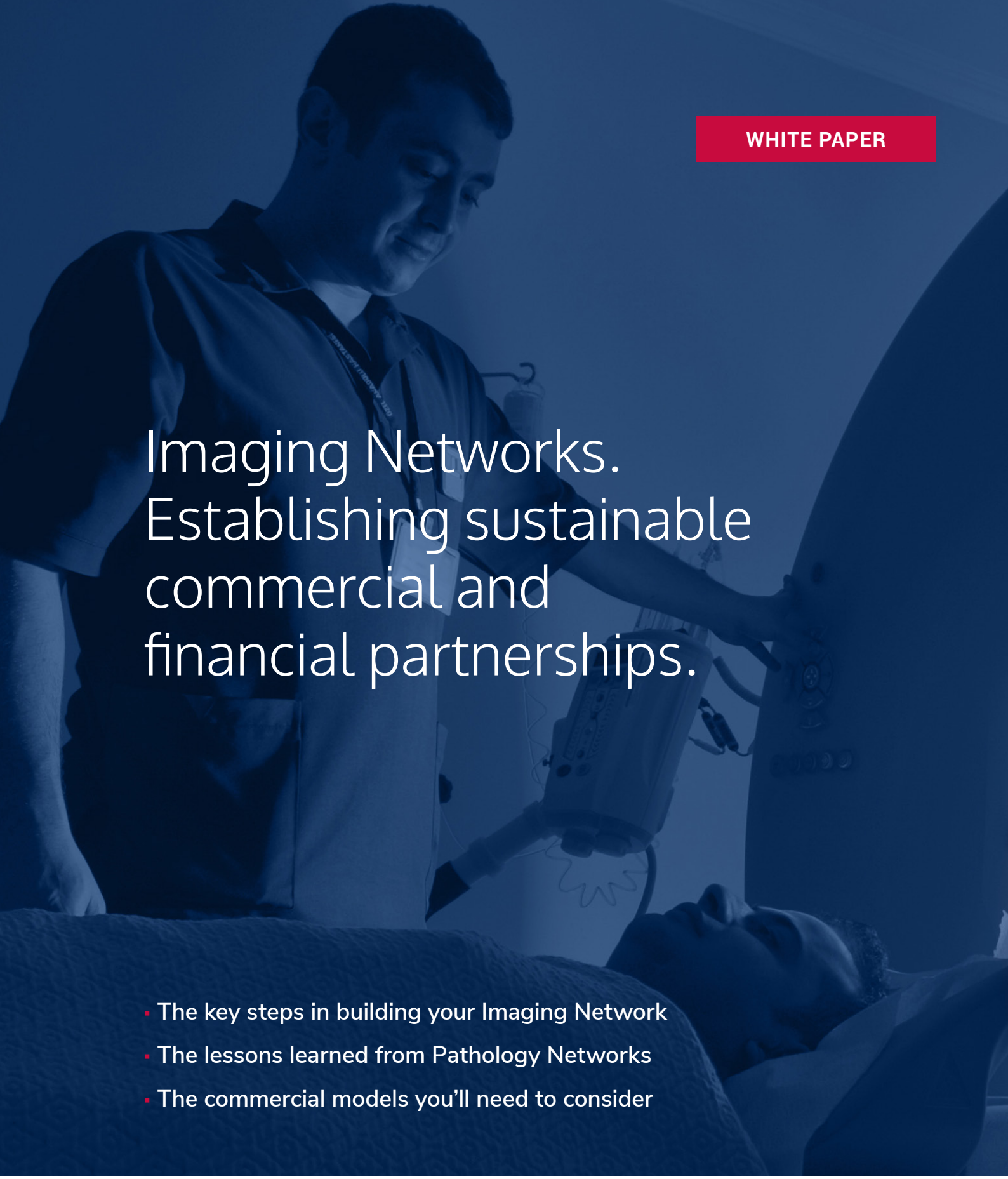

WHITE PAPER

Imaging Networks. Establishing sustainable commercial and financial partnerships.

- The key steps in building your Imaging Network
- The lessons learned from Pathology Networks
- The commercial models you'll need to consider

LIFECYCLE

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Contents

Introduction

Imaging services in the NHS are facing a number of challenges. The recent report from NHSI/E *"Transforming imaging services in England: a national strategy for Imaging Networks"* highlights the challenges that imaging services are facing and proposes a way forward to help address this and ensure that the services are sustainable. The key recommendation from the NHSI/E report is that Trusts explore collaborations in imaging and the creation of networks. The purpose of this paper is to identify the key steps necessary for Trusts to do this efficiently and effectively.

The Background

The national programme mandating the creation of networks provides guidance on establishing Imaging Networks across England. The NHSI/E report identifies a series of drivers and challenges that collaboration should be able to mitigate and contribute towards the sustainability of services. Key drivers of change in imaging services are:

- Service sustainability in the light of increasing demand for imaging services;
- High level of vacancy rates in imaging departments (>15%);
- More than 12% vacancy rate in reporting radiologists and consultants;
- Aging equipment and need for capital replacement programme and upgrade of imaging facilities;
- Changes in pathways and implementation of Integrated Care Services driving a change in requirements from imaging services.

To overcome these challenges, the NHSI/E report indicates that Trusts will be required to form networks with the following characteristics:

1. The networks must serve a population of 1.5m patients to 4.5m patients with the average being 2.5m patients;
2. The Imaging Networks must support, and be linked with, the local clinical networks such as Cancer Alliances, STPs, Primary Percutaneous Coronary Interventions Centres and Hyper-Acute Stroke Units;
3. Critical staff mass: Networks should be of sufficient size to accommodate approximately 800-1,500 staff and 80-150 consultant radiologists.
4. Implementation of interconnectivity and digital solutions to ensure a high-quality service that best uses resources available.

This means that collaborations amongst Trusts will likely need to cross the boundaries of ICS organisations and STPs and ensure there is an efficient collaboration amongst providers - including Cancer Networks - to ensure an efficient delivery of the patient pathways.

What will the Imaging Networks deliver?

As in pathology, imaging services have changed significantly over the last few years and will continue to change as population needs change and the technology available evolves. The creation of collaborations and networks will deliver a wide range of benefits that go beyond productivity and finances. Pathology collaborations, for instance, have been able to improve quality and patient access to the service as well as influence pathways, while addressing the key challenges facing the services.

According to the NHSI/E report - and the lessons learned from pathology – collaboration via Imaging Networks can be expected to achieve the following benefits:

- **Workforce:** improving capacity while addressing staff shortages. This is especially important when recruiting consultants as it will provide patients with access to a wider range of consultant expertise.
- **Financial sustainability:** collaboration on the procurement of equipment, consumables and assets to realise savings through economies of scale.
- **Modernisation of the service:** implementation of new IT systems and ways of working that allow staff to work across multiple sites and report on each Trust's backlog based on need and urgency.
- **Support for Trusts' and Networks' clinical development:** being able to provide a better response and use of capacity for the development of new clinical services such as Lung Health Checks, Rapid Diagnostic Centres, etc.
- **Improved patient outcomes:** quicker access to results, greater availability of imaging slots, community clinics and community access amongst others.
- **Adoption of new technologies:** with a larger scale, the implementation of new technologies such as Artificial Intelligence and Machine Learning will become more cost-efficient with economies of scale.

The evolving process for developing Imaging Networks

The release of a new strategic direction requires careful implementation planning on the part of the delivery organisations. There are six basic steps and milestones required in the development and implementation of a network. These cover the development of a Memorandum of Understanding (MOU), Strategic Outline Case (SOC), Outline Business Case (OBC), Full Business Case (FBC), Implementation and, finally, Monitoring and Management.

Each of these stages requires strategic, commercial, financial and operational plans to be developed at different degrees of completeness throughout the programme in an evolving process. Lifecycle will be releasing a series of papers over the next few months providing an insight into how all the different areas can be tackled and developed. This first white paper focuses on the overall network formation programme and the initial set of commercial issues to be addressed.

The commercial elements tend to be ones that are traditionally left until the end. However, experience shows that the earlier these are tackled the better equipped operational teams are to develop the required target operating model. In fact, to build a successful network, it is essential that the commercial elements are addressed first.

Unfortunately, commercial partnering models for collaborative working are not well developed within the NHS. Unlike elective services, there is no standard NHS contract with well-tested service specifications, but there are several common commercial, contractual and procurement issues that Trusts looking to partner need to consider.

Over the last few years, Pathology Networks have been developing at a steady pace in the NHS. These Pathology Networks have managed to overcome many of the key commercial and partnering issues that Imaging Networks are likely to face. While operationally, Pathology Networks are very different from Imaging Networks, the key issues around the governance, commercial and financial principles underpinning the delivery of a collaborative target operating model have many areas of commonality. This white paper addresses the timeline, some of these commercial issues and the next steps.

The six steps of implementing an Imaging Network

There are 6 key steps in the implementation of an Imaging Network, all of which require different levels of commercial and operational development. During the MOU and SOC stages the key focus will be on the strategic case and commercials. The OBC will focus on commercials and operations while the FBC will focus on the finances, completing the operating model for the preferred option and a robust management case, including implementation plan and risk management strategy.

1 Memorandum of Understanding (MOU)

Initial agreement between the partners setting the ground rules for the collaboration and the strategic need.

2 Strategic Operating Case (SOC)

Exploration of collaboration options with emphasis on governance and ruling out undesirable commercial and operating models.

3 Outline Business Case (OBC)

Detailed analysis of long list of options to develop a short list that can be analysed in detail both commercially and financially, leading to a preferred model.

4 Full Business Case (FBC)

Full development of the preferred options and completion of commercial agreement, including a transition plan for implementation.

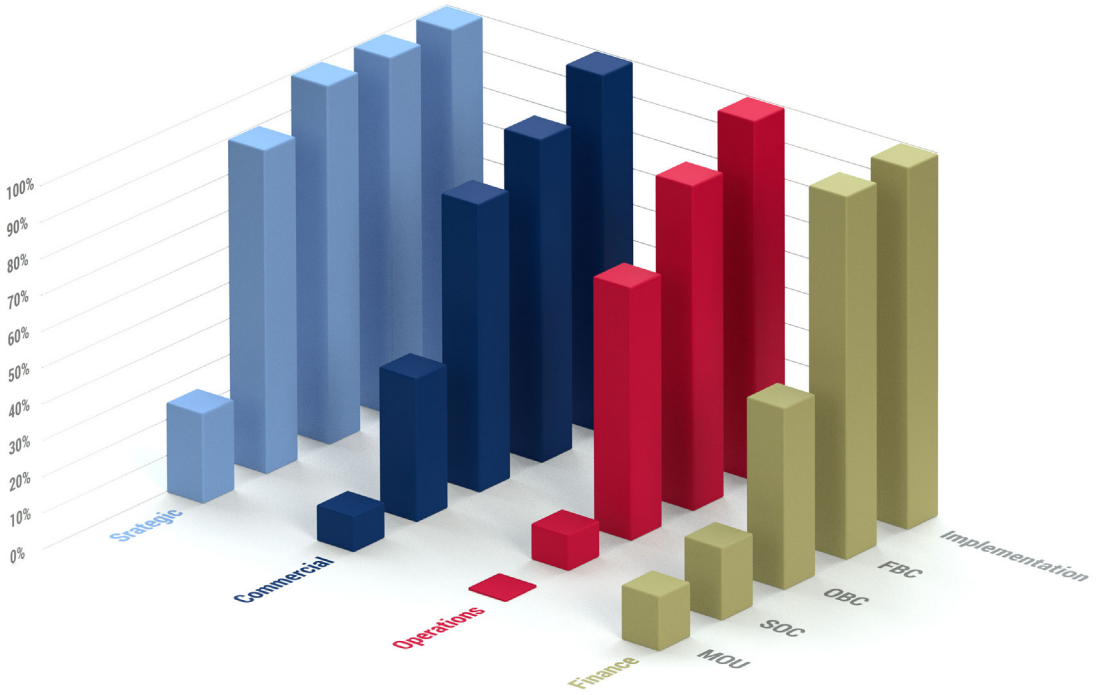
5 Implementation

Development and signing of the Imaging Partnership Agreement (IPA) as well as implementation of target operating model to reach stead state.

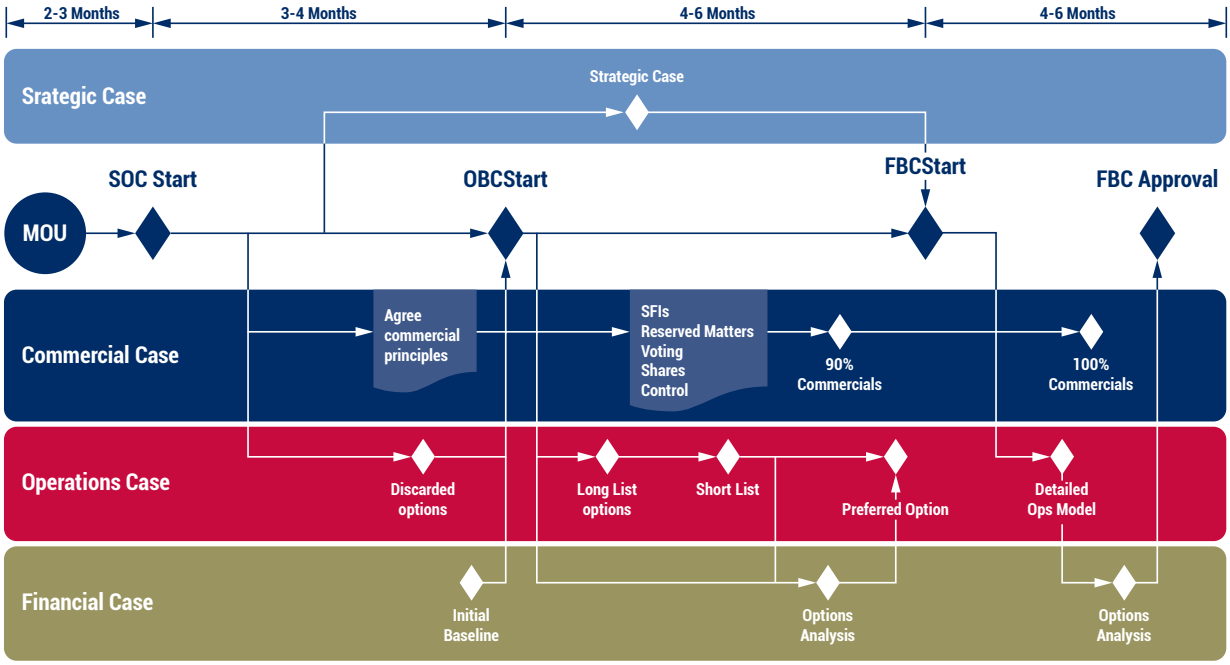
6 Monitoring and Management

Monitor the performance of the Imaging Network against agree KPI relating to quality, cost and service level. This stage is defined by a move from change management to continuous improvement.

Level of Completeness by Phase



Process & Timescales



Step 1

Memorandum of Understanding (MOU)

STRATEGIC

Early discussions amongst all the parties to identify their objectives, needs and service constraints. Engagement with other potential network partners.

OPERATIONS

Discussions with service managers and users to identify Critical Success Factors for the service and operational pressures. Agreement on patient focus an user engagement.

FINANCE

Early discussions with Finance teams to identify potential resources available to support and CIP requirements for different services. Agreement on openness and transparency

COMMERCIAL

Agreement on key principles that will drive the partnership, including openness, transparency, equality, patient focus and user engagement. Agreement on key principles that will drive the partnership, including voting rights, shareholding and risk share.

A memorandum of understanding is an initial document signed by all the partners in the network establishing the ground rules for the collaboration and the main commercial principles. The main elements that should be considered are:

- Equality and proportionality amongst the parties: have all parties got equal voting rights? Is one party willing to take more risks than others?
- Protection of services and partners: to minimise fears of takeover by one Trust;
- Transparency, especially with regards to data sharing and financial information;
- Commitment to patients and quality, defining the programme requirements for clinical support and leadership;
- Sustainability and targets with a clear definition of overarching aims and targets for the network; and
- Compliance with national strategy plans from NHS England/ Improvement.

Lessons learned from Pathology

It is going to happen.

The experience in Pathology demonstrates that NHSE/I will use any means necessary to ensure the networks are developed in line with their strategy. It's also true that NHSE/I has learned from the work in Pathology as the initially proposed networks took longer to form than NHSE/I had envisaged and many of them changed in their configuration. It is therefore critical that networks identify their preferred partners, in accordance to their pathways and needs, and agree the initial principles of the collaboration under an MOU.

Networks are not a hostile takeover.

Networks are about NHS organisations collaborating to make best use the resources in a region with the purpose of improving patient outcomes. A key principle to agree is that while some partners may be taking more risks than others as a result of differences in size, all organisations must work in partnership with shared risk and decision making.. A way to mitigate the perception of a takeover is to ensure that the governance and decision-making structures reflect the equality principle even if the financials may show a different distribution of benefits. Through the use of governance mechanisms, Pathology networks has been able to overcome this issue.

Step 2

Strategic Outline Case (SOC)

STRATEGIC

Establishing a clear rationale for the need for change at a network level, but also at the individual organisational level, highlighting key challenges and needs.

OPERATIONS

Many operations models and options will need to be considered. A qualitative evaluation must be carried out to rule out the options with least support.

FINANCE

At this stage, the financial model is only developed at a very high level to provide an initial assessment of the baseline for the network.

COMMERCIAL

Initial principles are being developed to give guidance to the operational teams, including voting rights, commercial models and shareholding.

The SOC will focus on assessing all the options available to the network and deciding on which ones are not feasible based on the established criteria. At this stage, the focus will be on establishing the need for change through the strategic case and the nature of the commercial relationship between the partners, agreeing some of the key commercial principles that would then underpin the development of the partnership target operating model.

Lessons learned from Pathology

Getting the commercials right from the outset is critical:

Of all the challenges providers will face, getting the commercials right is one of the most important. The NHS has a few models for integrating providers into such networks but no standard contracts that new networks can adopt. The commercial aspects of establishing a network is therefore going to represent a new kind of challenge to most Trusts. In Pathology, many of the networks left the commercial basis of partnering until too late in the process, resulting in operations and finance teams unable to progress with the target operating model or understanding how changes will impact them. Examples of some of the key commercials that must be agreed for the business case to progress include hosting of the network, asset transfer, TUPE transfer of medical staff, etc. Without such commercial principles agreed, stakeholders won't know if plans address their needs and risks.

The early bird catches the worm:

One of the lessons from Pathology Networks is that providers that start the network building process early will reap the rewards. While some regions have clearly defined boundaries and an established shared identity that supports networking, there are other regions where there will be a tug-of-war over which providers group together. Committing to network formation early and agreeing your preferred partners provides you with a much better chance of controlling your own destiny. Those that don't progress quickly may well be faced with poor choices. The lesson from Pathology is that it pays to be a leader, not a follower.

Step 3

Outline Business Case (OBC)

STRATEGIC

Completion of the strategic case with further detail on the outcomes required for each organisation based on the balanced scorecard.

OPERATIONS

Options analysis of the long list of options to arrive at 3-4 options that can be analysed in more detail with the objective of selecting a single preferred model.

FINANCE

Completion of the financial baseline for the partnership as well as financial modelling of the short-listed options with key financial assumptions.

COMMERCIAL

Agreement of all the main principles of a commercial agreement, including termination scenarios, reserved matters, income, capital, shares etc.

In developing the OBC, focus will move towards the analysis and development of operating models to a point that allows for the downselection of short-listed models to a preferred target operating model. During this phase it is crucial that the commercial teams work towards ensuring a high level of completion on the majority of commercial elements as Trust Boards will be asked for a firm commitment towards a partnership at the end of this stage. This will require a higher level of assurance for both executive and non-executive board members.

Lessons learned from Pathology

Only development of networks will unlock the required investment in technology:

NHS providers and, more specifically, Radiology departments have been starved of capital investment in recent years. As a result, the imaging technology is in desperate need of replacement with some scanners being more than 20 years old. Refreshing this equipment will require significant capital investment that few providers are able to fund. The government has already signalled its intention to fund more imaging technology, but this will be linked to progress on building the Imaging Networks. Providers able to evidence early progress are likely to be first in line for capital, particularly when these requirements are set in light of a joint target operating model.

Data first, options second:

In developing their Pathology OBCs, providers either followed a top-down approach with a focus on first agreeing high-level strategic models, or a bottom up approach that relied on details, comparable data to drive decision making and the most appropriate solution. By first establishing accurate and comparable baselines for activity and costs as well as standardisation of nomenclature, Pathology networks were able to provide operational and clinical teams with the assurances that the benefits of different models were based on real world data, thereby removing a degree of subjectivity.

Step 4

Full Business Case (FBC)

STRATEGIC

All strategic issues will have been resolved by this stage..

OPERATIONS

Detailed development of the target operating model for the preferred model addressing all clinical and operational risks.

FINANCE

Completion of the financial model for the preferred option, removing the majority of assumptions and caveats by working closely with suppliers and all involved parties using bottom-up costing.

COMMERCIAL

Completion of the remaining minor elements of the commercial agreement, such as agreeing of milestones, and ratification of benefit-sharing mechanisms.

The FBC will focus on completing the financial analysis through the finalisation of the preferred target operating model. In addition, the commercial teams should focus on the completion of the commercials by addressing the caveats and concerns raised by the various Trust Boards during the OBC approval process as well as finalising the distribution of benefits from the partnership.

Lessons learned from Pathology

The devil is in the detail:

Once the target operating model has been selected there are still a few critical commercial issues that require resolution. These may include dealing with stranded costs, management accounting, transfers of assets and contracts, trust services SLAs, etc. Many pathology FBCs failed to identify all the detailed commercial elements, focusing only on the major items (voting rights, shareholding, etc) which translated into delays in getting the partnership agreement developed and agreed once the FBC was approved.

Put as much effort into governance and the day after:

The scale of investment required to transform pathology has led to an increase in outsourcing, particularly to Managed Service models. In one network alone, the 15-year outsourcing pathology contract totalled £2.25bn. The scale of the backlog and need for Imaging equipment replacements means the figures for imaging are likely to be even greater. This is a significant national investment and getting the governance right is critical. Any history of the NHS would not be complete without a reference to large contracts that providers, and commissioners, have failed to manage effectively – PFI being a great example. As the next decade unfolds, Pathology Networks will not be judged on their planning and transformation work, but on their ability to manage and govern the resulting contracts. Imaging will be no different.

Step 5

Implementation

STRATEGIC

All strategic issues will have been resolved by this stage.

OPERATIONS

Implementation of the target operating model as per the transition plan. Implementation of relevant procurements and contracts with suppliers. Staff consultation and introduction of staffing policies.

FINANCE

Consolidation of financial information and standardisation of financial processes. Development of annual business plan and financial instructions.

COMMERCIAL

Development of all required agreements and SLAs, including agreement of services to be provided by each Trust back to the partnership.

During this phase the development of the network Imaging Partnership Agreement (IPA) and individual Trusts Service Level Agreements (SLA) will be completed with legal support. Where TUPE transfer of staff is required, this will typically take place during the first three months following finalisation of the IPA and SLAs, followed by the implementation of the TOM in line with the transition plan developed during the FBC.

At this stage, it is crucial to have a well developed transition plan with key actions, milestones and expected outcomes. But it is equally important to appoint the transition team that will be managing this process. This is also the time to decide and line up the team that will manage the partnership and monitor the performance once steady state is achieved.

Lessons learned from Pathology

Don't save on transition management:

A lesson learned from Pathology is that the transition to a new target operating model, whatever this may be, requires a high level of support and input from a dedicated team. Even though current managers will have the best knowledge about the service, they will already have dedicated a significant amount of time to the development of the business cases and, given the increase in activity during the transition period, relying on them to implement the change will have a negative impact on service. Successful implementations have had a dedicated implementation / transformation team that has allowed managers to maintain quality and performance on day to day operations while changing to a new service model.

Step 6

Monitoring & Management

STRATEGIC

Monitoring of the strategic landscape to identify any changes in regulation, recommendations from Royal Colleges and changes in equipment and operations derived from innovations..

OPERATIONS

Detailed development of Day-to-day management of the service with cycles of continuous improvement. Monitoring of KPIs and service performance with continuous engagement with service users to optimise service delivery.

FINANCE

Management of cash flow and financial accounts, including review and approval of business cases for continuous improvement and investment on service delivery.

COMMERCIAL

Monitoring of agreed services to be provided by the service to the partners and by the partners to the service. Monitoring of KPIs and financial implications/ impact on each partner..

During this phase, the operational teams will have completed the implementation of the target operating model and are now monitoring the performance of the service in accordance with the agreed KPIs. The financial team's focus will be on the monitoring of the contracts and the financial performance of the service, realising the agreed benefits. A key area of activity will be around continuous improvement and ensuring the service delivers the agreed clinical and financial benefits for the partners.

Lessons learned from Pathology

Change of personnel can threaten continuity during the monitoring and management phase.

When the implementation of the target operating model is achieved there is a tendency for the expert commercial and transformation teams to change, losing the knowledge acquired on the development of KPIs, contracts, SLAs and service specifications. It is essential that the service retains this knowledge and ensures that the service continues to deliver to the partners. At this stage, a keen understanding of the background of the target operating model is required to facilitate continuous improvement.

Initial commercial issues to be resolved

The following are some of the main commercial issues that require detailed discussions and development during the MOU, SOC and OBC stages. By the FBC stage it is expected that these issues would all be resolved, or the principles agreed.

A spectrum of commercial models

There are several commercial models that have been explored by other clinical support services with regards to collaboration. These cover a whole spectrum from "do minimum" to creation of a "private" organisation.

- **As Is:** Current configuration of imaging providers working independently within their own trusts or in the collaborations already formed.
- **Collaborative Working:** Loose arrangement whereby the imaging services remain independent (as above) but agree to nominate representatives into a partnership network team that is responsible for exploring available areas of collaboration. This is a loose arrangement based on the goodwill of managers to achieve collaboration.
- **Contractual Partnership:** This is based on the establishment of a collaboration agreement between the parties that clearly defines targets, governance, benefit sharing mechanism, timelines and areas of collaboration. While the organisations and imaging services remain fully independent, the agreement commits the parties to achieving certain objectives such as joint procurements, joint IT implementation, sharing of backlog reporting, standardisation of processes, SLAs between trusts, on call support, etc.
- **Arm's Length Organisation:** This model moves integration of imaging services to a level whereby the provision of services for all trusts is managed by a single entity, which is hosted by one of the trusts. This level of collaboration involves the creation of a single management team for the whole network, TUPE transfer of staff, standardisation of equipment, IMT and processes, single governance and a detailed commercial agreement describing all the terms.
- **Private JV entity:** As above, but the single imaging services organisation would be established as a private and independent organisation such as an LLP or Ltd company. The ability to form a private JV will be limited to Foundation Trusts.

Initial commercial issues to be resolved

Voting Rights

Agreeing the differentiation between voting and shareholding is key. On the one hand, voting is what would allow the partners to make decisions about the partnership, its strategic direction and operations. On the other, shareholding refers to how the benefits and liabilities arising from the partnership operations will be shared.

The size of the Trusts involved in the partnership can influence voting right decisions in two ways:

- **All Trusts are of similar size:** in this instance equal voting rights would provide a fair and open decision-making process;
- **There is a significant difference in size amongst Trusts:** this situation can give rise to fears of a takeover or loss of control by the smaller Trusts. Two options for voting could be considered:

Voting option 1: Equal voting rights – in the spirit of NHS partnering, Trusts may decide to implement equal voting rights. In this instance it would be recommended that reserved matters, approval limits and escalation processes (to the Trust boards) are implemented to ensure that all Trusts are protected as the shareholding and therefore the risks and liabilities of each Trust will be different.

Voting option 2: Voting rights in accordance with shareholding percentage. In this instance the Trusts would have a number of votes in accordance with their agreed shareholding in the partnership. This removes the risk to the larger Trusts on the liabilities taken and decision making, but is likely to give rise to concerns on takeover and loss of control. A way to mitigate this is with a restricted list of reserved matters where decisions can be classified as unanimous or majority voting.

Shareholding

Shareholding percentages will provide the percentage of risks and liabilities that each Trust takes in the partnership. This percentage may be linked to the voting rights as described above or viewed as a completely separate issue where the there is a significant difference in the size of partner organisationals.

Key considerations when developing shareholding calculations are:

- Establishing a clear baseline with the same accounting and activity counting principles;
- Developing a number of calculations using different methodologies so they can be checked and corroborated, examples are:
  - Based on activity volume;
  - Based on pay;
  - Based on direct non-pay;
  - Based on total operating costs;
  - Based on valuation as a going concern (assets, liabilities, etc); and
  - Different scenarios based on a combination of the above.

Once the various options have been calculated, it is recommended that Trust Boards and Programme Boards are pragmatic and choose a preferred option that can be applied to the partnership financial model. In many situations, scenarios and variations of the above tend to yield similar results unless they are taken to extreme financial values.

Control

Trusts may be concerned with a perceived lack of control over the operations of the partnership, especially if there are significant differences in Trust sizes. This perceived lack of control can be minimised with a number of considerations:

- Distributions amongst Trusts of the key positions on the board (chairman, representation, etc) and on the partnership operations management team (Clinical Director, Finance Director, Operations Director, etc);
- Development and approval of detailed annual business plan. The partnership should develop a detailed annual business plan that would include all investments required, quality improvements and KPIs. This would then be submitted to Trust boards for approval, giving Trusts more certainty on what to expect from the partnership and targets to monitor its performance;
- Establishment of an operations and a clinical monitoring group. This would be a group monitoring both operational and clinical KPIs as independent assurance bodies to the Partnership Board and the Trust Boards;
- Reserved Matters: these would specify the areas where Trust board approval is required and what tolerances are acceptable for deviation from the annual business plan before issues are escalated to the Partnership and/or Trust boards;
- Voting rights: as described in the previous section, giving the Trust boards confidence that they are fairly represented on the Partnership Board.

Can we help?

The establishment of Imaging Networks is a complex task that will require engagement from many stakeholders and clinicians to ensure that the network develops a sustainable model that delivers quality improvements for patients and users.

While the development of the target operating model by clinicians and operational managers will be a critical success factor, getting to an agreement on how the network will be formed and the main commercial principles that underpin the collaboration will be crucial to get started.

To support the initial development of the proposed framework, we would be happy to share our experience from Pathology Networks

by hosting or attending an initial meeting between the parties where the development of the MOU can start. In addition, we can provide further information on all key areas and explain the approach taken by other partnerships in the development of their collaborations.

Over the next few months, Lifecycle will be releasing a series of papers with further detail and information on the development of the commercials for a partnership but also in the 4 key main areas of the business case process as described on this document: Strategic, Operations, Financial and Commercial.

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