

SEPT
Meeting of the Board of Directors held in Public at 10:00 on
Wednesday 23 September 2015
TR5, The Lodge, Runwell Chase, Wickford SS11 7XX

Our Vision
“Providing services that are in tune with you”

PART ONE – MEETING HELD IN PUBLIC
AGENDA

1	APOLOGIES FOR ABSENCE	CL	
2	DECLARATIONS OF INTEREST	LC	
3	STRATEGIC INITIATIVES		
(a)	Organisational Response to the Essex Strategic Review: Strategic Options Case	SM	Paper to be tabled
4	ANY OTHER BUSINESS	LC	
5	DATE AND TIME OF NEXT BOARD OF DIRECTORS MEETING Wednesday 30 September 2015 at The Lodge, Runwell Chase, Wickford, Essex, SS11 7XX at 10:30		
6	‘QUESTION THE DIRECTORS’ SESSION There will be a 15 minute session for members of the public to ask questions of the Board of Directors.		

Lorraine Cabel
Chair

SUMMARY REPORT		BOARD OF DIRECTORS EXTRAORDINARY MEETING PART 1		Agenda Item No: 3a	
				23 September 2015	
Report title:		Organisational Response to the Essex Strategic Review			
Executive Lead:		Sally Morris Chief Executive			
Report Author(s):		Nigel Leonard Executive Director Corporate Governance			
Report discussed previously at:		SEPT / NEPT Strategic Alliance Working Group			
Level of Assurance:		Level 1			
		2			
		3		✓	

Purpose of the Report		
<p>The purpose of this paper is to present the Strategic Options Case (SOC) to explore a merger between South Essex Partnership University NHS Foundation Trust (SEPT) and North Essex Partnership University NHS Foundation Trust (NEPT).</p> <p>The SOC identifies 7 options and recommends that option 4: Full merger to create a new Foundation Trust to provide specialist mental health and community services is pursued as the preferred option.</p>	Approval	
	Discussion	✓
	Information	✓

Recommendations / Action Required
<p>The Board of Directors is asked to consider and approve:</p> <ol style="list-style-type: none"> 1. The exploration of a potential merger with North Essex Partnership University NHS Foundation Trust and the submission of a Strategic Options Case to Monitor. 2. The indicative timetable. 3. The Project Management Structure for the development of key documents for presentation to the Board, Monitor and the Council of Governors.

Summary of Key Issues
<ul style="list-style-type: none"> • The Strategic decision to examine options for potential merger was agreed by the two Trust Boards in July 2015. • The Process of merger involves 4 key stages <ul style="list-style-type: none"> ○ Stage One – Strategic Options Case ○ Stage Two – Outline Business Case ○ Stage Three – Full Business Case ○ Stage Four – Formal Application • The two Boards reviewed 7 options in July 2015 and concluded that option 4: Full merger as equals should be pursued at this point. • An outline timetable is attached in Appendix 2 and shows that stages 1-3 will be completed by early 2015. • A project structure to develop the key documents is detailed in Appendix 3.

Relationship to Trust Strategic Priorities	
SP 1: Quality Services	✓
SP 2: Quality Leadership & Workforce	✓
SP 3: Sustainability of Service Provision	✓
SP 4: Innovative & Transformational Approach to Efficiency and Effectiveness	✓

Relationship to the Board Assurance Framework	
Are any existing risks in the Board Assurance Framework affected?	No
If yes, insert relevant risk	N/A
Do you recommend a new entry to the Board Assurance Framework is made as a result of this report?	Yes. The merger will be part of the planning objectives for NEP/SEPT so a new BAF risk will be created post SOC approval.

Corporate Impact Assessment OR Board Statements: Assurance(s) against:								
Impact on CQC Regulation Standards, Commissioning Contracts, Trust Annual Plan & Objectives	✓							
Data Quality Issues	✓							
Involvement of Service Users/Healthwatch	✓							
Communication and Consultation with stakeholders required	✓							
Service Impact/Health Improvement Gains	✓							
Financial Implications	<table border="0"> <tr> <td>Capital</td> <td>£</td> <td rowspan="3">TBC</td> </tr> <tr> <td>Revenue</td> <td>£</td> </tr> <tr> <td>Non Recurrent</td> <td>£</td> </tr> </table>	Capital	£	TBC	Revenue	£	Non Recurrent	£
Capital	£	TBC						
Revenue	£							
Non Recurrent	£							
Governance Implications	✓							
Impact on Patient Safety /Quality	✓							
Impact on Equality & Diversity	Yes							
Equality Impact Assessment (EIA) Completed?	<table border="0"> <tr> <td>Yes / <u>No</u></td> <td>If yes, EIA Score</td> <td rowspan="2">TBC</td> </tr> <tr> <td colspan="2">A detailed IA will be prepared as part of any merger plans.</td> </tr> </table>	Yes / <u>No</u>	If yes, EIA Score	TBC	A detailed IA will be prepared as part of any merger plans.			
Yes / <u>No</u>	If yes, EIA Score	TBC						
A detailed IA will be prepared as part of any merger plans.								

Acronyms / Terms used in the report	
NEPT	North Essex Partnership University NHS Foundation Trust
SOC	Strategic Options Case
CAMHS	Children and Adolescent Mental Health Service
ECC	Essex County Council
CCG	Clinical Commissioning Group
NHS	National Health Service
A&E	Accident and Emergency
IAPT	Improving Access to Psychology Therapies
NELFT	North East London NHS Foundation Trust
ICO	Integrated Care Organisations
ACO	Accountable Care Organisations
BCG	Boston Consulting Group
QIPP	Quality Innovation Productivity Prevention
PCT	Primary Care Trust
STaRS	Specialist Treatment and Recovery Services
EWMHS	Emotional Wellbeing Mental Health Services
HR	Human Resources
IT	Information Technology
NSFT	Norfolk & Suffolk Foundation Trust

HPFT	Hertfordshire Partnership
C&PFT	Cambridge & Peterborough Foundation Trust
MH	Mental Health
FT	Foundation Trust
CMA	Competitions and Marketing Authority
KPI	Key Performance Indicators

Supporting Documents &/or Further Reading

www.gov.uk/monitor Support NHS Providers: Guidance on transactions for NHS Foundation Trusts

Executive Lead

Sally Morris
Chief Executive

SEPT

**ORGANISATIONAL RESPONSE TO ESSEX STRATEGIC REVIEW:
STRATEGIC OPTIONS CASE**

1 Purpose of Report

This paper presents the Strategic Options Case (SOC) to explore the potential option of merger between South Essex Partnership University NHS Foundation Trust (SEPT) and North Essex Partnership University NHS Foundation Trust (NEPT).

The SOC identifies 7 options and recommends that option 4: Full merger to create a new Foundation Trust to provide specialist mental health and community services is explored in more detail as the preferred option.

2 Executive Summary

Members of the Board will recall that a joint paper was presented to the SEPT and NEP board meetings in July 2015. This paper sets out 7 potential options available to both organisations and highlighted the close working that had taken place between the two Trusts over the last twelve months.

The Board considered a range of benefits as well as the clinical, HR, financial, legal and regulatory implications. Both Boards agreed to support the proposal to actively explore the options available to both organisations.

This paper presents the first formal stage in exploring a potential merger, known as the Strategic Options Case. The Strategic Options Case is part of a four step process for significant mergers and acquisitions. This involves an early evaluation of the strategic challenges and options available together with the transaction's fit with the overall strategy of both Trusts and the local economy.

The four key stages for a significant merger or acquisition are detailed in table 1 below together with the indicative timetable for the SEPT/NEP transaction:

Table 1: Four Key Stages in the Merger Process

Stage in the Merger Process	Key Submissions	Initial dates for submitting key documents to Monitor
Stage One:	Strategic Options Case	September 2015
Stage Two:	Outline Business Case	November 2015
Stage Three:	Full Business Case	February 2016
Stage Four:	Formal Application	May 2016

The Strategic Options Case is attached in Appendix 1. The SOC identifies that at this stage both Trusts are exploring a merger of equals which is designed to bring positive benefits and enhancement of health and social care provision in Essex. A merger would increase the resilience of mental health and community services in Essex and would build upon the work of two high performing organisations.

Following consideration and approval by both Boards the SOC will be submitted to Monitor. This initial step in the merger process will provide Monitor with the opportunity to:

- challenge the robustness of the Strategy,
- identify any potential competition issues,
- determine the level of risk assessment review that may be required, and
- provides an opportunity to advise on the Trusts' approach to accessing customer benefits for the next stage in the process.

A draft timetable for the proposed merger is attached in Appendix 2. It should be noted that the timeline is indicative at this early stage because the Trust will be reliant on Monitor and other external parties. The timetable is therefore subject to future revision.

Monitor has issued updated guidance in March 2015 to support NHS Providers on transactions on NHS Foundation Trusts. The Strategic Options Case has been written in line with this guidance and both Boards are meeting at the same time to consider the SOC. The SOC has already been reviewed by the NEP/SEPT Strategic Alliance Working Group.

The Strategic Alliance Working Group has also identified a project structure to deliver the outline and full business cases. A copy of the proposed structure is attached in Appendix 3.

Members will note that it will be for the Trust Boards of SEPT and NEP to agree the key documents relating each stage in the merger process. In line with SEPT's committee structure it may also be necessary for meetings of the Investment and Planning Committee to mirror the draft timetable for merger. The final decision will be taken by both Boards at the end of stage 4 in the process and as a significant transaction it will also require the support of the Council of Governors from both organisations.


3 Action Required

The Board of Directors is asked to consider and approve:

1. The exploration of a potential merger with North Essex Partnership University NHS Foundation Trust and the submission of a Strategic Options Case to Monitor.
2. The indicative timetable.
3. The Project Management Structure for the development of key documents for presentation to the Board, Monitor and the Council of Governors.

Report prepared by
Nigel Leonard Executive Director for Corporate Governance

On behalf of



Sally Morris
Chief Executive

[Embargoed Until 23.09.15]

Strategic Options Case

**Final: September 2015
(Version 11)**

SOUTH ESSEX PARTNERSHIP UNIVERSITY NHS FOUNDATION TRUST

and

NORTH ESSEX PARTNERSHIP UNIVERSITY NHS FOUNDATION TRUST



**Strategic Options Case
Version Control**

Version	Detail	Content Providers	Date
Version 1	Initial Report prepared	JM, QC, MC	31 May 2015
Version 2	Additional Information added	NEP/SEPT Strategic Alliance Working Group	8 June 2015
Version 3	Further refinement	JM, QC, MC	25 July 2015
Version 4	Additional detail added including competition	JM, QC, MC, NL, LS	3 July 2015
Version 5	Additional Information added	NEP/SEPT Strategic Alliance Working Group	6 July 2015
Version 6	Additional Information added	JM, QC, MC, NL, LS	16 July 2015
Version 7	Comments received	NEP/SEPT Strategic Alliance Working Group	10 August 2015
Version 8	Comments received and additional info	JM, QC, MC, NL, LS	15 August 2015
Version 9	Scoring added and comments received	NEP/SEPT Strategic Alliance Working Group	7 September 2015
Version 10	Final drafting	NL, LS, JM, QC, MC	14 September 2015

THE FUTURE FORM OF NORTH AND SOUTH ESSEX PARTNERSHIP UNIVERSITY NHS FOUNDATION TRUSTS

STRATEGIC OPTIONS CASE

Executive Summary

The Boards of South Essex Partnership University NHS Foundation Trust (SEPT) and North Essex Partnership University NHS Foundation Trust (NEP) are fully committed to securing for Essex residents the best, most efficient and most effective mental health care possible. We separately provide excellent, cost-effective and accountable services in the distinct geographies of south and north Essex. We are acutely aware though that the political, social, economic and commissioning environment in which we both operate means that now is the time to consider whether a new organisational form might better serve the interests of the residents of Essex.

This strategic options case (SOC) has therefore been drawn up at the behest of our Boards to explore the strategic options for NEP and SEPT in the context of:

- The continuing drive for excellence in mental health services;
- The challenging commissioning environment;
- The extremely challenging financial and competitive environment;
- The financial sustainability of both organisations in the longer term;
- Our recent closer working relationship in Essex Health Partners.

Seven options were considered and evaluated against criteria covering:

- Benefits for Essex Patients and Carers;
- Ability to meet the future needs of the people of Essex;
- Achieving sustainability (service delivery and licence conditions);
- Fit with national direction and commissioning intentions;
- Achievability with Regulator;
- Deliverability within two years;
- Financial Benefits.

Evaluation showed option 4: **Full merger to create a new Foundation Trust to provide specialist mental health and community services** is a better strategic fit for both organisations.

The headline benefits identified include:

- Improved flexibilities for service users and carers, for instance in offering single sex accommodation / women-only services, improving patient experience;
- More effective out-of-hours cover arrangements (including the potential for 7-day working in community teams);
- More effective integrated pathways in secure services and other specialist services;
- A stronger advocacy voice for Parity of Esteem for people with severe mental health problems;
- Easier recruitment of high-calibre staff;
- Effective use of estate and capital;

- Releasing cash for reinvestment programmes;
- Avoiding atomisation of services and conferring stability;
- Allow consistent integration with social care as services would cover the whole Essex County Council area;
- Create a stronger platform for system and corporate integration.

The Trusts are contemplating a merger of equals, designed to bring positive benefits and enhance health and social care provision in Essex. This is not a situation where a strong Trust is looking to rescue a weaker one through acquisition. A merger would increase the resilience of mental health and community services in the Essex system and would be built on the firm bedrock of two high-performing organisations.

The idea of one of the Trusts acquiring the other has therefore not featured largely in discussions, although all the non-executives and executive directors are aware of the implications and requirements of merger (or indeed of any change in organisational form) for their own positions.

Strategic Context

The Trusts' position in the local health economy

Both South Essex Partnership University NHS Foundation Trust (SEPT) and North Essex Partnership University NHS Foundation Trust (NEP) provide specialist mental health and substance misuse services to the population of Essex. SEPT also provides a significant portfolio of community services in Essex and Bedfordshire as well as in west and south-east Essex, and NEP provides some specialist services in Suffolk.

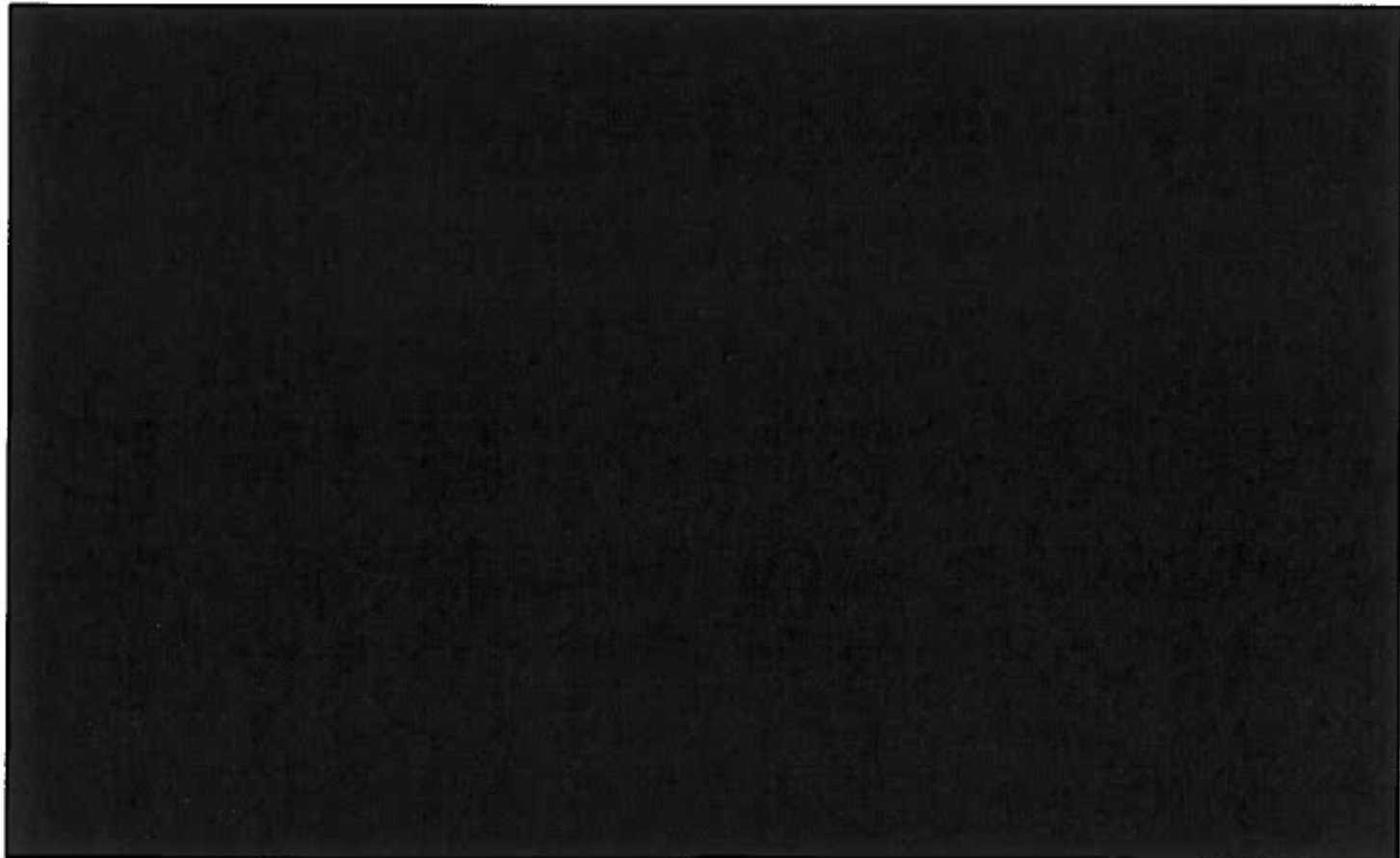
- Our services are mainly community-based and delivered through integrated health and social care teams;
- Our services are integrated across the mental health pathway, with community crisis teams preventing admission and smoothing the pathway back to community services;
- There is limited integration with physical healthcare, although work is ongoing to remedy this, for instance in the frailty and marginalised adult pathways and in specific initiatives and training in physical health care;
- NEP provides low-secure inpatient, CAMHS Tier 4 inpatient and specialist mother & baby inpatient services;
- SEPT provides low-secure inpatient, CAMHS Tier 4 inpatient and regional forensic services;
- The Trusts provide highly-specialist patient-focused therapeutic services such as family group conference, psychological therapies and for eating disorders;
- Both Trusts have considerable estate assets focussed on their inpatient provision;
- We have jointly won the 5-year contract from Essex County Council (ECC) for the specialist substance misuse service, but have not secured the jointly-commissioned contract to provide an all-Essex Tier 2 / 3 CAMHS service.

Both Trusts are the established providers of secondary mental health and specialist substance misuse services in their areas, having developed the modern community-focussed mental health system out of the original institutional provision at Severalls and Runwell hospitals.

External competitive environment

Both Trusts carried out detailed competitor analyses as part of developing their most recent Strategic and Operational Plans.

NEP's analysis focused on mental health and substance misuse service provision:



SEPT's analysis reflected their wider portfolio of services, including medium-secure and physical health community provision:



Competition between SEPT and NEP

SEPT and NEP provide broadly the same mix of secondary mental health services, with the exception of medium-secure services (SEPT). However, there is little or no competition between us to provide such services in Essex, because

1. Secondary mental health services are commissioned separately for the populations of north and south Essex by different clinical commissioning groups (CCGs), and so there is minimal overlap between the catchment populations of the two Trusts, even for patients of GP practices at the CCG boundaries. North-east, Mid- and West Essex CCGs commission the majority of NEP services, and Thurrock, Southend, Basildon & Brentwood and Castle Point & Rochford CCGs commission most of SEPT's mental health services.
2. Nearly all our inpatient admissions are emergencies, where patients either have no choice about where they are admitted (admissions under the Mental Health Act) or a choice that is severely limited either by their mental state and capacity or by the commissioning arrangements.

3. Most community mental health treatment relies on care being available in the patient's home environment, meaning that it is only local services that can practicably provide care. Exceptions to this include for some patients at the CCG boundaries and for some psychological therapies, where patients may prefer to participate in treatment in the town where they work rather than where they live.
4. Both Trusts are working at or near full capacity, and have no capacity to accommodate extra activity from CCGs that normally commission for the other Trust.
5. Neither Trust has significant private patient income. There are major private mental health care providers in Essex catering for this market. Private providers include Priory Group, St. Andrews, Spire, Cygnet and Partnerships in Care.

NEP and SEPT have historically competed against one another in procurements inside and outside Essex. However, as the Essex health and social care market has become more competitive and focused on county-wide service delivery. The overall funding for mental health care has also decreased and we have moved towards joint bidding to take advantage of potential economies of scale. This has not diluted the level of competition for contracts which has remained high with a range of NHS and non-NHS providers competing for work across Essex and Bedford.

Commissioners' Perspective

Across Essex, CCGs and local authorities make commissioning decisions based around their assessments of the needs of their populations, and national guidance relating to new models of care from NHS England's Five Year Forward View.

CCG commissioning decisions therefore typically seek to:

- Move services towards community provision and away from hospitals while still responding to demand for acute services;
- Move towards integrated health and social care provision;
- Integrate physical and mental healthcare around the needs of patients rather than those of organisations;
- Foster development of both integrating pathways and integrated organisations, building on the Five Year Forward View 'organisational models' as means to move the integration agenda;
- Drive further efficiencies from mental health and community providers to support acute services;
- Prioritise achievement of all national targets, particularly around A&E waits and IAPT.

Local authority commissioning decisions typically prioritise value for money and divestment of direct service provision, while the two unitary authorities (Thurrock Council and Southend-on-Sea Borough Council) additionally seek autonomous services co-terminous with their administrative areas.

NHS England's specialist commissioning function is facing a period of transition, with tentative plans for the transfer of commissioning responsibilities to localities.

Current Commissioning Plans

All CCGs have as priorities:

- To support delivery of the NHS Outcomes Framework;
- To ensure that the NHS Constitution commitments are met;
- To deliver greater efficiency;
- To enhance delivery of better integrated care;
- To develop stronger local commissioning.

The Essex Strategic Mental Health Services Review is expected to guide Essex CCGs' and local authorities' future commissioning decisions, but as of August 2015:

- ECC, the two unitaries and the seven CCGs have re-procured Tier2 / 3 CAMHS with the new £13 million contract with North East London NHS Foundation Trust (NELFT) starting in November 2015;
- Individual CCGs have plans at various stages of development to integrate some community mental and physical health services at CCG population level;
- Some commissioners hope to reduce bed numbers and to shift resource and activity into community services across both acute and mental health services;
- ECC's priority is for services to 'get upstream and intervene early' (i.e. to intervene effectively at lower levels of mental health need to forestall more complex intervention later);
- Thurrock will tender its IAPT and recovery college [redacted]. A second tender process has failed to identify a preferred partner for Thurrock CCG for IAPT and this position remains uncertain;
- Different community models are being developed across the portfolio including integrated care organisations (ICO), accountable care organisations (ACO) and vertical integration of community with acute hospital services;
- NHS England plans to re-procure forensic, low-secure and Tier 4 CAMHS services within a relatively short timescale.

National Priorities and Impact on Local Commissioner Thinking

In recent years, political support for valuing the work of mental health services was enshrined in the 'Health of the Nation' and early impetus was gained in the previous coalition administration in the policy 'No health without mental health'. In 2013/14, the concept of the 'Parity of Esteem' (between mental and physical health and healthcare) was being articulated, and the last government added weight to the policy push with support for the 'Closing the Gap' policy published in January 2014.

Recognition of mental health and illness was strengthened in the Secretary of State's 'Mandate' to NHS England which acknowledges the additional demands in the system and the need for an effective response. This has continued in the Five Year Forward View. In the planning guidance for 2015/16, 'Parity of Esteem' was explicitly recognised through specific guidance for CCGs to increase their mental health spend in line with their allocation uplifts.

Whilst facets of the NHS mandate have found their way into the national planning guidance, there is little evidence of these priorities being picked up by local CCGs and local offices of NHS England as priorities: local pressures have focused their agendas on winter pressures, A&E waiting times and the financial positions of CCGs and Essex acute providers.

The Prime Minister's push to enhance IAPT services and close monitoring of the 15% prevalence rate has forced CCGs to review their own arrangements for IAPT services, often requiring service expansion and development in these areas. Additional funding has not, though, been made available and the requirement to deal with these additional costs within baseline CCG funding has led CCGs to adopt a very different strategy to IAPT services than that initially envisaged. IAPT service specifications are being expanded beyond the original evidence-based national template. The additional funding needed for this now being principally resourced by reductions in secondary care mental health budgets.

Impact of Local Commissioning Plans

Whilst local plans make sense from an individual CCG perspective, the cumulative impact of them could result in unforeseen negative results for the Essex mental health system.

A year-on-year 4% efficiency saving, loss of income from mental health care clusters 1 - 4, and the potential transfer of some specialist community mental health staff into other existing and nascent organisations may potentially lead to an unsustainable financial position for both SEPT and NEP as individual organisations in the medium term.

For SEPT, community service commissioning is also volatile, with fragmentation of existing contracts. ECC is looking to award more county-wide contracts, which holds both risks and opportunities. A key risk is that large competitors can bid successfully at marginal cost, and SEPT and NEP can be left with stranded costs.

Whatever the position with community mental health services, CCGs and NHS England will still need to commission coherent 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. For SEPT, the issue is the same, but complicated by holding significant community services contracts. For both organisations, the integration and primary care-focussed agendas are a strategic risk to both organisations' sustainability in the medium term.

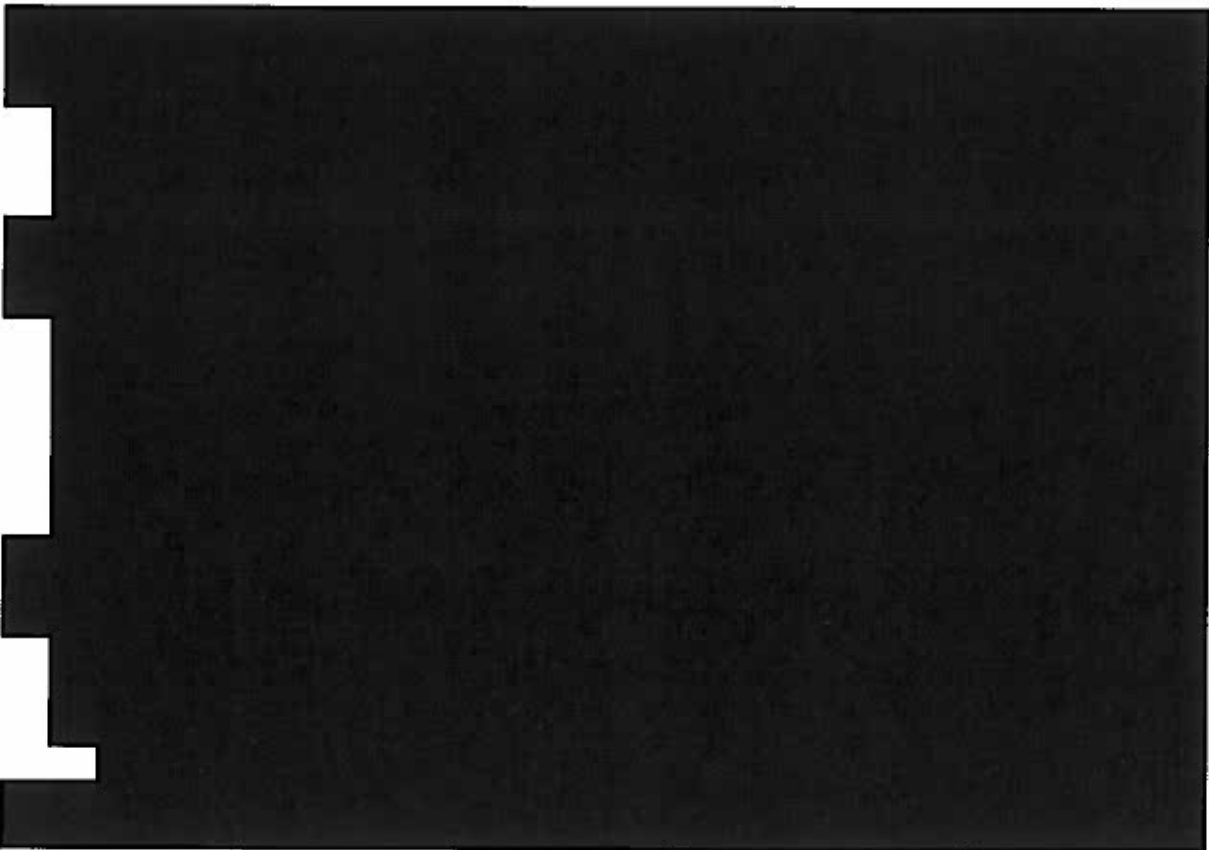
Unsustainability for both NEP and SEPT puts the safe delivery of mental health services, particularly of specialist services, at risk. We see clearly that decommissioning parts of the service cannot be considered without planning for the whole mental health system and therefore have fully supported the wider review of health systems across Essex.

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

A whole-system Strategic Mental Health Services Review 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 draft final report was distributed on 7th August ahead of the final input on 18th August.

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 Trusts expect the insights and recommendations of the Strategic Mental Health Services Review to inform the Essex Success Regime. The Regime's stated emphasis on internally-generated, whole-system solutions means that the ultimate strategic direction for acute, community and mental health services is very likely to build on the mental health solution already developed from the expertise and priorities of all the stakeholders in mental health care in Essex.

Finance now and in the medium-term

The financial settlement for 2015/16 will be very challenging for the NHS overall, but the situation for mental health providers is actually worse. A close look at funding over recent years reveals that a typical mental health Trust has risen to the QIPP challenge, restricted its spending, and seen an overall reduction in funding, whilst other parts of the system have seen significant rises. PCT/CCG funding has increased by 30%, with spending on acute services rising by 40%. Over the same period mental health services have been cut by 2%, which taking inflation into account equates to a real terms reduction in the order of 15%.

Mental health Trusts established circa 2001 - 2003 were the model of an 'integrated service' bringing together inpatient and community children's and young people's, adults' and older adults' services and health and social care - a model that is now being proposed for physical health services.

However, while health budgets have had a degree of protection, the same is not true of local authority and social care budgets. As funding has been reduced, cuts have been forced onto mental health services and mental health partnership Trusts have seen a reducing commitment from adult social care with an increased burden switching to health-funded capacity. Local authorities in Essex also have an appetite for tendering services, in keeping with their vision of their role as commissioners of care.

We expect this pattern to continue with an expectation of 4% year-on-year efficiency savings and further pressures on local authority budgets.

Statement of Trusts' philosophies and position (strengths / weaknesses)

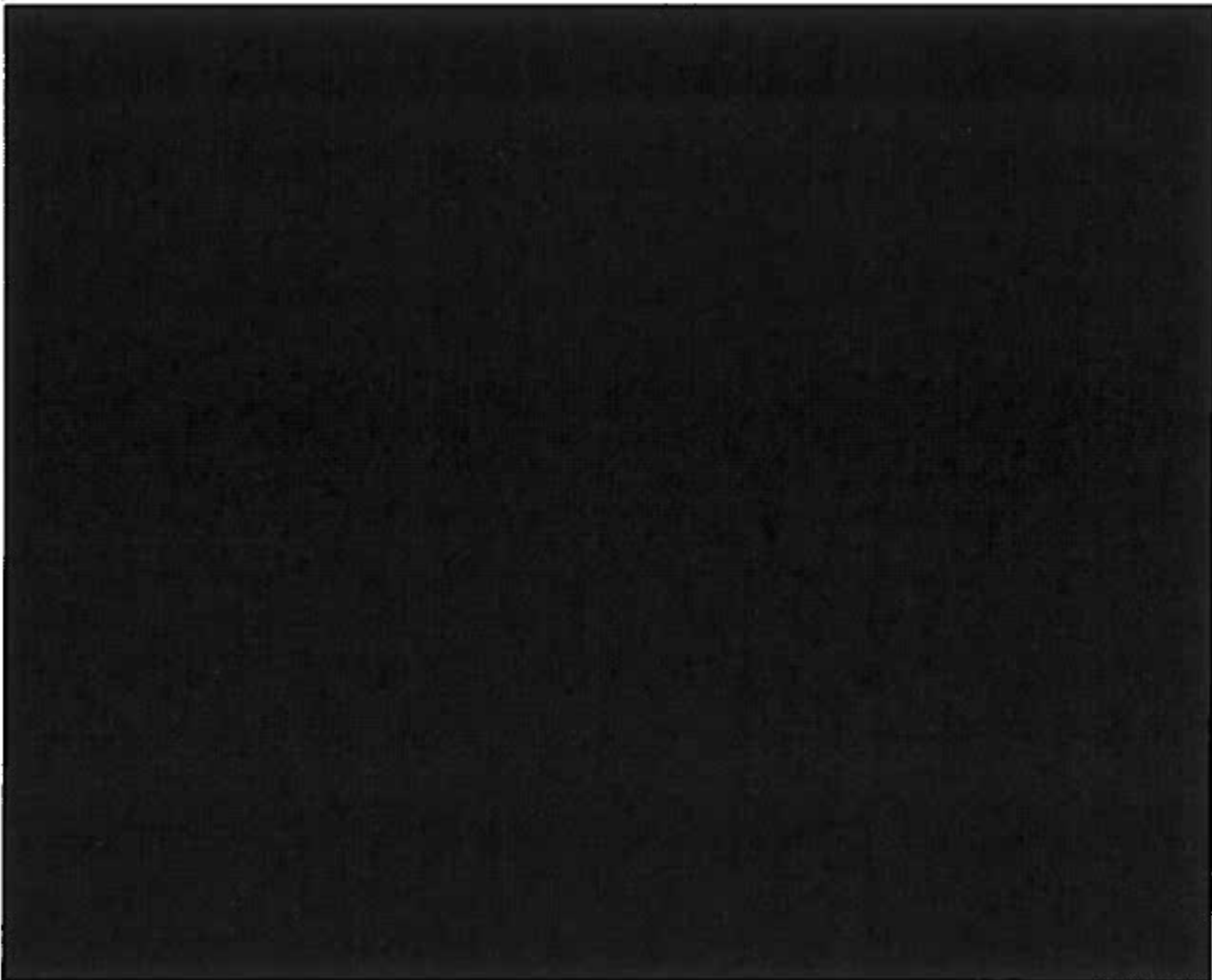
The Boards of both SEPT and NEP are fully committed to ensuring that Essex residents with mental health and social care and substance misuse difficulties receive the best, most appropriate, evidence-based care and treatment as close to their homes and in as timely a manner as possible. We are not prepared voluntarily to undertake any strategic course that risks prejudicing or downgrading their care and treatment.

NEP: NEP's core purpose is to work in partnership to *enable people to be at their best in mind and body*. Its recently-published Strategy lays out its aims as:

- NEP will be recognised as a leading provider of specialist mental health care;
- NEP will be a system leader and a partner in the development and delivery of integrated community services;
- NEP will continue to improve patient experience;
- NEP will continue to improve patient outcomes.

The Strategy states that 'The Trust will need to consider strategic partnerships which best place it to win contracts, according to customer requirements. Most recently, an example of this in practice is that the Trust and SEPT are working much closer together, with joint bids for CAMHS and substance misuse under development, with each party taking it in turn to be the lead. Supporting this approach is an agreement to create an overarching governance process, allowing both Trusts to align resources to bid for strategic services within Essex'.

NEP's primary strengths and weakness are:





SEPT: SEPT's core purpose is to *provide services that are in tune with you*. Its recent Strategy commits it to be:

- Positive
- Welcoming
- Respectful
- Involving
- Kind
- Accountable

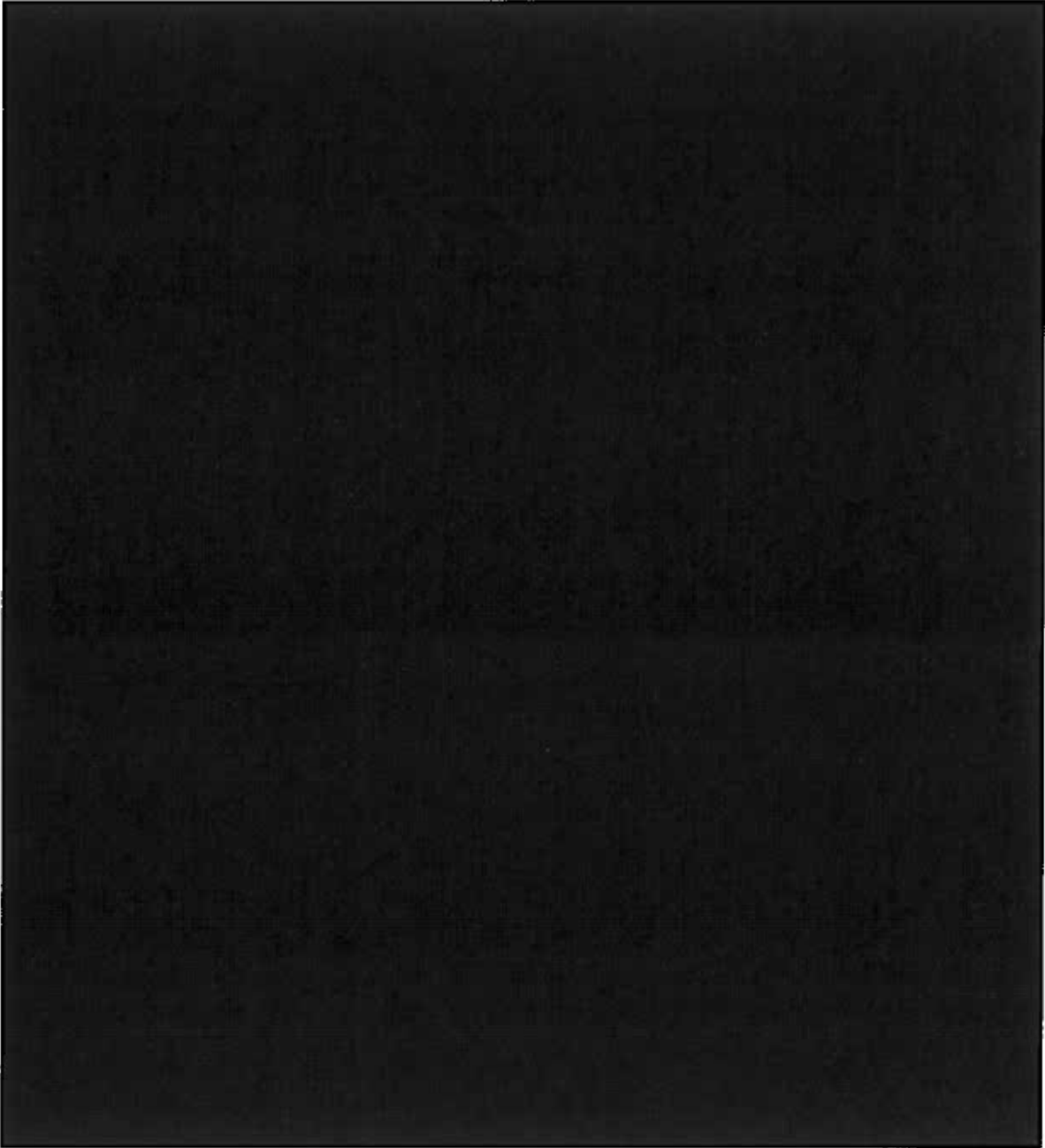
SEPT's strategic priorities are:

1. **Quality services:** safe care; good patient experience of care; effective and outcome-focussed care; well-organised care.
2. **Quality leadership and workforce:** right staff, right skills, right place; culture of transparency and openness.
3. **Sustainability of service provision:** financially sound; clear strategy for securing success.
4. **Innovative and transformational approach to efficiency and effectiveness:** CIP; 10 transformational programmes.

The Strategy states that 'SEPT's 10 year horizon scan has confirmed that beyond 5 years, the risk to sustainability increases significantly. SEPT's strategy therefore confirms that opportunities for growth will have to be pursued in order to minimise the longer term risk to sustainability. SEPT believe they

are well placed to deliver required innovation, pathway redesign and partnerships to secure a sustainable future. However, if the benefits for patients or staff and the health economy require a merger or significant transaction (e.g. acquisition) then the Board remains open to this structural change. However, SEPT's 10 year forecast shows that without any growth in income the Trust would need to merge by 2018/19'.

SEPT's primary strengths and weakness are:



Strategic options analysis

NEP and SEPT bid jointly (under the Essex Health Partners banner) to provide:

- 2014 Specialist substance misuse services across Essex (excluding Thurrock and Southend) as Essex STaRS. Successful bid, service started on 01.04.2015 on a 5-year contract;
- 2014/2015 Children and Young People's Emotional Wellbeing and Mental Health service (EWMHS) across the whole of Essex. Unsuccessful bid in partnership with Barnardo's.

The strategic thinking behind these joint bids began during the Trusts' joint work in the west Essex system over Frailty; that project showed the potential value of synergies between the Trusts and demonstrated that there were shared values and common aims. Historically, the Trusts had seen each other as rivals both clinically and commercially, but changes in both the senior management of the organisations and the market environment in which we operate brought a recognition that there was more to gain from collaboration, given the lack of service-delivery overlap between south and north Essex services.

Messages coming from commissioners about the future for specialist services being Essex-wide – and the possibility of core mental health services being tendered soon - point to a need for a joint approach that bolstered both Trusts' sustainability in the face of competition from FTs on the borders of Essex. Joint bidding through Essex Health Partners minimises management overhead and maximises clinical potential in any given bid in which both Trusts have a stake. The actual and opportunity costs of bidding, although hidden, are considerable, and smaller organisations struggle to absorb the costs of both success and failure; the fact that the majority of local procurements are evaluated mainly on price exacerbates this.

The loss of the EWMHS contract to NELFT, a large integrated provider with a turnover three times larger than NEP and just under twice that of SEPT (Essex services only), called into question the size of the Trusts and their capacity to absorb the cost and complexity of developing successful bids independently. Essex Health Partners' Strategic Alliance Working Group understood the sustainability implications of the loss, and moved swiftly to a headline-level consideration of the options, benefits and mechanisms of new organisational forms including merger.

A "Future Forms" options paper was requested and presented to, and approved by, both Trust Boards in July 2015. This forms the basis of this joint Strategic Options Case.

Options

Options considered by the Trusts' Boards were:

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

These options are considered to cover the widest-possible range of feasible possibilities available to both organisations to secure a sustainable mental health care service for the residents of Essex.

- **Option 1 Maintain SEPT and NEP as sustainable organisations in their current forms**

Essentially the 'do minimum' option, which would retain two legal entities as the core providers of mental health services in Essex.

Both organisations have identified sustainability pressures, and therefore a range of actions would be required to make Option 1 sustainable. This could include the retention of staff by both organisations who would then work as part as an integrated care pathway with virtual ICOs or ACOs. Additional growth income would be necessary for both NEP and SEPT to mitigate losses from any competition and to meet future costs efficiency targets.

This would require a selection of the following to occur:

- Mental health clusters 1 - 4: CCG plans (for NEP and potentially for SEPT) would need to accept that activity will fall less than is currently planned to retain sufficient income in existing organisations;
 - Integration: CCGs would need to be convinced that NEP and SEPT staff are re-organised to ensure integrated pathways across the system within virtual ICOs but remain employed by the Trusts;
 - Growth: both NEP and SEPT would need to attain growth from new markets with sufficient margin to mitigate losses from loss of business and to meet future cost efficiency demands.
- **Option 2 SEPT and NEP work more closely together, sharing back-office and some corporate functions**

Under this option the current informal partnership arrangements between SEPT and NEP would be developed to enable us to share a number of corporate and management functions across both legal entities. This would include:

- Estates
- Payroll
- HR – for transactional processes only
- Communications
- Occupational health
- Aspects of commercial and strategy functions
- IT
- Finance - for transactional services only.

Under this option there could be agreements between the two organisations regarding out of area cover for medical staff, improved utilisation of some estate and improved used of inpatient facilities.

- **Option 3 Full merger to create specialist mental health-only Trust**

NEP and SEPT would merge as a specialist mental health-only Trust, allowing individual CCGs to develop their own integrated services according to their individual plans. The plan would be to:

- Allow ICOs to develop according to CCG plans and transfer some community mental health staff to them, but retain appropriate specialist community mental health services;
- Divest the Trusts of existing general community services;
- Provide inpatient and very specialist mental health community services only;

- Gain commissioners' commitment to this option and agree a financial plan for the new organisation as a specialist provider;
- Allow our current organisations fully to support CCG current plans;
- Agree with the local health economy more widely exactly which specialist community mental health services transfer to ICOs: prime possibility is dementia / frailty.

▪ **Option 4 Full merger to create a new Foundation Trust to provide specialist mental health and community services**

Similar to the above option, this would have a conscious strategic decision to retain existing general community services provision, and play into the emerging integrated service agenda. The merged new organisation would be formulated to have:

- A specialist mental health division;
- A community services division.

The specialist mental health division would retain some community mental health services as in option 3 in order to maintain vertical integration.

▪ **Option 5 Other merger options wider than between SEPT and NEP**

Under this option both Boards have considered the potential to consider other merger options that may be available for either SEPT or NEP. This might include a further third party to create a larger merged organisation. Some of permutations could include the following options:

- SEPT with NELFT;
- NEP with Norfolk & Suffolk Foundation Trust (NSFT), Hertfordshire Partnership; Foundation Trust (HPFT) or Cambridge & Peterborough Foundation Trust (C&PFT);
- SEPT with NELFT and NEP;
- Any combination of the above.

▪ **Option 6 Creative use of SEPT and / or NEP Foundation Trust 'shells'**

This option is about the using the Foundation Trust structures of our organisations in a different way to fit commissioners' existing plans. An example of this relates to West Essex where there is no natural organisation willing to run the West Essex ICO, and no organisational form agreed for that emerging ICO.

Under this option, the plan could be to:

- Merge NEP's and SEPT's remaining mental health services into a specialist Trust as per option 3;
- Offer to use the remaining Foundation Trust shell structure to run West Essex ICO and strategically move into more ICO business as it develops.

- **Option 7 Allow mental health specialist services to become part of existing acute Trust structures and / or developing ICOs**

This option involves a conscious decision to wind up the existing Trusts in a managed way and transfer all staff and assets to new ICOs and / or acute Trusts, essentially giving up on the notion of a specialist mental health Trust in Essex.

Evaluation criteria

The options were considered against a range of criteria:

- Benefits for Essex Patients and Carers;
- Ability to meet the future needs of the people of Essex;
- Achieving sustainability (service delivery and licence conditions);
- Fit with national direction and commissioning intentions;
- Achievability with Regulator Guidance;
- Deliverable within two years;
- Financial Benefit.

The selection criteria were developed following a mapping exercise against the key headline benefits developed at an early stage in the process. The criteria were ranked and weighted by a project team comprising of officers from both organisations. The mapping of key benefits to selection criteria together with the weighted criteria scores are detailed in Appendix 1.

Raw Scores for each option (0-9)

	Options	Weighting	Option 1: Do Minimum	Option 2: SEPT NEP Collaboration	Option 3: Merger MH only	Option 4: Merger MH & Community	Options 5: Wider Merger	Option 6: NEP/SEPT Shells	Option 7: Into ICOs
1.	Benefits for Essex Patients and Carers	17	5	7	8	9	5	3	4
2.	Ability to meet the future needs of the people of Essex	16	4	5	7	8	5	3	5
3.	Achieving sustainability (service delivery and licence conditions)	15	3	3	6	8	8	5	8
4.	Fit with national direction and commissioning intentions	15	2	6	6	7	6	4	7
5.	Achievability with Regulator Guidance	14	8	6	6	7	6	2	4
6.	Deliverable within two years	13	3	9	7	9	2	2	3
7.	Financial Benefit	10	0	2	3	8	8	4	5

100

The weighting was then applied to the raw scores as detailed in the table below.

Weighted Scores for each option

	Options	Weighting	Option 1: Do Minimum	Option 2: SEPT NEP Collaboration	Option 3: Merger MH only	Option 4: Merger MH & Community	Options 5: Wider Merger	Option 6: NEP/SEPT Shells	Option 7: Into ICOs
1.	Benefits for Essex Patients and Carers	17	85	119	136	153	85	51	68
2.	Ability to meet the future needs of the people of Essex	16	64	80	112	128	80	48	80
3.	Achieving sustainability (service delivery and licence conditions)	15	45	45	90	120	120	75	120
4.	Fit with national direction and commissioning intentions	15	30	90	90	105	90	60	105
5.	Achievability with Regulator	14	112	84	84	98	84	28	56
6.	Deliverable within two years	13	39	117	91	117	26	26	39
7.	Financial Benefit	10	0	20	30	80	80	40	50
	Total	100	375	555	633	801	565	328	518
	Ranking		6	4	2	1	3	7	5

Options Appraisal

Option 1: Do Minimum This option provided benefits for patients and carers but is more limited on meeting future needs of the people of Essex. The Do Minimum option relies on changes to commissioning to be deliverable and with the current commissioning pressures is unlikely to deliver in the time period as it requires changes to commissioning intentions and places a pressure on compulsory budgets.

Option 2: NEP/SEPT Collaboration The appraisal recognised that without a full merger there would be limits on what could be achieved within HR, finance, communications and particularly commercial & strategy departments. A non-competition agreement would be needed that could fall foul of competition law. The financial benefits, therefore, would be less than full merger resulting in impacts on sustainability in the medium term.

Option 3: MH Merger only This option had high perceived benefits for patients and carers due to potential synergies and service redesign opportunities across mental health services. Under this option community services transfer so the benefits may be delayed for these services. However, as the new specialist new mental health provider would have to gain contracts outside of Essex to remain sustainable in the medium term, sustainability and the financial benefits would be restricted.

Option 4: Full Merger to create a new FT to provide specialist MH and Community services This option scores the highest benefits for patients and carers and continues to focus on the needs of Essex residents. The option is considered to be deliverable within a timeframe of two years and meets commissioning intentions and direction. As the organisation includes community services further synergies and efficiencies are potentially achievable and this structure may facilitate difference approaches for community/acute integration. This option provides the opportunity for integration and flexibility to respond to the Essex Commissioners requirements and the future Essex Success Regime.

Option 5: Wider Merger This option includes a third provider. Whilst there are a number of financial and sustainability advantages, this option was felt to weaken the focus for Essex residents and would take longer to implement. Any new organisation arising under option 5 would have a geographical base much wider than Essex for mental health services and some of the potential

economies would be lost by the need to provide an Essex focus to inpatient and community provision.

Whilst SEPT and NEP now have bid collaboratively for new tenders, any other merger option is likely to limit the level of competition that is available to commissioners. As the impact of competition is less clear, this would also delay any potential merger option.

We would need to consider the underlying benign or hostile nature of any potential “merger”, along with the achievability in terms of commissioner support, and issues of competition.

Option 6: Utilising NEP/SEPT shells This option had a number of technical and deliverability limitations that would take time to resolve. Benefits for patients and carers were also difficult to identify.

Option 7: Merge services into ICOs/ACOs This option would provide benefits for patients and carers and opportunities for sustainability but it was felt that there was a risk of disinvestment in mental health services due to acute pressures on resources. There were also timing issues as this change is more complex due to the transfer of services to multiple ICOs/ACOs and would create uncertainty and potential instability in the short term. .

It is possible that mental health services would become an integrated part of wider CCG plans and inpatient beds would become part of the acute hospitals. It could be argued that because care would be integrated, stigma would be avoided and people would stand a better chance of receiving seamless care.

However, a more likely outcome would be that specialist expertise would become diluted and mental health investment and planning would become more marginalised, becoming once more the ‘Cinderella’ service, without a specialist organisational voice, as pressures in acute services impacted on investment decisions in the ICO.

Preferred option

Based on the scoring of benefits the preferred option is:

- **Option 4 Full merger to create a new Foundation Trust to provide specialist mental health and community services**

Preferred option’s fit with strategy

Joint working has had no downsides for the Trusts, their patients or their commissioners. Both Trust Boards see merger as the next logical step, building on the Trusts’ success and experience over the past few years to respond dynamically and pro-actively to external change and an increasingly challenging financial climate. Both Boards see it as vital that, as successful FTs, we are able to do what is right for our patients and our staff: at present, that is to merge as equals and make a new resilient organisation that can leverage its size, its clinical expertise and its range of service provision to deliver advantages to patient, staff, communities and commissioners.

Both Trusts’ recent strategies envisage new organisational forms and partnerships as the way forward to maintain competitiveness and sustainability. The Essex Health Partners experience has functioned as a ‘proof of concept’ for merger, demonstrating that while organisational cultures, historical practice and managerial processes differ, the sum of our parts can exceed our individual capacities.

Neither Board underestimates the challenges of merging organisations, but equally they both recognise that the other options may result in far greater and possibly insurmountable challenges which would impact on the provision of frontline services.

Preferred option's fit with dynamics of local health economy

Trusts' preferred options fit with the dynamics of the local health economy is dependant therefore on the way mental health commissioning arrangements change and mature in the near future.

Precedent in other areas the approximate size of Essex suggests that having a single larger specialist mental health / community Foundation Trust relating to one or two CCGs is a successful arrangement that conduces to collaborative and mature relationships founded on an assurance of a degree of stability and sustainability balanced by responsiveness and a capacity for innovation.

There is a perceived advantage of operating as a single integrated provider especially as the Strategic Mental Health Services Review and Essex Success Regime are focusing on county-wide solutions. The new organisation will have the benefit of delivering change and transformation and is well positioned to take county-wide strategic decisions.

Financial impact of preferred option

The key financial and workforce information for both Foundation Trusts is shown in the Table below:

Forecast 2015/16 YE	SEPT £m	NEP £m	Commentary
Income	248.8	106.7	
Surplus / Deficit	1.0	11.7*	*Includes £14.5m profit on sale
Underlying Surplus/(Deficit)	(0.8)	(2.7)	
Corporate / Support Costs (*1)	23.5	9.9	
Reserves	0	0	
Forecast Cash Position	32.8	7.0	
No's of staff (*2)	WTE	WTE	
Medical & Dental	132.5	135.8	
Nursing, Midwifery & Health Visitors	2457.3	712.2	
Admin & Estates	1239.3	812.6	
Scientific, therapeutic & technical	587.9	222.7	
Bank & Agency	127.6	167.5*	*Bank estimate only
Social Care	0	88.4	
Non Current Assets (*3)	£m	£m	
Property Plant & Equipment	111.0	73.2	
Intangible Assets	2.5	6.2	
Investment Property	10.4	0	

***Notes:**

1. Includes Board & Corporate Departments
2. Post know transfers e.g post CAMHs
3. From Annual Accounts (14/15)

Initial estimates based on a steady-state contracting situation for all services not currently out to tender show the potential for savings to be released to ensure the long-term sustainability and further development of mental health services. The potential sources of these savings will be:

- Establishing one Board instead of two;
- Streamlined FT governance processes;
- Estate rationalisation;
- Back office staff rationalisation in HR / workforce development, estates, finance, procurement, quality / risk management, organisational development and strategy / service development teams;
- Streamlined contracts / procurement processes;
- Streamlined professional and legal advisory processes;
- Increased capacity for health promotion / preventative / early intervention services;
- Simplification of publications, IT systems, policies etc.

The capacity of the merger to deliver the benefits listed below would depend on a substantial proportion of this saving being re-invested into the new Trust's services rather than claimed by commissioners for non-mental health purposes.

Impact of proposed option on patients, Trusts and local health economy

Impact on patients: The full range of clinical implications will be considered as part of the Outline Business Case, but a number of key benefits have already clearly emerged as part of the year-long discussions. These include:

- Improved flexibilities, for instance in offering single sex accommodation / women-only services, improving patient experience;
- More effective out-of-hours cover arrangements (including 7-day working in community teams) through scale, improving patient outcomes;
- Opportunities to maximise clinical leadership through different structures;
- A wider overall skill-mix enabling an overall upskilling of the workforce;
- More effective integrated pathways in secure services and other specialist services;
- Protection and further development of pan-Essex highly-specialist services;
- Development of technology-based services such as an online clinical resource;
- Opportunity to use specialist expertise, for instance in dementia care, as an enhanced County resource across all sectors;
- Greater scope for flexible working and eliminating post code anomalies;
- Assurance of stability of service delivery;
- A stronger advocacy voice for Parity of Esteem for people with severe mental health problems.

Process impact on the two Trusts: A merger will have significant legal and regulatory impact. It will include sign-off by Monitor, and possibly the CMA, as well as by Governors of both Trusts. It will also need the support of local stakeholders.

The business case development and implementation plan will require some detailed HR and organisational development planning. This will include staffing for new models of care in new structures in an appropriate timeframe. The new entity will then need to enter a significant period of organisational change, during which the two cultures are merged and a new corporate identity forged.

The latter stages of the path to merger will incur costs for legal and competition advice and independent due diligence. As no mental health Trust has gone through this process yet it is unclear what the costs will be precisely, although all efforts will be made to mitigate these.

Any merger finally agreed will be expected to deliver significant savings in the medium- and long-term.

Operational impact on the two Trusts: The operational improvements and efficiencies brought about by merger would include:

- Easier recruitment of high-calibre staff;
- Rationalised use of estate and capital;
- Removal of competition between ourselves when outside environment is hostile;
- Protection of commissioner-requested services;
- Single provider, single set of negotiations, KPIs and standards, streamlined contracting with better contracting support;
- Potential to increase charitable income and take innovation opportunities;
- Enhanced ability to develop new service offerings;
- Opportunity to reset relationships with commissioners.

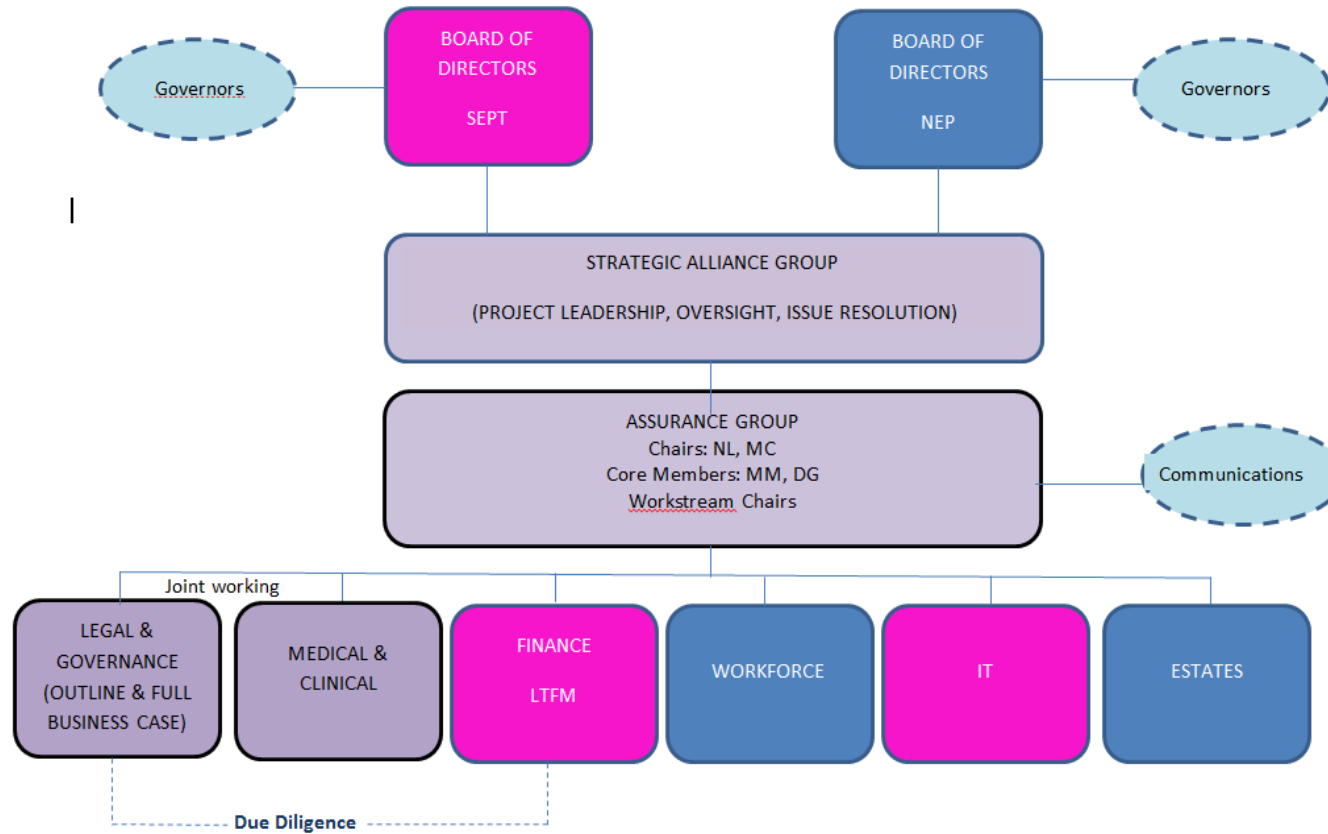
The local health economy: The whole local health economy would benefit from the sustainability and consequent stability of specialist mental health service provision. Merger and consequent increased critical mass would

- Release cash for reinvestment into a challenged system;
- Avoid atomisation of services and confer stability;
- Allow consistent integration with social care as service would cover whole ECC area;
- Create a stronger platform for system integration;
- Reduce out-of-area referrals;
- Improve access to therapies and other services;
- Maintain a strong mental health voice in local decision-making;
- Create a pan-Essex specialist resource to advise on, for example, dementia care;
- Facilitate shared best practice across Essex.

Proposed governance structure

The Trusts have considered how the merger might be implemented internally, and have designed a possible high-level governance structure to manage the process, including involving stakeholders and satisfying the requirements of Foundation Trust status. The diagram below shows how this would be managed.

DRAFT STRUCTURE FOR THE MANAGEMENT OF THE PROPOSED MERGER SEPT/NEP 2015/16



Appendix 1

The 10 key headline benefits were examined in detail to determine a range of criteria that would be used to appraise each option.

Mapping of Potential Benefits to Criteria (Page 1)

No	Potential Key Benefit	Criterion
1.	Improved flexibility for service user and carers e.g. Single sex accommodation, improved patient experience	Benefits for Essex patients and Carers, Achieving sustainability (service delivery and licence conditions), Achievability with Regulator, Fit with national direction and commissioning intentions
2.	More Effective Out of Hours Cover (Including potential 7 day working)	Benefits for Essex Patients and Carers, Ability to meet the future needs of the people of Essex, Fit with national direction and commissioning intentions
3	Integrated pathways in secure and specialist services	Ability to meet future needs of the people of Essex, Fit with national direction and commissioning intentions
4.	Stronger advocacy for parity of Esteem in Essex	Benefits for Essex patients and Carers, Fit with national direction and commissioning intentions
5.	Easier Recruitment of High Calibre Staff	Achieving Sustainability, Achievability with Regulator
6.	Effective use of Estate and capital	Financial Benefit, Achieving sustainability (service delivery and licence conditions), Ability to meet the future needs of the people of Essex,
7.	Releasing cash for reinvestment programmes	Benefits for Essex Patients and Carers Financial Benefit, Achievability with Regulator, Ability to meet the future needs of the people of Essex,
8.	Avoiding atomisation of services and conferring stability	Achievability with Regulator, Deliverable within two years
9.	Consistent integration with social care as services cover the whole Essex County Council area	Fit with national direction and commissioning intentions
10.	Stronger platform for system and corporate integration	Fit with national direction and commissioning intentions, Ability to meet the future needs of the people of Essex, Achieving sustainability (service delivery and licence conditions), Financial Benefit, Achievability with Regulator,

Once identified, each criterion was ranked and then a pairing process was used to determine their relative importance. The result of this work is outlined in the table below.

Weighting Pairing Matrix

No	Criteria	Ranking	Pairing 1	Pairing 2	Pairing 3	Pairing 4	Pairing 5	Pairing 6	Total	Weighting
1	Benefits for Essex Patients and Carers	1	100						100	17
2	Ability to meet the future needs of the people of Essex	2	95	100					95	16
3	Achieving sustainability (service delivery and licence conditions)	3		95	100				90	15
4	Fit with national direction and commissioning intentions	4			98	100			86	15
5	Achievability with Regulator	5				95	100		81	14
6	Deliverable within two years	6					90	100	73	13
7	Financial Benefit	7						80	59	10
	Total								584	100

Appendix 2

					2015						2016																
					June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	September	October	November	December				
Monitor stage	Trust Boards action	Submission	Mandated duration	Outside events																							
1: strategic options case	Consider merger process																										
				Commissioners' m h strategy development starts																							
	Refine outline strategic options paper	To August EHP Board																									
	Develop project plan for process	To August EHP Board																									
	Develop detailed SOC	To September EHP Board																									
	Engagement with Monitor																										
		Share SOC with Monitor	2 - 3 weeks																								
			Commissioners' m h strategy published																								
	Monitor feedback																										
2: outline business case	Develop OBC including LTFM	To November EHP Board																									
	Dialogue with commissioners																										
	Dialogue with other stakeholders																										
		OBC / LTFM to Monitor																									
			4 - 6 weeks	Monitor review of OBC / LTFM																							
		Board-to-Board with Monitor		Board-to-Board re OBC / LTFM																							
	Monitor feedback																										
3: full business case	Develop FBC	To February EHP Board																									
	Ratify decision to merge																										
	Formally notify Monitor	Share FBC with Monitor																									
			At least 3 months	Monitor review of FBC																							
	Formally notify staff and stakeholders																										
	Board-to-Board with Monitor			Board-to-Board re FBC																							
			Monitor issue transaction risk rating																								
4: agreement, completion	Formal application to merge	Application to Monitor	Monitor formal approval																								
	Merger process starts																										
	Formal merger																										
	Merger process																										



