



# **PETERBOROUGH AND STAMFORD HOSPITALS NHS FOUNDATION TRUST AND HINCHINGBROOKE HEALTH CARE NHS TRUST**

Assurance of the merger transaction full  
business case and due diligence –  
summary of findings

22 September 2016

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# EXECUTIVE SUMMARY

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The boards of Peterborough and Stamford Hospitals NHS Foundation Trust (PSHFT) and Hinchingsbrooke Health Care NHS Trust (HHCT) have asked for PA's review of their collaboration full business case (FBC) and due diligence processes. For the due diligence review we were asked to look at the process followed by the trusts through their Transition Programme Board and to comment on the comprehensiveness of the approach. We were not asked to look at the specific outputs of due diligence work.

We have assured the FBC approach against two official standards:

- HM Treasury's Five Case Model – based on the Green Book and associated business case guidance<sup>1</sup>
- Monitor's guidance: *Supporting NHS providers: guidance on transactions for NHS foundation trusts*<sup>2</sup>

We have reviewed the due diligence process and scope against the indicative due diligence recommended in the Monitor guidance.

The collaboration programme team has been working to tight timescales to develop the FBC and complete due diligence. This review is against version 2.0 of the FBC, dated 16 September 2016. We have summarised our priority recommendations below with the detailed findings in section 4 of this document.

Summary of priority recommendations:

- Review the risk register and ensure that risks are fully quantified, with risk owners identified and clear mitigation actions set out that are incorporated into the plan.
- Revisit the options appraisal. The long list needs to be clear why potential solutions are not taken forward, this should include the reason for collaboration and why the two trusts are working with each other and not other parties. The appraisal of the short listed options should be revisited to ensure that it is still valid.
- Review the benefits to ensure that all benefits are captured, the beneficiaries identified, the type of benefit identified (whether it is cash-releasing, financial but non cash-releasing, quantitative (non-financial) or qualitative) and any financial benefits quantified.
- Review the estimated costs and benefits of the programme in the financial case; ensure they include inflation and VAT (if relevant).
- Include a summary plan for the whole programme in the FBC, covering both the transaction and other change activities that demonstrates that the trusts are ready for day one of the merger.
- Explore what contingency arrangements should be made if a transaction cannot be completed by 1 April 2017.

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<sup>1</sup> <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

<sup>2</sup> <https://www.gov.uk/government/publications/supporting-nhs-providers-considering-transactions-and-mergers>

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# 1 INTRODUCTION

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This document provides PA's findings in relation to assurance of the merger-transaction programme FBC for PSHFT and HHCT.

We have assured the FBC against two well established standards:

- HM Treasury's Five Case Model – based on the Green Book and associated business case guidance<sup>3</sup>
- Monitor's guidance: *Supporting NHS providers: guidance on transactions for NHS foundation trusts*<sup>4</sup>

We have also reviewed the due diligence process and scope against the indicative due diligence recommendations in Monitor's guidance.

The collaboration programme team has been working to tight timescales to develop the FBC and complete due diligence. This review is against version 2.0 of the FBC, dated 16 September 2016. We have set out our summary recommendations below with the detailed findings in section 4 of this document.

As the FBC has been in development during the assurance period, the assurance process has been iterative, with PA feeding in suggestions and recommendations during the drafting period.

The remainder of this document sets out:

- A summary of our findings with the outstanding recommendations
- The methodology followed
- The detailed quality assurance assessment against the guidance

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<sup>3</sup> <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

<sup>4</sup> <https://www.gov.uk/government/publications/supporting-nhs-providers-considering-transactions-and-mergers>

## 2 SUMMARY OF FINDINGS

We have carried out the assurance process in two phases, giving the project team the opportunity to incorporate comments before the final assurance. However, timescales have been particularly tight and there are some areas of the document that have not been revised between versions.

There is nothing that currently suggests that the outstanding recommendations will affect the decision being made.

We have summarised our outstanding recommendations below, with references to the specific QA tests which are presented in full detail in section 4.

Our recommendations for the FBC are summarised in two groups:

- 'Must do' recommendations
- 'Should do' recommendations

### 2.1 FBC 'must do' recommendations

The following are material aspects that the trusts should prioritise in order to respond to the QA findings referenced before signing off the final version of the FBC.

Ref	Recommendation	QA reference(s) <sup>5</sup>
R-01	<p><b>Review the risk register</b> to ensure that risks are fully quantified, with risk owners identified and clear mitigation actions set out that are incorporated into the plan.</p> <p>An estimate of the financial impact of the risks should be included in the forecast for the transaction. Explain risk rating (eg is it severity x likelihood; and is the rating pre- or post-mitigation?)</p> <p>The current sensitivity analysis does some of this, but it covers elements that are not specific to the transaction/programme and it is not clear what risk has been allowed for in the cost forecasts.</p>	A-08, A-16, A-21, A-22, A-23, A-37, A-45, B-05, B-20, B-21
R-02	<p><b>Revisit the options appraisal.</b></p> <p>The long list needs to be clear why potential solutions are not taken forwards, this should include the reason for collaboration and why the two trusts are working with each other and not other parties.</p> <p>The appraisal of the short listed options should be revisited to ensure that it is still valid. The output should also demonstrate the costs, benefits, risks and net present value (NPV) of all short listed options.</p> <p>The selection of the preferred option should be tested through sensitivity analysis, and the impact on different groups (distributional analysis) assessed.</p>	A-12, A-13, A-15, A-17, A-20, A-23, A-24, B-13, B-15, B-16, B-17
R-03	<p><b>Review the benefits</b> to ensure that all benefits are captured, the beneficiaries identified, the type of benefit identified (whether it is cash-releasing, financial but non cash-releasing, quantitative (non-financial) or qualitative) and any financial benefits quantified as described in the benefits table and identify those benefits that accrue to parties other than the merged trust, eg the clinical benefits that accrue to patients.</p>	A-07, A-19, A-44, B-22

<sup>5</sup> References "A-n" refer to QA tests against the HM Treasury Five Case Model; "B-n" against the Monitor guidance

Ref	Recommendation	QA reference(s) <sup>5</sup>
	We recommend developing a benefits register to ensure this process is thorough and there should be a benefits realisation strategy and plan for realisation of the benefits.	
R-04	<b>Review the estimated costs and benefits</b> of the programme in the financial case; ensure they include inflation and VAT (if relevant). (It is not clear whether inflation and/or VAT have been factored in.) Show clearly how the estimated costs and benefits feed into the impact on the combined trust financial position (tables 52 and 54). Explain whether there is any impact on assets and liabilities through the merger.	A-32, A-33, A-36
R-05	Include a <b>summary plan</b> for the whole programme in the FBC, covering both the transaction and other change activities that demonstrate that the trusts are ready for day one of the merger. It should include monitoring arrangements for implementation and post implementation evaluation arrangements. The basis of estimates should be set out, including the basis of timing estimates for the transaction milestones and how input from managers has fed in to the Post Transaction Integration and Implementation Plan (PTIIP).	A-41, A-46, A-47, B-01, B-08, B-14, B-24
R-06	Explore what <b>contingency arrangements</b> should be made if a transaction cannot be completed by 1 April 2017. Review whether contingency arrangements are required for loss of personnel or any other risks (cf A-48)	A-48, B-09

## 2.2 FBC ‘should do’ recommendations

These recommendations suggest improvements in response to the QA findings referenced that would lead to a stronger FBC, but may not be material to the FBC decision.

Ref	Recommendation	QA reference(s)
R-07	Set out that clear programme governance arrangements are in place, including: <ul style="list-style-type: none"> <li>• What programme management approach is being used (eg MSP)</li> <li>• The programme governance structure and processes</li> <li>• The use of special advisors</li> </ul>	A-39, A-40, A-42, B-18, B-19, B-23
R-08	Set out how clinical sustainability will be measured.	A-03
R-09	Provide a summary of the potential areas of scope	A-06
R-10	Set out the dependencies and constraints for the programme	A-09, A-22
R-11	There is statement to the effect that the CMA doesn’t intend looking further at the potential merger. A positive impact on sustainability is alluded to, but does not seem to have been fully assessed. Include a more definitive statement and/or quote legal advice on this. Describe regulatory implications (CQC/NHSI/NHSE steps/requirements once intention to merge agreed)	A-18
R-12	Provide more information on the <b>technical aspects of the transaction</b> : <ul style="list-style-type: none"> <li>• Review whether there are further contractual processes and terms that could be detailed in the business case</li> <li>• Describe what the impact will be on assets and liabilities; identify what will transfer and whether the detailed analysis has been completed, or when it will be</li> </ul>	A-25, A-29, A-31, B-12
R-13	Explore the development of a commercial/procurement strategy for the new merged trust	A-25
R-14	Set out a clear plan for operational management	A-43

Ref	Recommendation	QA reference(s)
R-15	Provide a log of assumptions that sit behind the cost and benefit estimates. Ensure this distinguishes between assumptions for the transaction/programme, and those that also affect baseline forecasts.	B-03
R-16	Include a summary of the findings of the culture review in the business case	B-06
R-17	Ensure that the financial case is clear about whether financing is required to fund the programme and explains how the outstanding deficit will be managed. Ensure that the financial case demonstrates how funding for the transaction is going to be secured.	B-11, B-29, A-35

## 2.3 Key messages on the due diligence process

The process followed by the trusts:

- Follows good risk management principles
- Has been fully comprehensive in ensuring that each due diligence item is being owned and obtained/developed by a workstream lead
- Has sought to reduce risk to the trusts by appointing expert advisors to undertake specialist reviews

In addition, the involvement and contribution of NHS Improvement through the Transition Programme Board throughout the development of the OBC, FBC and associated assurance processes will have ensured likely areas of difficulty were identified early on and mitigated.

Finally, the systematic review of clinical services (with the development of integration plans and the identification of the six priority clinical services), the systematic review of internal functions by executive directors of both trusts will have enabled informal as well as formal understanding and due diligence to take place. This will have further enhanced the understanding of risks and likelihood of omissions of due diligence.

## 2.4 Key messages on the due diligence scope

Our detailed due diligence analysis is set out in section 4.3.

Key messages:

- The trusts' due diligence process comprehensively covers all of the Monitor line items
- If all external and internal due diligence work is delivered on time and with the specified content, there should be no items outstanding that are likely to be material to the FBC decision
- However, 57 items (19%) identified as to be delivered by external work are not explicitly or not fully covered by the specification for that work and will need to be verified as present in the final external due diligence deliverables
- In addition, there are 73 further items (24%) of external and internal work that will need to be completed before the merger transaction can take place

Next steps:

In respect of the line items assessed in section 4.3.2, the trusts should take the following actions:

Ref	Recommendation
R-18	<b>Green:</b> these are items fully within the scope of external due diligence work due to deliver on time; or internal due diligence work that has already been delivered <ul style="list-style-type: none"> <li>• Continue to monitor progress on delivery of line items yet to complete</li> </ul>
R-19	<b>Yellow: for external due diligence reviews,</b> these are items that need to be checked are included in the final external due diligence deliverables <ul style="list-style-type: none"> <li>• Check with external due diligence providers that items are in scope and will be delivered on time</li> </ul>



Ref	Recommendation
R-20	<p><b>Yellow: for internal due diligence work</b>, this is work underway that has not yet completed but is unlikely to be material to the FBC decision</p> <ul style="list-style-type: none"> <li>• Ascertain whether trust boards will want to see these items before the FBC decision</li> <li>• Ensure that work is completed and line items obtained/produced, before the transaction at the latest</li> </ul>
R-21	<p><b>Amber:</b> work not yet started and unlikely to be material to the FBC decision</p> <ul style="list-style-type: none"> <li>• Ensure that work is completed and line items obtained/produced before the transaction at the latest</li> </ul>

## 3 METHODOLOGY

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In the full version of this document provided to the trusts, this section describes PA's quality assurance methodology

## 4 QUALITY ASSURANCE

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In the full version of this document provided to the trusts, this section provides the detailed review against the two standards following PA's methodology



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