

Organisational Architecture



Ensuring M&A, divestments, JVs, shared service and outsourcing deals deliver promised benefits in service quality and value for money. Lord Carter's pathology service reviews and Transforming Community Services policy requiring PCTs to divest provider functions are two of the various catalysts for organisational change.

Trends in the health and social care environment are starting to drive changes in the market structure of the NHS and wider local government.

- Vertical integration is seen by many as the route to creating the necessary incentives to drive activity out of hospitals and into local communities. Others are looking at Social Enterprises and other service delivery models (e.g. charities).
- New models of clinical services often require providers to work together to combine skills and capabilities.
- Existing structures often make it difficult to unlock value from assets and estates.
- The need to create critical mass often drives the argument to consolidate both commissioners and providers.
- The efficiency and quality agenda (QIPP) is driving more organisations to reconsider the configuration of back office and support services arrangements.
- Smaller organisations are increasingly being called upon to justify their continued independence.

Building on a strong organisational foundation

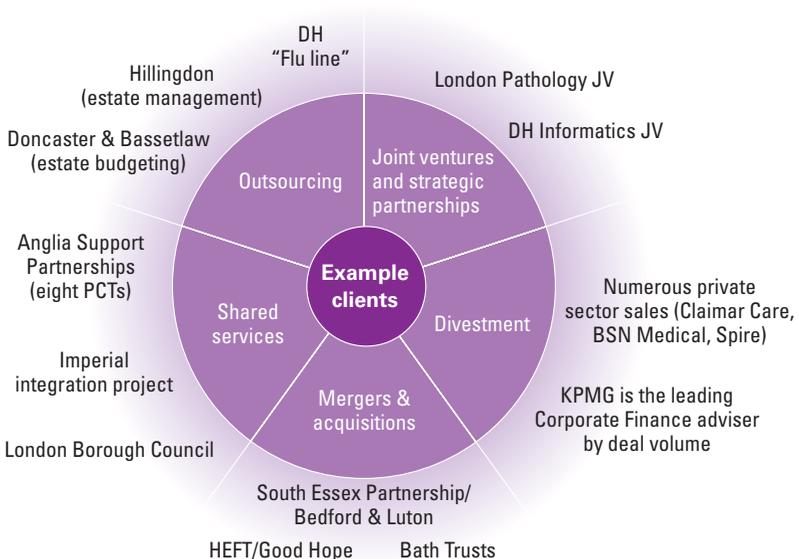
Achieving the right 'Organisational Architecture' throughout the health and social care system will involve the deployment of a number of tactics for both core and non-core services:

- Joint ventures.
- Shared service arrangements and outsourcing.
- Divestments.
- Mergers & Acquisitions.

The management challenge is to ensure that proposed changes to an organisation's architecture deliver both better quality services and also enhanced value for money. Successful execution of the transaction types listed above is seldom straightforward. While a clinical case for change may be clear, integration and separation complexities, cultural clashes, a lack of familiarity with technical areas (e.g. economics, accounting, tax and pensions) and confusion around the right process to follow often combine to make the delivery of changes difficult in practice. Unsurprisingly, many attempts to

change the architecture of health and social care systems end up failing to deliver value to patients and taxpayers. KPMG has a proven track record of producing efficiency savings in excess of 20 percent through helping public and private sector clients throughout the whole transaction cycle, from challenging the case for change to supporting with detailed implementation plans. Our corporate finance practice was named by Acquisitions Monthly as the Healthcare Advisor of the Year 2010.

In addition, we have worked with Monitor since 2003 and have a clear insight into the expectations of regulators. Our multidisciplinary healthcare teams combine corporate finance, strategy, clinical, operational and change management professionals with technical specialists in the fields of accounting, tax and pensions. We know what it takes to deliver success, and it is not surprising that KPMG is the only professional services firm to have advised successful bidders in the two substantial acquisitions that have been made so far by NHS Foundation Trusts.



“KPMG worked with us to think through the case for a merger and to review the clinical, operational and financial opportunities and risks associated with the potential project. Their support ensured we undertook a robust process of due diligence to support our Trust Board decisions around the proposed transaction.”

Brigid Musselwhite, Deputy Chief Executive, RUH Bath

Credentials

Mergers & Acquisitions:

South Essex Partnership University NHS Foundation Trust (SEPT)

Following SEPT being appointed as preferred bidder for Bedfordshire and Luton Mental Health and Social Care Partnership NHS Trust (“BLPT”), KPMG was appointed as reporting accountants to the transaction. Our team worked with SEPT management to understand and challenge the assumptions underlying the financial model and the integration plan. SEPT took over the services and assets formerly run by BLPT on 1 April 2010.

Transforming Community Services:

As at October 2010, we have been appointed to undertake the financial and clinical due diligence for three London Trusts in relation to the proposed acquisition of their local provider arm. In addition to this we have both completed and many ongoing assignments across the country.

This included developing the Integrated Business Plan and Financial Due Diligence for the largest NHS Social Enterprise created to date in the Yorkshire & Humber region.

We have significant experience of establishing governance vehicles in a wide range of organisational forms that are commercially fit for purpose and tax efficient.

Pathology:

We are already working with a network of hospitals on the South Coast to support their options analysis and redesign the optimum structure of their pathology network.

Importantly, given its ground-breaking nature in terms of scale and complexity the learnings and achievements to date put us on the front-foot for other pathology assignments.

Commercial Strategy:

We have recently assisted a major London FT to review its commercial income generation strategy and develop business cases to drive forward new and diverse income streams. This has helped to identify partnering opportunities that incentivise private and international investment.

Commercial Income Generation:

A Major London NHS Foundation Trust

KPMG were appointed to provide support to help design a commercial governance vehicle to help the FT grow its commercial income generation, manage risk and develop a corporate governance best practice model. The structure was subsequently developed further to incorporate several operating companies to help the FT focus on growing diverse income streams for activities which are non-core healthcare. This included the transfer of over 500 staff to a £35m joint venture vehicle, partnered with a large facilities management service provider.

Private Patient Units:

We have assisted a number of NHS Foundation Trusts to develop alternate governance and ownership models for their private patient activities. This has helped them to remain within the terms of their FT authorisation and allowed the business to operate on a fully arm’s length basis.

“Our teams will start by ensuring proposed changes to an organisation’s architecture entail processes that are proportionate to the challenge. Thereafter we will engage with your managers and clinicians, and draw on our experience of modern domestic and international corporate structures, to ensure that your transactions complete successfully and deliver the value promised to your patients and population.”

Alastair Groom, KPMG Partner

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“...KPMG has provided the Trust with innovative, corporate group structure solutions to enhance the value derived from income generation opportunities whilst at the same time effectively managing risk...”

Simon Taylor, Chief Financial Officer, Kings College Hospitals NHS Foundation Trust

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