



**The 'perfect storm'**

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**Collinson Grant  
Healthcare**

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# Change is coming

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- The Lord's Darzi and Carter Reviews
- Modernising Scientific Careers
- Predatory Foundation Trusts and World Class Commissioning
- Point of Care Community testing
- Long-term management of disease
- 'Rate of increase' in funding decreasing in secondary sector
- New technologies and ways of working

# Lord Carter's independent review into NHS Pathology

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- Watch this space!

# Lord Carter's independent review into NHS Pathology (2)

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- Likely to discuss

- Quality
- Productivity
- Cost
- Variation
- Effective organisational forms
- New technology
- Workforce development and planning

- Better integration of information technology can support all the above

# Organisational forms for 'full-service' Pathology

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- Data and opinion suggests that organisational consolidation is desirable
- Improvements in quality and productivity should occur
- Costs and variation should reduce
- New technology will be introduced more easily
- Workforce development and planning will become straightforward

## Organisational forms for 'full-service' Pathology (2)

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- Single Acute Trust, with laboratories at multiple locations
- Single Acute Trust, consolidated at a single location
- A 'confederated' network of Acute Trusts
  - Confederations are about members making decisions that are not to the detriment of any of the participants. It is successful only when no member loses in the short-term
- A 'federated' network of Acute Trusts
  - Federations are about collaboration, co-operative ventures and managing operations, including change, to the mutual, long-term interest of those represented. In the short term, some members may be disadvantaged.

## Organisational forms for 'full-service' Pathology (3)

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- A 'managed' 'network', managed
  - by or on behalf of the Acute Trusts
  - by the Primary Care Trusts
  - by the Strategic Health Authority
  - by a commercial entrant
- Organisational forms embed costs (and variation) outside the laboratory

# Organisational forms for 'full-service' Pathology (4)

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- Examples include
  - Frimley Park and Royal Surrey Partnership Pathology Services
  - Pathlinks
  - Kent and Medway Pathology Network
  - Cumbria and Lancashire Primary Care Network
  - University College London Hospital and Sonic Healthcare
- All consolidated forms will require enabling IT systems

# Variation exists

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- Cost per test
- Productivity of the staff
- Use of capacity
- Staffing profiles
- Speed of turnaround
- Accreditation (or otherwise!)
- Method of procuring Community tests

(and in the price charged by Acute Trusts to Primary Care!)

## And variation leads to poor value for money

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- Efficiency is the optimisation of the use of resources to achieve agreed organisational outputs

## An example – Productivity of the staff

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- A simple measure of the productivity of the staff is the ratio between the time put in by the full-time equivalent staff and the tests done
- We have gathered data for each clinical family (basket) of tests at over 20 Acute Trusts
  - the National Pathology Benchmarking Service at Keele University has self-reported departmental data for over 90 Acute Trusts
- The productivity of the staff varies considerably. For example
  - one Trust does 50,000 biochemistry tests a year for each member of staff - another does just under 30,000
  - for Haematology the best productivity is over 40% better than the worst
  - for Histopathology the data show a 50% variation - Microbiology and Virology are at 43%

## So what?

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- Process variation is a significant cause of quality problems
- Variation implies inefficient use of resources
  - So should tariffs be set at average cost, or best practice?
- Robust processes (and procedures) can be audited and outcomes assured
- Data and information about inputs, activities, results and outcomes can inform and support clinical and managerial decisions
  - Information technology is a key enabler

## Enough about variation - who buys pathology?

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- One of the requirements of 'World Class Commissioning' is that Primary Care Trusts should be externally assessed against a number of organisational competences. These include
  - Competence 7: 'Effectively stimulate the market to meet demand and secure required clinical and health and wellbeing outcomes'
  - Competence 9: 'Secure procurement skills that ensure robust and viable contracts'
- These competences are concerned with how Primary Care manages the local healthcare market and its relationships with providing organisations. They must demonstrate that they can

*'Design and negotiate open and fair contracts that provide value for money and are enforceable, with agreed performance measures and intervention protocols'*

## And your point is?

- It is reasonable to assume that Primary Care Directors of Commissioning will soon start to examine whether they might obtain what some consider a 'commodity' service at less cost
  - Top 20 tests by volume requested by Primary Care account for 87% of all Primary Care demand (CGH client, 2008)
- They could seek lower prices and/or more services from the incumbent provider
- Or they could become 'rate tarts', commissioning services from the lowest-priced 'willing provider'
- 41.7% of biochemistry requests and 30.6% of haematology requests originate in Primary Care

(Getting results: Pathology services in Acute and Specialist Trusts, Healthcare Commission, 2007)

# How is Pathology purchased currently by Primary Care?

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- Block budget / grant
  - Lump sum, independent of population or number of units of activity
  
- Per head – capitation
  - Lump sum per head of the population
  
- Per period
  - Lump sum per defined care service and per patient list
  
- Per case – diagnostic procedure
  - Groups of cases using similar resources and procedures
  
- Fee for individual service
  - All activities and contacts identified and priced

# Who cares about Demand management?

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- Primary care, if it pays a 'fee for individual service' (Secondary care if it doesn't!)
- Secondary care, if excess demand occurs in the hospital
- Pathology managers, who are accountable for costs regardless of who pays
- Workforce planners, who must plan the workforce (obviously!)
- The patient, who is inconvenienced each time a sample is taken
- The taxpayer, who ends up paying for the activity

## So why wouldn't Primary Care simply buy tests at tariff?

<b>Speciality</b>	<b>DH 2008/09 indicative tariff (£)</b>
Biochemistry	1.42
Haematology	2.71
Microbiology / Virology	6.66
Cytology	11.26
Histology / Histopathology	20.69
Immunology	7.12
Phlebotomy	2.63
Neuropathology	1.28
Other	3.48

(BIVDA 2008)

## Or from the lowest cost provider?

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- The cost of a Biochemistry request varies from £4.67 to £8.45; a microbiology request from £7.26 to £13.71; and a histopathology request from £68.42 to £118.71

(Getting results: Pathology services in Acute and Specialist Trusts, Healthcare Commission, 2007)

- 'and between the pilots there is wide variation in terms of the average cost per test, which applies across all specialties and degrees of complexity'
- 'For example, the direct cost of a routine automated biochemistry test ranges from £0.84 to £3.95'
- 'The direct costs of the most complex histopathology cases range from £122 to £937'

(Lord Carter's speech to the IBMS congress, 2007 ([www.thecarterreview.com](http://www.thecarterreview.com)))

# What am I bid for an extra 50,000 Full Blood Counts?

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- The same price as you are currently paying for 100,000, stupid!
- A reduced price for the additional 50,000 units of activity
- A reduced price for all 150,000 units of activity
- An increased price, as we shall have to invest in new machinery / employ more people
- An increased price, because we don't want to be seen to destabilise the local health economy (take work from our clinical colleagues in the adjoining trust!)
- The network agreed tariff
- The marginal cost of the increased volume!

## And your point is (again!)

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- The 'perfect storm' is about to break!
  - Lord Carter's 'line in the sand'
  - Lord Darzi's emphasis on quality
  - World Class Commissioning
  - 'Rate of increase' in funding decreasing in secondary sector
  - The emergence of a tariff, formal or otherwise
  
- Variation exists
  
- Consolidation of full service laboratories is likely over time
  
- No single organisational form has emerged
  
- A louder voice for Primary Care
  
- Change is coming, and IT is a key enabler of change



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