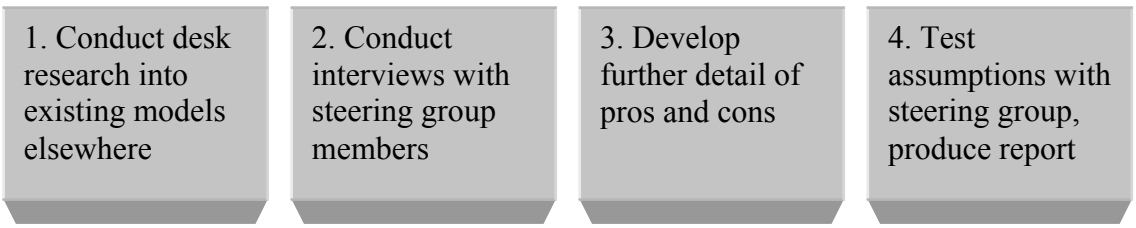
Appendix 1

Executive Summary

Introduction

1 We reported on organisational reconfiguration in July. This report presents the outcome of further work to identify the principal issues which will arise from the decision about the new organisation(s).

2 Our approach to undertake this second phase of work, as agreed with the Steering Group, was as follows:



3 The desk research highlighted a large number of examples where action has been taken to enhance the commissioning functions of PCTs. However, these almost exclusively related to mergers between PCTs or the development of joint commissioning arrangements between health and local government. The search therefore served to emphasise the unique nature of what is being proposed for the Isle of Wight (under both options 5 and 6) in creating a new, innovative organisation that incorporates health, housing and adult social care.

4 In accordance with our approach, interviews were undertaken with senior management representatives from each of the three organisations on the Island and the Strategic Health Authority:

The Isle of Wight Council
The Isle of Wight Primary Care Trust (PCT)
The Isle of Wight Healthcare Trust
Hampshire and the Isle of Wight Strategic Health Authority (SHA)

What is commissioning?

5 In order for the Island to develop a clear vision and strategy for how commissioning should be structured in the future, it is essential that all three organisations share an understanding of:

- What commissioning aims to do
- What the commissioning process involves
- Who is involved in commissioning

6 However, during the course of the work it became evident that understanding and perceptions of commissioning differed between individuals and organisations. In response to this, the report offers a recognised definition of commissioning, supported by an analysis of current developments in commissioning at both the regional and national level.

7 We suggest the following definition: commissioning is proposed to be the process of specifying, securing and monitoring services to meet individuals' needs.

8 This definition is significant since it highlights the fact that commissioning is about more than purchasing or contracting services. Rather, it involves:

- Health/Social Care Needs Assessment and service planning to meet these needs (against resource limits)
- Procuring services to meet identified needs, within resource limits (including contract management)
- Monitoring & Evaluation of services (including Performance Management against targets)

9 In order to fulfil this role, whether in a stand-alone body or as part of a single organisation, commissioning should incorporate the following functions:

- Commissioning of Health, Housing and (Adult) Social Care Services for the Island
- Commissioning of non-clinical/corporate services for Health, Housing and (Adult) Social Care; for example, HR, Finance, IT
- Needs Assessment and Public Health
- Performance Management/Monitoring

Current Commissioning Arrangements

10 We sought the views and insights of senior and executive managers to build up a high level view of current strengths and weaknesses of commissioning. Views held by more than one organisation were:

Strengths:

- local focus;
- development of Joint Commissioning Unit; and
- commissioning much improved over the past 2-3 years, in terms of expertise and capacity.

Weaknesses:

- lack capacity & expertise to effectively commission across such a wide variety of services with so many providers;
- money often goes to "those who shout loudest" rather than based on accurate health needs assessment and planning;
- commissioning often reduced to a 'mechanistic' contracts management function;
- commissioning does not act as a catalyst for modernisation and service change;

- arrangements for the Joint Commissioning Unit are unclear and currently lead to duplication of effort and missed opportunities;
- lack detailed public health and epidemiological information required for effective needs assessment and service planning;
- services are often commissioned on a roll-over or historical basis; and
- ineffective commissioning is costing the Island in wasted resources.

11 Overall, there is a consensus that the current commissioning arrangements on the Island (while much improved) are not sufficiently robust to meet the challenge of the reform agenda. Similarly, unanimous support was demonstrated for the move towards integrated commissioning and provision of health, social care and housing.

12 Therefore, the Executive teams of all of the existing organisations have indicated an awareness of the need for change and share a broad commitment to organisational reconfiguration to achieve this.

13 The Island will need to continue to respond to national change initiatives. However, there are features unique to the Island that need to be taken into account. For example, commissioning on the island can be argued to be constrained by a lack of contestability, since there are only a very limited number of providers from whom to commission services. This issue is highlighted further in the context of the strong political and public support for the provision of services to remain on the Island. Contrary to this, the PCT report that they are increasingly able and willing to commission from a wider range of providers.

Pros and Cons of the two short-listed option

14 An options benefits analysis was undertaken for the two options, from a commissioning perspective:

Option 5

Pros	Cons
Streamlined management and organisational functions i.e. fewer organisations than at present	Possible lack of independent commissioning voice
Cost savings through reduction of Executive management team	Commissioning voice diluted by challenges/needs of provider functions
Shared aims and vision for the provider and commissioning functions	Contrary to NHS tradition of separating commissioning and provider function
Relationship building across sectors and divisions	Less direct incentive to develop new pathways of care; particularly diversion from primary to secondary care (this is a risk if services provided 'internally' are not subject to a type of SLA)
Avoid duplication of effort and time	Risk of resources being diverted disproportionately to meet the stringent and high profile targets for acute health care
Information required will be available; and in a timely/useful format	Could limit Patient Choice if commissioning does not test out all alternative provider options

Option 6:

Pros	Cons
Strong, robust focus on Commissioning	Cost of management team for the stand alone body
Independent Commissioning body, able to develop new pathways of care that best meet the needs of the Island's population and the financial targets; regardless of considerations for the needs of the provider	Creates an additional organisation, when attempting to streamline organisational structure
Potential to shift focus from secondary to primary care provision; through robust planning and commissioning	Will not guarantee capacity/expertise to undertake effective commissioning and the planning functions required to drive this
Potential to generate cost savings through improved pathways and diversion to primary care	Likely to be a small and relatively poorly resourced organisation, which may struggle to provide expertise and capacity to cope with increasingly complex task. This could be avoided by diverting increased resources to the commissioning function. However, there would be an opportunity cost of doing this.
Consistent with DoH policy of separating Commissioning and provider functions	Due to size, liable to increasingly rely on link with mainland body in order to strengthen its 'purchasing power'
Potential to exploit new developments e.g. Private sector capacity/expertise to drive Commissioning	Tensions between provider and commissioner may persist at an unhelpful level
Provider able to focus on provision	

15 Neither option is a clear preference from a commissioning point of view. The disadvantages for each option can be resolved or minimised according to the detailed structure of governance arrangements that are implemented. For instance, the most significant concern raised in relation to option 5 is in relation to ensuring commissioning retains a strong independent role within the boundaries of one organisation.

16 In order to address this, the combined organisation will need to implement a structure that provides for a clear separation of the commissioning and provider functions. For, challenging decisions will need to be taken with regard to patient choice and best value that may not be in the interests of the provider arm of the organisation.

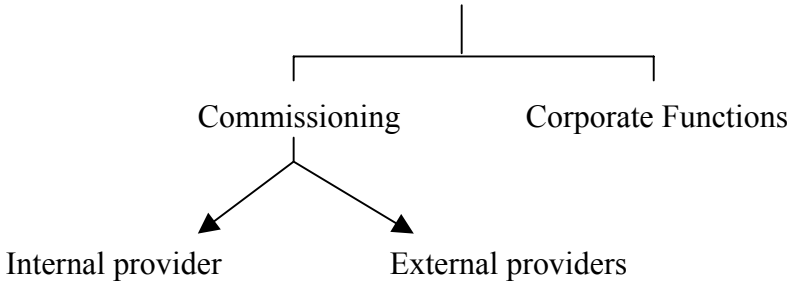
17 This issue could be addressed via a number of measures including:

- Weighting the membership of the Board in order to provide a majority to those who represent the interests of the commissioning arm; and/or
- Form a commissioning board that is directly accountable to the Trust Board, to oversee the commissioning function
- Internal service level agreements would need to be in place for services commissioned from the provider arm of the organisation. These should not be as bureaucratic as current SLA's, but should have agreed service

specifications, levels of activity, finance, quality and outcomes. They would also need to reflect Payment by Results (PbR) and patient choice

- In accordance with this, funding flows would be as follows:

Resource Allocation



18 Therefore, in addition to an appreciation of the pros and cons of each option, it is essential to hold an understanding of the corporate governance framework that would apply to the two options and the issues that this raises.

Governance for option 5

19 Under existing legislation, Care Trusts may be based (as a legal entity) on either a PCT or an NHS Trust. Given the statutory requirement for a PCT that covers the Island, in order to create a single health, social care and housing organisation, the legal mechanism available to achieve this would involve constituting the new organisation as a PCT-based Care Trust. This does not mean that the existing PCT would continue to function. Rather, a completely new type of organisation would be created (involving a new Board, functions and Executive/management structure). However, the legal status of the organisation would be as a PCT-based Care Trust.

20 This will have an impact in terms of the governance arrangements for the new organisation. The Care Trust will be subject to the statutory Corporate Governance Framework for a PCT-based Care Trust. This in turn will determine key factors such as the membership of the Board and the Executive Committee.

21 However, the analysis demonstrates that scope for flexibility exists, in that the precise governance arrangements and managerial structure of the new organisation can be shaped to ensure that the new organisation represents equally the interests of its constituent parts.

22 This flexibility is demonstrated through the identification of the key issues and questions that will need to be addressed if the Island elects to proceed with option 5:

1. The composition of the Board (in order to achieve appropriate representation for each of the 3 organisations and professional/clinical engagement)

2. The composition of the Executive Committee, in order to achieve involvement and representation for the significant variety of professions employed within

the new organisation. In particular, it will be important to ensure that no one professional group dominates the committee and that the committee represents more than a traditional PCT Executive Committee.

3. How to ensure the 'ascendancy' of the commissioning arm: should this be achieved through weighting the membership of the Board or via the creation of a sub-committee of the Board for commission (with no committee of equal status for provision)? Both are feasible from a governance perspective.

4. How many Local Authority Member representatives will sit on the Care Trust Board; and how these will be selected (given the guidance that those who are members of LA Scrutiny Committees cannot sit on the Board of a Care Trust)

5. The number of Executive Directors who should sit on the Care Trust Board, and the portfolio to be held by each of these 'voting' Directors. It should be noted that there is a requirement that one such Director is managerially responsible for the services delegated to the Care Trust by the Local Authority

6. The formal procedures for reporting back to the Local Authority on those services delegated to it.

7. How to ensure that an appropriate and equal voice is provided at Board level to each of the key provider groups (acute health, community health, primary care, social care, housing); whilst also ensuring that the provider and commissioning functions are represented.

8. What managerial structure will sit below the Board and the Committee structure?

9. How the 'corporate' functions such as HR, Finance and Estates/Facilities should be incorporated within this organisation. Should these be grouped as a separate directorate, or divided between the two Commissioning and Provision arms?

10. Funding flows will need to be established to support the decision-making within the provider arm; including the establishment of a system of internal 'SLAs'.

Governance for option 6

23 Option 6 requires the establishment of two new organisations – one responsible for the commissioning of health, social care and housing services and the other responsible for the provision of these services. Again, the legal mechanism available for creating the two new organisations involves the establishment of two Care Trusts:

- A Care Trust responsible for Commissioning (legally constituted as a PCT-based Care Trust)
- A Care Trust for Provision (legally constituted as a NHS Trust based Care Trust)

Again, it is important to emphasise that each of these two organisations will be totally new organisations, with new Boards, functions and Executive/management structures. Each will reflect equally the three existing organisations, but are legally based on a PCT/NHS Trust simply because that is the current legal framework that would allow the Island to develop this wholly innovative approach.

24 The governance arrangements for the two organisations would be as follows:

Stand-alone commissioning body

25 As discussed above, this body would be legally constituted as a PCT-based Care Trust. As such, it would follow the same principles for Governance as set out for option 5.

Provider Organisation

26 This organisation would be subject to the Corporate Governance Framework for an NHS Trust-based Care Trust. While this is broadly similar to the Framework for a PCT, there are important differences; relating specifically to factors such as membership of the Board and the non requirement for an Executive Committee under the NHS Trust model.

27 As with option 5, the analysis demonstrates that flexibility exists, whereby the precise governance arrangements and managerial structure of the new organisation can be shaped to ensure full and equal representation by all parties.

28 Once again, this flexibility raises a number of key issues and questions that will need to be addressed if the Island elects to proceed with option 6:

1. Membership of the Care Trust Board
2. The number of Executive Directors who should sit on the Care Trust Board, and the portfolio to be held by each of these 'voting' Directors. It should be noted that there is a requirement that one such Director is managerially
3. Responsibility for the services delegated to the Care Trust by the Local Authority
4. Number of Local Authority Member representatives on the Board
5. How to ensure that an appropriate and equal voice is provided at Board level to each of the key provider groups (acute health, community health, primary care, social care, housing)
6. Functions to be included within the organisation need to be considered by the transition steering group
7. Forum required to achieve professional/clinical engagement

8. Operational/Directorate structure to be determined by the functions of the organisation

9. Directorate structure will need to provide balance between expert focus on specific service areas and care groups, whilst also ensuring integration and 'joined-up' decision-making.

Governance – overall message

29 Both options are viable and that flexibility exists within each in each to shape the organisation in a specific way. For instance, under option 5, it is possible to structure governance to provide independence and relatively greater weight to commissioning (as detailed above under the section on Commissioning).

The views of the existing organisations

30 During the course of this project, it became clear that each of the Executive management teams of the existing organisations held an initial preference for one of the two short-listed options. The report documents these preferences, not to predetermine the overall outcome but as a key factor to be considered in the final selection of a preferred option. This information is provided in full recognition of the fact that these preferences are not the formal views of the decision-making body for each organisation and thus are liable to change or modification.

31 Option 5 is the preferred option for each of the four organisations (pending the findings of this report and official endorsement by the respective Boards). The principle reasons provided for support of Option 5 are:

- Option 5 will provide the opportunity for closer working between the two areas of commissioning and provision, thereby reducing duplication of effort, improving the sharing of vital information and avoiding the time that is currently 'wasted' seeking agreement and alignment between two separate sets of objectives and procedures
- The entirely stand-alone commissioning body in option 6 is almost unanimously seen as potentially too small and weak an organisation to carry out the functions that will be required of it (unless significant additional resources are diverted to the commissioning function, with an associated opportunity cost)
- Linked to this, there is significant concern on the Island that option 6 could only work if the commissioning body was linked to the mainland. Each of the three organisations on the Island are opposed to this on the basis that it would dilute the ability to focus specifically on the needs of the Island's population; and also, in the long term, may challenge the concept of service provision on the Island (which all of the organisations support)

Conclusion

32 The analysis of the governance issues for each option demonstrates that both options are viable. They can be made to deliver the vision for commissioning and provision of services on the Island. Within both options, there is scope within the regulations for the Island to define the organisation in a number of different ways. The key decisions that will need to be taken include the membership of the Care Trust Board and the Executive Committee; and the operational structure that is implemented below this.

33 Ultimately, the selection of a preferred option must be made on the basis of agreed criteria. As the report indicates, the existing organisations would appear to be already favouring option 5. This needs to be expressed in terms of clearly specified and agreed criteria.