

As the NHS continues to raid capital budgets to deliver essential services, it is not just buildings but vital equipment that are falling into disrepair. **Ann McGauran** looks at how the NHS can balance the increasing demand for new and better imaging equipment with the need to balance its books.

Alternative funding for imaging equipment

Hospital trusts in England have been diverting cash from their capital budgets for years to pay for day-to-day running costs. One of the outcomes is an increasing problem with out-of-date imaging equipment. How can the NHS tackle this, and what can diagnostics companies do to help?

Replacement is a particularly high cost exercise. New CT scanners average £1.5m, while a new MRI scanner can cost up to £2m. The scale of the challenge is also growing. A recent freedom of information request by the Labour party based on responses from 93 NHS trusts found that 892 x-ray machines were more than ten years old, and 139 of those were in use beyond their replacement dates. There were 295 ultrasound machines in use, of which 134 were past their replacement age.

Risky business

The head of analysis at NHS Providers, Philippa Hentsch, said not only is there a growing maintenance backlog, 'but the proportion deemed 'high' and 'significant' risk has also been rising year-on-year. This increases the likelihood of disruption and delays, and can pose a risk to patient safety.'

Research at 30 trusts funded by the Health Foundation and done by the health services management centre at Birmingham University presents a vivid picture of the impact of the assault on capital budgets. The centre's director of research, Lestyn Williams, said interviews with a target group mostly made up of acute trust finance directors revealed 'their concern that for four to five years at the national level the capital budget has been raided to fund operating costs'.

How is this playing out for patients and organisations? 'There were concerns expressed in quite a few of the interviews around the quality of the (scanner) images, and the risk of breakdown. One

of the interviewees talked about having to divert patients to a neighbouring trust because of a breakdown in their diagnostic equipment. That suggests they're taking more risks than they would like to in terms of the maintenance of the equipment. It was definitely a significant problem.'

He added: 'If anything looked as if it was a significant risk to patients, then that would take priority. I think the feeling was people were fire-fighting, and not able to address problems before they get to the urgent stage.'

Full financial outlay

All of the respondents emphasised capital and operational budgets 'had to be looked at together, because there's no point outlaying resources you can't fund the maintenance of - and big investment in a new project has to come with that kind of recurring funding'. He said there was still some 'cautious optimism' around leasing schemes for diagnostic equipment. 'Some respondents felt that on balance the upgrading and the reduction in risk of things breaking down made it a good option.'

Jason Lavery is vice president for capital solutions at NHS Supply Chain - the organisation which works with suppliers to deliver savings to the NHS. What are the main advantages to patients and trusts of having newer diagnostics? 'Taking an MRI scanner as an example, the newer technology has a faster scan time and improved reliability. It's cheaper to maintain and service, the patient experience is better as the machines are a lot quieter, and the captured images are better - reducing the likelihood of repeat scans or misdiagnosis.'

Will there always be a place for the more traditional ways of paying for new imaging equipment, including loans, commercial leases or managed equipment services (MES) contracts - where third

party companies supply and maintain the equipment? 'I don't think there's a right or wrong answer to the various funding options and it's very much about the individual financial and clinical circumstances of each hospital.'

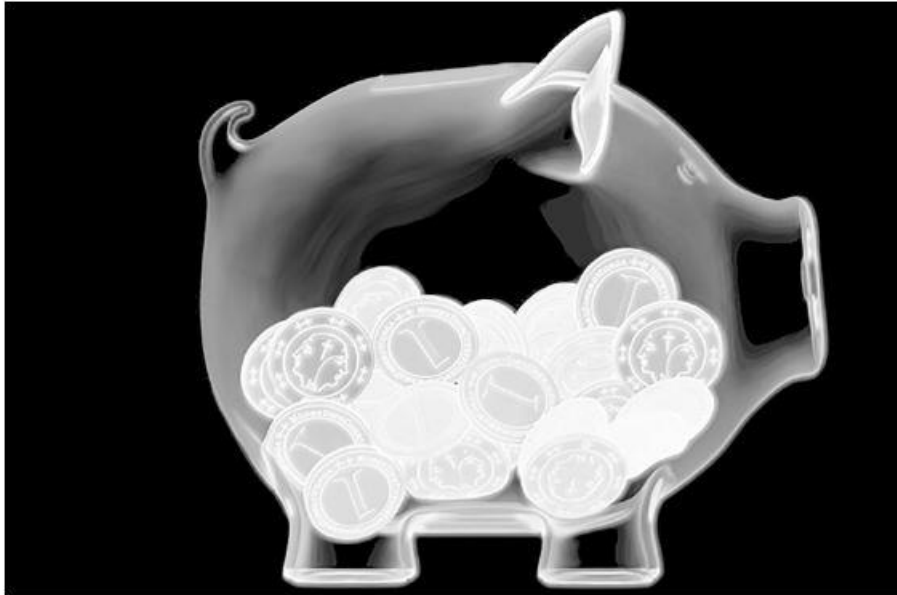
He doesn't see any wholesale move away from those established methods of funding new or replacement medical equipment. He added: 'It is unlikely that trust capital cash allocation will cover their total replacement plans each year - so leases, loans and MES contracts will continue to be considered.' That said, Lavery outlined a combination of a Department of Health trading fund and an NHS Supply Chain capital planning service that's helping the NHS save money on medical equipment including diagnostics.

Centralised funding

The Department of Health Capital Equipment Fund started in 2012 with £300m set aside for trusts to aggregate their spend - buying capital equipment in bulk to make the optimum use of their buying power. For diagnostics equipment, a number of trusts co-ordinate to place bulk orders for a larger number of scanners instead of ordering as individual organisations. The fund is managed on a day-to-day basis by NHS Supply Chain, which supports radiologists and radiographers to co-ordinate on equipment specifications, procurement and finance across NHS regions.

According to a five year review of the fund (to May 2017), £700,000 of medical equipment has been aggregated, with total incremental savings inclusive of VAT of approximately 10%. Up to May 2017 there were 177 deals involving 312 trusts.

Thinking longer-term is the key here. Lavery highlighted that cash can be saved if trusts buy service agreements alongside equipment - as well as buying



service agreements to cover several years. A £50m pilot scheme launched in September 2015 combined using the fund to buy CT and MRI scanners with seven-year service contracts and leasing those to the NHS with seven-year low interest rate deals. To date this approach - known as the Financing Option - has provided funding for nearly £40m worth of equipment and maintenance packages (for more details see box right).

NHS Supply Chain has also introduced Asset Finance Solutions to provide a similar facility to the pilot. This offers four main types of asset finance solutions - operating and finance leases, finance for an equipment replacement plan offering a predictable repayment schedule, sale and leaseback, and commercial loan financing.

According to Lavery, NHS Supply Chain's development of strategic investment planning - a data driven systematic approach being piloted in a number of trusts - enables trusts to have a rolling procurement system delivering more certainty about demand for medical equipment and hence better deals. NHS Supply Chain undertakes detailed analysis of the trust's medical equipment to establish a long term equipment replacement plan and assess different

financing options.

Are there key ways in which diagnostics companies could work in partnership with NHS Supply Chain to help trusts? Companies can help by ensuring the most appropriate configuration of equipment is recommended to the NHS at the outset, said Lavery.

He added: 'The budget and allocation process sometimes drives behaviours of "over specifying" in the NHS. Supporting the NHS around choosing the most appropriate cover levels for equipment maintenance contracts is another area for them to consider. Is a "gold level" service contract required for a new piece of equipment when reliability should be at its highest? Diagnostics providers could also "point NHS customers to us when they aware of budget constraints, and we can work with the hospital to find the most suitable route for financing its equipment purchase.'

Returning to Williams, what he thinks is important, "but lacking in many instances, is that individual NHS trusts fully understand and compare the whole life costs of the various financing options and don't just jump to a "last resort" option'. NHS Supply Chain's priority of providing an evidence-based rationale to support the case for investment in

diagnostics appears to be offering trusts cost effective options during challenging financial times.

Finance options

Set up to co-fund purchase of imaging equipment, the Department of Health Financing Option pilot was run across two phases in 2015 and 2016.

By May 2017, the scheme had achieved the following:

- Provision of funding for £39m worth of imaging equipment and maintenance packages
- Generation of £1.55m savings on equipment
- Generation of £1.5m savings on maintenance
- Achieved a further £3.1m savings on interest payable compared to commercial interest rates

Source: Department of Health Capital Equipment Fund - Five Years On case study