



EQUIPMENT LEASING

EQUIPMENT FIT FOR TODAY'S HEALTH SERVICE

Louise Hamilton, head of NHS sales and marketing, Singers Healthcare Finance, discusses past and present approaches to financing and replacing high-value capital equipment in the NHS

Recently, on 30 March 2011, The National Audit Office published its report 'Managing high value capital equipment in the NHS in England', which was ordered by the House of Commons. The National Audit Office, which is totally independent of government, scrutinises public spending on behalf of parliament. This report examined the management of three types of high value equipment in the NHS in England. It covered Magnetic Resonance Imaging (MRI) and Computed Tomography (CT) scanners, used for diagnosis, and Linear Accelerator (linac) machines for cancer treatment.

Historically, during the 1980s and 1990s, investment as a percentage of GDP in healthcare was lower in the UK than many other developed countries. This led to the number of these types of machines also being much lower per population than many developed nation counterparts. Following the election of the Labour government in 1997 they developed the NHS plan, and started to increase investment in the health service, and amongst many other objectives, targeted the reduction of waiting lists for elective surgery to 18 weeks and improved access to diagnostics and treatment for patients.

LOOKING BACK

As part of these changes, in 2000, the Department of Health introduced its Cancer Equipment Programmes. The NAO report notes that: 'The aim of these was to manage capital funds provided centrally under various schemes to increase the replacement, and overall numbers, of these machines. Between 2000 and 2007, the centrally funded programmes spent £407 million on new capital equipment, resulting in greater numbers of CT, MRI and linac machines to spur implementation of increased diagnostic and treatment capability. During 2000-2007 the Programmes accounted for around three quarters of new and replacement machines purchased for the NHS in England.'

Whilst this provided a much needed boost to the number of these machines, it was achieved by trusts utilising a capital allocation from the government, and it put pressure on individual trusts to develop a strategic procurement plan

to cater for the replacement of these centrally funded machines. The report acknowledges this issue: 'The significant investments made during 2000-2007 purchasing replacement and additional machines present the challenge in future years as to how the costs of replacing machines will be met as they reach the end of their useful life.'

The report goes on to deliver an analysis of spending from 2007 onwards, and a snapshot of the total level of investment in the current inventory of these machines across the country. 'In the past three years, NHS trusts in England have spent around £50 million annually on purchasing MRI and CT scanners, used for diagnosis, and linac machines for cancer treatment. The current value of these three types of machines in the NHS is around £1 billion.' It also notes that: 'The department currently has no plans for any further such centrally driven programmes.' This appears to confirm that the onus is indeed on trusts to manage and finance the ongoing replacement of these machines.

A SIGNIFICANT CHALLENGE

This is no small task when looking at the numbers of machines required and the costs associated with their replacement. The report states that: 'We estimate that around half of all three types of machine across the NHS are due for replacement within three years, and 80 per cent of machines are due for replacement within six years (based on ten year lifetimes). Were trusts to purchase machines to replace existing ones they would collectively need to find around £460 million within three years and a further £330 million within six years.'

The challenge this presents to trusts takes on an even greater significance when viewed against the backdrop of likely capital funds available to trusts going forward. In its 2010 Spending Review, the government announced a 17 per cent reduction in capital spending for the NHS over the next four years, from £5.1 billion in 2010-11 to £4.6 billion in 2014-15. The timing of this reduction in real capital coincides with the timeline the NAO identified for half of all three types of machine coming due for replacement. The ability of trusts to fund these machines



through capital budgets is going to be severely impacted and alternative procurement options will have to be considered.

THE ROLE OF LEASING

Leasing could play a key role here in enabling trusts to develop equipment replacement plans in order to meet the demands. Leasing has been an approved finance option for the NHS since 1996. There is an NHS Supply Chain National Leasing Framework currently in place for NHS trusts to access approved leasing providers, along with several other leasing frameworks via NHS Procurement hubs and trusts. It is therefore worth noting, that the NAO report suggests that leasing could be one of the options open to trusts: 'As well as replacing machines, trusts could look at other options including leasing machines, contracting out or extending the use of existing machines.' However, we would argue that returning to the approach of 'sweating assets' and extending use beyond the efficient working life of equipment may in some cases be wholly unsuitable ►

► and go against the efficiency strategies that trusts are striving to implement.

Indeed the NAO comments that 'Although machines maybe used for longer than their expected working life, they become more expensive to maintain and may not be capable of delivering the latest techniques required by clinicians. They may also suffer more downtime when they cannot be used for the benefit of patients.'

Not replacing these machines at the right point, in a timely manner, would have a devastating effect on the progress that has been made in integrating the use of both scanners for many types of diagnosis, and linacs for cancer treatment, into modern patient care provision within the NHS. The demand for scanning equipment was originally driven by a focus on reducing waiting times, but there were resulting massive clinical benefits that resulted in early diagnosis of, and the provision of, timely intervention within many conditions, including major trauma, cardiology, cancer, stroke and dementia.

To give an idea of how embedded these

processes have become in modern healthcare delivery across the NHS the report outlines the growth in use of these machines: 'The number of scans carried out for NHS patients from CT and MRI machines has increased almost threefold in the last ten years, while for linacs the number of radiotherapy treatment sessions (fractions) has increased two and a half-fold. Ninety four per cent of trusts have MRI and CT scanners, 29 per cent have linac machines in 49 radiotherapy centres.'

Trusts will be under pressure to maintain the provision of services across all three machine types, with emphasis on increased focus on diagnostics for early identification of disease, utilising these to help keep treatment costs down and deliver against the efficiency savings targets. In addition trusts will have to work to meet the department's aim of increasing access to radiotherapy services: 'For radiotherapy, whilst current provision of

trusts to be proactive at getting plans in place, stating: 'As around half of machines are due to be replaced within three years, trusts need to plan their procurement now so that they can manage the risk of incurring higher costs, for example, extra maintenance costs.'

MOVING FORWARDS

For all three equipment types studied the capabilities have continually been increased and improved. This means faster, more accurate results and, crucially, better patient care. Under a capital purchase equipment programme it can not only be hard to identify and allocate necessary funds for the initial purchase of a machine, but also to then find additional funds to benefit from regular technology upgrades. Utilising leasing can help to both procure equipment in the first instance and build upgrades into the equipment lifecycle. These

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linacs is around 4.8 per million population, within ten years the clinical need is expected to exceed six per million. As well as replacing current stock, approximately 60-80 new linacs will be needed in this period.'

HOW TO ACCESS FUNDING

So how can ever more financially challenged trusts address the issue of funding both new and replacement machines, keeping up with latest technological advances and maintaining adequate levels of access to diagnosis and treatment? Planning is key, trusts need to identify what service they wish to deliver, and not just over the short term, but the medium to long term. This will require strong engagement between procurement, finance and clinical teams, as is the case in most trusts. In order to empower trusts to implement effective planning such as this, the DH needs to ensure trusts know what funding they will be allocated over a period of years. But the emphasis must move away from annual capital spending towards how to utilise alternative methods of funding, analysing what income can be derived from the equipment to help meet the costs of acquisition.

We welcome the NAO recommendations within the report, which acknowledges leasing as an option that should be considered by trusts. For individual NHS trusts it states: 'Clinical and finance teams within trusts should assess the costs and benefits of purchasing, leasing and outsourcing when replacing machines and check for alignment with their planned levels of activity.' They also point out that time is of the essence, urging

are currently funded via revenue budgets and avoid technology obsolescence and service downtime. This, in turn, protects both clinical performance and the vital income that high performing equipment generates.

Whilst leasing is not a panacea for all procurement needs within trusts we have long maintained that it should be one of the options considered when developing any procurement strategy. For certain asset types, particularly hi-tech, it certainly has a place, and can deliver significant benefits. The key to the most successful utilisation of the leasing option is to consider it at the outset of a business case, early on in the process and weigh up any possible costs and benefits, not just exercised as an option of last resort when no capital is available at the end of the process.

Like so many other areas in the NHS, procurement and finance practises are having to be rethought to meet the many concurrent demands for efficiency, smarter use of existing budgets and maintaining levels of service provision and patient care within these.

The very best outcomes we have achieved in providing lease solutions to trusts have, without exception, come when trusts have engaged with us at an early stage and really analysed what service they want to provide within a particular clinical discipline, over the medium to long-term.

The need identified for such significant numbers of these three critical pieces of high-value equipment to be both replaced and added to is a key opportunity for lease providers to work much more closely with trusts, to design and deliver solutions to meet this huge challenge. ■