

Secretary of State

From: Lord Hunt  
Date: February 2000

cc: Ms Fretten PS/MS(H)  
Mr Stevens SpAd  
Mr Murphy SpAd  
Ms Jarvie PS/CE  
Mr Kerr Dir Ops  
Dr Adam HSD  
Mr Hewlett HSD1  
Dr McGovern HSD1  
Mr Lister HSD1  
Mr Palnoch EOR  
Mr Paley FPA-FAS2  
Ms Skinner HSD1

## REVIEW OF UK BLOOD PRODUCTS MANUFACTURING

### Issue

1. In 1998, during discussions on the cost of variant CJD risk reduction measures for blood and blood products, the Chief Secretary asked us to undertake a study on the scope for long-term savings by restructuring the provision of blood products in the UK. Officials have therefore been working with Treasury and the Scottish Executive to consider options for the future of the two NHS-owned plasma fractionators – the Bio Products Laboratory, (BPL) which is part of the National Blood Authority, and the Edinburgh-based Protein Fractionation Centre (PFC). The review has focussed largely on BPL because its problems – a plant working 50% below capacity facing declining demand for its products from the NHS – are the most acute and cannot easily be resolved within its current structure.

2. Officials produced an options paper in July (copy attached) which I discussed with them in September. Since then, the paper has also been considered by Susan Deacon. Susan and I support the proposal that we develop options for private sector investment in BPL to attract new investment and risk sharing with BPL. We do not have the necessary skills for this within DoH but, subject to your views and those of the Chief Secretary, I would like to commission external consultants to carry out this work for us. The NBA will meet the cost which we estimate at around £40-50,000. I am anxious that we now move quickly to get this further work commissioned so that we can be in a position to decide the future of BPL and PFC before the end of this calendar year.

### Key Points

3. The attached submission provides a detailed analysis of the situation and the possible options for the future of BPL and PFC. The main points are:

- although part of the NBA, BPL operates on a largely commercial basis, competing with commercial manufacturers to supply blood products to the NHS in England & Wales. PFC, by contrast, provides a free service to the NHS in Scotland and has a virtual monopoly of the blood product market in the Scottish health service.

- BPL's factory at Elstree is operating at roughly half its capacity and is not able to achieve the economies of scale needed to make it competitive at current market prices. It therefore relies on central Vote 1 funding (roughly £15m in 1999/2000) to meet its annual income/expenditure deficit. It also relies on central funding for its capital investment. Downsizing of the factory would be uneconomic because of the high level of fixed costs and is not an option.
- NHS demand for plasma-based products is declining. The only sensible strategy therefore is for BPL to reduce its income/expenditure deficit through increased exports. To break even, BPL would need to increase exports from 20% of total outputs to around 50%. However, there is no guarantee that it will be able to achieve this. Last week, I approved a manufacturing contract for BPL to produce a product solely for export to the US. The deal includes some capital investment for BPL and a projected minimum income of £6m pa for the first 3 years of the contract. This should reduce BPL's reliance on central funding, but earnings will not start until 2002/03. The contract will have minimal impact on BPL's under capacity problem contract but is in line with our current policy on Wider Markets and signals the way forward for BPL.

### Options

4. My view is that the only acceptable and workable option would include some form of public/private partnership arrangement for BPL. Such an arrangement could involve leasing BPL's factory to a private sector fractionator with a contract guaranteeing supply of high quality, competitively-priced product to the NHS.
5. Outright privatisation has too many downsides, particularly in placing the supply of blood products to the NHS at the mercy of international markets (recent worldwide shortages of some blood products have not impacted on the NHS because of our home-produced product). Privatisation would also be very difficult presentationally. I therefore suggest that we give this option no further consideration. Nor do I wish to pursue the option of closing down BPL and supplying the whole of the NHS from PFC in Scotland. 500 jobs would be lost at BPL, which would be totally unacceptable.

### The Way Forward

6. If you are content, I propose to write to the Chief Secretary - with Susan Deacon's agreement - suggesting that we take the review into its next phase by commissioning external experts to develop options for a public/private partnership arrangement for BPL and to provide a detailed analysis of each option. The analysis will need to take full account of potential costs, benefits and risks to the NHS, make recommendations and advise on potential commercial partners for BPL. There will need to be a limited tendering exercise for this work, which we will manage in a low-key way by inviting 3 or 4 consultancy firms to bid against a specification. We would aim to have this study completed by the Summer.
7. A draft letter to the Chief Secretary is enclosed.

LORD HUNT