

Are you content for preparatory work to separate BPL from NHSBT & transfer it to PRUK to be undertaken?

RESTRICTED COMMERCIAL

To: MS(PH)

*See my questions
on panels 3, 8, 9,
I am not in favour of separating*

From: Peter Coates

Date: 21 October 2008

Copy: see attached list

BIO PRODUCTS LABORATORY (BPL)

*Need further advice on keeping
BPL as part of NHSBT*

PURPOSE OF SUBMISSION

1. To brief you on the review of Bio Products Laboratory (BPL), an operating division of NHS Blood and Transplant (NHSBT), and DCI, a US-based plasma collection business owned by the Department – and to recommend that work should begin on the separation of BPL from NHSBT with a view to transferring activity to a limited company owned by DH.
2. In previous submissions we briefed the then MS(PH) that BPL should be run along commercial lines and that, following a review by our advisers NM Rothschild, BPL together with DCI should be sold to a private sector partner.
3. Following further market analysis - and in recognition of current uncertainty in world financial markets - we now recommend that, as a preparatory step, BPL be separated from NHSBT with a view to transfer to a limited company owned by DH, pending further market analysis regarding sale.

GRO-C 27/10/08

RECOMMENDATION

*Why is it necessary to
separate BPL from NHSBT?*

4. Work should begin on separating BPL from NHS BT with a view to transferring the business to a limited company, most likely as part of an enlarged Plasma Resources UK (PRUK), a limited company wholly owned by DH that holds the investment in DCI. Preparatory work should be undertaken to determine the best way to achieve this.

TIMING OF RESPONSE

5. Early agreement in principle to separation would be helpful, as it will take some time to determine what has to be done to effect the separation.

BACKGROUND

6. BPL fractionates raw plasma – sourced mainly from DCI - into finished products and distributes them to end markets, primarily the English and Welsh NHS. It is an operating division of NHS Blood and Transplant (NHSBT). Products include Clotting Factors (for haemophiliacs), IVIG (for immune disorders and other applications), albumin and other specialty applications. BPL sells its products to both NHS Trusts and overseas customers, in competition with a number of commercial producers. BPL currently has 50-60% of the UK market for IVIG.
7. DCI is a US based plasma collection business that was purchased by DH in 2002 to provide a source of US plasma as a precaution against the possible risk of vCJD from UK blood being transmitted through blood products. DH's interest in DCI is managed through

RESTRICTED COMMERCIAL

PRUK, a limited company wholly owned by DH, and by placing directors on to the Board of DCI in the US.

8. BPL and DCI trade on a commercial basis. Currently, BPL has a contract with DCI to take 45% of its output. The balance of DCI's plasma is sold at a profit to other fractionators in the US and worldwide. *What happens to the profit?*
9. Although BPL operates in a commercial environment, it has required a significant level of central support over the years to ensure its viability. Consequently, a number of reviews have taken place to determine how blood products can best be supplied to the NHS – and to consider ownership of BPL. Although the level of central support is now significantly less – £7.1 million in 2008/09, reducing to £3.0 million in 2009/10 – the reviews have concluded that BPL would be best run as a commercial business. *why?*
10. In 2005, DH began working with BPL to help it commercialise its operations. In parallel, the DH began to examine ownership options and commissioned N M Rothschild to advise on these. They concluded that BPL's long-term interests, and those of the NHS, could be served best by sale to a private sector partner. They advised that BPL should be sold immediately – together with DCI – and that sale would be achieved most quickly if it took place in parallel with the process of separation from NHSBT.
11. Since Rothschild presented their advice there have been a number of developments which suggest that immediate sale might not now achieve the best outcome:
 - Clinical trials continue to suggest new applications for plasma-based products. For instance, trials for the treatment of Alzheimer's disease are well advanced. If confirmed, such applications could significantly increase the value of BPL and DCI.
 - Current capital market conditions are uncertain. Whilst the outlook for the blood products sector looks favourable, the current state of financial markets would, in all probability, diminish the number of potential bidders in a sale by tender.
12. In light of this, our proposal is that BPL should be separated from NHS BT with a view to transferring it to a limited company, owned by DH, for a transitional period pending further market analysis regarding sale. Our aim is to:
 - **accelerate and simplify the sales process when the time is right for sale:** potentially having to wait an additional three to six months for BPL to be legally separated from NHSBT could unnecessarily complicate the sale process. In addition, combination with DCI before sale provides the opportunity to create a track record for the combined operation. Consequently, separation now would both accelerate and simplify the sale process – and will help to maximise DH's commercial advantage;
 - **create a closer working relationship between BPL and DCI – and maximise operational synergies:** Managing the operations in parallel will strengthen the relationship between the businesses and will allow potential operating efficiencies to be secured. This will be articulated in a clear benefits realisation plan which will demonstrate the positive impact on BPL's financial position and ability to serve NHS patients;

RESTRICTED COMMERCIAL

- **strengthen governance around the blood products supply chain:** a clear structure for the management of both businesses will improve decision making. The constitution of PRUK would be revised to ensure that the activities carried out by both BPL and DCI are fully reflected;
 - **provide the right commercial environment for BPL:** BPL is essentially a trading company and it needs to be given the same commercial freedoms and disciplines as its competitors. Furthermore, NHSBT will be able to focus on its public service obligations in relation to blood collection; and
 - **confirm the Rothschild's recommendations still hold good** in what is a radically different world.
13. Repositioning BPL in this way, and allowing the business to be managed along more commercial lines, will provide a clear and credible rationale with which to brief BPL staff and trade unions on the organisation's future.
14. It should be noted that the Department is also keen to transfer NHS Professionals into a NHS-owned limited company. It too needs to be given a commercial environment within which to operate, and a separate submission on this will be made to MS(H) shortly. This will be copied to you.
15. There is also precedent from across government to draw on in this case. In preparation for potential sale, the Forensic Science Service was transferred from a trading fund to a government-owned company and incorporated in October 2005.

PRESENTATION

16. NHS BT's board remains of the view that the sale of BPL and DCI to the private sector is the best outcome but accepts that now may not be optimal timing and understands that the proposed intermediate step represents a pragmatic way forward.
17. They are also of the view that any change in BPL's current status must be predicated on there being a clear benefits realisation plan – and that any new governance arrangements give equal weighting to both BPL's and DCI's business needs. Both of these points will be addressed during the preparatory phase.
18. The unions are aware that sale of BPL was being considered and will want to know what the long-term plans for the business are. They will also seek reassurance about the well-being of staff. In response, we propose saying that sale has not been ruled out but is not being considered at this time; further work needs to be undertaken to streamline BPL's relationship with DCI and this can best be achieved through its separation from NHS BT.
19. Both the unions and staff will need a clear and credible rationale for the transfer and a handling plan for the preparatory phase will be developed in partnership with NHS BT.

RESTRICTED COMMERCIAL

CONCLUSION

20. The future of BPL and DCI probably lies in the private sector but we believe that a transitional phase will allow us to further analyse market conditions and maximise value from closer working between the two operations. Even if the sale is not taken forward, running the two businesses together will provide the best operational fit and greater commercial focus. This preparatory work is likely to take three months and we would then return in December 2008 to seek agreement from you to our recommendation.
21. You are asked to agree that preparatory work should begin on separating BPL from NHS BT with a view to transferring the business to a limited company.

Peter Coates
Managing Director
Commercial Directorate

GRO-C

RESTRICTED COMMERCIAL

Copies

Griff Jones, APS/MS(PH)
Penelope Irving, APS/SofS
Caroline Pease, APS/ PS(H)
Jo Edwards, APS/PS(H)
Matthew Fogarty APS/MS(H)
Jonathan Sanderson, Office of NHS CE
Chris Plummer, Office of Perm Sec

Richard Douglas
David Harper
David Flory
Mark Britnell
Sian Jarvis
Gail Stephens
Elizabeth Woodeson
William Connon
Charlotte Fowles
Ailsa Wight
Adam Thynne
Victoria Santer

Special Advisors