TB
a business solution for the future
A business plan

Around fourteen million pounds were spent by Animal Health last year on TB testing in England alone. The Public Procurement regulations of 2006 require that any work carried out for government above a threshold of 5,278,000 Euros must be carried out through an established process that ensures fairness and value for the tax payer. The actual wording refers to the “most economically advantageous” outcome for the tax payer and this allows consequences of changes in OV work to be factored in to the overall process.

So, changes in the way OV work is purchased by the Government will happen. Open consultations will be carried out to ensure that Ministers receive unbiased feedback regarding the consequences of change.

Details of the tender

While no details have been published several informed assumptions have been made that have allowed us to develop some early plans and to prepare for change.

The first assumption is that England (and possibly Wales) will be divided into testing regions. Bids will be formulated to deliver all the testing in each region. However it is possible that the regions will be shared out amongst several winning contractors. We anticipate there being 10 to 14 regions with a value of a little over one million pounds worth of testing in each.

We also assume that the landscape for quality control will change significantly. AHVLA are aware that they have been unable to deliver much functional control in this area. Quality will relate to work done in the field by the testers themselves but will also relate to audit procedures and management of quality at practice and contractor level.

Ethos

The guiding principle behind this business plan is to ensure that practices who commit to this plan have a chance to retain a similar total net income from testing as they have in previous years. This will allow progressive farm practices to continue to offer a full service to farmers across their locality.

We are fully aware that for some practices OV work represents only a small annual income. However all practices rely on farm clients purchasing medicines through their business. We wish to minimise the risk that other vets place themselves in a position to supply medicines on farms where they TB test the cattle.

It is possible that sufficient Government savings may be delivered through better control of administration costs in the first tender round. However once operations have been transferred to private enterprise the pressure is likely to increase to deliver operational savings round after round. If testing incomes are to be maintained then participating practices need to accept that this competitive process will force some practices to become ‘winners’ and others to become ‘losers’. We wish to ensure that participants in the XL Farmcare business can count themselves as winners as the future unfolds.

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Peter Plant and Hygiene Audit

Peter is a chartered accountant based in Stone in Staffordshire. He is married with two children. Still actively involved in accountancy services, Peter also owns and manages 'Hygiene Audit' which is one of the five remaining contractors delivering official vet input into multiple clusters of abattoirs for the Food Standards Agency.

This business was built up over several UK procurement rounds, initially involving the Meat Hygiene Agency. Peter has extensive experience in the recruitment and retention of vets, usually foreign nationals, and in ensuring that his business has had no service failures throughout its lifetime.

Peter is unique in relation to other managers in the Meat Hygiene industry in that he was previously a partner in a mixed and expanding veterinary Practice in Staffordshire and Yorkshire. He therefore understands many of the pressures and challenges that practices such as those operated by XL members face in the current upheaval relating to OV procurement.

**XLVet UK Ltd** have carried out some diligent enquiries relating to Peter’s past performance and we can also be reassured that Government contracts are not issued lightly without rigorous proof of general financial probity and responsibility.

The **XLVets** board are therefore delighted that Peter can see significant value in working together with **XLVets** to lead a high quality campaign to win a tender for OV services. Further exciting opportunities to work more closely with Peter’s existing business may also be possible once the TB testing business becomes established.
The XL Farmcare proposal

Our plan combines the skills of an established Government contractor with experience of recruitment and retention of vets, Peter Plant of Hygiene Audit, with a proven national cooperative of farm veterinary practices, XLVets. The resulting business has been created and is known as XL Farmcare UK Ltd. The function of this company is to provide contract management responsibilities and to manage a pool of centrally employed TB testers who can be made available within the operating regions.

At a regional level, subsidiary companies will be created that are owned by participating veterinary practices. The voting shares will be divided between those shareholding practices and the national XL Farmcare UK business. The local company will be tasked with delivery of TB testing in their region.

Regional companies will not require any additional facilities but the directors in that region will be the local arm for the directors who manage the contract nationally. We anticipate that regions will need to nominate directors who will be the representatives within their region for finance, service delivery and quality. The region may also wish to nominate a chairman and a national representative.

Voting rights, management decision making and distribution of income are all managed separately at both national and regional level through use of three different classes of shares. An explanation of the likely structure and distribution of shares is illustrated in the panel starting on page 6. However the precise mechanisms will be refined and established once the tender documents have been made available.

The national company will also directly or indirectly employ and manage a group of OVs who will be deployed within the successful regions to assist in delivery of testing. These testers will be charged out to the regional companies at an agreed rate to help accommodate seasonality or local short term staffing difficulties. Systems will exist to ensure that these staff are used efficiently and can therefore be provided at a competitive rate within the region.

Competitors

We are already aware that Eville & Jones, the largest Meat Hygiene contractor, will be mounting a bid. Efficiencies in meat hygiene plant operation have led to a situation where most contractors have poor utilisation of their veterinary team members.

The National Fallen Stock Company have also declared an early interest but it seems that their plan is to become involved if (and possibly when) farmers are made to contribute directly to the cost of TB testing.

The only group working widely with veterinary surgeons is NADIS. It seems that their principle ethos is that all vets should be in a position to test their own clients’ herds and, perhaps more importantly, no other vet will be testing those cattle.

While this is clearly a message that all vets want to hear, we do not believe that the customer, AHVLA, agree with this proposition. They have publically stated that testing will be beyond the boundaries of practices and the NADIS proposal has many similarities to the current BVA “Memorandum of Understanding”.

AHVLA currently have to process payments to 600 practices and 3,000 OVs. Significant savings will only be possible if fewer practices are involved and the small team at NADIS may find this scale of administration a significant step change.

More critically perhaps, it is difficult to see how a proposition involving all practices can deliver high standards of quality control. We believe that quality management will be the defining component of a successful bid and the bar must be raised if quality compliance and full confidence is to be assured.
Control and income distribution in XL Farmcare companies.

The XL Farmcare regional company

Three classes of shares will be issued. “A” class shares will distribute the voting rights. All eligible practices who elect to become shareholders in the business will distribute half of the available voting shares between themselves, probably in equal proportions. The remaining half which will never be diluted by further share issues will be in the hands of the national company XL Farmcare UK Ltd. This means that a line of control is clearly evident from the national contract holder and into the regional delivery company. Stalemate between the local practice shareholders and the National company is avoided in two ways as we will see shortly.

Class “B” shares are used to distribute any residual operating profits. There will inevitably be some unpredictable aspects that involve cost and financial return, not least the variations in disease incidence from year to year. The local shareholders will be tasked with decision making that accommodates risk and return and will set budgets that may leave a buffer of profit at year end. This will be divided according to “B” class share ownership. Only the local shareholding practices will have access to this class of share. All variable income will remain within the region.

Finally, and with reference to a potential situation of decision making ‘stalemate’ a single class “C” share will be owned by the National company. This is only there to illustrate to all parties that operational change can be effectively delivered at grass roots level when the need arises.

In practice this facility is unlikely to be necessary because each region is also represented at national level within the business known as XL Farmcare UK Ltd.
Quality Assurance

For many practitioners, and for AHVLA, the term “quality assurance” revolves around ensuring that testing procedures are carried out to the letter of the “Manual of Procedures”. For the new business, quality will have a broader and more meaningful interpretation based on assuring that the outcome of tests are meaningful and can be relied upon by all stakeholders.

Government contractors have learnt that progressive standards of people management are demanded by direct Government contractors. There will be an obligation to have procedures that deal with mechanisms of fairness in recruitment and retention of all staff. This level of governance ranges from aspects relating to discrimination to ensuring that rigorous fairness is employed in progressing staff through the business.

Due to the heavy reliance on data for efficient administration and in monitoring quality, the new business will need to set high standards for provision of effective IT systems within veterinary practice. Processes will need to be in place that secure the IT services in case of accident or power outage and rigorous systems for back-up and security will need to be assured.

The equipment used in testing has to be fully assured. This means that the cold chain history for all tuberculin must be clearly traceable with temperature excursion alert facilities in place for where-ever the material has been stored prior to use. Records will be collated demonstrating that testing equipment undergoes a regular program of service and re-calibration. Personal protective equipment needs a program of cleansing and disinfection with an associated audit trail.

One potential benefit of the XL Farmcare business may be to facilitate access to abattoir rejection data such that this information becomes an integral part of the control of TB. Such data will help manage tester performance and also deliver greater efficiencies in control of disease.

More recently AHVLA have conducted some telephone follow up with farmers after completion of tests. This is likely to become a component of contractor quality assurance and will be a further performance management tool.

All these aspects of assurance will be the responsibility of the XL Farmcare UK team. Veterinary practices who wish to participate fully in regional delivery will need to give consideration to how they can become fully compliant with such processes. For some practitioners it may be simpler to offer testing on farm to high personal standards but to leave the remaining systems assurance to larger practices that already have such facilities in place. Provision will be made for this kind of arrangement to work effectively at a local level.

How will testing be paid?

For local practices the payment per test is likely to be made in a similar way as it is at present. It is unlikely that the regional directors will adopt the complex ‘sliding scale’ system used at present, payment will consist of a payment for organising the test and attendance regardless of size and thereafter there will be a payment per head. Larger herds are likely to yield less on a per head basis than smaller herds. It is unlikely that there will be mileage payments made any longer.

Practices that are able to deliver full quality compliance and data management will become eligible for an additional payment to reflect the costs involved.

Practices that are quality compliant and who choose to become involved in regional management will not only receive their additional quality payments but also have the opportunity to share in any residual profits that remain within the local business as a result of
The XL Farmcare national company

In the national company we again anticipate three classes of shares. Currently half the voting rights, made possible through ownership of “A” class shares, are allocated to XLVet UK Ltd. The individuals tasked to represent XLVets’ interests will be supplied by the successful regions. We anticipate that one shareholding practice member at the regional level will take turns to represent their region on the national board of directors.

The remaining half of the voting rights are held by Peter Plant.

The “B” class shares in the national company are again intended to allow distribution of profits. These shares are held in equal proportion in the name of XLVet appointee, James Allcock and Peter Plant’s personal holding company, “Plant Group Investments”. James has been involved in driving the project forward and in developing and communicating the concept. He will continue to work with Peter as a veterinary representative of the company on behalf of XLVet UK Ltd to ensure that the business becomes established and effective.

We are also considering a subclass of shares for distribution of dividend that may reward the membership of XLVets if their region’s bid proves unsuccessful.

It is not anticipated that there will be significant profits remaining in the national company. Decision regarding payment by dividend will be made by the board of directors, the majority of whom are representatives from the successful regions. However, it is sensible that provision is made for remuneration of key management personnel via company dividend. All aspects of company remuneration will be fully transparent and will form a component of the tender proposal.

Finally a single class “C” share may be issued to the contractor representative if required. This is simply to ensure that the awarding body is assured that there will be no stalemate should changes need enacting and the board of directors and subsequently the shareholders, cannot agree.
good decision making. Equally, if their forecasts are wrong they stand to lose money. It is these practices that will set the payment structure within their region and who will be involved in agreeing the details of the bid proposal.

Shareholding practices will be eligible to provide a director to the regional board. Regional directors will be representatives for finance, quality and service delivery. They will be the regional representatives of the national directors who will have responsibility for each of these components of the business. One of these directors might represent their region at national board level and may have responsibilities at that level too. They will be appropriately remunerated for their time as directors on each board. Decisions on remuneration will be decided by the management team and will be fully transparent within the details of the bid.

**Options for veterinary practices**

There are three options for practices that share the XL Farmcare vision outlined above.

Practices who embrace the proposal at an early stage and who are willing to put processes in place that can lead to excellence in quality assurance for TB testing delivery, have two choices.

**The “Blue” option** is to allow others to determine the best possible proposal and attempt to win the work in your area. Having been successful that same team would set up a payment schedule for testing where you too will receive the same overall payment per head of cattle tested. You can be confident that you will receive the standard fee for any testing that you agree to conduct and additional payments will be made for delivery of quality standards within the lifetime of that contract agreement. There is little risk.

If you choose to decline to perform a test or if you suffer staffing difficulties the company will provide testers employed by the national business XL Farmcare UK Ltd. We expect these practices to indicate that their first and preferred option is to back the XL Farmcare bid. We ask for a signature to this effect and for these practices to provide some historical data relating to numbers of cattle tested and the payments received for those testing periods. We have developed data collection sheets for completion by your staff and we have also developed tools to help you determine some elements of the true cost of TB testing delivery within your business. This documentation can be made available should you and your colleagues choose this option.

**The “Green” option.** These same practices could choose to become actively involved in the regional management of the business. This would preclude them from having any involvement in developing a tender with any other company. The business directors both for the national company and for the regional companies will be drawn from the practices who select the “Green” option.

Directors will be paid for the work they do and it is they who will agree, with appropriate professional advice, how their annual budget will be managed. It is inevitable that the budget will build in a contingency for change and it is possible that there will be an element of profit available for distribution to shareholders as dividend at the year end. Equally these shareholding practices bear an element of risk.

Practices that choose the “Green” option stand to make more if they manage the business well than practices that choose the “Blue” option.

We expect practices that choose this option to commit some financial input to establish their shareholding. In some regions this has been done by pooling current testing payments. A Heads of Terms agreement will form a basis of a formal contract to establish the shareholding of the new companies once the regions have been defined. Again these practices are expected to provide some historical data relating to numbers
of cattle tested and the payments received for those testing periods so that pricing models can be developed and discussed.

The “Yellow” option is for those practices who feel unsure about the standards of quality assurance compliance for their business systems. However, they are certain that as practicing OVs they can test cattle in a consistent way and deliver high standards of true veterinary work. These practitioners are able to move towards being involved in different ways in future tender rounds. The testing payments they receive will be at the same rate per head as paid to the other practices who have agreed that XL Farmcare provides the best alternative for their business.

They will be given the option to test on farms in their area and if they decline that test only testers from the national company will be deployed instead. They do not have to invest any money or provide any management input into the business. We ask for two things from practices that choose this option. The first is a signature to indicate that the XL Farmcare model is their preferred vehicle for delivery of testing in their area. This will not preclude becoming available to test for another organisation if XL Farmcare fails to win in your region. The second request is that you demonstrate your commitment to the plan by completing the data collection forms relating to cattle tested and to payments made on a monthly basis over the last two years. Simple documentation is available to complete this request.

The success of XL Farmcare

Government procurement guidance will encourage more than one provider to compete to deliver TB testing. In the first round the logic suggests that more than one provider will be involved to ensure that failure can be covered by alternative delivery organisations. This could mean that the best plan, offering best value overall, will not prevail in all regions.

However, in subsequent years, efficiency and quality will prevail if pricing remains competitive. We believe that the XL Farmcare proposal recognises the practical differences that exist between farm veterinary practices and provides an opportunity for all practices that remain committed to farm work to become involved and to carry out TB testing at a fair and equitable rate. It is possible that AHVLA will understand that the XL Farmcare model can deliver an economically advantageous outcome that protects service delivery in all areas of the UK. We encourage you to support this proposal and to commit to an exciting future.
The XL Farmcare proposal recognises the practical differences that exist between farm veterinary practices across the UK. It provides an opportunity for any practice that is committed to a full farm service to continue to carry out TB testing at a fair and equitable rate. The XL Farmcare model can deliver an economically advantageous outcome that protects service delivery in all areas of the UK and we will endeavour to communicate this value concept to AHVLA over the coming months.

Please discuss these plans with your colleagues and also, where appropriate, with neighbouring practices. We acknowledge that membership of XLVets cannot be a pre-requisite for participation. We encourage you to gain support for this proposal, provide early feedback and to seek commitment to a positive future. Early adopters have an opportunity to shape the future of farm veterinary work in their region.