

Sandwell and West Birmingham Hospitals NHS Trust
Midland Metropolitan Hospital Project
Outline Business Case

Appendix 10a – Soft FM Services Review

**SANDWELL AND WEST BIRMINGHAM HOSPITALS NHS
TRUST**

PFI PROJECT

SCOPE OF FACILITIES MANAGEMENT SERVICES

FINAL REPORT NOVEMBER 2008

Services for life

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1 Introduction

- 1.1.1 This report describes the initial decision making process undertaken for the Project and makes recommendations for the scope of Facilities Management (FM) services included within the proposed PFI development. A decision on the scope of services is essential prior to the publication of the OJEU notice requesting expressions of interest, currently scheduled for Spring 2010 but would be advantageous at an earlier date as prospective bidders will be taking soundings with the Trust and potential service partners to assemble an appropriately structured SPV.
- 1.1.2 The transfer of certain non-clinical services to the PFI Partner is traditionally an element of PFI. The decision on which services will transfer to the PFI Partner and under what employment terms for the affected staff is an important element of the planning process for the project. Should soft FM services be included, then the PFI Partner will have responsibility for services over the lifetime of the PFI concession, typically 30 years.

2 DH & HM Treasury Guidance

2.1.1 In March 2006, HM Treasury published a report; “PFI: Strengthening long term partnerships” which reviewed operational schemes; identified lessons learned and made proposals for improvements on future schemes. The report looked at more than 100 projects and revealed strongly positive results on overall performance. However, it also highlighted that some areas of PFI were performing more strongly than others: -

- Hard FM services are activities that directly relate to the maintenance of the underlying asset (e.g. maintenance & refurbishment). The research showed that these services within PFI work well.
- The review of Soft FM services (e.g. domestics, catering & portering) was less positive, concluding that whilst standards are no worse than in non PFI hospitals, PFI had not led to a step change in delivery in this area.

Prior to this, the inclusion of Soft FM services within a PFI development was promoted as the preferred decision, but the findings of the report led to the introduction of a more vigorous approach to the value for money (VfM) assessment. It is this assessment that now determines the inclusion or otherwise of Soft FM services.

3 Value for money

3.1.1 The Treasury report; “PFI: Strengthening long term partnerships” established principles for examining the VfM of the inclusion of Soft FM services within PFI contracts. Public authorities would now be required to prove rigorously:

- Genuine integration benefits in terms of accurately assessing the whole life operating costs of projects.
- That private sector management of subcontractors within PFI will be more effective than direct public sector management of a separately let soft services contract.
- That there will be a greater reduction in interface issues between service providers than if soft services were let separately.
- Flexibility benefits for end users with a single point of contact that could not be replicated with a separate soft services contract.
- Improved consideration of soft service requirements in design and construction of PFI assets leading to quantifiable reduction in maintenance and operating costs of the project.
- Financial incentives to perform within a PFI structure that are significantly better than in a separately let soft services contract.

3.1.2 The VfM assessment in the provision of FM services is an integral element of the overall assessment made for the procurement route (i.e. PFI or conventional funding) to be undertaken in the Outline Business Case.

3.1.3 An outline VfM assessment has been undertaken for the Domestic, Catering and Portering services only. This approach is reasonable given that design risk for the new hospital will primarily involve these services, particularly so for Catering, and also that these three services comprise the great proportion of the cost of all soft FM services, without which the range of services offered will not be sufficient to attract widespread market interest.

4 Recent PFI schemes within the NHS

4.1.1 The key decision required is the extent to which soft FM services are included in the PFI agreement and recent schemes have adopted different approaches:

<u>Soft FM included:</u>	<u>Hard FM only :</u>
Barts & the London Hospitals	Birmingham (UHB)
St Helens & Knowsley	Newcastle
North Staffordshire	Salford
Peterborough	North Bristol
Mid Yorks	Tameside

4.1.2 Interest from potential bidders is an important consideration in the approach to FM services and the Trust has taken soundings from all of the leading consortia. It is evident that the inclusion or exclusion of services will have little bearing on their interest in the project.

5 FM Scoping

5.1 Hard FM 'Only' Service

5.1.1 The services considered within Hard FM which would usually be considered as included are as follows:

- Estates
- General Services (Management of the Contract)
- Helpdesk
- Energy & Utilities Management
- IT Infrastructure
- Grounds Maintenance
- External Window Cleaning (included in Estates service)
- Pest Control (usually sub-contracted)

5.1.2 The requirements of PFI dictate that these services are provided by the PSP as transfer of these services is essential to the viability of the PFI.

5.1.3 It is considered that the PFI Partner is better suited to manage the risks and operational issues included in the Hard FM 'Only' Service.

6 Soft FM

6.1 Services

6.1.1 The services considered within Soft FM are as follows:

- Domestics/ Ward Services
- Catering (Patient)
- Catering (Retail, Vending & Hospitality)
- Portering
- Postal Services
- Receipt & Distribution
- Laundry (currently outsourced)
- Transport (including Patient Transport Services)
- Security
- Car Parking
- Waste Management

6.2 Commentary On Soft FM Services

6.2.1 As can be seen from Section 3, there is recent evidence of several major schemes excluding soft FM. The market is increasingly accepting that these services do not necessarily form part of a PFI scheme, as most of the above services are better suited to in-house provision.

6.2.2 The Trust and its advisers have considered carefully how best to proceed and the conclusions are summarised in the following paragraphs.

6.2.3 The Trust has three years experience of running a 'hard FM only' PFI at the BTC and this has proved to be a successful and viable model, with appropriate private sector integration working well. In addition, the role and delivery of soft FM services within the Trust has recently been critically reviewed and both patient catering and cleaning services have been subjected to a radical overhaul.

6.2.4 Given the current high profile emphasis on 'clean hospitals' and the need for a positive patient experience, the Trust considers cleaning to be an essential in house service. This allows for future flexibility in the event of policy changes. Consequently, at SWBH cleaning services have been integrated into the clinical structure under the direct responsibility of the Trust's Chief Nurse. It would be seen as a step backwards to reverse this strategy by including the cleaning service into the PFI scope.

6.2.5 Likewise, ensuring that in-patients are properly fed with nutritious, appetising and attractive meals is a high priority, as it is well documented that this helps speed up recovery and therefore also assists in reducing the length of stay. To help address this, a good deal of planning has gone into developing its own Central Production Unit which will imminently replace an out sourced service for cook chill meals.

- 6.2.6 However, it is considered that there will be benefit in inviting bidders for proposals for the 'commercially based' services such as Retail Catering, where there is the potential for achieving a sound commercial deal for the Trust which uses the entrepreneurial skills of the private sector to optimise income and profit, whilst improving the offering to staff, and visitors. On that basis, it is proposed to include Retail Catering in the scope of the PFI. This should increase the attractiveness of the scheme to the market.
- 6.2.7 Portering services comprise two elements, patient movements and the movement of goods/materials around the site. The patient element makes up the bulk of the workforce, although there some overlap with the non patient side to maintain staff utilisation. Given the bias towards being a 'patient centred' service it is considered of merit to be retained as a directly provided Trust service. It follows that Receipt and Distribution services and the Postal service should also remain in house as they are closely aligned to Portering and this would retain some degree of staff flexibility.
- 6.2.8 Portering also has a direct operational relationship with Security services and Car Parking. They share operational and physical boundaries and offer a level of service and staff integration and flexibility. The Trust has considered the merits of inclusion, but has decided that they are better served by retaining the services in house as this will support the 'patient centred' philosophy in Soft FM services. Additionally, there is a degree uncertainty around the future Central policy on charging for visitor car parking. If car parking revenue is built into the PFI tariff, it would be difficult and somewhat complex to 'unpick' at some future date.
- 6.2.9 Linen and laundry processing is currently outsourced and should remain so. Until recently the Trust had its own facility on site and was a significant player in the NHS Laundry business. Given that the limitations on access to capital over a prolonged period were largely behind the closure of the laundry, then continuing with outsourcing is the most sensible strategy. Whilst that outsourcing could be part of the PFI, it would not make economic sense, as the Trust would be paying a profit and risk premium to Project Co for no additional value, and would be at the mercy of a variable cost model as part of the Payment Mechanism.
- 6.2.10 It can be seen from the above that there are several powerful arguments in support of excluding soft FM from the scheme. When considered along with recent market trend of 'hard FM only' and the markets willingness to accept that trend, the Trust is confident in its scoping position.

7 High Level VFM Analysis

- 7.1.1 Services provided under PFI attract a cost premium for operational risk carried under the Payment Mechanism. Profit margin expectations also tend to be higher than market testing which are by traditional rather tight.
- 7.1.2 The following table summarises the outcome of the high level cost analysis which has been derived from Version 6.2 Schedule of Accommodation, and reference to DoH Standard Service Level Specifications:

Service	Projected Benchmarked In House Price for New Hospital*	Anticipated market price under PFI for New Hospital**
Cleaning	£2.97m	£3.20m
Catering	£1.53m	£2.06m
Portering	£0.98m	£1.13m
Total	£5.48m	£6.39m

* Note 1: Uses Trust current position based on ERIC benchmark data and PFI scheme beds and floor area.

** Note 2 Uses benchmark PFI prices against scheme beds and floor area and assumes compliance with National Standards for Cleanliness

- 7.1.3 This assessment shows that the exclusion of Soft services is likely to deliver the best Vfm for the project.
- 7.1.4 Having reviewed Trust operational policies the costs are valid and Vfm.

8 Integration & Design Benefits

- 8.1.1 One benefit of PFI is that responsibility for designing an efficient operational facility rests with the PSP. Using their design, construction and operational experience they are able to bring best practice to hospital design and deliver the associated benefits for the Trust. This is particularly important in respect of the Catering service where the Trust will decide the functional content in the new hospital and be responsible for any future changes in service provision (e.g. conventional, cook chill, cook freeze, etc).
- 8.1.2 The exclusion of Soft services will require the Trust to take this responsibility and to manage any potential risks. This risk will be mitigated in part by the development of FM design Output Based Specifications (OBS).

9 Future Flexibility

- 9.1.1 There are a number of non financial arguments therefore to exclude Soft services from the PFI, for example, future flexibility is a major concern for the Trust (and has been a key consideration in planning the design of the new hospital).
- 9.1.2 The Trust has aligned cleaning services within the Nurse management structure to ensure standards of cleaning are achieved and maintained.
- 9.1.3 A PFI contract will run for a long time, typically 30 years and by committing to the inclusion of Soft services in the project scope, it is arguable that future flexibility is constrained. Future service changes (e.g. improved cleaning standards to meet Hospital Acquired Infection regulations) would be charged as a variation to contract. The Trust may find itself paying a premium price without the ability to test the price under market competition.

10 Recommendations

10.1.1 The Project Board is recommended:

- To note the requirement to include hard FM services within the PFI agreement.
- To approve in principle the decision to exclude all Soft FM services from the PFI agreement, with the exception of Retail Catering.