

## **Report of Airedale NHS Foundation Trust to the meeting of the Health and Social Care Overview & Scrutiny Committee to be held on 22<sup>nd</sup> March 2018**

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**AG**

### **Subject:**

**Airedale NHS Foundation Trust's wholly owned subsidiary for Estates, Facilities and Procurement Services**

### **Summary statement:**

On the 25<sup>th</sup> October 2017 Airedale NHS Foundation Trust Board gave approval to proceed with the formation of a wholly owned subsidiary for Estates, Facilities and Procurement Services. The subsidiary is named AGH Solutions Limited and went live on 1<sup>st</sup> March 2018 with the TUPE (Transfer of Undertakings (Protection of Employment)), transfer of 319 staff to the subsidiary.

This is aligned to the Trust's drive for continual improvement in the quality of services provided to the local population and a reflection of the need to change our approach to continue to thrive and be sustainable going forward.

It reflects the national picture across the NHS, driven by the financial challenge and coupled with the need to sustain high quality and safe services, where organisations are coming together to work in different ways to ensure delivery of the population health, quality of care and better use of resources.

The Trust has listened to the staff transferring to the new subsidiary and has agreed that their terms and conditions will be protected for the life of the 25 year contract. Staff will also retain their terms and conditions upon promotion and the subsidiary will at least match the Agenda for Change annual award for cost of living. In addition the Trust has transferred any eligible bank staff on to Agenda for change contracts prior to the subsidiary going live.

This report includes extracts from the redacted business case which is attached as an appendix.

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**Portfolio:**

**Health and Wellbeing**

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## 1. Summary

It was considered that the establishment of a wholly owned subsidiary company for Estates, Facilities and Procurement services, at Airedale NHS Foundation Trust, will:-

- Enable the Trust and its subsidiary company to have greater focus on the specific core functions of these services and also enable the subsidiary to develop an increased commercial focus. This will enhance the opportunity to improve the quality of the services provided to Airedale NHS Foundation Trust and give greater potential to realise additional income which will be necessary to keep pace with the investments needed to ensure services can be sustained.
- Provide an improved focus and transparency of performance against standards as part of a continued drive for improvement and efficiencies needed to respond to the rising demand for services the Trust provides.
- Provide a model which gives the subsidiary company greater flexibility to recruit and retain key staff, helping to address workforce pressures now and in the future.
- Gives an excellent opportunity to discharge our role in the wider community in respect of providing additional employment for local people at competitive rates of pay, the subsidiary will look to develop and train these people and provide opportunities to have a long and prosperous career. This will support the local authority's ambition of making Bradford a great place to live given the links between good employment and the health and wellbeing of the local population.
- Look to take up the opportunity of reviewing the potential of increasing the opportunities for local Small and Medium Enterprise (SME) to do business with the Subsidiary. The current SFI rules use the NHS criteria for doing business with SME's which are extremely strict and in most cases it makes it challenging for SME's to tender for business. This gives an opportunity to provide a huge boost to the local economy as well as providing potential growth in employment for other local businesses.
- Provide a significant contribution to the Trust's financial sustainability plan, quickly and with more certainty than other options.
- Provide a governance system which reserves control on key issues to the Trust, as the parent organisation, whilst also providing the company with delegated freedoms and flexibility to develop its services and its staff.
- Provide a service model which is more in accord with Trust values than other possible options, including valuing the Trust staff concerned and recognising their contribution. The governance arrangements would also require the subsidiary company to carry out its activities in accordance with the vision and values of the Trust.
- Research undertaken with other NHS Trusts who have progressed with this model has been positive in respect of improvements they are able to demonstrate with service and quality metrics, staff satisfaction, efficiencies delivered and growth.

## 2. Background

The NHS is facing increasing financial challenges linked to a number of factors - an ageing population giving rise to increased demand for the Trust's services, increased drug costs, rising public expectation, increasing regulatory requirements and workforce shortages that are creating competing demands for scarce financial resources.

In our local patch, the demographic challenge is complicated by the diversity of the communities we serve, significant areas of deprivation, and the rurality of our catchment area.

The Trust has through its positive financial position been able to manage local financial pressures but now recognises the need to do things differently to ensure that the organisation has a sustainable future. Externally, this involves working with partners across health and social care locally and regionally, in order to address the triple aim set out in the Five Year Forward View, i.e. population health, quality of care, and cost control. Internally, this has led to the recognition that the way the Trust runs its support functions needs to change to enable innovative solutions, to become more fleet of foot, to be able to work differently with our local community, and to create both savings and an income stream that will be available to support the Trust's financial position.

The creation of the SPV with its focus on delivering a high quality service managed through stretching contracts and KPIs, and its commercial freedoms to grow its business and develop innovative solutions and services will provide a better support for the Trust than maintaining the status quo.

In line with the overall focus on productivity across the NHS, the SPV will be required to deliver on operational efficiencies through standardisation and rationalisation of products. This will be achieved through establishing a managed equipment and consumables service which will enable a more collaborative approach between the estates and facilities and procurement services.

It is the Trust's genuinely held belief that this proposal provides our existing staff with greater protection and support when compared with other possible consolidation options that are being considered at a regional level, and it enables them to continue to work closely with the Trust, and be part of the Trust's delivery of the Right Care strategy to our population.

There are currently nine other NHS Estates, Facilities and Procurement subsidiaries with over 100 staff.

## 3. Report issues

The Trust's strategy is centred on providing high quality, accessible care for the local population in a context where there are significant financial constraints and increasing demand. The Trust will not be able to meet these challenges and sustain services without implementing new models of care and new models for delivering the business. The Trust believe that creating a subsidiary for estates, facilities and procurement will enable those services to be sustained at a high quality and prevent the need to cut costs that impact upon the quality of the services provided and or the wellbeing of the staff.

The reasons can be summarised as follows:

- **People:** - A subsidiary will deliver the benefits of having private sector freedoms with public sector values, including greater flexibility to allow staff incentives and rewards for excellent performance. This will ensure that staff and experience can be retained at the organisation and more specialist staff can be attracted to the organisation. The culture of the new organisation can become more focused on performance, excellent customer service and be more agile and innovative. The subsidiary will target growth in the local community by providing local employment and continuous improvement.
- **Financial:** - The subsidiary will be managed as a separate financial unit which will be closely linked to performance metrics and patient focused objectives. NHS SFIs are rigid and restrict the opportunity to work creatively and flexibly with SMEs in the local community. Working through an SPV removes these issues and will enable the SPV to participate in and win more tenders/contracts for new business. The subsidiary will benefit from greater flexibility and more efficient processes, obtaining commercial regulatory advantages. Upon expansion there will be further advantage from the economies of scale that will be created through new contracts that the subsidiary wins. In the longer term it will be able to access funding, grants and other external investment. These benefits will ultimately be reflected in the Trust financial position.
- **Management:** - In forming a subsidiary the Trust will be able to maintain a level of control, rather than outsourcing and ensure a strong governance framework through the management of service level agreements. The trust will be able to focus on delivering its core services and risks.
- **Service:** - The subsidiary will ensure the delivery of improved services for the Trust which will improve patient care and patient experience.
- **Growth:** - The subsidiary will develop a separate identity and brand to enable it to bid for other work to increase in size and diversify its services into areas not available to the NHS.

Forming a subsidiary will enable a number of benefits to be realised for the Trust. These will include:

- Establishing a company to provide cost effective and quality support services, which focuses on this and this alone, enabling the Trust to focus on its core services.
- Helping to improve quality through detailed service specifications and KPIs as part of the Operated Healthcare Facility Contract and Service Level Agreements.
- Providing greater flexibility and freedoms for the Trust's subsidiary company, enabling it to build upon the expertise of its staff and systems and develop a more commercial focus, capitalising on working outside the restrictions on NHS SFIs, with the aim of being better able to seize opportunities to generate additional income, for the benefit of the Airedale NHS Foundation Trust.

- Enabling the company to change the culture and develop new ways of working more effectively (which would be more difficult to achieve within directly managed Trust departments) whilst the company would still share the Trust's values, ethics and aspirations.
- Transferring performance risks relating to these services from the Trust to the company, with clear accountability arrangements.
- Delivering a significant and tangible contribution to the Trust's financial delivery plan, supporting Airedale NHS Foundation Trust to continue to deliver sustainable, high quality and safe services.
- Allowing more flexibility to recruit and retain staff to provide these support services, addressing workforce pressures and risks.
- Offering more security to Airedale NHS Foundation Trust support services staff, compared to other possible options, as the Trust would retain specified reserved powers over the company.
- Providing an efficient, effective and quality managed equipment and consumables service which will deliver operational efficiencies from the standardisation and rationalisation of products, including a more joined up approach between estates and facilities and procurement services.
- Further improvements to sustainability, whilst the Trust has made a significant reduction in the energy consumed by the hospital (a reduction of 30% over the last 4 years), it can be seen in the graph in the business case that energy use is only a small proportion of the Trust's Carbon footprint. A policy of more local procurement by the subsidiary and an improved use of electric vehicles will lead to a further reduction in Carbon emissions in the future.

Airedale NHS Foundation Trust contracted QEF (Gatehead) to assist setting up their wholly owned subsidiary. QEF were one of the first subsidiaries established and underwent significant scrutiny by HMRC. This model was approved by HMRC and the same model has been adopted by Airedale NHS Foundation Trust.

#### **4. Options**

The options considered by Airedale NHS Foundation Trust can be viewed in 3.2 of the redacted business case attached to this paper.

#### **5. Contribution to corporate priorities**

The Trust's '*Right Care*' strategy over the previous few years of 'putting the patient and their care at the centre of everything we do' has been about improving the patient experience and maintaining high quality care, working in partnership across health and social care.

The Trust's strong financial position in recent years has supported delivery of this strategy however, the NHS is facing increasing financial challenges and the Trust recognises the need to do things differently to ensure that the organisation has a sustainable future.

The creation of the wholly owned subsidiary with its focus on delivering a high quality service managed through stretching contracts and KPIs, and its commercial freedoms to grow its business and develop innovative solutions and services will provide a better support for the Trust than maintaining the status quo. This will be achieved by providing a significant contribution to the Trust's financial sustainability plan, quickly and with more certainty than other options.

Specifically, the wholly owned subsidiary will give an excellent opportunity to discharge the Trust's role in the wider community, in respect of providing additional employment for local people at competitive rates of pay.

The case for change and benefits of change shown in section 3.0, 3.1 and 3.2.1 respectively, of the redacted business case attached to this paper give further detail.

## 6. **Recommendations**

- 6.1 It is asked that the Health and Social Care Overview & Scrutiny Committee note the reasons why Airedale NHS Foundation Trust agreed to form the wholly owned subsidiary, AGH Solutions.
- 6.2 It is asked that the Health and Social Care Overview & Scrutiny Committee note the ambitions of AGH Solutions, including employing more people from the local community and using more local community businesses in the supply chain.

## 7. **Background documents**

None

## 8. **Not for publication documents**

None.

## 9. **Appendices**

- 9.1 **Appendix 1** - Full Business Case for a wholly owned subsidiary delivering Estates, Facilities and Procurement Services with confidential appendices redacted.