

Northumberland, Tyne and Wear NHS Foundation Trust

Board of Directors Meeting

Meeting Date: 22 March 2017

Title and Author of Paper: NTW Subsidiary Company (NTW Solutions) –
Business Case

Malcolm Aiston – Director of Estates and Facilities

Executive Lead: James Duncan, Deputy Chief Executive and Director of Finance

Paper for Debate, Decision or Information: Decision - to set up NTW Solutions as subsidiary company, wholly owned by the Trust.

Key Points to Note:

- The Business Case sets out the strategic context around the future delivery of support services in the NHS and considers service model options for the future provision of the Trust's estates, facilities, procurement and financial and workforce transactional services.
- The identified preferred option, taking into account a range of factors described in the business case, is that the Trust sets up a wholly owned subsidiary company (NTW Solutions), under the powers of the Health and Social Care Act 2003. The business case outlines the benefits which this would deliver. An increasing number of public authorities have, and are, setting up similar subsidiary companies.
- Communications and engagement with staff is outlined, including the themes which have been raised in TUPE consultation with staff and their representatives. A key point is that a "letter of comfort" has been received regarding continued access to the NHS Pensions scheme for the existing staff who would TUPE to the new company.
- Setting up the company would involve the transfer of some assets to the company, including 25 year leaseholds on some properties, funded through a combination of loan and equity funding. An Operated Healthcare Facility contract and Service Level Agreements would be agreed between the Trust and NTW Solutions, based upon commercial terms, and the provision of services would be managed through these documents.

- NTW Solutions, as a wholly owned subsidiary of the Trust, would be part of the “NTW Group”. Governance arrangements, set out in the Company’s Articles of Association, Standing Financial Instructions (SFIs) and a Schedule of Reservation and Delegation, identify matters and decisions which would be reserved to the Trust and decisions which would be delegated to the Company. These documents would all be agreed by the Trust. The Company’s Articles and the SFIs are presented in an accompanying paper for approval, should this proposal to set up NTW Solutions be approved.

Risks Highlighted to Board :

- Risks are highlighted in the Business Case

Does this affect any Board Assurance Framework/Corporate Risks?

Please state Yes or No: Yes

If Yes please outline - Workforce and Financial related risks

Equal Opportunities, Legal and Other Implications:

- Bond Dickinson employed as legal advisers to ensure legal compliance

Outcome Required: The Board is asked to

- To consider approval of the Business Case recommendation to proceed with establishing the Company and the transfer of assets and services to the Company
- To resolve that this is in fulfilment of the Trust’s principal purpose and in fulfilment of making additional income available in order to carry out the Trust’s principal purpose; and that this is within the powers of the Trust
- That two directors are identified and authorised to sign the attached schedule of relevant documents (attached to this covering paper) on behalf of the Trust

Link to Policies and Strategies: Operational Plan, Financial Delivery Plan, Workforce Strategy

SCHEDULE

Relevant Documents

The Asset Transfer Agreement and its Schedules between (1) Trust and (2) Company. This document deals with the transfer to the Company of all assets (eg properties, contracts, vehicles, plant and machinery) that the Company requires in order to provide the Services and the value of the assets which is to be paid by the Company to the Trust. This is paid for by the Company by way of a loan from the Trust and a share issue to the Trust.

The Operated Healthcare Facilities Agreement and its Schedules between (1) Trust and (2) Company. This document deals with the provision of the services by the Company to the Trust in order to provide an operated healthcare facility at each relevant site. A separate specification for each service with appropriate KPIs is included in the agreement. The Trust is obliged to pay the agreed charges for the Services received. The term of the agreement is 25 years.

The Lease of Silverdale between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Rose Lodge between (1) the Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Monkwearmouth Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Hopewood Park Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Greenacres Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Ferndene Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Brooke House Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Plessey Centre between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of St Nicholas' Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Northgate (main) Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Northgate (Blocks 21, 32 and 99a) Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Lease of Northgate (Blocks 26, 27, 28, 29 and 30) Hospital between (1) Trust and (2) Company. This document deals with the transfer of the property to the Company under a long term lease (25 years). This will include a premium payable by the Company to the Trust. The Lease terminates automatically if the Operated Healthcare Facilities Agreement is terminated for any reason.

The Loan Agreement between (1) Trust and (2) Company and ancillary documents. This document deals with the loan from the Trust to the Company in order for the Company to pay for the assets under the Asset Transfer Agreement

and the premium under the Lease. The term of the loan is 25 years and the interest rate on the loan is 3.5%.

The Estates Management Services Agreement and its schedules between (1) Trust and (2) Company. This document deals with the provision of estate management services by the Company to the Trust in respect of the other sites of the Trust not included within the Operated Healthcare Facility Agreement. A separate specification for each service with appropriate KPIs is included in the agreement. The Trust is obliged to pay the agreed charges for the Services received. The agreement remains in force until terminated by either party on 6 months' notice.

The Service Level Agreement and its schedules between (1) Trust and (2) Company. This document deals with the provision of certain back office and other services by the Trust to the Company and payment by the Company for such services. The agreement remains in force until terminated by either party on 6 months' notice.

**Proposal to establish an NTW
Subsidiary Company**

Business Case

March 2017

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1 BACKGROUND AND PURPOSE

This section describes the background to the proposal; the purpose of the business case; the objectives of the proposal; the strategic context; and the scope of the proposal.

1.1 Background

Under the Health and Social Care Act 2003, Foundation Trusts became legally defined as independent public benefit corporations, which includes the freedom to set up subsidiary companies. An increasing number of Foundation Trusts have utilised these freedoms to set up wholly owned subsidiary companies including locally, QE Facilities Ltd in Gateshead and Northumbria Healthcare Facilities Management Ltd. Local Authorities have established similar subsidiary companies under their powers.

In June 2016, NTW Executive Directors considered the proposal to set up a subsidiary company to provide estates, facilities, procurement and transactional services. Following on from this the Trust Board of Directors gave approval in September 2016 to proceed with the early stages of work to progress the proposal. A Project Board, including two non-executive directors, and a Project Team were set up to take this forward. This has enabled work to progress to further develop the proposal, as described in this Business Case.

1.2 Purpose of this document

The business case has been developed for Trust Board approval to establish the company. It describes and presents:

- the current services being considered;
- the case to change the way these services are provided for the Trust;
- identifies different models of provision;
- evaluates these options;
- provides more information on the preferred option; and
- outlines the next steps to establish the company from 1 April 2017

1.3 Objectives of the Proposal

The proposal is that NTW sets up a wholly owned subsidiary company, with NTW as the only shareholder, to provide estates and facilities; procurement; and financial and workforce transactional services to the Trust. Where possible, this would be provided as an “Operated Healthcare Facility” where the company would lease or own the properties concerned and provide the support services through a detailed contract based on commercial terms. On other sites where an Operated Healthcare Facility contract is not possible, services would be provided through Service level Agreements (SLAs), also based upon commercial terms.

The objectives are to:

- provide high quality support services
- provide a cost effective service, supporting NTW in delivering sustainable and safe clinical services
- offer opportunities and security to NTW staff;
- to create more flexibility to address specific workforce pressures and risks; and
- provide greater flexibility and freedoms to enable commercial opportunities to be seized and generate income to the Trust

1.4 Strategic Context

1.4.1 At national level there are drivers to reduce support services costs through implementation of the Carter Report recommendations and through NHS Improvement's Sustainability and Transformation Plans (STPs). The Carter Report (*Operational productivity and performance in English NHS acute hospitals: Unwarranted Variations, February 2016*) recommendations included:

- improvements in procurement services to deliver a reduction of at least 10% in non-pay costs across the NHS by April 2018
- that all trusts' corporate and administration functions should rationalise to ensure their costs do not exceed 7% of their income by April 2018 and 6% of their income by 2020 (or have plans in place for shared service consolidation with, or outsourcing to, other providers by January 2017), so that resources are used in a cost effective manner.

The Carter Report recommendations are being progressed by NHS Improvement, through a "Carter Productivity Programme", working with selected Trusts to progress, implement and share lessons across the NHS. The Carter Review has recently been extended to cover community and mental health trusts - NTW is one of 20 Trusts taking part in this, with the findings expected to be published in late 2017.

Also at a national level, NHS Improvement's STP planning process includes the requirement to review support services functions and develop plans for shared service arrangements. There is a very strong direction from NHS Improvement to deliver financial savings from support services savings nationwide, within the context of the NHS Five Year Forward View.

1.4.2. Regionally, the local STP for Northumberland, Tyne and Wear and North Durham has identified a need to deliver £641m savings from a range of solutions, including £31m from "shared back office arrangements", to help bring the local health system into overall financial balance by 2020/21. The STP plans are at the early stage of information gathering and the service areas to be included in future shared

services arrangements are still under consideration. It is considered that the implementation of these arrangements would not realistically be able to be implemented before 2018/19 and possibly later.

Closely aligned to the STPs, NTW is actively involved in the North-East Regional Streamlining Programme, which is looking to demonstrate how administrative functions which support clinical and care providing staff can reduce time and costs associated with recruitment, training and occupational health. This process will allow NHS organisations to share best practice and learning. The programme will help in taking forward this proposal.

1.4.3 At NHS Trust level, our Operational Plan for 2017-19 identifies the intention to establish a subsidiary company to provide improved support services. This proposal is in the context of the Trust's priorities, which include:

- being a sustainable and consistently high performing organisation
- being a model employer, an employer of choice and an employer that makes the best use of the talents of the entire workforce

The recent "Outstanding" rating received from the Care Quality Commission provides very strong assurance that we are a high performing Trust. However, we need to sustain this whilst also delivering the requirement for all Trusts to deliver a 2% annual saving for the remainder of this Parliament. Our Operational Plan aims to deliver £10.6m savings in 2017/18 (£8.8m recurring and £1.8m non-recurring) and £6.8m in 2018/19. The Plan identifies savings of £1.5m recurring in 2017/18, rising to £3m in 2018/19, being delivered by the subsidiary company.

Our workforce strategy recognises staff as being our greatest asset in being able to deliver outstanding services. However, it also recognises workforce risks and pressures and describes how our future workforce needs to be flexible and have the right skills, knowledge and resources to continue to deliver effective, high quality services. It also identifies a need for an increasing focus on the terms and conditions and reward strategies for staff in the years to come, driven by both affordability and the need for flexibility within reward systems to meet service needs and sustain organisations.

The Trust's strategies and operations are underpinned by its Trust values, which are to be:

- Caring and compassionate – we have committed to listening to the views of others and be considerate in our processes and interactions with others

- respectful – we have committed to supporting and showing respect towards our staff, encourage their personal development, acknowledge their expertise and professionalism and value the role they fulfil;
- Honest and transparent – we have committed to maintaining open communication channels and ensuring information is shared widely. Taking accountability for the actions related to the project

This business case takes these values into account as part of considering the different ways in which these services could be provided.

1.5 Scope of the Proposal

The support services being considered in this business case are shown in the Table below. It should be noted that this business case relates only to those services identified below, and the model of provision for these services, at this point in time. It does not preclude future consideration of the model of service provision for these or other services, therefore for example other Trust support services could be delivered by the subsidiary company at a later stage.

Services In Scope
Estates Services
Estates Maintenance (Note: estates maintenance for community services buildings contracted to Mitie)
Estates Help Desk
Property Specialist Advice
Capital Projects
Energy and Utilities Management
Waste Management
Garden and Grounds Management
Facilities Management
Domestic Services
Portering Services
Laundry and Linen Services
Catering Services
Security & Car Park Management
Switchboard Services (excluding other telecommunications services)
Transactional Services
Transactional Workforce
• Recruitment
• Employee Staff records (ESR)
• Agenda for Change
Transactional Procurement
• Contract Management
• Purchasing
• Catalogues
Transactional Finance
• Technical Accounts and VAT

• Accounts Payable
• Accounts Receivable
• Financial Uploads
• Transactional Financial Management
• Salary Sacrifice and Employee Benefits
• Cashiers and Treasury Management

The scope of services has reduced slightly as there are 12 staff in the Patients Finance team and two in Facilities who would not be able to transfer at this stage due to Information Governance requirements that have not yet been met.

The subsidiary company would either provide these services directly for properties from which the Trust operates or it would manage contracts with others for the provision of some of these services. The latter includes, for example, services which the Trust provides on the Campus for Ageing and Vitality and the Tranwell Unit (based on other NHS FT sites); Walkergate Park and St. George's Park (PFI hospitals); or any of the leases that we have for properties where the landlord does not want to novate the lease to the subsidiary company.

Further information on the services is provided in the following section.

2 CURRENT SERVICE PROVISION

This section describes the services being considered in this proposal, including staff numbers; current budgets and recent financial savings; and some performance related information.

2.1 Staff numbers and budgets

The staff numbers and current budgets are shown in the table below. To note that there are an additional 7.5 w.t.e. staff in the capital projects team within the Estates Department who are not included below and who are charged to capital schemes. Staff numbers are shown as whole time equivalents – the headcount is circa 620 staff.

	Staff	Staff	Non-Staff	Total
	WTE	£m Budget	£m Budget	£m Budget
Estates and Facilities				
Estates	104.06	3,429		
Facilities	417.01	9,198		
Subtotal	521.07	12,627	0	12,627
Transactional Services				
Finance	21.80	619		
Salary Sacrifice	2.75	79		
Procurement	13.83	406		
Workforce	24.14	579		
Subtotal	62.52	1,683	0	1,683
Non Pay Budget			12,032	12,032
Total	583.59	14,310	12,032	26,342

It should be noted that the Trust has recently undertaken a large scale transformation programme covering a range of corporate services with the aim of improving the provision of these services whilst also achieving financial savings - a target of delivering £3.7m savings over the financial years 2015/16 and 2016/17.

Of this total, £0.9m was delivered from Estates and Facilities and £0.6m from Transactional Services (£1.5m of the £3.7m target) from a combination of pay and non-pay savings and an increase in income contribution.

The transformation programme involved extensive engagement with staff and is being followed on with formal consultation. The most recent consultation, for staff in the Transactional Teams included in the scope of these services, commenced on 30th August 2016 and was fully implemented in December 2016.

2.2 Service Performance

There are a number of ways in which the performance of the services in this document can be assessed, with particular assurance being able to be obtained where there is national benchmarking.

The Care Quality Commission inspection in June 2016 resulted in the Trust achieving an “outstanding” rating. As the CQC assessment includes the quality of service user accommodation, this reflects well on the estates and facilities services.

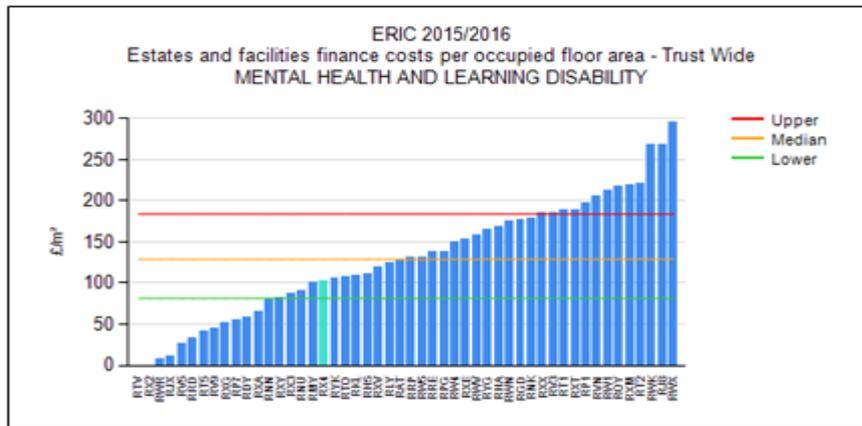
The national PLACE assessments provide a snapshot of how providers are performing against a range of non-clinical activities which impact on the patient experience of care, including cleanliness; the quality and availability of food and beverages; the extent to which the environment supports the delivery of care with privacy and dignity; the condition, appearance and maintenance of healthcare premises; whether premises are equipped to meet the needs of people with dementia; and a new category for 2016 which looked at aspects of the needs of those with disabilities and how well hospital environments meet them.

The most recent 2016 benchmarking information, summarised in the table below, shows that for all of these categories the Trust’s overall scores were above the national average.

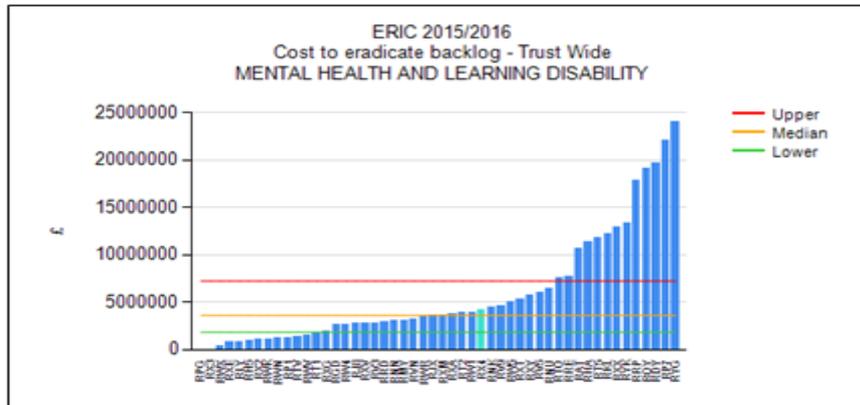
	Cleanliness	Food	Privacy and Dignity	Condition, Appearance and Maintenance	Dementia	Disability
NTW Average	99.26%	89.52%	94%	95.55%	82.49%	82.55%
National Average	98.06%	88.24%	84.16%	93.37%	75.28%	78.84%
Variation	+ 1.2%	+ 1.28%	+ 9.84%	+ 2.18%	+ 7.21%	+ 3.71%

“ERIC” data also provided a range of national benchmarked data for estates services. Some key, high level comparisons for 2015-16 are shown overleaf. For overall cost for estates and facilities services for mental health and learning disability Trusts’, NTW’s costs lie between the lower quartile and the median; for the cost of eradicating backlog maintenance we are just above the median; for cleaning costs per occupied floor area we are at the median; and for in-patient food services costs we are also at the median.

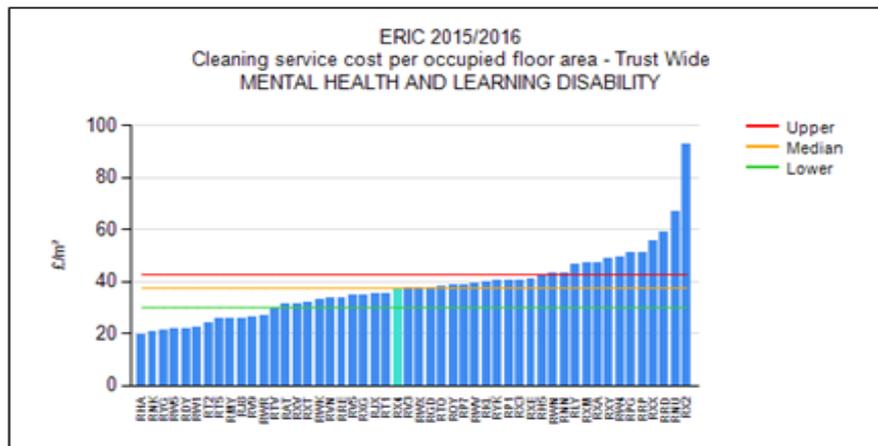
FM Services



Quality of Buildings



Cleanliness



Procurement – function cost	£342.5	£593.5	£243.7	£567.0
Procurement costs per £100m turnover	£108.0	£190.7	£130.5	£208.2

As referred to above, whilst the allocation of costs to specific functions makes this benchmarking more questionable, the Trust compares favourably when looking overall at the cost of the “finance function” – see table below

Function	NTW	STP area	Trust type (MH & LD nationally)	National All Trusts
Cost of Finance Function*	£1,889.6	£1,889.6	£1,666.8	£1,982.0
Cost of Finance function per £100m turnover	£595.8	£621.7	£838.7	£776.6

*figures in tables above provided from national data source – possible discrepancy for STP area figures

In summary, it is considered that the services being considered currently provide a very good service from a quality perspective, as evidenced by the Trust’s CQC outstanding rating; the PLACE estates and facilities assessments which are all above the national average; and the range of awards for our building developments. In terms of cost the Eric data shows that the costs of overall estates function, cleaning and in-patient food are around the median level, as is the cost of eradicating backlog maintenance. For financial and procurement transaction costs, we have higher costs for some services and lower costs for others, which may reflect our different “transactions” structure, but the overall cost of the financial function is below the national average.

3 CASE FOR CHANGE - SUMMARY

The case for change can be summarised briefly as:

- there is a strategic national imperative through the Carter Report and STPs to review and change how support services are provided;
- the quality of the support services being provided is very good but this provides an opportunity to consider if and how they could be further improved;
- there is a requirement for the Trust to make significant financial savings, part of which will need to be delivered by support services, so there is a case for considering how these services could be provided in different cost effective ways, helping to enable the Trust to continue to provide sustainable and safe clinical services;
- our staff are our greatest asset and without them we could not provide and sustain our excellent care to those who need it. We place importance on the Trust values relating to our staff and are committed to ensuring staff are recruited, retained, developed and engaged throughout their careers. Therefore, within the context of change already happening strategically in how support services are provided in the NHS, there is a case for considering how the Trust can best manage this for its services and support services staff;
- the Trust has also identified workforce pressures and risks in its Workforce Strategy and the need to consider flexibility in its workforce and reward systems to address these pressures, meet service needs and continue to deliver high quality services
- there is an opportunity to consider how we can build upon our CQC rating and better use the expertise of staff in these services and to identify commercial opportunities

It is therefore considered that there is a strong case for change. The next section considers different ways in which changes could be made to improve the way in which services are delivered.

4 OPTION APPRAISAL

This section describes the option appraisal, including the benefit criteria to be used in evaluating the options (derived from the objectives which the Trust wants to achieve); the identification of possible options; and the appraisal of these options to identify the preferred option.

4.1 Objectives and Benefit Criteria

The objectives of the proposal, set out in Section 1, have been used to derive the following benefit criteria to evaluate the options.

Quality of Support Services - the extent to which the options would improve the quality of support services provided to the Trust's clinical services. This includes the potential for improvement through more transparent management and reporting against key performance indicators; and consideration of the nature of the working relationship between the Trust and the service provider e.g. the level of flexibility which the Trust would have in how services are delivered and responsiveness to requested contract changes from the Trust

Staff Considerations - the extent to which the options would impact on staff, including staff security, recruitment, terms and conditions of service, and opportunities for existing NTW staff. It takes into account consideration of the Trust's commitment to its staff in line with the Workforce Strategy, including the Trust values relating to its staff

Cost Savings – the extent to which the options would deliver a contribution to the Trust's financial delivery plan.

Sustainability and Deliverability - how sustainable would each option be going forward; and the impact on sustaining Trust services due to differing timescales involved in establishing each option and delivering financial savings.

Potential for Income Generation - the extent to which the options could generate additional income to the Trust through selling services to other organisations

Minimising disruption to services - this criterion has been added to those above, which were directly derived from the objectives of the proposal, recognising that any major change has a risk of causing disruption to services.

4.2 Identification of Options

The following options were identified in order to compare the proposal with other possible ways of achieving the objectives.

Do Nothing. This option would involve retaining direct management of the services as they currently exist. However this option would deliver no efficiency savings and place higher risks on the current workforce due to the Trust's efficiency requirement and lack of workforce flexibilities. The Project Board considered that this option

would not be feasible or sustainable and that it should therefore be rejected. (Note: it is common in option appraisals for either a do-nothing or a do-minimum option to be included)

Do Minimum. This option would involve retaining direct management of the services, to an agreed standard, with a reduction in posts and other measures to achieve savings of circa £250,000 in 2017/18.

Subsidiary Company This option is the proposed solution, as explained previously in paragraphs 1.3 and 1.5. It would involve the transfer of staff and budgets to the subsidiary company and the transfer, where possible, of Trust buildings to the company (usually through a lease but by exception through the freehold); and the procurement of supplies. This would enable the subsidiary company to deliver a fully managed Operated Healthcare Facility service to those buildings that are leased or owned by the company - this service would be provided through a detailed contract based on commercial terms and require approval From Her Majesty's Customs and Excise. The Trust has also specified that approval from the NHS Pensions Scheme for access to their schemes for staff transferred to the subsidiary company would be necessary. The subsidiary would be part of the NTW Group, with the Trust reserving agreed powers.

Shared Services This option would involve one or more parts of the NHS providing support services for other local NHS organisations, thereby releasing savings from economies of scale. This is currently done locally e.g. NTW itself provides a shared internal audit service across the north-east; and Northumbria Healthcare NHS FT provides payroll services for other local Trusts, including NTW. The development of shared services is being promoted in the local STP. As explained in Section 1 the scope of support services to be included in shared services is still under consideration and could cover a range of other services than those being considered in this proposal. It is considered that they would not be implemented until 2018/19 at the earliest and possibly later. If this was option involved developing a subsidiary company, similar approval from the NHS Pensions Scheme would be required, as for the NTW subsidiary company option above.

Outsourcing This option, commonly used in business and increasingly in recent years within central government and the public sector more widely, would involve the contracting out of the services in this business case to a private company. It is a practice that is commonly used to reduce support services costs. Local examples include our own Trust outsourcing maintenance work for our community services buildings to Mitie (a national strategic outsourcing company) and several other local providers outsourcing their laundry and linen services to a private company.

4.3 Option Appraisal

Each of the shortlisted options above, were considered and appraised against the benefit criteria by the NTW Project Board, including the staff side observers on the

Project Board. The Group Director for Inpatient Services was also involved to provide input from the Trust’s clinical services.

The scoring methodology, previously agreed by the Trust Board, uses ticks and crosses to represent relative strengths and weaknesses of the options against each benefit criteria in a range from ✓✓ to 0 (neutral) to XX. The outcome is summarised in the table below. The Project Board based the appraisal around the “Do Minimum” being the baseline option, which was therefore scored as “0” against each criterion.

	Do Minimum	Subsidiary Company	Shared Services	Outsourcing
Quality of Service	0	✓	X	0
Staff Considerations	0	0	X	XX
Cost Savings	0	✓✓	✓	✓
Sustainability and Deliverability	0	✓	XX	X
Income Generation	0	✓	0	X
Disruption to Services	0	X	XX	XX
Net Score	0	4	- 5	- 5

4.3.1 *Quality of Service.* It was considered that a subsidiary company would be able to deliver an improved quality of service based upon both it and the Trust being able to focus on their “core business”, with better performance management arrangements in place. It was felt that whilst this was also applicable to the outsourcing and shared services options, disadvantages would be the typically tighter management of contract changes and ad hoc jobs requested by the Trust, and less flexibility in “how” services are provided. For the shared services option it was additionally felt that common performance measures used across all organisations could impact adversely on NTW’s existing quality of service. It was also taken into account that the view from the Trust’s clinical services (Business Delivery Group) was that those options which would release their staff’s time, e.g. on procurement of supplies, would help them in delivering their clinical services.

4.3.2 *Staff Considerations.* In comparing the options, it was considered that the advantages and disadvantages of the do minimum and subsidiary company options balanced out, with concerns about the future sustainability of the do minimum option relating to staffing considerations being reflected in the sustainability and deliverability criteria below. The shared services option was scored lower recognising risks and uncertainties around job losses, staff relocation and changes in

team structures. For the outsourcing option there would be additional factors relating to risks around longer term protection of NHS terms and conditions for transferred staff and ongoing level of commitment to the ethos of NTW.

4.3.3 *Cost Savings.* Significant cost savings are identified from establishing a subsidiary company (see the Financial Model, paragraph 5.2). It was considered that although an outsourcing company could realise greater operating savings, the typical outsourcing company profit margin plus central overhead costs would reduce the savings passed back to the Trust. The outsourcing option was therefore marked lower. For the shared services option it was considered that although savings would be realised, the forecasted level of savings across the STP area is less certain at this stage and less certainty about how savings would be shared across the STP area. Therefore the shared services option was also marked lower.

4.3.4 *Sustainability and Deliverability.* The subsidiary company option was assessed as being a more sustainable solution for future years than the “do minimum” option, although this is mitigated by some uncertainty about future STP shared services plans and how these will be implemented. The outsourcing and shared services options were given negative values reflecting the need to make significant financial savings from 2017/18 and the timescales involved in these options realistically delivering savings, as well as a longer period of uncertainty for the staff concerned.

4.3.5 *Potential for Income Generation.* The appraisal against this criterion was based upon the ability of a subsidiary company to be able to respond quickly and be able to develop commercial opportunities to generate income for the Trust, compared to a shared services organisation having to share new income across the organisations involved and an outsourcing company retaining any new income generated.

4.3.6 *Minimising Disruption to Services.* It was considered that all the options would involve greater disruption than the do minimum option. However it was assessed that the level of short term disruption to the Trust and its services around implementing the subsidiary company option, which essentially involves NTW staff working together, would be less than the disruption in implementing either the multi-organisational shared services option or the outsourcing option involving developing a working relationship with a third party.

4.4 Identification of Preferred Option

4.4.1 *Sensitivity Analysis.* The analysis above identifies the proposal to establish a subsidiary company as the best scoring option. However, as part of the option appraisal process, the scoring methodology should be subjected to a sensitivity analysis in order to test its robustness. In reviewing the scoring, the only issue that has been identified is the view from the Staff Side that the staff considerations score should be reduced to X as staffing issues have been unsettling for staff. If that score was reduced to X and therefore the total score to 3, that would not materially affect

the outcome of the option appraisal and the identification of the subsidiary company as the preferred option. This was discussed and agreed with the Staff Side.

However, all options have risks and therefore it should also be considered whether this option presents any risks which are considered significant enough in comparison to the other options to prevent it being selected as the preferred option.

There is a risk of a delay in the proposal being implemented, although if so this would likely be for only two or three months. There is considered to be a greater risk of delay, beyond the assumed start of 2018/19 for the shared services option, as these plans are at a very early stage and because of the number of organisations involved. There would also be a significant risk of opposition to the outsourcing option which could delay implementation beyond the assumed start of 2018/19 for that option.

There is a risk that the subsidiary company option could be impacted upon by the STP shared services plans. As previously stated the scope of services to be included in the STP shared services plans are still under consideration. Not progressing with the subsidiary company option would delay the generation of financial savings and would not prevent the Trust reviewing the future development of a wider STP Subsidiary Company if a more collaborative approach is developed over the coming years.

There is a risk of not obtaining external approvals to this proposal from Her Majesty's Revenue and Customs and/or the NHS Pensions Agency (as stated earlier). However, this is significantly mitigated by similar proposals having been set up elsewhere in the NHS.

For the subsidiary company option there are risks around the complexity of governance arrangements, service quality and staff "buy-in" to the proposal. However, it is considered that these risks would also apply to the shared services and outsourcing options, to an equal or greater extent. Further information on risk management is included in paragraph 7.3.

On the basis of the subsidiary company proposal scoring best against the benefit criteria and after the consideration of relative risks it is recommended that the subsidiary company option is selected as the preferred option.

5. THE PREFERRED OPTION

This section describes the preferred option in more detail, summarising the benefits that the subsidiary company should deliver; staffing; the financial model; asset transfers; governance arrangements; and operational working arrangements

5.1 Benefits

The preferred option 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
- 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 NTW 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 NTW support services staff, compared to other possible options, as the Trust would retain specified reserved powers over the company
- 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, with the aim of being better able to seize opportunities to generate additional income, for the benefit of the NTW Group
- 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

5.2 Staffing

Information about existing staff numbers is provided in Section 2.

The key points relating to staff in this proposal are:

- All staff employed in these support services at the date of the company becoming operational will be transferred to the company under the terms of the “Transfer of Undertakings (Protection of Employment) Regulations 2006” as amended by the “Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014”. These regulations are known as TUPE and apply to all organisations of all sizes and protect employees’ rights when the organisation or service they work for transfers to a new employer. In effect this means that staff would transfer with their current terms and conditions of service being retained. This covers basic pay, holidays, overtime rate and sick pay entitlements. Staff transferring into the new company under TUPE would also continue to receive the enhancements they receive under Agenda for Change for on-call payments, working weekends, bank holidays, unsociable hours etc. Section 6 provides information on the main themes which have emerged through the formal TUPE consultation process
- An application has been made to the NHS Business Services Authority, which administers the NHS Pensions Scheme, to ensure that all staff who transfer under TUPE regulations will continue to be able to access their NHS Pension Scheme. Under new procedures, final approval is only received following the transfer of staff to the new company. However, a “letter of comfort” has been received from the NHS Business Services Authority stating *“In line with this policy, and assuming that all the evidence is provided and the requirements of HMT’s Fair Deal policy are met, I can formally confirm Department of Health’s intention to grant NTW Solutions Limited a direction and/or a determination for eligible staff who are part of the compulsory transfer from Northumberland Tyne and Wear NHS Foundation Trust due to take place on 01/04/2017”*. The Trust has given a commitment that should approval not be received the subsidiary company would not go ahead and that continuity of NHS service would be honoured for pension purposes.
- New pension arrangements for new staff joining the company will be established, as they would not be able to access the NHS Pension Scheme. This would be provided under “NEST”, the new workplace pension scheme set up by the Government.
- Any future changes to terms and conditions for staff under TUPE would be the subject of due consultation with those involved and their representatives. It is

not the current intention of the subsidiary company to make any such changes.

- Any changes in job descriptions e.g. to reflect future service developments, will be discussed with the individuals concerned, with formal consultation where required, in line with current Trust practice.
- Staff will continue to work in their current locations but, as currently within the Trust, locations could change with any future service developments. Any changes would be discussed with the individuals concerned and their representatives with formal consultation where required.
- The new company would establish its own terms and conditions of employment for new staff joining the company. These are being finalised and will be agreed by the Company Board. This will enable the subsidiary company to create a more flexible workforce, helping it to be more responsive to commercial opportunities that will arise. It will allow more flexibility to recruit and retain staff to provide these support services, addressing workforce pressures and risks. It also provides opportunities to attract staff in areas where there are recruitment difficulties by offering a more flexible, person centred reward package.
- Staff in the new company would remain eligible for salary sacrifice schemes such as public transport passes on the Trust travel scheme, lease cars, childcare vouchers, home computers and NHS for the local gym, shops etc.
- The new company, as part of the NTW Group, intends to honour the Living Wage agreement in line with the Trust.
- The Trust's Workforce Strategy is part of the range of Trust strategies that underpins what NTW does. The new company will be committed to retaining these principles and the Trust's commitment to them will continue for those staff moving into the new company.
- The company will continue to recognise and value staff side colleagues and place great importance on partnership working throughout this change process and in the future
- The new company will set up a forum to enable it to meaningfully involve, engage and inform its staff. Any negotiation or consultation on employment matters will follow normal Trust consultation arrangements with staff side and Trade Unions, in a separate company forum.
- The Health and Wellbeing of the workforce moving into the subsidiary company is important. This has been taken into account throughout the

consultation process and will continue into the operation of the subsidiary company. Support will be available for staff and managers to guide them through the transition.

- The subsidiary company would continue the Trust's commitment to training and education in line with the Trust's Workforce Strategy by continuing to educate and equip staff with the necessary knowledge and skills to do their job.
- An Organisational Development Plan will be developed and implemented by the company over the first six months.
- The setting up of a new company and the proposed transfer of staff to it involves changes for those staff. The Trust has recognised that such change brings uncertainty and stress with it and that people cope with this in different ways. A number of change management sessions were therefore set up, providing an opportunity for staff to understand how changes can impact on them and to be aware of coping techniques.
- The company will ensure that the Trust values are intrinsic in its operation.

5.3 Asset Transfers and Financial Model

As explained in paragraph 1.3, where possible, the support services to a hospital or unit would be provided as a managed "Operated Healthcare Facility." The Trust's freehold or leasehold interest in these properties would transfer into the subsidiary along with the sale of any equipment, furniture and fittings, plant, vehicles and inventory relevant to these properties or which relate directly to estates and facilities and the services the company will provide .

The financial model has been based on the transfer of the Trust's five non-PFI hospital sites in Phase 1:

- Northgate Hospital
- St. Nicholas Hospital
- Ferndene
- Monkwearmouth Hospital
- Hopewood Park

as well as five other owned large sites, namely Greenacres; Rose Lodge; Brooke House & the adjacent Houghton Day Unit; Silverdale; and the Plessey Centre.

Phase 2 will include a review of all other properties, most of which are leasehold arrangements and where these properties can be novated into the subsidiary, they will become part of the “Operated Healthcare Facility” model in the second phase. This is expected to be around October 2017. A thorough evaluation has taken place in relation to the Phase 1 properties, giving consideration to a wide range of factors including control, flexibility, rates and insurance and this has concluded that a long-leasehold interest is the optimum model for any property transfers.

The financial model has been developed based on 25 year leasehold interests in the land and buildings and the lease premium has been determined independently by Cushman and Wakefield. Cushman and Wakefield have valued the Trust’s whole estate for annual accounts purposes as at 31st March 2017 and have also provided valuations for the 25 year leasehold interests in the ten sites listed above as at the transfer date of 1st April 2017.

There are two areas of land on the Northgate site which have annual break clauses included within the lease contracts to allow for future flexibility. For the building and land values for these areas, these have been excluded from the premium payment for the 25 year lease of land and buildings and are included in the pricing model as an annual rent charge.

NTW Solutions will also purchase the plant, equipment, furniture, inventory and consumables associated with the services provided by the subsidiary and as part of the provision of an operated healthcare facility.

The values of all of these assets are as follows:

Assets	Values £m
Land and Buildings	33.5
Furniture, Plant, Equipment and Vehicles	2.5
Inventory Equipment (below £5,000 not on asset register)	0.4
Total	36.4

The transfer of assets will be funded through a combination of a loan from the Trust and equity funding. The financial model is based on a 70 to 30 debt to equity ratio and in line with the leasehold term the loan will be based on 25 years with the flexibility for bullet repayments of capital. A commercial interest rate of 3.5% applies. The loan of 70% is a £25.5m loan and the shares issued total £10.9m for the 30% equity shareholding in the subsidiary.

The financial model assumes that the lease of the properties and equipment back to the Trust will be on the basis of finance leases for accounting purposes. This basis has not yet been approved by external audit. The assets leased back to the Trust as part of the Operated Healthcare Facility include a

25 year finance lease for the properties and a five year finance lease for the equipment. Of the £2.9m of furniture, plant, equipment, vehicles and inventory purchased, £2.3m is leased back to the Trust as part of the Operated Healthcare Facility and £0.6m are the assets of NTW Solutions purchased for the running of NTW Solutions services including laundry equipment, cleaning equipment and catering equipment etc.

NTW Solutions will also have a one off set up cost for the purchase of consumables and stock of £141,000 for the purchase of estates and facilities stock, catering stock and for the consumables in the stores cupboards in the Operated Healthcare Facilities. This will be expensed in year and does not form part of the asset transfer and funding arrangements.

The service contracts and “Operated Healthcare Facility” agreement will also be based on a 25 year model and the contracts are based on commercial terms.

The pricing model is based on the unitary payment for the provision of the Operated Healthcare Facility and the service contracts for the services outside of the Operated Healthcare Facility being £30m in 2017/18.

Pricing Model / Financial Projections	Values £m
Income	30.0
Expenditure (including year 1 set up costs)	(27.0)
Earnings before depreciation, interest and tax (7.0%)	2.0
Depreciation, interest payable and taxation	(1.0)
Profit after tax	1.0

Taxation - Corporation tax will be payable on any profits made by the subsidiary.

The Trust will make a leasehold sale of the above sites, and at the values stated above, prior to any operational activity or trading taking place. Under VAT Notice 742A:opting to tax land and buildings, the Trust will opt to tax the land and buildings and therefore the transfer of assets and premium for the 25 year leasehold interest will be a taxable supply. Based on the values of £33.5m, this will be a tax charge of £6.7m. An application for off-setting will be made to HMRC as an inter-group transfer so the tax would not be paid or recovered by HMRC as this would be off-set.

Within the HMRC rules for opting to tax there is a 6 month cooling off period where there is an opportunity to reverse the option to tax.

Post the 6 month cooling off period, consideration would need to be given to the taxation implications of the Trust purchasing back the leasehold interests in these assets.

External advice has been obtained from KPMG in relation to some of the assets which will transfer where assets were constructed and assigned the status of resident residential purpose (RRP). For each of these properties the Trust certified that within 10 years of the RRP certificate being issued that if a change in use occurs, then a self-supply charge would apply for the residual balance of the zero-rated VAT over the remainder of the 10 year period.

Under tax legislation, the grant of a long leasehold interest in these properties creates a change in use of the properties in the same manner as a freehold transfer. The Trust therefore triggers the self-supply charge and will repay the residual balance of the zero-rated tax charge of approx. £11m. As the Trust will opt to tax all of the transferring properties prior to granting the leasehold interest transfer the Trust will therefore be entitled under tax legislation to reclaim the corresponding input tax of £11m.

5.4 Financial Benefits

The Trust's operational plan identifies a target of £1.5m of recurring delivery in 2017/18 rising to £3m in 2018/19. The subsidiary will achieve these plans from a combination of pay efficiencies and non-pay efficiencies from the following:

- Creation of a standardised, managed service to ensure clinical and operational teams have the products and services they need to operate, reducing waste and freeing up clinical time to care
- standardisation and rationalisation of products and improved efficiency from managed spend categories
- reduction in procurement leakage
- improved efficiency from a managed service
- flexibility to set terms and conditions for company staff and providing a range of benefits to improve recruitment and retention, reduce reliance on contractors and allow for more flexibility to react more quickly to market conditions
- improved efficiency from an organisation running on a more commercial basis with a focus on cost reduction and profit

Efficiencies in pay will be achieved from terms and conditions for new employees. The terms and conditions for new employees have not yet been finalised for the subsidiary but we estimate of a 15% reduction in overall cost, with rising benefits to the company over time through normal staff turnover.

There would be further savings achieved from a reduction in sickness absence costs. It is anticipated that sickness absence levels for new employees to be approximately 2% to 3% in comparison to the current estates and facilities / transactions department rate of 6.5%.

5.5 Governance Arrangements

There are a number of controls and assurances that will be put in place around the relationship between the Trust and the subsidiary company. The company has been registered at Companies House but would only commence trading following approval by the Trust Board. The key elements of the governance arrangements are:

- The Companies Act 2006 – sets out the legal responsibilities of companies and directors, which the directors of the proposed company would comply with;
- The Company's Articles of Association (its constitution) - the "Model Articles for Private Companies Limited By Shares" would form the company's Articles in so far as they are modified or excluded by the company's Articles. The draft Articles are provided in an accompanying governance paper to this Business Case, for approval by the Trust Board. They include the following key provisions:
 - All company directors (Chair, Non-Executive and Executive Directors) to be appointed by the Trust Board. Four directors have been appointed to the Company to enable it to prepare to operate from 1 April (to be approved by the Trust as part of this proposal), comprising two non-executive directors, one of whom would be the chair, and two executive directors. It is intended to appoint a further non-executive director at a later stage. The Articles provide for a maximum of 6 directors.
 - A Trust director (non-executive or executive) may be appointed as a non-executive director of the company
 - quorum requirements for the company's board
 - The Trust Board having the power to terminate director appointments at any time
 - The Trust having approval of company directors' remuneration
 - The Trust Board having the power over allotment of shares

- Company Standing Financial Instructions – to be agreed by the Trust Board
- A comprehensive Scheme of Reservation and Delegation sets out other powers, not covered by the Articles, to be reserved to the Trust and those delegated to the company.
- Separation of Trust and company accounts, but NTW Group Annual Accounts produced
- Trust Audit Committee oversight of the company; with the same external and internal auditors as the Trust
- Operationally, the following controls / assurances would also be in place:
 - Financial controls – financial controls similar to those in place for the Trust, including financial approval limits, segregation of duties and proactive cash management
 - An Internal Audit Plan covering company policies and procedures
 - Improved and regular reporting to the Trust and the Trust Board on the performance of the services being provided by the company
- Exit Strategy - as the proposed company would be a wholly owned subsidiary of the Trust, the Trust would have the power to dissolve the company, taking the assets of the company back into its ownership. In such an event, the staff employed by the company would be covered by TUPE regulations and the protection of terms and conditions of service that apply.

5.6 Operational Working

The key features of the day to day operational working arrangements would include:

- Services will be provided by the company to agreed standards as set out in Service Level Agreements (SLAs) with associated key performance indicators (KPIs). These will include pricing of the service with agreed tolerances relating to levels of service, based on commercial terms. A list of SLAs is provided at **Appendix 1**.
- For a small number of services there will be SLAs for services provided by the Trust to the company. These are for services which are more effectively and efficiently provided by the Trust, for reasons of economies of scale. The “reverse SLA’s” would cover:

- Information Technology
 - Some HR services
 - Some Financial Management Services
 - A General Services SLA covering some training, risk management, and marketing and design support.
- There will be more regular and transparent reporting to the Trust of the performance of the services provided by the company. The Trust will ensure that it has the capability and capacity to monitor and review the company's performance – the “informed client” role. An experienced estates professional will be employed by the Trust in a part time capacity to undertake this role for estates and facilities services and a Trust officer identified to do likewise for transactional services.
 - There would be little change in the ways in which Trust staff would access or requisition services from the company. Contact numbers for help-desks (estates, recruitment, ESR team etc.) and most processes will stay the same. Changes that would happen include:
 - Direct end user requisitioning of supplies will be reduced, including disablement of direct ordering through the NHS Supply Chain
 - A new system will be provided for Trust staff to request additional ad hoc supplies and equipment items
 - An expanded material management system to more wards and departments will ensure that frequently ordered goods are topped up in localised storage area by procurement services staff, thereby saving Trust staff time
 - The company will have the necessary statutory policies in place covering the grievance procedure, disciplinary procedure and health and safety. Other non-statutory policies have also been developed and will be introduced. Where a policy is not in place on 1 April, the existing Trust policy would be used until such time as it is replaced with a company policy.
 - There would be less flexibility in moving furniture and equipment between buildings (this is required as part of the management of the Operated Healthcare Facility contract as the company would own the assets in the buildings covered by this contract).
 - Company staff who wear uniforms will have new “NTW Solutions” branding on their uniforms

5.7 Information Governance

The company would undertake Information Governance requirements, registered as a third party commercial organisation. It would receive assistance from the Trust through the Service Level Agreement, endeavouring to obtain Level 2 IG Toolkit status by the end of its first year of operation. Information Governance Policies and Procedures will be in place.

6. COMMUNICATIONS AND ENGAGEMENT

This section describes the communications and engagement that has taken place with stakeholders, particularly the staff who would transfer to the subsidiary company. It also sets out the main themes emerging from the TUPE consultation with staff and other staff engagement forums.

6.1 Communications and Engagement Working Group

A Communications and Engagement Working Group was set up, comprising of some of the Project Team plus the Trust's Deputy Director of Communications and Corporate Relations and Staff Side representatives. This group developed a Communications and Engagement Plan, identifying stakeholders and means of communicating, engaging and consulting with them. The Plan was approved by the Project Board and has been implemented, with updates reported to the Project Board.

6.2 Communications with Stakeholders

The table below summarises the Communications Plan, showing the main methods used in communicating with stakeholders

Stakeholder	Communications and Engagement
Staff who would transfer to new company	<ul style="list-style-type: none"> • 4 series of staff roadshow meetings (at main hospital sites) from October 2016 • Question post-boxes on main sites • One to One or group meetings with staff as part of formal TUPE consultation from January 2017 • Trust Intranet page – including “frequently asked questions” and an explanatory video • Trust Bulletin articles • Estates and Facilities Newsletter updates • Team Briefings • Change management sessions • Organisational development sessions
Other Trust staff	<ul style="list-style-type: none"> • Trust Intranet page • Trust Bulletin articles • Presentation to Clinical Groups’ “Business Delivery Group” • Presentations to Clinical Group OMG meetings; Informatics staff; and Administration Managers • Briefing note to staff on procedural changes
Staff Side	<ul style="list-style-type: none"> • Observer status on Project Board • Representatives on Communications and Engagement Working Group • Attendance at staff roadshow meetings

	<ul style="list-style-type: none"> • Full time union officers and local staff side meeting to commence TUPE process • Fortnightly meetings with full time union officers and local staff side representatives since the launch of the formal consultation.
Council of Governors	<ul style="list-style-type: none"> • Report on proposal to November “engagement session” meeting • Update reports to subsequent Council of Governor and Governor engagement session meetings
Trust Board	<ul style="list-style-type: none"> • Presentation on proposal – September 2016 • Monthly update reports
NHS Improvement	<ul style="list-style-type: none"> • Email correspondence re proposal • Referenced in current Operational Plan for 2017-19

6.3 TUPE Consultation Update

6.3.1 *Staff and Staff Side engagement* - consultation launched on 11th January 2017 and will conclude on 24th March 2017.

Staff and Staff Side engagement took place through:

- site meetings with staff
- one to one meetings with staff following the launch of formal consultation
- group sessions with staff following the launch of formal consultation
- fortnightly meetings with staff side representatives and Trade Union officials during the formal consultation
- “Change sessions” were also offered to staff to equip them with the skills to manage and deal with change

Site meetings - these “roadshows” took place in localities in November and December, prior to the launch of formal consultation, then in February and March during the formal consultation. In each month two sessions were held at:

- Northgate
- St. George’s Park
- St. Nicholas
- Hopewood Park
- and one session each month at Monkwearmouth Hospital.
- In November, 2 sessions were held with the Transactions team based at St. Nicholas Hospital (1 for finance and 1 for Supplies and HR)

The November sessions were very well attended, by approximately 350 staff.

December - 178 staff

February - 163 staff

March – 230 staff

One to One and Group meetings following formal consultation launch – approx. 241 such meetings have taken place to date, mostly on a 1:1 basis but a few group sessions.

Change sessions – eight such sessions were offered to staff, however the take up was very low.

6.3.2 The main themes that have emerged from the larger sessions and 1:1 meetings are summarised below;

- Continuing to be able to access NHS Pensions – further updates will be provided to staff on this, including the timing of final authorisation from NHS Pensions
- The pride that staff have in working for NTW and the NHS – whilst the subsidiary company would not be part of the NHS, it is recognised that they would continue to have a very direct link with NTW in the proposal. In other options (apart from the do minimum) that link would be less direct. The company will follow up this important issue through its communications and engagement practices.
- Terms and conditions for new company – what it means for retire and return arrangements, increases in hours, change of base, promotions, organisational change and for new staff.
- Staff continuing to be able to access the NHS discounts that they currently receive including salary sacrifice options.
- Guarantee that protected terms and conditions will not be changed for the duration of the contract. This was offered initially, then rescinded so has caused some discomfort.
- Will NHS service continue or be recognised if move back to the Trust or to another NHS Trust
- Management of ongoing issues such as absence and performance
- Bank staff arrangements in the new company
- Practicalities such as; new uniforms, parking permits, statutory & mandatory training, redundancy entitlements, maternity entitlements, secondment arrangements

Updated FAQ's capturing queries raised since the launch of consultation will be issued to staff towards the end of March.

6.3.3. Staff Side and the Unison Regional Officer also wrote a formal mid-point consultation letter to the Trust which is summarised below along with the Trust's responses. Unison also fed back specifically on this business case and this feedback is also summarised below, following discussion at a joint meeting on 27th February 2017.

- Unison state they are opposed to the outsourcing of the staff involved. The Trust confirmed that this is not an outsourcing situation.
- Unison state they oppose a two-tier workforce, impacting on new starters and those looking for promotion. The Trust confirmed that this was the approach agreed by the Project Board and Trust Board.
- Unison asked for input into the formulation of the terms and conditions for new staff appointed by the company. The Trust have advised Unison that as they do not represent members directly affected by these terms and conditions at this stage they were not invited to be involved.
- Unison raised an issue with the accuracy of information , specifically the 'guarantee' given around the long term protection of terms and conditions which was subsequently rescinded, and the concerns about staff being negatively impacted in terms of promotions being only offered on the new company terms and conditions. This has been acknowledged by the Trust.
- Unison asked how staff would be transferred back to the Trust should the company dissolve. Discussions took place around the 6 month 'cooling off period' and the Trust's ability to reverse the TUPE, maintaining pension continuity of service. Unison asked if a financial risk assessment had been carried out and it was clarified that it had.
- Unison asked how the subsidiary would demonstrate they are working to the principles of the Public Sector Equality Duty. The Trust confirmed that expert and advice from the Trust Equality & Diversity Lead would be provided to the subsidiary to ensure all issues related to equality and diversity are considered, understood and action taken if necessary.
- The option appraisal for staff in terms of the subsidiary company option was scored as zero and Unison asked that this be changed to an "X" as it was unsettling for staff. This was discussed and the sensitivity test was explained along with the scoring having been formulated by the programme board, so difficult to alter without reconvening and re-scoring all the options. It was agreed that even if this was moved to an "X" the outcome would not change i.e. the subsidiary company option would still score the highest.

- Unison queried how the cost efficiencies in pay and sickness absence had been calculated if the new terms and conditions were not yet finalised or approved. It was explained that the financial predictions were based on informed estimates in line with benchmarked organisations.
- Unison raised that the previous version of the business case had not captured all the feedback received to date, specifically around the guarantee of protected terms. Trust officers explained that feedback was ongoing at the January draft business case stage and that the main themes from staff consultation would be collated and included in the final version of the document.

The proposal has been welcomed by senior managers in the Clinical Groups who see advantages in the company being able to make financial savings for the NTW Group and in freeing up some of their staff's time to focus on their core service e.g. by expanding the materials management system for supplying consumables

In presentations and updates to Trust Governors' meetings, pertinent questions have been asked seeking clarity and assurances about the proposal, including whether the Trust could "sell-off" the company in the future. Any such future proposal would require approval by the Council of Governors as this would constitute a "significant transaction". (As this proposal is to establish a wholly owned subsidiary company, as part of the NTW Group, it is not considered to be a significant transaction under the Trust's constitution and therefore the Council of Governors is not required to approve this proposal).

6.4 Next Steps - Communications and Engagement

Communications with Company staff - maintaining strong communications and involvement with company staff will have a high importance for the company directors, as part of the change management to new ways of working and a more commercial culture. There will be a commitment to:

- Embedding values
- Engaging people
- Working with change
- Developing leaders, managers and developing talent
- Building and maintaining effective teams; and
- Measuring the 'culture': the health and wellbeing of the organisation

Communications and involvement would continue, for example through the proposed staff engagement forum referred to earlier in the business case; ongoing intranet updates; future "frequently asked questions" being addressed; and through the Trust Bulletin. Further monthly road shows have been planned for the next three months. Change management sessions will also continue with company staff as part of this commitment.

For those staff who were originally included in the TUPE consultation to transfer to the new company but would not now be transferring on 1st April 2017 (Patients Finance Team and two staff in the facilities staff bank), there would be continued communication and engagement to ensure they kept up to date with developments.

Communications with Trust staff – ongoing communications with staff in the Clinical Groups and in Trust corporate departments would continue, informing them of any future changes in ways of working; progress in rolling out services to other Trust sites as part of the Operated Healthcare Facility contract; and through providing feedback on the company's performance.

Communications with the Staff Side – the subsidiary company would commit to continued regular ongoing communications with staff side and jointly develop a new Partnership Agreement and formal Trade Union recognition agreement.

Communications with other stakeholders - the Trust's Council of Governors will continue to receive reports, as required, regarding the performance and development of the company. Day to day communications with other external stakeholders will continue and a company web site will be developed.

6.5. Summary

In summary, the Communications and Engagement Plan which was set up by the Project Team as part of developing this proposal would be revised and used by the company to reflect an ongoing need to engage and communicate effectively with all its stakeholders using a range of methods.

To help the company with this, a Service Level Agreement with the Trust will provide assistance to the company in the design and production of company literature (e.g. newsletters); support to develop and maintain a company website; support to host promotional events; and to provide any other support required to promote the activities and achievements of the company.

7 PROGRESSING THE PROPOSAL - IMPLEMENTATION

To date, the focus has been on developing the proposal to set up the wholly owned subsidiary company by 1st April. This section outlines some initial risks, with the main focus on getting the company started; and also outlines the key tasks following the 1st of April to develop the company further, manage the changes, continue to communicate and support staff and start to embed new ways of working.

7.1 Project Management

It is proposed that the existing Project Team and Project Board, which were set up to develop the proposal, continue to meet in the immediate implementation period to oversee the initial setting up of the company. This will help in resolving any significant issues, mitigating risks etc. during this initial period.

7.2 Risk Management

7.2.1 The Project Team has managed a risk register, reporting to the Project Board on high level risks with regard to the setting up of the company by the 1st of April.

If the company is set up, it will have its own Risk Management Policy, which will be similar in procedural arrangements to the existing Trust policy in terms of identifying, analysing, evaluating, treating and monitoring and reporting risks. This will help to ensure that there is a consistency of approach within the NTW Group and will minimise the risks which might occur if the company used a different risk management process.

As with the Trust's policy, the company's risk management policy will emphasise that risks should be controlled and managed at the level in the company closest to the provision of the service being delivered. There will be an escalation policy to the level necessary to manage the risk and all top risks and actions to mitigate those risks will be reported to the next level.

Any risks which may be identified by the company but which should be managed by the Trust would be communicated to the Trust and vice versa.

The company will continue to manage existing risks that are recorded on the Estates and Facilities risk registers and also those risks that are managed within the Transactions Department. A review will be undertaken to ensure that all these existing risks are appropriately owned by either the company or the Trust.

As previously stated, as the company is part of the NTW Group, this will come within the remit of the Trust's Audit Committee.

7.2.2. Initial risks, largely associated with successfully progressing the company are identified in **Appendix 2**. The Trust and the company would both need to review

these risks and any other identified risks, as the company develops and the new relationship between the Trust and the company is better informed by experience.

7.3. Phased Implementation Plan

Appendix 3 provides a table outlining key tasks which would be undertaken, in a phased way during 2017/18, to establish the new company on a firm footing and to embed new ways of working. It is not a comprehensive list of actions and it would be developed into a more detailed Implementation Plan, if the proposal is approved by the Trust Board. The focus in the first year would be very much to continue to provide the Trust with cost effective and quality services from an engaged and committed workforce, whilst delivering a significant contribution to the Trust's financial delivery plan. This would also provide a strong basis upon which the company could start to develop a more commercial focus to expand its activities.

The Implementation Plan would be agreed by the Company board and used by it and senior managers in the company to prioritise the company's work and to monitor and review progress.

8 POST PROJECT EVALUATION AND BENEFITS REALISATION PLAN

8.1 Post Project Evaluation

The Trust recognises that project evaluation is important in order to learn lessons for the benefit of future similar projects. This is the first time that the Trust has developed such a proposal and therefore inexperience in the nature of some of the work involved, plus the size of the task and the short timescales involved has made it quite an intensive task to project manage. Were the Trust to consider increasing the range of services to be provided by the company or consider setting up another subsidiary company, there would be very valuable lessons to learn from the post project evaluation of this work.

The Project Team will therefore undertake a post project evaluation and report to the Project Board and the Trust's Resource and Business Assurance Committee. If the company becomes operational in April 2017, the Project Team and Project Board will undertake an initial identification of lessons to learn, with a more detailed evaluation starting in summer 2017.

There will also be follow up sessions after the company has been set up so that staff can speak about how they feel following the change – this would be progressed as part of the company's staff engagement arrangements and provide a valuable input to the evaluation.

8.2 Benefits Realisation

This business case has described the benefits that are envisaged from developing a subsidiary company to provide these support services for the Trust, therefore it is also important to assess the extent to which these benefits are being realised. Some of these benefits will require a longer timescale to assess than the post project evaluation above. A Benefits Realisation Plan will be developed which will:

- Identify the envisaged benefits in this business case;
- Identify a range of measures to be used in the assessment of each benefit. In some cases this will be hard data e.g. the key performance indicators within the Service Level Agreements. In other cases this could be through softer information e.g. relating to change management and staff perceptions
- The timescales for undertaking the assessment. Some of these benefits will be able to be assessed and monitored on an ongoing basis through the reports that will be produced for the Trust showing performance against key indicators. However, the assessment of some other benefits will have to be assessed over longer time periods; and

- The officer responsible for undertaking the assessment

It is envisaged that the post project evaluation and benefits realisation outcomes will be reported to the Trust's Resource and Business Assurance Committee and much of this could also be summarised in the Company's Annual Report.

9. CONCLUSION

In conclusion, it is considered that the establishment of a wholly owned subsidiary company, as described in this Business Case, will:-

- provide the Trust with a more sustainable service model for the continued delivery of these support services, given that national and regional developments would strongly indicate that “doing nothing” is not an option.
- 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 to the recent “outstanding” rating received from the Care Quality Commission. The governance arrangements would also require the subsidiary company to carry out its activities in accordance with the vision and values of the Trust
- provide more transparency of performance against standards, facilitating further improvements in the quality of service provided, whilst recognising that the reporting system is more complex than current arrangements
- provide a significant contribution to the Trust’s financial delivery plan, more quickly and with more certainty than other options, whilst recognising that it is a more complex financial model than currently
- provide a more robust procurement management system
- provide a model which gives the subsidiary company more flexibility to recruit and retain staff, helping to address workforce pressures
- enable the Trust and its subsidiary company to have more focus on their core functions and also enable the company to develop a more commercial focus, with the potential to realise future income generation for the NTW Group
- 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

It is acknowledged that this is a significant change for the Trust and for a large number of Trust staff. However, in the context that “doing nothing” is not a feasible option; that this proposal is considered to be a better option than the others considered; and that it would deliver substantial benefits Trust, it is recommended that the proposal is approved.

**SERVICE LEVEL AGREEMENTS FOR SERVICES TO BE PROVIDED BY THE
SUBSIDIARY COMPANY**

Note that the scope of service and exclusions are included in the SLAs as required.

General Services (incorporating Leadership, Staff and Development, Policy and Strategy, and Partnership and Resources)

Maintenance

Helpdesk

PFI Contract Monitoring Services

Property and Compliance Services

Design and Construction (Capital Projects)

Energy and Utilities Management

Waste Management

Grounds Maintenance

Car Parking

Security Services

Linen Services

Domestic Services

Catering Services

Telecommunications

Facility Managed Services

Transport Services

Financial Services

ESR Human Resources Services

RISK MANAGEMENT – KEY RISKS

RISKS	MITIGATION
That the Pension Direction Order may not be approved to secure continuing access to NHS Pension Scheme for NTW staff who would TUPE to the subsidiary company	<ul style="list-style-type: none"> • “Letter of comfort” received from NHS Business Services Authority (NHS Pensions) confirming the intention to issue the Direction Order following the TUPE transfer of staff. • Many examples of similar proposals being approved – this is not new. • QE Facilities acting as consultants • This is regarded to be a low risk
That there will be insufficient capacity to progress the works to be undertaken post 1 April to consolidate the company and start to deliver the range of benefits envisaged	<ul style="list-style-type: none"> • The work to progress tasks post 1 April can be spread out to a wider range of staff within the company • The Implementation Plan work will be prioritised by the Company Board. • The high level of work post 1 April is acknowledged but it is considered that this is manageable and therefore a low risk
That HMRC approval of financial model may not be obtained	<ul style="list-style-type: none"> • Many examples of similar arrangements being approved – this is not new • Use of QE Facilities model to guide the process • Specialist resource available from QE Facilities - have been authorised to act on NTW’s behalf with HMRC • There will be ongoing dialogue with HMRC • This is considered a low risk in view of the mitigation factors above
That EU procurement rules may not be complied with	<ul style="list-style-type: none"> • “Teckal” in house companies (named after case which established this) exempt such companies from EU public procurement rules where control of the company by the single shareholder is shown through the governance structure; and where there is a limit of 20% trading with other parties • Bond Dickinson acting as legal advisors on Articles of Association for the company, to ensure we meet the governance “control test”

	<ul style="list-style-type: none"> • Many examples of similar arrangements • This risk would only occur through a legal challenge, post operation, and is considered to be a low risk.
That there will be an impact on the Trust if the company is wound up and staff and assets are transferred back to the Trust returned.	<ul style="list-style-type: none"> • Staff would be TUPEd back to the Trust and the implications of this and any tax implications would need to be considered at that point in time
That the complexity of setting up and implementing new arrangements - new systems, transactions and pricing structure etc. impacts adversely on the Trust through changes in procedures causing confusion and inefficiencies in Clinical Groups and other corporate departments	<ul style="list-style-type: none"> • Use of QE Facilities guidance, templates etc. to help set up the new arrangements • Training for company staff on new arrangements to minimise short term disruption • Information has been provided to wider Trust staff groups, including on changes to procedures, to minimise short term disruption • The main change is in ordering supplies within the limited OHF contract sites and guidance is on the intranet and there is helpdesk support • Benefits of clearer accountability and focus on respective core businesses; more focus on performance of support services etc. to offset increased governance complexity • It is acknowledged that this involves additional systems but the benefits are considered to significantly outweigh the risks
That the quality of service of clinical services will be adversely impacted	<ul style="list-style-type: none"> • There will be clearer and more transparent performance management and reporting of standards (KPIs) • Subsidiary company will be able to focus more on its core business • Expansion of new systems e.g. materials management, will release some time particularly for ward staff / procuring consumables. • Clinical Group Directors are supportive of the proposal • This is regarded to be a low risk

<p>That a delay in being able to complete job evaluations and pay for all posts in the new company before 1 April will cause difficulties e.g. in making appointments, in offering too high a salary</p>	<ul style="list-style-type: none"> • Job evaluations will have been completed for the large majority of posts in the company, including those with the biggest turnover, by 1 April. • Remaining posts to be evaluated are being prioritised • Interim management arrangements will be in place if this risk occurred. • This is considered to be a low risk
<p>That not all Company Policies and Procedures will be in place on 1 April.</p>	<ul style="list-style-type: none"> • Statutory policies will be in place • Other policies are well developed • Trust policies will be used where a company policy is not yet in place • Communication will be made to staff to make them aware • This is considered to be a low risk

OUTLINE IMPLEMENTATION PLAN – KEY TASKS

The green shaded boxes indicate the projected start and finish dates, by quarter, for these activities.

Q1: April - June	Q2: July – Sept	Q3&4: Oct – March 2018
Governance related		
Agree and implement scheduled Company Board items		
Ongoing development of Company Board		
Develop and implement performance and financial reporting system to Trust, including Informed Client		
Ongoing development of company policies and procedures		
Awareness raising / training for staff on new policies and procedures		
Manage the process for Phase 2 sites for OHF (Operated Healthcare Facility contract)		
Develop Audit Plan		
	Commence post project evaluation	Complete post project evaluation
Progress Information Governance requirements towards level 2 IG Toolkit		
		Commence development of longer term strategy
Workforce related		
Set up Staff Partnership Group with Staff Side		
Complete job evaluations for people appointed to company		
Organisational Development Plan developed and implemented		

Organisational change policy for staff (including redeployment)		
Consider pay and performance scheme		
	Development of Workforce Plan	
	Development of Health and Wellbeing Plan	
	Organisational Development Plan	
Financial		
Updating of Financial Model for Phase 2		
Procurement		
Manage introduction of new procurement processes to OHF sites		
Roll out of materials management to future Operated Healthcare Facility sites		
	Development of Company Procurement Strategy	
Communications and Engagement		
Development of communications and engagement plan		
Develop Customer Care Strategy		
Continue staff roadshows on main sites	Staff engagement and improvement sessions – 6 monthly	
Communicate with and support teams in the company		
Set up company website		
Communicate with and support Trust Clinical Groups and departments regarding changes		