

Northumberland, Tyne and Wear NHS Foundation Trust

Board of Directors Meeting

Meeting Date: 27 September 2017

Title and Author of Paper: NTW Solutions Limited - Phase 2
Malcolm Aiston – Managing Director, NTW Solutions Limited

Executive Lead: Trust Board

Paper for Debate, Decision or Information: Decision - to agree to implement Phase 2 of NTW Solutions

Key Points to Note:

- The business case to set up NTW Solutions Limited, approved by the Trust Board in March 2017, included the transfer of ten sites to the subsidiary company to manage as Operated Healthcare Facilities
- The business case included an action to review all other Trust properties, by around October 2017, to identify those that could be transferred to NTW Solutions in Phase 2 of the company's development
- This review has identified 26 such properties – these are all community services properties, with a smaller overall asset value than the ten Phase 1 sites
- As in Phase 1, the transfer would be funded through a 70:30 combination of a loan from the Trust and equity funding – in this case, the loan would be £3.8m from the Trust in return for a shares issue to the Trust of £1.6m. A commercial interest rate of 3.5% would apply.
- The paper assesses the performance of NTW Solutions over the first six months of its existence – standards of service remain high and the company is performing well financially
- Approval to expand the Operated Healthcare Facility model in Phase 2 would benefit the Trust through the provision of a more uniform and efficient service from NTW Solutions and contribute to the delivery of the Trust's Operational Plan, including our recurring savings target.

Risks Highlighted to Board : Risks are highlighted in the paper

Does this affect any Board Assurance Framework/Corporate Risks? Yes

Failure to participate and influence regional developments relating to Carter and Back Office Functions resulting in imposed changes to corporate functions and arising recruitment and retention issues

That we do not manage our resources effectively through failing to deliver the required service change or productivity gains required

Equal Opportunities, Legal and Other Implications: Bond Dickinson employed as legal advisers to ensure legal compliance

Outcome Required:

The Board is asked to approve the proposal in order to complete the next steps described in the paper, enabling Phase 2 to be implemented from 1st November 2017.

That the Chief Executive is delegated to identify two Trust Board directors to authorise and sign relevant documents on behalf of the Trust

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

NTW SOLUTIONS LIMITED – PHASE 2 APPROVAL

1. Background and Purpose

In March 2017, the Trust Board agreed to:

- establish NTW Solutions Limited;
- transfer a range of support services to NTW Solutions; and
- transfer assets to the company, through a loan and equity funding agreement, relating to the identified ten Phase 1 sites becoming “Operated Healthcare Facilities”

The Business Case presented in March 2017 referred to Phase 2 of the company’s development, involving a review of all other Trust properties to identify those that could be novated into NTW Solutions as part of the Operated Healthcare Facility model. This paper therefore:

- provides assurances regarding the performance of NTW Solutions since its establishment on 1 April this year;
- identifies potential properties to transfer to the company in Phase 2;
- sets out the Phase 2 financial model;
- considers benefits and risks; and
- sets out the next steps towards implementation of Phase 2 from 1st November 2017.

2. Performance of NTW Solutions

It is considered that overall, standards of service remain high, the company is performing well financially, it is communicating and engaging effectively with its workforce; and there have been no significant concerns.

2.1 Service Performance

Service Level Agreements (SLAs) were put in place from April 2017 setting out a range of agreed standards for the services being provided by NTW Solutions to the Trust, including 66 key performance indicators (KPIs). This is bringing much more focus on the performance of these services – they are jointly monitored by the Trust and the company, using a RAG rating system (red, amber, green).

For performance in August, 56 of the KPIs were green rated; 3 amber; 4 red; with 3 KPIs not yet being measured due to information systems being finalised and one KPI only recently introduced. Explanations and actions to address red rated KPIs and consistent amber rated KPIs are discussed with the Trust’s “informed client”. Work is also being undertaken by the Trust and NTW Solutions to make some of the KPIs more relevant as a means of measuring performance.

The key significant change so far to the ways in which NTW Solutions provide services has been an accelerated roll-out of the materials management supplies service to Trust sites. This service is designed to reduce the amount of time that clinical service staff spend on ordering stock; minimise shortages of stock items; and reduce wastage. Feedback from services that have newly received this service has been very positive, with any initial teething problems being quickly addressed by NTW Solutions’ procurement team.

2.2 Financial Performance

NTW Solutions are on track to achieve the £1.5m recurring target for 2017/18 and are ahead of plan in terms of in-year financial performance.

At Month 5, NTW Solutions reported a profit of £0.7m, which is £0.5m ahead of plan. This includes a credit note raised to the Trust of £0.3m against the contract as at Month 5, resulting in a £0.8m positive variance against budget at Month 5.

2.3 Workforce related matters

NTW Solutions has continued its monthly roadshows to Trust sites to engage and communicate with its staff – feedback from staff (many of whom do not have easy access to computers) has been that these are an effective means of receiving information and being listened to, alongside the NTW Solutions staff newsletter.

One of the benefits of setting up the company, as envisaged in the Business Case, was that it would enable the company to focus more on the services which it provides and the Trust to focus more on its clinical services. An example of this is the Ideas and Initiatives process recently set up by NTW Solutions to actively seek ideas from all its staff, with a guarantee that these will be considered, implemented if viable, and that feedback will be provided to the originators of all ideas.

To date, only two new staff have needed to be recruited to NTW Solutions and therefore being employed on NTW Solutions' terms and conditions of service.

3. **Phase 2 – Review of Properties to transfer to NTW Solutions**

NTW Solutions Limited provides a range of support services to all the Trust's sites. As explained in the March 2017 Business Case, where possible, these services would be managed as an "Operated Healthcare Facility". This involves the Trust's freehold or leasehold interest in such properties transferring into the company, along with the sale of any equipment, furniture and fittings, plant and inventory relevant to these properties. The Trust's five non-PFI hospital sites and five other large units owned by the Trust were transferred to NTW Solutions in Phase 1 on 1 April 2017.

A thorough evaluation has taken place in relation to potential Phase 2 properties to become Operated Healthcare Facilities, giving consideration to a wide range of factors including current ownership or tenancy arrangements and future service plans. The identified properties for Phase 2 are listed in **Appendix 1**. For a few properties, at the time of writing, work is ongoing between NTW Solutions, legal advisors and landlords to complete all of the legal arrangements.

The proposed 26 Phase 2 sites (28 leases), along with the 10 Phase 1 sites, means that 36 of the Trust's 55 sites (this excludes sites where only a few rooms are leased within a building) would be managed as Operated Healthcare Facilities. It should be noted that although there is a larger number of Phase 2 sites than Phase 1, the financial transaction for Phase 2 would be smaller given the smaller size and value overall of the Phase 2 sites.

Other Trust sites are not proposed to be included in the Operated Healthcare Facility model at this stage for a number of reasons, including:

- our two PFI funded sites, St. George's Park and Walkergate Park. Investigations are continuing into the possibility of being able to do so at a later stage;
- properties where other NHS organisations already provide such support services e.g. NHS Property Services or other NHS Foundation Trusts
- some properties are currently vacant pending decisions by the Trust on possible future use;
- some properties have been identified for future sale by the Trust.

4. Phase 2 Financial Model

4.1 Financial Values

The Phase 2 financial model has been developed based on a twenty four year and five month leasehold interest in the land and buildings identified above. The lease premium has been determined independently by Cushman and Wakefield on a consistent basis with the work undertaken by them for Phase 1.

The leasehold interests to be transferred to NTW Solutions, of twenty four years and five months, will ensure that all of the leasehold interests for Phase 1 and Phase 2 properties would end at the same time i.e. twenty five years from 1 April 2017.

The financial model at this stage also assumes that all of the properties will be able to transfer. If any issues arise through this process, the specific property or properties concerned will be removed from this process and will remain with the Trust. This would reduce the asset transfer value and financial model. An update will be provided to the meeting, if required.

NTW Solutions would also purchase the plant, equipment, furniture, inventory and consumables in the properties, associated with the services provided by the company and as part of the provision of an Operated Healthcare Facility.

Based on the above, the values of all the asset transfers are shown below.

Assets	Values £m
Land and Buildings (24.5 year leasehold interest – 7 properties)	4.8
Furniture, Plant and Equipment (for all phase 2 sites)	0.6
Total	5.4

4.2 Funding

The transfer of assets would 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 twenty four years and five months with the flexibility for bullet repayments of capital. A commercial interest rate of 3.5% applies. The loan of 70% would be £3.8m and the shares issue would total £1.6m 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.

NTW Solutions will also have a one off set up cost for the purchase of consumables and stock. This is not expected to be material and is estimated to be in the region of £30k for the consumables in the stores cupboards in the Operated Healthcare Facilities. This will be expended in-year as a one-off invoice 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 model which terminates at the end of the twenty five year period and the contracts are based on commercial terms as in the case of phase 1.

4.3 Taxation

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 will be a taxable supply. Based on the values of £5.4m, this will be a tax charge of £1.1m.

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.

5. Benefits and Risks

5.1 Benefits. Benefits from increasing the number of Operated Healthcare Facility (OHF) managed sites by NTW Solutions include:

- More efficient delivery of services by NTW Solutions – there are currently different accounting and procurement processes and systems for OHF and non-OHF managed sites. Bringing more properties into the OHF model will mean that NTW Solutions can operate in a more uniform and simplified way for the majority of Trust financial and procurement transactions.
- Helping to deliver the Trust’s Operational Plan. The Plan identifies a target of £1.5m of recurring savings in 2017/18, rising to £3m in 2018/19, being delivered by NTW Solutions. Estimates from Phase 2 were included within the plans to achieve these targets.

5.2 Risks

- There is a risk that for a few sites, the complications around the transfer of their leases may mean that they will not be completed in Phase 2. If so, this will slightly reduce the asset transfer value and the financial model benefits.
- The Group’s Financial Delivery Plan would need to be revised if Phase 2 does not proceed on 1 November 2017.

6 Next Steps

If the proposal is supported by the Trust Board, the next steps will be:

- completion, where possible, of the outstanding property lease transfer arrangements;
- confirmation or alteration of the Phase 2 financial figures arising from above;
- finalisation of contractual and share issue documentation;
- signing of documentation by Trust and NTW Solutions representative directors

7 Recommendation

The NTW Subsidiary Company Business Case, agreed by the Trust Board in March 2017, included the intention to increase the number of Operated Healthcare Facilities to be managed by NTW Solutions in a Phase 2 development, expected to be around October 2017.

It is recommended that the proposals, set out in this paper, are approved in order to complete the next steps described above and enable Phase 2 to be implemented from 1st November 2017.

APPENDIX 1

Property	
Howard Centre, Morpeth	Freehold or Finance Leased assets. Premium payment will be made for a twenty four years and five month leasehold interest (£4.8m)
Dryden Road, Gateshead	
Chad House, Hexham	
Hawkeys Lane, North Shields	
Ashmore House, Ashington	
Plummer Court, Newcastle	
Benfield Road, Newcastle	
Ravenswood Clinic, Newcastle	Freehold or Finance Leased assets. To be leased over twenty four years and five month leasehold interest but with break clauses as there is a level of uncertainty about future use of these properties. Cushman Wakefield have independently valued the leasehold premium and annual rents and these will be charged through the financial model on an annual rent basis (£57,000 per annum, net of VAT)
Lobley Hill Clinic, Gateshead	
Elm House, Gateshead	
Wallace Green, Berwick	
Wellington House, Blyth	
10 Bailiffgate, Alnwick	Transfer of existing leases to NTW Solutions, with existing lease periods retained, therefore current leases end at various times.
Anderson Court, Berwick	
22-26 Bowes Street, Blyth	
2 Sextant House, Blyth	
West Farm House, Cramlington	
Hawkhill, Alnwick	
Benton House Ground / Part first, Newcastle	
Benton House part first, Newcastle	
5 Sextant House, Blyth	
6 Sextant House, Blyth	
Empire House, Houghton le Spring	
4-6 Mary Street, Sunderland	
Vermont House, Washington	

Oxford Centre CMHT, Longbenton	
Oxford Centre AOT, Longbenton	
Teleport House, Sunderland	