DELIVERING BETTER HEALTHCARE OUTCOMES MORE EFFICIENTLY

A £2.3 billion and Hyde Park sized Opportunity

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With more than half of the £20 billion Nicholson savings challenge completed, there are still major savings to be found to complete this daunting task across the NHS. Add in "tariff negative" settlements for healthcare providers over the next few years plus the full implementation of Clinical Commissioning Groups and it is clear that radical change to the way the NHS does business will remain at the top of the agenda.

In this paper we will show how savings are available to the NHS of £2.3 billion annually in Estates Facilities Management and Procurement costs, without even matching the performance of the upper quartile high performers.

The levers that we believe are key to delivering better healthcare outcomes more efficiently are; embracing best practice in asset management, collaboration in procurement and facilities management, better commercial strategic capital procurement including implementing better governance regimes. Our report reviews and explains the size of the prize and outlines practical steps to deliver.

"The wasted space across the NHS estate is still greater than the size of London's Hyde Park... and the adoption of broader new thinking could offer a £2.3 billion revenue prize for the NHS"

The Challenge of Asset Performance

Asset performance has been a focus for commercial organisations for over a decade, but only embraced by the NHS more belatedly. No large organisation can work at 100% utilisation of its estate, as its shape will inevitably lag behind market or technological developments. However, there have been major strides since our first report in 2009, with an overall reduction of just over 53% unused space in the four years to 2011/12. This improvement reflects a number of major hospitals moving into new estates and the disposal of surplus land. However, this progress still leaves a significant opportunity to demonstrate better value for money.

There is a particular problem of historic estate which is either life expired, sometimes low value, alternative usage challenged or under service or estate review. There is also estate that is clearly badly managed that can be improved and has strong alternative value. We believe that a realistic target is for the NHS to aim for a target of 3% unused/surplus by the end of 2015/16. This would still leave poorly used accommodation but would represent substantial progress.

The NHS Property Services will have a key role in delivering better value through skills development and packaging solutions across a wider geography. They are likely to be tasked with disposing of approximately 1/3 of their element of the transferred estate over the next 3 years whilst simultaneously achieving standardisation of FM performance, tenure, facility outcomes and improving overall asset management. With more than c3,000 staff to support around 3,600 buildings and services a focus on collaboration and working with the worst performing trusts to share best practice will be vital.

The implementation of the Premises Assurance Model and the spatial assessment of estates can also offer interesting comparisons across a range of Trusts on other aspects of asset management.

The total 'wasted' space within the NHS estate is still greater than the size of London's Hyde Park. On average costs this gives a cost of some £407 million in FM and Estates spend alone. This equates to the annual running costs of a large scale District General Hospital.

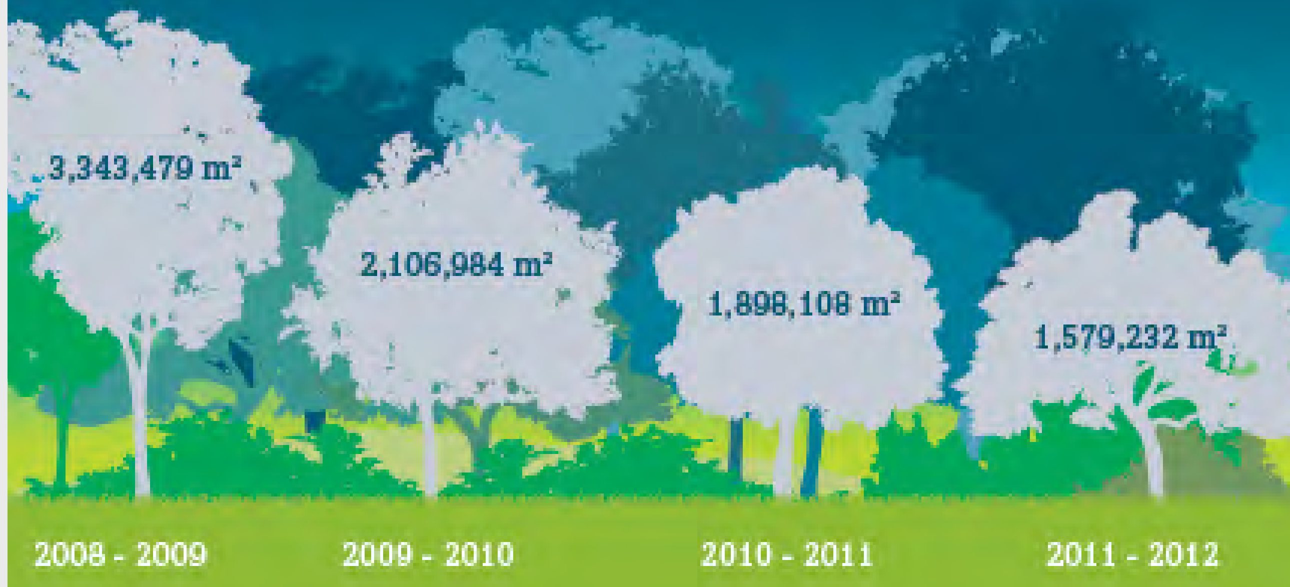


Table 1

The Good, the Bad and the Ugly

All major areas of the NHS have pockets of unutilised space of similar percentage values, with an overall range of 5.9% for mental health, 5.2% for Ambulance trusts, 5.5% acute hospitals and primary care 5.6%. Social enterprises equate to a strongly performing 1.4% but represent less than 0.5% of the total NHS estate. We contend that the right leadership and team effort makes a fundamental difference in driving up efficient space utilisation of the better performing organisations.

Using the NHS' own data, the range of unutilised space stretches from organisations with near 100% use to 56 organisations with unutilised estate of 10% or more plus five at an apparently extravagant 30% plus unutilised. Some hospitals face the challenge of operating out of life expired facilities but we contend that it is the job of an effective Executive team to ensure patients are housed in 21st century facilities and their staff are given sufficiently risk free environments to maximise clinical outcomes. The variety in the NHS performance suggests that there is considerable improvement in behaviours needed of those in the 3rd and 4th quartile when compared with high performers that simply isn't related to physical aspects but hints at lack of experienced personnel, poor technical understanding and ability to deliver major projects. Whilst the best Trusts are active in persuing improvements, senior staff in other Trusts often don't know their own metrics for area, condition and costs by estate type. This is a marked contrast to those in the private health sector or major non health business sectors who view the estate as a comprehensive business enabler.

With an annual expenditure last year on the estate of £7.7 billion, there is still much to deliver from the non-clinical arena. Progress has occurred in some areas, but in evolutionary steps rather than the major step change that we recommended back in 2008.

Mid Essex Hospital Services Trust
An exemplar of good practice

The Mid Essex Hospital is a good example of what can be achieved in reducing the estates and FM cost base. A review of their performance resulted in a dramatic improvement within only eight months; from strategic review to implementation.

Key benefits delivered were:

- A reduction in floor area of over 9,824sqm² (7.6%) that is also more operationally efficient
- A reduction in capital including Public Dividend Capital of more than £735,000
- Better functioning of support departments such as medical records as a result of the opportunity to relocate into main buildings with reduced delay/risk and increased productivity
- Increasing the effective asset usage in several departments by up to 80% through the application of best practice space utilisation principals
- Proving the value of joined up working between the Trust executive, estates and clinical teams.

Figures recently in the public domain showed that the NHS has handed back to the Treasury more than £3.4 billion over the last 2 years including £1.27 billion of capital funding. We remain surprised that given a high risk associated with backlog maintenance of £1.22 billion, that the NHS could have not done more to wipe out a large part of this risk and still invested in new building stock or lifesaving equipment. Having accepted in the previous Comprehensive Spending Review a reduction in the overall capital settlement, to then hand back resources that could improve both the long term recurring efficiency and potentially reduce patient and staff outcome risks seems short sighted.

It's pleasing then that the December 2012 Review of Critical infrastructure Risk reiterates the need to eliminate critical risks and places an emphasis on resilience.

The need for the NHS to manage "in year" deviations in capital spend has been illustrated by some short term capital injection bids offered to some Trusts. This needs careful evaluation to avoid prioritising schemes on the basis of ease of delivery over some of the basic infrastructure schemes which may be slower to deliver but yield longer term benefit. A more systematic approach to bid and appraisal time is needed to ensure value for money.

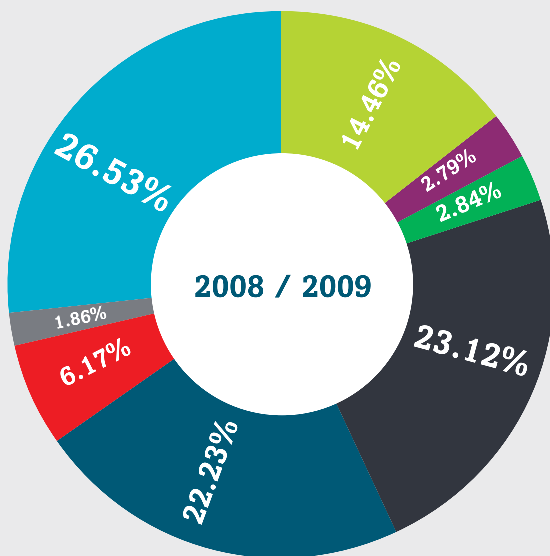
Addressing Ageing Asset Age

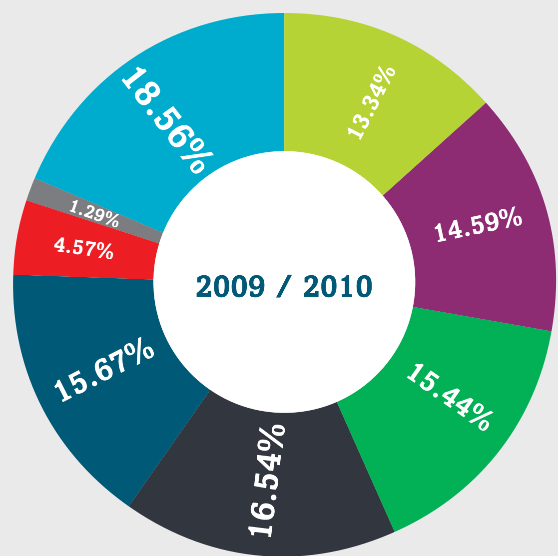
In 1995 around 50% of the Estate was built pre 1948, the figure in 2011/12 is now 15.67%. Given the challenge of delivering world class 21st century healthcare in often 19th Century facilities; this trend is very welcome. The trend over the most recent four years saw a radical improvement with more than 35% of the NHS estate now at 17 years old or less.

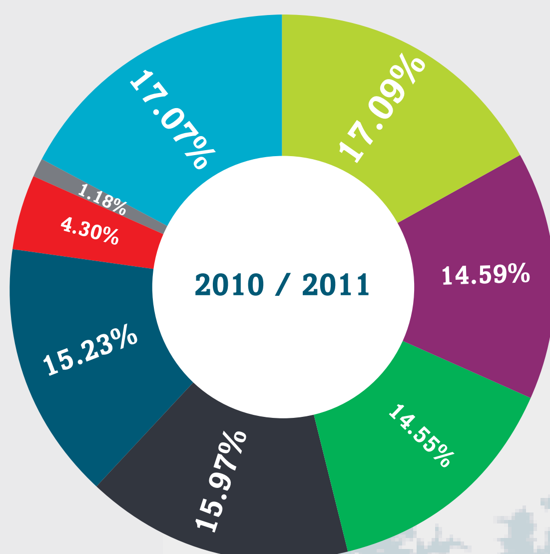
Table 2

Age profile of the NHS Estate 2008 - 2012

% Age Profile 2005 to present
% Age Profile 1995 to 2004
% Age Profile 1985 to 1994
% Age Profile 1975 to 1984
% Age Profile 1965 to 1974
% Age Profile 1955 to 1964
% Age Profile 1948 to 1954
% Age Profile pre 1948







Note: Figures have been calculated after excluding Trusts where incomplete data has been provided

NHS Property Services - A great idea that needs urgency

This represents a significant proportion of the NHS estates with c3, 600 assets and buildings and over 3,000 staff and an anticipated annual operating budget of between £700 million - £900 million transferred and live from April 2013. A standardised performance regime should reduce operating costs and simplify audits for comparative value for money. This is key to achieving transparency and identifying the real scale of the challenge to achieve a streamlined estates operation. If the NHS Property Services develop integrated operating and reporting platforms then the potential for improved operational management will bring better service and value for money.

This portfolio will include not only estate that is desirable and valuable to the NHS but also some of the worst facilities with a corresponding share of liabilities. The early stage inputs have been on working through a “safe and effective transition” via the leasehold arrangements and the memorandum of occupation. Early internal NHS discussions appear to predict disposals of up to 1/3 of this over the next few years. The crucial question is how to persuade bidders to take on the euphemistically named “rump co” in the future? An initial consideration of conventional metrics shows staff to asset ratios higher than one would normally anticipate in three years’ time (particularly if scale benefits are going to be extracted).

We would advise using the four regional groups to mix the batches of disposals - otherwise the stock of poor quality estates may sit on the books for the foreseeable future. With an increase in price per hectare of land in a growing range of locations and housing yields (>6%) at their highest since the end of the boom in 2007/08, demand is likely to be strong for the better estates Projected demand is for 245,000 new homes from 2011-2031, yet the current market commitment of around 104,000 means a severe shortage, and a commensurate increase in land values over the medium term. We would advise that land value gain share mechanisms with the developer or based on the future land value at the subsequent transaction time - are built into disposal contracting arrangements. An ageing population also presents an opportunity to develop “Care Villages” and other mixed use facilities adjacent to NHS land.

At the time of writing in February 2013, no new data has been published on the speed or values of NHS estate disposals since the announcement last year of more than 340 plots with 70 plus transactions then at negotiation stage. Whilst many others may have subsequently progressed (but remain unannounced), we would like to see a quickening programme of action. After a year of working up the concept, the formation plan now needs to be implemented as soon as possible. The on-going work on standardisation of asset performance might also benefit from commercial benchmark checks to meet best performing status. There is also significant potential in the NHS working with other government stakeholders to maximise opportunities via the umbrella of the Government Property Unit for scale risk and efficiency.

FM Procurement and Collaboration

Our previous reports have repeatedly shown that there is the greatest potential saving in hard FM services across the Estate portfolio. Hitting the trimmed mean alone would save more than £1.45 billion annually. We have applied a trimmed mean as a consistent method to avoid comparing some of the very cheapest (where performance is below acceptable standards) and some of the very smallest Trusts where costs are high or assets expensive to operate.

The full spectrum of estates services in **Table 3** shows that savings could reach £2.9 billion plus better NHS procurement. Whilst we accept that this is a theoretical target given the condition of facilities, many of which require further capital investment, or the scale of some of the smallest Trusts, it doesn’t stop the enlightened working up a proposition for improvement. By driving 1st quartile performance an opportunity exists to save £2 billion across acute hospitals, £302 million in Care Commissioning Groups and £551 million in Mental Health.

Table 3 is focussed on reviewing the results and opportunities for savings for the NHS in relation to improvement by poorly performing Trusts to achieve results equal to either trimmed mean or first quartile performance, the trimmed Mean is the average of results between First and Third Quartiles.

Table 3

Trust Type	Total Spend (2011-12) (£m)	Potential Saving by Targeting Trimmed Mean only (£m)	Saving to Trimmed Mean (%)	Potential Saving by Targeting 1st Quartile (£m)
Acute	£5,833	£1,053	18%	£2,058
Mental Health	£1,255	£246	20%	£551
PCT	£520	£156	30%	£293
Ambulance	£103	£21	20%	£40
Social Enterprise	£21	£3	16%	£6
TOTAL	**£7,731**	**£1,479**	**19%**	**£2,948**

Embracing National Standards in Procurement and FM

The question is why there is such a gap in performance between health operators in the NHS? In our experience there are two main reasons, performance requirements of operators and scale of operation. Using national standards will avoid risks in making new clauses/regimes where the outcomes are uncertain or possibly less desirable than expected. Local contracts are also often over onerous on operators and push up costs without impacting on quality. It's equally hard to understand why there are so many Trusts using their own local frameworks to achieve purchasing of services and goods. There is a simple maxim that size counts for discounts. This is an area where LEAN can be applied across localities and combined with purchasing standardisation to benefit the NHS as a whole.

The lessons of healthcare redesign have been well understood, particularly for clinical processes evidenced by academic centres, NICE and various clinical innovation units, so why is there not the same attention to Estates and FM? Changing performance regimes to standard operating, legal contexts and "scale market testing" could produce significant further savings.

With some £500 million possible in better procurement management through sharing propositions across Trusts and other local parties, any move to reduce the 66,000 different products that the NHS currently orders must surely be a good thing in terms of achieving value. This shouldn't necessarily stop the continued use of local suppliers which can still be maintained via a national supply chain to achieve the benefits of minimising carbon footprint and local employment whilst retaining the benefits of national scale.

Achieving a balanced scorecard with outputs including; net area usage, net expenditure per m^2 plus client feedback alongside total cost, is a useful starting point. One of the methods available is the NHS Premises Assurance Model." Not only does the PAM model aid the assessment of estates but also offers many interesting comparisons with other Trusts and other impacts of asset management.

Table Four shows the extent of the performance gap over the last 3 years reflecting the change in year on year costs for each of the relevant services/activities. This shows no uniform pattern of improvement. In the acute sector there is little progress given the overall gap to the trimmed mean. In mental health the energy and hard FM gap has increased whilst primary care improvements in hard FM is offset by gap increases in soft FM and energy. The Table demonstrates that many average Trusts and facilities operators may be hearing the messages about the need for efficiency, but they appear to be making little headway. Three years is a long time to achieve little.

Our opinion is not just rhetoric as we regularly work with large Trusts that save major sums (£1.5 million in a current scheme) by using benchmarking and commercial strategies to deliver services more effectively and cheaper. It can occur more broadly with the right desire, strategy and leadership.

The EC Harris Estates Cost Model offers the potential to evaluate Estate FM efficiency in service by service detail against national comparisons.

"Many Trusts and NHS facilities operators may be hearing the messages about the need for efficiency, but they appear to be making little headway"

Table 4

The NHS Gap between 1st Quartile and EC Harris Trimmed Mean

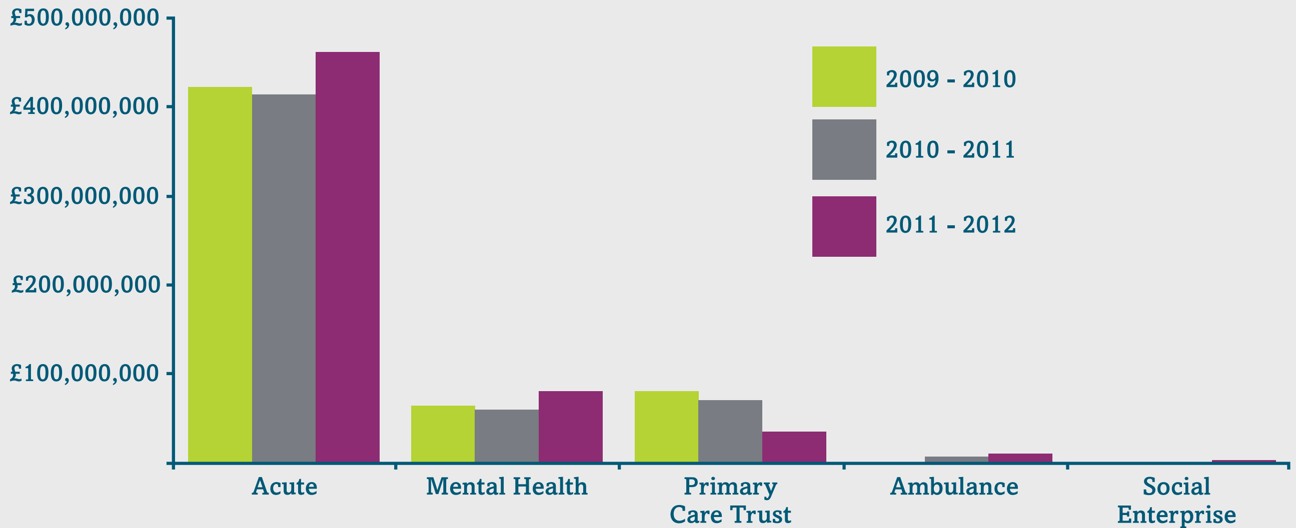
Trust Type	Service	1st Quartile to Trimmed Mean % gap		
		2009/2010	2010/2011	2011/2012
Acute	Hard FM	-44%	-41%	-42%
	Soft FM	-20%	-22%	-16%
	Energy	-12%	-13%	-11%
Mental Health	Hard FM	-44%	-48%	-49%
	Soft FM	-23%	-24%	-22%
	Energy	-11%	-18%	-13%
Primary Care Trust	Hard FM	-58%	-57%	-54%
	Soft FM	-36%	-37%	-41%
	Energy	-14%	-18%	-17%

Managing Energy Efficiently

Table Five shows NHS expenditure on energy over the last three year period by type. What can be seen is that despite large rises in wholesale costs nationally, the NHS increase in output cost has been minimised to just 1.6% over that period. This period has seen major efforts via the Sustainable Development Unit to reduce both costs and the 20 million tonnes of CO^2 emissions (of which 24% is NHS buildings). These include a 19.8% reduction in 2011/12 co^2 emissions from buildings and 7% in water consumption. (1)

Table 5

NHS England Expenditure on Energy by Type



(1): Ambulance not recorded in 09-10 / Social Enterprise not recorded in 09-10 and 10-11

However, market data confirms that energy costs have increased significantly since that period and the relative assessment can be seen in more collaboration on buying decisions to form lower unit costs between the NHS and commercial utility providers. Much is also down to staff awareness and training, alongside a focus on lighting levels, boiler systems, waste, utility systems, renewables and investment in modern facilities and BMS.

It's disappointing that the recorded level in renewable electricity output nationally has fallen by c10%, closely mirroring the performance of the largest Trust which invests in renewables. Consumption of Non Fossil Fuel renewables have by contrast increased by 4% nationally.

Waste Recovery/recycling volume nationally was 98,645 tonnes, which we will benchmark going forward. Data is available for the past two years and will be available as a further point of comparison going forward.

There has been overall progress in energy management via delivery of combined maintenance, operational and management service guaranteeing the performance of existing systems, creating plant longevity, improved whole life costs and reduced capital and reactive expenditure. In most cases with the derived benefit of guaranteed energy reductions, carbon management savings and capital investment programmes encompassed under a single entity known as the Energy Service Company (ESCo).

A proactive maintenance approach that includes operative time to manage, control and improve internal conditions can see energy consumption savings within the region of 8% to 15% per client. Although labour time and costs are expended to manage an energy strategy, this is outweighed by the energy and environmental savings. Our team members have been involved in capital projects where centralised improvements have generated savings that have been paid back, in a short period, where efficiency improvements of over 20% have generated energy consumption savings of around 30%. The removal of decentralised schemes and old inefficient steam mains has created 33% energy savings.

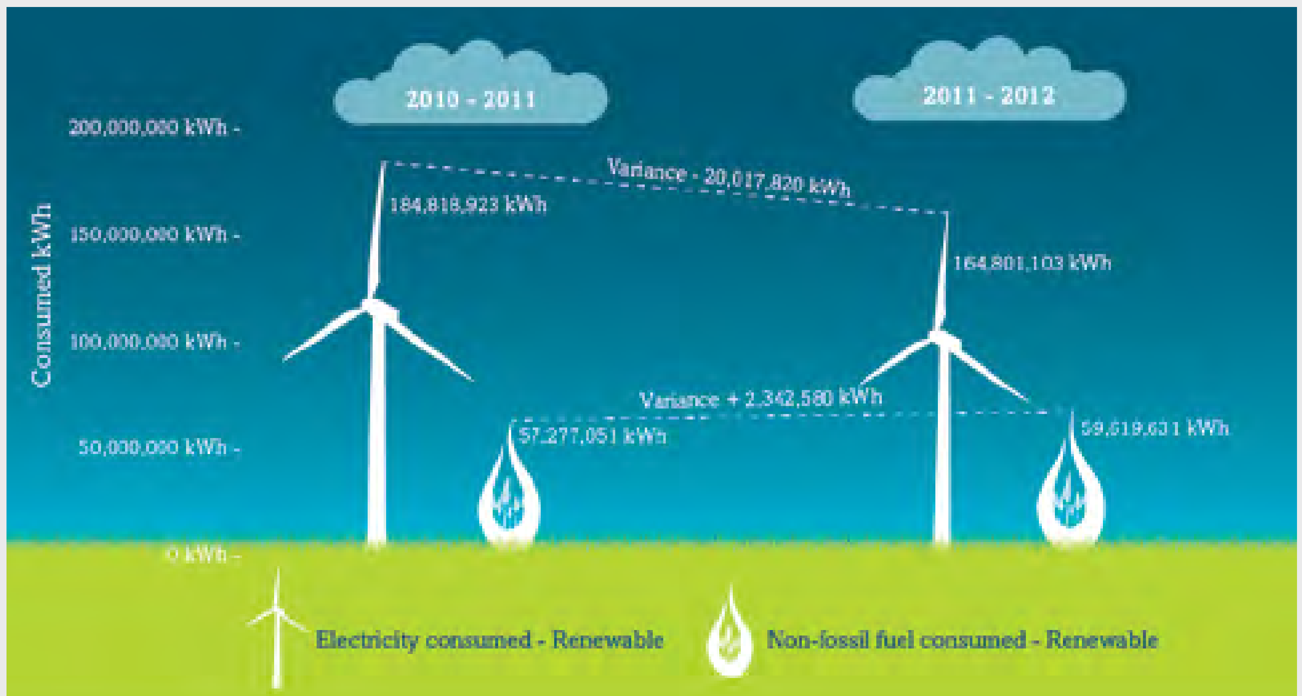


Table 6

Better Governance Regimes

The latest Foundation Trust and clinical governance ratings also show the need for enhancing financial and clinical governance arrangements. Of 144 Foundation Trusts more than a dozen ranked a lowly 1 or 2 for finance and red for governance and are therefore viewed as the highest risk. Many other non-Foundation Trusts are still going through the slow progress of achieving approval with either improving positions or desperately trying to merge with other organisations. A plethora of social enterprises will also test forthcoming NHS governance arrangements and financial value. The public appetite for stronger governance is clear; people expect hospitals that are safe and well organised. The Francis Report has demonstrated graphically, the lessons that most Trusts need to acknowledge and address.

The move forward of a new tranche of community and primary care "Any Qualified Provider" (AQP) tenders may also have implications in driving change in operating regimes. NHS waiting lists are relatively short historically and best performing Trusts are looking to in-source or JV new private and ambulatory facilities. However it's likely that joint arrangements between the public, third sector and private sectors will grow to embrace the skills that are required to merge or operate across enlarged or in distress businesses.

"The public appetite for stronger governance is clear; people expect hospitals that are safe and well organised"

Driving Better Estate Efficiency - Key Findings and Recommendations

A Hyde Park Size Opportunity

It is encouraging to report on progress in reducing unused space for a third consecutive year and yet at more than 5.6% this still represents a Hyde Park size opportunity. It is also good to report that two years on from handing back unspent capital spend to the Treasury, there is an effort now being made to address the NHS estate's backlog of £1.22 billion of high and significant risk property. The recent Department of Health letter now sets out a clear framework to prioritise this area and should be welcomed by all.

A £2.3 Billion Gap

There is a £2.3 billion saving available if overall performance could be lifted to the current trimmed mean, by embracing best practice in facilities management, procurement and a reduction in the unused estate. Whilst there will always be a lag in any industry between best and average, the gap in the NHS is too great and as our figures show over the three year period the lack of any real improvement from trimmed mean to 1st Quartile alone in performance of estates expenditure should be a matter of concern to Trusts, the Department of Health and the Treasury. This ignores the horrible cost drain that is the 4th quartile of estates, for which other measures, including mergers, capital investment, demolitions and relocations need to occur rapidly to elevate the waste of resources.

Catalyst for Change

Good upfront thinking can also plan projects better so that they act as a catalyst for change. Whilst the best schemes are moving the agenda forward, too often though some trusts are using staff and advisors with little knowledge of best performing or international comparisons and whom simply use the same known processes that they are used to operating with, in a policy and benchmark vacuum. This leads to creation of projects where the lack of value delivered leaves Trusts and CCGs needing to rethink operational developments, clinical risk and sustainability and facing additional capital requirements within a short space of time.

Embracing New Operating Models

The "more for less" agenda is here to stay- it may well be the decade of austerity - which means all organisations in 3rd and 4th quartile performing organisations either shape up or risk being merged in the next 3 years. New operating models are needed to make organisations leaner and disposing of unneeded assets, or using joint ventures as the market allows.

The NHS Property Services will be one of the ways to achieve this and significant effort needs to be made by Foundation Trusts to reduce their surface gross floor area, or gain additional new income to make their estate more cost effective. New alliances and partnership working will be required; this is particularly true in procurement and FM outsourcing, which are typically volume and performance related deals. We have several examples of Trusts who continue to have annual savings in large seven figure numbers, who by utilising a "should cost" methodology and truly understanding performance can achieve better outcomes more cost effectively.

Improving Operational Efficiency and Delivery

We recently used our estate cost model to better utilise the revenue and capital of for a large northern Trust to minimise potential risks and ensure statutory compliance. This exercise and benchmarks allowed the Trust to see where they could balance spend by investing in areas of high risk whilst making savings from six areas where costs were above benchmark. This meant that we could use 75% of their savings to fund issues like energy developments, spine point staff impacts plus estate compliance issues and still return more than £120k back to the finance function. This method allowed risk to be reduced whilst still showing a credit. We have run this model a number of times and even with a high level of granularity, have proven its application across high level macro costs to minute levels of details like expenditure on non-pay consumables or performance targets in cleaning. This approach allows Board Directors to be presented with options to stay safe and legal whilst still achieving savings of between 2%-13% overall.

Collaboration and Communication

It is key that organisations are realistic about their required standards, and for small trusts looking to collaborate to achieve scale in estates and FM development. Too often good practice in one locality is spread no further than its own doors and internal NHS models from the SDU and NHS Estates like PAM are used sporadically. Each organisation should be looking at its staffing and performance levels in comparison with the top quartile to work out how it can enhance its efficiency.

Embracing Standardisation

NHS Estate and Clinical Managers have got to focus on the maxim of standardising areas and multi use-of each m^2 pay. This will involve liaison with clinical colleagues on rearranging and changing clinical sessions to be more uniform, by removing the peaks and extend the hours. Where possible ensuring all similar procedures are through the same room (and taken into account in any design stage).

The NHS can point to an increasing number of examples of best practice but these need to be more uniformly adopted. Remember just halving the unused Hyde Park spare space, achieving the EC Harris mean and better procurement would comfortably offer £2.3 billion to reinvest in better environments, safer working areas and a lower cost per case as well as a capital receipt. Focusing on addressing the issues in this our 4th Report will do much in delivering better healthcare outcomes more efficiently.

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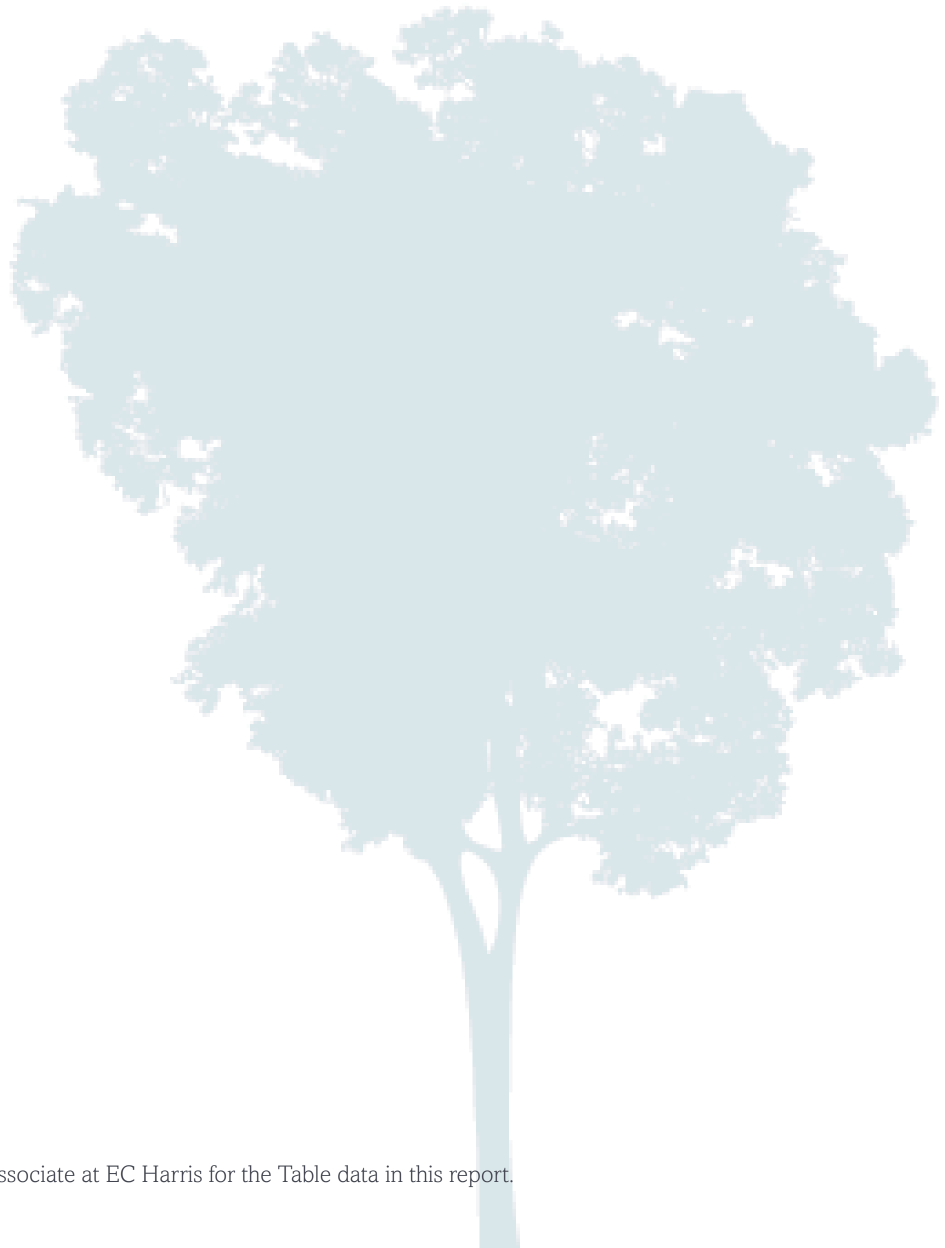

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