HEALTH CIRCULAR HC(83)18

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

To: Regional Health Authorities)
District Health Authorities)
Boards of Governors) for action
Special Health Authorities for the London)
Post-graduate Teaching Hospitals)

Family Practitioner Committees)
Health Services Supply Council)
Public Health Laboratory Service Board) for information
Central Blood Laboratory Authority)
Community Health Councils)

September 1983

HEALTH SERVICES MANAGEMENT

COMPETITIVE TENDERING IN THE PROVISION OF DOMESTIC, CATERING AND LAUNDRY SERVICES

SUMMARY

This circular asks health authorities to test the cost of their support services in order to discover whether savings can be made and resources released for improved patient services. It provides specific guidance on domestic, catering and laundry services.

POLICY ON USE OF THE PRIVATE SECTOR

1. The Government's expenditure plans envisage that improvements in patient services will in part depend on getting better value for money out of available resources. This applies, of course, to all aspects of the NHS but the scope for savings in hospital support services is potentially high, and authorities need to be wholly satisfied and to demonstrate that those services are provided as efficiently and economically as possible.

2. The Government believes that the use of private contractors, under carefully drawn and properly controlled contracts, can often prove the most cost-effective way of providing support services. VAT has until now been imposed on work put out to contract but not on in-house services. The Government is making arrangements for this VAT to be refunded to health authorities from 1 September 1983. The way is now clear, therefore, for private contractors to compete on a fairer basis with in-house services. This circular concentrates on domestic, catering and laundry services.

3. Ministers welcome the initiative taken by some health authorities who have recently gone to tender and contract for support services. They wish to see this initiative taken up by health authorities generally. Authorities should ensure that, in doing so, proper comparisons are made taking into account all relevant factors and that support service management and staff interests are kept informed. If such a comparison shows that the in-house service is less economic, that service should be contracted out. Decisions on contracting out should be reached openly, and those likely to be affected need to be assured that the comparisons upon which they are based have been made objectively. It should be made clear to all that the benefits of savings achieved will be available for patient care within the authority's own area.

4. Ministers and officials of the Department have had a number of meetings with representatives of the cleaning, catering and laundry industries. The industries recognise that if they are to get health service contracts, they must meet the special needs and standards of quality essential to the provision of patient care. Appendix 2 to this Circular gives the addresses of the main national organisations. Health authorities are not limited to companies covered by these bodies in any arrangements they make. They need however to be satisfied with the technical competence and financial viability of any company asked to tender.

5. Continuing supervision of contracts by local management is essential to their effectiveness. The major contractors welcome this, to ensure maintenance of standards and as a support for their own line management. Supervision is needed to make sure that the specifications in contracts are met, or, where they are not, are quickly brought up to the requirements. Default and termination clauses should be invoked where necessary.

6. Independent professional expertise will be available to health authorities without charge, on request from the Department's Domestic Services Management Branch, its Catering and Dietetics Branch and its Laundry Engineers (addresses in Appendix 2).

7. Each of the three services has special features which may affect the timing and nature of the tendering and contract process. These special features are brought out in the advice on cost appraisal and tendering at Appendix 1, and in the specimen contracts which have been prepared with advice from Counsel and will be copied to all health authorities within the next few weeks. The specimen contracts are not offered as models to be followed in every particular, and on detailed matters health authorities may need to adapt them as appropriate to their own circumstances.

ACTION

8. District Health Authorities are accordingly asked to test the cost effectiveness of their domestic, catering and laundry services by putting them out to tender (including in-house tenders). Where these tenders show that savings can be made, a contract should be let. Tenders must not be used to establish a new base cost for running the in-house service. The in-house tender is the relevant opportunity to compete.

9. On all occasions when capital investment of £½million or more is proposed for the upgrading, new building or major re-equipping of an NHS laundry, authorities are required to seek tenders for the provision of laundry services.

10. Ministers expect Districts to make early progress in the implementation of this Circular to secure reductions in costs of these services. All District Health Authorities are requested to submit to the Regional Health Authority by the end of February 1984 a timed programme for implementation; where Districts are already able to go to tender in any services, preparation of the programme can be undertaken concurrently with the tendering exercise(s). Regions are requested to submit to the Department (Health Services Division) a concise summary of District programmes within two months of their receipt. Where, exceptionally, a District's programme holds out no early prospect of a tendering exercise then the Region should supply, with its summary, a full explanation of the failure to make progress.

11. Special Health Authorities and Boards of Governors for the Postgraduate hospitals are asked to take similar action in relation to the three support services sending their programmes to the Department (Health Services Division).

12. Regional Health Authorities, in respect of their own premises, are asked to test the cost-effectiveness of their cleaning and catering services by putting them out to tender (including in-house tenders) and to let contracts where savings can be made. They should draw up their own timed programme of implementation and include it in the summary of Districts' programmes.

13. Although this circular concentrates on three support services, health authorities are asked to continue to develop the use of private contractors for the whole range of support services, where by doing so savings can be made. They may wish to list the items or facilities that such savings would enable them to obtain. This will be helpful in demonstrating clearly and publicly the benefits to be derived.

From:

Health Services Branch 3C
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Elephant and Castle
London SE1 6TE

Tel: 01-703 6380 Ext 3312

INN/7/8

Further copies of this Circular may be obtained from DHSS Store, Health Publications Unit, No 2 Site, Manchester Road, Heywood, Lancs OL10 2PZ quoting code and serial number appearing at top right-hand corner.

PROCEDURES FOR TENDERING AND COST APPRAISAL

I. TENDERING

1. General advice and information on tendering procedures are given in paragraphs 24-34 of Appendix 3 to HC(81)6.

SPECIFICATIONS FOR TENDERS

1.1 There will need to be detailed consultations with users of services within health authorities to ensure that specifications meet their needs.

1.2 The documents should detail the *service* requirements, frequencies and standards required. They should not stipulate detailed requirements for staffing, the length of time needed to undertake tasks, supervisory and equipment levels.

1.3 There must be clear statements of how the authority expects additions or variations to requirements (eg. ward closures for redecorating) to be costed. Usually this should be on a pro rata basis.

1.4 All tenderers must have equivalent opportunities and it is essential that they should submit their priced documents on identical specifications.

OBTAINING TENDERS

2. Where there is any problem in drawing up and maintaining lists of approved firms, the health authority should seek the assistance of the appropriate trade association. The relevant professional advisers in DHSS can assist in the technical assessment if required (see Appendix 2). Where there is any doubt about the technical competence or financial soundness of a company, a pre-tender qualification assessment should be made.

If advertising for tenders, the use of the local press would not in many districts be a wide enough trawl, if the contract is for major services; selective advertising in the national press and any recognised trade journals should be considered.

IN-HOUSE TENDERS

3. In-house tenders should be submitted under the same timetable, constraints and procedures as apply to private contractors. Where there is an incentive bonus scheme in operation, the in-house tender must be costed accordingly. However, this would not rule out an undertaking in the tender to achieve specific savings under a revision of the bonus scheme, if this has been agreed with staff interests.

COMMUNICATIONS

4. The companies and in-house manager being invited to tender should all be invited to the briefing at the same time. Any arrangements made for detailed surveys should be equal for all parties involved. Any changes to specification requirements or briefing emerging from such surveys must be notified to all the tendering parties in writing.

5. Private contractors need to be kept informed where they have tendered for a health authority service. If there is any likelihood of them being kept waiting for results they should be advised when these are likely to be available.

DOMESTIC SERVICES

6. For domestic services, health authorities should not overlook the possibility of private contractors undertaking ward orderly or housekeeping duties. Local circumstances will dictate what may be appropriate and feasible in extending the potential terms of the contract to include more than basic cleaning tasks.

CATERING

7. Where there is a need for investment in catering service facilities, health authorities should consider the option of inviting tenderers to make the investment. This could, for example, involve refurbishing kitchen systems and equipment purchases.

LAUNDRY

8. For laundry services, health authorities may wish to consider the option of linen rental arrangements for part or whole of their requirements. This form of service may present certain advantages by investment savings, savings in overhead costs and improvements in the management of security arrangements for linen.

9. Tenders for laundry contracts need particular care in their timing. Tenders should always be sought when capital investment of £½ million or more is being examined, and planning is necessary well in advance (usually 2 to 3 years) of the start for upgrading of the service. Tenders must be synchronised with the health authority's planning processes so that they become available concurrently with the authority's own costings. Tenders should not be sought so early that tenderers are kept waiting for a decision while the authority is still developing its own costings. Where a health authority's laundry provides a service for another health authority, there should be joint agreement on the basis for tendering and contracting.

II. APPRAISAL OF TENDERS

10. The annex to this Appendix (see specimen laundry contract for laundry services) should, as far as possible and amended as necessary for local circumstances, be used for assessment. VAT liabilities should be ignored in making cost comparisons except for the 1 per cent EC contribution. From 1 September 1983, health authorities will receive refunds of VAT where the services are contracted out.

11. Redundancy payments (net of contributions from the "Redundancy Fund") and other severance payments are costs that have to be met from within an authority's cash limit but should only be taken into account as described in the annex. These can be spread over the contract period in making the final assessment.

12. If, after having taken all financial implications into account, the lowest private tender shows clear savings in the total cost to the authority, the health authority should enter into contract. Provided the tender documentation is properly completed and assuming that the authority is satisfied about the ability of the contractor to deliver the service in accordance with the contract terms, the contract should be let to the lowest tenderer. In no circumstances should a contractor not submitting the lowest tender be awarded the contract unless there are compelling reasons endorsed at district authority level for taking such a decision.

13. If the in-house service submits the lowest acceptable bid, this becomes the budget figure for the service specified in the tender documents and for the length of the contract proposed, subject to allowable fluctuations for wage and price increases.

FRAMEWORK FOR THE COMPARISON OF COSTS

The purpose of this annex is to provide a standard format for a comparison of cost. The comparison should be between the costs of providing a given service by acceptance of the tender submitted by the in-house manager and that submitted by an outside contractor.

The annex refers to situations where capital expenditure can be ignored. That is, it covers domestic services (for which all costs fall to the revenue account) and the majority of catering contracts in which the contractor provides management, labour and provisions using kitchen and other capital items owned by the health authority. Forms of contract in which the contractor assumes ownership of capital assets or renders existing NHS assets obsolete (e.g. by preparing meals elsewhere) raise more complex problems of appraisal. In these cases the comparison should follow the guidance on the calculation of "equivalent annual charges" arising from capital costs, given by HM Treasury in the green book "Investment Appraisal in the Public Sector".

The steps in the calculation are listed below, and are followed by notes on each step.

Domestic/Catering Service at .... Hospital

Beds/Type :

Buildings Covered/Served :

:

Comparative costs of new arrangements

	Lowest commercial tender	*In-house tender*
Tender price (Note 1)		
Monitoring contract		–
Overhead costs of contract service (please specify) Note 2)		–
VAT (EC contribution at 1 per cent) (Note 3)		
Overhead cost of direct service (Note 4)	–	
Cost Comparisons Total		Total
Additional Costs of Redundancy Payments (Note 5)		

NOTES

1. Comparison of the commercial tenders with one another and with the in-house tender is conveniently done by constructing two columns, as shown above. The lowest acceptable commercial tender, *excluding VAT* should be inserted in the left-hand column. The in-house tender should include all necessary equipment and costs including any separately identifiable costs of monitoring the service to ensure that the specifications against budget are met.

2. Include and identify separately any additional recurring costs from the use of an outside contractor.

3. Although VAT on service contracts will be refunded in full to health authorities, the Government has to pay to the EC 1 per cent of VAT levies. Thus for comparison purposes, this 1 per cent must be taken into account, as appropriate, on both sides of the equation.

4. 'In-house' overheads should include items such as personnel, training, finance, supplies and payroll services which are not included in the direct costs of the "in-house" service. They should only be included to the extent that they would be saved when a private contractor is used. These overheads must include a notional sum for insurance.

5. Health authorities will wish to consider carefully the effect of redundancy costs in appraising the cost implications. They should note the guidance given by HM Treasury in the green book "Investment Appraisal in the Public Sector"; in particular paragraph 3.12 which recommends that transfer payments to individuals should be omitted from both sides of the cost comparison. Nevertheless, health authorities have to identify the funding consequences of a decision to contract out services. Accordingly it is recommended that the total costs of redundancy payments (net of receipts from the Redundancy Fund) should be shown "below the line", and should be taken into account in judging the longer term benefits of costed options. In practice health authorities can do this by spreading the cost of redundancy payments over the period of the contract in making their final decision.

APPENDIX 2
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CLEANING, CATERING AND LAUNDRY SERVICES

NATIONAL TRADE ASSOCIATIONS

CLEANING

Contract Cleaning and Maintenance Association
75/76 Central Buildings
24 Southwark Street
LONDON SE1 1TY

Tel: 01-403 2747

Central advice can be obtained from The Chief Officer, Domestic Services Management Branch, DHSS, Hannibal House, Elephant and Castle, London SE1 6TE (Tel: 01-703 6380 Ext 3370).

LAUNDRIES

The Association of British Launderers and Cleaners Ltd
Lancaster Gate House
319 Pinner Road
Harrow
Middx HA1 4HX

Tel: 01-863 7755

The British Textile Rental Association Ltd
Lancaster Gate House
319 Pinner Road
Harrow
Middx. HA1 4HX

Tel: 01-863 9177/8

Central advice can be obtained from Mr R Spooner or Mr W Fuell, Works Group, DHSS, Euston Tower, 286 Euston Road, London NW1 3DN (Tel: 01-388 1188 Ext 536/293)

CATERING

The British Hotels Restaurants and Caterers Association
40 Duke Street
London W1M 5DA

Tel: 01-499 6641

(This Association does not provide a full liaison service with contractors). Further advice can be obtained from the Chief Officer, Catering and Dietetics, DHSS, Hannibal House, Elephant and Castle, London SE1 6TE (Tel: 01-703 6380 Ext 3474 or 3468).