



## **Planning Executive**

### **SBAR on Charitable Partners in Hospitals**

**September 2011**

#### **Situation**

Charitable partners in our hospitals provide valuable services to staff, patients and visitors through a variety of trading activities. Many of them also provide significant levels of charitable donations to the Health Board. However, donations vary from year to year and across the Board, and purchases made through charitable donations are not necessarily aligned with service or strategic plans.

There is a desire to bring greater certainty and strategic fit to charitable partners' trading activities, as well as maximise the Health Board income generated from trading activities on our premises.

This paper briefs the Board's Finance and Performance Committee on the key issues surrounding current arrangements with charitable partners, focussing on the three DGH sites.

#### **Background**

##### Current Partners

There are charitable partners trading within all three DGHs, Llandudno General Hospital and many of our community hospitals. All of the main traders are charitable institutions including League of Friends, WRVS and the Maelor Voluntary Service (MVS). Leagues of Friends and MVS are locally organised bodies which publish local accounts, whilst WRVS has a national infrastructure and publishes a national set of accounts without locally accessible detail.

Wrexham Maelor Hospital main concourse contains a cafeteria and general/newspaper shop run by the MVS and League of Friends respectively. Elsewhere on site are further cafes run by MVS.

Within Glan Clwyd main concourse is a cafe and newspaper/general shop run by the League of Friends with a further cafe in the Cancer Treatment Centre. The newspaper and florist concessions have recently lapsed.

Ysbyty Gwynedd main concourse has no permanent traders, but there is a cafeteria and sandwich shop located elsewhere in the hospital run by WRVS.

There are further smaller traders on a number of our other sites.

### Contractual and organisational arrangements

Charitable trading arrangements have developed historically along different lines in the three former Trusts, and there are no formal contractual arrangements for the three DGH sites. There were different arrangements and contact points within Finance departments and/or Volunteer Services in each the former Trusts, with responsibility for liaising with charitable partners.

Since there are no contractual arrangements in place with our charitable partners, then Health Board has no formal input into the practices, policies, suppliers and range of goods/services provided by charitable traders. Historically no charge has been made in terms of rent or utilities costs – on the basis that the Health Board benefited from charitable trading activities through subsequent donations

### Charitable Income

Charitable partners operate independently of the Health Board and retain their own operating surpluses. Each of them have historically donated significant sums, to the Health Board and predecessor organisations, and these monies have supported a number of capital developments and the purchase of medical and patient-related equipment. In many cases these donations have purchased items of considerable benefit to patients and clinicians, which could not have been supported through the Health Board's limited discretionary capital allocation.

Donated amounts have varied from year to year, and are not aligned to specific strategic developments. Charitable partners request bids from services and clinicians which are then assessed by the charitable traders for alignment with the charity's aims and objectives. Frequently, there is limited consideration of wider strategic fit with the Health Board's priorities and clinical service strategy. Revenue consequences of donated equipment are borne by the Health Board. Revenue bids have not been requested or submitted historically.

The significant majority of charitable trading income comes from traders located on the three main DGH sites.

	£ 2007/08	£ 2008/09	£ 2009/10
<b>Central</b>			
YGC	72336	271997	426489
Other	35273	33789	31361
<b>Total</b>	<b>107609</b>	<b>305786</b>	<b>457850</b>
<b>East</b>			
WMH	196611	326150	255817
Other	36372	44627	126851
<b>Total</b>	<b>232983</b>	<b>370777</b>	<b>382668</b>
<b>West</b>			
YG	47621	47168	418383
Other	24306	24637	102493
<b>Total</b>	<b>71927</b>	<b>71805</b>	<b>520876</b>
<b>Total</b>			
DGHs	316568	645315	1100689
Other	95951	103053	260705
<b>Total</b>	<b>412519</b>	<b>748368</b>	<b>1361394</b>

Fig 1 – Donations from charitable traders, 07/08 – 09/10

Analysis of published accounts for the local charitable traders (appendix 1) shows that those on the main DGH sites generate significant operating surpluses and retain significant financial reserves. The most recent set of published accounts analysed shows that each of the charitable partners on the three main DGH sites has retained a reserve of broadly twice the donated amount in that year. Analysis of the previous year's accounts also show a very similar position. Retained surpluses are used by charitable partners to fund future donations and for investment in their premises.

League of Friends (Glan Clwyd)	31/01/2010
Turnover (cafe and shop)	£755,426
Net profit	£214,091
Donations to HB	£244,616
Reserves carried forward	£405,198

<b>League of Friends (Maelor)</b>	<b>31/08/2009</b>
Turnover (shop)	£342,480
Net profit	£62,577
Donations to HB	£175,403
Reserves carried forward	£291,355

<b>League of Friends (Maelor Voluntary Services)</b>	<b>30/06/2009</b>
Turnover (cafe)	£530,238
Net profit	£141,921
Donations to HB	£109,487
Reserves carried forward	£204,747

**Fig 2. Summary of operating surplus, donations and reserves for League of Friends/MVS.**

As a national organisation, WRVS is not required to publish local accounts. Therefore an analysis of local surpluses and reserves can not be undertaken.

### Other issues

There is a need to develop procurement criteria to ensure clear specification of what types of traders the Health Board wishes to contract with, and supplier relationships, together with the development of a procurement policy and contract terms and conditions in line with the Health Board strategy, aims & objectives; NHS Ethical Standards 2000 and the Dept of Health's revised guidance on best practice income generation in the NHS, 2006.

These criteria should support local suppliers, organisations and employers wherever possible.

### **Assessment**

An assessment of the commercial potential of the floorspace currently devoted to charitable partners on the three main DGH sites has been undertaken with support from an external commercial property agent. The likely commercial value of the

floorspace ranges from £60-£80 per square metre per year. Additionally recoverable utilities charges range from £21-32.

Appendix 2 shows the detailed impact of charging these rates to current charitable partners, based upon current floorspace usage. The potential income on the three main DGH sites ranges from £72k-100k. Assuming similar arrangements on the non-DGH sites across the Health Board, a further £20-25k would be generated.

The commercial potential of the retail space and likely footfall was not considered sufficient to support higher rental income, even if fully commercial traders were occupying the space. However, in this scenario, the additional donated income would be lost to the Health Board.

Setting the commercial rental and utilities costs in this analysis against the operating surpluses set out above, it is clear that charitable partners would still generate significant operating surpluses if these rates were charged, and the Health Board would still benefit from further charitable donations.

### Scenario Analysis

These scenarios have been considered by a small group of colleagues drawn from Planning, Finance and Patient Services, along with the wider opportunities available from a refreshed approach to relationships with charitable traders.

Options considered included:

- No change;
- Charging existing partners commercial rents;
- Engaging fully commercial partners;
- Operating trading activities ourselves.

The broad conclusions of the group are:

1. Net charitable income for the League of Friends/WRVS operations on the main DGH sites exceeds (in most cases significantly) what professional advice has indicated commercial rents would generate.
2. On the basis that the Health Board would continue to receive substantial charitable income over and above the level of potential commercial rent, and given the importance of our relationships with charitable partners, it is not considered that a fully commercial solution would deliver significant other benefits over continuing with existing partners on a commercial footing;
3. On the basis that it is unlikely the Health Board could generate the same scale of operating surplus (largely due to the contention that volunteers are much more likely to volunteer for a charity than the Health Board), it was not felt that a Health-Board owned solution would deliver the income currently received from charitable partners;

4. There are opportunities to lease currently vacant space on some sites to social-enterprise type organisations at a commercial rent;
5. There is further work to be done with charitable partners to ensure that donations are much more aligned with our core clinical/service strategies, and that donated income is more consistent year to year;
6. There is a need for a co-ordinated/centralised approach to leases across all three sites – currently elements are picked up by estates, finance, hospital management teams etc;
7. There is a need to put on a formal footing the relationships with charitable traders;
8. There should also be benefits to charitable traders of a more formal relationship – and these could include greater Health Board support and input into strategic development and operational management of trading activities where it is in both partners' interests.

There are a number of clear objectives that the Health Board should adopt, in considering the commercial potential of retail space within our hospitals:

- To maximise income from available space by:
  - Charging commercial rents;
  - Recovering all utilities and Estates costs;
- To maximise the security of income by:
  - Charging commercial rents;
  - Centralising within one function in the Health Board the management, contracting and financial arrangements relating to traders;
- To develop greater strategic fit between the aims and clinical service strategies of the Health Board, and the activities of charitable partners by:
  - Developing procurement criteria (including the use of local suppliers wherever possible) and contract terms and conditions;
  - Seeking to let existing and future vacant retail space to social enterprises and local organisations;
  - Agreeing with charitable partners a more strategic approach to the use of donations
  - Agreeing areas of mutual support and interest where the Health Board can provide greater input and support to charitable partners - in terms of their operational management and strategic/Estate development.

## Other opportunities

There are other trading opportunities which exist, that have not been developed in this SBAR, including:

- Letting of currently vacant retail space – florist service and newspaper service at YGC. Enquiries from interested parties have been recently received for both areas – however any letting will need to take account of the refurbishing of those areas as part of the YGC asbestos removal project;
- Sponsorship of Health Board property – eg landscape or buildings;
- Leasing space to “day traders”. Countess of Chester currently charge £55 per day in the main foyer for day traders with a waiting list for access. Assuming that each N Wales DGH site was able to secure a day trader 50% of the time at £50 per day – this would generate £20k pa.

## Financial Summary

It is anticipated that bringing greater commercial focus to our trading activities could generate an additional £180k income pa:

Commercial rent for existing DGH traders:	£100k
Commercial rent for non-DGH traders	£ 25k
Unlet space and social enterprises	£ 25k
Advertising/Sponsorship	£ 10k
Day Traders	<u>£ 20k</u>
<b>Total</b>	<b><u>£180k</u></b>

Given the potential sensitivities and discussions required with trading partners, it is assumed that the 2011/12 part-year effect of these proposals will be £45k, with full year effect being realised in 2012/13.

## **Recommendation**

Finance & Performance Committee are recommended to adopt the proposals set out above and:

- Consolidate the management/contracting arrangements for trading activities into one location/department;
- Formalise contractual arrangements with charitable traders;
- Develop procurement criteria and contract terms and conditions;
- Charge commercial rents and recover utilities costs for all retail space on all sites;
- Develop a more strategic approach to the investment of donations

## Appendix 1.

League of Friends (Glan Clwyd)	31.01.2010	31.01.09		League of Friends (Maelor)	31.08.09	31.08.08		League of Friends (Maelor Voluntary Services)	30.06.09	30.06.08
Turnover (cafe and shop)	755,426	704,998		Turnover (shop)	342,480	314,915		Turnover (cafe)	530,238	487,059
Cost of Sales	431,881	403,635		Cost of Sales	229,964	211,667		Turnover (cafe)	232,302	203,129
Gross profit	323,545	301,363		Gross profit	112,516	103,248		Gross profit	297,936	283,930
Gross profit margin	43%	43%		Gross profit margin	33%	33%		Gross profit margin	56%	58%
Other costs	109,454	104,018		Other costs	49,939	50,393		Other costs	156,015	179,222
Net profit	214,091	197,345		Net profit	62,577	52,855		Net profit	141,921	104,708
Net profit margin	28%	28%		Net profit margin	18%	17%		Net profit margin	27%	21%
Other income	31,401	28,447		Other income	113,492	79,674		Other income	11,144	13,882
Donations to HB	244,616	203,016		Donations to HB	175,403	91,983		Donations to HB	109,487	111,000
Reserves carried forward	405,198	404,321		Reserves carried forward	291,355	291,349		Reserves carried forward	204,747	161,169
<b>Notes</b>										
Other costs include salaries, governance costs, fundraising, travel, depreciation, uniforms etc										
Other income includes legacies, donations and other fundraising										
League of friends Mold - reserve	£383,329.95	This is as at 31st December 2007 (date of last filed accounts due to I&E being below threshold)								
League of friends Llandudno - reserve	No accounts filed as I&E below the threshold - suggests low balances									

**Appendix 2 – Lease/Utility cost modelling for current traders on DGH sites.**

**Lower scenario**

Site	Organisation	Area in sqm	Rate	Total
			£	£
Ysbyty Gwynedd	WRVS	293	81	23,733
YGC	LoF	260	81	21,060
WMH	LoF	88	81	7,128
	MVS	232	81	18,792
	Wingetts	18	81	1,458

<b>TOTAL</b>	<b>72,171</b>
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Rate is calculated from lease utilities	60 21
<b>Total</b>	<b>81</b>

**Upper scenario**

Site	Organisation	Area in sqm	Rate	Total
			£	£
Ysbyty Gwynedd	WRVS	293	112	32,816
YGC	LoF	260	112	29,120
WMH	LoF	88	112	9,856
	MVS	232	112	25,984
	Wingetts	18	112	2,016

<b>TOTAL</b>	<b>99,792</b>
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Rate is calculated from lease utilities	80 32
<b>Total</b>	<b>112</b>