

**CABINET - SUBJECTS FOR CONSIDERATION, 12 JUNE 2007 10:00 AM**

**1 New Initiatives/Policy Matters**

101 HEACS/07/204 The Lyell McEwin Hospital - Hotel Services (John Hill)  
**APPROVED**

Out of Scope

101

## CABINET COVER SHEET

1. **TITLE:** **LYELL MCEWIN HOSPITAL HOTEL SERVICES**
2. **MINISTER:** Hon John Hill MP  
Minister for Health
3. **PURPOSE:** To seek Cabinet approval to negotiate a new outsourced contract for hotel services for The Lyell McEwin Hospital.
4. **IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR SOUTH AUSTRALIA'S STRATEGIC PLAN TARGET:** Consistent with Objective 2: Improved Wellbeing, to ensure that hospital services are maintained and standards are improved.
5. **ICT COMPONENT:** Does the submission have a material ICT Component?.....No
6. **RESOURCES REQUIRED FOR IMPLEMENTATION:**

The Department of Treasury and Finance agrees with the basis of the assessment of costs contained in this submission.

A 2005-06 bilateral budget has been approved for all metropolitan hospitals whose hotel services are being re-contracted. However, the Department of Treasury and Finance has been informed of the potential for a further funding pressure in this area. The extent of this pressure will be determined by the tendered prices. Some success has been achieved in negotiating reductions in tendered prices.
7. **COMMUNITY AND ENVIRONMENTAL IMPACT:**

No regulatory impact.

No impact on the community.

No regional impact.

No impact on small business.

Some small incremental improvement in environmental benefits through reduced cleaning chemical use.
8. **RISKS:** Union dissatisfaction with the outcome of continued outsourcing and potential further outsourcing.

9. **CONSULTATION:** Consultation has occurred with the Department of Treasury and Finance, the Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU) and the Department of Administrative and Information Services.
- All known issues have been addressed, apart from agreement on the issue of wage parity where the LHMU is requesting wage parity for its members as a condition agreeing to discontinue Public Benefit Tests. DTF is concerned that wage parity could lock Government into providing additional pay rates. LHMU was advised that Cabinet did not require the remaining hospital tenders to include a PBT.
10. **COMMUNICATION STRATEGY:** After Cabinet approval all tenderers will be formally advised of the outcome and the preferred tenderer will be required to enter into final contract negotiations. In addition, the LHMU will be advised that the Lyell McEwin Hospital Hotel Services will continue to be outsourced.
11. **URGENCY:** Normal.
12. **RECOMMENDATIONS:** It is recommended that Cabinet:
- 
- 4.1 Notes the results of the re-tendering process, which indicates the tender submitted by ISS Facility Services Ltd provides the best value for money;
- 4.2 Notes that State Procurement Board approval of the 'procurement process' will be sought;
- 4.3 Approves that the Minister negotiate and enter into a contract with the preferred supplier ISS, subject to State Procurement Board's approval  
7(1)(b) Commercial value

4.4 Approves additional operating expenditure budget and expenditure authority associated with the renegotiation of the remaining two hotel services contract for TQEH and LMH as outlined in the table below:

7(1)(b) Commercial value

4.5. Notes that the Department of Health will seek to negotiate with the preferred supplier (which is the same supplier for both the TQEH and LMH contracts) to avoid the cost pressure outlined in recommendation 4.4.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.



HON JOHN HILL MP  
MINISTER FOR HEALTH

Date: 29/5/08

**TO: THE PREMIER FOR CABINET**

**RE: THE LYELL MCEWIN HOSPITAL - HOTEL SERVICES**

## **1. PROPOSAL**

That Cabinet:

- 1.1 Notes the results of the re-tendering process, which indicates the tender submitted by ISS Facility Services Ltd provides the best value for money;
- 1.2 Notes that State Procurement Board approval of the 'procurement process' will be sought;
- 1.3 Approves that the Minister negotiate and enter into a contract with the preferred supplier ISS, subject to State Procurement Board's approval of procurement process,  
7(1)(b) Commercial value
- 1.4 Approves additional operating expenditure budget and expenditure authority associated with the renegotiation of the remaining two hotel services contract for TQEH and LMH as outlined in the table below:  
7(1)(b) Commercial value
- 1.5 Notes that the Department of Health will seek to negotiate with the preferred supplier (which is the same supplier for both the TQEH and LMH contracts) to avoid the cost pressure outlined in recommendation 4.4.

## **2. BACKGROUND**

- 2.1 In April 2004 Cabinet approved the re-tendering of hotel and other ancillary services subject to endorsement being obtained from the State Procurement Board. The State Procurement Board approved the two stage centrally coordinated procurement process in May 2004.

- 2.2 Hotel services are a range of ancillary services provided by external contractors through integrated contracts. These contracts include non-clinical services such as cleaning, catering, portering, waste management, stores management, security and grounds and gardens maintenance. Whilst there is commonality between the respective hospitals' scope, each varies in complexity and requirement.
- 2.3 The procurement process includes the re-tendering of the hotel services for the six metropolitan health services: the Women's and Children's Hospital (WCH), Royal Adelaide Hospital (RAH), Flinders Medical Centre (FMC), South Australian Dental Service (SADS), Lyell McEwin Hospital (LMH) and The Queen Elizabeth Hospital (TQEH).
- 2.4 The approved centrally managed two stage tender process involved an Expression of Interest (EOI) call for suitably qualified organisations to provide hotel services to the six metropolitan health services. Subsequently a stage two Request for Tender (RFT), was to be released by each of the hospitals to those select tenderers who had been short-listed from the EOI process.
- 2.5 Ten companies responded to the EOI with five companies being short-listed. Those companies are:
- Spotless Services Australia Ltd (Spotless) – all services;
  - ISS Facility Services Ltd (formally Tempo Health Support Services) – all services;
  - Altys Multi Services (Altys) – all services;
  - Landscape Construction Services – grounds and gardens maintenance services only; and
  - Programmed Maintenance Services Ltd (PMS) – grounds and gardens maintenance services only.
- 2.6 During the 2002/03 Budget process the Government allocated \$6m over four years (\$1.5m per annum) for the implementation of the cleaner hospitals initiative. This allocation was in response to public concerns that hospitals were not clean, and followed infection control breakdowns in Intensive Care Units (ICU) services at TQEH and the RAH. To ensure that this funding was allocated effectively, the Department of Health (DH) was requested in mid-2002 to undertake an infection control review (Brennan Review) and a Ministerial Cleaning Audit.
- 2.7 The Ministerial Cleaning Audit was completed on 18 February 2003 and the findings presented to Cabinet concluded that cleaning in our hospitals was of a good standard regardless of whether the service was provided by an in-house or contracted service.

Some of the key findings that specifically addressed the State Labor Convention motions (covered in detail in paragraph 2.8) concerned whether contracted services delivered benefits that were in the public interests. These findings included:

- by contracting cleaning to the private sector, hospitals are able not only to significantly reduce total costs through contractor delivered efficiencies but were also able to improve their control of cleaning costs. These are benefits routinely provided by private sector cleaning contractors across large sectors of commerce and industry;
- the audit confirmed that there is a strong commitment to utilising contracted rather than in-house services within other areas of the South Australian public sector (particularly within buildings governed by Department for Administrative and Information Services' leases) due to benefits that the private sector provides;
- the contracted services had strong accountabilities and well developed reporting structures that had helped underpin communication protocols. The audit considered that these processes contributed to strong private sector management of cleaning costs and therefore contributed to the smooth running of hospital cleaning and therefore the hospital system; and
- with in-house services, internal inspection and follow up of staff grew with the size of the hospital and the number of cleaners. This lead to the growth in the span of control that the hospitals were required to exercise and their ability to manage in these circumstances was limited and contributed to inefficiencies. It was therefore argued that there is a point where contract cleaning is effective in controlling the level of core services that hospitals had to manage on a daily basis. It was argued that cleaning contractors were able to manage these services more effectively as their span of control was focussed.

The findings of the Ministerial Cleaning Audit provided a sound basis for Government to proceed with a further round of hotel services contracting of existing services whose contracts had expired and required urgent renewal.

2.8 The 2002 and 2003 State Labor Conventions expressed support for the in-sourcing of services providing access to public sector employment where a public benefit is demonstrated. The motion specified that "public benefit" includes:

- future and existing cleaning costs;
- staffing levels;
- cleaning service standards;
- wages and work conditions of staff; and
- inter-operatibility and smooth running of the hospital system including management and administrative structures.

As previously indicated in paragraph 2.7, the Ministerial Cleaning Audit provided the Government with strong indications that there was no overriding public interest that would require the Government to mandate that services be brought in-house. Notwithstanding these findings, Cabinet requested that consideration of hospital tenders include an objective assessment of the public benefit of re-letting each contract, comparing tenders with cost and benefits of in-sourcing this work.

Following Cabinets consideration of four submissions (WCH, RAH, FMC & TQEH) that showed no financial benefit in bring services in-house, Cabinet agreed that PBT's were not a mandatory requirement for the remaining tenders (SADS & LMH)

2.09 The LMH is the sixth and final hospital to release a tender to the short-listed companies with the tender closed 25 September 2006. Tenders were received from ISS Facilities Services (all services), Spotless Services Australia Ltd (all services) and Programmed Maintenance Services Ltd (grounds and gardens maintenance services only).

2.10 The WCH tender process has been completed and approved by Cabinet on 21 March 2005;

The RAH tender process has been completed and approved by Cabinet on 6 February 2006;

The FMC tender process has been completed and approved by Cabinet on 24 July 2006;

The SADS Recommendation will be approved by the Department of Health under its delegation;

TQEH tender process has been completed and approved by Cabinet on 7 May 2007.

### 3. DISCUSSION

- 3.1 There has been consultation and briefing with the Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU) in relation to the:
- Ministerial Cleaning Audit;
  - Content of the RFT document; and
  - Structure of the PBT model.

The LHMU has not formally responded to the contents of the report on the Ministerial Cleaning Audit.

This audit was undertaken to inform the Minister for Health of issues that needed to be addressed in hospital cleaning services in order to meet commitments made to the public to improve the quality and safety of care delivered within public hospitals. However, the LHMU was involved in the process, provided a submission to the audit, received a copy of the final report, briefed on its contents and the outcomes of the audit.

The LHMU expressed a number of concerns regarding the WCH RFT document but these concerns were addressed at a briefing provided by the Department. The LMH RFT document is highly similar to the WCH RFT document. These concerns related mainly to how the responses to the RFT specification would satisfy the LHMU given the 2002 State Labor Convention motions.

- 3.2 The LMH tender evaluation comprised a quantitative and qualitative assessment, using a "value for money" methodology in accordance with the Evaluation Plan. The outcomes of the evaluation are detailed in the LMH Evaluation Report as follows:

7(1)(b) Commercial value

- 3.3 ISS' tender was a professional document that addressed all requirements in detail. It was apparent to the Panel that ISS fully understood the Hospital and the impact of the redevelopment and had proposed a Service delivery process that would meet all the standards. ISS provided an excellent overarching model of its Service delivery, allowing the Panel to fully understand how ISS intended to address the delivery of the Services before the detail was addressed. It advised that the key features of its proposal were:
- ◆ The implementation of the TopCat quality audit tool;
  - ◆ implementation of HardCat, a modular asset management system to manage patient related equipment;
  - ◆ the utilisation of the Computer Aided Radio Personnel System (CARPS);
  - ◆ dedicated ward based teams;
  - ◆ a trial of the Jonmaster microfibre cleaning system; and
  - ◆ the use of the Toll mail system

7(1)(b) Commercial value

- 3.6 The Hotel Services Steering Committee (consisting of representatives from each of the involved health services, Metropolitan Division, Legal Services (an outpost of the Crown Solicitors Office) and Strategic Procurement) supports the procurement process and outcomes outlined.

### 3.7 Economic, Financial and Budget Implications

#### Budget Implications

As part of the 2005-06 Budget process, the Department for Health submitted a cost pressure bid in anticipation of price increases for existing contracts for the provision of hotel and ancillary related services. The bid currently totals \$5 million per annum from 2005-06 and is based on the WCH tender experience that is likely to result in a 15% increase on current contract prices. Additional funding was provided to the Department of Health for a 15% increase. The actual outcome of that tender negotiation was for an increase of around 10%, ie resulting in a budget saving.

In addition, Cabinet previously approved \$1.6m to meet LHMU Enterprise Bargaining Agreement requirements, which provided for parity with Government ancillary employees, costs relating to the \$1.5m cleaner hospital initiative and additional indexation related funding to more accurately reflect wage related cost increases associated with these contracts. The Department of Health notes that it is a condition of the contracts that the outcome of any EB agreements will be passed onto Government.

The contract price submitted by the preferred tenderer however provides for an increase of around 50% on existing budgets in 2007/08 (part year increase) and 57% in 2008/09 and subsequent years (full year increase).

The increase in tender price compared with the existing approved budget predominantly relates to increased resources required to deliver services expected by the RFT. The RFT provided to contractors highlighted in great detail current service levels and there were instances where they were less than the new specification. For example the current contract is not as specific as the current RFT requirements and the current tender requires respondents to comply with the "Cleaning Standards for Victorian Public Hospitals – July 2000", now adopted by the SA Department of Health, the United Kingdom, and are under active consideration in other Australian jurisdictions. These standards were identified as the only appropriate cleaning standards for hospitals. Accordingly a significant portion of the increase is attributable to increased staffing resources across cleaning and distribution services.

The following table (table 2) outlines the projected increase in costs associated with the preferred tender. There will be no impact on the State budget for the 2006/07 financial year as a commencement date of 1 September 2007 has been assumed.

**Table 2: LMH Hotel Services Budget Impact**

LMH Hotel Services Budget Impact	2006/07 (\$'000)	2007/08 (\$'000)	2008/09 (\$'000)	2009/10 (\$'000)	2010/11 (\$'000)	2011/12 (\$'000)
Existing approved budget	3.932	4.066	4.205	4.348	4.497	4.650
Cost in respect of the preferred tender	-3.932	-6.087	-6.610	-6.822	-7.052	-7.309
Impact on State Budget	nil	-2.021	-2.405	-2.474	-2.555	-2.659

The following table outlines the additional budget impact, i.e. additional compared to the bid submitted as part of the 2005/06 Budget process.

**Table 3: Hotel Services Bilateral Budget Requirement Impact**

Hotel Services	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010/11 \$'000	2011/12 \$'000
Existing approved budget for total Portfolio cleaning and hotel services costs	34,546	36,320	37,556	38,855	39,825	40,821
2005-06 Budget approval	5,191	5,887	5,942	6,090	6,243	6,399
Total approved budget	39,737	42,207	43,498	44,945	46,068	47,219
Revised Impact	-37,695	-42,350	-44,558	-46,107	-47,678	-49,322
Budget Impact	2.042	-0.142	-1.060	-1.163	-1.611	-2,103

### Financial Issues

There are significant price increases in the Lyell McEwin Hospital hotel services re-tendering. While there have been reductions in the offered costs from the original tendered prices, these have not been sufficient to reduce the increase to that expected, of about 15%. Extensive analysis of the current contract, tender response, patient costing data and information supplied by the contractor indicates that the current costs existing and base budgets approved would appear to be substantially under that of other hospitals by about 30%. One major factor leading to this outcome is that the footprint of the hospital has been substantially increased without a commensurate increase in the contract value. The footprint of the hospital has increased from 24 300 sqm to 51 100 sqm (or by 110%).

At this stage it is not possible to forecast what further reductions in the contract costs might be attained without formally advising which company is the preferred supplier and establishing a negotiation process.

There is a reasonable expectation that CNAHS may be able to meet increased costs from within DH current budget allocations, but this is subject to the finalisation of contract negotiations for both TQEH and LMH. The previous TQEH submission noted significant contract negotiation savings as being possible.

7(1)(b) Commercial value

**3.9 Impact on the Community and Environment**

There is no regulatory impact.

There is no anticipated impact on the community.

There is no regional impact.

There is no impact on small business.

As ISS proposes to implement microfibre cleaning systems it is expected that this will deliver some small incremental environmental benefits in reducing cleaning chemical usage and waste.

**3.10 Risks**

Union dissatisfaction with the continued out-sourcing of services.

**3.11 Consultation**

There has been consultation with the LHMU in relation to the following matters:

- Ministerial Cleaning Audit - the LHMU was involved in the process, made a submission and was briefed on the report; and
- The Request for Tender – LHMU previously raised issues with the WCH RFT and these were satisfied by a briefing by the Department of Health. As the RAH is similar in format no further issues have been raised by the LHMU;

**3.12 Implementation Plan**

If Cabinet approves negotiation of a new outsourced contract Department of Health will facilitate negotiations with the preferred tenderer.

**3.13 Communication Strategy**

Department of Health will facilitate communication with current contractors, Central Northern Adelaide Health Service and relevant Unions.

#### 4. RECOMMENDATIONS

It is recommended that Cabinet:

- 4.1 Notes the results of the re-tendering process, which indicates the tender submitted by ISS Facility Services Ltd provides the best value for money;
- 4.2 Notes that State Procurement Board approval of the 'procurement process' will be sought;
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HON JOHN HILL MP  
MINISTER FOR HEALTH

Date: 24/5/05

In Cabinet

12 JUN 2007

