Private sector runs Circle round Hinchingbrooke

How NHS East of England asked the wrong question, and wound up with the wrong answer

Researched for UNISON Eastern Region

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Executive Summary

Introduction

Hinchingbrooke Hospital is the guinea pig in an experiment in contracting out the management of a busy district general hospital to a private, profit-seeking company, Circle Health half owned by private equity and hedge funds.

The contract stipulates that Circle will only be paid a profit once the hospital is in surplus: but since they took over the deficits have risen, while income to the hospital is set to fall year by year as tariff prices for treatment are reduced and commissioners work to reduce numbers of patients referred for secondary care.

Because of this the business case on which Circle won the contract involves making "savings" of £311m over ten years, and initially included the loss of 320 jobs – 20% of the workforce – over three years. These targets are higher than the highest level of savings ever achieved in the NHS.

During 2012 the contract was subject to detailed investigation both by the National Audit Office (NAO) and by the Commons Public Accounts Committee, in a session on December 10. In each case the contract, Circle, and senior managers of Circle and the NHS were strongly criticised.

Ideological approach

The NAO report echoes UNISON's concerns over the lack of evidence to support the policy-making by NHS East of England, and emphasises that the results were yet to be tested.

Who will scrutinise Circle?

The NAO calls for closer scrutiny of the contract and the company – but the Strategic Health Authority, which has since been merged into the monstrous Midlands and East, will be wound up in April as part of the government's Health & Social Care Act.

The Trust Board, which according to Strategic Health Authority boss Sir Neil McKay, should be in a position to take over from Circle if the contract fails, has been scaled down to a token body of just three people – to allow Circle to take complete charge.

And UNISON believes the new NHS Commissioning Board would also be unable to maintain consistent scrutiny of activities at the hospital, or to intervene in the event of a contract failure, or a decision by Circle to walk away from mounting deficits.

Rising deficit

Since Circle took over the Trust has slipped deeper into the red, £4.1m overspent – just £900,000 below the £5m figure which would allow Circle (or the Trust) to cancel the contract.

Circle as a company is massively dependent upon contracts to treat NHS patients, but even so has never made any profit, even from its core business of tiny boutique private hospitals.

£311m target for 'savings'

The NAO report points out that research by McKinsey showed no trust anywhere in the NHS had succeeded in making savings on the scale required for Hinchingbrooke to generate a total of £311m savings over ten years.

The savings so far include reduced numbers of nursing staff, some as a result of cutting handover times between shifts. Savings from the cleaning contract have resulted in contractors Mitie cutting numbers of cleaners.

Hinchingbrooke: who's in charge?

For many years all the key decisions relating to the future of the Trust have been taken by external bodies – notably NHS East of England and Cambridgeshire PCT.

UNISON has pointed out that all those involved in discussing how to address the financial problem at the Trust were the same people whose decisions had caused the deficit in the first place (this pre-history is discussed in an appendix at the end of the document). The NAO has commented on the lack of any evidence or experience base to back up NHS East of England's proposals.

Desperately seeking a private bidder

The goalposts have been repeatedly moved to ensure that the shortlisted contractors included private companies, while NHS bids have been withdrawn with no attempt to keep them involved.

Circle did at first not meet the criteria to proceed to stage 3 – so NHS East of England changed the criteria.

And both Circle and Serco were later allowed to submit new ambitious promises of bigger cost savings without having to explain how they would be achieved or show they were viable.

Mixed messages on clinical performance

The NAO report shows that good results on some measures have been matched by poor results on others: but there is no evidence that the good results are the result of Circle taking over the contract.

Conclusions

Circle got the contract despite initially failing to meet the threshold requirements, largely because of the determination of the SHA to bring in a private provider, and its willingness to allow the two initial NHS bidders to withdraw. The process has been criticised by the NAO and the Public Accounts Committee, and the huge "savings" [cuts] which Circle must make in order to deliver any profits to its shareholders have already begun to reduce staffing levels.

There should be a proper inquiry into why searching questions were not asked of Circle and Serco when the final bids were submitted to establish the basis of their proposed savings, and lessons should be learned from the entire process to ensure that no such irresponsible action is taken with other Trusts in similar financial problems.

Introduction

Hinchingbrooke Hospital is a relatively modern, efficient and popular hospital, more than 20 miles from the nearest alternative hospital services. Its size has been constrained by its limited catchment population of just 165,000, and its 20 years of growth and development has been called into question by a cash crises affecting the Hinchingbrooke Health Care Trust (HHCT) and Cambridgeshire Primary Care Trust.

The cash crisis seems set to get worse as the Trust faces years more of reduced tariff payments – paying the hospital less for each treatment – and a continued squeeze from commissioners seeking to refer fewer patients for hospital treatment. Because of this cntinued decline in income, the business case on which the management of the hospital was contracted out to Circle Health centred on achieving a total of £311m in "savings" over ten years from Hinchingbrooke's £107m budget, a target which the National Audit Office has described as "unprecedented" as a share of income. And, according to the authoritative Health Service Journal, the unredacted Business Case also called for the loss of 320 jobs – 20% of the workforce – over three years.

UNISON has been among those who have questioned whether Circle has the expertise to run the hospital properly, and whether given the financial pressures on the Trust the 10-year contract will be completed. Since the company makes nothing from the deal unless the hospital is put back into surplus, nit may well be that Circle, under pressure from its private equity and hedge fund shareholders, decides to cut its losses and pull out as deficits increase.

So serious are the problems Circle may not even stick around for the whole of 2013. Strategic Health Authority directors have for several years staked everything on this private sector solution, and have admitted to the Commons Public Accounts Committee that if this were to happen there is no Plan B.

The crisis facing the hospital would be intensified, and UNISON fears that the possibility of it facing closure, with patients diverted to the struggling Peterborough City Hospital – where the Trust is faced with an unpayable PFI bill – and to Cambridge, would be far greater.

The National Audit Office report on *The Franchising of Hinchingbrooke Health Care Trust* was published in November, as the financial performance and patient satisfaction ratings of the hospital took a sharp turn for the worse. Less than a month later Circle's founder, front man and chief executive Ali Parsa stepped down unexpectedly as Chief Executive, and will remain on the company's board only as a non-executive member.

On December 10 Parsa, together with his Circle colleague and successor Steve Melton, NHS East of England and Department of Health bureaucrats appeared before a strongly critical Commons Public Accounts Committee.

These events help to focus on the issues of continuing concern about the first long-term contract to privatise the management of an NHS hospital. These concerns include the way the contract was conceived, the way it was tendered, and the way in which it was negotiated and signed by the Strategic Health Authority, which was then NHS East of England (now merged into NHS Midlands and East).

This SHA, together with the remnants of East of England's avidly pro-privatisation 'Special Projects Team,' is soon to disappear from the scene as a result of the implementation of the Health & Social Care Act from April 2013, but the problems could recur if the leading figures in this process are still in senior decision-making roles after the major structural reforms, and if other senior NHS managers do not learn the lessons from the Hinchingbrooke saga.

The NAO report is critical, but does not get fully to grips with the many failings of the SHA in the Hinchingbrooke affair – most notably the SHA decisions which financially destabilised Hinchingbrooke Healthcare Trust, and the skewed "consultation" on its future.

Nor does the NAO report give any real emphasis to the malign role played throughout by Cambridgeshire Primary Care Trust and the PCTs which merged to form it, which have consistently worked to undermine the Trust and divert resources from it.

Ideological approach

Nonetheless the NAO report echoes and reinforces UNISON's concerns over the ideological, evidence-free approach of NHS East of England which was the driving force behind the deal – to the extent that its Director of Policy and Strategy, Dr Stephen Dunn, was feted by the private sector and awarded prizes for his efforts by *Healthinvestor* magazine in 2011, months before the Hinchingbrooke contract was even finalised and Circle's role commenced.

The NAO also echoes the point made by UNISON on the absence of any evidence to show that the new set-up could work, noting that the Circle contract was based on:

> **"assumptions that were not directly informed by previous experience"** (page 7)

The very notion of long-term franchising out of management, which is embodied in the Circle contract is, as the NAO points out, still experimental:

> **"This approach is untested in the NHS and it is too early to establish and understand the outcome."** (page 40)

The NAO also criticises the lack of rigour in the scrutiny of the final contract by NHS East of England.

But it does not explicitly emphasise a related point which concerns UNISON: that from the beginning the franchising deal was always very much the creature of the Strategic Health Authority. The Trust itself was reduced to a captive bystander as others took decisions on its behalf.

Who will scrutinise Circle?

The NAO urges much closer future scrutiny, arguing that:

> **"it will need alert management by the Authority and the Trust Board to monitor performance and intervene if necessary"** (NAO page 9).

Yet this is obviously not a viable prospect. The government has already decided that the SHA will be abolished on April 1 with the implementation of the Health & Social Care Act: so who will then maintain the level of scrutiny of the contract that the NAO wants to see?

The Public Accounts Committee was told by Sir Neil McKay, who was chief executive of the SHA at the time of the contract, and is now chief executive of NHS Midlands and East, that if Circle walked away:

> **"there is a Trust board in position which, if all else fails, could assume responsibility for running the hospital".**

But this is not really true. The NAO report points out that the "Trust Board" has been scaled down by the SHA to just three people:

> **"The composition of the Trust board is, however, very different to a conventional NHS trust board and consists of only three non-executive members: a Chair, a financially qualified individual and a clinically qualified individual.**
> **"Before the agreement started, the Trust board consisted of a chairman and six non-executive directors, and a chief executive and five executive directors, including a finance director, medical director, and a nursing director.**
> **"The new board's role is not as extensive as the prior Trust board as certain responsibilities have been passed on to Circle."** (NAO page 32)

There is no chance this token 3-person team could take over the complex operation of the hospital: in fact there is little chance they can do anything much except rubber-stamp decisions taken by Circle managers and collect their own expenses and salaries. It's clear that the Board has been reduced precisely to ensure Circle has complete control.

The rump Trust Board monitors the franchise agreement, but only through a franchise manager. The hospital's chief executive does not report to the Trust Board but directly to Circle. In other words Circle has effectively left them out of the loop.

So if the contract goes pear-shaped, who within the NHS will be accountable for what happens at Hinchingbrooke, and be ready to intervene, if need be, to uphold standards and quality of care for local people?

Of course the answer is not in the Trust, but elsewhere. The Department of Health spokesperson at the Public Accounts Committee made clear that if Circle failed and walked away, decisions would once again be taken out of the hands of the rump Trust:

> **"it will be for the [NHS] commissioning board and the clinical commissioning groups together to work with the local provider"**

But the extent to which the NHSCB and local CCGs can bring appropriate expertise to bear on a potentially complex range of services, and maintain them even after they have been cut and distorted by Circle's efforts to achieve its massive savings targets, is open to serious doubt.

With no real stability at Hinchingbrooke, a hybrid minimal Trust Board with no real control, and an unproven private contractor with executive power over the hospital, it's clear that there is no clarity among regional or national NHS bureaucrats over what they would do if it all goes belly up in the face of the continuing squeeze on NHS budgets and rising pressure on front line services.

There are fears that a failure by Circle could simply be an excuse for the NHS to move to close down the hospital altogether. These fears will have been reinforced by the repeated questioning by the Public Accounts Committee of Sir Neil McKay on why the SHA did not simply propose to close Hinchingbrooke and divert patients to Cambridge (Addenbrooke's) or the new £310m Peterborough City Hospital which is facing massive deficits and under-used costly operating theatres. The MPs (who kept insisting, for some reason, that these other hospitals were only 12 miles away, half the actual distance) seemed unimpressed by Sir Neil's attempts to argue that Addenbrooke's was too full to take Hinchingbrooke patients, and both hospitals were too far away.

But in this situation, with the future of the hospital in doubt and very senior NHS managers trying to deflect criticism of their decisions and their actions, UNISON also fears there is little appetite for a serious or impartial review of the experience at Hinchingbrooke that could allow lessons to be learned.

This is not a new problem in the East of England, where SHA policy has for some years been driven not by evidence but by pro-market ideology and wishful thinking. And as the answers of its former Chief Executive Sir Neil McKay to the Public Accounts Committee revealed quite clearly, it remains stubbornly resistant to evidence that does not suit the preconceptions of its top management.

Rising deficit

Under Circle's management, the deficit at Hinchingbrooke has risen sharply to £4.1m six months in to the contract, £2m above the expected level, less than £1m from the £5m above which either Circle or the Trust (with approval) would have the right to walk away from the deal.

This continued deficit means that there is little prospect for the foreseeable future of Circle and its predominantly private equity investors, who have bankrolled the company through years of losses up to now, securing any return on their investment: they get paid nothing until the hospital itself is in surplus.

Until his abrupt departure, Parsa had become the specialist in talking up the company's performance, diverting hard questions, offering a smokescreen of irrelevent assertions, and – with the assistance of some especially gullible coverage from the BBC – managed to make it seem for a while as if things were going well.

He offered more of the same to the Public Accounts Committee, while refusing to reveal why he had so suddenly stepped down just six months after the contract at Hinchingbrooke began, and at the same time hotly denying he had been sacked.

Time and again Parsa and Circle have claimed credit for improved performance that was achieved or put in train even before they had taken over. They have talked a lot about quality of care while looking for hefty cash savings, and presented the most favourable face they could, while keeping trade unions and critics at arm's length.

As a company Circle is itself a product of the marketisation of the NHS. It has never made a profit, but has grown, and continues to aspire to more growth, from NHS contracts. Parsa told the Public Accounts Committee that £150m of the company's £180m revenue comes from the NHS.

Circle's main activity has been running an Independent Sector Treatment Centre in Nottingham, where (unlike the NHS) the tariff for treatment of uncomplicated surgery rises each year to match inflation: only 16% of the company's income comes from other non-NHS operations.

These include two high-cost, tiny specialist private hospitals – one in Bath and now one in Reading. Each of them has fewer than 30 beds, and a main selling point in each case is the design of the building and other non-health factors, rather than the range of services available.

Even in Circle Bath a majority of the income is from NHS-funded patients on "choose and book".

This lop-sided and limited experience in delivering only the least complex elective care made Circle an unlikely partner for the NHS in Hinchingbrooke, which is a relatively small District General Hospital, but still around ten times larger and many times more complex than Circle's own hospitals. Its main business is dealing with a distinctively NHS mix of emergencies and complex cases, chronic care and community health – as well as the simple elective surgery which is the stock-in-trade of the private hospital sector.

£311m target for "savings"

So not only did the company lack appropriate experience but, as the NAO report makes clear, Circle's contract at Hinchingbrooke was based from the beginning on the assumption of massive year-on-year cost savings, running at a much higher level than achieved in Trusts anywhere in the NHS:

> **"Circle's projected savings of £311 million over ten years are unprecedented as a percentage of annual turnover in the NHS. If delivered, Circle's proposal will make savings of over 5 per cent recurrently each year over the ten-year life of the contract. An essential element of the projected savings is an assumed annual 4.3 per cent efficiency saving from year four onwards. However, Circle's bid did not fully specify how it would achieve these savings. […] No fee is payable if a surplus isn't achieved."** (NAO page 8)

The NAO quotes research by McKinsey for the Department of Health, looking at efficiencies achieved in public and private hospital sectors in different countries: they found that year-on-year savings of much more than 5 per cent had not been achieved anywhere.

So the Circle plan was entering unknown territory: but worse than that, it was based on wishful thinking and guesswork, not on any clear plan of action on identified targets. NHS East of England was signing up for a pig in a poke, with no idea what policies would be implemented in the quest for a surplus.

In fact Circle is trying to make £9.9m savings in their first year, almost double the £5m figure outlined in its winning bid. The NAO report points out that this sets a tough financial challenge since the financial year began with an underlying deficit of £3-£4m, cuts in the NHS tariff means that Hinchingbrooke, like other Trusts is to be paid less for the same work, equivalent to another £4m reduction in income, and on top of that NHS Cambridgeshire is maintaining its unbroken record of unhelpful policies by seeking further to reduce the level of activity in the hospital, paying for fewer patients to be treated (NAO page 38).

By the time of the NAO report, Circle was expecting to miss the £9.9m savings target by almost a quarter, generating no more than £7.5m savings this year, and without new plans to cover this shortfall.

During the summer the company itself was propped up by raising another £47m from its astonishingly patient but as yet unrewarded investors: the greater the capital invested, the stronger the pressure on Circle to begin to deliver the first profits. There could be no profits at Hinchingbrooke until it was running a surplus.

It soon became clear that costs at Hinchingbrooke could only be cut on the scale Circle had promised by cutting jobs.

By August even the Royal College of Nursing was complaining over planned cuts in nursing posts, and the lack of any proper consultation with staff – a complaint UNISON and other unions had made from the very first involvement of Circle at Hinchingbrooke.

46 nursing and health care assistant jobs were to be cut, some of them through reducing hand-over times between shifts, raising concerns over the quality and continuity of care. None of the staff organisations at Hinchingbrooke seem to endorse Ali Parsa's claim in his testimony to the Public Accounts Committee that these job cuts had not been imposed by Circle, but had been somehow decided by the nurses themselves

> **"You say that we did that, but we didn't do that. We turned our hospital into clinical units and we asked every clinical unit to decide, irrespective of the finances."**

Parsa's claim that the cuts flowed from staff in clinical units rather than a plan is also contradicted by the *Health Service Journal* report in November, which reported extracts from an unredacted copy of Circle's (subsequently edited) business plan, published in October. There, the company proposed a 20% cut in workforce as the centrepiece of its 'savings'. The *HSJ* article by James Illman revealed that:

> **"the private franchise operator had anticipated cutting its then 1,600 workforce by around 320 whole time equivalents, although this information was redacted in the publicly-available paper."** (*HSJ* November 8:13)

The *HSJ* article states that 60% of the job cuts were to be in non-clinical services, leaving around 130 clinical wte posts to be cut over three years. 77 jobs had already been cut without redundancies after the Circle takeover.

The following month Circle renegotiated the hospital cleaning contract with Mitie to reduce cleaning in office areas and at night, cutting 24 cleaning jobs. The local TUC pointed out that reduced cleaning in one area of the hospital would prejudice hygiene standards in other areas too, but Circle pressed ahead with the reduction.

This type of job loss gets neatly around limits to Circle's freedom of action at Hinchingbrooke, which prevent them making more than 20 staff redundant in any 12 month period: this still allows them to get staff to go voluntarily, terminate short term contracts, or reduce numbers of temporary staff – and of course allows them to get sub-contractors to make redundancies which they could not do themselves.

Obviously there is a financial incentive for Circle to push for the savings:

> **"If Circle makes the savings projected in its bid, it will receive an income of around £31 million over ten years"** (NAO page 29)

There is also a brutal bottom line if the company fails to deliver: it will get paid nothing, and could lose up to £7m before escaping if the contract goes seriously wrong:

> **"Circle only receives payment when the Trust generates an in-year surplus. If the Trust does not generate a surplus in a given year, Circle must cover up to £5 million of the shortfall from its own resources. If the £5 million threshold is breached, either Circle or the Trust board, with the Authority's approval, have the option to terminate the franchise."** (NAO page 29)

Parsa's departure has been followed by speculation in readers' comments to the HSJ and in the blogs and Twittersphere that Circle's main financial backers – private equity and hedge funds – are getting impatient to see a return on their constantly rising investment.

Now, after the replacement of the front-man and chief executive, some believe the company could be contemplating taking the first opportunity to walk away from the contract to stem the losses – if necessary paying the £2m penalty payment.

If this happens, then the issues of accountability and management of the Trust, for which there are no clear contingency plans in place, would come to centre stage, amid the chaotic restructuring from April onwards.

Hinchingbrooke: who's in charge?

The NAO report makes clear in its summary of events so far that Hinchingbrooke Trust has time and again been steered and shaped by outside organisations, notably NHS Cambridgeshire (and before that the various PCTs that later merged to form it) and the SHA, NHS East of England (now merged into the gigantic NHS Midlands and East).

In 2007 NHS Cambridgeshire decided the Trust should be "redesigned to make it financially sustainable" (NAO page 15). This was a bit of a cheek, given that one of the reasons it was in trouble financially was the policies of NHS Cambridgeshire, which was committed to spending £2.6m to divert 2,600 patients to private providers many miles away in Peterborough and Cambridge, spending millions more to scale down referrals to cut Trust activity levels by 20% – pulling even more of the rug from under the Trust. It had also reneged on agreements to refer patients to the PFI-funded NHS Treatment Centre which the Trust agreed to build on the promise of increased caseload.

But this was not the only interference by the commissioners in the Trust:

> **"NHS Cambridgeshire went on to propose the Trust management should be transferred to another NHS body and its activity reduced"** (NAO page 15).

Then NHS East of England got in on the act:

> **"The Authority considered options to introduce a new management structure and delivery model"** (NAO page 16).

A "project team" was set up in which the Trust was a minority player, alongside NHS Cambridgeshire, the SHA, the Department of Health and a hand-picked "patient representative": no staff representatives were ever involved.

As UNISON pointed out at the time, the only people discussing the future of the Trust were the very people whose policies and incompetence had plunged it into the red in the first place.

A "long list" of nine options was drawn up, then reduced to six, which were examined by the same hand-picked group of people. As the NAO (politely and evasively) points out, much of the information was based on little more than guesswork:

> **"Although some comparative data were available on the operating margins of some of the options considered, there was a lack of reliable or comparable financial information upon which to base the economic appraisal because of the untested nature of some of the options being considered. The Authority and the project board sought comparative financial information during a two-day market sounding process to test market appetite for the options considered, *but the information was unavailable*."** (NAO page 17, emphasis added)

In other words, there was no evidence and no reliable data to take an informed decision. But that was not going to get in the way of the zealots of NHS East of England: the process continued regardless of the fact that nobody had any facts to go on:

> **"As a result, the Authority and the project board *had to make assumptions not directly informed by previous experience* [i.e. guess] about the anticipated levels of performance for each option. Members of the project team, the project board and stakeholders agreed these assumptions in April 2008 and the Authority's internal audit department reviewed them."** (NAO page 17, emphasis added)

So the SHA's own team was used to review the SHA's baseless assumptions, and unsurprisingly went along with them, opting not to challenge their own leading directors. No other opinion was sought:

> **"The assumptions were not subject to independent or external expert challenge."** (NAO page 17)

Sir Neil McKay told the Public Accounts Committee that in place of any genuinely independent view, the plans were simply put to PriceWaterhouseCooper management consultants. Not surprisingly they gave the green light to the SHA. Nobody who might have a different view was invited to comment. The whole process took place behind closed doors.

Desperately seeking a private bidder

From early on in the tendering the SHA shifted the goalposts in their determination to bring in a non-NHS bid for the contract to manage Hinchingbrooke. So while both the early bids from NHS Trusts were withdrawn at an early stage without any effort being made to keep them in the process, concessions were made to include more private providers:

> **"The two NHS trusts involved both withdrew at early stages of the process. Only one bidder, Serco Health (Serco), fully met the criteria at stage three so the Authority lowered the evaluation thresholds to enable two other bidders, Ramsay Health Care UK (Ramsay) and Circle Health (Circle), to progress to the next stage."** (NAO page 20)

So the eventual winner of the contract did not at first meet the criteria that had been set, and there had to be a special concession to keep them in the frame. Asked about the withdrawal of the NHS bids by the Public Accounts Committee, Sir Neil McKay replied

> **"I think both of them probably felt at the time that they had other pressing priorities, and they presumably felt at the time that bidding for this franchise would be a distraction."**

It seems much more likely that, as UNISON argued at the time, they had seen the nod and a wink from the SHA that they were wasting their time pursuing the matter further, because the contract was being aimed at a private provider, and their efforts were not welcome.

This became even more obvious when each of the final two bids drastically increased their projected cash savings target over ten years, even though they were not allowed to submit any new initiatives.

These increased bids were permitted and no awkward questions asked, even though neither company offered a shred of evidence that their revised target was achievable.

Circle had originally volunteered to cut £244m from costs, while Serco had offered just £197m. On the revised figured Serco jacked up their target to £249m, while Circle leapt ahead of them with the promise to save £311m – 27% more than first offered.

Astonishingly, the bidders were left to assess the relative risks of their own bids, and were not asked to supply any details of this to the SHA which was now clearly running the show: as the NAO report drily comments:

> **"This may have further encouraged bidders to submit increasingly optimistic bids"** (NAO page 24).

Clinical performance

The NAO report indicates (page 38) the mixed results that have been delivered by Circle on clinical performance. The pluses included inpatient satisfaction ratings which had improved to put Hinchingbrooke on the joint top score in May, shortly after Circle had taken over, although as the company became more established the score fell back again, to reach twelfth in August.

Circle is also eager to claim some credit for improved cancer waiting times, although these achieved the NHS standard in February, the month Circle took over, for the first time since 2010. They were achieved for six months out of seven through to September.

The NAO emphasises the improved waiting times in A&E, which had previously been "the worst in Cambridgeshire" (i.e. worse than Cambridge and presumably Peterborough) but was in September rated the best in the SHA. However it does not point out that Hinchingbrooke is by far the smallest A&E in East of England, with the fewest emergency admissions and the second least level of serious cases.

The NAO does warn that "performance in other areas has been less favourable", notably on incidence of c. diff, where the Trust by September had already had as many cases as in the whole of 2011-12.

The picture therefore is uneven, and the evidence of any consistent improvement due to Circle's involvement is lacking – as is the promised engagement of staff.

There is nothing in Circle's behaviour that would suggest it is any different in character to companies that do not make Circle's extravagant claim to be a new, co-operative John Lewis-style "partnership". Trade unions and other staff representatives have been left as firmly on the outside of any stakeholder engagement process as by any "normal" private company that is antagonistic towards trade unions.

Conclusion

The NAO report concludes that the jury is still out on whether the first-ever franchise arrangement of its type will deliver the benefits that its advocates promised:

> **"The approach is untested in the NHS and it is too early to establish and understand the outcome".** (NAO, page 40)

UNISON sees even less reason to be optimistic.

The franchise with Circle is a gamble with the future of a formerly successful district general hospital, whose finances were thrown into chaos by the decisions and actions of the PCT and the Strategic Health Authority, and which has since become a guinea pig for experiments by the SHA's Special Projects team, headed by Dr Dunn. The company has a fragile financial base, a poor financial track record of unbroken losses, and no experience of running busy general hospitals.

Circle got the contract despite initially failing to meet the threshold requirements, largely because of the determination of the SHA to bring in a private provider, and its willingness to allow the two initial NHS bidders to withdraw.

The process has been criticised by the NAO and the Public Accounts Committee, and the huge "savings" [cuts] which Circle must make in order to deliver any profits to its shareholders have already begun to reduce staffing levels, further straining relationships with staff and their representative organisations.

UNISON shares fears that in removing Ali Parsa the company could be preparing the ground to walk away from an experiment that has not yet shown it any positive results – and that Circle's withdrawal could be the trigger to the closure of the hospital, with patients required to travel either to Cambridge or to Peterborough if local services are lost.

There should be a proper inquiry into why searching questions were not asked of Circle and Serco when the final bids were submitted to establish the basis of their proposed savings, and lessons should be learned from the entire process to ensure that no such irresponsible action is taken with other Trusts in similar financial problems.

John Lister
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Appendix 1

How the PCT and SHA created Hinchingbrooke's financial crisis

The seeds of the continuing financial malaise go back to the mid 2000s when Hinchingbrooke Health Care Trust lost out massively under the government's controversial "Payment by Results" (PbR) system.

As its then Chief Executive Mark Millar pointed out in the 2006-7 Annual Report, the Trust could have been delivering a healthy surplus since 2005 if treatment delivered had been paid for at the PbR tariff, higher than the Trust's historic costs. However

> "the Trust will never see the benefit of payment at tariff … as it is unaffordable for the Primary Care Trust, and the number of people using the hospital is more than national figures"

Cambridgeshire PCT calculated that because Hinchingbrooke had previously provided services at below average cost, if the new PbR national tariff were to be applied and contracts remained unchanged, the total extra cost to the PCT would have been £13m a year. This situation, and the responses to it of the PCT and SHA resulted in draconian requirements for excessive penalty payments by the Trust to the Department of Health, totalling a staggering £25.6 million over two years.

Of course it was always clear that the PCT would seek ways of scaling down activity in HHCT to minimise this additional cost. In theory the transition to the new tariff was supposed to be facilitated by a system of Transitional Charges. But in practice the Trust had to pay out the equivalent of two full years extra income, while receiving next to nothing in return, and seeing its actual contracts with the PCT whittled away. It is hard to believe that Trusts that were previously charging above the national tariff could have had to pay out such extraordinarily large sums of money while simultaneously losing key components of their contract income.

Disinvestment

HHCT paid an extremely heavy penalty for having been a low-cost Trust. To make matters worse, decisions were made initially by Huntingdonshire PCT (later merged into Cambridgeshire PCT), to scale down the use of hospital treatment. As a result there were prolonged battles over payment for work done by HHCT, and month after month in which Trust patient income fell short of plan. In 2007 UNISON warned of the scale of the PCT's planned disinvestment:

> **"The East of England SHA has urged PCTs in deficit to seek ways to reduce hospital activity levels to the "national norm" –disregarding patient choice and local circumstances. Cambridgeshire PCT's plan involves diverting almost 42,000 patients (25%) away from treatment at Hinchingbrooke – 4,900 elective in-patients, 3,500 non-elective in-patients and over 35,000 outpatients.**
>
> **"The essence of the PCT proposal is not "reinvestment" in alternative services in the community and primary care, but *disinvestment* from hospital care, and cost cutting to balance the PCT's books – at the expense of HHCT.**
>
> **"The plan would be to cut hospital services by over £10m – but to invest just a quarter of that in alternative provision. UNISON is most concerned that no business plan or cost benefit analysis has been published to demonstrate that alternative services on a scale sufficient to meet local needs can be put in place within the limited budget available."** (*Caught in the Crossfire*, UNISON 2007)

To make matters worse, the PCT also planned to squander £2.3 million that should have been in the HHCT budget on purchasing elective care from private sector providers – the nearest of which is 20 miles from Huntingdon.

Of course the transitional funding adjustments for HHCT were compounded by an absurd blunder by HHCT finance bosses, who gave misleading information that resulted in the Trust being massively over-charged.

The initial calculation landed HHCT with a bill for £19.1 million in 2006-7 – well over a quarter of the Trust's annual income. This was eventually reduced by £9m, but HHCT was still overcharged by £4.6 million that year, forking out £10.1 million, and faced a further thumping £15.5 million bill in 2007-8.

Ironically a PWC report on the crisis pointed out that the transitional charge was intended as a measure to smooth the introduction of PbR and "limit any financial instability": in fact the result in HHCT was to undermine the long term viability of the Trust itself, and saddle it with huge and unpayable debts. The Trust was obliged to borrow £27.3 million in Public Dividend Capital in 2006-7, and according to the PWC report, HHCT's Board did not at first believe they would have to pay this back.

On top of this, HHCT directors put forward repeated Recovery Plans, which generated nice income streams for management consultants who were brought in to help draw them up, but none of which addressed the full scale of the problem, or allowed the Trust to meet the duty to break even.

The PFI factor

Trust bosses attempted to work the Trust's way out of financial problems, and were encouraged by decisions and promises of PCTs and the SHA to support and commission work from a new NHS-run Treatment Centre at Hinchingbrooke, and on that basis decided to go ahead with the £22m scheme which now carries its heavy price tag in terms of the Unitary Charge to the PFI consortium for years to come.

We now know that none of those decisions and promises were honoured, and a substantial share of the non-PbR deficit at Hinchingbrooke flowed from this betrayal of trust.

The HHCT Board may have appeared at times to have been asleep at the wheel, but the crisis at Hinchingbrooke is not entirely of the Trust's own making. The SHA in turn appears to have been slow, indecisive and ineffective in taking up the real costs of PbR, and in then convincing Hinchingbrooke's Board to draw up serious plans to meet the looming deficit. If the SHA seeks to play any real role at all in leadership and management in its area, surely it should also accept some of the responsibility for its more obvious failures?

The SHA agenda

UNISON notes that in other parts of the NHS Trusts have been assisted in financial recovery by their local Strategic Health Authorities, and that East of England is projecting a rapidly-rising surplus this year. But they chose to leave Hinchingbrooke to stew in an avoidable crisis, in order to take advantage of the situation to promote the franchising experiment.

Neither the Trust nor the SHA appears to have made any effort to question the basis of the bizarre mathematics of the PbR Transitional charges, which have never been clearly explained, but which tore such a huge hole in HHCT's finances.

The constant drive for economies and savings has time and again resulted in large numbers of staff vacancies and underspending on pay budgets, effectively passing the pressure on to front-line staff who have remained loyal to the hospital while staff turnover has at times topped 16%.

There are limited options to secure further savings without undermining the quality of patient care, or reducing the range of services and specialist staffing – which amount to the same thing. UNISON does not accept that such savings represent "efficiency" or deliver quality care to patients. Staff who are badly treated are unlikely to enjoy high morale or the resources to enable them to treat patients well.