

Special measures

Private providers can bid to run the George Eliot hospital, says the government. But will they want to, asks **Daniel Thomas**

When Hinchingsbrooke was confirmed as the first ever NHS hospital to be franchised to the private sector in 2011, the move was hailed as ground-breaking. Dr Stephen Dunn, director of policy and strategy at NHS Midlands & East at the time, called Circle's 10-year contract a "new chapter in creativity and partnership working" for the NHS. Unison said it was an "accident waiting to happen". And Labour claimed we had seen the government's "true vision" for the future of the health service, despite being instrumental in procuring the contract in the first place.

Two years on, we face the possibility of another hospital being outsourced to the private sector, but the mood is less clamorous. In September, the NHS Trust Development Authority (NTDA) – where Dunn is now employed – confirmed it would seek a "strategic partner", from the NHS or otherwise, for the George Eliot Hospital, Nuneaton, to tackle huge problems with its finances and care. Apart from Labour attacks, though, there has been little local opposition to the news, nor many column inches dedicated to it. Tellingly, an online petition started by Labour candidate for North Warwickshire & Bedworth (and former minister of state for health), Mike O'Brien, has garnered around 350 signatures as *HealthInvestor* went to print.

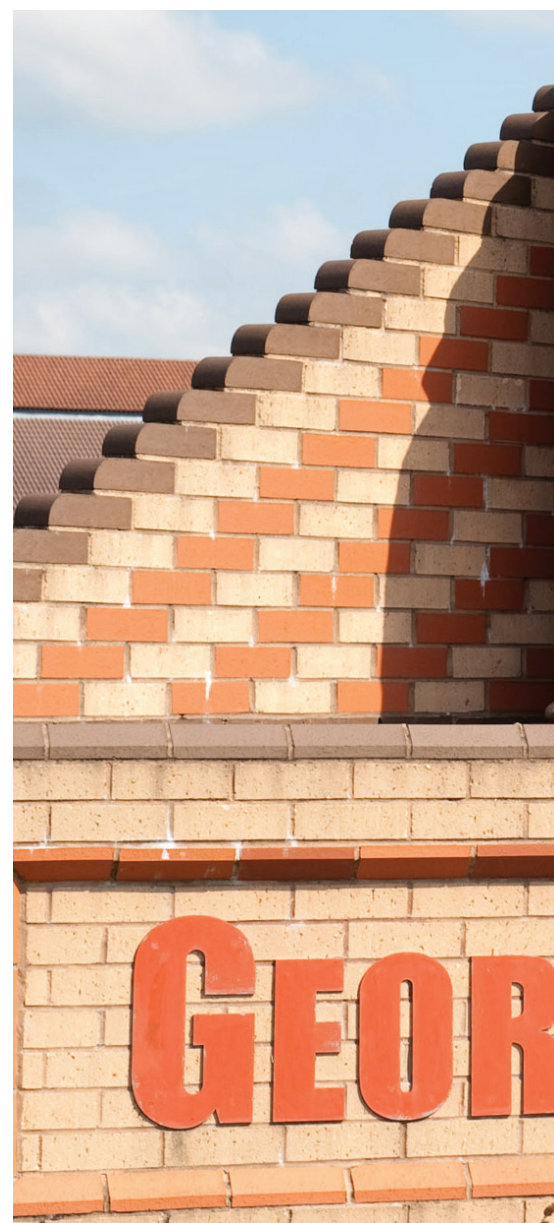
A lot has changed since 2011, of

course. Care has raced to the top of the health agenda following scandals at Mid Staffs and elsewhere. The financial sustainability of the NHS remains paramount, too, as a spate of recent hospital bailouts underline.

Whether we'll see a private sector partner take the reins at George Eliot is hard to call just yet, though. The public is still suspicious of private interventions in the acute space, and Circle's tenure at Hinchingsbrooke, while generating some admirable improvements, is yet to comprehensively answer critics of the franchise model.

First to note, however, is that the situation at the George Eliot has arisen in different circumstances to those that faced Hinchingsbrooke, and as such will require a different remedy. While Hinchingsbrooke faced clinical challenges, it was primarily rescued for financial reasons (its debts stood at £39 million and it faced an annual structural deficit of £10 million). George Eliot has failed to break even for the last two years; but it also had the highest mortality rate of any hospital in 2011. As such, it was one of 11 trusts placed into "special measures" following the Keogh review.

The twist here, is that whoever takes over at George Eliot will still be required to help it achieve foundation trust (FT) status – something that doesn't apply at Hinchingsbrooke (and six other hospitals which for now have no plans on the table to become FTs). While the 2014 deadline for trusts to convert to FTs has been put on hold, for



now, whoever takes over at George Eliot will face a significant set of challenges. "The contract is likely to look quite different this time around," says Charles Weston, director of equity research at Numis Securities. "But there's no reason why a trust managed by an independent operator should not be kept within the same foundation trust system."

The government has stressed that whatever it chooses will be "the best solution for local patients". This could mean an NHS merger; outsourcing to one non-NHS provider (private or third sector); or establishing a coalition of non-NHS and NHS providers. The first of these solutions may politically be the easiest, although it's not without barriers. The most recent attempt to merge two hospitals – Royal



Bournemouth & Christchurch and Poole – has been put on hold by the Competition Commission, which said it would restrict patient choice.

Mergers can also lead to restructuring of healthcare provision in areas, which can be politically “very difficult” for local politicians, notes Weston. There’s also evidence that they’re not that effective anyway at cutting costs. This could make the prospect of a full independent takeover at George Eliot more likely. Virgin, Serco and Circle have all expressed interest in the bid, and can point to handling various types of NHS contracts successfully over the last few years.

That said, Circle’s tenure at Hinchingsbrooke is bound to be used as a benchmark for George Eliot, and this

could prove to be a distinctly mixed blessing. Circle has certainly succeeded in raising quality at Hinchingsbrooke, improving A&E and cancer waiting times, for instance. And yet, it still posted a £3.5 million deficit in its first year after planning to break even. This meant that, rather than provide a profit stream, the hospital operator was left out of pocket, as it is contractually obliged to pay for any deficit of up to £5 million. Furthermore, the company says there is no guarantee it will pay off the hospital’s debt by 2022, as first hoped.

In a prominent report published last year, the National Audit Office slammed the firm for submitting “overly optimistic and unachievable savings projections” during the Hinchingsbrooke tender process. That said, it also

criticised NHS East of England Strategic Health Authority, the Department of Health, the Trust board and the Treasury for not agreeing clear objectives, and there are hopes that lessons have been learned to allow for a more streamlined process this time round.

Others note that Circle has already started to get on top of things at Hinchingsbrooke, and the firm says it is “confident” it will clear the remaining deficit by March 2014. It’s a confidence commissioners share, too: Circle has just been named as the preferred bidder for the musculoskeletal integrated service in Bedfordshire.

“It’s not inevitable that they can make Hinchingsbrooke work financially,” says Justin Crowther, director of Catalyst Corporate Finance. “But the fact that



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- ▶ they are continuing to try and grow the business and take on new contracts is positive. They must be confident in their ability, and their shareholders must to some extent be supportive.”

All that said, a full or part independent solution faces an immutable barrier: the George Eliot contract kicks off in 2015, the year of the general election. Despite the subdued local opposition so far, the franchise is sure to be exploited in the run-up to the general election, says Ian Targett, director at Westminster Advisers. “Nuneaton’s Conservative MP, Marcus Jones, only holds a 2,000 majority over Labour, which is not huge,” he says. “Meanwhile, the adjacent Conservative seat, North Warwickshire & Bedworth – which is likely to send some patients to George Eliot – is high on the target list for the other parties. So this may affect the final decision.”

Regardless of whether a private provider wins at George Eliot, further private sector takeovers of failing NHS hospitals seem inevitable. In March, the NTDA revealed that of the 100-odd hospitals yet to become foundation trusts, almost half may be unable to do

so in their current form, and could face merger or franchised management. And with 10 further trusts already in “special measures”, we may see more failure contingencies mooted imminently.

Crowther believes in this climate we will surely see more private sector interventions. But he doesn’t expect a landslide of takeovers just yet. “I think it’ll be a slow trickle. But you might see the pace of that trickle accelerating, as there is a recognition that external parties can introduce new ideas and solutions.”

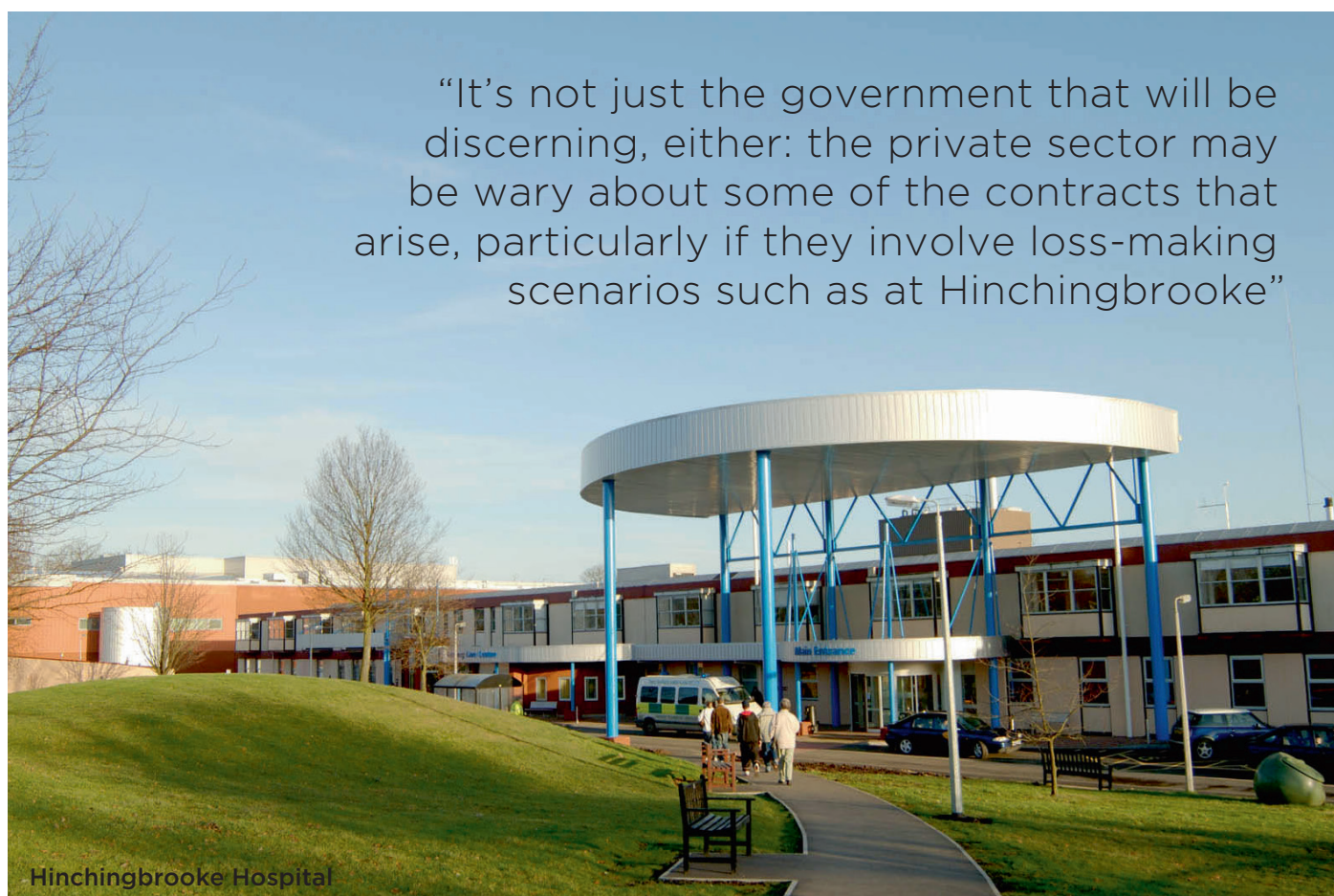
Targett agrees, saying that the government will take a “case by case” approach to failing trusts, at least in the run-up to the general election. Evidencing this, he says the government has already shown willingness to try different solutions – bailing out Peterborough City Hospital for example, or attempting to reconfigure the South London Healthcare NHS Trust. (It’s not just the government that will be discerning, either: the private sector may be wary about some of the contracts that arise, particularly if they involve loss-making scenarios such as

at Hinchingsbrooke).

After 2015, this picture might start to change, though. The next government will face a testing combination of increasing demand for NHS services, rising costs, and greater public expectation of quality. And with fiscal constraints expected until 2018 (and a sizable debt still to tackle after that), there will be little new money to throw at the problems, even if NHS funding is protected.

Demand for solutions, private or otherwise, is only likely to grow, then. And even if Labour wins in 2015, says Targett, there will be hard decisions to make and probably further reforms to come. Furthermore, attitudes towards partnerships with independent providers vary across the Labour party and its frontbench. “So there’s all to play for by engaging constructively with Labour as its policies harden over the next 12-18 months, suggests Targett. “And the economic realities for the health service may dictate the need for further efficiencies, fresh thinking and new ways of working regardless of who’s in power.” ■

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Hinchingsbrooke Hospital