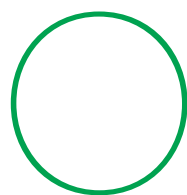


A brave new market

The government is about to create a billion pound market in outsourcing commissioning support services. Is it the golden opportunity it appears to be, asks **Daniel Thomas**



ne of the by-products of the chaotic 2012 Health & Social Care Act is the way it's created new markets, seemingly out of thin air. Take the recent announcement that clinical commissioning groups (CCGs) will begin tendering around £1 billion in 'commissioning support' contracts annually from 2015, in line with a key provision of the act.

Currently NHS bodies undertake this work, and they will be free to bid to hold on to it. But observers believe big outsourcing firms are set to end up with the biggest slice of the

pie. For one, the sort of back office functions to be tendered – finance, HR and communications support, for example – are the bread and butter of such businesses. The NHS isn't exactly renowned for its organisational skills, after all.

More importantly, though, it seems CCGs are actually pushing for this reform, not resisting it, as they've done other elements of the 2012 act. Not only do they want more choice of commissioning support providers; they also hope to save time and money on procurement, thanks to a new 'contractor framework' also on the way.

For the likes of Serco, United Health and KPMG, which are among the

businesses understood to be interested in this work, this bodes very well indeed. The third sector and other public bodies like local authorities, which will also be free to bid, should benefit too. But as anyone who's contracted with the NHS before knows, outsourcing usually comes with catches.

It is unclear at this stage, for instance, whether NHS England will give providers enough data to execute contracts effectively. There are structural issues around the framework to resolve, too. And a familiar bogeyman looms on the horizon: a change of government. If Labour win the election outright in 2015 they may well just upend the whole system.

A history lesson

To understand the reforms afoot it's necessary to get to grips with their genesis. Prior to the 2012 Act, primary care trusts (PCTs) handled the vast majority of their commissioning support functions themselves. That changed after 2012, though, when PCTs were scrapped and replaced by CCGs, which are of course clinically focused, and not always equipped/ interested in handling back-office tasks.

To help them out, the act created 17 'commissioning support units' (CSUs) across England, to whom CCGs could 'outsource' such functions. While some CCGs still handle things in-house, nationally at least half of their management cost budget goes to CSUs: a tidy £700 million pounds annually.

Given the heft of this market, why then is it about to be disrupted? The answer is that NHS-run CSUs were always meant to be a temporary solution: the act mandated that they

become self-sufficient, profit-making businesses or form joint ventures with the public or private sectors by 2016. That of course requires their current customers – CCGs – to tender out the 'service level agreements' they hold. The goal, says NHS England's Bob Ricketts, is to create "a competitive market"; or as a spokesperson for the organisation explains: "Developing a market for these services will drive up quality and value for money. CCGs have asked for simpler and cheaper mechanisms to buy their support and to test the market."

In a further benefit to CCGs, the new contracts are in the main going to be procured through a new 'Lead Provider Framework', designed to streamline procurement. From launch next January, CCGs will be able to draw down services from a small number of NHS-accredited providers, using a simple, standardised contract model. NHS England says it'll halve the current cost of a procurement process (around £100,000) and reduce the exercise process by six months.



► A golden opportunity?

Still awake? You should be: NHS England estimates that £3 billion to £5 billion of work will pass through the framework over its four-year duration. A multitude of services will be tendered, ranging from advice on patient care reforms and drug purchasing, to negotiating hospital contracts and handling NHS patient care data.

NHS England's original proposals suggested no more than 15-20 firms were likely to end up as 'lead providers', delivering services in 'end-to-end' packages. Added to that, some CCGs are likely to jointly procure through the framework, implying the contracts will tend to be larger rather than small and piecemeal; good news for those delivering them, then.

According to Dr Joe Taylor, engagement manager at Candestic, it's not just private firms from the UK who stand to benefit, but international players like Humana (US) too. "Anyone who can offer CCGs expertise on managing their services more efficiently potentially has much to gain from this."

Providing commissioning support is anyway thought to involve relatively low upfront costs and command high margins. Some even claim it can be more lucrative than, say, providing acute services to the NHS. At first glance, though, it seems such gains won't be shared that widely by the private sector. After all, it'll mainly be big business processing organisations (who've turned outsourcing, or at least the winning of outsourcing contracts, into a fine art) that make it onto the framework.

That said, opportunities to subcontract with them could present a big opportunity for smaller firms.

"BPOs inevitably draw in expertise and service from smaller firms, and they make better contracting partners than the NHS," says one source. Midmarket private equity firms backing such small businesses will reap the rewards, too, he adds.

But where does all this leave the NHS-hosted CSUs? Early signs are that they've made little impact on bringing down costs for CCGs, although they've had little time to prove themselves. For cynics, however, their demise is a foregone conclusion. One source suggests they simply won't be able to compete with the private sector and that the Department of Health (DH) has always known this would be the case. "The CSUs were really set up as a bargaining chip, because when they were shutting down PCTs they didn't want to be laying off huge amounts of people," he says. "I think the assumption is that the CSUs will have disappeared or been swallowed up by private firms within a few years."

But that projection may be a tad hasty, say others. A number of CSUs have begun to buck up their game, aware of both the standards they'll need to meet to get onto the framework, and of the competition they'll face once there. Some have already chosen to partner with each other or companies like United Health and KPMG; a number are also hoping to join the framework in such consortia (which must mean their private sector partners see something in them).

"The NHS CSUs have recognised we're in a much more competitive healthcare economy and have brought private talent in," says Taylor. "I think we're more likely to see a mix of statutory and independent providers on the new framework, at least to begin with."

Caveat emptor

There is another reason why NHS CSUs might get a look in: some private players may decide that, as it stands, contracting with CCGs is actually too risky. For example, some observers say that state-run CSUs have so far struggled to achieve equilibrium with CCGs, due to confusion over their respective roles. It's probably fair to say that new private sector incumbents will encounter similar issues, then.

"There's a lot of tension currently," says Taylor. "CCGs tend to view CSUs as support, but CSUs can see themselves as having a directing role over commissioning policy. They're still trying to work out what the power dynamic is, but it could take a few years."

A much bigger problem, though, concerns access to data, which is vital to running an effective contract. Currently the NHS's record (no pun intended) on data collection is pretty poor; it stores data in numerous standalone repositories but is bad at bringing them together. The upshot of that is private providers typically struggle to understand how much a contract will cost them.

Taylor gives the example of Cambridgeshire & Peterborough CCG's current tender of older peoples' services. Several high profile outsourcing firms made bids, but some complained the CCG couldn't give a reliable information about the contract's specs, including its accurate value (it has been reported by the media as being anywhere between £700 million and £1 billion).

"Many groups expressed interest in the contract, but dropped out because the CCG didn't have enough data to understand their current commissioned activity, generating uncertainty around whether the tender value had been set at the correct level," says Taylor.

NHS England does say that the framework will provide organisations

with front end tools to assess the data that has been collated. Others have faith that it'll pull a solution out of the bag, regardless. "It'd be pretty embarrassing for the government if they put this framework in place and then couldn't actually execute the contracts because of a technicality," says one source. "It'd be especially naïve 12 months before an election."

Some of the other concerns about the Lead Provider Framework doing the rounds may have been overblown, however. Some warn the framework will be ripe for conflicts of interest, as outsourcers handling both acute and commissioning support services for trusts could introduce bias into the procurement process. But such risks are likely to be controlled through contractual terms or so called 'Chinese walls' within companies themselves.

Allyson Pollock, professor of public health research and policy at Queen Mary, University of London, meanwhile, has warned that the new market in commissioning support services may end up costing more than it saves, due to transaction costs. "Transaction costs in the US take at least 30 cents in every dollar so you are looking at 30p in every pound spent," she told the *Financial Times* in February.

One source is sceptical of this analysis, reasoning that "if it's actually going to be more expensive then there's no good argument for the government doing it". That said, it will still be up to CCGs to negotiate contract pricing with providers, and some are bound to be wiser at doing this than others. NHS England says it will be supporting CCGs to become informed and competent customers. "As well as the standard contractual terms that will be put around the framework to support CCGs and ensure service continuity, there will also be a set of good practice specifications and simple but strong KPIs to manage providers against," a spokesman says.

Where's Labour?

Labour has been strangely quiet about all of this, and perhaps for good reason. It launched its own framework for outsourcing commissioning support in 2007, the Framework for procuring External Support for Commissioners (Fesc). Fesc was shut down in 2011 but never really got off the ground anyway. It was minimally used, partly because of its complexity, and partly because it would have involved PCTs outsourcing staff, or making them redundant.

There's no risk of that happening again, as CSUs have been mandated to outsource their contracts (Fesc, as Labour would argue, was completely optional). But is the party's silence on all this guaranteed? Sceptics point out that the launch date of the Lead Provider Framework, in January 2015, speaks volumes. "It could be a coincidence, but it appears there has been some effort there to lock this in before the election in May," says Ian Targett of Westminster Advisers.

Getting it "it over the line" may make it difficult for Labour to unpick if they gained power, he adds. It wouldn't stop the party making political capital of the matter in the run-up to the election, though. According to its latest policy documents, the party says it would repeal the parts of the 2012 act primarily focused on competition and the requirement to go out to

tender if it won power. "Clearly there's an element of political risk around the framework," says Targett.

Another school of thought, though, would suggest the matter will remain fairly low down Labour's political agenda. Back-office functions are simply not a doorstep issue in the way frontline care is. The fact NHS bodies, local authorities and the third sector can bid for the contracts, may also make the framework more palatable for Labour (as well as the potential for some procurement savings). "Labour will focus on health in the run up to 2015 but I don't think they'll roll the clock back; the ship will have sailed by then," says one source.

In all, it seems there are more positives than negatives when it comes to the Lead Provider Framework. Around a billion pounds worth of work a year will be put up for grabs, and the private sector has very strong chance of getting it. With around half of CCGs still handling commissioning support in-house, there's also much scope for growth, too. And yet given the risks that still need to be ironed out, it is a little too early to start popping Champagne corks. As one source concludes, "It's easy to get egg on your face by making bullish predictions and then in two to three years' time nothing's changed. That said the market could end up being phenomenal." ■