

## Private Sector in NHS Health Care

Until 2003 private sector involvement in NHS clinical services was largely confined to surgery farmed out to private hospitals and private providers on NHS premises. In 2003 the government launched the first wave of specialist diagnostic and treatment centres to be run by the private sector as well as the NHS. Companies from North America and South Africa as well as the UK bid for and were awarded contracts.

UK-based private hospital companies, used to high margins for their NHS work, failed to win any of the first wave of treatment centres because of their un-competitive prices. Some have remodelled their businesses and are finding a niche in the second wave of contracts which is now under way.

Initial concerns that the centres would draw qualified staff out of the NHS were dealt with by a condition that all clinical staff had to be additional to the NHS, ie brought in from abroad or recruited from outside the NHS. The cynics have been proved right and the additionality rule has been relaxed. Concern was also raised by the amount of money spent on "overpayments" in the first wave and a new funding structure, more closely related to payment by results, has been imposed but this has not deterred companies from bidding.

Meanwhile in primary care, the LIFT programme is being reconfigured to include community clinical services such as GP's out-of-hours services and diagnostics.

In a very short time, just a couple years, the mix of companies involved in delivering clinical services has become greater than expected by most observers. However, little is known about the terms and conditions of clinical or ancillary staff in treatment and diagnostic centres, or about their long term effect on the delivery of services in the NHS.

### INDEPENDENT SECTOR TREATMENT CENTRES

In 2003, the government selected seven private companies to run 24 fast-track surgery centres in England. They were two British companies and five from Canada, South Africa and the United States. The centres were to be located in new or refurbished NHS premises and in two mobile ophthalmology units. They were expected to be operational early in 2004 and would run on five-year contracts. The centres were conceived as specialists in non-urgent operations, such as cataracts and hip and knee replacements, to provide a short term boost to inadequate NHS capacity. An assurance was given that no staff would be recruited or transferred from within the NHS.

UNISON and other critics from the health professions expressed concern about the impact of these centres on existing NHS resources. The arguments against the centres focussed on three main issues:

- the centres would inevitably draw off NHS staff and resources, and do little to address the problem of staff shortages
- the funding mechanisms favour the relatively simpler operations and procedures performed by the centres at the expense of in-house NHS

departments, which would be left to deal with more complex cases for disproportionately less money

- the 'on the job training' of NHS surgeons and other practitioners would be compromised as simpler and more basic operations are sent off-site to the independent centres.

Two years on, some of the centres are operational and more have been announced. The concerns raised in 2003 are being given an even higher profile as the centres become established. Currently there are about 28 NHS Treatment Centres already open with a further 18 in development. In total there will be around 80 NHS and independent sector treatment centres (34 of which will be independent) treating NHS patients by the end of 2005.

The main winners in the first phase of centres were companies from South Africa, the United States and Canada. UK-based private hospital companies that had expected to share in this initiative lost out largely because they were too expensive. These companies have since made up for the loss and are benefiting from the business generated by the second round.

In May 2005 Patricia Hewitt announced £3bn more for the private sector to perform routine operations over the next five years for 1.7m NHS patients. This was welcomed by UK-based companies and those from abroad who are getting established in the NHS.

New five-year contracts to run independent sector treatment centres have been awarded to Netcare, Afrox and Mercury, as well as the private hospital companies Nuffield, Capio, Bupa and BMI.

The Department of Health defines three types of treatment centre:

- Entirely NHS
- Entirely independent sector
- Joint ventures, which may be either NHS or independent sector led

The NHS itself currently runs more than 40 treatment centres. It is likely that at least some of these will be contracted out, if not sold, to the companies currently running other centres on five year contracts. A glimpse into the future could be Ravenscourt Park, a small hospital bought by Hammersmith NHS Trust in 2002 to run as a specialist orthopaedic unit. Ravenscourt has not been financially viable and to rid it self of the debt, the trust has agreed to sell it. Now, the heavily indebted trust has proposed to use the proceeds to form a joint venture with Bupa to build and run a new private oncology centre at Charing Cross Hospital. The trust justifies the scheme by ensuring any profits will be put back into the NHS via the trust.

If the NHS is looking for treatment centres to provide flexibility in health care delivery, models are emerging that will, no doubt, be copied elsewhere. For example, in Worcestershire, there will be two treatment centres: one NHS centre and one ISTC in the same building on the site of Kidderminster Hospital. The ISTC will perform orthopaedic surgery, while the NHS centre will be a primary care centre with a nurse-led minor injuries unit and outpatient clinics, as well as elective surgery and diagnostics.

The Southend Hospital redevelopment scheme is intended for high-dependency elective and emergency care services. A complementary development of satellite and community services and an Independent Sector Treatment Centre will provide additional capacity for outpatients and simple surgical procedures.

So far there is only one joint venture, the Redwood Centre in Redhill, Surrey. Redwood is a 36-bed Bupa hospital. Bupa will continue to manage the hospital at, but operations will be carried out by NHS consultants, on NHS time, working to NHS contracts. Bupa will supply nurses and operating theatre staff and will manage, but not employ, 20 similar staff from the day-case unit at East Surrey Hospital which is joined to the Bupa hospital.

### ***Diagnostic centres***

Initially diagnostics were conceived of as a major part of the new Diagnostic and Treatment Centres but were relegated to a separate role while emphasis was put on Independent Sector Treatment Centres. In the second phase, Diagnostics is developing as a separate market in clinical services, with some of the same ISTC companies bidding and winning contracts.

Alliance Medical, a diagnostics company, won a 5-year contract, to operate 'fast-track' mobile MRI services, increasing capacity by 16% nationally. Paul Miller, chairman of the BMA consultants' committee said that that patients given MRI scans by Alliance Medical Ltd had to wait months for results and got sub-optimal care, while the NHS lost money because AML's capacity was not fully taken up. Complaints about Alliance Medical have been mounting since its contract was awarded in June 2004. The Royal College of Radiologists warned its members to double-check AML reports "partly for quality control purposes". Some hospitals, with no backlogs of patients waiting for scans, have complained that they were strong-armed into using the private service, with their own scanners left idle as a result. When the contract was signed Alan Milburn was employed by Alliance Medical's parent company as a consultant

Capio, already active in ISTCs and in providing hospital space to the NHS, began investing in the UK diagnostics market in 2003. Capio Diagnostics, a division of Capio AB, acquired the UK laboratory Independent Histopathology Services Ltd. London-based Independent Histopathology Services provides laboratory services within histopathology and cytopathology. It has 35 employees and a turnover of approximately £2.9m.

In addition to the chain of five treatment centres, Mercury Health has also been awarded a contract to run diagnostic procedures such as MRI, ultrasound and X-ray.

### ***Funding***

Unlike contracts awarded in the first wave, second wave contracts for treatment centres do not include guaranteed volumes of patients. The centres will be paid only for the patients they treat. This way the DoH hopes to cut the 15% premium that was paid to the private sector for the first wave of centres. For example, Care UK Afrox Healthcare (now Partnership for Health Group) was paid £13.4m for £10.1m worth of operations. The South African and UK joint venture was awarded a five year contract to run treatment centres South Yorkshire,

Derbyshire, Lincolnshire and Nottinghamshire for hip, knee, hand and feet surgery. Not enough patients came forward to fill the contracted number and the company kept the money. New contracts are designed to avoid such over-payments.

### **Staffing**

The rules for "additionality", ie that staff working in the centres cannot be taken from the NHS, has been relaxed in the second wave of contracts. The original additionality clause in first wave contracts was designed to prevent companies from poaching staff who worked in the NHS or had left the NHS within the previous six months. In the second wave the clause was dropped for all but those professions or specialisms where there is a national shortage, such as radiology and radiography, orthopaedics and anaesthetics.

Foreign companies were recruited to run the centres for two reasons: they had the experience this type of centre, and they would be able to import skilled staff. Initially, the treatment centres were not to be allowed to employ staff taken from the NHS: "the medical staff from these units will be from overseas and additional to the existing NHS workforce." However, it was not long before overseas companies were being allowed to second up to 70% of their staff from the NHS. Mercury Health, for example, expects to employ 220 people across five clinics in the south east of England. Although about half will be recruited from northern Europe, Australia and New Zealand, the balance will be on secondment from the NHS. Similarly, although Capio says it is expecting to bring orthopaedic staff from Sweden to work in its centres, it too will rely on seconded NHS staff. In Nations' Burton on Trent treatment centre only 40% of staff are additional to the NHS, 60% will be employed through structured secondments agreed locally.

## **PRIVATE HOSPITALS**

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One group of disappointed losers in the first round of contracts was the UK-owned or UK-based private hospital companies. Until then, the NHS was paying a premium of up to 40% (or more) for private beds. The arrival of the new style of hospital from South Africa and North America presented companies like Bupa, Capio and Nuffield with a problem.

After losing out in the first wave of ISTCs, Capio and Nuffield Hospitals, who see the NHS as their major source of business, cut their prices to close to the NHS tariff. Nuffield also bought a company that makes mobile operating theatres. Bupa, on the other hand, which continues to view private user-pay medical treatment as a key part of its business, did not. However, soon after Bupa decided to focus investment on its larger more economical hospitals and by mid 2005 had sold its 10 smallest. If the ISTCs have accomplished anything, they have driven down the cost of private hospital services to the NHS.

BMI has preferred to add on NHS work rather than adapt its current private hospital business. The group is investing in its premium private business under the BMI Healthcare brand at the same time as it is marketing its new Amicus Healthcare brand for acute care to the public sector. Each business will have its own separate facilities.

Despite the presence of the ISTCs, NHS trusts are still contracting out surgery to private hospitals to try to cut waiting lists. For example, Conwy and Denbighshire NHS Trust has contracted the North Wales Medical Centre, part of the Bettercare group, in Llandudno to carry out hip and knee operations. Wrexham Maelor Hospital, part of the North East Wales NHS Trust, has a deal with the Bupa Yale Hospital to treat more than 250 NHS patients, mainly for orthopaedics. The margin for this kind of sub-contracting is about 10-12% but some trusts consider it a reasonable price to get the waiting lists down, and it's far less than it would have been two years ago.

Private hospitals are in an interesting place. In the short term at least, as long as the government insists on promising more choice there will have to be a large private sector market. On the other hand, NHS waiting lists are falling and are likely to continue to fall. While it would be an exaggeration to say that private hospitals in the UK face an 'adapt or die' choice, they do have to deal with the impact on their business of falling NHS waiting lists, new competition from treatment centres and pressure from insurance companies to keep premiums down.

## GROWTH IN PRIMARY CARE

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The government plans to ring-fence 10 per cent of health trusts' primary care budgets for contracts with private companies. Within this policy, an enhanced role for LIFT (Local Improvement Finance Trust) projects has been identified.

Under the current NHS LIFT programme in England, public-private joint ventures, known as 'Liftcos', are formed to provide new primary care buildings and related maintenance services. Now the DoH is proposing that these companies also provide a range of primary and intermediate care services. Since the beginning of 2005 GPs have been allowed to opt out of providing "additional services" such as cervical screening, childhood vaccinations and minor surgery. Where they do, the PCT picks up the responsibility of commissioning them from another provider, such as a private contractor. Similarly, with out-of-hours services. The DoH envisages a role here for Liftcos.

Ten per cent of a £12bn budget is more than £1bn of NHS money. Ministers hope this will be a spur to the companies that have so far not shown a great deal of interest in primary care services. The Liftcos haven't shown a great deal of interest because it is not their core business and not part of their original understanding of their role in managing a supply chain. However, we can expect to see companies offering clinical services joining forces with construction and FM companies to form new Liftcos. Among them could be private hospital companies, such as Capio and Bupa, and suppliers of locums and health care staff and services such as Nestor.

LIFT schemes are also more likely to be considered alongside diagnostic or treatment centres. Currently, projects are being set up to attract bidders for diagnostic services. In Hampshire, the diagnostics component of the merged Havant and Portsmouth ISTC schemes is planned for development by 2008 alongside the LIFT scheme for the Oakpark Community Hospital.



Overall, LIFT is beginning to be seen by the DoH as a more appropriate way to bring private finance into health service delivery than PFI which locks bodies like NHS trusts into long term deals over which they have little control.

## THE COMPANIES

**Anglo Canadian Clinic** was set to run three clinics in London as part of the first wave but the deal was not considered value for money.

**Birkdale Clinic** operates a centre at Daventry in the East Midlands under Phase 1. Birkdale Clinics are at seven sites across the North West. It is a group of four private hospitals in Liverpool, Rotherham, Preston and Daventry. Surgical areas include orthopaedics, general surgery, refractory eye surgery and cosmetic surgery.

**BMI Healthcare** is the acute hospital division of General Healthcare Group. With nearly 50 hospitals it is the largest private hospital company in the UK. Although BMI Healthcare has worked previously for the NHS by managing NHS private facilities and leasing facilities within NHS Trusts, and a number of smaller BMI hospitals are located on NHS sites, it has only just begun to win work in the second wave of the ISTC programme. Under a contract, from June to December 2005 around half of BMI's hospitals in England will provide orthopaedic inpatient procedures and initial GP referral consultations. Through a new division, Amicus Healthcare, BMI plans to work with the NHS by adding capacity to its existing hospitals. BMI will, however, continue its 2-tier approach and provide services to the NHS but continue to run its private healthcare service for private clients.

**Bupa** opened the first stand-alone treatment centre at Redwood Hospital on a five-year contract to treat 12,000 patients a year. As part of a repositioning exercise to make it more attractive to the NHS, BUPA is selling its smaller hospitals to invest in the larger ones.

**Capio**, UK-based but Swedish owned, has treatment centres throughout England as well as its chain of over 20 private hospitals. In May 2004 it was awarded a £25m short term contract to treat 9,000 NHS patients at "close to NHS prices" over the following year. The contract covered mainly orthopaedic surgery as well as a mix of other specialties including ENT, general surgery, urology, and plastic surgery. These NHS operations were conducted in 15 existing Capio hospitals in the following eight NHS Strategic Health Authority regions: Bedfordshire and Hertfordshire, Cheshire & Merseyside, Greater Manchester, London North East, London North West, London South East, London South West and South Yorkshire.

**Interhealth Care Services** is a Canadian-based operator with a five-year, £223m contract to treat patients in the Midlands and Merseyside. Interhealth is scheduled to carry out more than 900 orthopaedic procedures in the Sefton area, starting in June 2006. An interim service with Nuffield Hospitals and Capio Healthcare began in October 2004 to provide South Sefton PCT with an additional 269 procedures. Interhealth's UK partner started out as Jarvis plc but it is unclear whether that arrangement is still in place.

**Mercury Health**, part of UK-owned Tribal group, was expecting to be awarded the contract for a chain of spinal treatment centres in the first wave but no contract could be agreed. However, by 2005 Mercury, in partnership with the Hospital for Special Surgery of New York, was awarded a five-year contract worth £214m to build and operate five non-acute treatment clinics in the south east of England. At peak capacity these clinics would perform up to 16,000 operations per year. Tribal is contributing £56m to the cost and will build the clinics in partnership with Amec. The first, in Haywards Heath, is scheduled to open in autumn 2006.

**Nations Healthcare** is a US-led consortium operating in Yorkshire and the Midlands. Eccleshill Treatment Centre near Bradford opened in July 2005 as an NHS facility sponsored by the local NHS Primary Care Trusts and owned and run by Nations Healthcare. From summer 2006 Nations Healthcare will operate from a new ophthalmology centre in Burton on Trent. In Nottingham one of the largest ISTC contracts will see the opening of a purpose-built centre attached to Queen's Medical Centre in spring 2007.

**Netcare UK**, a subsidiary of Network Healthcare, South Africa's biggest health care provider, runs mobile cataract surgery trailers, starting in Southampton and Gosport. The DoH says that the five-year contract has been negotiated at a price nearly 10% less than comparable NHS costs and Netcare will provide "all new" clinical staff for the mobile units. The mobile units are scheduled to move around England, starting in South West Peninsula, then to Dorset and Somerset, Hampshire and Isle of Wight, Surrey and Sussex, Kent and Medway, Thames Valley, Cheshire and Merseyside, Cumbria and Lancashire and Northumberland, Tyne and Wear Strategic Health Authorities. The Greater Manchester Surgical Centre aims to perform 40,000 surgical procedures in a variety of clinical areas.

**New York Presbyterian System** runs a centre in Shepton Mallet, Somerset. New York Presbyterian Healthcare System is a comprehensive university hospital, affiliated to both Columbia University and Cornell University. It is said to have leading specialists in every field of medicine. This organisation works in partnership with WS Atkins, a UK facilities management and support service company.

**Nuffield Hospitals'** £50m contract to treat 17,000 NHS patients is drawing to a close. It has linked up with Vanguard, a provider of semi-fixed mobile surgery units, as part of its bid for the next wave of treatment centres.

**OR International** advises on designing and running health and medical facilities. It is linked to the New York Presbyterian Hospital whose units have yet to start operating.

**Partnership Health Group**, a joint venture between UK-based Care UK and Afroxx (now called Life Health Care) from South Africa, which has opened in Plymouth, with a centre at Chesterfield on the way. Care UK Afroxx was to run three centres in Maidstone, Nottinghamshire and Plymouth under the first wave but the Maidstone project has been severely delayed.

**Patient Choice Partners**, a joint venture between Carillion and Nestor Healthcare Group set up in 2003, was selected as preferred bidder to provide a Bargaining Support Group e-mail: [bsg@unison.co.uk](mailto:bsg@unison.co.uk)

treatment centre for Basildon and Thurrock University Hospital NHS Trust but at the end of July 2005 the DoH rejected it on grounds of cost.



## APPENDIX: INDEPENDENT SECTOR TREATMENT CENTRES

<b>Contractor</b>	<b>Date</b>	<b>Status</b>	<b>Site</b>	<b>Work</b>
Birkdale Clinic	2003	operational	Danetre Community Hospital	surgery
Bupa	Apr-03	fully op	Redwood Diagnosis and Treatment Centre (East Surrey Hospital)	diagnostics, day surgery and other surgery, eg orthopaedics
Capio	May-05	fully op	Cobalt NHS Treatment Centre	cataract surgery, some diagnostic
Capio	Apr-05	operational	Gainsborough NHS Treatment Centre, John Coupland Hospital	Endoscopy, Foot Surgery, Hand Surgery, Hernia Repair
Capio	Apr-05	fully op	Boston NHS Treatment Centre, Boston West Business Park	day surgery
Capio	Oct-04	1 year temporary	Ormskirk, Salford & Chorley Hospitals (Capio Hospitals)	2,400 orthopaedic procedures
Capio	Jun-06	in devt	Milton Keynes NHS Treatment Centre	
Capio			Capio Woodland Hospital	Endoscopy, Hernia Repair, Knee Arthroscopy
Capio	early 2006	in devt	Horton NHS Treatment Centre	
Capio	early 2006	in devt	Bodmin NHS Treatment Centre	
Capio		fully op	Capio Reading Hospital NHS Treatment Centre	Endoscopy, Foot Surgery, Hand Surgery, Hernia Repair, Knee Arthroscopy
Capio	Jan-06	in devt	Clifton NHS Treatment Centre	
Capio		fully op	Capio New Hall Hospital NHS Treatment Centre	
Carillion, NHS	Apr-05	open	Brunel NHS Treatment Centre, Great Western Hospital	hip replacements and cataract treatment.
Interhealth	summer 2006	in devt	Halton District General Hospital, Runcorn	orthopaedics; joint replacements
Interhealth, with RO Birmingham	Jan-04	fully op	NHS Treatment Centre, Kidderminster Hospital	Orthopaedics and joint replacements.
Mercury	Aug-05	in devt	High Wycombe	diagnostic imaging
Mercury	Oct-05	in devt	Medway	daycase surgery
Mercury	Dec-05	in devt	Portsmouth	daycase surgery and minor injuries unit
Mercury	Jul-06	in devt	Haywards Heath	orthopaedic centre
				interim service from Feb 05

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Mercury Mercury Healthcare, NHS	Jan-08 in devt Mar-05 in devt	Havant St Marys Hospital, Portsmouth	diagnostic imaging day case procedures and some diagnostic services for five years starting in 2005/06
Nations Healthcare	spring in devt 2005 to summer 2006	new site at Queen's Hospital	day case; ENT, General surgery, gynaecology, ophthamology, pain relief, orthopaedics, urology, rheumatology diagnostics; procedures and day case surgery for urology, gastroenterology, general surgery, orthopaedics, ENT, plastics and gynaecology
Nations Healthcare	Jul-05 fully op	Eccleshill	diagnostic tests, outpatient assessments and day treatments across a range of services Orthopaedics, ENT and General Surgery
Nations Healthcare	spring in devt 2007	Queens Medical Centre	Cataract orthopedics, ophthalmology and general surgery + MRI and X-ray
Netcare	May-05 fully op	Greater Manchester Surgical Centre, Trafford General Hospital, Wards 14 and 19	1,320 additional orthopaedics procedures out-patient walk-in medical centre
Netcare + NHS New York Presbyterian Healthcare + WS Atkins (advised by OR International) Nuffield	Apr-05 in devt Aug-05 fully op	Darent Valley Hospital Shepton Malet Treatment Centre	hip and knee, day surgery day surgery
Partnership Health Group	Oct-04 1 year temporary Jul-05 fully op	Nuffield Hospital in Chester Bideford Community Hospital	orthopaedic
Partnership Health Group	Jul-05 fully op	Pilgrim Hospital, Boston	day surgical and ambulatory chemotherapy unit primary care
Partnership Health Group	Jul-05 fully op	Lincoln County Hospital, Lincoln	in-patient beds, critical care beds, physiotherapy, operating theatres, recovery areas, outpatient depts, pathology, pharmacym diagnostic imaging ortho
Partnership Health Group	Oct-04 fully op	John Coupland Hospital	
Partnership Health Group	Oct-06 in devt	Maidstone Hospital	
Partnership Health Group	Nov-04 open	Basildon Hospital	
Partnership Health Group	May-05 interim services commenced	Plymouth International Business Park	
Partnership	Jul-05 interim	PHG Treatment Centre,	

Health Group		services commenced April 2004	Bassetlaw District General Hospital	
Partnership Health Group	Jul-05	interim services commenced April 2004	Ilkeston Community Hospital	
Partnership Health Group	Oct-05		Barlborough, Chesterfield (Until the new orthopaedic facility has been built, the Treatment Centre team is caring for patients from centres at the Ilkeston Community Hospital and Bassetlaw District Hospital.)	orthopaedics
Partnership Health Group	Oct-05		Louth County Hospital, Louth	day surgery
Partnership Health Group	summer 2006	preferred bidder	King George Hospital	day surgery; short term stay; operating theatres