National Audit Office

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

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Department for Work and Pensions

Contract management of medical services

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National Audit Office

Department for Work and Pensions

Contract management of medical services

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

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Our performance review examines the Department's contract management and wider strategy for the supply of medical services.

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Contents

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Key facts

738,000
face-to-face medical assessments completed by Atos Healthcare in 2011-12

£112.4m
the value of Atos Healthcare contract in 2011-12

10.1%
of service credits due for contractor non-performance have actually been applied

440,000	claims for Personal Independence Payment from April 2013, requiring new medical assessment (and 2 million existing claimants of Disability Living Allowance to be reassessed over three years from October 2013)
24	average number of working days in excess of performance target for processing of Employment and Support Allowance medical assessments by Atos Healthcare, at April 2012
38%	of appeals against a Department decision on Employment and Support Allowance entitlement are found in favour of the customer
20,000	estimated number of Employment and Support Allowance medical assessments delivered by Atos Healthcare in 2010-11 that failed to meet professional standards based on results of a representative sample of cases subject to contractor internal review (equivalent to 3.98 per cent of all Employment and Support Allowance face-to-face assessments completed in 2010-11)
£16 million	of the £53.7 million anticipated cost saving from the current medical services contract that is both reasonably certain and dependent on measures agreed by Atos Healthcare
3	number of regional lots proposed for the future medical services framework agreement
1,500	approximate number of healthcare professionals registered with Atos Healthcare, in May 2011

Summary

Introduction

1 The Department for Work and Pensions (the Department) relies on medical assessments to help its decision makers reach an appropriate decision on a customer's entitlement to a wide range of benefits. Medical assessments are used to assess applications for Employment and Support Allowance and reassess existing claims for Incapacity Benefit. From April 2013, a new medical assessment will be introduced for Personal Independence Payment. A procurement competition is underway to appoint service providers for this.

2 The Department's contractor for medical services, Atos Healthcare, completed 738,000 face-to-face medical assessments in 2011-12 and charged the Department £112.4 million.

3 Our performance review examines the Department's contract management and wider strategy for the supply of medical services, including:

- **The Department's contractual relationship with Atos Healthcare**, including the governance arrangements and approach to supplier relationship management.
- **The performance management of Atos Healthcare** against selected service level measures and the appropriateness of the actions taken by the Department when service levels were not met.
- **The future contracting strategy** for medical services.

4 This is a report to the Department's management team rather than a value-for-money examination. We have not sought to:

- Validate performance information provided to us or examine Atos Healthcare practices directly.
- Offer a view on the appropriateness of medical decisions because this is outside our remit and expertise.
- Evaluate wider processes of benefit decision-making and appeals.

Key findings

5 Atos Healthcare is one of nine suppliers that the Department has identified as critical to its business delivery. Atos Healthcare is a trade name of Atos IT Services UK Limited, a wholly owned subsidiary of Atos S.A., a company incorporated in France following the merger of Atos Origin and Siemens IT Solutions & Services GmbH in 2011. The face-to-face assessments conducted by Atos Healthcare are a crucial source of evidence in determining benefit entitlement. It is therefore important that the Department manages its relationship with Atos Healthcare effectively.

6 According to the performance data provided, Atos Healthcare has not routinely met all the service standards specified in the contract. Schedule 5 of the contract lists 32 service levels, covering assessment processing times, the quality of work done and customer service. Our detailed review of four of these targets found that:

- Of the proportion of customers sent home unseen, the contractor exceeded the target of 1 per cent nearly every month between November 2010 and January 2012.
- On the quality of medical assessments, Atos Healthcare generally met the service level thresholds, except for a short period in 2011.
- On average case clearance times (for which the target is 35 working days for Employment and Support Allowance claimants), performance against target was poor in 2009 and poor again since mid- 2011.
- On complaints handling, performance data indicates that Atos Healthcare generally meets its complaints clearance target of 20 working days.

7 It is not clear how far contractor performance has contributed to the high percentage of successful benefit appeals. Some 38 per cent of appeals against an Employment and Support Allowance benefit decision are found in favour of the customer. The result of each appeal is likely to be due to wider issues than the medical assessment, but this is difficult to assess as the Department does not request feedback on the rationale for each tribunal outcome. Without any such data it is not clear whether any changes in the medical assessment process are needed. The Department advises that it intends to collect more data on tribunal outcomes in the near future.

8 The Department has not sought adequate financial redress for underperformance. The contract specifies that service credits can be applied where the contractor has failed to meet the specified service level. Service credits were not applied between September 2009 and March 2010 and between June 2011 and December 2011, when the service credit regime was suspended following negotiation with the contractor. Where service credits have been incurred, the Department and the contractor review any mitigating evidence and decisions are then taken on whether to apply, allow earn back, or extinguish. Just 10 per cent of service credits triggered have been applied. Atos Healthcare has argued, among other reasons, that the failure to meet specified service levels was due to both variances in the Department's forecast of referral volumes and changing requirements of the medical assessment.

9 The Department recognises that prior to summer 2011 its management of the contract lacked sufficient rigour. In September 2011, for example, the Department's Risk Assurance Division identified weaknesses in governance structures to support business delivery and contract management and found a lack of validation of management information supplied by the contractor. The National Audit Office also raised concerns in 2011 about the risk that payments could be made to Atos Healthcare for outputs that did not occur. We are aware that since autumn 2011, Departmental officials have started to take steps to address some of these shortcomings.

10 The reorganisation of contract governance in January 2012 should help to clarify roles and responsibilities but our review suggests that there is still more to be done. Responsibility for the delivery of medical assessments now rests with a revised Executive Management Board, chaired by the Director of Contracted Customer Services. The Board reports directly to the Department's Chief Operating Officer. While acknowledging Department progress, we have identified a number of issues that are still to be addressed:

- Uncertainty about how medical quality issues fit into the new governance arrangements. The new governance framework does not make explicit the links to escalation routes for quality issues.
- The developing nature of risk management and escalation arrangements with, for example, partial completion of risk registers by the Commercial Directorate and Contract Services Directorate and, for the risk register maintained by the Executive Management Board, an absence of quantification of the likelihood and impact of risk, important to support decision-making.
- The continued general absence of validation of information provided by Atos Healthcare leading to a risk of fraudulent or erroneous payments (though we note the Department's very early work to strengthen invoice checking relating to variable charges).
- Weaknesses in the documentation of contract change and reconciliation to the contract financial model.

11 The Department introduced Provider Assurance Teams to audit employment programmes in October 2009 but has not adopted a similar approach for its medical services contract. Provider Assurance Teams visit contractors to examine governance arrangements, service delivery, financial procedures and data security with the aim of ensuring that a) contract payments are made in accordance with Department requirements; b) public funds and participant data are protected; and c) value for money is obtained.

12 Further changes are needed for the Department to secure adequate leverage over future medical services contracting. Two factors have inhibited the Department's position to date:

- A large number of changes in this policy area have made it difficult for the Department to provide the contractor with reliable forecasts of referral volumes needed to manage business effectively. Unless these forecasts can improve, it is difficult for the Department to demonstrate that shortfalls in performance are solely the responsibility of the contractor.
- The Department's dependence on a sole national supplier. A single contract approach reflects the view that there is only a limited pool of healthcare professionals and that multiple suppliers would be competing for the same staff. However, the Department's approach limits opportunities for routine assessment of value for money, for exercising leverage and, over the longer term, for market development. The Department plans to break the future work down into regional contracts as a way of opening up the market.

Recommendations

13 We make the following recommendations:

To strengthen existing governance arrangements

a **The Department needs to build on the work it has undertaken over the last few months to ensure that the principles of effective governance are adhered to in practice.** The Risk Assurance Division found weaknesses in the operation of governance arrangements noting uncertainty of roles and responsibilities, poor record-keeping and irregular sitting of the Executive Management Board.

b **The Department should consider the costs and benefits of drawing on the Provider Assurance Team model for the review of medical services providers, working in partnership with Department medical expertise.** There is an opportunity for the Department to strengthen the oversight of aspects of the quality assurance process and the validation of key performance data used to support assessments of performance and invoicing. The proposal to increase the number of medical services providers increases risks linked to IT and data security, service delivery consistency and financial procedures.

c **The Department should revise the Executive Management Board's risk register to comply with the risk management standard outlined in the Department's Commercial Risk Management Guide.** Risk registers that we reviewed do not adequately assess the likelihood and impact of each risk or what mitigations might need to be applied.

d **The Department's change control process should document in a single place the rationale and likely delivery impact and cost of future proposed changes.** The Risk Assurance Division identified an absence of documentation supporting options appraisal, risk assessment and rationale for the decision to waive service credits.

To improve performance monitoring

e **The Department needs to develop processes to validate key performance information supplied by Atos Healthcare.** Our recommendation in relation to Provider Assurance Teams is also relevant here. We have identified the failure to verify invoices supplied by Atos Healthcare as a significant control weakness. There is also an opportunity to review the flow of information in support of a consistent understanding of contract health across the Department.

f **The Department should enforce the available financial levers to manage performance.** Despite poor performance, the Department has applied only 10 per cent of service credits due.

g **The Department should explore cost-effective ways of strengthening its capability to independently model the relationship between service requirements (assessment volumes and content) and costs so that it is in a better position to negotiate service levels.** The Department has elected to temporarily suspend the service credit regime on two occasions following mitigation claims by Atos Healthcare linked to variance in referral volumes and changes in assessment specification.

h **The Department should consider tightening performance requirements linked to quality of medical assessments.** The current target of no more than 5 per cent of reports being graded as 'unsatisfactory' is not sufficiently challenging and allows the contractor to deliver a significant number of assessments before financial penalties become due. The contractor has met this target in all but two months.

i **As part of its ongoing work with the Tribunal Service, the Department needs to put in place arrangements to better understand why decisions are being overturned at appeal.** Without adequate information on successful appeals the Department cannot target remedial action cost-effectively.

To strengthen the Department's commercial strategy

j **The Department needs to assess the costs and benefits of different commercial options on a transparent and consistent framework.** The options paper presented to the Minister in September 2010 did not disclose that Atos Healthcare had achieved agreed service levels because of a major policy change that had reduced the contractor's workload.

k **The Department needs to give greater consideration to how changes in operational delivery are likely to impact on referral volumes.** Forecasting inaccuracy undermines the Department's negotiating position in discussions around performance and service credit application.

l **The Department needs to reduce barriers to entering the medical services market.** The incumbent supplier has significant cost advantages in, for example, the availability of estate and IT infrastructure. To address these structural advantages, the Department needs to implement strategic measures which promote a more level playing field.

Part One

Background

1.1 Independent medical assessments provide an important source of evidence to inform benefit decision-making by the Department for Work and Pensions (the Department). There were 738,000 face-to-face medical assessments in 2011-12, an increase of nearly 5 per cent on 2010-11. Such assessments include:

- **The reassessment of customers on Incapacity Benefit.** Between 2011 and 2014, around 1.5 million existing incapacity benefit claimants are expected to undertake a face-to-face Work Capability Assessment.
- **Applications for Employment and Support Allowance.** From October 2008 new claimants of this benefit undergo a face-to-face Work Capability Assessment. In August 2011,[1] 0.7 million people claimed Employment and Support Allowance.
- **Planned assessments for Personal Independence Payment.** The Department plans significant reform to Disability Living Allowance from April 2013 with the phased introduction of a new benefit, Personal Independence Payment. The Department is expecting around 440,000 new claims for this benefit each year and plans to reassess around 2 million existing claimants of Disability Living Allowance over three years from October 2013. Each claimant will undergo a new medical assessment.

1.2 The Department delivered medical services in-house until August 1998. Following an open competition service provision transferred to Sema Group, a third party supplier. Sema Group was initially acquired by Schlumberger in 2001 before Schlumberger was acquired by Atos Origin in 2004 and became known as Atos Healthcare, a trade name of Atos IT Services UK Limited. Atos Origin merged with Siemens IT Solutions & Services GmbH in 2011 to become Atos S.A., a company incorporated in France.[2] The original contract with Sema Group ran until August 2005.

1.3 In September 2005, the Department re-tendered the contract. The new contract was won by the incumbent supplier. Originally for seven years, the contract had an option to extend for three years to 2015 and a further option to extend for another two years to 2017. In 2011-12, the annual cost of the contract was £112.4 million, a decrease of 0.4 per cent on 2010-11.

1 Latest available published data – Department for Work and Pensions, *Early Estimates for Working Age Inactive Benefit Client Groups*, March 2012.
2 www.atos.net/en-us/about_us/Company_Profile/company-history/default.htm

1.4 Our performance review examines the Department's contract management of Atos Healthcare, and assesses the Department's wider strategy for the supply of medical services. Our methods are informed by a good practice contract management framework published jointly by the National Audit Office and Office of Government Commerce in December 2008 (**Figure 1**). This framework sets out the activities that should be in place as part of good contract management and wider market development.

1.5 Our examination focused on:

- **The Department's contractual relationship with Atos Healthcare.** In particular, the governance arrangements and its approach to supplier relationship management.
- **The performance management of Atos Healthcare.** The performance of the contractor against selected service level measures and the appropriateness of the actions taken by the Department when service levels were not met.
- **The future contracting strategy for medical services.**

1.6 Appendix One records the methods used for this work.

Figure 1
The good practice contract management framework

Source: National Audit Office and the Office of Government Commerce, Good practice contract management framework, December 2008

Part Two

The Department's contractual relationship with Atos Healthcare

2.1 Part Two examines:

- **Contract governance arrangements.** We review the changes made by the Department to improve such arrangements in response to issues raised by the Department's Risk Assurance Division.
- **Supplier relationship management.** For contracts of strategic importance, there is value in a structured programme of relationship management involving senior stakeholders. We examine two key aspects: the information provided by the Department on the forecast demand for services; and, how it manages potential contract changes.

Contract governance arrangements

2.2 Good contract governance underpins effective delivery of performance in line with contracted expectation. It requires clearly articulated roles and responsibilities, clear reporting routes, and efficient communication and information flow.

2.3 The Department recognises that prior to summer 2011 its management of the contract lacked sufficient rigour. In September 2011, the Department's Risk Assurance Division reported limited assurance of the governance arrangements for the Atos Healthcare contract. It found:

- uncertainty about roles and responsibilities;
- weak validation of management information capturing contractor performance;
- poor record-keeping;
- irregular sitting of the Executive Management Board; and
- poor risk or issue escalation.

2.4 Some of these concerns were raised in a further assessment of contract governance by the Department in November 2011.

2.5 In January 2012, the Department reorganised the governance of this contract. **Figure 2** overleaf shows that responsibility for the delivery of medical assessments now rests with the Chief Operating Officer. The new chair of the contract's Executive Management Board is the Director of Contracted Customer Services. A new medical services team has been established in the Contracted Customer Services Directorate which leads on medical assessment delivery and contract performance. The Commercial Directorate now provides a 'business partner' function, offering commercial and procurement expertise and leadership on security, IT accreditation and legal matters.

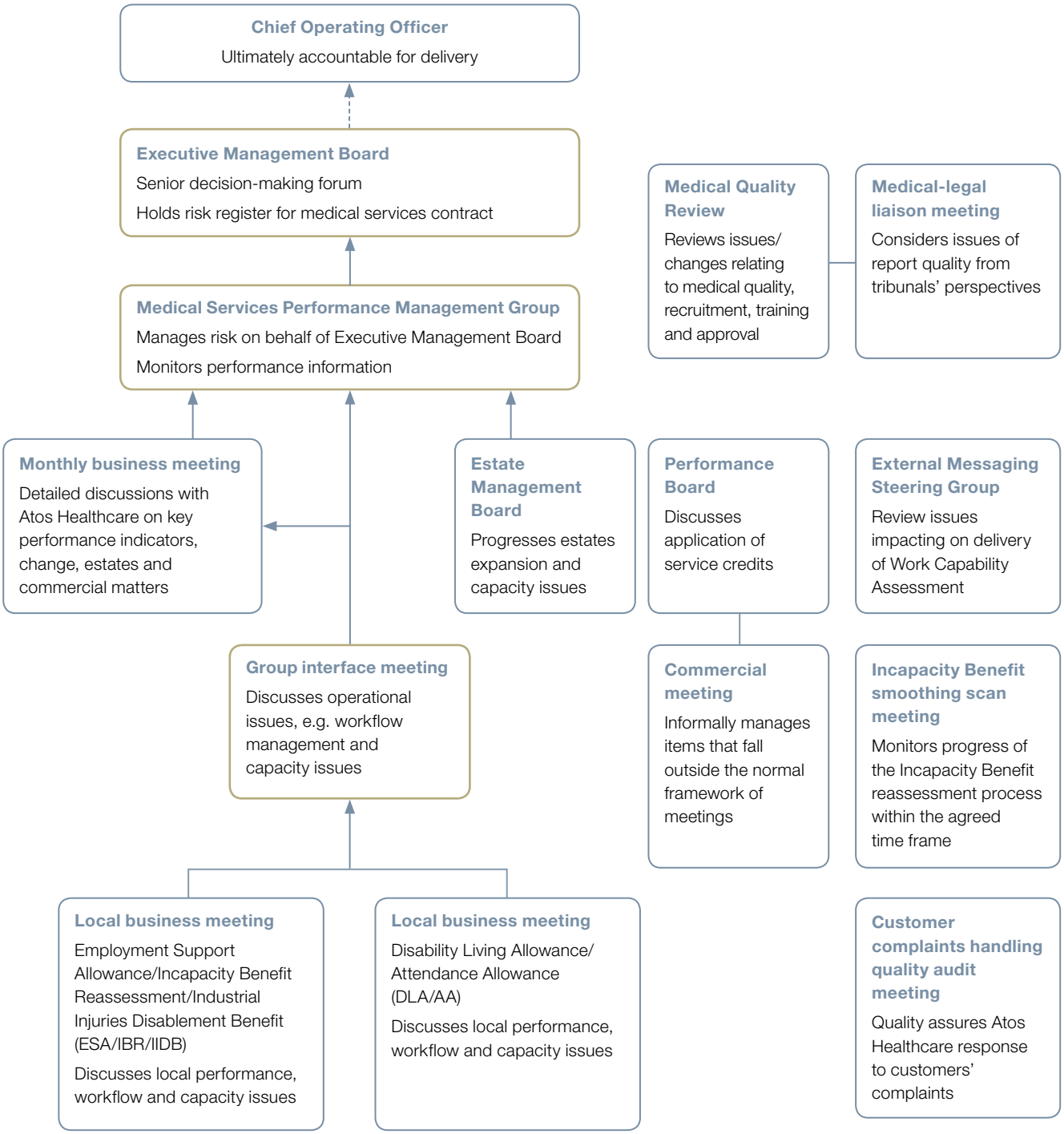
2.6 The organisational changes have helped to clarify and formalise responsibilities. However, as medical quality issues remain largely subject to separate governance arrangements, it is not clear how such issues will be escalated. Medical quality is the responsibility of the Department's Health and Well Being Directorate, part of the Professional Services Group. While the Department's Chief Medical Officer is a member of the Executive Management Board and there are forums in which medical quality is discussed, the new governance framework does not make explicit the links or escalation routes for quality issues. At the same time, the template agenda for regional Group Interface Meetings has no standing item relating to medical quality.

2.7 We also note that while the Department introduced Provider Assurance Teams to review third party employment programme providers in October 2009, it has not adopted a similar approach for its medical services contract. Provider Assurance Teams visit contractors to examine governance arrangements, service delivery, financial procedures and data security with the aim of ensuring that contract payments are made in accordance with Department requirements that public funds and participant data are protected, and that value for money is obtained.

2.8 At the time of our review in March 2012, the risk management arrangements appeared inconsistent and not yet sufficiently developed:

- The risk register maintained by the Executive Management Board did not follow the template set out in the Department's Commercial Risk Management guide. For example, there is an absence of quantification of the likelihood and impact of risk, and of the residual risk once mitigation steps have been applied. Mitigation often refers to further discussion or evidence gathering rather than to concrete measures. The trail of risk escalation from operational, commercial and medical teams within the Department is not immediately clear.
- The risk registers maintained by Commercial Directorate and Contract Services Directorate appear partially completed. Mitigation measures are not always outlined.
- Contingency planning, in the event of supplier failure or withdrawal, was at an early stage of development.

Figure 2
Medical service contract governance arrangements



NOTE

1 Beige boxes indicate what the Department describes as 'formal governance'. Blue boxes indicate other governance forums.

Source: Department's medical services audit meetings

2.9 The reorganisation of contract governance coincided with a large turnover of staff, including the departure of the Department's former commercial management head of Medical Services Contracting. Weaknesses in the transfer of knowledge should not be repeated and will need to be addressed as part of new governance arrangements.

Supplier Relationship Management

2.10 The Department's Strategic Supplier Relationship Management strategy sets out an objective to work collaboratively with supplier organisations critical to business delivery. Atos Healthcare is one of nine such suppliers. We examined two key aspects of the relationship between the Department and Atos Healthcare:

- **Forecasting demand for supplier services.** To help manage their workload effectively, Atos Healthcare relies on the Department for reasonable and timely estimates of the volume of people to be referred for assessment.
- **Handling contract change.** Effective handling of change to a contract is indicative of a constructive relationship between a supplier and the contracting authority. Significant changes to the contract should be systematically recorded and evaluated, and their cumulative impact assessed.

Forecasting demand

2.11 There are two separate forecasts of referral volumes, which we refer to as:

- **Contract estimates.** The contract includes estimates of demand for medical services on which assumptions around fixed overhead costs are based. Where total actual referral volumes are more than 20 per cent over or under these volumes for three consecutive months or more, either party can request a change to charges in the contract.
- **Operational estimates.** The Department prepares more detailed estimates of referral volumes broken down by month and region in February for the following financial year. These are forwarded to Atos Healthcare to inform their detailed resource planning.

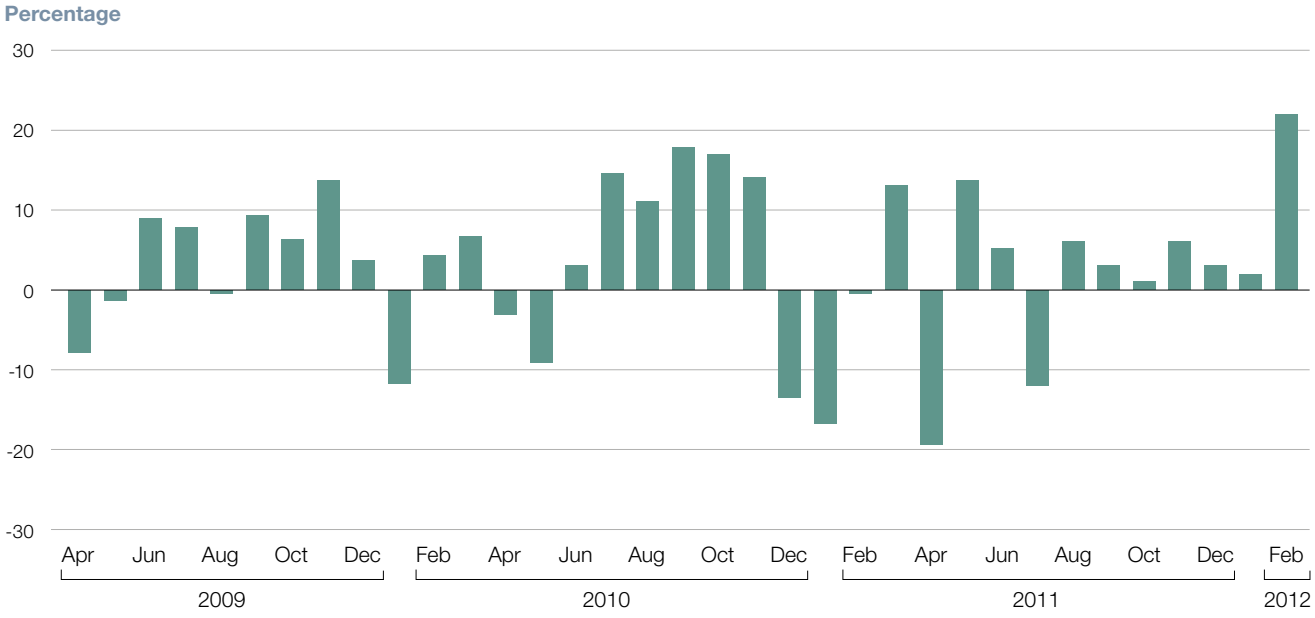
2.12 We compared the **contract estimates** for each service line against reported performance data. The comparison is not wholly reliable as an estimated 410,000 cases were not referred on their due date because of an error in the Department's systems. The Department subsequently referred these cases to Atos Healthcare between June 2006 and October 2007 but has been unable to assign them to original dates. Nevertheless, we did find occasions where actual referrals over the year were more than 20 per cent lower than forecast. In 2008-09, actual referrals for all service lines were 68 per cent of contract forecasts.

2.13 The Department advises that fixed overhead charges were £40 million in 2008-09. The Department might have sought to renegotiate these fixed costs on the basis of the lower than forecast demand but we acknowledge the risk that any saving might have been offset by a contractor request to increase the variable unit price. Our concern is that the Department has no record of formally considering the costs and benefits of renegotiation in light of referrals data.

2.14 **Figure 3** compares the Department's updated annual **operational estimates** of referral volumes with actual levels for the biggest service line, Employment and Support Allowance medical assessments. It shows that the accuracy of annual forecasting varies month on month. For much of the period actual referral volumes were higher than the forecast demand. There is evidence of improvement in forecasting between August 2011 and January 2012 but data for February 2012 indicates that operational changes to the referral process were not adequately anticipated. Monthly variation was broadly consistent across regions.

Figure 3
Employment and Support Allowance

Actual referrals compared with annual forecasts (percentage variance; positive values indicate actual referrals in excess of forecast)



Source: Department data

Post publication this page was found to contain an error which has been corrected
(Please find Published Correction Slip)

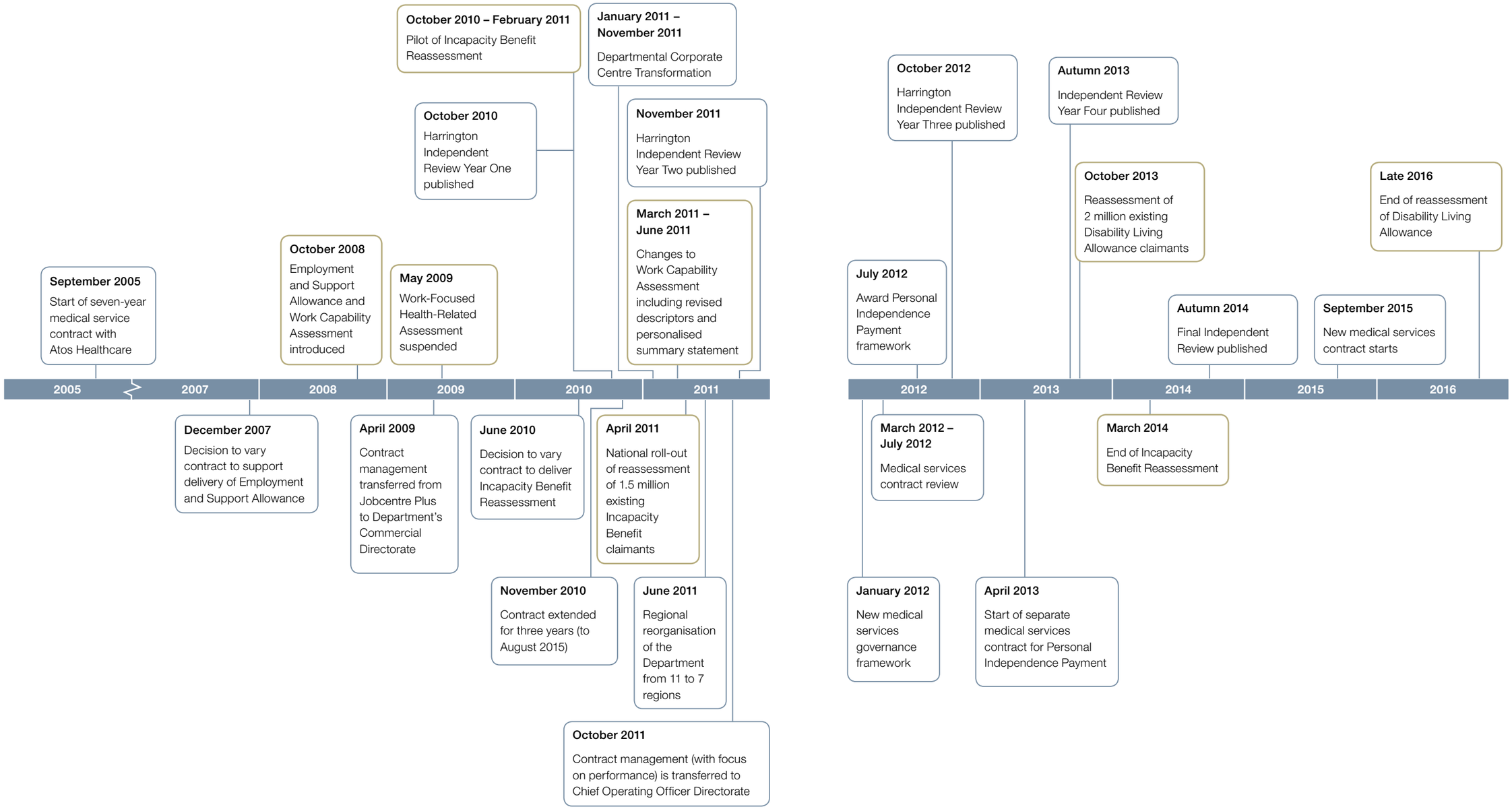
2.15 The difficulty in forecasting demand partly reflects the extent of policy changes since the contract was let in September 2005. As **Figure 4** on pages 18 and 19 shows there have been a number of significant changes over the contract period to date, and more are expected.

2.16 Our review of the Department's contract with Atos Healthcare found that there have been nearly 1,500 change control notes since 2005. The Department does not hold a summary record of all change control notes setting out their rationale or an analysis of their likely individual and cumulative impact on contract delivery and costs. This makes it difficult for us to determine whether changes were adequately assessed and implemented. Our understanding is that many of these changes relate to minor amendments to medical guidance for healthcare professionals which do not alter the obligations under the contract. We have not validated this explanation.

2.17 The Department does hold a separate log of 255 changes made to the contract 'financial model', a spreadsheet which Atos Healthcare created and has been used to inform contract charges. Each recorded change in this log provides some background information but the financial impact of that change is only occasionally documented. It is not clear that the Department has undertaken sufficient analysis and assessment of proposed contract changes. We found that:

- Atos Healthcare has been responsible for making changes to the financial model in response to wider contractual changes. The absence of detailed user guidance explaining the function of worksheets and formulae within the model and the limited Department understanding of how it works represents a significant business continuity and fraud risk. We understand that the Department is planning to review and simplify the financial model as part of its proposed medical services contract review.
- Atos Healthcare drafts each contract control note and until recently, the Department has not generally sought a legal opinion before confirming each change.

Figure 4
Medical services contract timeline



NOTE

1 The beige boxes indicate welfare policy change.

Source: National Audit Office summary of Department information

Part Three

Performance management

3.1 Schedule 5 of the Department's contract with Atos Healthcare lists 32 service levels covering assessment processing times, the quality of work done, and customer service. Part Three examines how the Department has monitored and challenged the performance of Atos Healthcare against these service levels. In particular, we examined:

- **The performance of the contractor against selected service level measures.** The four measures we selected were: the percentage of customers sent home unseen; the proportion of medical assessments which failed to meet professional standards; the actual average clearance times for customers on Incapacity Benefit or Employment and Support Allowance; and complaint handling by Atos Healthcare.
- **The appropriateness of actions taken by the Department where performance has not met levels specified in the contract.** We examined how service credits have been applied by the Department.

3.2 The Department receives a large volume of performance information from Atos Healthcare, the purpose of which is not always clear. Much of this information, with the exception of data on medical assessment quality, is not validated but some of it is used to support invoices supplied by Atos Healthcare. The absence of appropriate validation of the documentation supporting all invoices risks the Department incurring inappropriate and irregular expenditure. The Department has recently undertaken a pilot initiative in which customer medical assessment referral and completion dates recorded by Atos Healthcare are compared with the dates present in Department benefit processing records. We expect to report further on the Department's progress in our '2011-12 Management Letter'. For the purposes of this review we have assumed that the information provided by Atos Healthcare is correct.

The performance of the contractor against service level measures

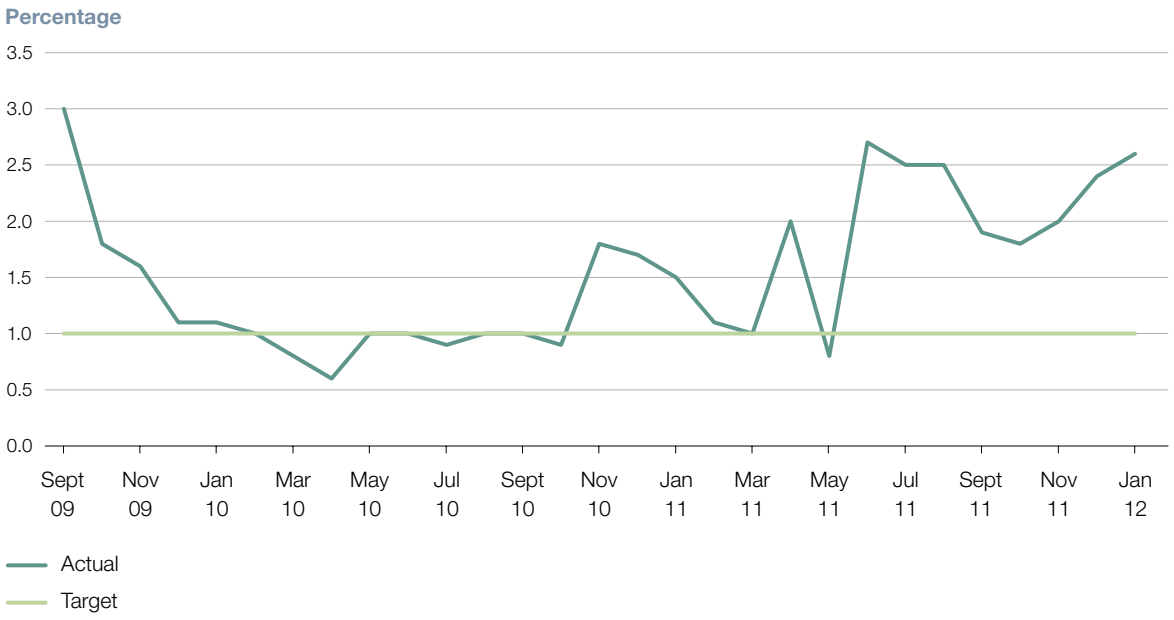
Customers sent home unseen

3.3 According to the contract, no more than 1 per cent of customers who attend their examination should be sent home unseen. **Figure 5** shows the proportion of customers sent home unseen each month between September 2009 and January 2012. While performance was at or below 1 per cent between February 2010 and October 2010, the proportion was largely above this measure between November 2010 and January 2012.

3.4 The recent dip in performance may be due to:

- the introduction of Incapacity Benefit reassessment and the requirement to conduct additional medical assessments (Atos Healthcare completed 221,000 medical assessments for Incapacity Benefit reassessment in 2011-12); combined with
- changes to the Work Capability Assessment prompted by Professor Harrington's first review. These include the requirement for healthcare professionals to complete a Personal Summary Statement setting out the basis for their assessment (though we understand that the average processing time per assessment has now reduced considerably).

Figure 5
Customers sent home unseen, all benefit service lines



NOTE

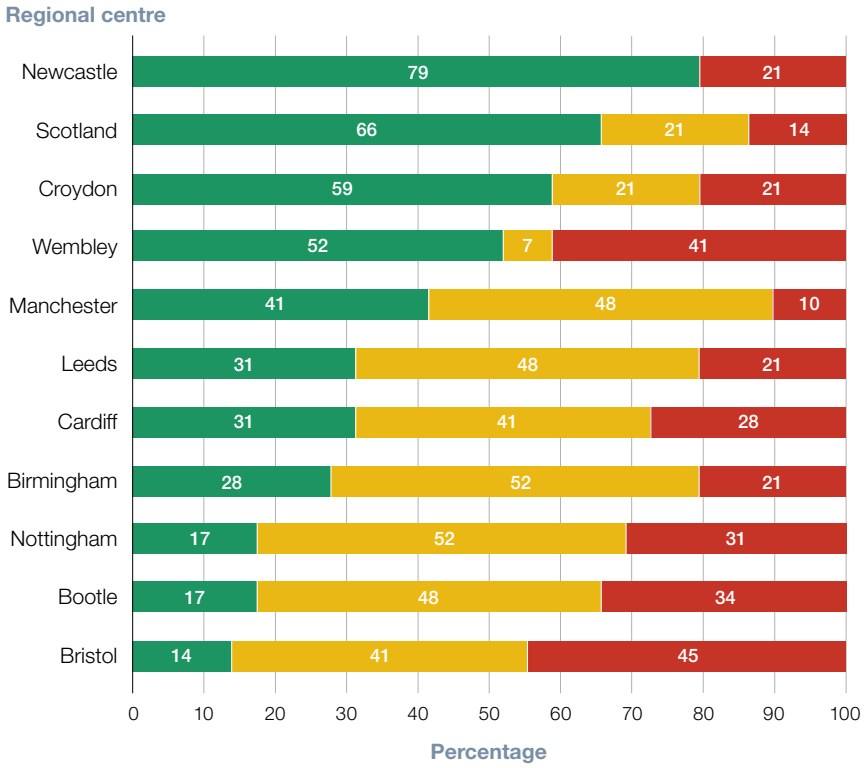
1 From March 2011, modifications to the Work Capability Assessment were introduced, following Professor Harrington's first-year review. From April 2011, a programme of Incapacity Benefit reassessment using Work Capability Assessment began.

Source: Atos Healthcare. Data not independently validated

3.5 There is evidence of variable performance across regional centres. **Figure 6** shows that centres in Newcastle and Scotland were most successful in delivering the required standard on a regular basis. In contrast, centres in Bootle and Bristol performed less well.

Figure 6

Customers sent home unseen between September 2009 and January 2012: Review of performance of regional centres



NOTE

1 Numbers may not sum due to rounding.

Source: Atos Healthcare. Data not independently validated

The proportion of medical assessments which failed to meet professional standards

3.6 The face-to-face assessment conducted by Atos Healthcare is an opportunity to hear the personal and oral testimony of claimants. It is, meanwhile, this same personal testimony that the President of the Social Entitlement Chamber[3] describes as a crucial factor in determining the outcome of appeals against Department benefit decisions. It is important that such assessments meet professional standards. Healthcare professionals are bound by General Medical Council and Nursing and Midwifery Council codes of conduct and confidentiality.

3.7 Our review has not considered the quality of medical judgement exercised by healthcare professionals or the medical adequacy of audit reviews of those assessments. To do so requires specialist medical knowledge which is beyond our remit. We note, however, that in his 2011 independent review, Professor Harrington concluded that arrangements for auditing quality appeared "thorough" and that "standards at Atos remain high".[4]

3.8 In process terms, our review found that the Department has a satisfactory sampling approach for selecting medical assessments for medical quality review. The key characteristics of the system for assessing quality of medical assessments are summarised in **Figure 7** overleaf. The Department also describes a procedure for validating the quality of audit work undertaken by Atos Healthcare. Nevertheless, there is an opportunity for the Department to review the Atos-led process of drawing a sample once the Department's sampling model has identified cases for examination, to ensure robustness in practice.

3.9 Moreover, the contracted requirement that no more than 5 per cent of assessments audited by Atos Healthcare should fail professional standards does not appear especially challenging. For example, if 5 per cent of all face-to-face medical assessments were unsatisfactory, that would be equivalent to around 37,000 assessments in 2011-12. In practice, the proportion of randomly sampled cases subject to quality review that did not meet professional standards has been lower at 3.98 per cent in 2010-11 for Employment and Support Allowance assessments, which, if extrapolated to the population of cases, would be equivalent to around 20,000 medical assessments. **Figure 8** overleaf shows the proportion of assessments failing to meet professional standards following a review of quality (such assessments are marked as 'grade C'). With the exception of a short period in 2011, which Atos Healthcare claimed may be linked to the introduction of Personal Summary Statements in the Work Capability Assessment, the Department's contractor has generally met this performance target.

3 ajtc.justice.gov.uk/docs/AJTC_Right_first_time_web(7).pdf
www.publications.parliament.uk/pa/cm200910/cmselect/cmworpen/313/313.pdf

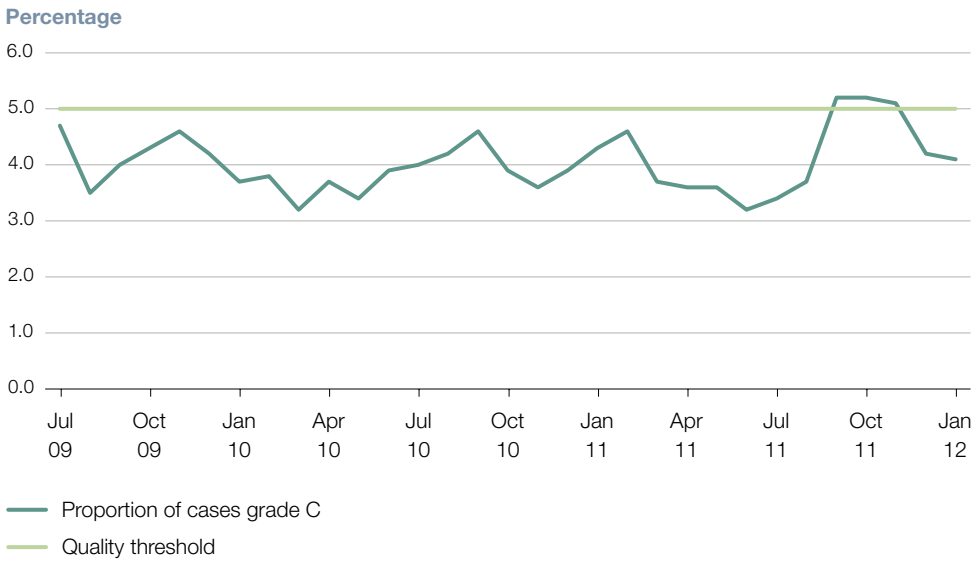
4 M Harrington, *An Independent Review of the Work Capability Assessment* – year two, London Stationery Office, 2011, paragraphs 58 and 59. Available at: www.dwp.gov.uk/docs/wca-review-2011.pdf

Figure 7
Management of medical quality

	Atos Healthcare's activities	Department's activities
Training and recruitment	Trains and supervises healthcare professionals. Contractual requirement to provide annual training programme.	Sets recruitment criteria. Quality assures training products. Approves each healthcare professional.
Medical assessments	Medical auditors conduct random and targeted sample audit of healthcare professional work. Reports are graded: **A** fully conforms with professional standards **B** adequately satisfies key requirements **C** fails to meet professional standards.	Visits each medical assessment centre annually. Carries out joint audits to check quality of Atos Healthcare's audit work. Undertakes a random sample of audited cases.

Source: National Audit Office summary of Department information

Figure 8
Employment and Support Allowance: Proportion of cases judged as 'grade C' following Atos Healthcare audit (July 2009 to January 2012)



Source: Atos Healthcare data

3.10 The level of successful appeals against a Department benefit decision (currently 38 per cent for Employment and Support Allowance) is often viewed as a measure of the quality of medical assessment work undertaken by Atos Healthcare. There are dangers in such a comparison; an appeal may be successful because the information available to the tribunal was not known at the time of the original assessment. In addition, a decision made by the Department on benefit entitlement will draw on other sources of information as well as the medical assessment.

3.11 Without detailed information on the reasons for Tribunal decisions, it is difficult to establish whether there are any lessons for how medical assessments are undertaken and the contribution of Atos Healthcare therein. The Department does not have information on the basis for tribunal decisions in the notices it receives, and nor does it routinely request 'a statement of reasons' for a tribunal decision. Officials argue that the latter would impose a significant additional burden on judicial capacity, although it is not clear that the benefits of doing so have been systematically considered alongside the costs.

3.12 While it may be costly or impractical to request a 'statement of reasons' for every successful appeal to a tribunal, it may be cost-effective for the Department to enhance its audit of medical assessments to include an analysis of a sample of such tribunal outcomes.

Average clearance times

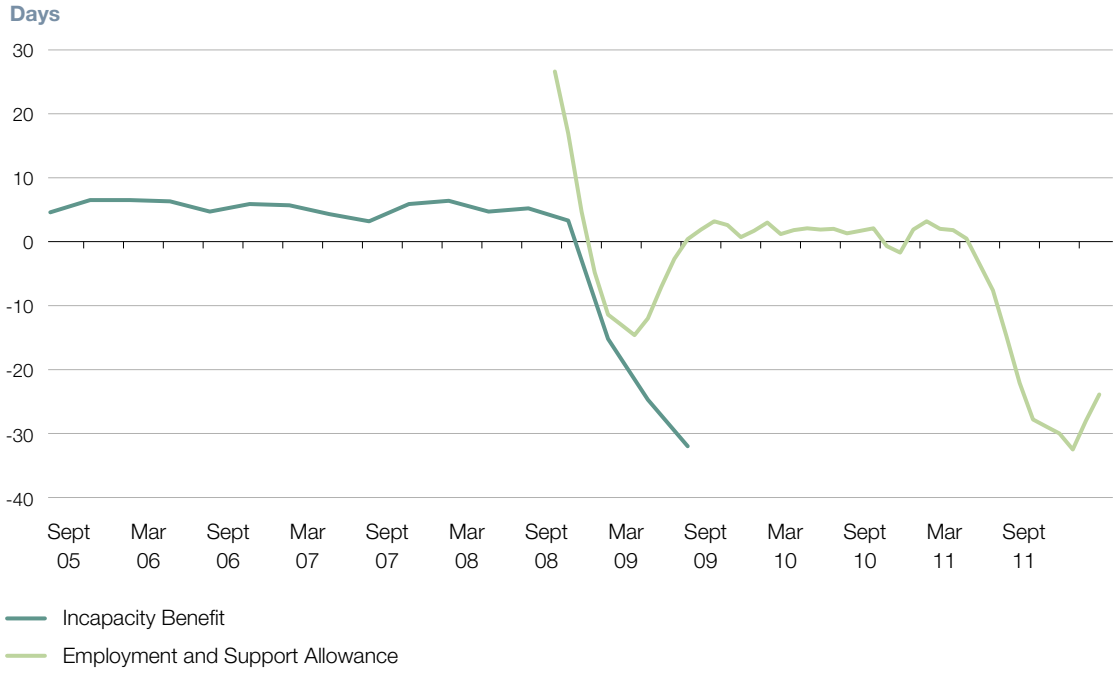
3.13 The Department agreed a service level for processing Employment and Support Allowance medical assessments of 35 working days from referral to reporting of that assessment to the Department. A similar service level operated for the previous Incapacity Benefit regime but there is no equivalent level for the current Incapacity Benefit reassessment exercise. **Figure 9** overleaf shows Atos Healthcare's performance since 2005 for medical assessment processing time for the previous Incapacity Benefit and the new Employment and Support Allowance. Performance against processing targets was poor in early 2009 and poor again from the middle of 2011.

3.14 The Department agreed 'realignment' plans with Atos Healthcare in 2009 and at the start of 2012. In 2009, the Department 'de-coupled' delivery of the Work-focused Health-related Assessment[5] and allowed Atos Healthcare to delay reassessment of existing Incapacity Benefit claimants, in turn prioritising new claims for Employment and Support Allowance. The current realignment plan initially set out an expectation that clearance time performance would return to within contractual target levels by September 2012, but the Department now expects performance to return to within target levels by January 2013. In the meantime, while average processing times for Employment and Support Allowance have improved slightly over the last few months, they remain substantially above target levels. In addition, a significant proportion of cases have been with Atos Healthcare for more than 56 days (25 per cent compared with a target of 3 per cent, at March 2012).

5 The purpose of the Work-focused Health-related Assessment was to identify steps that could be taken to improve a claimant's physical or mental condition to increase work opportunities. This assessment was intended to follow the Work Capability Assessment but was formally suspended in 2010, following temporary 'de-coupling' from the Work Capability Assessment in 2009.

Figure 9

Performance against target processing time, days (negative values are days in excess of processing target)



NOTES

1 From March 2011, modifications to the Work Capability Assessment were introduced following Professor Harrington's first-year review; and from April 2011, a programme of Incapacity Benefit reassessment using Work Capability Assessment was introduced.

2 The Department has not provided performance data on assessments completed for existing Incapacity Benefit claimants after September 2009. The realignment plan agreed with Atos Healthcare in April 2009 allowed the contractor to delay medical reassessments for existing Incapacity Benefit claimants. Service level targets for Incapacity Benefit were formally withdrawn on 1 April 2010 following its replacement with Employment and Support Allowance for new claims from October 2008.

Source: Atos Healthcare. Data not independently validated

Complaint handling

3.15 Schedule 5 of the contract specifies that Atos Healthcare should respond to each customer complaint within 20 days. There is no specification on the volume or type of complaints.

3.16 Our review of available performance data indicates that Atos Healthcare regularly meets its complaints clearance target. It is, however, theoretically possible that the requirement to address complaints within 20 working days could lead to partial or superficial handling of a complaint. The Department advises that it audits the quality of complaint handling by its contractor, and documentation indicates that it routinely takes a random 10 per cent sample of complaints, investigating the quality of review by Atos Healthcare. A quality threshold of 95 per cent is described and recent performance by the contractor appears satisfactory. In addition, the Department also receives contractor information on the level of customer dissatisfaction with complaint handling.

3.17 Despite measures taken by the Department to check the quality of complaint handling by its contractor there is still a risk that it is not told about all complaints received by Atos Healthcare. The Department acknowledges the risk but argues that its contractual right to review the complaints files of Atos Healthcare together with evidence that it is copied into a significant proportion of those complaints means that the risk is much reduced in practice.

The appropriateness of Department actions to address contractor underperformance

3.18 Schedule 25 of the contract specifies that service credits will be applied where the contractor has failed to meet the specified service level. The schedule records the tariff to be applied for each case failing to meet the service level, and these amounts are then applied to the invoices submitted by Atos Healthcare. This service credit regime has not operated consistently throughout the contract and was suspended between September 2009 and March 2010 and between June 2011 and December 2011, following negotiation with the contractor.

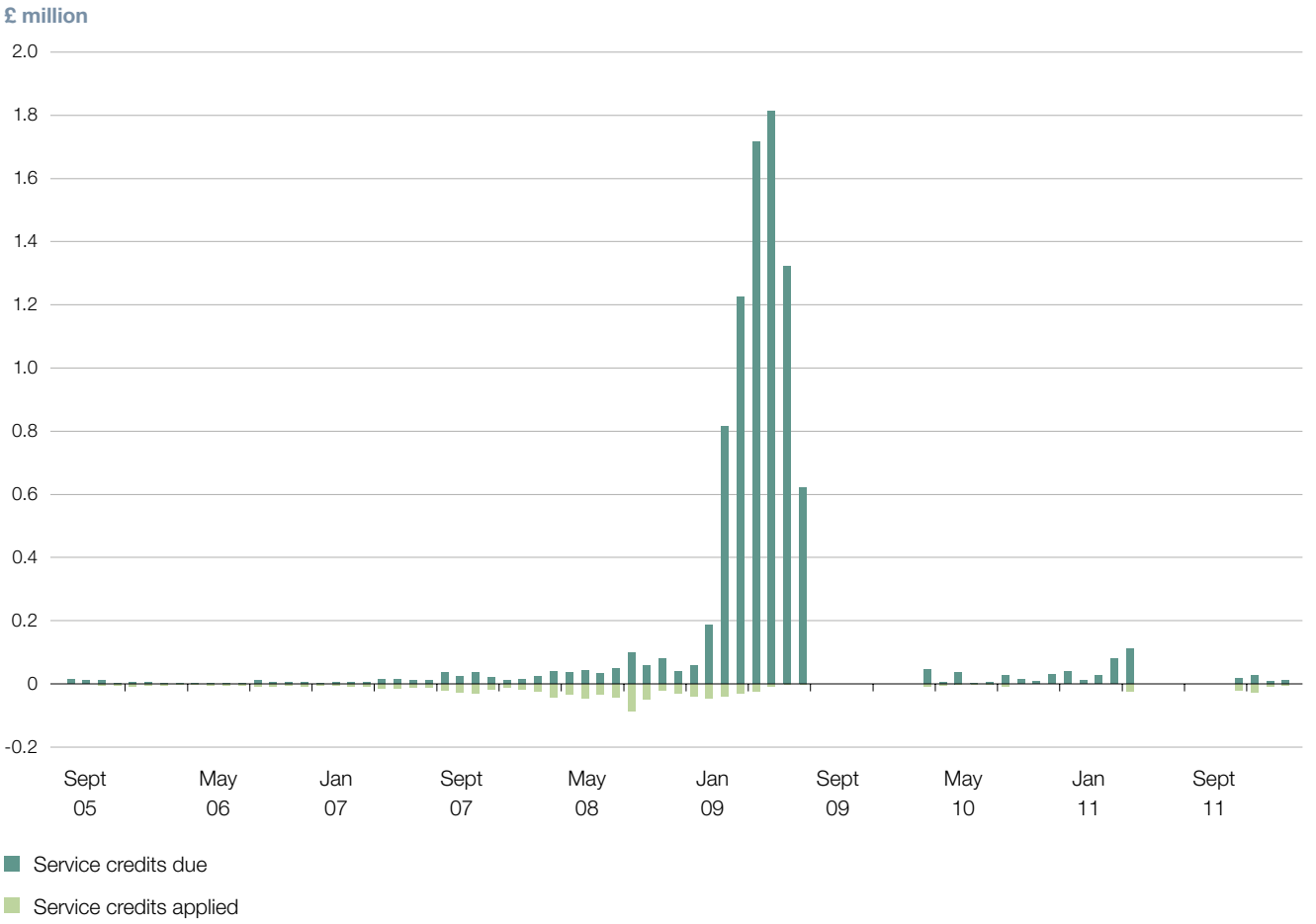
3.19 The performance regime allows for Atos Healthcare to submit 'mitigation' where factors outside their control have affected performance. In these cases, the in-month service credit liability can be fully or partly extinguished. If mitigation is not accepted, Atos Healthcare still has an opportunity to 'earn back' one third of the service credit applied in each of the following three months if performance targets are subsequently achieved.

3.20 **Figure 10** overleaf shows that only 10.1 per cent of service credits due have, in fact, been applied. Atos Healthcare has argued, among other reasons, that failure to meet specified service levels was due to variances in the Department's forecast of referral volumes and changing requirements of the medical assessment.

3.21 The service credit regime has not operated effectively. While policy changes may have necessitated some renegotiation of service levels with Atos Healthcare, the decision to suspend service credits in September 2009 and again in June 2011 has inhibited effective contract and performance management. In March 2012, the Department agreed an interim service credit regime with Atos Healthcare and a first meeting of a new Service Credit Board took place in April 2012.

Figure 10

Service credits applied compared to those due, September 2005 to March 2012 (negative values are service credits applied)



NOTES

1 Department agreed a 'service credit holiday' between September 2009 and March 2010.

2 Department agreed a 'service credit holiday' between June 2011 and December 2011.

3 Department negotiated an interim service credit regime in March 2012 which covers period since December 2011.

4 The Department's contract with Atos Healthcare has a cap on the level of service credits that could be applied in practice equal to 30 per cent of the monthly variable costs of that contract.

Source: Department information, not subject to National Audit Office validation

Part Four

Medical services contracting strategy

4.1 Part Four examines the Department's wider contracting strategy for medical services using good practice principles set out in the National Audit Office's contract management framework.[6] We review Department decision-making and its implications for longer-term market development.

4.2 We focus on how the Department has managed two key issues:

- The decision to extend the contract with Atos Healthcare from 2012 to 2015 to incorporate Incapacity Benefit reassessment using the Work Capability Assessment.
- The strategy to extend medical assessments to cover Personal Independence Payment.

Extending the contract to cover Incapacity Benefit reassessment

4.3 In late 2010, the Department exercised its option to extend the contract to 2015 to incorporate delivery of the Work Capability Assessment to existing Incapacity Benefit claimants from April 2011. The decision to extend followed senior-level consideration of options between late 2009 and autumn 2010. The key arguments presented to decision-makers for extending to 2015 and avoiding a competition were:

- A competitive procurement would risk delivery of a policy commitment to deliver Incapacity Benefits reassessments.
- IT development and integration concerns, given the short timescale.
- A new supplier would be drawing on the same limited pool of healthcare professionals, at a time when Atos Healthcare was already facing resource difficulties.
- Likely limited interest from other potential suppliers, the costs and time available for a competition, and the structural disadvantages for any new supplier.

6 National Audit Office and the Office of Government Commerce, *Good practice contract management framework*, December 2008.

4.4 The Department had identified some time earlier that there were a limited number of potential providers available. In 2007 the Department highlighted the weak volume of 'serious' bids for the 2005 contract and the limited pool of healthcare professionals as key to its decision to vary the contract with Atos Healthcare in 2007. Despite an acknowledgement that the roll-out of Incapacity Benefit reassessment would be extremely hard to manage,[7] the costs and benefits of delaying implementation of the programme in favour of medical services market development work were not formally assessed in commercial options presented to senior decision-makers.

4.5 Our review found that options papers provided to senior decision-makers did not present a comprehensive appraisal of the incumbent supplier's capacity to take on the additional work. There was no analysis of the past performance of Atos Healthcare and whether previous performance gaps were likely to impact on future delivery. We found no formal assessment of the possible long-term commercial and business continuity advantages of having more than one medical services supplier.

4.6 Documents presented to senior decision-makers state that a key reason for extending the contract with Atos Healthcare was an agreement with it to deliver cost reductions of £53.7 million as part of the current spending review period. **Figure 11** presents a typology of the planned costs reductions.

4.7 Our analysis of the £53.7 million cost reduction found that £14.9 million of this is a result of Department policy changes and not cost savings offered by Atos Healthcare. Of the remaining £38.8 million, we found that there was a clear plan in place for Atos Healthcare to deliver savings of £16.0 million but there was reasonable uncertainty over whether the remaining £22.8 million would be delivered.

Contracting strategy for Personal Independence Payment

4.8 In July 2011, the Department's plan was to:

- begin procurement for a contract to deliver medical assessments for Personal Independence Payment and for this contract to end at the same time as the existing Atos Healthcare contract in 2015; and
- procure a combined contract for all medical assessments from 2015.

4.9 The Department opted for this procurement approach in order to manage the short-term peak in medical assessment volumes brought about by the one-off assessment of existing Incapacity Benefit and Disability Living Allowance claimants and the continued flow of new claims for Employment and Support Allowance and the Personal Independence Payment. It was also intended to foster market development by bringing in a new supplier, leading to a more competitive environment in 2015.[8]

7 Department options paper presented to executive team in November 2009.
8 The Department's July 2011 submission assumes a new supplier – see end of p. 2.

Figure 11
Review of predicted £53.7 million saving during current spending review period

Category of saving	Value	Example of saving claimed
Saving that cannot be attributed to current supplier contract	£14.9 million	Suspension of Work-focused Health-related Assessment: A supplementary assessment initially provided as part of Employment and Support Allowance. Decision to suspend was a policy decision which, while leading to a reduction in medical assessment costs, is not conditional on maintaining the current contractual relationship with Atos Healthcare. Department states it would deliver £12.3 million in savings.
Saving that can be attributed to the current supplier contract but over which there is reasonable uncertainty	£22.8 million	Ensuring claimant attendance: The Department has claimed that additional customer reminders will lead to improved attendance and will save £3 million. However, this saving is dependent on customer behaviour, which is not within the Department's or Atos Healthcare's control. These savings cannot be guaranteed.
Saving that can be attributed to the current supplier contract and over which there is reasonable certainty	£16.0 million	Reduced profit margin for Atos Healthcare [details redacted due to commercial sensitivity].
Total	**£53.7 million**	

Source: National Audit Office review of Department for Work and Pensions documents

4.10 This strategy assumed that the provider would be able to rely on the Department's existing estate as a base for the Personal Independence Payment medical assessments. By avoiding the need for the supplier to source and finance its own accommodation for the three years to 2015, the assumption was that other potential providers would deliver more comparable bids.

4.11 In practice, the Department underestimated the extent to which this approach ran counter to its wider estates strategy, post spending review. By November 2011 it had become clear that any new supplier would need to secure its own estate. Recognising that Atos Healthcare had an estate infrastructure already in place and an opportunity to exploit this at minimal extra cost, the Department determined that the prospect of a competitive process in which comparable and alternative bids would be received was now much reduced.

4.12 In December 2011, the Department submitted a further options paper to ministers outlining a clearer commitment to regionalisation of delivery. The Department has since outlined a contract framework model organised around three large geographic lots in which suppliers submit proposals to participate in the framework and those appointed are invited to bid for contracts as part of a mini-competition. The framework is expected to be in place for four years and the first call-off contract will be awarded in July 2012 for delivery of Personal Independence Payment medical assessments. This will be a five-year contract, with an option to extend for a further two years.

4.13 The Department's change in approach is significant and reflects both the localism agenda and the greater prominence given to commercial arguments over concerns about medical consistency and quality. It also follows recent market analysis which indicates a growing potential supply of healthcare professionals and suggests that those currently registered with Atos Healthcare represent only a very small proportion of potential supply. A regional approach to procurement increases the potential for a more competitive market place, with greater scope for ongoing benchmarking of costs and performance. While requiring additional investment in quality assurance and presenting infrastructure challenges, a regional delivery model would seem to provide opportunities for more structured market development to address the current supplier monopoly. Future delivery models may, for example, involve regional partnerships of the private and public sectors, including NHS bodies.

Appendix One

Methodology

Method	Purpose
Document review	
Review of documents including published statistics, medical services contract, performance monitoring information, ministerial submissions, internal audit reports, departmental strategies/guidance.	To examine the Department's approach to contract management and procurement of medical services.
Semi-structured interviews	
We met with officials from the Department's team involved in performance, medical quality and commercial management.	To gather information and views of the delivery of medical services and future plans.
Financial analysis	
Review of the contract's financial data and the financial model.	To examine the financial management of the medical services contract.
Self-assessment questionnaire	
The Department completed a questionnaire of its contract management of the medical services contract.	To assess whether the Department exhibited the characteristics and practice of good contract management as developed by the Office of Government Commerce and the National Audit Office.

Report by the Comptroller and Auditor General

Contract management of medical services

HC 627 Session 2012-13

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CORRECTION

Figure 3 (page 16) of the report was produced in error.

The data shown between April 2009 and June 2011 was displayed incorrectly. Those variances shown positively should have been displayed as negative variances. In addition, those variances displayed negatively, should have been shown as positive variances. As a result the actual referral values were higher than forecast demand. This change is reflected in paragraph 2.14 (page 16).

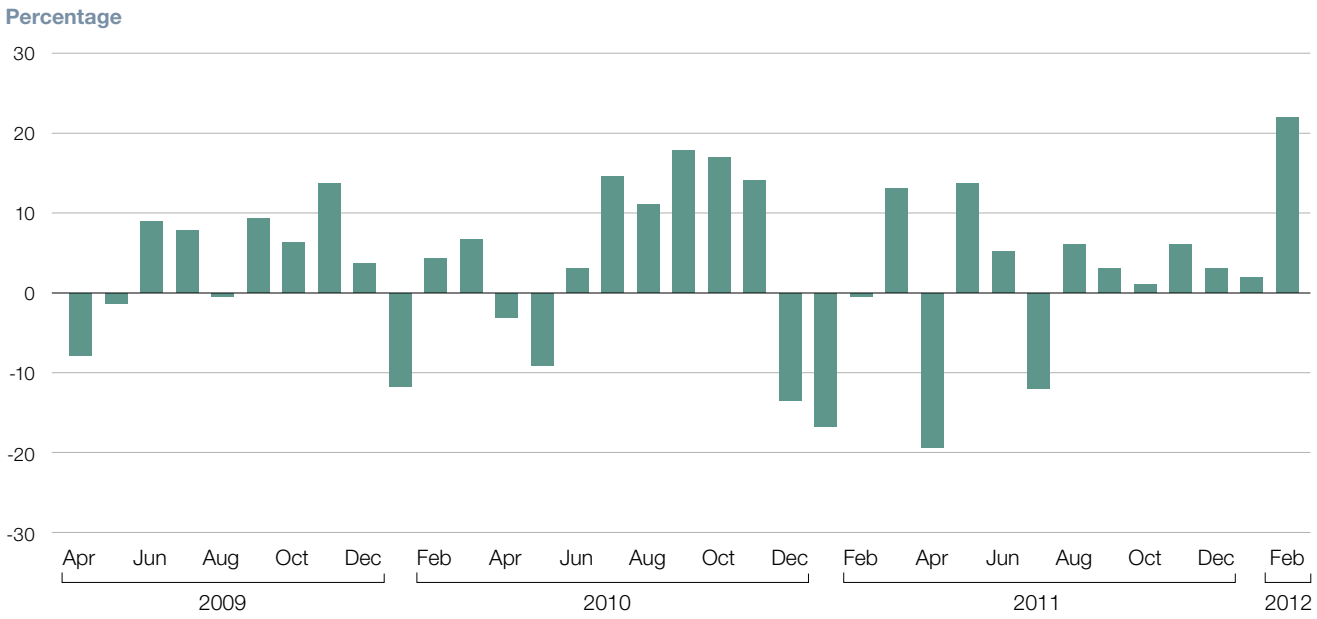
Please see the corrected paragraph and figure below:

2.14 **Figure 3** compares the Department's updated annual **operational estimates** of referral volumes with actual levels for the biggest service line, Employment and Support Allowance medical assessments. It shows that the accuracy of annual forecasting varies month on month. For much of the period actual referral volumes were higher than the forecast demand. There is evidence of improvement in forecasting between August 2011 and January 2012 but data for February 2012 indicates that operational changes to the referral process were not adequately anticipated. Monthly variation was broadly consistent across regions.

Figure 3

Employment and Support Allowance

Actual referrals compared with annual forecasts (percentage variance; positive values indicate actual referrals in excess of forecast)



Source: Department data

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