



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Work and Pensions

Contract management of medical services

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.