



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Work & Pensions

Contracted-out health and disability assessments

Key facts

7m

expected contracted-out health and disability assessments over three years, 2015 to 2018

£1.6bn

estimated cost of contracted-out health and disability assessments over three years, 2015 to 2018

13%

proportion of ESA and PIP targets met for assessment report quality meeting contractual standard (September 2014 to August 2015)

- 6** main contracts for assessments: two consecutive Employment and Support Allowance (ESA) contracts, three concurrent Personal Independence Payment (PIP), and one Fit for Work (FFW)
- 5.5 million** assessments completed in five years up to March 2015
- 65%** estimated increase in average cost per ESA assessment based on published information after transfer of the service in 2015 (from £115 to £190)
- 84%** estimated increase in total healthcare professionals required from 2,200 in May 2015 to 4,050 in November 2016
- 4** average weeks providers took to return PIP assessments in August 2015, compared with 29 weeks in mid-2014
- £92 billion** expected incapacity and disability benefit spending over three years 2015 to 2018
- £0.4 billion** latest expected reduction in annual disability benefit spending – Personal Independence Payment and Disability Living Allowance – between 2015-16 (£16.2 billion) and 2018-19 (£15.8 billion)

Summary

1 The Department for Work & Pensions (the Department) uses health and disability assessments to inform its decisions about benefits or to help people on sick leave back to work. A healthcare professional will evaluate an individual's needs and capabilities against defined criteria by reviewing relevant evidence and often conducting a face-to-face assessment or telephone discussion. The Department uses assessments for three main purposes:

- **Employment and Support Allowance (ESA)**

During 2014-15, 700,000 people made a claim for ESA because they were unable to work for health or disability reasons. The Department uses assessments to help decide if people are fit for work or assign them to groups that will offer support or help them back into work. In 2014-15, it spent £13 billion on ESA, which 2.2 million people were claiming in March 2015.

- **Personal Independence Payment (PIP)**

During 2014-15, 526,000 people made a claim for PIP to help them with daily living or mobility costs associated with living with a disability. PIP is expanding as it replaces Disability Living Allowance, and in 2014-15, the Department spent £15 billion on the two benefits which 3.4 million were claiming in March 2015.

- **Fit for Work (FFW)**

In December 2014, the Department introduced a new, voluntary occupational health assessment and advice service for individuals on long-term sick leave. The Department hopes to reduce sickness absence and its associated costs by paying for this voluntary service.

2 Health and disability assessments are central to the Department's welfare reform programme. The Department recently announced its intention to encourage people into work through ESA assessments better identifying claimants' capabilities and by continuing to roll out FFW. By better matching support to people's needs it now expects to reduce disability benefit spending – PIP and DLA – by £0.4 billion from £16.2 billion in 2015-16 to £15.8 billion in 2018-19.

3 For many years the Department has contracted-out most assessments to third-party providers: Atos Healthcare (Atos), Capita Business Services Limited (Capita), the Centre for Health and Disability Assessments (CHDA) and Health Management Limited (HML). Both CHDA and HML are wholly-owned subsidiaries within MAXIMUS. Over three years from April 2015 to March 2018, the Department expects to spend a total £1.6 billion on an estimated 7 million assessments.

4 The assessment contracts are at very different stages. Between 2005 and 2015, the Department contracted with Atos for Incapacity Benefit and then ESA assessments.¹ It now has a new contract with CHDA covering ESA assessments. Two providers, Atos and Capita, have been providing PIP assessments since mid-2013. HML started the FFW advice service in December 2014, and nationwide assessments from March 2015.

5 Providers have struggled to meet performance targets for both ESA and PIP. In our 2012 report *Contract management of medical services* and our 2014 report *Personal Independence Payment: early progress* we found backlogs arose as a result of processes taking longer than expected.^{2,3} We also found issues with contract management, performance monitoring and the quality of assessment reports. The Department now expects to make savings in disability benefit spending significantly later than originally planned.

Scope of our report

6 Contract management is an evolving area for government. In our 2014 report *Transforming government's contract management* we recommended that government make sustained improvements and strengthen its contract management capabilities.⁴ The Department is one of several departments developing new models for working with contractors.

7 This report assesses the value for money of the Department's management of health and disability assessment contracts. Contracted-out assessments are an integral part of reforms designed to reduce benefit spending, better target support and reduce time off work. We do not assess the value for money of these wider reforms. But managing contracted-out assessments effectively is a necessary condition for achieving value for money in the longer term. Not only will slow or substandard assessments delay the benefits of reforms and impose burdens on claimants, but assessment contracts are also a significant cost in their own right.

8 As the assessment contracts are at different stages, we can consider how the Department has changed its approach, manages contracts across their lifecycle and also how well-placed it is to meet future challenges.⁵ We have used our contract assessment framework (Figure 14 on page 43) to compare these contracts and consider:

- recent performance and developments (Part One); and
- how the Department has managed the contracts (Part Two).

1 Includes assessments for other benefits such as Industrial Injuries Disablement Benefit.

2 Comptroller and Auditor General, *Contract management of medical services*, Session 2012-13, HC 627, National Audit Office, October 2012.

3 Comptroller and Auditor General, *Personal Independence Payment: early progress*, Session 2013-14, HC 1070, National Audit Office, February 2014.

4 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.

5 We only consider contracts in relation to ESA assessments. The 2005 contract with Atos primarily covered Incapacity Benefit assessments. The Department introduced ESA in 2008.

Key findings

Recent performance and developments

9 The Department has concentrated on tackling its immediate operational problems by managing demand and developing improvement plans with providers. During 2013-14, the number of outstanding cases increased for both ESA and PIP. From October 2013, the Department slowed the roll-out of PIP and suspended routine reassessments of existing ESA claimants. It agreed improvement plans with providers, who also hired additional staff. For ESA it agreed plans in early 2014 after Atos requested early exit from the ESA contract. The Department agreed improvement plans with Atos and Capita for PIP in mid-2014 (paragraphs 1.8, 1.12, Figure 3).

10 The Department is reducing the number of outstanding assessments, and providers are processing them more quickly. By August 2015, PIP providers were taking an average of four weeks to complete PIP assessments. This was within contractually agreed service levels and significantly better than the peak of 29 weeks in mid-2014. The Department eliminated the backlog of Incapacity Benefit claims awaiting reassessment for ESA by March 2014, but still had an estimated backlog of 280,000 ESA assessments in August 2015. The Department is now increasing the number of ESA and PIP assessments and rolling out the FFW service (paragraphs 1.12 and 1.18 to 1.19, Figure 3).

11 Despite progress, some providers continue to struggle with hiring and training staff. CHDA is not on track to complete the expected number of ESA assessments for 2015. This is largely due to problems reaching the full staff complement, particularly in London and the Home Counties. It is facing significant challenges with staff failing to complete training requirements. One possible consequence of capacity shortages is that assessment report quality is lower as staff may be less experienced. For PIP, both providers have failed to meet targets for the quality of assessment reports since October 2013. Providers have met other measures of quality and are currently reviewing quality measures with the Department (paragraphs 1.13 to 1.14, 1.20, Figures 4, 5 and 5a).

12 The Department is paying more for assessments, caused in part by capacity shortages pushing up salaries. Under the new ESA contract with CHDA, the cost of providing assessments has increased. We estimate it will now cost £190 to provide an assessment compared with £115 under Atos. The Department told us that costs have increased in part because providers are carrying out a higher proportion of face-to-face assessments and staff are being recruited at higher salaries (paragraphs 1.15 to 1.17, Figure 6).

Managing the contracts

13 While tackling its immediate operational concerns, the Department has strengthened its oversight and management of contracts in several ways:

- **The Department has increased its capacity for performance management.** It has established dedicated teams and named contract owners as primary contacts for each of the major contracts. The Department expanded its performance management team from 48 people in 2013 to 80 in 2015 (paragraphs 2.3 to 2.7, Figure 7).
- **The Department has strengthened its oversight of performance.** The Department has increased contact with providers and started to develop in-house ESA provision to better understand processes. It has also required providers to supply more detailed management information more frequently (paragraphs 2.8 to 2.14, Figure 8).
- **The Department has responded more quickly to performance issues.** Recovery was hampered by the length of time needed to agree improvement plans with providers. The Department responded more quickly in the new ESA contract and agreed a plan just one month after concerns were identified. The Department has applied service credits more often in eligible situations and allowed fewer exceptions (paragraphs 2.15 to 2.18, Figure 9 and Figure 10).
- **The Department managed contract transition smoothly.** The Department, Atos and CHDA think the transition of ESA assessments in early 2015 was well managed (paragraphs 2.19 to 2.25, Figure 11).

14 While the Department has more robust performance management, this does not address the fundamental challenge created by shortages of capacity and a desire to complete large numbers of assessments quickly and accurately. The Department recognised problems with PIP and earlier ESA contracts, but recent performance shows the Department has not tackled – and may even have exacerbated – some of these problems when setting up recent contracts:

- **The Department continues to have an unclear approach to transferring risk and managing incentives.** The Department has introduced strong statements of risk transfer in its contracts. At the same time it has increased its direct management of processes. Some providers raised concerns with us about the clarity of these arrangements and the cost to providers of complying with the Department's requests (paragraphs 2.27 to 2.29, Figure 12).

- **The Department has continued to set high targets and use assumptions without evidence of sufficient testing and challenge.** The Department set an ambitious, non-negotiable target of 1 million ESA assessments in 2015-16. It based this on the expected number of assessments it needed to manage benefit expenditure. The Department did not base its target on the modelling of available resources, and did not consider revising the target following bidders' requests, although it did make changes after contract award. The Department also allowed bidders to make assumptions about staff training that it knew were overly optimistic and difficult to achieve (paragraphs 2.30 to 2.35).
- **The Department does not yet have an overall strategy for contracting out assessments and risks damaging market interest.** In 2012, the Department set up a framework of potential providers to help build market interest. But it only used this framework for PIP and the framework will expire in 2016. A Departmental review found that tight procurement timetables, inflexibility towards critical assumptions, and lack of transparency risked damaging market interest (paragraphs 2.36 to 2.42, Figure 13).

Conclusion on value for money

15 It makes sense that the Department has prioritised its immediate operational problems by working with providers to increase capacity, improve contract management, and tighten monitoring and oversight of performance. The Department and providers have made progress reducing the number of outstanding claims and waiting times that PIP claimants have experienced in recent years.

16 Despite some progress, the Department has not yet achieved value for money in its management of assessment contracts. Overall it now expects to pay more for assessments, and is still not achieving volume and assessment report quality targets. Even if the Department is able to stabilise current performance, it needs to tackle underlying capacity challenges and set challenging but realistic targets in any future contracts. Otherwise its approach to managing contracts and critical assumptions risks perpetuating a cycle of optimistic targets, contractual underperformance and costly recovery.

Recommendations

17 As it develops its approach to contracted-out assessments, and considers its options for when current contracts end, the Department should:

- a** **Develop an overall commercial strategy for health and disability assessments.**
It should develop an integrated approach to assessments which would support longer-term market development and capacity building. It should clarify the role of in-house provision and how it will complement contracted-out services.
- b** **Assess its future commercial capacity and skills needs against future risks.**
The Department should tailor its contract management approach to the risks associated with individual contracts. Having increased staff numbers, it needs to work with the Cabinet Office to review and develop staff skills.
- c** **Set out realistic but challenging evidence-based targets and adhere to clear principles for challenging assumptions through the procurement and management of contracts.** It should challenge targets and assumptions, and reduce its reliance on responding through ad hoc changes after contracts are signed. Where assumptions are uncertain it should develop its principles for using 'allowable assumptions' clauses and extend these beyond the initial stages of a contract.
- d** **Work with providers to establish common principles for managing assessment contracts and risks.** It should increase activity to engage providers in learning lessons from recent experience, and to understand barriers to providers bidding for and providing assessments.