



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **NHS England**

# NHS England's management of the primary care support services contract with Capita

## Key facts

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**£330m**

is the estimated value of NHS England's seven-year contract with Capita for nine primary care support services (approximately £47 million a year)

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**35%**

intended reduction in NHS England's costs across all primary care support services from day one of the contract agreed by Capita

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**39,000**

primary care practitioners are supported by Capita's primary care support services

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- 5** of Capita's primary care support services, out of nine, were placed in a formal process under the contract to rectify services by NHS England in September 2016
- £5.3 million** in contract penalties that were applied by NHS England between January 2016 and April 2017
- £60 million** in savings that NHS England has made to primary care support services in the first two years of the contract
- 41 out of 45** performance indicators that Capita considers it met in February 2018 (where information was available) when factors that Capita considers outside its control were taken into consideration
- 7** severe service failures against performance indicators in February 2018 when factors that Capita considers outside its control are not taken into consideration (this is the performance experienced by service users)

# Summary

**1** Primary care support services provide a range of administrative and back-office functions to around 39,000 primary care practitioners. **Figure 1** sets out the core services provided, including administering payments to GP practices, opticians and pharmacies; administering the pensions of GPs; and administering entry and changes to national performers lists that provide the public with reassurance that GPs, dentists and opticians in the NHS are suitably qualified and have passed other relevant checks. In 2014-15, primary care support services cost £90 million.

## Figure 1

### Core primary care support services provided by Capita Business Services Ltd (Capita)

Service	Description	Current annual activity levels
Cervical screening	Delivering prior notification lists of patients eligible for screening to GPs and sending out invitation and recall letters and test results to patients.	Sending out over 9 million invitation letters and 3.4 million test results.
GP and pharmacy payments and GP pensions	Administering monthly contracts and reimbursements to practices and pharmacies, and the NHS Pension Scheme for GPs who are members.	Processing around £9 billion of payments to GP practices and pharmacies, and the pension documentation for 37,000 GPs.
Medical records	Moving hard-copy patient medical records between practices and into storage.	Moving around 6 million records when patients register with new GP practices.
National performers lists	Administering entry and changes to performers lists on behalf of NHS England. The lists provide information on GPs, dentists and opticians practicing in the NHS, including that they are suitably qualified and have passed other relevant checks.	Processing around 8,000 entries and 15,000 change requests.
Payments to opticians	Administering monthly payments for eye tests, processing continuing education and training payments and deducting local optical committee levies.	Processing around 20 million eye sight service claims.
Supplies and logistics	Providing NHS stationery, pre-printed forms, and needles and syringes for all primary care providers.	Processing and delivering over 240,000 NHS supplies orders.

Source: NHS England and Capita

**2** In August 2015, NHS England entered into a seven-year, £330 million contract with Capita Business Services Ltd (Capita) to deliver primary care support services. These services are now known as Primary Care Support England (PCSE). NHS England aimed to reduce its costs by 35% from the first year of the contract, to contribute to required savings in its administration costs, and create better quality support services that were more efficient, and easy to use. Capita's bid depended on it delivering a major transformation of services to meet NHS England's objective to reduce its costs, such as introducing an online service for submitting GP payments and ordering medical supplies.

**3** In May 2016, primary care providers began raising concerns with NHS England about failures of the PCSE contract, including delays in transferring medical records and problems with the responsiveness of the customer support centre. In September 2016, NHS England served default notes, placing five of Capita's nine support services in a formal process to rectify services. It also embedded an 'expert management team' from NHS England in Capita. In December 2016, NHS England stated that Capita had failed to deliver key aspects of the service, putting primary care services and patients at risk.

**4** In this report, we assess whether NHS England managed the PCSE contract effectively to secure the intended benefits. It examines:

- how the PCSE contract was set up (Part One);
- performance issues, including action taken by NHS England and Capita to address these issues (Part Two);
- the reasons for the contract failures (Part Three); and
- the current status of the contract (Part Four).

## **Key findings**

### The PCSE contract

**5 NHS England aimed to reduce its costs by 35% from the first year of the contract and transform and modernise the service.** The government's mandate to NHS England required it to make significant reductions in its administrative running costs. NHS England also wanted to provide a high-quality and standardised service. When NHS England took responsibility for primary care support services in 2013 they were being delivered by 1,650 staff from 47 local offices, managed under separate local arrangements, with no national leadership, no common standards in service specification or operating processes, and with limited data on performance. Services were supported by a 20-year-old IT system that NHS England considered was unsustainable and in urgent need of replacement, and many processes relied on the manual processing of paper-based documents. NHS England considered that it would not be possible to deliver the required savings in-house as it did not have the necessary skills in transforming services through better use of IT (paragraphs 1.4 to 1.6 and 1.9).

**6 NHS England rated Capita's bid best on both cost and quality.** NHS England put the PCSE services out to tender in 2015 with guidance to bidders that a 40% saving would be expected against current running costs. Capita's successful bid was worth £330 million over the seven years of the contract (approximately £47 million a year). Capita expected to make a loss of £64 million in the first two years of the contract, which it planned to recoup in later years. It planned to reduce the cost of operating the service by 69%, from £77 million in 2014-15 to £24 million by 2021-22 (year seven of the contract). Its bid involved reducing the number of staff from 1,390 at the start of the contract to 314 by March 2018. The procurement was supported by commercial experts in the Cabinet Office, and subject to reviews by the Major Projects Authority which considered it a well-run programme. The procurement was approved by the then Department of Health and HM Treasury (paragraphs 1.6, 1.7, 1.8, 1.9 and 1.10).

**7 NHS England did not know enough about the services it inherited to set achievable service specifications and performance standards from the start of the contract.** This was a complex first generation outsourcing. NHS England lacked adequate data on the volume and cost of the services before the contract was awarded, and there were no consistent measures of performance. It told us that it recognised that there was variation in how services were delivered across the country, but that it did not have a detailed understanding of how local processes were different. As a result, it made a number of assumptions about the volume, cost and performance of the services in order to set service specifications and performance standards. To mitigate the risk around the robustness of the activity data, the contract included a clause to ensure that volume data could be reviewed in the first few months and, if necessary, the contract starting volumes could be revised. Capita only requested one 'allowable assumption' that permitted future adjustments related to uncertainty in the number of staff to be transferred (paragraphs 1.12 to 1.14 and 3.1).

**8 NHS England's decision to contract with Capita both to run existing services and also simultaneously to transform those services, was high risk.** Capita was incentivised through the contract to close existing services to minimise its losses but the interaction between running, closing and transforming services was more complex than Capita or NHS England had anticipated. This was a high-risk strategy, particularly for a set of incompletely understood services being outsourced for the first time (paragraphs 1.9, 3.2 to 3.15).

## Performance issues

### **9 Performance issues emerged shortly after Capita started closing primary care support offices and making other changes to the service.**

In March 2016, Capita introduced a new online portal for primary care providers to use to order supplies. In April 2016, it introduced a new courier arrangement and labelling system for moving medical records, which replaced different local arrangements. These changes were poorly implemented and providers struggled with the new systems. There were also problems caused by shortages of stock in the NHS supply chain. These issues resulted in a significant increase in the number of calls to Capita's customer support centre, which could not cope with the increase. Between December 2015 and November 2016, Capita closed 35 of the 38 support offices it inherited and cut staff numbers from 1,300 to 660 (paragraphs 2.3 and 2.4, and Figure 7).

### **10 Failure to deliver key aspects of the service put primary care services and, potentially, patients at risk of serious harm (Figure 2), but no actual harm has been identified.**

The service was disrupted by delays in processing new applications and making changes to the performers lists (a record of GPs, dentists and opticians who are considered suitably qualified to practice). As a result, an estimated 1,000 GPs, dentists and opticians were delayed from working with patients and some of these practitioners lost earnings. The failure to update performers lists also potentially compromised patient safety in cases where practitioners should have been removed. In December 2016, one of NHS England's Medical Directors noted that a review of reported harmful incidents had not identified any situations where serious patient harm had resulted from failures in primary care support services. However he also noted that the full effects of these failures were not known at this time and may not be apparent for some time. No further reviews have been carried out and no further incidents of actual harm to patients have been identified (paragraph 2.11 and Figure 8).

### **11 NHS England formally intervened in Capita's management of the contract in September 2016.**

It told us that by the end of summer 2016, it had become clear that Capita's improvement plans were ineffectual in some key areas and that issues had become more widespread. NHS England served default notices, placing five of Capita's nine services in a formal rectification process: the customer support centre; the medical records service; the patient registration service; the national performers lists service; and payments to opticians. It also embedded an 'expert management team' in Capita, to work alongside operational staff and provide additional oversight and support (paragraph 2.8).

**Figure 2**

## Impact of service failures on patients, primary care services and providers

**Failures to deliver key aspects of the end-to-end service had a detrimental impact on primary care services and primary care providers, and potentially put patient safety at risk**

Group	Impact of service failures
Patients	<p>The failure to update performers lists may have compromised patient safety in cases where practitioners should have been removed.</p> <p>87 women were notified incorrectly they were no longer a part of the cervical screening programme.</p>
Primary care services	<p>In 2016, NHS England estimated that delays in processing new applications for the national performers lists resulted in around 1,000 GPs, dentists and opticians being unable to work. So far, over 200 applicants have sought recovery of lost earnings from NHS England.</p> <p>NHS stationery and medical supplies not being delivered to primary care practices led to shortages of prescription pads, needles and syringes.</p> <p>Backlogs of 500,000 patient registration letters built up.</p> <p>62% of GP practices, responding to a 2017 British Medical Association survey, reported that urgent requests for patient records were not actioned within three weeks (out of 748 practices that responded). Some 64% of the practices said that they had received incorrect patient records in the last three months.</p>
Primary care practitioners	<p>Delays in processing new applications for the national performers lists resulted in around 1,000 GPs, dentists and opticians being unable to work and a loss of earnings.</p> <p>Missed and inaccurate payments to practitioners.</p> <p>Primary care providers reported having to spend a lot of time seeking a response to queries from Capita, sending evidence on numerous occasions and still failing to get resolution to their queries.</p>

Source: National Audit Office analysis of Capita, NHS England and British Medical Association documents

## Reasons for the service failures

**12 Capita underestimated the scale and nature of the task and the impact of closing sites and losing local knowledge.** Capita acknowledges that it took longer than anticipated to make changes to primary care support services. It underestimated the number of staff that would be needed to deliver the services, in part due to inaccurate assumptions about the volume of activity. It originally anticipated that it would only need around 314 staff by March 2018, but its actual headcount was 736. Capita also acknowledges that it made performance issues worse, by continuing to close support offices in summer 2016 even though it was aware the customer service centre was struggling to meet demand. The site closures resulted in the loss of local expertise. Procedures in place to retain local expertise did not work effectively as the staff who were retained did not always understand the systems being used in other regions (paragraphs 3.3, 3.4, and 3.11, and Figure 7).

**13 NHS England's performance measures did not cover all the service areas Capita were required to deliver.** Without comprehensive service indicators, NHS England cannot tell whether the services meet the needs of primary care providers. NHS England did include performance measures in the contract, although these did not cover all the activities that Capita was required to deliver. A review of the contract, carried out by NHS England in March 2016, found that of 78 key activities that Capita was contracted to carry out, some 23 were not captured by performance measures and were therefore 'invisible' to NHS England. It identified that 13 of the 23 activities without performance measures could affect patient safety if not delivered to standard. NHS England are in ongoing discussions around extending performance monitoring (paragraphs 3.8 and 3.13).

**14 NHS England's assessment of the contract risk focused on the likelihood of it failing to achieve its financial savings target and did not adequately assess the risk of Capita failing to provide the service to a good standard.** Gaps in the data meant that NHS England could not challenge whether assumptions in the contract were reasonable. NHS England considered that Capita had access to existing service expertise that they had used to inform and test their transformation plans. It did not bring in staff with senior-level skills in transforming a service, as it expected this expertise to sit within Capita (paragraphs 3.5 and 3.6).

**15 NHS England did not have the contractual mechanisms to intervene in some of Capita's service changes.** Capita expected to make a loss of £64 million in the first two years of the contract. Its bid involved reducing the number of staff by two-thirds by January 2018. Capita therefore had an incentive to close support offices and cut back on staff as quickly as possible, in order to minimise its losses in the first two years of the contract. In May 2016, NHS England wrote to Capita expressing concerns about the closure of support offices, and asked Capita to reconsider its plans to reduce its number of staff. Although Capita's site closure programme required NHS England's engagement throughout the process, the contract did not require NHS England's agreement to close offices, and between May and November 2016, Capita closed a further 20 offices (paragraphs 1.10, 3.10 and 3.11).



**16 Basic principles about the contract are still not agreed, which limits**

**NHS England's ability to hold Capita to account.** NHS England and Capita have still not agreed how to calculate the volume of work carried out in some areas, and how these data should be used to calculate payments owed to Capita for delivering the services. By May 2018, two and a half years into the contract, they have not yet agreed on how to calculate 11 performance measures. There is a contractual mechanism for putting a service in rectification but none for exiting the rectification process. Capita provided NHS England with reports in August and September 2017 setting out why services should be taken out of rectification, but NHS England has not formally responded to three of these service reports. NHS England told us that it was waiting for further evidence from Capita on two services before it could consider if rectification was complete (paragraph 3.15).

## Current position

**17 Capita's self-reported performance against the contract has improved.**

In February 2018, Capita reported that it was meeting 41 out of 45 of its performance indicators (where information was available) when factors that Capita considers outside its control were taken into consideration, with one severe failure. NHS England has not accepted Capita's reported performance since May 2017 for 11 measures where there is a difference of view about how it should be calculated. NHS England considers that six out of the nine PCSE services are no longer experiencing significant issues, but are still subject to ongoing improvements. However, NHS England remain concerned about three of the services – the national performers lists, payments to opticians and GP payments and pensions. It recognises that some of the issues with GP payments and pensions and the national performers list pre-date the contract with Capita (paragraphs 4.2 to 4.4).

**18 There are still widespread failures experienced by primary care practitioners.**

The service experienced by users (without any adjustments made for factors that Capita considers outside its control) was more unsatisfactory than Capita's reported position. In February 2018, only 32 out of 45 performance indicators were met and there were seven severe service failures. This compares with November 2017, when Capita met 28 out of 43 performance indicators, with ten areas of severe service failure (paragraph 4.3).

**19 NHS England has largely secured the financial savings it expected.** In the first two years of the contract, NHS England made savings of £60 million compared with expected savings of £64 million, as the financial risk of increased costs sits with Capita. To date, NHS England has deducted £5.3 million from payments to Capita as penalties for poor performance. The financial penalties are capped at £480,000 a month and were applied in full between July 2016 and April 2017. NHS England noted in its 2016-17 financial statements that it expected that it may have to pay up to £3 million in compensation to primary care providers. Contract penalties have yet to be applied from May 2017 because NHS England does not accept Capita's reported performance data due to disagreements about the scope of some of the measures. This disagreement only emerged once Capita's self-reported performance no longer triggered maximum service credits (paragraphs 2.12, 4.2, 4.6 and 4.7).

**20 NHS England has not yet secured the transformation that it wanted.** To date, Capita has provided a customer support centre, and a working solution for ordering supplies and transferring medical records. However, the changes were not implemented successfully and Capita's transformation programme was delayed while it dealt with operational issues. It then had to re-plan the remaining aspects of the programme and secure agreement from NHS England and other stakeholders. Capita also held commercial discussions with NHS England on the scope of transformation and service dependencies. The remaining six transformation work streams, including online services for GPs and opticians, are now due to be delivered in 2018. NHS England removed the pharmacy payments work stream from Capita's transformation programme. Capita has now developed standard operating procedures for all nine services. Capita told us that it took longer than expected because of the extent of variation in the way services were provided before the contract and the way different NHS area teams comply with guidance. NHS England owns the intellectual property rights to any software created to deliver the primary care support services (paragraphs 4.8 to 4.11, and Figure 14).

**21 NHS England and Capita have reached a settlement on the first two years of the contract but commercial discussions about the future of the service are ongoing.** Both parties have agreed a full and final settlement of all known commercial issues for the first two years of the contract, to 31 August 2017. NHS England paid Capita an additional £3.2 million. Capita has absorbed significant additional costs in excess of the £64 million losses it anticipated in the first two years, resulting in a £125 million loss over this period, including write-offs and service credits. Since September 2017, there has been no agreement on the full basis of charging. Capita stopped invoicing NHS England for services from September 2017, but resumed invoicing in February 2018 on the agreement that it would not prejudice the commercial discussions (paragraphs 4.12 and 4.13).

## **Conclusion on value for money**

**22** NHS England's financial objectives for outsourcing primary care support services were ambitious. However, neither NHS England nor Capita fully understood the complexity and variation of the service being outsourced. As a result, both parties misjudged the scale and nature of the risk in outsourcing these services. The service to primary care practitioners, including Capita's delivery of PCSE, has fallen a long way below an acceptable standard. This had an impact on the delivery of primary care services and had the potential to seriously harm patients, although no actual harm to patients has been identified. NHS England was unable to stop Capita's aggressive office closure programme, without cancelling the contract, even though it was having a harmful impact on service delivery.

**23** While some services have now improved, it is deeply unsatisfactory that, two and a half years into the contract, NHS England and Capita have not yet reached the level of partnership working required to make a contract like this work effectively. Although NHS England has saved significant sums of money, value for money is not just about cost reduction. NHS England will need to address the current service failures over the remaining life of the contract if it is to achieve both the savings and service improvements it intended.

## Recommendations

### Recommendations for NHS England

**24** NHS England has secured its financial objective from the service outsourcing. It now needs, with Capita, to secure stable and sustainable service delivery while supporting the transformation of services. Both parties are now much better informed about the service, dependencies and challenges they face. Our recommendations focus on how NHS England and Capita can deliver value for money through the discussions about the future of the contract.

- a Determine whether all current services within the PCSE contract are best delivered through that contract or whether some should be taken in-house by NHS England.** Experience has now highlighted which services can most easily be delivered by Capita and which have more complex dependencies. The current commercial discussions present an opportunity to revisit responsibilities.
- b Agree with Capita performance indicators and targets, and also the data sources and assurance mechanisms which need to underlie these indicators.** Disputes over data and assurance were foreseeable but were not well handled. Agreeing sources, assurance and use in advance should support better partnership working.
- c Prioritise the stabilisation of existing services when rescheduling transformation programmes.** The lack of stability in delivering existing services was in part caused by premature site closures and the push to secure savings from transformation. NHS England should carefully consider the operational readiness of each service before agreeing to the implementation of any further transformation changes.
- d Secure user engagement in advance of service changes.** Primary care providers are a valuable source of practical feedback and can offer insights that will improve service delivery, especially where changes through transformation are significant.
- e Pilot significant transformation changes effectively.** Several changes to services were not initially implemented effectively. NHS England could profitably discuss with Capita when pilots would offer the greatest benefit.
- f Create a joint risk register which would more thoroughly set out dependencies, mitigations, responsibilities and required actions.** NHS England did not adequately assess the risk of service failure and Capita failed to recognise the scale and nature of the task it was taking on. A joint risk register would allow delivery challenges and actions to surface at an earlier stage.
- g Improve its management of the factors which influence the overall performance of PCSE, which are outside Capita's control.** NHS England should collect data on how well NHS England area teams and other third parties are performing in the areas they control and, where possible, hold these bodies to account for their performance.

## Wider recommendations for government

**25** Our recommendations for government aim to ensure lessons are learned more broadly. The government should:

- h Set realistic but challenging expectations by developing an understanding of what is wanted and at what cost before the procurement.** For services that are being contracted for the first time, sufficient time should be allowed to collect data on existing services and determine the service specifications.
- i Risk assess the likelihood of bidders being able to deliver their promises and challenge the targets and assumptions of bidders.** This should include benchmarking bidders on their capability to deliver their promises, such as by examining past performance. There should also be sufficient modelling to understand the contractor's cost drivers and incentives.
- j Agree fundamental principles about how the contract works from the start.** The contract should be clear with well-defined terms to avoid disagreements about the service specifications, performance standards and the basis for payments.