

# Circle and Hinchingsbrooke Hospital

By

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The Public Services International Research Unit (PSIRU) investigates the impact of privatisation and liberalisation on public services, with a specific focus on water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services. PSIRU is based in the Business Faculty, University of Greenwich, London, UK. Researchers: Prof. Steve Thomas, Jane Lethbridge (Director), Emanuele Lobina, Prof. David Hall, Dr. Jeff Powell, Sandra Van Niekerk; Dr. Yuliya Yurchenko

## **Circle and Hinchingsbrooke Hospital**

Hinchingsbrooke Hospital was the first hospital in the NHS to have its management franchised to a private company, Circle. In January 2015, Circle announced that it was abandoning the franchise. This briefing provides some background to why the hospital had its management franchised, the franchise process and the quality of services delivered by the hospital.

Hinchingsbrooke Hospital is a district general hospital, with 283 beds and 1,674 staff in the East of England, which opened in 1983. In 2006-8, the Department of Health provided £40 million to the hospital to improve its financial position. Its financial problems were caused by penalty payments of £25.6 million imposed by the East of England Strategic Health Authority (SHA) following the new system of pricing of health care imposed by the Department of Health. Until then, the hospital had been a well performing hospital. <sup>1</sup> Local commissioners started to move away from acute services to primary/ community services, which led to less health care being commissioned from Hinchingsbrooke Hospital. This contributed to the growing deficit. In 2007, the East of England Strategic Health Authority (SHA) was given permission by the Department of Health to “*explore options to implement a new management structures*”.<sup>2</sup> By 2009, after a public consultation, the Department of Health agreed that the SHA could look for a partner organisation to manage the hospital as a franchise, even though in 2009, the trust reported that it no longer had a deficit.

### Franchise process

By 2010, Circle had been chosen as a franchise partner from a series of six options. The bidders were: Cambridge University Hospital/Addenbrookes, Care UK (Bridgepoint Capital), Interhealth (NGO), Circle, Serco and Ramsay Healthcare. The National Audit Office was critical of the way in which these options had been assessed because they were not subject to external review.<sup>3</sup> The NAO reported that the selection board had given incentives to Circle and Serco to make savings which were not available to the in-house option. The “*assessment focused on the viability of the initiatives rather than on how realistic proposed savings from the initiatives were. This may have encouraged bidders to make increasingly optimistic projections*”<sup>4</sup> The final two bids to be considered were from Circle and Serco. The NAO reported that:

*“The two bidders, Circle and Serco, proposed very different payment schemes. Serco guaranteed a payment of £11.5 million in the first year of the franchise but required the Trust to achieve greater surpluses before it shared any further profits. This reduced the chance of the cumulative deficit being repaid in full. Circle did not guarantee any repayments but proposed a scheme that could pay off the whole deficit if all of its savings proposals were realised. The Authority selected Circle as its preferred bidder.”<sup>5</sup>*

The UK Treasury took over a year to approve the Circle business case and award the franchise. Circle took over the running of the hospital in 2012. The long bidding and approval process meant that the hospital could not appoint permanent staff during this period. The hospital had a cumulative deficit of £39m on a turnover of £73m when the management was contracted out in 2011. With a deficit of almost 50% of turnover, Circle proposed to pay off the debt in 10 years (£311m) and be paid a franchise fee of £31 million.<sup>6</sup> If Circle was to make a deficit of more than £5m in aggregate deficits, it would have to pay a further £2.0 million in termination/ transition costs but would be able to leave the contract.<sup>7</sup> It aimed to make cost reductions of £9.9 million.<sup>8</sup> It was the first hospital in the NHS to have management functions contracted out to a private, for-profit company. The hospital, Circle Partnership and the East of English Strategic Health Authority (SHA) were signatories to the franchise agreement but the NAO reported that each signatory had a different view of how success would be defined.

*“The franchise agreement stated that Circle should aim to provide high quality clinical services and generate an annual surplus each year. If it generates an annual surplus as planned, the Trust will have achieved recurrent financial balance and the cumulative deficit will be paid by the end of the agreement.”*

This was the aim of the East of England SHA throughout the bidding process. However, the Department of Health, Circle, the Trust board and HM Treasury had different views and there was no agreement on whether the cumulative deficit had to be repaid in full or in part in order for the franchise to be considered a success. There was no agreement on who was to report progress, whether it would be reported publicly and which indicators would be used to define success.<sup>9</sup> Although the National Audit Office was critical about how the franchise process was conducted, it was not critical of the role that the SHA and local health commissioners had played in destabilising Hinchingsbrooke before 2009.

### Ownership

Hinchingsbrooke Hospital was managed by Circle Partnership, which became the operating division of the holding company, Circle Holdings, in 2012. Circle Holdings is owned by several investors:

- Odey Asset Management
- Lansdowne Partners
- Balderton Capital
- BlackRock
- Invesco Perpetual
- BlueCrest Capital Management

It has headquarters in Jersey. Circle Partnership runs hospitals in Bath and Reading and an independent sector treatment centre in Nottingham. It depends on NHS contracts and 93% of its caseload comes from the NHS.<sup>10</sup> New hospitals have been financed through the company, Health Estates Managers Limited, a subsidiary of Circle Holdings. In 2014, Health Estates Managers Ltd, sold the freehold of the Bath Circle Hospital to the Medical Properties Trust ( US Real Estate Investment Trust (REIT), and announced that it was de-listing from the Jersey Stock Exchange.<sup>11</sup> Circle has reported losses every year since 2010. It was founded by Dr. Ali Parsa, a doctor, who was the first Chief Executive of Hinchingsbrooke Hospital. He resigned in December 2012 but is still a member of the Circle Board.

Hinchingsbrooke Hospital was described by Circle Partnership an employee co-owned hospital group owned by doctors and nurses, creating the impression that it was a mutual / social enterprise but it was actually owned by hedge funds.<sup>12</sup> With the incorporation of Circle Partnership into Circle Holdings in 2012, when it took over the Hinchingsbrooke Hospital contract, it was expected that an “undefined number of Hinchingsbrooke employees will now apparently be issued with an undefined number of shares in Circle Holdings, on an unclear and apparently arbitrary basis –possibly as part of an individual appraisal process. They had no say over this change of regime.”<sup>13</sup>

### Management

Within 6 months of starting the contract, Circle had cut 46 nursing posts. The Emergency department had over a quarter of posts vacant.<sup>14</sup> New management techniques were introduced by Circle to the hospital which included computer systems used by Argos (a mail order company). Managers from the private sector (Argos (mail order), Avon (fashion), Faberge (fashion), Tesco (supermarket) and Asos (fashion)) were recruited to run the hospital, all with no experience of hospital management.

### Quality of Services

In 2014, the Care Quality Commission, the regulator responsible for inspecting hospitals in the NHS, inspected Hinchingsbrooke Hospital in September 2014 with two announced visits on 16 & 18 September and two unannounced visits on 21 and 28 September 2014. CQC inspections rate hospitals on a scale of:

1. Outstanding
2. Good'
3. Requires improvement'
4. Inadequate'

The overall rating for Hinchingsbrooke Hospital was inadequate. Urgent and emergency services and medical services were rated as inadequate. Surgery and End of Life care were rated as requiring improvement.<sup>15</sup> This was the first time that the CQC had ever rated the care of an NHS hospitals as inadequate.<sup>16</sup>

The Urgent and Emergency service was rated as inadequate because the CQC *"could not be assured that there were sufficient assurance processes in place to demonstrate that patients were not at high risk of harm"*<sup>17</sup> Equipment was not maintained appropriately and medication was not stored securely. Over a quarter of staff were bank and agency staff. Paediatric services were inadequate with a lack of trained staff. There was a lack of leadership to ensure adequate provision of care. *"Patients were routinely triaged within the waiting room area with no considered for their privacy or dignity"*.

Medical services were rated as inadequate because CQC *"found poor emotional and physical care which was not safe or caring"*. This was not reported by leaders of the services to trust management therefore leadership was judged to be inadequate. There was poor hand hygiene and poor infection control techniques. Treatment was being given without consent and there was *"an under recognition of patients who may lack capacity throughout the medical wards"*. Surgical Services were rated as requiring improvement. One of the main findings was the *"safety of patients was at risk due to delays in nurses attending when patients call for help"*.<sup>18</sup> End of life care was rated as requiring improvement. CQC felt that patients were not receiving treatment to meet their needs. 'Do not resuscitate' decisions had not been discussed with patients or their representatives. There was a lack of training in end of life care for ward staff.

### Staff satisfaction

The 2013 staff satisfaction survey found that there were major problems experienced by staff in the hospital. Hinchingsbrooke Hospital scored as one of the 20% worst hospitals for staff satisfaction. The areas of concern which had been identified by staff included:

- Feeling their role makes a difference to patients;
- Staff ability to contribute towards improvements at work;
- An increase in working overtime;
- Receiving job-relevant training;
- Receiving appraisals;
- Experiencing bullying or harassment;
- Feeling under pressure to go to work while unwell;
- Staff satisfaction;
- Having equality and diversity training;
- Support from managers and effective team working;
- Witnessing harmful errors and near missed.<sup>19</sup>

The 'Stop the Line' process, which had been introduced to help staff raise concerns about patient safety, was not working because staff were made to feel that they were to blame.<sup>20</sup> "Stop the Line" is an approach used in the manufacturing industry where any worker can stop the production line if they think there is a risk to safety. Senior nursing staff were often not listened

to and felt that they were not involved in the decision making in the hospital, which was dominated by senior doctors. <sup>21</sup>

#### Withdrawal from contract

On 9<sup>th</sup> January 2015, Circle announced that it was withdrawing from the franchise contract on the grounds that it had lost £5 million and that the hospital had been unable to cope with an increase in demand for emergency services, problems with discharging patients and decline in demand for commissioned services. These last three factors have been experienced throughout the NHS and shows how this company was unable to deal with the pressures of running a district general hospital. However, the real reason emerged when the Care Quality Commission (CQC) report was published a few days later. The hospital is now under “special measures” and the NHS will have to take-over from the failure of a private company. This does not mean the end of Circle’s business in the NHS. It was awarded a five year contract to continue running the Independent Sector Treatment Centre in Nottingham in 2013. In August 2014, Bedford Clinical Commissioning Group awarded Circle a £120 million five year contract to run an integrated musculoskeletal service. <sup>22</sup> Circle will continue to look for less riskier ways of making money from the NHS.

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<sup>1</sup> Lister J. (2014) First privatised hospital –success or smoke and mirrors

<https://www.opendemocracy.net/ournhs/john-lister/first-privatised-nhs-hospital-success-or-smoke-and-mirrors>

<sup>2</sup> NAO (2012) The franchising of Hinchingbrooke Health Care NHS Trust REPORT BY THE COMPTROLLER AND AUDITOR GENERAL HC 628 SESSION 2012-13 8 NOVEMBER 2012 Department of Health

<http://www.nao.org.uk/wp-content/uploads/2012/11/1213628es.pdf>

<sup>3</sup> NAO (2012) p.7

<sup>4</sup> NAO (2012) p.22

<sup>5</sup> NAO (2012) p.24

<sup>6</sup> NAO (2012) p.28-29

<sup>7</sup> Circle (2014) Annual report 2013 p.31

<sup>8</sup> <http://www.hinchingbrooke.nhs.uk/page/about-us/about-hinchingbrooke-hospital-nhs-tr>

<sup>9</sup> NAO (2012) p.39

<sup>10</sup> Lister J. (2014) Behind the Smoke and Mirrors Neither Hinchingbrooke nor Circle are what they seem Report for UNISON July 2014

<sup>11</sup> Health Estate Managers Ltd Letter announcing de-listing

[http://www.cisx.com/download\\_news.php?newsID=221039](http://www.cisx.com/download_news.php?newsID=221039)

<sup>12</sup> Lister J. (2014) Behind the Smoke and Mirrors Neither Hinchingbrooke nor Circle are what they seem Report for UNISON July 2014

<sup>13</sup> Lister J. (2014) p.2

<sup>14</sup> Molloy C. (2015) Hinchingbrooke - why did England's privatised hospital deal REALLY collapse?

OpenDemocracy 14 January 2015 <https://www.opendemocracy.net/ournhs/caroline-molloy/hinchingbrooke-why-did-england%27s-privatised-hospital-deal-really-collapse>

<sup>15</sup> CQC (2014) Hinchingbrooke Health Care NHS Trust <http://www.cqc.org.uk/provider/RQQ>

<sup>16</sup> Health Service Journal (2015) Landmark Hinchingbrooke deal collapses Health Service Journal 16 January 2015 pp.4-5

<sup>17</sup> CQC (2014) p.5

<sup>18</sup> CQC (2014) p.7

<sup>19</sup> NHS Staff Survey (2013) Hinchingbrooke Hospital

[http://www.nhsstaffsurveys.com/Caches/Files/NHS\\_staff\\_survey\\_2013\\_RQQ\\_full.pdf](http://www.nhsstaffsurveys.com/Caches/Files/NHS_staff_survey_2013_RQQ_full.pdf)

<sup>20</sup> CQC (2014) p.18

<sup>21</sup> CQC (2014) p.43

<sup>22</sup> [http://www.rheumatology.org.uk/resources/policy/tenders\\_procurements\\_2014.aspx](http://www.rheumatology.org.uk/resources/policy/tenders_procurements_2014.aspx)