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Devon NHS children's services set for privatisation

Outcome of tendering process for core services for vulnerable families could provide foretaste of NHS break-up, critics fear

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Richard Branson's Virgin Care is one of two private, profit-making companies in the running to provide core children's services in Devon. Photograph: Rex Features

Core children's health services in Devon may be about to be privatised in a move that critics have warned is a foretaste of the breaking up of the NHS that, they say, will take place when the government's health and social care bill becomes law.

The Guardian has learned that NHS Devon and Devon county council have shortlisted bids led by two private, profit-making companies – Serco and Virgin Care – to provide frontline services for children across the county, including some of the most sensitive care for highly vulnerable children and families, such as child protection, treatment for mentally ill children and adolescents, therapy and respite care for those with disabilities, health visiting, and palliative nursing for dying children.

Also on the shortlist for the £130m three-year NHS contract is Devon Partnership NHS Trust, bidding along with Barnado's and other local charities. But a source close to the process, which is now in its fourth and final stage, has told the Guardian that one of the two commercial companies' bids looks likely to win the tender.

Final bids will be evaluated in May. The contract will be awarded to "the most economically advantageous" bid, according to criteria listed for it on the European commission website, where any European public tenders are required by competition law to be published.

The deal is believed to be the first of its kind for such key services, but similar deals are likely to follow, as the bill introduces a requirement for patient choice and therefore for competitive tender. Under reforms originally introduced by the Labour government, NHS commissioning bodies are also separating out any function they have had as providers of services. Since the Department of Health is not collecting data centrally on tenders, it is impossible to be sure how many other similar bids are under way.

The outsourcing of such a large and complex part of NHS services will be highly controversial. Opponents of the reforms of the health secretary, Andrew Lansley, have argued that the bill, now in its final stages in parliament, will lead to rapid privatisation of the NHS and the end of universal free public provision.

A spokesman for Lansley said the Devon bid was an example of how reforms were following the direction of travel for the NHS set long before the current government. "We support patient choices and whoever is best getting the contracts. We reject the idea that because a private company might get it, it is privatisation," he said, pointing out that services would still be free to use and funded out of taxation.

Neither of the two private companies in the Devon bids has experience of running specialist children's health services for the NHS. Serco, a London listed company, which made nearly £300m profit last year, plans to run the services in partnership with Cornwall Partnership NHS Trust, which provides mental health and disability services to adults and community health services to children in the neighbouring county. But the extent of the NHS trust's role is not clear and the PCT said it was commercially confidential.

Several public health experts critical of the bill expressed dismay and disbelief that high-risk children's services were being contracted out. They questioned whether they could be safely run for profit.

John Ashton, director of public health for Cumbria, said: "What on earth are they doing taking risks with our children like this? Children's services such as these are very complex and involve working with lots of agencies, from local authorities to police and schools, over long periods. How on earth a private company can function in that area when it needs to identify ways of making money is really hard to see."

Professor Terence Stephenson, president of the Royal College of Paediatrics and Child Health, which has called on the government to withdraw the bill, also questioned whether private companies could run such important public services. "It is hard to understand why a tender for something as important and complex as children's services has not been put into the public domain for scrutiny by professionals, since it makes it impossible to answer questions around why the service is being tendered, the criteria upon which successful bidders will be judged and the nature of the specification," he said.

"Children's services are complex, as some tragic high-profile incidents have shown. It is essential that any provider has proven expertise in managing not only clinical services but also key areas such as safeguarding and, on the face of it, it does not appear that all of the shortlisted bidders have experience in managing such services."

The government has denied that the reforms will lead to privatisation of the NHS and argues that the private sector can bring vital efficiency and innovation to the service as it has to adapt to the growing needs of an ageing population.

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Neither of the two private companies in the Devon bids, Serco and Virgin Care, has experience of running specialist children's health services for the NHS.

Serco, a London listed company, which made nearly £300m profit last year, has many contracts to provide management services to government and local authorities, including running prisons, but it has a controversial history with the NHS. In Cornwall it was contracted to provide the out-of-hours GP service from 2006, but has drawn sharp criticism from local health staff and the Liberal Democrat MP Andrew George, accused of compromising safety with cuts.

The company was given an improvement notice by the NHS primary care trust that had commissioned it in 2007 following a number of incidents. Then in 2010, a Cornish boy, Ethan Kerrigan, six, died as a result of a burst appendix when the Serco out-of-hours service advised putting him to bed rather than sending a GP to examine him. Cost-cutting has left the service with insufficient transport and staff to meet needs, according to local GPs. During one Christmas period, nearly one-fifth of calls to the service went unanswered because of lack of capacity. Earlier this year the Royal College of Nursing also complained that proposed cuts to nursing staff working for the Serco out-of-hours service in Cornwall would compromise safety.

Serco's managing director of clinical services, Paul Forden, defended the company's record. "When we took the contract over in Cornwall, there were certainly problems with the way changes were implemented," he said. "But we have invested heavily since and that's why we have recently re-won the contract; we now have response times that are among the best in the country."

Cuts to nursing staff were related to redeployments now that new IT systems had reduced the need for medical staff in the call centre, he said. The company said changes to transport were not necessarily aimed at cost-cutting. Mr Forden added that Serco was able to bring investment to the NHS, which has no "monopoly on how to deliver the best in health services". He said: "It has to cut £20bn a year. It can't invest, but we can invest to improve quality and generate efficiency. We have to bid to deliver at prices that are a lot lower than the NHS to win contracts and that gives the NHS more money to put into the NHS itself."

Because Devon children's services are part of a bid for a commercial contract, Serco said commercial law prohibited it from commenting on them.

Virgin Care also said it could not comment on its tender before a winner had been announced.

Virgin Care came into being at the beginning of this month, following a £4m investment by Sir Richard Branson for a 75% stake in Assura Medical, the loss-making medical services part of the Assura Group, a company listed on the London stock exchange, which acts as commercial partner in property and pharmacy services to GP consortiums.

A spokesman for the company said: "We have a steadfast commitment to delivering high-quality services that meet patient need, are free at the point of delivery and that offer value for the taxpayer."

Virgin Care is involved in a major dispute with the NHS in Yorkshire, where it has reported the NHS primary care trust to the new adjudicator of contracts, the co-operation and competition panel for NHS services, for awarding a contract to the local NHS York Hospitals instead of to Assura/Virgin. Virgin's complaint is that the NHS bid was unrealistically low and therefore unfair.

Critics fear that the increasing involvement of the private sector will divert NHS resources to legal fees and contractual disputes such as these with commercial bidders.

Professor Allyson Pollock, author of a series of analyses for the Lancet and BMJ on how the health bill will change the NHS and a leading critic of the reforms, said the Devon tender "was a clear privatising of the service for the most vulnerable". She said: "It has huge implications elsewhere and serious questions have to be asked about why they are doing this when the bill is not yet law and it is not even clear what the statutory requirements will be for children's services."

NHS Devon's director of strategic commissioning, Jayne Carroll, said the aim of contracting out the services was "to secure the best possible service and improve outcomes for children and young people while continuing to strengthen integrated community-based health and social care".