

Corporate Watch

Transforming Pathology, the Serco way

The privatisation of pathology services in two London hospitals has led to increased clinical problems and financial instability, an investigation by Corporate Watch has found.

GSTS Pathology, a joint venture between outsourcing giant Serco and King's College Hospital Trust and Guy's and St Thomas' Hospital Trust, describes itself as “an exemplar of public private partnership in the health sector”.

Serco CEO Chris Hyman described pathology as “a major growth area” at the launch of GSTS in 2009* and said his company, which last month posted half-yearly profits of £102 million, could play a “critical role” in helping the NHS achieve the efficiency savings demanded by the government.

But an investigation by Corporate Watch – based on Freedom of Information disclosures, leaked internal documents, interviews with staff and analysis of the company's accounts - shows an organisation now in turmoil.

Performance reviews for its laboratories in St Thomas' Hospital,** obtained through the Freedom of Information Act, show its exceeded the agreed targets for the “turnaround times” for processing pathology tests a massive 46 times in 2011, with “critical risk levels” breached 14 times.

Over 400 clinical “incidents” – including losing or mislabelling patients' blood and cell samples - were flagged up in the same period. A review of its first year performance by St Thomas' management had previously said there appeared to be an increase in the number of these incidents since GSTS took over.

A malfunctioning IT system has caused particular problems. The performance review for June 2011 describes a “serious problem” after the IT interface for blood group analysers contracted a virus and was shut down for four days.

In January 2012 a patient was given “inappropriate blood” when their medical history was not “flagged” up by the system. In May 2012 patients' kidney damage results were calculated incorrectly after a “software fault”. The September 2011 performance review complains of the pre-operative blood transfusion interface failing at the same time every week.

GSTS had promised to upgrade the IT system – a crucial part of modern pathology - when it took over. However its annual accounts show £2.7 million had to be written off in 2011 due to “potential clinical uncertainty” caused by its new system.

This contributed to the venture declaring a £6 million loss in 2011, together with “higher than expected” laboratory costs and the failure of “new working arrangements” brought in by Serco consultants to bring the expected results.

GSTS' accounts show its liabilities exceeded its assets by £5 million at the end of 2011. Instead of saving the hospitals' money, as was the original intention, it is only able to continue functioning

with their support. King's annual accounts show it made an £800,000 loss on its investment in GSTS in 2011. Guy's and St Thomas' accounts do not declare the amount they have lost as it is more than their original investment of £2.2m.

Transforming Pathology

GSTS was formed in the wake of the 2006 review of pathology services by Lord Carter, a private healthcare investor and now chairman of the Co-operation and Competition Panel. Carter argued the £2.5 billion spent by the NHS on pathology could be reduced if services were delivered by "stand-alone pathology service providers", independent of the hospitals they were based in.

GSTS' business plan depends on it growing, and in the process 'streamlining' the services it takes over to cut costs and increase profits. GSTS took over pathology services in Bedford Hospital in 2010 and is currently bidding for the contract for the entire NHS East of England. South East London, Milton Keynes and Kettering have been identified as potential future targets.

However, things have not gone as smoothly as planned. In one internal document seen by Corporate Watch, GSTS management admit the venture "did not get off to a great start" and that "the corporate functions have not always provided a joined up service". A senior leadership team strategy document from May 2012 says the company has "no future if it cannot be commercially viable" or "reward the members for their investment in the venture".

As Corporate Watch has previously shown, GSTS paid Serco consultants £5 million to implement a "transformation programme" in its first two years, with another £5 million paid for various set-up and bidding costs. When profits were not forthcoming, a new management team, led by the ex-Bupa and Spire Healthcare executive Richard Jones, was introduced in spring 2011.

Staff say a number of experienced scientists have left since GSTS took over and been replaced by new recruits who are given less training and fixed term contracts, as opposed to the pay packages enjoyed by NHS workers. A scientist at King's told Corporate Watch the list of experienced staff who had left was "frightening" and described morale as "miserable".

A report by the Care Quality Commission from June this year, also disclosed under Freedom of Information, said GSTS was "not compliant" with the regulation to ensure staff were "properly trained and supervised, and have the chance to develop their skills".

In a separate assessment, the Health and Safety Executive found the competency levels of some staff to be "deficient" after another staff member received preventative treatment for possible exposure to the *Neisseria meningitidis* bacterium that can cause meningitis.

Transforming pathology, again

Jones is now overseeing a more radical transformation programme to be implemented at the end of the year. Many of the services currently performed in the St Thomas' labs will be consolidated into King's, which was given a £3 million renovation before GSTS took over.

One million blood tests currently sent by GPs to St Thomas' to be analysed will instead be couriered on to King's, where an expanded night shift will cover the additional work. St Thomas' immunology

department will also be moved to King's, leaving St Thomas with only an “Essential Services Laboratory”.

There will be 13 redundancies at St Thomas' Hospital, while only five staff will be gained at King's. Staff who originally transferred to GSTS from the hospitals did so on Retention of Employment contracts keeping their NHS pay and conditions. Staff think this will mean the hospitals, not GSTS, will have to pay for their redundancy packages.

GSTS says there is a “a high degree of duplication” between the two hospitals' work that can be consolidated but staff worry this will overload the service at King's, causing severe delays and risk the quality of tests provided.

In a response to the plans, scientists expressed concerns that the processing equipment at King's “simply won't cope, as it is frequently full in the evenings” already. Another told Corporate Watch that if something goes wrong with one of the automated analysers or there is an abnormal test result, the lack of senior staff such as doctors, registrars or biomedical scientists on the night shift could lead to “quite serious reporting errors”.

Immunology was designated a “reserved” service in the Pathology Services Agreement signed between GSTS and St Thomas' in 2009, and therefore should not be moved from St Thomas'. It is not clear whether the agreement has been rewritten or simply been broken.

The changes will also see the bulk of the St Thomas' toxicology department sold or, if no buyer can be found, closed. The department, which was started in 1963, specialises in a range of treatments including the Thiopentone chemical, which is used for severe brain injuries, and takes referrals from major neurological centres including Great Ormond Street and the Royal London hospital.

GSTS says there will be sufficient toxicology services at King's to cover much of what is lost at St Thomas'. However, a toxicologist told Corporate Watch that the King's department does not have the same experience or expertise and only provides one of the four tests currently provided at St Thomas and “to a much lower level”.

In a consultation document, St Thomas' toxicology staff warn “it is only a matter of time” before King's “fails to identify compounds in a medico-legal situation” and accuse GSTS of showing a “total disregard” for the service and providing “absolutely no investment” in new equipment.
Investing for whose future?

Internal documents show that in May this year the senior leadership team acknowledged in private that they had “underestimated” the challenges of running the service and now “acknowledge clinicians frustrations”, in part due to “lack of investment in new technologies”.

Increased investment and innovation were promised by GSTS when it took over the services but the leadership now say their financial plan “depends on careful control of capital expenditure”. Internal documents say obtaining “financial breakeven” and “stabilising the business” has taken priority over the research and development of new tests.

Staff complain that the most obvious expenditure has been on an extra layer of management. In the leaked documents, GSTS says it is “not in a financial position to fund” a New Generation Sequencer for the genetics department, and will require charity funding through the hospitals to do so.

Much of the investment that has been made appears to have come from the hospitals rather than

Serco. When the venture was established the hospitals provided capital contributions of more than £3 million. Serco has a 51% share of the voting rights in the venture but did not contribute any capital of its own, instead lending it money (with interest).

GSTS' most recent accounts show it had to borrow an extra £600,000 from King's to keep its cash reserves positive for 2011. To continue operating it is relying on Serco and the hospitals not calling in more than £13 million in loans. If GSTS is not able to continue, the hospitals may have to write off the loans they have made, as well as their original investment.

Richard Jones, Chief Executive of GSTS, told the Guardian, which revealed the investigation today: "There were operational difficulties in the early period of GSTS. However, recent clinical, operational and financial performance make us confident that we have turned a corner. Modernisation of pathology is a national priority and GSTS exists to support the NHS in achieving that."

Dr Jonathan Edgeworth, Consultant Microbiologist at Guys and St Thomas' NHS Foundation Trust and Medical Director of GSTS, said: "My prime concerns are the safety of patients and the quality of our service. Our clinicians and scientists are dedicated to service improvement, and this includes actively investigating any incident to identify the cause and put in place measures to prevent recurrence. The quality of our service bears favourable comparison with any other in the NHS."

* Initially the venture was between Serco and Guy's and St Thomas' Trust. King's joined in 2010.

** We have made similar requests for its service at King's but at the time of publication have not received them from the Trust.