The Nemesis Project

(Incorporating Serco Watch)
A citizen led network
Citizens monitoring the delivery of social and community services and public functions by corporations and business interests.

27th October 2017

Chairperson
Education and Health Standing Committee
WA Legislative Assembly
Parliament House
WEST PERTH WA 6005

Submission to the Sustainable Health Review

Please accept our submission to the Inquiry. The submission is in response to the call for written submissions.

The Nemesis Project is WA based initiative to expose and oppose the marketization and corporate takeover of the not-for-profit, social and community services sector, health sector and civil society sector. We support strategies and action for a strong, independent public sector and not-for-profit, civil society and citizen led sector that gives priority to social and economic justice. The Nemesis Project undertakes research and campaigning and works with like-minded individuals, organisations and groups in Australia and overseas.

Serco Watch is an initiative of the Nemesis Project and is citizen-led network of individuals and organisations that monitors the delivery of public services and public functions by corporations, including Serco. Serco Watch is based in WA but with links to other Australian states and overseas.

Serco Watch appreciates the opportunity to make a submission and congratulates the Committee on initiating this Inquiry.

Yours sincerely

Colin Penter
Convenor and member of Serco Watch

Submission to the Sustainable Health Review by Colin E Penter, Coordinator Nemesis Project and Convenor Serco Watch

Background

1. This submission has been prepared by Colin Penter, Coordinator of the Nemesis Project[1] and Convener of Serco Watch[2].

2. The submission offers a broad perspective on matters that are the focus of the Inquiry, rather than addressing specific terms of reference.

3. Our argument is that a key driver of rising health care costs is the marketisation, privatisation and corporate domination of the healthcare system in Western Australia (and Australia), which means that a larger and larger proportion of the WA health budget ends up in the pockets of multinational corporations, for profit-contractors and private business interests. Increased funding for corporate healthcare removes resources from the public sector and places greater pressure on health budgets.

4. We urge the Sustainable Health Review to recognize the need to move to move away from the market based healthcare system that has produced greater corporate control of the WA health system and the consumption of a larger and larger proportion of the health budget by large multinational corporations and commercial and private business interests.

Marketisation, privatisation and growth of the corporate health sector

5. Over the last three decades, the Australian and West Australian health care sector has been fundamentally reshaped by privatisation and marketisation of publicly funded health institutions and services and the massive investment and growth of the corporate health sector.[3]

6. The health system, once dominated by public and not-for-profit charity and religious institutions, has been transformed into a highly marketised, privatised sector, driven by the financial and business interests of corporate providers and private business contractors. This has been actively encouraged by State and Federal Governments.[4]

7. Colyer, Harley and Short show how corporate for-profit healthcare is transforming the landscape of the health system, creating new scarcities within the public system, placing new demands on the healthcare budget, creating new obstacles to the planning and delivery of services and new constraints on the provision of information and the maintenance of previously high standards of transparency and accountability.[5]

[1] The Nemesis Project exposes and opposes the marketization and corporate takeover of health, education and social and community services.
[2] Serco Watch is a WA based, global citizen-led network of individuals and organizations that monitors the delivery of public services and public functions by corporations, including Serco.
[3] Collyer, F & White, K. (2001). *Corporate Control of Healthcare in Australia*, The Australia Institute, Canberra 2001; Collyer, F, Harley, K., & Short, S. (2015). Money and markets in Australia's healthcare system, in Meagher, G & Goodwin, S, Eds. (2015). *Markets, Rights and Power in Australian Social Policy*, Sydney University Press, Sydney, 2015.
[4] Collyer, F, Harley, K., & Short, S. (2015).
[5] Collyer, F, Harley, K., & Short, S. (2015)..

8. The public healthcare system is now dominated by global corporate healthcare companies who provide and run large swathes of the public health system, including many public hospitals and associated services in Western Australia.

9. They form an influential corporate healthcare system, which includes private hospital and healthcare corporations, private health insurance companies, private companies who run general practice and specialist medical services, which is fundamentally transforming healthcare in this country. Many of these companies have diversified through vertical and horizontal integration, thereby consolidating ownership and control over more and more health services.[6]

10. The result is that an increasing proportion of health budgets are now channeled into the profits of corporate providers and other commercial and private interests[7]. However, the total financial costs of these arrangements are not available for public scrutiny, as these are documented in commercial-in-confidence contractual arrangements and governments refuse to release this information. The information is not even available under Freedom of Information requests.

11. There has been a serious lack of public and parliamentary debate about the extent to which public funding is ending up in the corporate and private sector.

Markets are more expensive

12. The WA health sector is now dependent on the market and the corporate and private sector to deliver public healthcare. However, there is mounting evidence that markets and corporate and private sector delivery of healthcare fails to produce good quality health care and is much more expensive.[8] [9]

13. Callum Paton shows that market structures in the UK health system- including purchase-provider split, internal markets, competition among providers, contracting and procurement and corporate and private sector delivery- have cost a lot and delivered little.[10]

14. The creation of markets in health, increasingly controlled by large corporate and private providers, incurs huge financial costs as well as significant opportunity costs- money which could have been spent upon services and patient care.[11]

15. In the UK around 20% of expenditure on clinical services goes out of the NHS each year through contracting arrangements with corporations and private sector business to provide care and services.[12]

16. Contracting corporate providers to provide healthcare is problematic and expensive. Market based reforms introduce more layers of highly paid managers to manage the bureaucracy required to administer markets and monitor an increasing number of contracts with profit- seeking corporations to attempt to ensure that they meet the terms of their contracts, and to oversee and supervise an increasingly precarious workforce.

[6] Collyer, F, Harley, K., & Short, S. (2015).
[7] Collyer, F, Harley, K., & Short, S. (2015).
[8] People's Inquiry into Privatisation. (2017). *Taking Back Control: A Community Response to Privatisation*, https:// www.peoplesinquiry.org.au
[9] Centre for Health and the Public Interest. (2015). *The contracting NHS- can the NHS handle the outsourcing of clinical services*, March 2015.
[10] Paton, C. (2016). *The Politics of Health Policy Reform in the UK: England's Permanent Revolution*.
[11] Paton, C. (2014). *At what cost? Paying the Price for the market in the English NHS*, Centre for Health and the Public Interest, London, 2014.
[12] Paton, C (2016); Paton, C. (2014). *At what cost? Paying the Price for the market in the English NHS*, Centre for Health and the Public Interest, London, 2014, pp. 10-11

17. Administering, monitoring and enforcing contracts is costly. In WA, there is no publicly available information about how many corporate and private sector contracts are managed by various parts of the WA health system, what the total cost of these is, whether those contracts deliver deliver value for money and the amount of profit being extracted by corporate and private providers.

18. However, UK studies have attempted to quantify the cost of administering the healthcare market. The Centre for Health and Public Interest reports that that the National Health Service monitors over 53,000 contracts. The cost of nominally monitoring these contacts is estimated to be £700 million and the overall cost of administering the market of corporate and private providers is a conservative £4.5 billion. In the UK these contracts are arranged and administered by 25,000 staff.

19. The Centre for Health and Public Interest notes this figure does not include the cost of fraud and profit gauging by corporate and private providers, nor does it include the costs associated with the negative impact of privatisation and competition on the quality and effectiveness of health care. Nor does it include the cost of constant reorganization of the public sector and the diversion of scarce resources away from client care.

20. Marketisation and privatisation and greater corporate and private sector delivery increase the overall demand for health services, creating more incentives for the corporate and private sector to intervene and provide services and to over service and provide more expensive treatments.[13]

21. Calum Paton has written that the opportunity costs of marketisation and privatisation and the costs of harm to the health-care system are even more significant than the direct cost. By opportunity cost he means what could be achieved if the resources consumed by marketisation and privatisation had been available for other uses and what could have been achieved had the significant time and staffing resources devoted to devising, administrating and managing the market had been devoted to other purposes. Paton argues that substantive problems in health care, which have been unaddressed for years, could have been addressed.[14]

22. Paton argues that the when the costs of marketisation and privatisation in health care are taken into account, the cost-benefit ratio is likely to be a double negative- ie. lots of costs incurred in doing harm rather than creating benefit.[15]

Excessive profits

23. In WA we know nothing about the amount of public money invested in the health system that leaks out to the profits of the corporate and private sector contractors running hospitals and providing health services.

24. It is clear that profits being reaped by the corporate and private providers running WA public hospitals and other parts of the public health system are consuming a larger and larger proportion of the health budget. These are large amounts of money not available to direct services and care.

25. A recent UK study found that almost 25% of new money given to the NHS ends up in profits for the corporate and private sector contractors.[16]

[13] Collyer, F, Harley, K., & Short, S. (2015). Money and markets in Australia's healthcare system, in Meagher, G & Goodwin, S, Eds. (2015). *Markets, Rights and Power in Australian Social Policy*, Sydney University Press, Sydney, 2015, pp. 283

[14] Paton, C. (2014). *At what cost? Paying the Price for the market in the English NHS*, Centre for Health and the Public Interest, London, 2014, pp. 10-11

[15] Paton, C. (2014). pp. 11

26. Corporations and private firms with contracts to run public hospitals in the UK made a staggering £831m in pre-tax profits in the period form 2010-2015, and will collect £1 billion in the period up to 20120. A study by the Centre for Health and the Public Interest found that 8% of the money paid to companies running public hospitals has been in the form of pre-tax profits, but in many contracts this figure is as high as 20%.[17] As some of these same corporations operate in WA it is reasonable to assume similar levels of profitability.

27. In relation to contracts with the corporate and private sector, we believe it is essential for public transparency and accountability that more in-depth information about their level of profit is made public including:

    - What is the level of profit extracted from this contract?
    - How are those profits delivered?

28. To ensure greater public transparency and accountability about the use of public funds by corporate contractors, we urge that open book financing performance reporting and accounting requirements be built into all contracts with corporations and business who deliver public services on behalf of Government.

29. This should make it possible for the public to know the level of profits being made by corporate providers and to determine whether those profits are made in ways that align with public and taxpayer interests.

30. The UK Cabinet Office is demanding that corporate and private contractors provide quarterly updates on revenue, profit and profit margins on government contracts to ensure that the public is getting value for money. Contracts worth more than £20 million will be subject to annual audits.[18]

31. We urge the Committee to consider similar requirements, to ensure quarterly public reporting by all corporate providers and private -contractors on profits and profit margins.

32. We urge the Review to investigate and publicly report on the profit levels of corporate providers running public hospitals and private and corporate contractors providing public health services under contractual and procurement arrangements, so the impact on public health spending can be determined.

The cost of 'special 'contractual arrangements with corporate and private providers

33. Special contractual arrangements negotiated by corporate providers add significant cost and place pressure on the health budget.

34. At Fiona Stanley Hospital, where Serco was awarded a 20 year $4.3 billion dollar contract, under highly questionable circumstances, to run 'non-essential services', the WA Government paid Serco an extra $118 million to run the hospital, despite there being no patients, after Serco demanded penalty payments as compensation for delays in the commencement of the hospital.

[16] Centre for Health and the Public Interest (2017) *PFI: profiting from Infirmaries*, August 2017 https://chpi.org.uk/wp-content/uploads/2017/08/CHPI-PHI-ProfitingFromInfirmaries.pdf

[17] Centre for Health and the Public Interest (2017)

[18] Collingridge (2015) Whitehall puts fresh squeeze on contractors after scandals, *The Sunday Times*, 31 May 2015. https://www.thesunday times.co.uk/sto/business/companies/artcile1552530.ece

35. Fifty three ($53) million was a compensation payment provided by the WA Government because of delays in the planned opening. This was despite Serco having responsibility for some functions that were the cause of the delay. Serco was paid $66.1 million to run the hospital during the delay and phase in period.

36. At the as yet unopened Perth Children's Hospital the WA Government is paying $700,000 each month to a parking contractor to manage hundreds of unused parking bays at the Children's Hospital. The monthly fee was part of a contractual obligation for Capella Parking to manage 300 bays in an underground car park built at taxpayer expense, which has so far cost the WA health budget $8.2 million.[19]

37. Midland Hospital is a privatized public hospital run by the corporate Catholic healthcare provider St John of God Health Care. As part of its contractual arrangement with the WA Government, St John of God refused to offer reproductive services, including contraception services and pregnancy terminations. The Barnett Government subsequently negotiated an agreement to pay $500,000 each year to Marie Stopes International to provide those services away from the hospital campus. Patients must go off the hospital campus to access services that should be available in public hospitals, at additional cost to them and the health system.

Commercial interests are placed ahead of public interest and risk is transferred from the private sector to the public sector

38. The WA Health system and WA Government has been exposed to serious financial (and reputational risk) as a result of Serco's role at Fiona Stanley Hospital. These financial and reputational risks have been extensively document in a submission Serco Watch made to a 2015 Parliamentary Inquiry.

39. Public private partnerships like those at Fiona Stanley Hospital are inherently risky with high rates of failure and higher cost to the public.[20] PPPs are promoted by their proponents as a way to efficiently transfer risk from the public sector to the corporate/private sector, but the evidence shows that the corporate sector profiteers from the risk transfer component.[21]

40. We note the comments of pro-market, pro-business think tank The Centre for Independent Studies who found:

> *"The Fiona Stanley Hospital PPP has a complicated and untested management and governance framework in which the state appears to have assumed risks far greater than usual in similar hospital project'.* [22]

19 Laschon, E (2017) Perth Children's Hospital: Empty car bays costing $700k each month, ABC News, 21 September 2017, http://www.abc.net.au/news/2017-09-21/big-jump-in-payments-for-empty-childrens-hospital-carpark/8965956: O'Connor, A (2016). Perth Children's Hospital: WA Government paying $500k a month for unused parking http://www.abc.net.au/news/2016-08-22/perth-childrens-hospital-parking-bill-paid-by-government/7772234

20 Duckett, (2013) Public-Private partnerships are risky business, *The Conversation*, 30 July 2013: 3 Cook, B, Quirk, V and Mitchell, N (2012) ibid.

21 Whitfield, D (2012) *In Place of Austerity: Reconstructing the economy, state and public services*, Spokesman Books: Cook, B, Quirk, V and Mitchell, N (2012) *The impact on community services of staff and service reductions, privatisation and outsourcing on public services in Australian states*, Report 1, Report prepared by the Centre of Full Employment and Equity for the Community and Public Sector Group (SPSF Group) June 2012.

22 Gadiel, D & Sammutt How the NSW Coalition should manage health: Opportunities for micro-economic reform, Papers in Health and Ageing, Centre for Independent Studies http:www.cis.org.au/images/stories/policymonographs/pm-128.pdf

31. The State has effectively underwritten risk to the benefit of Serco's commercial interests and the health system and public of WA are paying a high premium. The risk profile has been constructed to place Serco's commercial interests ahead of the public interest.

The cost of overpayment due to error and fraud, malfeasance and poor performance

32. The reliance on corporations and private providers to provide privatized and outsourced services increases opportunities for overpayment, fraud and profit gouging.

33. A former head of the British NHS Counter Fraud Service estimated that corporate and private sector fraud could be costing the public health system over £1 billion per year.[23]

34. Cost blowouts and the cost of poor performance by corporate providers and private contractors is another major burden on the health budget.

35. The Perth Children's Hospital remains unopened two years after the expected opening date because of cost blowouts, gross contractual failure, ongoing public health scares including illegal use of asbestos building products, faulty water fittings, lead contamination and cost cutting by corporate contractors. All of these problems are directly linked to the corporate providers and contractors who were responsible for the construction of the Hospital under a flawed public-private partnership infrastructure policy.

36. A Parliamentary Inquiry heard that the corporation who was the primary contractor used subcontractors that underpaid workers who were too scared to speak out about unsafe working conditions and did not have experience on major projects and used labour hire firms to employ cheap labour such as inexperienced backpackers and foreign workers.

About the Author

Colin Penter is an independent social scientist who works as a freelance social policy and social and community services analyst, researcher and campaigner. He currently undertakes policy and research work in the community mental health sector. Since 1993, he has undertaken policy and consultancy work for the non-government, not-for-profit sector and civil society groups and all levels of government.

He has worked in government, the NGO sector and small business and taught at Curtin University and Edith Cowan University.

He has worked across all social policy issues including mental health, aged care and seniors, housing & homelessness, child protection, health, family and community services, disability, Indigenous, youth, culturally and linguistically diverse, community development, suicide prevention, urban development, transport, emergency relief, welfare and income support, criminal and community justice and prisons.

He was the Director of Education and Training at the Family Planning Association of WA for 6 years and worked in government in education and health education and promotion. He has been involved nationally in areas of social policy, sexual and reproductive health, community health education and health promotion.

He is a campaigner and citizen activist and has been instrumental in various social justice campaigns, including establishing Serco Watch and the Nemesis Project. In conjunction with Professor Gavin Mooney he established and ran the WA Social Justice Network. He currently collaborates with and is involved in citizen advocacy

[23] Kochan, N & Armitage, J (2015) Companies supplying NHS could cost £1 billion per year in fraud, *The Independent*, 24 September 2015, pp. 49

groups campaigning on issues of aged care, housing and homelessness, mental health, corporate power and the harms resulting from privatisation and marketisation.

As Convener of Serco Watch and Coordinator Nemesis Project, he works with politicians, political staffers, researchers, journalists and the media, health workers, citizen activists, health users, health advocacy groups, NGOs, academics and citizens concerned about the marketisation and privatisation and the corporate takeover of services and social and public infrastructure in Western Australia. In these roles he has written submissions, presented to Parliamentary Inquiries and public inquiries, presented at conferences, written op-ed pieces and articles and worked with the media and journalists.