

17th October 2011

Mr Matthew Bates
Principal Research Officer
Public Accounts Committee
Legislative Assembly
Parliament House
Perth WA 6000

Dear Sir

Public Accounts Committee: Inquiry into the decision to award Serco Australia the contract for the provision of non-clinical services at Fiona Stanley Hospital (FSH)

Submission by Health Services Union of Western Australia (HSUWA)

The HSUWA thanks the Committee for its invitation to make a submission to the above Inquiry.

The HSUWA is the union which represents health professional, administrative, clerical, technical and supervisory employees in the WA public and private health sectors. Over 15,000 public sector employees are covered by the HSU's industrial agreement. Approximately 75% of HSUWA members work in the public health sector across Western Australia.

The key points in this submission are :

- 1. Strong Community opposition to privatisation**
- 2. Impacts on health workers salaries and conditions**
- 3. Poor track record of health privatisation in Western Australia**
- 4. Lack of transparency in the Fiona Stanley Hospital tendering and business case**
- 5. Likelihood of extensive sub contracting of services notionally provided by Serco**
- 6. Lack of integrated workforce planning**

1. Strong Community opposition to privatisation

The HSUWA oppose the privatisation and outsourcing of public health services. This has been strongly supported by surveys of HSUWA members. The survey process included a direct mailed questionnaire and focus groups co-ordinated by WA Opinion Polls. There was a high correlation between the results with over 80 % of members opposed to privatisation of public health services.

In the focus groups, member opposition to privatisation came most strongly from those workers who had experience of working in both the public and private sectors with spontaneous comments that pay and conditions would be reduced with privatisation.

These member opinions have been reinforced by public opinion polling in key marginal State electorates around the proposed Fiona Stanley site and the mooted Midland Health Campus location with over 75% opposed to privatisation of the hospital services.

The rush to privatise public services is not widely supported by either public or private sector employees or the public at large. Government policy is clearly out step with public opinion on this issue.

2. Impacts on health workers salaries and conditions

One of the key objectives of the HSUWA is : *“To acquire any rights and privileges which the Union may regard as necessary, and ensure the preservation to members of the Union of all rights and privileges now enjoyed.”*¹

That objective translates for members as improving and maintaining their pay, conditions of employment and job security. The public sector provides the remuneration benchmark for the Western Australian health sector, this has been acknowledged in correspondence by the Minister for Health Kim Hames.² Based on

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current industrial arrangements moving jobs to the private sector will have a negative impact on pay. Based on comparisons with private sector employers key conditions of employment will be eliminated or reduced through privatisation. Job security in the private sector is lower than the public sector.

Privatising public health services will reduce the relative bargaining power of the HSUWA and the benchmark provided by the current public sector employment arrangements, and brings with it the potential to reduce relative rates of pay, conditions and job security.

The loss of benefits has been borne out in other countries, for example a six country European study concluded : *"In most countries the dominant form of privatisation is still the contracting out of services which is often accompanied by a deterioration of wages and working conditions."*³

While rates of pay at the privately operated Joondalup Health Campus are broadly competitive with the public sector the conditions of employment are significantly lower, the overall remuneration package does not compare well to the public sector. Rates of pay at the privatised Peel Health Campus have fared worse with the average cash salary being 10% less than the public sector. Neither of these comparisons takes into account the loss of approximately \$5, 000 pa net in salary packaging arrangements because of the FBT exempt status of public hospitals.

Based on academic research and the lived experience of our members it would be irresponsible for the HSUWA not to oppose the large scale contracting out of services at Fiona Stanley Hospital. It will as a matter of fact lead to reduced remuneration for those workers employed by Serco relative to public sector employees and have a deleterious effect on the overall bargaining position and benchmark rates for HSUWA members.

3. Poor track record of health privatisation in Western Australia

The report of the Economic Audit Committee provided the ideological framework for the Barnett Government to pursue privatisation and outsourcing of public services. The last Coalition Government in the 1990s took a similar path in privatising hospitals and services across the State. While some services were returned to the public sector, the key privatisations of Joondalup and Peel Health Campuses have continued.

One of the most significant privatisation failures of the period was the contract for the provision of general management and administrative services at Harvey Hospital and Yarloop Hospital.

The key findings of the Auditor General's Report were damning :

Key Findings

- The contract for the provision of general management and administrative services was not effectively let and managed.
- Despite advice and guidance provided by the Health Department of Western Australia and the Health Supply Council:
 - Inadequate assessment of the ongoing financial viability of the contractor, and payments by Yarloop Hospital to a third party for contract services placed the hospitals in a position of risk;
 - It is unlikely the expected value for money from the contract will be achieved;
 - There is doubt regarding whether some services provided by the contractor, and paid for as variations to the contract, should have been provided under the original terms of the contract; and
 - Formal procedures have only recently been put in place to monitor the contractor's performance.⁴

Given the similarities to the purpose and intent of the Serco contract, the WA public are entitled to ask if the Government could not manage the contracted out service for Harvey Hospital why should we have confidence that the Government will properly manage the contract for the State's flagship Fiona Stanley Hospital ?

4. Lack of transparency in the Fiona Stanley Hospital tendering and business case

It appears that the intent of the Government procurement strategy was not to test the market against a comparable public sector alternative but was a pre-determined process structured to privatise the services at FSH. It was never a process to establish absolute value for money but, from the Government's perspective, the best value for money available from the private sector. It is unclear that a public option was ever comprehensively tested, it appears that the market was limited to the private sector. Claims that *"WA Health will make a significant saving by using this model for facilities management and support services. However, financial savings are not the only major benefit. Innovative services and high standards with continuous improvement were also compelling factors."* cannot be objectively tested without access to the source material. Not all of the information is public , for example, which of the 15 recommendations from the external "gateway review" were not acted on and why ? ⁵

To its credit this Government have provided more information to the public about this privatisation than has been the practice in the past. While these improvements are welcomed we believe the available information is still not sufficient, this is borne out by the specific terms of reference of this Inquiry which highlight the still significant gaps in the information flow which make it difficult for the public and the Committee to reach any determinative conclusions about efficiency, effectiveness, or value for money, of the contract with Serco.

To date it appears that neither business case nor the Public Sector Comparator (PSC) have been made public. It may be that this is because either would tell a story which shows that real value for money is not being achieved by this contract.

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As journalist Kenneth Davidson noted in his article in the Age newspaper the PSC provides arguably contrived savings because : *“Under the national public-private partnership guidelines used by the Victorian government, a so-called "public sector comparator" is constructed to give a "truer" basis of comparison between public and private funding of projects. The key assumption in constructing any such comparator is the claim that the actual interest paid by the government underestimates the real cost of public financing. These costs include claimed inefficiencies inherent in government contracting - such as cost overruns. Other assumptions include the claimed ability of private partners to take over "risks" otherwise embedded in public ownership.”*⁶

The WA Health response to the recommendation of the Education and Health Committee report gives some indication that the PSC should be made public :

“Recommendation 7

The Western Australian Government include in each annual health budget an outline of the cost of services to be provided at public private partnership health facilities and a comparison with the cost of these services provided at government-provided facilities.

The recommendation is noted.

*The intent of this recommendation is already met through the application of existing PPP policy. Any PPP procurement process will include the development of a Public Sector Comparator (PSC). The PSC will provide a measure of the potential cost for Government to deliver the same hospital.”*⁷

Consistent with State Treasury policy the PSC should be made public: *“The Risk Adjusted PSC (Net Present Cost), excluding retained risk, together with the key assumptions (financial and operating) may be disclosed, following assessment on a project-by-project basis, as part of the value for money comparison in the project*

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summary published post contract execution.” ⁸ As the contract has now been awarded to Serco the PSC should now be made public.

5. Likelihood of extensive sub contracting of services notionally provided by Serco

It appears that Serco may be no more than the main contractor with the actual service delivery being provided by an unidentified number of sub contractors. Serco have already chosen BT and Siemens to provide key IT and medical equipment support. Based on the current contracts being awarded to foreign owned multinational corporations it appears somewhat optimistic for WA Health to claim : *“The Western Australian small business sector will also benefit from the private sector delivery of nonclinical services, with Serco to engage a number of small business subcontractors across a broad spectrum of the contracted services.”* ⁹ Industrial relations at what will be a multi employer site will be novel and challenging.

The Siemens contract for the maintenance of medical technology contradicts the Government’s position that Serco will only be managing non clinical services. Similar equipment at existing public hospitals is managed by public sector employed Bioengineers and highly skilled Bioengineering Technicians.

The practice of Serco in sub-contracting has not been without controversy, for example, in immigration detention: “.. private company Serco contracts out some of its security personnel to MSS Security, a company owned by an Indian security company with links to Lehmann Brothers. By outsourcing to other companies, it’s possible for Serco to distance itself from criticism and in turn, the Government can blame Serco for mismanagement and fine them accordingly.” ¹⁰

The Government position that only non clinical services are being contracted out at Fiona Stanley Hospital is further undermined by the awarding of a contract to Eastern States based company Genesis Healthcare to provide radiation therapy

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services at the FSH site. It is unclear whether other medical oncology services will be provided publicly or also be outsourced, with Genesis Care stating : "*Genesis Care's sites in Western Australia would form the basis of an integrated cancer treatment network across the State.*"¹¹ In a similar vein the fate of the State Rehabilitation Service which is being co-located at the FSH site is unclear with South Metropolitan Health Chief Executive Nicole Feely stating : "*The extent of the provision of private sector support for the services of the State Rehabilitation Service has not yet been determined.*"¹² No space has been allowed in the design of FSH for the specialised services of the Rehabilitation Technology Unit.

6. Lack of integrated workforce planning

Serco have also been contracted to manage the complete Human Resources and Industrial Relations functions for all staff at FSH including recruitment, workplace safety and performance management. This includes the recruitment and selection of all clinical staff for FSH. It seems that Serco will also be responsible for the workforce planning for FSH, which implies that Serco may also be planning the clinical workforce. There is not a comprehensive workforce plan for FSH, or the most affected South Metropolitan Hospitals of Royal Perth Hospital and Fremantle Hospital which will be most impacted by the opening of FSH.¹³ It is unclear how the relationship between Serco and public sector clinicians and line managers in respect of these critical personnel functions will be risk managed, and who will have the final say.

There are no published WA Health plans to meet the increased demand for radiographers, physiotherapists, social workers, occupational therapists, medical scientists and other allied health professionals at Fiona Stanley Hospital. With Fiona Stanley Hospital due to open in just a couple of years, the State Government doesn't appear to have any plans in place to train or recruit the extra health professionals the new hospital will need.

It is unclear how the Health Department's projected growth of an estimated extra 800 health professionals required across WA over the next five years will be met. As it Health Services Union of Western Australia, Submission to the Public Accounts Committee: Inquiry into the decision to award Serco Australia the contract for the provision of non-clinical services at Fiona Stanley Hospital (FSH)

stands, there is a very real danger of Fiona Stanley Hospital opening without fully operational key services such as pathology, physiotherapy, occupational therapy and medical imaging.

The Australian Medical Association also raised concerns about the lack of planning to ensure there would be enough doctors. AMA WA president Dave Mountain was reported in the West Australian as saying “there were growing concerns the hospital was not planning for the big influx of medical staff needed”.¹⁴

Conclusion

To conclude, HSUWA is opposed to the privatisation of public health services and questions whether the decision to outsource services at FSH was done in the long term public interest or to serve an ideological bias for this Government. The question is significant when you consider that out of the \$4.3 billion to be spent on facilities management over the first 10 years of the contract Serco will be paid \$1.3 billion or about 30% of the value of the contract.¹⁵ It would be reasonable to expect that a significant tranche of that money will be removed from the WA economy and repatriated to the United Kingdom as profit.

We look forward to the opportunity to present further information at any hearing that may be convened by the Committee and once again thank you for the opportunity to comment.

Yours sincerely



Dan Hill
Secretary
Health Services Union of Western Australia

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