



2001

PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

**SOUTHERN PATIENT TRANSPORT
SERVICES**

Laid upon the Tables of both Houses of Parliament

*The Committee was appointed under the provisions of section 2 of the Public Accounts Committee Act
1970 (No 54)*

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL

Hon A.W. Fletcher (Chair)
Hon C.L. Rattray
Hon J.S. Wilkinson

HOUSE OF ASSEMBLY

Mr. K.J. Bacon
Mr. M.T. Hidding
Hon G.H. James

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APPENDIX 1 - EVIDENCE

THE PUBLIC ACCOUNTS COMMITTEE

The *Public Accounts Committee Act 1970*¹ provides for the establishment of a joint committee, comprising three members from the Legislative Council and three from the House of Assembly.

The statutory function of the Committee is as follows-

The Committee must inquire into, consider and report to the Parliament on any matter referred to the Committee by either House relating to: -

- (a) the management, administration or use of public sector finances; or
- (b) the accounts of any public authority or other organisation controlled by the State or in which the State has an interest.

The Committee may inquire into, consider and report to the Parliament on: -

- (a) any matter arising in connection with public sector finances that the Committee considers appropriate; and
- (b) any matter referred to the Committee by the Auditor-General.

The current membership of the Public Accounts Committee (PAC) is: -

Hon A W Fletcher MLC	Mr. K J Bacon (Lyons) MHA
Hon C L Rattray MLC	Mr R T Hidding MHA (from 25 August 2001)
Hon J S Wilkinson MLC	Hon G H James MHA

The Committee has the power to summon witnesses to appear before it to give evidence and to produce documents and, except where the Committee considers that there is good and sufficient reason to take it in private, all evidence is taken by the Committee in public.

THE COMPLAINTS

On 4 June 2000 Mr David Watson, Managing Director of Ambulance Private wrote to the Public Accounts Committee requesting that the Committee inquire into non urgent patient transfer services in Tasmania. Mr. Watson alleged that his operation, Ambulance Private, was being disadvantaged by the non-competitive nature of the recently established government operated Patient Transport Service (South).

The Government Patient Transport Service had operated in the north and north west of the state for many years. The Hobart operation was introduced during 2000 with the

¹ The Public Accounts Committee Act 1970, No.54 of 1970 and subsequent amendments in the Public Accounts Committee Amendment Act No 89 of 1997.

specific purpose of meeting the perceived demand for non-urgent patient transfers in the southern region.

The introduction of the Patient Transport Service in southern Tasmania brought the government owned service into direct competition with Mr. Watson's Ambulance Private Pty Ltd service.

Mr Watson initially claimed that the government owned service was not meeting National Competition Policy principles and was, therefore, through non-competitive practices, placing his business at risk of failure.

Mr. Watson claimed that the private sector generally and his business specifically could provide a cheaper service than the government and indicated significant savings for the state—

“a private sector liaison would show saving to the Health Department in excess of \$250,000, achievable in the first year of operation with further substantial savings possible for the Department of Health and Human Services.”²

In subsequent correspondence to the Committee Mr Watson introduced new allegations and additional issues. He suggested that actions taken by the Department of Health and Human Services were victimisation and directed at putting him out of business.

On the 16 August 2000 Mr Paul Harriss MLC wrote to the Public Accounts Committee indicating that he had formed the view that the—

“Patient Transport Service was operating in a questionable manner and that the financial accountability of a government entity is much less than it should be.”³

He submitted there was a need for the Public Accounts Committee to examine the operations of the Patient Transport Service.

AMBULANCE PRIVATE PTY. LTD.

Mr David Watson commenced a private commercial stretcher patient transport service 'Ambulance Private Pty Ltd' in July 1998 under a licence issued by the Director of Ambulance Services. The clinical criteria for the commercial service were the same as that for the Patient Transport Services (PTS), which had operated for a number of years in

²D Watson, 4 June 2001.

³ P Harriss, 16 August 2000.

Launceston and Burnie by the Department of Health and Human Services (DHHS). The details of the licence conditions are set out in the Minister's briefing paper.⁴

Since commencing his business Mr Watson and the Department of Health and Human Services have been engaged in a continuing debate about licence restrictions and the conditions attached to the licence.⁵

PUBLIC ACCOUNTS COMMITTEE RESPONSE

On 29 June 2000, in response to Mr. Watson's complaint and further allegations the PAC requested a briefing paper from the Minister for Health and Human Services.

On 25 August 2000, Mr. Watson wrote to the Government Prices Oversight Commission (GPOC) requesting an investigation of certain matters relative to National Competition Policy (NCP) principles.

Mr. Watson's letter to the GPOC can be found in the evidence to the Committee.

The PAC invited Mr. Andrew Reeves the Commissioner of the GPOC to meet with it in an effort to clarify the boundaries of each jurisdiction.

Mr Reeves provided background material including the Commission's jurisdiction in relation to Ambulance Private's complaints, National Competition Policy and competitive neutrality principles and the Complaints Mechanism for the investigative process.

Mr. Reeves met with the PAC on 16 October 2000.

He informed the PAC that the Commission had jurisdiction to consider and assess whether the ambulance services and the patient transport services provided by the Tasmanian Ambulance Service (TAS) were significant business activities. If the services were judged to be significant business activities they were subject to NCP principles unless it could be proved that it was in 'the public interest' for them to be excluded from such principles. Being subject to the NCP principles would require the DHHS to provide for full cost attribution to the respective services.

The complaints forwarded to the GPOC by Mr. Watson were quite specific when compared to the nature of the grievances put to the PAC. There was, however, sufficient common ground for the PAC to agree with the GPOC Commissioner that it was undesirable to have both bodies independently dealing with similar issues at the same time.

The PAC therefore decided to delay any further consideration of the matters before them until the GPOC had reported.

⁴ Minister for Health and Human Services. Briefing Paper on Patient Transport Services. August 2000.

⁵ Department of Health and Human Services Chronology of Events (Attachment 1) 27 November 2000.

GPOC REPORT

It is not necessary in this report to fully discuss all the findings of the GPOC as detailed in its report⁶. It is sufficient to record that the GPOC found that–

- 2 the Tasmanian Ambulance Service was a significant business enterprise as defined;
- (a) the Department of Health and Human Services did not apply the Competitive Neutrality Principles to Patient Transport Services; and
- (b) the Department of Health and Human Services did not undertake the required public benefit assessment as prescribed and as a result could not justify its decision not to apply the Competitive Neutrality principles to Patient Transport Services.

The Report recommended that the Minister for Health and Human Services direct the Director of Tasmanian Ambulance Services to–

- (a) apply the Competitive Neutrality Principles to Patient Transport Services provided by the Tasmanian Ambulance Service subject to the public benefit assessment required by the Application Statement;⁷ and
- (b) to consider all issues prescribed in the Application Statement and the Public Benefit Guidelines when conducting the public benefit assessment, in particular, the impact of the non-application of the Competitive Neutrality Principles on the state of the private market.

The GPOC determined that it had no jurisdiction to look at pricing policies, (as opposed to cost structures) restrictions on licence conditions, or the separation of regulatory functions from business activities.

Following examination of the GPOC findings the PAC reconsidered the matters raised by Mr Watson and Mr Harriss in the light of the GPOC findings.

Mr. J Ramsay Secretary of the Department of Health & Human Services contacted the PAC on 28 March 2001 advising that KPMG had been retained to consider the matters of public benefit and cost attribution as recommended by GPOC.

⁶ Government Prices Oversight Commission. National Competition Policy Competitive Neutrality Principles Investigation and Findings. David Watson (Ambulance Private Pty Ltd) and Department of Health and Human Services (Tasmanian Ambulance Service)

⁷ Application of the Competitive Neutrality Principles under National Competition Policy. Government of Tasmania. 1996

The PAC wrote to the Director of the Department of Health & Human Services on 29 March 2001 requesting copies of both the public benefit assessment and the report on full cost attribution as soon as they were completed.

POST 1998 CHANGES

Patient Transfer Service (South)

In May 2000 the Department of Health and Human Services established a Patient Transport Service (South). The establishment of the service was announced⁸ as part of a package of initiatives to address key problems in the Tasmanian Ambulance Service.

The PAC was advised that the reasons for reconfiguring the non-urgent stretcher based transfers in the south included;

- enhancement of service,
- Flexibility of operations;
- release of highly skilled staff and vehicles for their priority emergency work,
- a move to state-wide integration of services, and
- the facilitation of a package of measures designed to address serious workload pressures and fatigue problems in the Tasmanian Ambulance Service.

The Minister's Briefing Paper⁹ listed a number of benefits of the coordinated government provision of Ambulance and Patient Transport Services.

Dr Mulligan of the Department of Health and Human Services stated in the Estimates Debates of 7 June 2000 that the changes were not just about money. They were also about flexibility and proper use of patient transport services.

Government policy¹⁰ was stated to be that the privatisation or contracting out of any service currently provided by government agencies would only occur after there was shown to be compelling reasons to do so taking into account the social and economic costs and benefits and with recognition of the vital role the public sector plays.

Mr Ferrall who appeared before the PAC to give evidence on behalf of DHHS said—

“The principal issue is that the decision in relation to non-urgent patient transport or the provision of non-urgent patient transport by Tas Ambulance to public hospitals was a policy decision”.

⁸ Tasmanian Government Media Release; \$3.5 Million For New Ambulances; Fran Bladel, MHA, Minister of State Assisting the Premier, 25 May 2000.

⁹ Minister for Health and Human Services. Briefing Paper on Patient Transport Services p 22

¹⁰ Minister for Health and Human Services. Briefing Paper on Patient Transport Services p 20

“...It’s a policy decision that non-urgent patient transport is not outsourced and is provided by a government department.”¹¹

The only announcement according to the newspaper clippings in the Parliamentary Library of what was purported to be a significant raft of initiatives which included the establishment of Patient Transport Services (South) was a northern newspaper article¹² on the 16 July 2000. There was no specific media release relating to the Patient Transport Service in the south.

Abolition of fees for public hospitals.

Prior to May 2000 public hospitals had, for a number of reasons, used both the Tasmanian Ambulance Service and Ambulance Private for routine transfers.

The charges for such use were against the hospital and in some cases the ward budget. It follows then that the most timely and cost effective service at the time would be chosen. The government operated Tasmanian Ambulance Service using emergency vehicles and staff was subject to emergency priority work. The service provided by Ambulance Private was competitive and not subject to the same emergency demands.

At about the same time that the Patient Transport Service (South) was introduced the DHHS abolished internal departmental charging and fees and adjusted the budgets of each business unit of the agency which was affected by the decision.

The reality of this decision impacted significantly on Ambulance Private Pty Ltd.

Once the public hospital system was relieved from the demand to pay for the transfer of non-urgent cases the opportunity for competition was removed.

IMPACT OF 1998 POLICY CHANGES

It is reasonable to assume that the Government’s policy change had a significant negative impact on Ambulance Private.

Prior to 2001 the cost of providing the ambulance service as reflected in the price charged to the consumers was readily identifiable and contestable.

The consumer (including the hospitals) had choices as to whether they would use the service provided by the TAS or the services provided by Ambulance Private.

The PAC favours the competitive nature of this scenario and is committed to openness and transparency in government and believes that the state is best served when this situation applies.

¹¹ Mr. T Ferrall, Transcript of Evidence, 22 November 2000. p3

¹² Ambos to get new vehicles, Sunday Examiner 16 July 2000.

Immediately the charging for non-urgent patient transfers was waived and the cost of providing the service became obscure the opportunity for competition was diminished.

Until the true costs of the Patient Transfer Service (South) are identified, the PAC cannot reach a judgement as to whether the taxpayers of Tasmania are advantaged or disadvantaged by the policy change.

It should be noted that the Agency claims that the introduction of the Patient Transport Service (South) provides the following positive benefits:-

- statewide service delivery consistency;
- statewide policy uniformity;
- improved emergency response times by Tasmanian Ambulance Service;
- operational flexibility;
- more effective redeployment of resources;
- occupational health and safety benefits;
- a patient transport service which is nominally free for public hospitals; and
- there is a cheaper alternative for compensable cases (Motor Accidents Insurance Board and Workers Compensation);

The PAC has not tested any of these claims but believes that they should be addressed in the KPMG work.

TERMS OF REFERENCE – A REFOCUS

On 22 January 2001 the PAC again considered the substance of the complaints, which focussed on potential cost/savings to the Department of Health and Human Services. The PAC—

Resolved, That the Public Accounts Committee inquire into ‘non-urgent patient transfer’ with particular reference to: -

- (a) the public interest;
- (b) the government practice of not charging for public hospital patient transfer; and
- (c) the sustainability of the Private Ambulance operation in a true cost competitive environment

THE PUBLIC BENEFIT

The GPOC Commissioner having formed the view that the Tasmanian Ambulance Service was a significant business enterprise found that the Service was subject to the National Competition Policy principles unless it was a ‘public benefit’ for them to be excluded.

The Commissioner found that there had been no testing of the public benefit and recommended to the Minister that the work be carried out.

PAC recognised work of the GPOC and took the view that whether it was or was not in the ‘public interest’ to waive charges for the transport of non urgent patients in public hospitals, or whether it was or was not a ‘public benefit’ to establish Patients Transfer Services in the south of the state, these issues are now the subject of an independent consultant’s assessment and report.

The PAC is interested in studying the Public Benefit Assessment report however at 1 October 2001 it had not been forwarded to the Committee. This is despite there being agreement between all parties that the project had an urgent priority.

The PAC is aware the Department of Treasury & Finance has issued guidelines for the measuring of the public benefit but notes that the time taken by KPMG to complete the consultancy suggests that the work is more complex than the guidelines would suggest.

The PAC sees no benefit in trying to duplicate the work already done by the GPOC and currently being done by KPMG.

The PAC will further report on this matter when the report of KPMG is available.

FULL COST ATTRIBUTION

Full Cost attribution is the assignment of the value of all resources consumed by a business activity, plus any competitive neutrality costs (ie imputed costs such as taxation and other government charges).

The purpose of the process is to ensure no disadvantage in a competitive situation and to guarantee transparency. It provides information and an awareness of the total cost of an activity thus enabling comparison of costs with alternative suppliers and it assists with pricing decisions.

When Patient Transport Service (South) was introduced there were no changes to fees charged for routine patient movement.

The Department of Health and Human Services did acknowledge delays in issuing accounts and flagged the possibility of further changes to reflect full cost recovery but it did not believe that the service was a significant business activity and would not therefore undertake complete full cost attribution.

After the GPOC had reported and recommended that it was necessary the DHHS agreed to do it.

The Interim Report on Full Cost Attribution as prepared by KPMG and dated December 2000 was forwarded to the PAC on 12 April 2001.

It was titled "Interim" because it was part of a full cost attribution study of all ambulance services but its prime focus was to meet the GPOC and PAC needs."¹³

Mr Ramsay requested in the same letter that it would be preferred if the PAC would defer consideration of the study until the completion of the Public Benefit Assessment Review allowing both matters to be dealt with at the same time.

¹³ Mr. J Ramsay, Secretary Department of Health and Human Services, 12 April 2001

It is understood that there is continuing negotiation between parties in relation to the validity of certain matters relating to full cost attribution contained in the Interim Report. The PAC has not been informed of any changes or amendment to figures supplied.

The PAC referred the Interim Report to the Office of the Auditor General for assessment and report. A copy of the Auditor General's response in which he seeks clarification of a number of matters contained in the Interim Report can be found in the Evidence.

The PAC is of the opinion that the Interim Report needs to be reworked so that the matters queried by the Auditor General are put beyond doubt.

The Committee was informed on 29 August 2001 that the process of assessing the public benefit and the full cost attribution report had not been completed. The GPOC is not required to sign off on the process.

The PAC has considered whether full cost attribution and 'charging for services' are one and the same thing. The PAC is of the view that the Government might identify and attribute all costs but still make a policy decision not to charge for certain services and still meet the NCP principles.

SUSTAINABILITY OF AMBULANCE PRIVATE

The matter of the sustainability of Ambulance Private Pty Ltd. business is considered in a broad context. The PAC is not able at this time to determine the viability of the Ambulance Private Pty. Ltd. business into the future.

Mr Watson alleged that he lost 60% of his business following the change in policy and the introduction of Patient Transfer Services in the south of the state.

The PAC has not received sufficient evidence to compare the value or proportion of the 'lost business', which was attributable to public sector patronage, and the impact of charging changes. A projection of future loss was provided but not the underlying basis for the estimates.

Mr Watson also agreed that the loss of business was not wholly due to policy changes by the government and the Department of Health and Human Services. Hobart Private hospital had also withdrawn the use of his service.

The setting of fees by Ambulance Private Pty. Ltd. was based on the prices charged by government services. There appeared to be little relationship between the cost of providing the service and the level of fees charged.

In relation to the setting of fees Mr Watson said—

(c) "We used the Tasmanian Ambulance charging structure

(d) we need to compete against that.....

- (e) we knew we were on time and Tasmanian Ambulance always had problems in maintaining time frames
- (f) we'd guarantee a minimum of 20% reduction on Tasmanian Ambulance Service charges"¹⁴

Ambulance Private Pty Ltd's licence to operate is not a safeguard against a governments right to make policy at some future time.

The core issue confronting Mr. Watson and Ambulance Private Pty. Ltd. is whether DHHS and/or the Director of Ambulance Services have taken an action that unfairly challenges the sustainability of his business and further whether there has been a breach of NCP principles.

The PAC believes that genuine competition is generally in the best interests of the consumer/taxpayer and that openness and transparency in government financing matters is desirable.

The PAC is of the view that Ambulance Private has the right to compete on a level playing field as identified in the terms of the licence.

The key question requiring an answer in this matter is whether the Government has a right to restrict charging for services to a relatively few cases and to make the remainder free of charge. The relatively few cases are of course the clients of the private hospital system and the remainder are the clients of the public hospital system.

If the government decides on the basis of the consultancy currently being carried out by KPMG that the public interest is served by withdrawing Patient Transport Services (South) from the need to meet NCP principles then Ambulance Private Pty Ltd. is left to compete for the relatively few cases of chargeable business.

It was clear from the evidence tendered that Ambulance Private has never held nor been offered any contract or entitlement in any part of the Tasmanian hospital system.

It was made clear and the PAC is convinced that Mr. Watson was given no assurances or guarantees when the licence to operate was issued.

Mr. Watson was advised that there could be changes. At the time the licence was given the letter of approval contained expressions of doubt as to the viability of the business.

Mr Watson provided evidence that at the time the licence was issued the public hospital work was neither crucial to his business nor central to his business plan and that he was not relying on government business.

¹⁴ Mr. Watson, Transcript of Evidence 27 November 2000, p 10

It is the PAC's opinion that there should be transparency in the Patient Transport Service operation and that the government service should be priced on the basis of full cost attribution.

If the government decides, on the basis of the consultancy currently being carried out by KPMG that the public interest is served by subjecting Patient Transport Services (South) to NCP principles then Ambulance Private Pty Ltd. is able to freely compete on a level playing field according to the terms and conditions of its licence.

If this were the case Ambulance Private would be sustainable only if its service and pricing was competitive.

THE CONCLUSION

As a result of the Government's policy decision the Patient Transfer Services (South) was established in July 1998.

The decision to waive internal fees and charges for its business units was a decision taken by the management of the Department of Health and Human Services.

Government has the right to make and change public policy and citizens will make judgements on that policy at the time of an election.

Any useful judgement by the PAC on the validity of Mr Watson's allegations was limited by the lack of detailed information provided by him.

A final decision as to the public benefit of operating a free non-urgent patient transfer service is an urgent priority.

The Interim Report on Full Cost Attribution dated December 2000 needs further reworking to put beyond doubt the matters raised by the Auditor-General. It is of importance that the final document accurately reflects the cost of doing business and further has the confidence of the stakeholders.

If the Government reaches a conclusion following its consideration of the KPMG report that it is in the public interest to continue the selective charging regime for non urgent patient transfer then

- efforts should be made to identify and report annually upon the costs to the state of providing the service, and
- the charging formula applied to any contestable business, be kept updated, be made public annually as part of a separate set of financial statements for this part of the Ambulance Service, in a specific section of the annual report of the DHHS.

The performance indicators of government business entities should be readily available to allow critical analysis of performance.

If the Government recants and permits full competition using the full cost pricing rules, Ambulance Private Pty Ltd. will succeed or fail on the basis of its service and competitive pricing.

Parliament House, HOBART
4 October 2001

Hon. A F Fletcher
CHAIRMAN

(Appendix 1)

Southern Patient Transport Services Evidence

1	Letter, Mr D Watson Ambulance Private	4 June 2000
2	Letter, to Minister for Health & Human Services requesting a Briefing Paper	29 June 2000
3	Letter, Hon Paul Harriss with attached correspondence	16 August 2000
4	Assorted correspondence and copies of letters supplied by Mr D Watson	25 August 2000
5	Government Prices Oversight Commission Competitive Neutrality Complaint Ambulance Private Complaint, Background to Ambulance Private Complaint and attachments	4 October 2000
6	Transcript of Evidence Mr A Reeves, Government Prices Oversight Commissioner	16 October 2000
7	Government Prices Oversight Commission Competitive Neutrality Complaint by Ambulance Private. Includes:- (a) Complaint from Ambulance Private; (b) Statement of Facts from the Department of Health and Human Services; and (c) Commission's Investigation Report	8 November 2000
8	Auditor-General-Competitive Neutrality Complaint	10 November 2000
9	Transcript of Evidence Mr T Ferrall	22 November 2000
10	Transcript of Evidence Mr D Watson	27 November 2000
11	Department of Health and Human Services includes:- (a) Chronology of Events; (b) Details of Fees charged by Tasmanian Ambulance Service; and (c) Details of the number of private ambulance service providers in the State	27 November 2000
12	Letter to Mr D Watson requesting: (a) Graphs showing business growth and decline (b) Cost basis for fees charged ie how charges derived (Confidential) (c) Breakdown of work public/private and percentage of sporting contracts, MAIB and Workers Compensation work (d) Audit reports for 1997-98, 1998-99 and 1999-2001 (e) Copy of submission requesting license application and showing links between sporting work, public work and private work to ensure viability (f) Copy of document alleging intent to stop competition	<u>30 November 2000</u>
13	Mr Watson Letters (s) and copies of correspondence and additional information	4 January 2001
14	Department of Health & Human Services copy of <i>Review of Patient Transport Services in Southern Tasmania</i> and other appendices	8 January 2001

15	Letter from Mr Watson adding additional material	17 January 2001
16	Mr Watson correspondence in relation to information requested by Public Accounts Committee	27 February 2001
17	Department of Health and Human Services re: (a) Full Cost Attribution Report; and (b) Public Benefit Test Report	28 March 2001
18	Department of Health and Human Services with Full Cost attribution Report (Title on Report "Full Cost Fees and Charges for the Tasmanian Ambulance Service Interim Report – Patient Transport Service (South))"	12 April 2001
19	Dr McHugh with copy of a letter to Health & Human Services Department (dated 9 November 2000) re Tas Ambulance Service Statement of Accounts.	<u>30 May 2001</u>
20	Letter from Dr A McHugh 5 July 2001, with response to request for comment.	5 July 2001
21	National Competition Policy Guidelines.	
22	Guidelines for implementing full cost attribution.	
23	Letter, Mr D Watson, additional information and evidence.	20 July 2001
24	Letter, Mr J Ramsay, Department of Health and Human Services 29 August 2001, with :- (a) Paper in response to the Public benefits test – Patient Transport Services Issues Paper 11 May 2001; and (b) Public benefits test – Patient transport Services Issues Paper	29 August 2001