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The Times

July 31, 2006

## Firm handed £4bn NHS contract was investigated for overcharging

By NIGEL HAWKES, HEALTH EDITOR

THE company at the centre of the biggest privatisation yet seen in the NHS will not save the health service money, according to an American manufacturer who has just won a settlement from it. Novation has been under investigation for questionable business practices.

*The Times* revealed last week that the Texas-based company is expected to take responsibility for spending more than £4 billion a year of NHS money. Novation and its German partner, DHL, will take charge of purchasing and distributing everything from bandages to hip implants.

The news has astonished critics of Novation in the US who say that the US Justice Department launched an investigation into the company and other group purchasing organisations (GPOs) in 2004 over claims that they had overcharged federal healthcare programmes for goods.

The Department of Health was aware of the investigation before awarding Novation and DHL the contract to take over the NHS Logistics Authority, and says that it sees no reason to reconsider its position.

Andy Burnham, the Health Minister, told *The Times* last week that a final decision on awarding the contract had not been made. But healthcare companies in the UK say that is not the case. "It has been railroaded through," said a director of one leading NHS supplier, who did not want to be identified.

"The UK suppliers that provide the products and support to the NHS will be trying to do business where the rules are all made in favour of an American company, and the NHS is risking much by putting all the cards in the hands of a monopoly," he said.

In the US, GPOs are controversial because of legislation that allows them to accept "kickbacks" from suppliers. The size of these payments depends on the size of the contract, which means, critics say, that GPOs inflate costs to increase their fees.

So complex are the relationships between suppliers, GPOs and hospitals in the US that understanding who profits most is difficult.

Professor Prakash Sethi, president of the International Centre for Corporate Accountability at Baruch College in New York, said: "My most conservative estimates suggest that GPOs extract extra profits of \$5 billion (£2.6 billion) to \$6 billion which legitimately belong to their principal clients, the hospitals."

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Novation was created in 1998 by two networks of non-profit hospitals, VHA Inc, of Irving, Texas, and University HealthSystem Consortium of Oak Brook, Illinois. Between them they control more than 2,000 hospitals and health facilities.

In Britain, Novation will be rewarded on the basis of how much it saves the NHS, but there will be no safeguard on quality. Suppliers have been told that Novation expects cuts in prices when it takes over, but such price-based contracts have a mixed history.

In one recent case a contract for surgical gloves was awarded by the NHS to a low-cost provider. The NHS boasted that the reduction in cost meant a saving of several hundred thousands of pounds. But to get the same protection from tearing or perforation, health workers had to wear two pairs of the gloves, negating the savings.

Phillip Zweig, of Retractable Technologies, a US syringe manufacturer that won a financial settlement from Novation and other companies over claims that they had conspired to prevent hospitals buying its products, said that Novation will not save the NHS money.

“On the contrary, it will increase the cost of healthcare in the UK just as it has in the US. Your Government is making a very dangerous mistake,” Mr Zweig said.

Unions representing health workers said that they were committed to a campaign against the pace of change in the NHS.

Brendan Barber, general secretary of the TUC, said: “Health unions support reform that delivers better patient care, but too many changes seem to be driven by an ideological preference for the private sector and will not benefit patients.

“There can be no doubt that there have been big improvements in the NHS under this Government.

“But the Government’s relentless changes and preference for privatisation is causing growing frustration.”



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