OPPORTUNITIES IN JOINT SECTOR DEVELOPMENT IN THE NSW HEALTH INDUSTRY

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The concept of a partnership between the public and private sectors is nothing new. Here in Australia we enjoy the benefits of a mixed economy, which was introduced into this country in the earliest years of European settlement. The two sectors have co-existed comfortably ever since.

In the past, they have been seen to have separate and distinct roles. Government traditionally assumed the principal role in delivering services such as public transport, telecommunications, social welfare and correctional services, to name only a few. The private sector, on the other hand, has been seen to play a more innovative, entrepreneurial role in developing goods and services to trade for profit on the open market and to assume all the financial risks associated with such commercial activity. That distinction has become blurred with the passage of time and increasingly so as the century draws to a close.

In Australia and beyond, fundamental changes have taken place in the way governments provide the depth and quality of services their constituencies expect.

The private sector has participated in public transport and the development of new road systems. At federal level, Government monopoly of national telecommunications services has ended and private sector equity has been injected into Government business enterprises, such as the Commonwealth Bank and Qantas. Increasingly, governments are shifting away from the concept of public ownership and operation of public utilities to place a new emphasis on the quality of the end result - the outcome for the consumer. That gives rise to the legitimate question: - Do governments need to own the systems delivering public services to make sure the consumer gets the service required?

The redefinition of the role of government is not without pain. As governments the world over re-examine their responsibilities and functions and introduce change, they face resistance and sometimes open hostility from those whose status or security is linked with maintaining the status quo. It has always been so. Four centuries ago it was Machiavelli who astutely observed:

> "There is nothing more difficult to take in hand, more perilous to conduct, more uncertain in its success, than to take the lead in introducing a new order of things because the innovator will have for enemies all who have done well under the old conditions and only lukewarm defenders in those who may do well under the new."

There has emerged no better evidence of this than in the NSW Government's policy of initiating private sector participation in the development and operation of new health infrastructure, such as the Port Macquarie hospital. The State Opposition, sections of the trade union movement, aspiring political candidates and left-wing academics have seized on the issue, attempting to fan the flames into a conflagration. For years, they have made extravagant claims of doom and disaster for patients and the need for a public hospital system in a public debate now known as the "privatisation debate".

There is less heat in the debate now than a year ago, as acceptance grows of the view of Ted Gaebler and David Osborne in their publication, "Reinventing Government", in which they state:

> "Those who support privatisation in all cases because they dislike government are as misguided as those who oppose it in all cases because they dislike business. The truth is that the ownership of goods or a service - whether public or private - is far less important than the dynamics of the market or institution that produces (them or) it."

The public is beginning to realise that government does not have to own a utility to ensure people receive the services they require, provided there are appropriate safeguards to maintain standards of quality and give access to service to all those in need.

Alternative sources of funding for public health services are essential because insufficient taxation revenue is available to meet the continuing growth in demand. As in other Western industrialised nations, Australians expect the best that medical technology can offer. They demand a modern hospital equipped to deliver such services and expect and deserve access to procedures daily becoming more commonplace - hip replacements, cornea transplants, coronary by-passes and the new minimally-invasive surgery. But the highest quality of clinical care costs money.

New South Wales has an outstanding record in meeting these needs and expectations, but for how much longer? When it came to office in 1988, the Liberal-National Party Government determined to catch up on the backlog of health capital works projects left to languish under the previous Labor administration. Sixty per cent of the capital stock in health was more than 30 years old and in need either of redevelopment, upgrading or refurbishment. Commonwealth payments had declined from around 40 per cent of total health outlays in the mid-1980s to 32 per cent in 1993. This meant the state's share increased from 60.1 per cent in 1985/86 to 65.9 per cent in 1991/92. Even in good times there would be a limit to how much more the state could allocate to health. Under current circumstances where revenue from stamp duty and payroll tax has fallen as a result of the recession and state revenues have declined generally, the additional funds are not there.

This is no temporary aberration. The demand for health services continues to rise. It will increase at an even greater rate as the generation of baby boomers goes grey and technology continues to provide ever-more sophisticated solutions to medical problems, thus increasing life expectancy.

Emphasis being given to preventative health promotion will affect demand but will not stem the tide. The backlog of capital works in 1993 stood at more than $2 billion and despite increased Government spending, there is insufficient funding to meet the need.

Where the money will come from is the question the New South Wales and every other government in Australia has been grappling with in recent years. A partial solution developed by the Coalition Government is to harness the capacity of the private sector to build and operate infrastructure projects. Opponents have called this "privatisation" but privatisation is the sale of an existing public asset. The Government's initiative, on the other hand, is to create **new** health infrastructure by using private capital.

The term developed to describe this type of project is "joint sector development" (JSD). This conveys the sense of partnership and common purpose characterising such an arrangement. The public sector identifies a need for public services and enters into a contractual arrangement with the private sector to develop the infrastructure and operate the facility to deliver those services. In entering such arrangements, the Government has no intention of relinquishing **control** over the delivery of public health services through the facility.

Health is a core responsibility of state government. Under the terms of the Medicare Agreement with the Commonwealth, the state has a statutory responsibility to ensure everybody has access to quality health care and those electing to be treated as public patients receive such services free of charge.

Development of a hospital infrastructure project involving the participation of the private sector does not diminish the Government's statutory responsibility. It still retains

responsibility for ensuring access to services provided by the hospital for everyone who seeks them and that those services comply with the necessary standards of quality of care. What this demonstrates is that **Government does not need to own the facilities** to make sure people get access to services they need.

The Labor governments in Canberra, Queensland and South Australia recognise this. The former Labor Government in Western Australia and the current governments in Victoria, Tasmania and Western Australia also recognise it.

The Federal Labor Government has contracts with private sector hospitals to deliver health care services to the veteran community of this state. In Queensland, the Labor Government produced a white paper setting out guidelines for private sector involvement in infrastructure development, including hospitals. In Western Australia, the former Labor Government invited private sector participation in the provision of new public infrastructure, including hospitals, through a publication titled "Investing in Infrastructure". The Government in South Australia is currently investigating the development of new hospital infrastructure with the participation of the private sector.

Governments of all political persuasions find themselves facing the challenge to accelerate development of new hospitals within the framework of the same constraints as those faced in New South Wales - declining state revenues, the inexorable increase in demand for services and the prospect that the pace of growth demand will increase even further in the near future.

The joint sector development approach pioneered in New South Wales has established a model that governments elsewhere in Australia want to follow. In fact, New South Wales received requests from a number of other governments to make the technical resources of the Department of Health available to help show them how to do it.

How does the model work?

To begin, the Government wants to make it clear that the joint sector development model will play only a small but significant role in the development and expansion of health care services in New South Wales. The Minister for Health emphasised that the application of private sector participation would be restricted to a maximum of four projects during the current term of government. There is no room, therefore, for conjecture on the possibility of broadening the application of the model during the next two years. There are no secret agendas. The limits of the Government's policy initiatives have been clearly established and will not be changed. There is no suggestion the introduction of this policy will pose a threat to the public health system as a whole, as some critics have claimed.

The first project, now well-advanced, is the Port Macquarie Base Hospital. It is the first application of the services contract model to a whole hospital facility. It represents, therefore, a milestone in the development of new hospital infrastructure and the delivery of expanded public health care services. It is based on the principle of contracting out services to a private consortium, thereby providing an avenue for private investment in much-needed hospital infrastructure in a way that complies with Loan Council guidelines. This accelerates the pace of infrastructure development, provides the local community with a new hospital within two years and avoids the necessity for the Government to increase debt levels or defer projects already on the forward capital works budget.

This new, privately-funded and operated hospital will provide the best possible care to the community, delivered by the same dedicated team of clinical staff working at the existing Hastings District Hospital. The new hospital is desperately needed. Currently, about 1,800 people a year have to travel outside the district - to Sydney, Lismore or Newcastle -

for specialist treatment. The shortfall in funding for new health capital works meant it was not possible to allocate funds for a new publicly-funded hospital before 1995/96 at the earliest. The Labor Opposition acknowledged that it could do no better.

Under a services agreement that is at the core of the JSD model, the Government has specified the required standards of care to be provided and that they are met. The agreement clearly establishes that access to care is assessed on clinical need. This applies to both public and private patients, as it does across the state's public health system. This assessment of clinical need is clearly the responsibility of the clinicians.

Apart from a new, modern building and modern facilities, anyone seeking health care at the new Port Macquarie Base Hospital will have difficulty spotting the differences between this new joint sector model and a traditional publicly-funded hospital. Public patients will continue to be treated free of charge and the quality of care will be as high, if not higher, than that provided in the public system. It has to be under the terms of the services agreement.

The development of this model has been exposed to the harsh light of public scrutiny at every step along the way. It has been an entirely open and transparent process and that is exactly as it should be.

The Port Macquarie hospital will be in operation at least three or four years sooner than would have been possible with a publicly-funded facility. This demonstrates the significant benefits that flow through the development of a partnership between the public and private sectors.

It was not easy to advance the project to construction stage. It has been deliberately hindered at every stage by the politically-inspired opposition of a small section of the trade union movement and a Labor-backed local action group. They succeeded in delaying construction and the generation of a significant number of additional local job opportunities for more than a year.

Three other projects involving private sector participation might be considered during the term of the current Government. The second is a new hospital for the Hawkesbury region, where another community was left to languish in need as a result of years of neglect by the previous Labor administration. The existing Hawkesbury hospital is the oldest in New South Wales still operating from its original site, and is in urgent need of replacement. Here, the local community, including the Hospital Crisis Committee and the Hawkesbury City Council, have a strong preference for the concept of a joint sector model with the participation of a "not-for-profit" operator.The Prince of Wales group of hospitals at Randwick provides another potential variation to the joint sector approach. The Prince of Wales proposal would be predominantly publicly-funded, but would have the potential for restricted private sector participation.

The last of the four potential joint sector projects is the possibility of St Vincent's Hospital and the Catholic Health Care Association becoming involved in the redevelopment of Liverpool hospital. The transfer of the expertise and service traditions established over many years at St Vincent's to the new Liverpool Teaching Hospital has the potential to accelerate this development significantly. The proposal is not without difficulties, however, principally whether or not it would comply with revised Loan Council guidelines.

These four projects represent the current scope for private sector participation in New South Wales but there are other opportunities elsewhere around Australia.

While a range of variations to the joint sector development model is available, what is common to these options is the service contract at the heart of the funding arrangements.

This service contract is the major distinction between a joint sector project and a stand-alone private hospital on a public campus. The service contract is the Government's commitment to the future purchase of public health services through a privately-funded and operated facility. In effect, it acts as the partnership bond between the private and public sectors and specifies the obligations of the relationship created between them.

Apart from the obvious advantages to the public sector funder and private sector provider created by this arrangement, other benefits flow from such a development. One major advantage is that it creates the opportunity for direct comparisons between the delivery of services through a publicly-operated hospital and a privately-operated facility. Both public and private providers will have their performance measured without the past difficulties of adjusting for differences in work practices and type of care provided. It also creates career opportunities and experience for public sector health staff within the private health sector. Staff at the existing Hastings District Hospital, for example, have the opportunity to transfer to the new hospital and return to the public health system if they wish and bring with them the skills and experience acquired in the private sector. This cross-fertilisation between the two sectors will produce benefits to staff, to the health system generally and ultimately to patients around the state. Another flow-on benefit to the public hospital system is the introduction of performance agreements that are more outcome-oriented in both acute care and community health.

Broadly, the structure of the commercial arrangement can be outlined as follows:

* The future owner of the facility injects capital and borrowings into the project by contracting with a developer to construct the hospital within a fixed time and budget. On completion, the owner pays out the loan over the life of the service agreement through the provision of public health services as specified in the contract with the Government.

  The operator is also in a position to earn supplementary income through the treatment of private patients, subject to meeting all requirements in the Government's contract to treat public patients.

  Other financial models, such as contracting with the private sector to build the hospital and then providing public sector management, are fraught with difficulties and do not comply with Loan Council requirements.

  No doubt there will be refinements and further variations to the service contract model in the future but given the current location of the goalposts, the Port Macquarie model represents the limit to what will be acceptable under Loan Council guidelines.

  It is important to gain the support of the local health administration and community, if possible. It is essential that the existing level of demand and options for addressing it be fully canvassed early in the development stage. This was not possible at Port Macquarie because the model itself was in the process of being developed simultaneously with the specific local project.

* Secondly, the application of the model needs to be evaluated against the following criteria, which were specified by the Public Accounts Committee:

  * Does the proposal lead to an improvement in resource allocation?

  * Does the proposal help to achieve the strategic objectives of the health system?

  * Does the proposal provide safeguards to the rights of local residents and their access to health care services?

* Thirdly, the objectives of the project need to be clearly defined and implemented in accordance with strict procedural guidelines.

* Fourthly, it is vital to provide the opportunity for extensive community involvement at the earliest possible stages of project development, recognising that this needs to be consistent with the commercial principles under consideration.

* Finally, this process of developing the appropriate form of the model must be carefully guided by senior departmental executives who are familiar with the principles of commercial negotiation and procedural issues.

New South Wales has led the field in the development of this model. There are clear and undeniable benefits to the people of this state, the local communities to be served and the staff working within the health system. Now that there is increasing recognition of these benefits there will be growing acceptance of the necessity to pursue this policy option as part of the strategy to deal with declining levels of public funding and steadily increasing demand for health care services.

Joint sector development is a partial solution to these challenges. The Government certainly does not pretend it is a total solution.

Government in New South Wales and elsewhere around Australia will continue to seek additional options to fund future growth in their health systems. It is the New South Wales Government's intention to pursue JSD projects with great caution, paying due regard to the lessons so far learnt along the way.

It might be worthwhile to cast our minds forward 10 years or so. Those people who give the issue more than a passing thought will no doubt look back to the debate raging in New South Wales for the past two years and ask themselves - what on earth was all the fuss about?

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