

***Infra*-News**



**Global PPP/ Infrastructure Yearbook 2005**

# Developing PPPs Within the Australian Healthcare Market

*Martin Locke from PwC discusses the development of the Australian PPP healthcare market and in particular the models that have been used to structure deals so far.*

Australia is beginning to develop a PPP industry in the hospital sector that resembles in most respects the classic structure established in the UK. Before describing that, however, it's useful to understand some of the earlier initiatives taken in this field by the states before PFI or PPP was even on the map in Europe. As usual in this field Australia may have fewer completed projects; but that doesn't mean its approach has been "me too".

An example of this is the Port Macquarie Base Hospital in Northern New South Wales. On that site a concession was entered into as long ago as 1992 between the government and Mayne Health for the construction of a public hospital and delivery of clinical services as well as the now classic range of support services. The contract was based on annual agreement about the services delivered, with payment differentiated on a clinical case-weighted basis. This proved a good precedent in that the facility was completed on time and to budget but has not necessarily led to the right incentives for the operator to take on the required case mix for the community, which is arguably one of the reasons why NSW Health have decided to retain public responsibility for the delivery of clinical services in all future PPPs.

Roll forward to the current decade and the Berwick Community Hospital in Victoria. This is a \$100m scheme to develop a 229 bed community hospital which reached financial close in 2002 on quite a different model. The first PPP in the sector to be done under Partnerships Victoria guidance it was based on the UK model: the private sector designing, constructing and maintaining the building but all clinical services provided by the public sector under an availability and KPI based payment regime. The ABN-backed Progress Health SPV appears to have successfully delivered an innovative design that will give value for money. The service scope is quite limited with hard FM on the buildings the responsibility of the PPP

company but most of the soft services including cleaning retained by the state.

This has been the starting point for the current generation of hospital PPPs of which three are currently in the market:

## **Mater**

The Mater hospital in Newcastle, NSW, is a \$132m project for refurbishment and new build at the existing site, particularly to expand radiation, oncology and mental health services. Bids are currently being evaluated. The public health authority for the region, Hunter Health, in conjunction with the existing clinical service provider on the site, Mercy Health Care, will provide all future core clinical services with the private sector providing a range of ancillary support services (such as cleaning and catering). Bidders have been required to accept site condition risk and to work with a design already well advanced by NSW Health.

The interesting feature here is the Labour Services Agreement, a development of the thinking behind the UK's secondment model for application to the different labour environment in Australia. This provides for private sector management of public employees while establishing the basis for proper transfer of day-to-day responsibility to get proper risk transfer under the payment arrangements. Support services will be undertaken using NSW Health employees under the management and supervision of the private sector. Unlike in the UK there will be no concept of Health employees transferring to private sector employment or new employees starting under private sector contracts. This model was developed to address staff and union concern about employment conditions; and to the extent it differs from the UK arrangements reflects a perception that the UK model has not yet been operationally proven, clearer demarcation between public

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and private sector union representation in Australia and the strength of labour representation generally.

### **Long Bay**

Long Bay is a \$128m project bundling a new prison hospital with a new forensic hospital. The bundling is expected to reduce disruption to current prison and forensic health services, with new services being brought on line more quickly; to allow improved construction scheduling and give economies of scale thereafter. The Forensic hospital, which will accommodate mental health patients, is a new 135 bed facility adjacent to the Long Bay Correctional Complex. The Prison hospital, which is solely for the treatment of prison inmates, is a new 85 bed facility to be built within the Correctional Centre. Clinical services will be provided by Justice Health and custodial services will remain under the control of the Department of Corrective Services. Again, bids are currently being evaluated.

### **Royal Women's Hospital**

This is a new \$250m hospital in Melbourne with a similar contract structure to the Berwick project although the private role in soft FM services slightly broader than Berwick as extends to cleaning and portage services. A preferred bidder is expected to be named very soon.

All these three projects have payment mechanisms that would be recognisable in the UK based on availability and weightings of floor space for criticality.

So what does the future hold? The weight of activity is currently in NSW. One key theme is releasing more value by taking a holistic approach to sites, rather than just a hospital PPP – for example combining a new development with barter for land release for other purposes or ancillary commercial facilities. The list of projects being examined includes redevelopment at Bathurst Orange, Auburn, Royal North Shore, and the development of the new Northern Beaches Hospital. NSW Health intends to screen projects and issue calls for EOIs by mid-2005. There is also talk in Western Australia of a large hospital project after the Government election later this year.

So as in other jurisdictions it seems likely that the health sector will be a key contributor to PPPs in Australia, but with innovations focussing on the bundling of assets and the precise design of support service responsibilities, rather than on any return to a broader scope of clinical responsibilities.

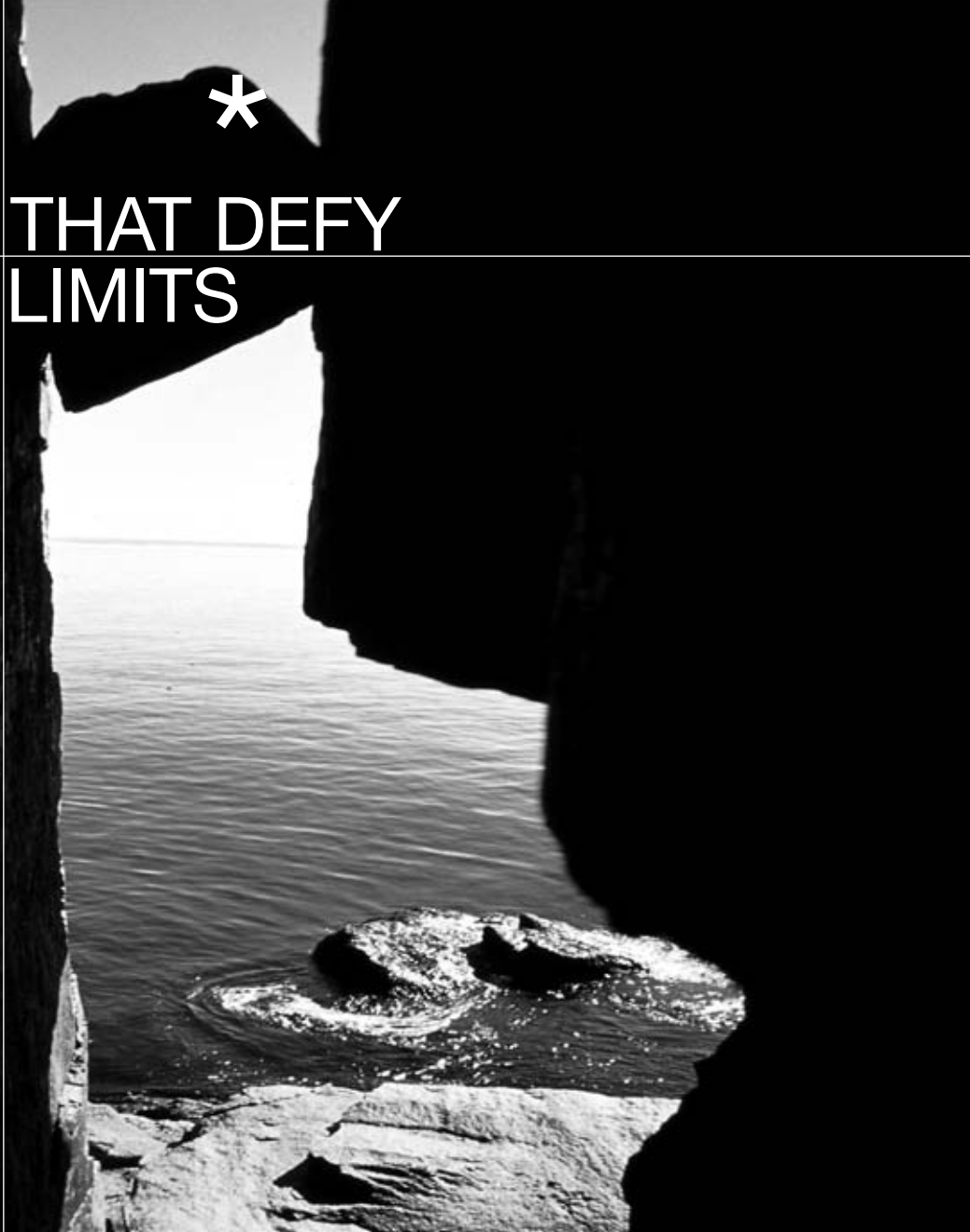
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