Q&A

ASMS
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Background to proposed public 'private' partnership funding deal for the West Coast

What's happening?

The Government is trying to force a public 'private' partnership on the West Coast District Health Board in order to pay for the construction of an integrated family medical centre in Westport to replace the aging and earthquake-prone Buller Hospital.

A 'Partnership Group', on behalf of the Government, is brokering a deal that involves the DHB selling a piece of land it owns to ACC, which will then build the new medical centre and lease the facility back to the DHB.

ASMS understands that the Partnership Group initially sought private equity to pay for the $10 million redevelopment but was unable to find a private financier on the West Coast to take on the deal. At that point, ACC came forward.

We understand the rate of return from the deal will give ACC between $750,000 and $1 million each year, over and above what the DHB would be paying back to the Crown under its normal formula for capital works funding. At the same time, the West Coast DHB will be totally responsible for maintaining the new facility.

The lease for the new facility is initially for nearly 35 years, but under right of renewal options this could be extended to 99 years.

So people on the West Coast get a brand new health facility and the DHB doesn't have to pay for it – surely that's a win-win?

No doubt that is how the Government and its agents in the 'Partnership Group' will try to spin the situation but it's definitely not a win for either the DHB or people living on the Coast. It will be paid for with additional DHB funding that might otherwise be spent on care and treatment for West Coast patients.

The DHB won't be getting the use of the facility for free or at 'mates rates'. It will be paying up to $1 million every year for nearly 35 years, and very likely for much longer. In addition, it will also be shouldering the financial burden of maintaining the new facility (eg, equipment replacement). That's not a case of simply replacing the light bulbs and mowing the lawns; significant costs are involved.

The financial burden of public private partnerships (PPPs) was illustrated by Professor Martin McKee from the London School of Hygiene & Tropical Medicine when he visited New Zealand in 2014 at ASMS' invitation. Drawing on his own observations of PPPs in the United Kingdom, he emphasised that the private sector was only willing to get involved in building hospitals if it could eliminate any risk to itself, which meant specifying the contract in great detail (https://www.asms.org.nz/news/asms-news/2014/08/26/argument-investment-public-health/).

"That's fine if you have something you only want to operate for a year or two but it's a problem for something with a lifetime of 30 or even 60 years," he told ASMS during his visit. "If we compare the nature of a hospital 30 or 40 years ago to what it is now, it's vastly different. When I was a junior doctor admitting patients with heart attacks, I needed a bed surrounded by two electrical sockets, a bedside light and an ECG machine. Look at the number of electrical sockets you need now to treat a similar patient.

"If you have written into your contract with the private provider that every bed will have two or three electrical sockets and you then want to change that, you have to renegotiate the contract. You can't exactly threaten to take your business elsewhere. And what if the population served by a particular hospital changes or relocates? What do you do if you're already contracted to pay for that hospital run for 30 or 60 years? Some of these hospitals and their communities are being saddled with unsustainable, crippling debt."

As in the UK, these are very real risks for any DHBs in New Zealand considering a PPP.

This deal, which is being negotiated behind closed doors without public consultation, will take millions of dollars away from patient services on the West Coast and give that money to a third party. And while that third party (ACC) is a government agency, in this instance it will be acting like a private firm seeking to profit from the financial arrangement.

The West Coast DHB is small and cash-strapped. The last thing it needs is to have more money siphoned off when it's already under pressure to do more with less.

So why is the West Coast DHB even considering such a deal?

The deal is being negotiated by the Partnership Group, on the Government's behalf. The DHB's Board has yet to ratify the decision but ASMS understands it has been left in no doubt that it is required to do so if it wants the new facility in Westport. West Coast senior doctors are alarmed by the serious risks of this dubious way of funding the rebuild. They are also alarmed that the DHB they work for has been marginalised and silenced. The DHB has been prevented from representing the interests of the population that they are responsible for.

In essence, the DHB's hands are tied. Instead of carrying out a proper consultation process to determine what's best for patient services on the West Coast, the Board is being asked to rubber-stamp a decision that will provide short term gain (a much-needed new facility) while stripping money out of patient services in the long term and weakening public ownership of an important health care asset.

What needs to happen?

There needs to be full public disclosure of the deal, and scrutiny of the risks for the DHB and for patient services on the Coast. The people affected by this deal need to consider whether it is in their best interests for it to go ahead in its current financial form. West Coast DHB should have authority to approve or veto a decision on the funding, and the Government should be explicit about its commitment to providing an integrated family medical health centre in Westport and that it is not conditional on WCDHB agreeing with this high-risk funding method.

The costs of building hospitals and other essential health infrastructure have always been regarded as a core part of government spending. As taxpayers, we have always viewed the building and maintenance of public hospitals as a worthwhile use of the money we give the Government.

ASMS is concerned about the signals being sent by the Government about its willingness to fund public hospitals. This retreat from hospitals as part of core government infrastructure is evident in the growing number of hospital redevelopments for which the Government has instructed officials to explore alternative (ie, private and invariably more expensive) sources of funding. It comes at a time when major hospital developments are planned or underway in some of our largest cities – Auckland, Christchurch and Dunedin, for example – in addition to smaller developments planned for health care in provincial New Zealand.

There is no cheaper source of funding for a hospital than from the Government. When private investors get involved, they do so to make money. ACC is not a private company but its actions are part of its commercial investment strategy where it conducts itself as if it is a private company. If the Government has formed a view that it does not want to pay to build hospitals, and that it is prepared for taxes to be diverted from patient services to rent and interest payments to developers, then it must tell us.