

STATEMENT OF ANNA MARY MCFADGEN 4 JUNE 2024

PROCEEDING DETAILS

Matter: Special Commission of Inquiry into Healthcare Funding

WITNESS DETAILS

Name: Anna Mary McFadgen
 Address: 390 Victoria Street, Darlinghurst
 Occupation: Chief Executive Officer

STATEMENT

On 4 June 2024, I Anna Mary McFadgen, state:

- 1 This Statement made by me accurately sets out the evidence that I would be prepared, if necessary, to give to the Special Commission of Inquiry into Healthcare Funding (**Special Commission**) as a witness. The Statement is true to the best of my knowledge and belief and I make it knowing that, if it is tendered in evidence, I will be liable to prosecution if I have wilfully stated in it anything that I know to be false, or do not believe to be true.
- 2 This Statement is provided in response to a letter dated 23 April 2024 from Mr James Parker, Senior Solicitor, Solicitors assisting the Special Commission which requested that representatives of St Vincent's Hospital Sydney (SVHS) provide an institutional response to topics identified in the letter. Mr Parker's letter is attached and marked **AM-1** (pages 16-18).
- 3 In this Statement, I address topics 1 and 2 in the letter from Mr Parker, including funding models for priority populations and those with health vulnerabilities in the inner city. I also address SVHS's experience participating in the St Vincent's Sydney Health Innovation Precinct (the **Precinct**).

My background

- 4 I am the Chief Executive Officer of SVHS, and have held this role since May 2023 in an Interim capacity and since August 2023 on an ongoing basis.
- 5 Prior to this role, I held the following roles:
 - a. Executive Director Strategy, Planning and Partnerships at SVHS from March 2022 to May 2023;

- b. Executive Director Strategy, Planning and Communication at St Vincent's Hospital Melbourne (**SVHM**) from September 2019 to April 2022; and
 - c. the General Manager of Strategy and business Development at SVHM between September 2018 and September 2019.
- 6 Between July 2006 and September 2018, I held a range of executive and management roles in the Victorian public hospital system, including at Austin Health and Melbourne Health (the Royal Melbourne Hospital).
- 7 I hold a Bachelor of Commerce and Bachelor of Arts from the University of Melbourne and Master of Business Administration from Monash University.

SVHS, a subsidiary of St Vincent's Health Australia

- 8 St Vincent's Health Australia (**SVHA**) is the largest not-for profit health and aged care provider in Australia. It consists of eight unlisted companies, and provides health and aged care services in New South Wales, Queensland and Victoria.
- 9 SVHA operates public and private hospitals and aged care facilities, and is affiliated with three research entities. SVHA also provides virtual health services and in-home health services through St Vincent's Virtual and Home (**SVVH**), caring for patients at or close to home.
- 10 SVHS, a wholly owned subsidiary of SVHA, operates:
- a. St Vincent's Hospital, Darlinghurst – the oldest hospital in Australia, having been established in 1857 in Potts Point and located on its current site in Darlinghurst since 1870; and
 - b. the Sacred Heart Health Service – one of Australia's largest and leading palliative care and rehabilitation providers offering inpatient and outpatient services.
- 11 SVHS is located on land that was vested by the State of NSW in trustees and their successors for the purposes of SVHS under the *Saint Vincent's Hospital Act 1912*. This land and land subsequently acquired for use by SVHS continues to be vested in trustees and must not be used for any other purpose other than for the maintenance or benefit of SVHS.
- 12 SVHS also operated St Joseph's Hospital, Auburn, prior to its closure in 2023.
- 13 St Vincent's Hospital, Darlinghurst has a number of internationally recognised centres of excellence providing specialist services to the local community, State-wide and nationally, including heart and lung transplantation, bone marrow

transplantation, cardiology, cancer care, immunology and AIDS/HIV, respiratory medicine, mental health and drug and alcohol services. It is a significant research and teaching facility, operating the St Vincent's Centre for Applied Medical Research and partnering with the Garvan Institute of Medical Research, Victor Chang Cardiac Research Institute and the Kirby Institute.

SVHS, an Affiliated Health Organisation

- 14 SVHS is an affiliated health organisation (**AHO**) under the *Health Services Act 1997* (**the HS Act**) in respect of its two recognised establishments, namely St Vincent's Hospital, Darlinghurst and the Sacred Heart Health Service, Darlinghurst. As a result, St Vincent's Hospital and the Sacred Heart Health Service are part of the public health system of New South Wales.

SVHS, a networked AHO

- 15 Since at least 1 July 2013, SVHS has been declared as a networked AHO under 62B of the HS Act for the purposes of the National Health Reform Agreement.
- 16 Prior to being declared a networked AHO, SVHS was funded through Memorandums of Understanding with the South Eastern Sydney Area Health Service and Western Sydney Area Health Service, which are attached and marked **AM-2** (pages 19 -38) and **AM-3** (pages 39 – 48) respectively.
- 17 By this declaration, SVHS is the only 'networked' AHO in NSW.
- 18 This declaration recognises that, through St Vincent's Hospital, Darlinghurst and Sacred Heart Health Service, SVHS provides Statewide services, and services of state significance. The declaration is attached and marked **AM-4** (pages 49-50).
- 19 SVHS' critical state-wide and community role in the public health system in NSW includes:
- a. delivering 2.5% of the state's acute inpatient activity in addition to a comprehensive range of sub-acute and non-admitted medical and surgical services. As part of this, SVHS treats more than 40,000 inpatients, has over 50,000 emergency department presentations, and delivers more than 400,000 outpatient occasions of service for patients across NSW each year.
 - b. as the sole provider of the following services to NSW:
 - i. heart and lung transplantation services; and
 - ii. haematopoietic Stem Cell Transplantation for severe scleroderma; and

- c. as one of only three hospitals in NSW who performs adult heart and lung transplantation, and the sole recipient of donor hearts and lungs retrieved for adult transplants;
- d. as a designated provider of the following highly specialised services to patients across NSW (through referrals to SVHS from other public hospitals, in line with NSW Health designation):
 - i. critical care services including Extracorporeal Membrane Oxygenation (ECMO) and Adult Intensive Care (ICU);
 - ii. transcatheter Aortic Valve Implantation (operating as the NSW referral centre);
 - iii. Human Immuno Virus (HIV) Reference Laboratory; and
 - iv. Bone Marrow Transplantation and Laboratory.
- e. as a provider of cardiology, neurology, mental health and alcohol and drug, diabetes outreach, haematology, rehabilitation, and pathology services to patients across the state, and, significantly, in rural and regional areas via both virtual and outreach services, where the Local Health District (LHD) in those areas could not otherwise provide these services;
- f. as the only public hospital in NSW with a dedicated homeless health service; and
- g. through SVHS' role as a tertiary provider of inpatient, virtual and outreach services to patients across Murrumbidgee LHD through formalised referral pathways.

- 20 More than half of SVHS' patients reside outside of SVHS' local area.
- 21 Like the other large metropolitan hospitals operated by LHDs, St Vincent's Hospital Darlinghurst is both a principal referral hospital and a teaching hospital.
- 22 SVHS' status as a networked AHO has a range of operational and other implications, which I address further below.
- 23 A primary difference is that, unlike other AHOs who negotiate funding arrangements with the LHD within which the AHO operates, SVHS negotiates these arrangements directly with the NSW Ministry of Health (the **Ministry**). This difference is consistent with the scale and importance of the public health services provided by SVHS (as described above at paragraph 19).

- 24 While SVHS is not a LHD, it is my observation that, as a networked AHO, SVHS' interactions with the Ministry about performance, including clinical and financial governance, and operational performance matters, are generally akin to those which occur between the Ministry and LHDs, and SVHS is expected to perform to the same standard as LHDs.
- 25 There are other benefits to both SVHS and the public health system of SVHS' status as a networked AHO, principally the high degree of integration of SVHS within the public health system, which enables close collaboration with other LHDs.
- 26 An example of this integration and collaboration include SVHS' role in standing up, in April 2020, the Bondi 'pop-up' COVID-19 clinic to respond to the surge of COVID-19 cases in the area, which was set up in less than 24 hours in close collaboration with NSW Health and Waverley Council.
- 27 A further example is the clinical support that SVHS' cardiothoracic surgeons provide to Westmead Children's Hospital in the establishment of a paediatric transplant service. Prior to this service being available at Westmead Children's Hospital, paediatric patients in NSW were required to travel to Melbourne to receive a transplant. Another benefit is SVHS' coverage by the NSW Government's Treasury Managed Fund (TMF) self-insurance scheme.

Process of allocating funding to SVHS

- 28 Each year, SVHS enters into service level agreement (**SLA**) discussions with the Ministry. This involves a series of meetings between senior officials of SVHS and the Ministry over a period of approximately three months. The Ministry consults with SVHS about key performance indicators for SVHS and other aspects of the SLA. As an experienced hospital administrator, I have considered the SLA discussions that I have been involved in to be efficient and appropriate to their end.
- 29 The funding provided under the SLA is mostly based on the level and mix of services purchased from SVHS by the Ministry. As part of the SLA process, SVHS has the opportunity to submit purchasing requests for funding over and above the base purchased volume of services.
- 30 These requests are made by completing a form which requires SVHS to explain and justify the proposed expenditure, including an estimate of costs. I understand this is the same process that LHDs follow. Attached and marked **AM-5** (pages 51 – 55), **AM-6** (pages 56 – 60) and **AM-7** (pages 61 – 65) are the current purchasing order requests that have been made to the Ministry for the 24/25 financial year.

These are a mix of requests for additional NWAU volumes (ICU beds) and block funding (Heart and Lung unit and Homeless Health).

- 31 Funding requests have been approved in the past, with NWAU allocation (i.e. services purchased) for services such as Gorman House (200 NWAU in 18/29), Heart Transplants (419 NWAU for 10 transplants in 20/21), TAVI (113 NWAU in 21/22) and Allogenic Bone Marrow Transplant (142 NWAU in 23/24).
- 32 The 2022/23 Service Level Agreement and 2023/24 Service Level Agreement are attached and marked, respectively **AM-8** (pages 66 – 95) and **AM-9** (pages 96 – 127).

Monitoring and management of SVHS' performance

- 33 SVHS operates in line with both NSW Health's and SVHA's clinical governance framework. The majority of clinical governance arrangements that apply to LHDs also apply to SVHS. For example, if there is a clinical incident at SVHS, SVHS must follow NSW Health's Incident Management Policy, adhering to the same notification, escalation and review requirements that apply to LHDs.
- 34 Historically, SVHS has had quarterly performance review meetings with the Ministry about SVHS' performance against the NSW Health Performance Framework. This is consistent with the performance framework in place across the state for all LHDs.
- 35 Since March 2024, SVHS has also commenced more detailed monthly financial reporting to NSW Health, which I address further below.
- 36 As a networked AHO receiving significant public funding and providing essential public services, I consider this level of monitoring and reporting to be appropriate.
- 37 The Board of SVHS (the members of which also constitute the Board of SVHA and its other subsidiaries) also monitors the performance and management of SVHS. This ensures an additional layer of reporting and accountability by SVHS.
- 38 For example, while SVHS has all the legal and regulatory obligations of a not for profit corporate entity (including in relation to solvency), SVHS is also required by the Ministry to complete a corporate attestation each year about its activities as an AHO. This attestation confirms the Board's responsibility for the corporate governance practices of SVHS. Attached and marked **AM-10** (pages 128 – 145) is a copy of the corporate attestation for the financial year 22/23.
- 39 SVHS and its employees operate within a broad framework of governance and accountability requirements, including the Independent Commission against

Corruption, the whistle blower provisions in the *Corporations Act 2001* and the SVHA Group Code of Conduct.

Benefits of the AHO model

- 40 The principal value to NSW arising from the AHO model in relation to SVHS is that the NSW public can access and receive essential and complex health services from a health care provider with more than 160 years' of innovative care and experience serving local and vulnerable communities, as well as patients with acute medical needs across the State.
- 41 SVHS has a long history of providing services to address the complex social needs of priority populations and vulnerable people, in trusted partnership with the community. These services reduce the need to access acute care settings, and therefore the financial burden on the public hospital system. This includes an extensive range of services for priority populations and those with health vulnerabilities including Aboriginal and/or Torres Strait Islander people, people experiencing homelessness, people in the correctional system and those seeking mental health and/or alcohol and drug services.
- 42 SVHS is a research-driven health service and an anchor partner of the St Vincent's Sydney Health Innovation Precinct, the home of a number of world class medical institutes including the Garvan Institute of Medical Research and the Victor Chang Cardiac Research Institute. Through the co-location of St Vincent's clinical facilities, its own Centre for Applied Medical Research and cornerstone Medical Research partners, the Precinct has facilitated a high degree of collaboration between clinicians and researchers, who have achieved material advancements in the way clinicians treat patients, both in Australia and around the world, improving patient care and reducing the cost of care. Examples of innovations that has changed the way care is delivered include mechanical heart technology and the Heart in a Box.
- 43 SVHS considers the networked AHO model to largely be an appropriate model for SVHS and NSW Health. There are some limitations of the model which could be addressed through adjustments to the model to support capital investment and acknowledge the long term partnership between SVHS and NSW Health.

Limitations of the AHO model

- 44 The AHO model does not address particular concerns in relation to capital funding, which I describe below.

Visibility of capital and other non-recurrent funding

- 45 SVHS does not have good visibility of the capital funding that may be available to SVHS as a networked AHO, or the funding available to other providers of public health services in NSW, whether that be LHDs, AHOs or other private operators providing public services. I consider this to be an area where there could be more transparency.
- 46 From my experience as the CEO of SVHS, including proposals submitted by SVHS to the Ministry, capital funding may be able to be accessed through a number of means including:
- a. allocation for Minor Works Expenditure (**MWE**) under the annual SLA;
 - b. NSW Health's asset replacement and refurbishment program (**ARRP**) (which ceased as of FY 24); or
 - c. Capital Investment Proposals (**CIPs**); and
 - d. Through a Business Case to Health Infrastructure, in line with Stage 2 of the NSW Health Facility Planning Process.

Minor Works Expenditure

- 47 MWE is described in the SLA as a 'Capital Subsidy'. SVHS' did not receive any allocation of funding for MWE for the current financial year (see page 114, AM-9). In each of the 4 prior years it received \$750,000.
- 48 I do not know why there was no capital subsidy for the current year. SVHS received only \$105,000 via ARRP under the 2023-24 SLA. No other capital funding was received from the NSW Government. This funding allocation is clearly inadequate for the maintenance of SVHS' infrastructure and equipment to support the level of contemporary care the community expects for patients, families and health workers.

Capital Investment Proposals

- 49 Major capital funding can be requested by submitting a Capital Investment Proposal (**CIP**) to the Ministry. It is my understanding that CIPs submitted are reviewed by the Ministry against the State-wide Investment and Prioritisation Framework. Successful CIPs then inform the NSW Health Capital Investment Strategic Plan (**CISP**). The CISP is submitted by the Ministry to NSW Treasury in accordance with the annual budget process, where endorsed CIPs inform the NSW State Budget.
- 50 SVHS has submitted a number of CIPs over the last five years, including:

- a. West Street Integrated Translational Research and Education Centre in 2021 and 2022. A copy of the 2021 proposal is attached and marked **AM-11** (pages 146 – 160) and a copy of the 2022 proposal is attached and marked **AM-12** (pages 161 -173).
- b. Mental Health Prevention and Recovery Centre (PARC) in 2021. A copy of the 2021 proposal is attached and marked **AM-13** (pages 174 – 191); and
- c. Redevelopment of St Joseph's Hospital, Auburn in 2022. A copy of the 2022 proposal is attached and marked **AM-14** (pages 192 – 202).

51 Each of these proposals have been rejected, with various reasons being provided by the Ministry. Attached and marked **AM-15** (pages 203 – 205) and **AM-16** (pages 206 – 208) are CIP feedback and reasons provided by the Ministry for the rejection of projects in financial years 2021 and 2023.

52 SVHS has also sought funding support from NSW Health to enable SVHS' participation in the NSW Health Single Digital Record (SDPR) initiative. The SDPR initiative is a tier 1 electronic medical record and patient administration system. SDPR will deliver uplift to core technology infrastructure, cybersecurity and devices and replace existing outdated technology that is not integrated SDPR will enhance patient outcomes and experience through safer, more effective and connected care. All systems are hosted by NSW Health, increasing the connectivity between SVHS and NSW Health. Confirmation of this funding support for SVHS is yet to be received. As far as I am aware, most if not all other local health districts and networks have received full funding for this initiative.

53 Capital investment in physical and technology infrastructure is critical to SVHS's ability to provide contemporary care to the level the community expects for our patients and workforce. Much of SVHS' infrastructure, which has largely been maintained at SVHS' own cost, is reaching end of life and requires investment akin to that which the NSW Government has made in upgrading other facilities of a similar age and size.

Major capital works

54 SVHS has also sought a separate form of capital contribution from the State for major capital works in respect of the redevelopment of the St Vincent's Darlinghurst Campus (Cahill Cater Project) in conjunction with Health Infrastructure NSW.

55 An initial funding request of \$25 million was granted to fund Stage 1A of the Cahill Cater project. This included:

- a. priority works for expanded capacity in the existing clinical core, namely the early works of six ICU beds and to redevelop the clinical outpatient area for cardiac services; and
- b. detailed planning for the full Cahill Cater redevelopment, including the development of a master plan, refreshed clinical services plan and Final Business Case.

The Final Business Case for this initiative proposed joint funding for the project between the State and SVHA.

- 56 This project was ultimately not funded by the State and represents a significant missed opportunity to meet increased demand for care, particularly across mental health, heart health and geriatric care, while also enhancing access to other highly specialised and critical state-wide cardiothoracic services provided by SVHS.
- 57 Attached and marked **AM-17** (pages 209 – 239) is a copy of the letter recording the final decision and feedback on the funding of this project. The funding was used in part to expand the ICU, but to date no recurrent activity funding has been committed to commission the new ICU beds. This is reflected in SVHS' FY 25 purchasing request, seeking necessary funding to operationalise this much needed critical infrastructure.

Limitations of ABF funding model

- 58 As with other public health services, SVHS is allocated funding based on predicted levels of delivery of health services, known as activity based funding (**ABF**). Given SVHS is providing public health services akin to those provided by the NSW Government through LHDs, this is generally appropriate.
- 59 There are two material limitations of the ABF funding model which have an impact on the viability and sustainability of SVHS as a provider of public health services as follows:
- a. ABF is not apt for all services, particularly those services which provide care for socially complex people, people who have complex co-morbidities, or involve an ongoing relationship with the patient, as opposed to being episodic in nature. In some cases, a more flexible approach to funding would be appropriate in order to optimally deliver care. For example, services for priority populations could attract a greater weighting within the ABF funding model, or a block funding approach be pursued. Block funding can be particularly useful in providing stability and predictability around service provision by allowing for a fixed amount of funding over a specific period that

allows resources to be allocated effectively. The purchasing request marked AM-7 explains the need for block funding for the Homeless Health service. This rationale applies to services of a similar nature, such as SVHS' Psychiatric Alcohol and Non-Prescription Drug Assessment Unit and other mental health and drug and alcohol services;

- b. Some of the current cost weights do not reflect the complexity of service delivery and therefore the costs of providing the service. This is particularly the case for highly specialised services, provided in low volumes and on a non-episodic basis, such as the highly specialised heart and lung services provided by SVHS, including transplantation, ECMO and LVAD.

60 Further to paragraph 59b above, earlier this year, SVHS and The Alfred Hospital in Victoria commissioned Deloitte to conduct a comparative review and analysis of Heart and Lung transplant services.

61 The Alfred and SVHS both provide a range of complex interventions and diagnosis prior to, during and post the acute transplant procedure and, in 2019-20 alone, services provided by SVHS and Alfred accounted for 80% of the total number of episodes of care in the two Heart and Lung transplant Diagnostic Groups in Australia.

62 This study identified several key factors within the costing and revenue attributes that demonstrate the inadequacy of the current funding model in addressing the costs of caring for and treating patients, especially during the transplant and post-transplant phases of the patient journey. These include:

- a. due to the variation and range of complexities affecting Heart and Lung transplant procedures, the funding formula parameters, including case weights and high boundary points used in the current Independent Hospital and Aged Care Pricing Authority (IHACPA) acute admitted formula are too narrow to cater for the differences in treatment and costs associated with both DRGs; and
- b. the organ retrieval program delivered by SVHS incurs a significant standby cost to health services, which does not readily align well with an episodic, separation activity-based funding formula. A fixed funding approach would best suit the support costs of the retrieval program. This includes the fixed and variable costs of the staff and travel/transport.

SVHS' current financial position

- 63 SVHS, like all other public health services, has experienced material financial pressure in the financial year FY23 /24 leading to a budget shortfall.
- 64 The budget shortfall was predicted due to:
- a. inflationary pressure and skills shortages requiring additional reliance on agency staff and increased workforce costs;
 - b. a slower than anticipated return to efficient operating following the COVID response; and
 - c. activity pressures due to increasing demand for services.
- 65 Given the position of SVHS in a private corporate structure, it cannot operate in a deficit environment, as an LHD may be able to with the Ministry's support. It is therefore crucial that sustainable funding options both short and long term be put in place.
- 66 Attached and marked **AM-18** (pages 240 – 254) is a SVHA Board Paper prepared on 31 August 2023 seeking approval of the SVHNS interim budget for FY 2023 / 24. This paper projects an estimated budget deficit of \$43.8M and proposes a plan to address the deficit through both efficiency initiatives and negotiation of sustainable funding with the Ministry.
- 67 In order to address the forecast budget deficit for this year, between November 2023 and April 2024, I liaised with the Ministry to secure additional one-off funding, including:
- a. on 19 February 2024 I wrote to Mr Alfa D'Amato, Deputy Secretary, Financial Services, Ministry, requesting urgent additional financial support of \$60 million. In this correspondence I set out the reason for the cash forecast deficit, the efficiency improvement initiatives implemented by SVHNS and an outline of a proposed joint Recovery Plan. Attached and marked **AM-19** (pages 255 – 258) is a copy of the letter to Mr D'Amato; and
 - b. on 28 February 2024, Ms Susan Pearce, Secretary of the Ministry confirmed an additional subsidy of \$30 million would be granted to SVHS on condition that, among other things, SVHS implement a financial recovery plan, submit monthly performance reports and recoup the amount of the subsidy through efficiency initiatives in the 24/25 financial year. A copy of the letter is attached and marked **AM-20** (page 259).

- 68 I have indicated to the Ministry on a number of occasions the need to agree sustainable funding arrangements including on 15 November 2023 and 25 March 2024. Attached and marked **AM-21** (pages 260 – 261) and **AM-22** (page 262) are copies of the letters.
- 69 On 21 March 2024, the SVHA Finance and Investment Committee met to consider SVHS year to date results and financial sustainability plan. Attached and marked **AM-23** (pages 263 – 271) is a copy of the Board Paper considered at the 21 March meeting.

St Joseph's Hospital closure

- 70 St Joseph's Hospital in Auburn was founded by the Sisters of Charity in 1882. From its founding until its closure in 2023, the hospital was operated by SVHS continuously as a public hospital. At the time of closure, SVHS provided the following sub-acute inpatient and outpatient services:
- a. specialised mental health for older people;
 - b. rehabilitation (aged and general);
 - c. palliative care;
 - d. Huntington's Disease Service; and
 - e. Motor Neurone Disease Service.
- 71 In June 2023, SVHS made the difficult decision to decommission St Joseph's Hospital, after it had been operating at a financial loss for a significant period of time and because the physical infrastructure could no longer support the level of contemporary care expected from patients and the community.
- 72 Prior to taking this decision, SVHS worked with Western Sydney LHD and the Ministry to explore options for ensuring the ongoing viability of St Joseph's Hospital. These options included relocating the facility and redeveloping the facility at its then current site, both of which required significant capital expenditure, as well as formal referral arrangements with LHDs to ensure a sufficient volume of patients. None of the options identified came to fruition.
- 73 In December 2020, Paul McClintock AO, Chair of SVHA wrote to the then Minister of Health, the Hon Brad Hazzard and informed him that SVHA was considering closing St Joseph's Hospital, and the reasons for this. The letter from Mr McClintock to Mr Hazzard is attached and marked **AM-24** (pages 272 – 274).

- 74 As foreshadowed in the letter from Mr McClintock to Mr Hazzard, SVHA decided to close the hospital because:
- a. as a small standalone sub-acute facility, the lack of scale of the services provided at St Joseph's impacted operational efficiency;
 - b. the volume of services depended on referrals from facilities outside of SVHNS, which had weakened over time; and
 - c. there was no capital investment source to address the aging infrastructure to allow the site to be maintained or developed.
- 75 A principal factor in the closure of St Joseph's was the lack of capital infrastructure investment.
- 76 The decision to decommission St Joseph's Hospital was made by the Board of SVHS in June 2023, when all other options were exhausted. This includes requests for capital funding through the CIPs referred to above at paragraph 50c above.

Opportunities for reform

- 77 The challenges identified in the correspondence with the Ministry I have attached to this statement are occurring across the State and have been known for some time. I anticipate they will continue. These challenges have been acknowledged by the Ministry in NSW Health's Submission to the Special Commission dated 7 November 2023.
- 78 Broader changes to the system in respect of funding is needed moving forward to ensure a sustainable future.
- 79 SVHS plays a critical role in the public health system in NSW, including through the provision of high volumes of local and State-wide services to the public, and significant training and research initiatives. Given the funding challenges that I have described elsewhere in this statement, and particularly that SVHS is not capable of running at a deficit, I consider that some changes are necessary to the ongoing sustainability of SVHS' important contribution to the public health system in NSW.

Capital investment to support growth

- 80 It seems to me that a major impediment to SVHS receiving necessary and fair contribution to its capital infrastructure costs is a concern that the capital assets are owned by a non-State party, and so could be diverted from the delivery of public health services at any time. In the absence of a longer term partnership agreement between SVNS and the Ministry than the current annual arrangements, the Ministry

may consider that there is no certainty for any return on any capital expenditure investment made by the State. This may be why there has been very limited capital expenditure investment made in SVHS by the Ministry.

- 81 One way that this concern could be addressed would be through the negotiation of a long term partnership agreement between the Ministry and SVHS. This could be in the form of:
- a. a partnership agreement without any funding component, which would represent an ongoing commitment between the Ministry and SVHS to continue servicing the NSW community and provide certainty to both parties regarding SVHS' continued role within the NSW public health system for a specified term, say 20 years; or
 - b. a partnership agreement including a capital funding component, which would provide greater security and certainty to support SVHS' position in the public system.

- 82 A long term partnership agreement would support the investment sought by SVHS to enable it to address the much needed maintenance and development of SVHS' infrastructure so that it can focus its resources on delivering the services to meet the needs of the growing population of NSW and continued innovation in the delivery of services.

Sustainable and flexible funding models where ABF is not suitable

- 83 As outlined in paragraphs 58 to 62 above, there are a variety of health services for which the current funding model is not suitable and result in shortfalls in funding for some of the State's most important health services.
- 84 A more flexible approach to funding is needed to optimally deliver specialised care whereby:
- a. highly specialised services and services for priority populations attract a greater weighting within the ABF funding model; or
 - b. an alternative funding model is developed for those services, such as block funding or other models that can address their specific funding requirements.

Signature of witness

