

Special Commission of Inquiry into Healthcare Funding

Statement of Lee Gregory

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Occupation: Chief Executive, Nepean Blue Mountains Local Health District

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 as a witness. The statement is true to the best of my knowledge and belief.

My role

2. I am the Chief Executive of Nepean Blue Mountains Local Health District (**NBMLHD**). I have previously provided the Inquiry with a statement dated 9 April 2024 (MOH.9999.0977.0001) which sets out my role and responsibilities as Chief Executive. A copy of my CV was exhibited to that statement (MOH.9999.0778.000). I now provide an updated copy of my current CV (MOH.0002.0134.0001).
3. I was also the Executive Director, Operations (**EDoPs**) at Northern Sydney Local Health District (**NSLHD**) from May 2021 to September 2022 and also the Acting Chief Executive (**A/CE**) for NSLHD from September 2022 to July 2023. In my role as EDoPs I provided strategic leadership and operational management relating to the performance of the hospitals and services within the LHD, Integrated Care, Operations Improvement and Innovation, and Performance and Analytics. I have also held other executive and managerial roles at NSLHD including General Manager of Hornsby Ku-ring-gai Health Service. In the EDoPs role, I had responsibility for day-to-day interactions with Northern Beaches Hospital regarding operational issues.
4. This outline provides:
 - a. A brief history of the relationship between St John of God Healthcare Inc (**SJGHC**) and NBMLHD and the operation of Hawkesbury District Health Service (**HDHS**);
 - b. Detail regarding the negotiations between NBMLHD and SJGHC for the renewal of the Services Agreement for the operation of HDHS during the period September 2023 to present;
 - c. An overview of the model of operation of the management of HDHS by SJGHC and NBMLHD;

- d. An overview of the model of operation of the Northern Beaches Hospital (**NBH**) by NSLHD as it relates to the scope of my role as EDoPs, NSLHD; and
- e. The benefits and limitations of a model in which a 'public' hospital is operated as a public-private partnership (**PPP**) by reference to the operation of HDHS by SJGHC and NBH by Healthscope.

Background and history of HDHS

- 5. Below I have set out an overview of the history of the Services Agreement between NBMLHD and SJGHC. As the arrangement has been in place since 1994, and I commenced employment at NBMLHD in September 2023, my overview of the history of the arrangement below is based on my review of relevant NBMLHD files and enquiries that I have made within NSW Health.
- 6. On 14 December 1994 the Health Administration Corporation (**HAC**) and Wentworth Area Health Service (**WAHS**), the predecessor to NBMLHD, entered into a PPP contract with Hawkesbury District Health Service Ltd (**HDHS Ltd**) (**the Services Agreement**, controlled by Catholic Health Care Services (**CHCS**), later Catholic Health Care, and sub-agreements with CHCS's finance and construction partners. The estimated project cost at the time of award was \$46.7 million and the HDHS facility commenced operation on 7 August 1996. The Services Agreement had an end date of 6 August 2014, with option to extend, after which the HDHS facility would return to the ownership of WAHS, as it then was.
- 7. WAHS agreed in the Services Agreement that HDHS Ltd would design, construct, own, operate and maintain a new district health facility in the Hawkesbury Local Government Area including a hospital and community health facilities.
- 8. It was agreed that HDHS would provide Hospital and Community Services for public and private patients at the Health Facility for the initial period of 20 years. Private patients were not part of the Services Agreement except in regard to capping of charges and application of quality standards.
- 9. The Services Agreement provided for WAHS to make payment of consideration to HDHS Ltd for the Health Facility to provide services to patients as a district health facility. Financial, operational and legal aspects of the relationship were prescribed by the Services Agreement.

10. The Services Agreement was amended by a Deed of Amendment to the Services Agreement entered into by WAHS and HDHS Ltd dated 23 June 2000.
11. On 27 May 2015, Catholic Health Care exercised the option to extend the Services Agreement for a period of 5 years commencing 1 July 2017 and ending on 30 June 2022. With the consent of NBMLHD, HDHS was subsequently transferred from the control of Catholic Health Care to St John of God District Health Campus Ltd, operated by SJGHC, on 4 November 2015.
12. An extension to the Services Agreement, by a Deed of Extension of Services Agreement was executed, on or around 30 June 2022, under which the parties agreed:
 - a. to extend the term of the Services Agreement to 31 December 2023,
 - b. to use best endeavours to agree on the principles of a new services agreement by 31 December 2022,
 - c. if the parties have agreed on the principles of a new services agreement, but have been unable to agree a new binding services agreement, by 30 April 2023, then the term of the Services Agreement will be extended to 30 April 2024, and
 - d. if the parties fail to agree on the principles of a new services agreement by 31 December 2022, then SJGHC will transition services back to NBMLHD by no later than 31 December 2023, when the Services Agreement will terminate.
13. The parties did not reach an agreement on the principles of a new services agreement by 31 December 2022, and accordingly on 29 December 2022, a further Deed of Extension of Services Agreement was executed to enable negotiations to continue. The parties agreed:
 - a. to extend the term of the Services Agreement to 31 March 2024,
 - b. to use best endeavours to agree on the principles of a new services agreement by 28 February 2023,
 - c. if the parties have agreed on the principles of a new services agreement, but have been unable to agree a new binding services agreement, by 30 June 2023, then the term of the Services Agreement will be extended to 30 June 2024, and

- d. if the parties fail to agree on the principles of a new services agreement by 28 February 2023, then SJGHC will transition services back to NBMLHD by no later than 31 March 2024, when the Services Agreement will terminate.

Negotiations with SJGHC - September 2023 to December 2023

14. I became involved in the negotiations for a new Services Agreement with SJGHC for HDHS in September 2023, when I commenced as Chief Executive of NBMLHD. At that time I understood that negotiations for a new Services Agreement had been ongoing since early 2022 and that SJGHC had agreed to a Terms Sheet and that NBMLHD had yet to formally advise of its acceptance of the Terms Sheet.
15. On 18 October 2023, I emailed (MOH.0002.0122.0001) the Chief Executive of SJGHC advising that NBMLHD accepted the Terms Sheet and that a first draft of the new Services Agreement would be prepared in accordance with the Terms Sheet.
16. At around this time and on receiving a briefing on the issue I became aware of SJGHC's longstanding concerns regarding financial viability, the capital stock/infrastructure, clinical service planning and workforce risks.
17. On 5 December 2023, SJGHC informed the MOH that it would not agree to a new Services Agreement or an extension of the current Services Agreement and intended to cease operating HDHS (MOH.0002.0166.0001). SJGHC indicated it was agreeable to completing the transition by no later than 30 June 2024. Accordingly, on 25 January 2024, a further Deed of Extension of Services Agreement was executed extending the Services Agreement from 31 March 2024 to 30 June 2024. NBMLHD, with the cooperation of SJGHC and MOH commenced steps for the transfer of HDHS back into NBMLHD. At this time NBMLHD did not consider seeking a new PPP for HDHS. This was because of the limited time frame in which HDHS would be transferred from SJGHC to NBMLHD.

Model of operation of HDHS

18. HDHS has operational responsibility for the facility on a day-to-day basis and the site in many ways operates like other hospitals within the NBMLHD network. Monthly performance meetings are held to discuss performance against KPIs within the Services Agreement and annually there is a negotiation on the level of activity to be provided and therefore 'purchased' from SJGHC.

19. Key HDHS staff participate on a daily basis in managing operational issues across the NBMLHD hospital network including on issues relating to patient flow across the district, and elective surgery volumes.

Northern Beaches Hospital

20. NBH is located at Frenchs Forest, within the NSLHD. NBH opened on 30 October 2018 and operates under a PPP with Healthscope Ltd (**Healthscope**). NBH services both private and public patients and holds 488 beds and a 50-space public Emergency Department.
21. On 11 December 2014, MOH entered into agreement with Healthscope. The Services Agreement between NBH and NSLHD required Healthscope to build NBH and deliver a range of public patient services at the hospital for a period of 20 years. At the end of the contract period, the public portion of the hospital may be handed back to NSLHD. Healthscope then has a further 20 years to provide services to patients before the remaining part of the hospital may also be returned to NSLHD.
22. Under the Agreement, public health services are purchased from Healthscope by NSW Health on an annual volume basis, using the activity-based funding model measured through National Weighted Activity Units. The approach to payment of the provision of public patient services at NBH is analogous to the State's approach to funding public hospital facilities across NSW.

Operation of Northern Beaches Hospital

23. Within my scope of role as EDoPs NSLHD I observed a number of mechanisms of oversight over NBH under the projects governance structure. These included an Operational Services Group (**OSG**) co-chaired by NSLHD and NBH and Executive Steering Committee (**ESG**) and monthly performance meetings between the Executive of NBH and NSLHD.
24. NSLHD is responsible for the day-to-day management of the Agreement with Healthscope, including:
 - a. Participating in the OSG;
 - b. Managing and liaising with NBH on a day-to-day basis; and
 - c. Approving (on NSW Health's behalf) the appointment of key personnel at NBH.

25. NBH also maintains operational links with other NSW Health Services including the other NSLHD Hospitals, NSLHD Community Health services and NSLHD Mental Health services.
26. As EDoPs, I interacted with NBH on day-to-day operational issues, predominantly related to Emergency Department performance, Elective Surgery volumes and assistance provided by NBH to other NSW Hospitals during the COVID pandemic.

Benefits and limitations of public hospitals operating as PPP

27. In my view, there are some limitations in having public hospitals operating as a PPP. One is that it can lead to fragmentation and inefficiencies in the care provided. For example, there can be differing IT systems across NSW Health and outsourced facilities. This leads to inefficiencies in information sharing when patients transfer between hospitals.
28. Additionally, I have observed through my experience of a variety of outsourced arrangements (PPPs, Medical Imaging providers and hard/soft FM providers) that a disproportionate amount of time is spent managing the contract with the service provider. In my view, the amount of time spent often outweighs the level of services procured and value of the contract. For example, the value of the contract for SJGHC to operate HDHS is approximately \$87m per annum which is a relatively small amount when compared to the overall NBMLHD budget of \$1.1bn.



Lee Gregory

6 June 2024

Date



Witness:

6 June 2024

Date