

Responses to Supplementary Questions – Public Accounts Committee

Inquiry into the safety and quality of health services provided by Northern Beaches Hospital

1) Can you outline any areas where you believe the Deed was imperfect and could have been improved? Noting this, how might future PPPs be better designed?

What changes would you propose to the KPI regime to ensure higher levels of care are delivered? For example, are there indicators beyond timeliness or activity volumes that could be included in future KPI regimes?

RESPONSE:

With regards to areas for improvement for the Deed, the audit report includes recommendation 3 which goes to areas for improvement in any future health service delivery outsourcing arrangements. Specifically, that in developing the contract consideration be given to:

- a) the balance of risk allocation between parties to ensure the sustainability of quality and safe health services over the term of the agreement
- b) the ability to mandate hospital network integration requirements
- c) requiring adoption of NSW Health systems
- d) requiring NSW Health staffing models and clinical models of care
- e) comprehensive key performance indicators to measure and drive performance.

With regards to KPI's, the number of KPI's as well as how KPI's are measured and abatements applied may give the State greater control over the level of care delivered. The management of Northern Beaches Hospital public-private partnership focuses on threshold considerations as to whether KPIs have been met and whether abatements apply.

Schedule 18 of the project deed lists up to 48 abatable key performance indicators (KPIs). While these KPIs provide a framework for monitoring performance, they are predominantly output-focused, measuring activity and timeliness rather than clinical quality or patient outcomes. This imbalance limits the ability to assess whether the hospital is delivering the "best quality integrated health services and clinical outcomes" required under the deed.

Future contracts could include a more comprehensive set of outcome-based KPIs such as measures of patient safety, clinical effectiveness, and integration with NSW Health systems alongside output indicators. This would strengthen oversight, enable earlier identification of underperformance, and ensure that contractual incentives align with quality and safety objectives, reducing the tension between commercial imperatives and clinical outcomes.

2) Your audit noted that, in November and December 2023, Healthscope requested that the public portion of the Northern Beaches Hospital be returned to the NSW Government at an earlier date. Can you elaborate on why Healthscope made these requests?

RESPONSE:

In November and December 2023, Healthscope wrote to the Ministry of Health requesting to bring forward the return of the public portion of the Northern Beaches Hospital by 14 years while retaining the private portion until 2058.

The requests from Healthscope cite four factors as principally driving the requests to return the public portion of the hospital to the State government. Specifically, in Healthscope's view, a:

- challenging administrative and integration outlook
- risk to viability of Northern Beaches Hospital due to insufficient funding
- lack of integration into the wider health network
- strained stakeholder relationships.

The audit of the Northern Beaches Hospital focused on evaluating how NSW Health managed the public-private partnership and did not examine whether Healthscope's claims about its financial stability were accurate.

The audit report findings are consistent with Healthscope's views that there was a challenging administrative and integration outlook, and a lack of integration into the wider health network.

3) The integration of Northern Beaches Hospital into the Local Health District and NSW Health was one of the issues identified in the 2019 Legislative Council inquiry, and the government established the Clinical Integration Committee in response. Can you provide any further information on whether this Committee has fulfilled its purpose?

Is the Audit Office aware of any plans from the Northern Sydney Local Health District to evaluate the work of this Committee?

RESPONSE:

The Clinical Integration Committee had limited effect in improving the integration of the Northern Beaches Hospital into the NSW Health network and promoting operational links between the Northern Beaches Hospital and NSW Health facilities, as described in section 4.2 of the audit report. In summary the issues impacting on the effectiveness of the Committee include:

The Committee had a reactive rather than proactive role

- The committee mainly addressed issues escalated through forms or unresolved operational matters, rather than driving systemic integration initiatives.

Low visibility and reporting fatigue

- Staff initially reported integration issues via forms, but due to increased workload and lack of perceived action, reporting declined. This reduced the committee's ability to identify and resolve problems.

Failure to progress critical integration projects

- As an example, the installation of Vision for Life cameras for neonatal transfers was on the agenda for over two years without resolution, despite being a safety-critical item.

Variable engagement from Healthscope in clinical network meetings

- Healthscope's participation in clinical network meetings was inconsistent. While strong in emergency department forums, it was weak in general surgery, limiting the opportunity to identify challenges in broader integration and escalate to the Clinical Integration Committee.

No formal evaluation of effectiveness

- The Northern Sydney Local Health District has not assessed the committee's impact, meaning there is no accountability or structured improvement plan.

Structural limitations

- The committee is an officer-level forum, which may lack authority to enforce changes or overcome contractual and governance barriers.

The audit office is not aware of any plans from the Northern Sydney Local Health District, nor from Healthscope or the Operational Services Group governance committee, to evaluate the work of the Clinical Integration Committee.

4) Do you have any comments on entities' responses to your report recommendations and findings?

RESPONSE:

All audited agencies responded satisfactorily to the audit. NSW Health and Healthscope accepted all recommendations that related to them.

5) Have you received any updates from NSW Health regarding the unusual data pattern for admissions to the ER under four hours identified in your audit?

RESPONSE:

With regards to the data pattern shown in Exhibit 9 of the report, my staff engaged with the Northern Sydney Local Health District to enquire about action taken. I understand that the Northern Sydney Local Health District internal audit function is undertaking a review that is expected to be finalised this calendar year.

6) Now that the Health Services Amendment (Northern Beaches Hospital Deed Termination) Bill 2025 has passed, are there any insights from your audit that may assist in transitioning the public elements of the hospital to government ownership and management?

RESPONSE:

I point to the necessity for Healthscope to proceed with implementing recommendation two. This recommendation and associated findings are relevant to patients in the system now and in the immediate future. This recommendation was to Healthscope to address safety and quality, system and reporting issues and it is important that resolution of these issues is not lost or delayed in the transition.

7) Is there a risk that the issues raised in your audit's Recommendation 2 will not be appropriately addressed – or addressed in a timely manner – if the management of hospital operations are transitioned to NSW Health and the Northern Sydney LHD?

RESPONSE:

Yes, that is a clear risk, and one that should be managed as a high risk in the transition.

Ordinarily, the Public Accounts Committee follows up on my recommendations after the tabling a performance audit report. At that time, at the invitation of the Committee, I provide an assessment on agency progress in implementing accepted recommendations.

For the recommendations in the Northern Beaches Hospital performance audit, I am considering a follow-up audit to assess how well the transition has been managed.

8) Are the challenges experienced at Northern Beaches Hospital typical of services provided through public-private partnerships?

RESPONSE:

This audit examined the management of the public-private partnership by the Northern Sydney Local Health District. It was not an audit of public-private partnerships in health nor an audit of public-private partnerships in general in NSW.

Nevertheless, the report does highlight some challenges that I believe are commonly encountered in public-private partnerships. For example, the design of a robust set of key performance indicators that allows the State to effectively assess and manage performance and whether that performance is achieving the intended outcomes.

Relatedly, the Northern Beaches Hospital public-private partnership highlights the degree to which good relationships are crucial for achieving better outcomes. The relationship between NSW Health and Healthscope was strained early in the operational phase of the public-private partnership, and while the relationship improved during the period addressed by the audit, it was not as constructive as it could have been. Strong partnerships help address challenges not clearly defined in project deeds, allowing both parties to navigate uncertainties more effectively.

9) The Committee has heard conflicting evidence about who was responsible for the lack of integration of NBH into the broader LHD. One camp argued that it was the LHD that resisted

further integration and did not provide any spirit of partnership. Another camp argued it was Healthscope that saw no commercial advantage in further integration and did not want to bear any additional costs. Which of these views is more consistent with your view or the evidence/data from your audit?

RESPONSE:

Section 4.1 of my report articulates that constraints in the project deed worked against greater integration of the Northern Beaches Hospital into the NSW Health network. This flows through to Recommendation three, that any future health service delivery outsourcing arrangement consider the ability to mandate hospital network integration requirements.

Section 4.2 of my report sets out that the project deed contains provisions for NSW Health or Healthscope to propose new services to be provided at the Northern Beaches Hospital. However, in contrast to services already contemplated in the project deed, Healthscope is entitled to make a reasonable estimate of the cost of new services. The price per occasion of service may exceed the discounted price Healthscope receives for existing services. NSW Health can then accept or reject that offer. The project deed provides for the State to compel Healthscope to deliver a new service, but Northern Sydney Local Health District reports that to maintain the commercial principles of the project deed it has not used this approach to date.

Both views are consistent with the findings of the audit. The deed was constructed so that the services to be provided at the Northern Beaches Hospital would be complementary to the public health services at other facilities in the district. At the same time, Healthscope had no obligation to deliver additional services identified by the Local Health District, rather they could, in effect, provide a quote for those additional services. It was then a matter for the two parties to negotiate the nature, scale and costs of new services.

The specific examples given in the audit report that demonstrate the tension between the Local Health District's view on service provision and the commercial perspective of Healthscope are presented in Exhibit 10 pages 24-25 of the report relating to a thrombolysis stroke service (not progressed), paediatric acute mental health beds (declined by Northern Sydney Local Health District) and interventional cardiology (accepted). High proposed price of the thrombolysis and paediatric acute mental health beds were the main reasons these new services were not progressed.

10) What specific examples are you aware of where Healthscope or the Northern Beaches Hospital did not make an investment (for example in equipment, technology, staffing, maintenance or other matter) where it should have? In these cases, was Healthscope presented with the investment decision and should it have known about the investment need?

RESPONSE:

The project deed contains provisions for NSW Health or Healthscope to propose new services to be provided at the Northern Beaches Hospital. However, in contrast to services already contemplated in the project deed, Healthscope is entitled to make a reasonable estimate of the cost of new services. The price per occasion of service may exceed the discounted price Healthscope receives for existing services. NSW Health can then accept or reject that offer. The project deed provides for the State to compel Healthscope to deliver a new service, but

Northern Sydney Local Health District reports that to maintain the commercial principles of the project deed it has not used this approach to date.

Exhibit 10 in the report sets out some challenges with this mechanism. It is beyond the scope of the audit for me to comment on whether the costings developed by Healthscope or the decisions to accept or reject proposals by the Northern Sydney Local Health District were appropriate.

In Section 4.2, I give the example of the vision for life cameras. I understand that matter has now been resolved with further investment in the cameras.

Section 3.1 of the report highlights how nurse staffing complements may over time lag behind benchmarks achieved in public hospitals.

The report also highlights an underinvestment in emergency department IT (Section 3.1) and risk management systems (Section 4.1). These gaps are the target of recommendation two.

11) What comments do you have about the culture at the Northern Beaches Hospital among different categories of staff, for example doctors, nurses and management?

RESPONSE:

Staff culture at the Northern Beaches Hospital was not in scope for this performance audit. My officers spoke with staff at the hospital, but did not seek out to make any assessment of and did not make any findings on culture. I do note that Healthscope staff and clinicians engaged professionally and positively with the audit team throughout the audit.

12) Can the Audit Office quantify whether the state received value for money given the constraints of the Public Private Partnership model?

RESPONSE:

The Audit Office did not assess the cost-benefit analysis underlying the original business case. Nor has NSW Health despite some further work on benefits realisation.

The original business case included a net benefit of \$1.526 billion. As the audit report notes, the Northern Sydney Local Health District estimated that it had agreed to financial enhancements of around \$73 million in cash and a further \$70 million in liability reductions. While it is a rudimentary adjustment, removing these financial enhancements from the net benefits would still leave a significant estimated cost benefit for the state.