

Dear Members,

Why redevelopment is not a viable option for the hospital

Many members will be aware that a small group of members has been expressing concern that before recommending a merger with James Brown Trust Kalyra the Board failed to give adequate consideration to the continuing operation and subsequent redevelopment of the hospital.

These concerns reflect both a misunderstanding of the Board's actions and a related misunderstanding of the true cost, complexity and difficulty of operating a hospital in a manner that conforms with modern standards. For the sake of clarity, the following is an explanation of the factors that influenced the Board's thinking and decision making.

Capital Costs of Redevelopment

When thinking about whether redevelopment was a viable option the Board secured the services of the Principal Architect with Brown Falconer, who is experienced in the design and construction of both new and redeveloped hospitals. Following his inspection of the hospital he recommended against redevelopment on the basis that the costs and difficulties involved could not be justified. It would be no more expensive to simply demolish the old hospital and build a new one from scratch.

This was an unsurprising result. The new RAH was built on a new site specifically because of this problem and to avoid the design compromises inherent in trying to work within the basic structure of very old buildings. A similar set of considerations applied to the decision to build an entirely new Women's and Children's Hospital on a new site.

As its then Chief Executive, I presided over the design, construction, commissioning, and operation of the new Mount Gambier Hospital. There was a very lively community debate about whether to redevelop the old hospital versus building a new one. In the end, once the community fully comprehended the cost and design implications of trying to redevelop what was then a 45-year-old building, majority support swung decisively behind a new build.

To further illustrate the problem locally, the cost of redeveloping and re-equipping the hospital's single operating room and related facilities to meet modern standards would, at a minimum, be in excess of \$1.0 million. Given that no surgeons any longer wish to make use of the facility because of their access to the very modern Seaford Day Surgery, it makes no sense at all to incur this cost.

It should also be understood that any plans for a redevelopment project would require sign off from the body which licences private hospital beds in South Australia, being the Department of Health and Wellbeing. The Department will no doubt insist that a redeveloped facility fully complies with current standards for the construction of hospitals. This necessarily means that all of its systems and facilities must meet modern standards, and this will not be easy to achieve in a 70-year-old building.

Overall, a very conservative estimate for fully redeveloping the hospital would be \$5.0 million but the ultimate costs may be greatly in excess of that figure.

Location of the hospital

All members will have noticed that the SA government is spending several hundred million dollars to bring a dual carriage way highway to the end of Main Road at McLaren Vale. When construction is completed at the end of 2023 this will mean that local people will have even easier access to services such as the Seaford Day Surgery, the Noarlunga Hospital, Flinders Medical Centre and the collocated Flinders Private Hospital.

A local hospital is going to be competing for private patients with these well-established facilities. The question then becomes what the competitive advantage for the local hospital is relative to these facilities given that they have solidly established referral networks and are the preferred working environment of most Specialists working in the southern region of Adelaide.

The Board could not see how even a fully redeveloped hospital could effectively compete with these mostly much larger facilities which draw upon the same pool of potential private patients.

Attracting Specialists

All private hospitals require a pool of Specialists with admitting and clinical privileges who routinely admit and treat patients. It is these Specialists who determine how many patients are admitted, what procedures are undertaken and how long patients stay in hospital. In turn, their decisions directly impact upon the hospital's ability to derive revenue from providing operating room, nursing and related services to patients.

While the population of McLaren Vale and surrounding towns is growing, it is coming off a very low base of around 12,000 people. The overwhelming majority of population growth in the southern region is being directed along the coast at Seaford, Moana, Aldinga and Sellicks Beach. This is reflected in the rapid growth in new housing observable in these suburbs. Consequently, there is only a small potential referral base originating in the southern vales, making it of little interest to Specialists who require a much larger referral base to maintain a viable practice.

Also, the absence of effective back up services at McLaren Vale in the form of readily available Anaesthetists, Intensivists, Emergency Physicians and resuscitation facilities would necessarily mean that no complex procedures could be safely undertaken at the hospital. This would discourage many Specialists from working here because of concerns about meeting minimum safety standards in the event of an emergency.

It is noteworthy that no Specialist doctor has sought admitting and clinical privileges at the hospital in at least the last 3 years.

Attracting and Retaining Nurses

The hospital has in recent times experienced considerable difficulty in attracting and retaining the services of nurses. There are a number of reasons for this including the relative scarcity of nurses overall, the impact of intense competition for nurses emanating from other hospitals and, more recently, the aged care sector and the fact that the hospital until very recently could not offer competitive salaries and conditions.

Importantly, a small, old and relatively isolated hospital is not an attractive career option for many nurses. These nurses are tertiary trained and used to working within large, high complexity hospital environments, which have significant capacity to provide clinical back up and ancillary support services. While the relatively slower pace and lower patient complexity at McLaren Vale will be attractive for some, it significantly limits the pool of nurses from whom the hospital can draw.

Revenue Potential

The hospital has for many years been unable to attract the number of private patients it would need to break even let alone make a profit. Private patient revenue has never exceeded about \$700,000 per annum over any of the last 5 financial years. This compares with a total hospital operating cost of around \$3.5 million per annum.

In practice, the hospital has been entirely reliant upon a contractual arrangement with the Southern Adelaide Local Health Network (SALHN) whereby it was paid to provide services to public patients. This arrangement has been in place for about 17 years and the current value of the contract is \$2.5 million per annum.

The Board has had to struggle very hard to persuade SALHN to increase the contract payments sufficiently to keep the hospital operating on at least a break-even basis. Also, it has been unable to negotiate a long-term arrangement with SALHN and has relied upon contracts for periods of 6 months at a time. This creates an uncertain financial environment which greatly inhibits the ability to plan for the future or to attract and retain staff.

Unfortunately, SALHN has decided to terminate the contractual arrangements on 1 July 2023 as it has now made alternative arrangements for the treatment of patients who would otherwise have been admitted at McLaren Vale. This means that there will be an annual \$2.5 million revenue shortfall in the 2023/24 financial year which would render the hospital rapidly insolvent if it continued to operate. There is no conceivable circumstance in which the hospital can make up this revenue shortfall from private patient admissions.

Summary

Contrary to the belief of some members, the Board did examine the options for redeveloping the hospital. It rapidly became apparent that there were insurmountable obstacles to achieving this outcome which included:

- the very high capital cost of any redevelopment project;
- the close proximity of well-established competitors for private patients;
- the difficulties in attracting private Specialists to work at a small, old and comparatively isolated hospital;
- the current and projected problems attracting and retaining nurses; and
- the inability to secure a revenue stream sufficient to ensure that the hospital could operate profitably.

It is fair to say that people who are unfamiliar with the financing, management and operation of hospitals will struggle to grasp the costs, complexities and difficulties involved. Hospitals are complicated organisations in which many different functions need to work in harmony in order to deliver safe, timely, efficient, effective and comfortable care for patients. Achieving this outcome is not easy at the best of times and is always very costly.

I hope that the above comments will enable members to more clearly understand why the Board has concluded that redevelopment of the hospital is not a viable option and why there is no financially responsible way that the hospital can operate beyond 30 June of this year.

Yours sincerely,



Chris Overland
Chair

