STATES OF JERSEY

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PRIVATE HOSPITAL DEVELOPMENT: SCRUTINY REVIEW (P.221/2005) – COMMENTS

Presented to the States on 13th February 2006
by the Minister for Health and Social Services

STATES GREFFE

COMMENTS

What follows are comments on P.221/2005 lodged by Deputy Le Claire. This proposition seeks States agreement to ask the Social Affairs Scrutiny Panel to examine the proposed development of a private hospital on the Stafford Hotel site through some still vague "shared services agreement" with the Health and Social Services Department (H&SS) – and H&SS's rejection of that proposal.

It is accepted that the Social Affairs Scrutiny Panel is empowered by the States to undertake whatever scrutiny activities it deems appropriate within its terms of reference. Scrutiny of this proposed development certainly falls within this remit and if this topic was chosen then my officers and I have absolutely no difficulty in co-operating fully. The proposal to redevelop the Stafford Hotel as a new market entry private hospital is so ill-conceived, fundamentally unnecessary, and representing such a poor deal for the States of Jersey that the outcome of such scrutiny – should it take place – can be confidently predicted.

My health and social service colleagues – together with the other 4 States Departments which fall within the remit of the Social Affairs Scrutiny Panel – met with this latter body on 9th January to discuss our respective programmes of work. As the chairman of the panel informed us, it is clear that the Social Affairs Scrutiny Panel has an enormous agenda. There are many health and social care issues which would benefit considerably from scrutiny input. Members will need to consider whether the scrutiny resource – funded by taxpayers – should be focused upon helping a private business concern, the activities of which are simply an irrelevant side-show to the real health and social care agenda.

Partnerships with the private and independent sectors

Before moving on to deal with the specifics of the proposed private hospital scheme, it may help members' understanding if I explain the approach of Health and Social Services to working in partnership with both the private and independent sectors of the health and social care field.

The approach of the Health and Social Services Committee was always to consider opportunities for public private partnerships on the merits of each specific proposal. That continues to be my approach. A number of such partnerships, which I describe below, have indeed proven to be beneficial to the public interest.

- **Out-of-hours service for primary care emergencies**

H&SS has been working with the GP community in Jersey to develop an out-of-hours service for primary care emergencies. This project is currently the subject of public consultation – but if approved will mean that H&SS will invest over £85,000 in the provision of an important new kind of service – a service provided by GPs in Jersey who are all practitioners independent of the States.

- **Concordat with the private sector**

H&SS is developing a public private concordat between H&SS and the private and charitable providers of institutional care. The aim of the concordat is to ensure that the Jersey Care Federation can be assured of a "level playing-field" when care is purchased by the States. The concordat will ensure that both the fee structure and the quality of care are made transparent when public patients are transferred to such institutions for their long-term care.

- **Private respite care**

Currently all emergency respite care for older people is commissioned from the private institutional sector in Jersey. This is a long-standing arrangement which is likely to grow – through investment by H&SS – in future years.

- **Future strategy**

The longer term strategy for the provision of modern health and social care in Jersey will, it is proposed, involve significant investments in general practice and primary care. The agencies that will be given these enhanced roles are all either independent service providers or charitable institutions. H&SS is working with representatives of general practice and with Family Nursing and Home Care (FNHC) to create a new vision as to how these services will be shaped in the future.

- **£10 million in grants to non-governmental institutions**

H&SS currently disburses £10 million of grants each year to the voluntary and charitable sector for services ranging from front-line clinical treatments (e.g. FNHC) to advocacy services (e.g. CAB).

- **(Dandara) public/private partnership to create new Dental Clinics**

H&SS agreed with Dandara an exchange of assets by which a patch of land would be given to Dandara in return for the "shell" of the new Dental Clinic for the sum of £230,000. Both parties were able to meet their respective needs via this transfer.

- **(Sandringham) – public/private partnership to create medical clinics**

A land transfer (in Gloucester Street) from H&SS to Sandringham Investments is to make possible the creation of new medical clinics and supporting accommodation which this private company will build and fit out. Again, both partners benefit.

The above partnerships demonstrate that H&SS does not approach partnership working with a fixed, ideological position – either that the public sector must do everything or that all activities should be carried out by the private sector. Instead each opportunity is considered on its own merits.

The proposals that Health and Social Services should become a partner in the development of a private hospital on the site of the Stafford Hotel was likewise considered on its own merits – and rejected as the scheme's disbenefits to the public interest significantly outweigh any supposed benefits. Moreover, this same conclusion has been reached on several occasions by different management teams.

The proposal to re-develop the Stafford Hotel as a private hospital

The proposal to redevelop the Stafford Hotel as a private hospital by SNIB – a property development company – has been the subject of a number of questions in the States over the last year or so. The Stafford Hotel is located in Kensington Place, St. Helier with a rear view of the General Hospital's mortuary. SNIB's approach seems to be based upon proposals that emerged from a report they commissioned from PriceWaterhouseCoopers (PWC) that a "shared services agreement" should be entered into with the Health and Social Services Department (H&SS) by which the clinical and non-clinical services of the Jersey General Hospital are put at the disposal of the private hospital. In return, the private hospital would provide additional capacity so that the Jersey General Hospital could concentrate on reducing waiting lists for public patients.

This represents the first insurmountable obstacle for the SNIB proposal as a business, because the waiting lists for public patients in the Jersey General Hospital are now so low that is predicted that all waiting lists will be below a *maximum* of 3 months by the end of March. When that point is reached over *80%* of public patients will only have to wait *weeks* for treatment. To pile on the agony for SNIB, in the next 18 months "waiting lists", as such, will be abolished and will be replaced by a booking system whereby *public patients have discretion and flexibility as to when **they*** want their operations to be performed.

"Waiting lists are scrapped". (Jersey Evening Post headline, 26th January 2005)

This is no surprise to SNIB. It was forewarned. Two senior representatives from SNIB met with the then recently appointed Chief Executive of H&SS in August 2004 to present their proposals to him. In response, the Chief

Executive explained the emerging plan which would deliver such reductions in the public waiting lists – reductions achieved within existing resources. On hearing of all this, one of the two SNIB representatives observed that as a taxpayer this was what he wanted to hear, but as a developer (of the Stafford Hotel) it was not what he wanted to hear.

With nothing to offer the States of Jersey through such a shared services agreement, SNIB are proposing a one-sided deal by which its business is subsidised by the taxpayer. The recent history of health care developments in the U.K. is peppered with examples of ill-conceived public/private partnerships which failed – the cost of them then falling to taxpayers. This proposal would risk Jersey joining that sorry litany.

A private development that cannot stand on its own feet

It has been repeatedly asserted by the developers that their scheme would work without any element of public subsidy. This assertion can be seen to be erroneous upon the most cursory examination of the facts. The proposal for a new build hospital in Jersey that will – crucially – stand alone financially without subsidy, is simply unviable. We need only refer to the PWC report commissioned by SNIB for evidence to this effect.

The report states that the market opportunity –

> **"is high risk given the current market environment and the level of capital investment in facilities and equipment required. Whilst these risks are particularly high for a *stand-alone* provider undertaking a major capital investment of the scale and nature planned by SNIB Ltd, they can be minimized through the development of a *partnership with the States* and/*or established private healthcare providers in the UK market* which will have the infrastructure and capacity for delivering private healthcare to required standards".**

Here we see the fact that the scheme is particularly high-risk for a stand-alone provider but that those risks could be minimized by sharing them with the States or a private sector provider. Why should the States share those risks when the scheme offers no particular advantage? If the scheme is viable without any form of subsidy, where are the major private sector health care providers who, in theory, should be willing partners?

If SNIB wish to redevelop the Stafford Hotel as a stand-alone private hospital that is nothing whatsoever to do with H&SS. SNIB – like any other developer – is accountable for the success or failure of its speculative investments.

Like, for example, the developers of the Lido de France site. Outline planning permission has been sought by the developer for a new *stand-alone* medical facility – which will include 2 operating theatres – aimed at the private market. The developers of the Lido have acted in a thoroughly professional manner having extended to my Department the professional courtesy of explaining their plans and seeking H&SS advice as to the epidemiology and morbidity of the Island – advice freely given. The developer has – unlike SNIB – commissioned professionals who are experienced in the management of health care in order that the development is robust, coherent and viable.

The SNIB proposal explained in detail

SNIB has never submitted any detailed proposals for the redevelopment of the Stafford Hotel to my Department. Apart from one or two meetings in 2002 with officers of H&SS, and viewing some initial drawings which showed the basic shell and layout of the building, the only substantive document which H&SS has had sight of is a report from the management consultants PriceWaterhouseCoopers (PWC) which was commissioned by SNIB itself. To be fair, the report does not pretend to be a business plan but is more a report of the risks and opportunities which are attendant upon the redevelopment of the Stafford Hotel. The report is founded upon a set of assumptions which can be summarized thus –

- There is potential for a significant increase in the private medical sector in Jersey given the "penetration" of private medical insurance (PMI) amongst the population.

- It is both high-risk and disproportionately expensive for a 'for-profit' organization to "enter the private acute healthcare market" in Jersey unless this is made possible by a partnership – or a "shared service agreement" (PWC report, page 8)– between a developer (such as SNIB) and the States of Jersey.

- There are reciprocal benefits to both the developers and H&SS from sharing the latter's expensive clinical and non-clinical infrastructure.

It follows that if it is "high-risk" for the proposed development of the private hospital to be a stand-alone facility – and if that risk is reduced to "low-risk" because of an agreement with H&SS, then it is because there has been a "risk transfer" to the States of Jersey. This is simply unacceptable.

A "shared services agreement"

What the PWC report then proposes (to reduce the risk to SNIB) is a "shared services agreement". Such an agreement would put the clinical infrastructure of the Jersey General Hospital (which would include – amongst a wide and diverse range of services – the intensive care facilities, the resuscitation teams, and the radiology and pathology services) at the disposal of the private hospital at marginal cost in return for "benefits" to the States of Jersey. Those so-called "benefits" have to be clearly understood.

The so-called benefits are that the private care currently provided in the 2 private wards (Rozel and Sorel Wards) would transfer to the private hospital, leaving these 2 wards for public patients. If H&SS does not require these wards for public patients then the benefits are entirely spurious and worthless. *H&SS does not need these wards for public patients requiring elective surgical procedures because – to repeat – waiting lists have reduced drastically and will shortly be abolished and replaced with a booking system. H&SS does not need these wards for public patients requiring emergency medical or surgical care because H&SS has sufficient beds for this purpose also*.

The Jersey General Hospital – its future

The Jersey General Hospital sits at the heart of H&SS. It provides a range of services which are of a very high standard. Its doctors, nurses and other health care professionals are well-trained, highly respected and are as good as anywhere in the world. The fact that these professionals have been able to re-organize themselves to yield such spectacular results in reducing waiting lists within existing resources is testimony to that. These professionals are now turning their attention increasingly to re-organizing emergency care.

There is now a robust body of evidence which clearly suggests that the Jersey General Hospital's emergency services can be better organized to provide a more effective and efficient "24/7" service. This evidence draws on experience elsewhere. Work will start shortly on this project, which will be led by consultants and supported by nurses, other health care professionals, and by managers. The issues which will need to be tackled include how –

- Professionals other than doctors can perform complex clinical tasks.

- Greater efficiency can be obtained from the acute facilities – the beds, the outpatient services, the operating theatres, the entire stock of beds.

- We can continue to provide first world emergency care when there is a global shortage of clinical manpower.

- Investments in primary and community care can keep patients with chronic disease out of hospital and can return older patients more quickly back to their own homes.

What will not feature is some vague and ill-conceived "shared services agreement" with a property developer. It can be seen that when placed alongside these huge issues of clinical policy, the SNIB proposal is not only ill-conceived, worthless in terms of benefits to the States of Jersey but is also a trivial side show – a diversion from the real agenda.

SNIB is a property developer. It knows nothing about the delivery of acute health care and has not even bothered to commission expertise in this field in order that H&SS officers can have an informed professional dialogue about what it is that SNIB actually wants. Rather than pursue such a professional course, the developers have chosen to conduct its relationship with the States of Jersey through a process of megaphone diplomacy – that is, via unsolicited flyers to States members and press statements.

SNIB – Financial incompetence

In the absence of a professional dialogue, H&SS officers have had no choice but to take some snippets of information about the proposed development and try to work out for themselves what, in detail, it is all about. Typically of SNIB's disinterest in discussing matters with H&SS, the information gleaned was supplied by SNIB to the Regulation of Undertakings office and not to my department.

These pieces of information, which describe what some of the services provided by the Stafford Hotel *might be*, are simply not credible. For example, one such snippet proposes a "step-down" facility in the Stafford Hotel. There is not the slightest indication as to what this facility would do – whether it would be for surgical or medical or even for mental health patients. The costings stated are grossly inaccurate. Here, SNIB tell us that the cost of 9 health care assistants is £65,000 when the real cost is approximately £250,000. Here, SNIB tell us that the cost of 4 middle-grade nurses is £76,000 when the real cost *at the minimum of the pay scale* is £175,000 (all of these costings are at 2005 rates).

However, these are small errors when seen against the "step-down" facility cost which SNIB has *failed* to account for. These include –

- The fact that to put together a 24/7 nursing rota then 19fte – not 18fte – are required.
- The salaries cited by SNIB are all basic salaries – they do not account for annual leave costs, study leave costs, maternity leave costs or sick leave costs.
- The SNIB costings do not include employer's costs – nor superannuation costs, nor extra duty payments for night, evening and weekend working.

In the light of such financial incompetence, we need to ask a simple question: even if there were a public interest in such a private hospital scheme, would it be responsible for a publicly funded department to enter into an agreement with a partner demonstrating such a poor grasp of health economics? Frankly, my officers have better things do than putting effort, time and taxpayers' money into correcting the errors of a property speculator who has precisely zero record in health care delivery.

Unnecessary jobs and pointless population growth

In its submission to the Economic Development Committee, the SNIB proposal stated that additional caring jobs such as theatre nurses and ward nurses would be created. It is fairly obvious that most local nurses who wish to work in the profession are already employed – either in H&SS, or in Jersey's charitable or private sectors. Thus SNIB would have to recruit either directly from the U.K. – or from H&SS and the vacancies so created in H&SS would have to be recruited from the U.K. Thus the States of Jersey would undermine its very own Migration Strategy to staff a superfluous and irrelevant commercial concern.

The view of the Economic Development Committee

The EDC considered the SNIB proposal and took evidence from the developers and from the Chief Officer of H&SS. Its decision, its objective and impartial decision – as conveyed in answer to a written States question tabled on Tuesday 21st June 2005 – was that –

> "*The Economic Development Committee, in considering this difficult and complex application under the*

Regulation of Undertakings and Development (Jersey) Law 1973, as amended, had regard to its policy of not granting consent in respect of a new undertaking unless it is totally satisfied that the granting of such consent is in the Island's overall best interests. The main reason that the Committee decided to refuse this application was the demand on resources of the Island in relation to the proposed staffing of the undertaking, which would be significant, that there would be few additional employment opportunities for local people and there would be a likely need to employ a potentially significant number of non-locals. In addition, having considered evidence from H&SS and the applicant, the Committee was of the opinion that increasing the supply of medical facilities would not be in the Island's best interests and that there was considerable doubt that an additional health facility would improve the efficiency of health services or contribute to a more productive workforce, as required under the Economic Growth Plan.

It was evident that there was considerable disagreement between H&SS and the applicant over many issues in the business proposal and the Committee (EDC) advised the applicant that it would reconsider the application if these issues were addressed."

The costs to the public

As already explained above, the proposal cannot work as a stand-alone development. The developer's own consultants, PWC, stated clearly that the "risk" had to be transferred to a "partner", in this case, the Jersey taxpayer via H&SS.

The present owners of the Stafford site paid approximately £2.3 million for its purchase. To this capital outlay must be added the likely £20-22 million needed to create and equip the new facility.

It could be speculated that a sum of some millions of pounds per annum of recurring revenue expenditure would need to be spent to run the facility. It is, however, difficult to be precise as the developer has not produced a business plan, at least certainly not one that has been shared with H&SS. However, making some assumptions concerning the range and scale of services and support that the facility would need to purchase from H&SS, it can be estimated that a charge in the region of £3.2 million per annum, rising with inflation, would need to be levied on a full service-sharing basis. This would be a commercial sum charged at market rates and representing a 20% profit margin for the Island's taxpayers. Anything less than this charge would represent a market failure and a de facto subsidy from the people of Jersey.

However, it is not only the apparent non-viability – and consequently the risks – of the scheme we need to consider. In addition to the very real likelihood of the scheme being unable to meet its recurring financial obligations to H&SS, we need to consider the loss of income which would be incurred by the taxpayer if the private health care presently carried out by H&SS were transferred to this new facility.

If the redevelopment of the Stafford private hospital was to go ahead, then it is likely that it would only carry out the more straightforward and less complex procedures. H&SS would continue with the more complex, high-risk and emergency procedures. This in effect would create diseconomies of scale for H&SS with unit costs increasing significantly. The opening of the new private hospital would result in H&SS losing the contribution it achieves towards the cost of overheads from private patient services. This equates to just over £1.3 million or 30% in 2005 and includes the private patient contribution that is achieved from MRI radiology services provided by H&SS.

In 2005, H&SS carried out a total of 3,393 private procedures [612 private day cases, 632 private endoscopies and 2,149 private operations]. Of those, 129 were emergency procedures. It is safe to say that H&SS will have to continue to provide private services to those patients who require more complex, high-risk and emergency procedures [i.e. ITU] even if this new private hospital were to go ahead. H&SS would therefore have to provide some private services for emergency and other procedures, but would lose the contribution towards overheads, support services and fixed costs it achieves from the remaining private patient services. This would be a loss of public revenue of over £1.3 million. This includes income generated from private patient services for surgical and medical patients as well as MRI services.

The real health and social care agenda

I have been very pleased at the way in which newly elected States Members have taken such an interest in the health and social care agenda for Jersey – and, indeed, I have been pleased with the renewed interest from longer-serving members. This has been evident in my many conversations of late – and was certainly evident on the afternoon of Tuesday 24th January when H&SS took part in the Induction Briefing for newly elected States Members. There is clearly a growing appreciation as to what the big issues are for health and social care in the future and these issues include –

- Coming to terms with the "demographic time bomb" – ensuring that new kinds of services are provided which will enable older people to live full and independent lives in their own homes.

- Ensuring that Jersey keeps abreast of the latest advances in medical technologies, practices and drugs – and is always able to fund and provide them for Islanders.

- Making significant improvements in the way in which chronic disease – such as diabetes, respiratory disease and chronic heart disease – is managed, thereby reducing the reliance on acute hospital care and investing in primary and community care.

- How H&SS can make our services more effective and more efficient – thereby raising standards within a balanced budget.

- Making investment in adoption and looked after children services – and thereby reducing reliance on care homes.

- How Jersey competes in the global market to secure scarce health and social care skills which are in short supply.

These are major issues which are of fundamental importance to the future of Jersey. H&SS is struggling at the moment to free up some of its hard-pressed consultants to take on the necessary clinical leadership roles in order that this onerous agenda can be delivered. It is not in the public interest for such leaders – nor for managers and other professionals working in support of them – to have to bother themselves with a trivial and irrelevant side-show, such as the SNIB venture.

In summary, the Stafford private hospital has been considered by several different H&SS management teams. On each occasion the conclusion reached is that the scheme represents significant disbenefits to the public interest.

It will be for members to decide whether it is appropriate to ask the Social Affairs Scrutiny Panel – which already has an onerous workload – to waste its time, and taxpayer's money, in engaging in an exercise designed as a last-ditch effort to rescue a failed attempt at property speculation.