

## Public Infrastructure Inquiry

23 December 2013

### Introduction

The Victorian Healthcare Association (VHA) is the major peak body representing the public healthcare sector in Victoria. Our members include public hospitals, rural and regional health services, community health services, aged care facilities and Medicare Locals. Established in 1938, the VHA promotes the improvement of health outcomes for all Victorians, from the perspective of its members.

The Australian Government has asked the Productivity Commission to undertake a broad-ranging inquiry into public infrastructure, comprising two broad streams of work:

- The provision, funding and financing of major public infrastructure
- The scope for reducing the costs associated with such infrastructure.

An issues paper on Public Infrastructure was released by the Productivity Commission in November 2013.

The VHA in its submission is describing the approach for provision of infrastructure for public health services in Victoria, the shortcomings in this approach, and the VHA's position on reforms to overcome these shortcomings and to deliver the intended objectives. In our definition of health services, the VHA is referring to public health services delivered in hospitals and residential aged care facilities, as well as services delivered in the community.

The VHA agrees to this submission being treated as a public document, and to the information being cited in the final report.

### The importance of infrastructure in delivering health services

Adequate infrastructure (including facilities, equipment and ICT) is a key element of the future capacity of the Victorian health care system to deliver services and to improve productivity.

However, there is insufficient capital investment for Victoria's health services to cover asset renewal and replacement, and future infrastructure needs. Ageing and inadequate infrastructure, and out-dated equipment and technology can adversely affect the operational performance of health services. The uncertainty of the process limits the ability of the management and board of a health service to respond adequately to rapid demographic change, or innovations that would enable services to be delivered more cost effectively.

Capital investment in the Victorian health system from both State and Commonwealth governments has increased in recent years. The estimated expenditure for 2012/13 was \$611m (of which \$106.5m

was Commonwealth funding), and the budgeted expenditure on capital programs for Victorian health services for 2013-14 was estimated to be \$1.2bn (of which \$420.4m was Commonwealth funding)<sup>1</sup>.

However, despite the increases in capital funding, a 2012-13 report by the Victorian Auditor General found that annual capital spending was less than depreciation of public hospitals in both metropolitan and rural sectors in each of the past four years<sup>2</sup>.

Community health services have noted that a lack of fit for purpose infrastructure can necessitate the rental of infrastructure which is both expensive and inefficient. These circumstances are more pronounced for services operating in growth corridors, as they are particularly impacted due to higher demand for services as well as infrastructure shortages.

Hospitals and health services have noted that ageing facilities and equipment and inadequate ICT increases their operational costs as a result of increased repairs and maintenance, and reduces their capacity to deliver services efficiently – due to downtime, or as a result of constraints the infrastructure places on the health service in delivering their services efficiently and effectively.

A report produced for the VHA by Access Economics in 2009<sup>3</sup> states that poor infrastructure is an impediment to health service efficiency, and in the longer term adds operational costs.

### **Key issues in Victoria's approach to capital investment and the impact this has on public health services**

The key issues with the approach to capital investment health infrastructure in Victoria are:

1. Health services' boards are limited in their ability to access capital and are highly reliant on grant funding for infrastructure investment and upgrades.
2. Capital funding is allocated through a competitive grants process. The nature of this process means that a clear case for capital funding often does not translate into an approval for funding.
3. The capital funding process is a lengthy and costly process for health services, but there is a lack of transparency in how capital funding is allocated.
4. The current activity based funding and recurrent funding arrangements for health services do not take into account non-cash expenditure such as depreciation. As a result, infrastructure renewal and replacement must come through the capital funding process.

The impacts of these issues are:

1. Infrastructure is inadequate and ageing. This is adversely affecting the operational performance of health services.

<sup>1</sup> Source: "Victorian Budget 2013-14 State Capital Plan", Victorian Government, May 2013

<sup>2</sup> Source: "Public Hospitals: Results of the 2012-13 Audits", Victorian Auditor-General, November 2013, Page 23-24

<sup>3</sup> Source: "Victorian Public Hospital Funding and Productivity", Access Economics Pty Limited, April 2009

2. The lack of certainty about future investment and poor transparency concerning capital funding allocation limits the ability of health services' management and boards to develop and implement medium to longer term plans concerning their health services.
3. The structure and approach of capital funding is inhibiting organisations considering alternatives to the provision of infrastructure, such as leasing arrangements. While leasing arrangements may be beneficial to utilising assets, the current approach to providing infrastructure does not provide health services with long term funding certainty for capital, so they are unable to plan and execute leasing programs. Health services would rather purchase infrastructure and operate with certainty using run-down assets, than use grants to enter into leasing arrangements which at their conclusion would leave health services without needed infrastructure to operate their service.

### Recommendations

Increased capital funding of health within Victoria by both state and commonwealth governments has improved the state of infrastructure for health services, but the facilities, equipment and ICT for most health services in Victoria remains ageing, inadequate and not sufficiently funded to meet future replacement, renewal and growth needs.

In Victoria, the State Government has developed the *Health Capital and Resources Plan 2012-2022* (the Plan) which will set out health specific health system capital expenditure priorities for the next ten years. Critically, the Plan will include an asset development and management framework that establishes the principles and criteria for prioritising investments<sup>4</sup>. The VHA looks forward to the release of the Plan.

The VHA recommends:

1. Governments consolidate capital grants into a single stream of funding for investment in infrastructure, equipment and ICT, and that this is guided by the ten year capital plan.
2. Governments include the full lifecycle cost of assets in the forward capital plan, including the cost of capital renewal and half-life facility upgrade.
3. In the medium to long term, governments consider a phased transition to a system where capital funding is allocated to health services progressively (for example, through increased recurrent payments), rather than through competitive grants processes.

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<sup>4</sup> Source: "Victorian Health Priorities Framework 2012-2022", Victorian Government, May 2011, Page 6



## Further information

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