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Australian state government privatises major hospital

By Margaret Rees
17 September 1999

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The Kennett government in Victoria is shortly to announce the winning bidder for the privatisation of the Austin and Repatriation Medical Centre. It is reputedly the first time anywhere in the world that a large tertiary teaching hospital is handed over to a for-profit consortium. The Austin is Melbourne's second largest hospital, with 750 beds and 4,000 staff, and accounts for 8 percent of acute hospital treatments in the state.

The Austin is an amalgamation of the former Austin Hospital, Heidelberg Repatriation Hospital and Larundel, which was part of North East Metropolitan Psychiatric Services. These hospitals are to be relocated at a new 600-800 bed campus on the Heidelberg site. They will be joined by the Mercy Hospital for Women, a private Catholic hospital, which is to be moved kilometres from its present inner city site, and will continue to be run by the Sisters of Mercy. While the Kennett government claims that the project will cut costs, its budget has blown out from \$150 million to more than \$300 million.

The Austin is one of the most significant medical facilities in the state of Victoria. It houses the Victorian Spinal Cord Service, Victorian Liver Transplant Unit, Victorian Respiratory Support Service, statewide toxicology service, statewide Child and Adolescent Mental Health Unit, the busiest thoracic surgery unit in Australia, a cardiac services program, the Austin Repat Cancer Centre and a centre for epilepsy and epileptic surgery.

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Centre and a centre for epilepsy and epileptic surgery.

In addition, it hosts the University of Melbourne's Joint Clinical School, six other university and TAFE schools, and nine medical research institutes, employing 600 full-time and part-time staff. Among the research centres is the Ludwig Institute, a prestigious non-profit institute for cancer research, with branches in seven countries. Others include the Brain Imaging Research Unit, the Epilepsy Research unit and the National Stroke Research Unit. Universities around the country participate in the research.

These critical centres of excellence and care, built with public money, are in jeopardy—placed in the hands of a company that must extract profit from them.

The Austin has already been deliberately run down by constant cost-cutting. Each year it is subject to 1.5 percent productivity cuts, like all hospitals. In the 1999-2000 budget this meant a \$28 million cut to Victorian hospitals, as well as a \$65 million cut to their staffing costs. Late last year the Austin psychology budget was cut in half, on the basis that it was not a "core business."

At the beginning of this year, the hospital was \$7 million short of funds to pay salaries, and had to borrow the money from the government. This was translated to service cuts, including restrictions on elective surgery for several months. The already lengthy waiting lists blew out by more than 800 patients. At the start of the year the hospital administration also announced 170 job cuts, on top of years of cuts through amalgamations.

The Liberal government initially announced the Austin privatisation in October 1996, as part of the Metropolitan Health Care Services Plan. This restructure of Melbourne's hospital system allocated to regional health care networks the task of closing hospitals, as well as amalgamating acute care and selected psychiatric services. The North Eastern Health Care Network proved unequal to its task. It was closed down after it produced a report opposing the privatisation of the Austin. The government took legal action to ensure the report remained confidential, particularly the section dealing with estimated staff losses.

The government plans to sign a contract with a private operator on a build-own-and-operate basis for an initial period of 20 years. The contractor will enter into agreements to service public patients under licence within the Commonwealth-state Medicare agreement.

Favoured bidder to run the privatised Austin is the A&R Consortium. The other contender is the Sisters of Charity, which runs St Vincents Hospital, which in 1996 narrowly averted a relocation by the government to the outer eastern suburbs of Melbourne. A&R primarily consists of two for-profit hospital chains—Mayne Nickless Health Care, the largest in Australia with 3,777 beds and 17 percent of market share nationally, and Ramsey Health Care, the third largest with 1,516 beds and 6.8 percent of the market.

A&R also includes the Inner Eastern Health Care Network, headed by company director Graeme Samuel. Inner Eastern, which runs the Alfred Hospital, the largest hospital in Melbourne, has previously closed down the suburban Burwood hospital, as well as relocating and amalgamating several others.

Inner Eastern CEO Simon Blair last year spent a week with a World Bank team discussing comparable privatisations internationally. After his discussions, he boasted that Victoria is leading the world in privatising core government health care. Private institutions run teaching hospitals in the US and elsewhere, but these are not for-profit organisations.

State Health Minister Rob Knowles said Inner Eastern's involvement in the A&R consortium provides the experience to guarantee that the privatised Austin will run properly. This claim was contested by Professor Colin Johnson, an eminent doctor who has just retired as professor of medicine at the University of Melbourne and the Austin. "It's the biggest conflict of interest I have ever seen," he told the *Age* newspaper. If you go and speak to the people at the Alfred, they don't want it (the privatisation)." He said the hospital's experience was vested in its staff, not the corporate executives.

The *Age* acknowledged that unlike Johnson, most senior Austin staff have been intimidated by the government and fear they will lose their jobs if they oppose the privatisation. The government has imposed tight censorship, on the pretext of protecting commercial confidentiality.

Among staff there is widespread concern that the hospital's teaching and research functions will receive short shrift, given the priorities of a for-profit health company. The government set up an Infrastructure Investment Unit (IIU) to oversee hospital privatisations. It has itemised equipment and services at the Austin, with only cursory summaries of research projects, in order to

prepare the project brief for the bidders. Austin staff fear that the IIU has designated the pediatric unit as "non viable."

IIU head Lynton Ulrich stated at a conference in October 1998 that companies would be able to establish private hospitals devoted to maximising profit alongside the ones where they provide treatment for public patients. "The private hospital will be the one that will be having perhaps Skychannel, TAB (betting facilities) and champagne, whereas you won't get that unless you pay for that in the public wing," he said.

Mayne Nickless already runs a private hospital on the same site as the Royal Melbourne Hospital. Such arrangements enable companies to use expensive medical equipment for their private patients at public expense.

The IIU gained crucial experience by setting up the privatisation of two rural hospitals, the Latrobe Regional Hospital and Mildura Base Hospital. These are now privately-owned hospitals servicing public patients—for 20 years in the Latrobe Valley and 15 years at Mildura.

The most revealing aspect of these precursors to the Austin privatisation is the way the government neutralised opposition from hospital staff by obtaining agreements with the trade unions. On May 26 this year, Knowles stated in parliament that the Mildura and Latrobe Valley privatisations were test cases for obtaining agreements with the unions. "The government believes it has established a sound basis for the transfer through the agreement reached with the Trades Hall Council (THC) on the Latrobe Valley Hospital... The government has also reached agreement with the Trades Hall Council regarding the redevelopment of a new hospital in Mildura and it is keen to reach a similar agreement for the redevelopment of the Austin and Repatriation Medical Centre."

The IIU negotiated a Memorandum of Understanding with the Victorian THC and all affected trade unions and industry groups represented at the Mildura hospital. The memorandum included a mechanism for staff redundancies and pledged a "smooth transition from public to private sector employment".

Furthermore the unions agreed to drive up productivity to increase the company's market share. The *Health Services Union of Australia No 1 and Mildura Private Hospital* agreement of May 6, 1998 committed the union to "create an environment whereby enterprises will further invest in future growth and development of

the Hospital, which is a critical factor for medium to long term viability."

The 1998-99 Latrobe agreement, known as *AHC (Latrobe) and HSUA Health Services Professionals Agreement* said employment in the hospital was contingent on fluctuations in the market, and the unions promised to enforce downsizing: "Employment offers by AHC (Latrobe) Pty Ltd have been made with the intention of establishing the new hospital with a viable staffing level where subject to sudden or unpredictable changes in revenue, jobs can be sustained in the longer term."

These blueprints for the agreement at the Austin indicate the real nature of the recent industrial campaign waged by 10 THC-affiliated unions over the Austin privatisation. The unions do not oppose the government's framework but are seeking to ensure their own places in the process, as at Latrobe Valley and Mildura.

In the campaign for tomorrow's state election, the Labor Party is also claiming to oppose the Austin privatisation. But Labor's policies provided the foundations for the Liberals. In the early 1990s the federal Keating Labor government handed over Heidelberg Repatriation hospital to the state Liberal government (and in Western Australia and Queensland handed over two veterans hospitals to Ramsey Health Care on 10-year leases).

Moreover, Labor's federal health minister Brian Howe planned the amalgamation of the psychiatric hospitals near the Austin Hospital, including Larundel. And the former state Labor government of Joan Kirner planned the closure of the region's hospitals, in what was designated the Bell St Corridor, paving the way for the Liberals to continue the process. The Liberals learnt from Labor that the key to closures lay in dealing directly with the unions in order to suffocate the opposition of staff and residents.

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