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Senator Scott Ryan
Chair
Senate Standing Committee on Finance and Public Administration
PO Box 6100, Parliament House
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Dear Senator

Thank you for the opportunity to present at the Finance and Public Administration Senate Committee Inquiry into the Implementation of the National Health Reform Agreement on 21 February 2013.

Whilst the published submissions and the testimony of the witnesses has covered the full breadth of issues related to this Inquiry, I believe the complex nature of these matters may have led to some misconstruction of the relevant facts.

Specifically, I would like to bring to the attention of the Committee concerns regarding the analysis of hospital admission trends in Victoria provided to the Committee by the Independent Hospital Pricing Authority (IHPA). Also included is additional information regarding the indexation of the Specific Purpose Payment.

Victorian Hospital Activity

You will recall that in evidence to the Committee, the CEO of the Independent Hospital Pricing Authority, Dr Tony Sherbon, stated that Victorian hospital separations decreased by eight percent and national weighted activity units (NWAUs) by three percent in the September quarter 2012-13, compared to the equivalent quarter in 2011-12. Dr Sherbon expressed a note of caution that the more recent the quarter, the more circumspect one has to be about the data due to the time needed for some states to code the data. Further, he noted that while some hospitals come in and out of the reporting cycle, his analysis only related to the 141 Victorian hospitals that reported across all five quarters.

With respect to the latter, this means that the full amount of activity recorded in Victoria is not reflected in the figures reported by Dr Sherbon. More complete and up-to-date activity will be reported on the Victorian Health Services Performance website on 28 February 2013.

More importantly and significantly, Dr Sherbon's analysis neglected to acknowledge or take into account a critical change in the counting rules for Victorian admitted separations from July



2012 which has rendered comparisons between 2011-12 and 2012-13 data invalid and open to being misconstrued unless adjusted for the rule change.

Dr Sherbon's unadjusted comparisons may have led to a misconception about activity in Victoria because a significant block of activity conducted in emergency departments relating to extended patient monitoring, assessment and treatment (which involves approximately 35,000 patients and is included in his September 2011-12 figures) is no longer recognised as admitted activity in Victoria. This activity and these patients are therefore not counted in the reporting of admitted separations for the September quarter of 2012-13 and subsequent quarters. The IHPA has been aware of this for some time as this change in admission policy followed Victoria's adoption of the national pricing model, whereby all activity occurring within emergency departments is treated as non-admitted activity. This change was implemented in July 2012.

The decline in activity reported by Dr Sherbon to the Committee is an artefact of this admission policy and consequent counting rule change. When the appropriate adjustment is made, by excluding admissions in the September quarter 2011-12 in which all monitoring and treatment occurred within the emergency department, comparison with the September quarter 2012-13, for the same number of hospitals used by Dr Sherbon, shows that admitted separations actually grew by 1.0 percent in Victoria (I refer you to the attached table). Further, while Victoria cannot reproduce Dr Sherbon's NWAU calculation for 2011-12 data, on the basis of the weighted activity-based funding methodology which has operated in Victorian for almost 20 years, weighted in-liner equivalent separations (WEIS) also grew by 2.6 percent over this period. That is, when a like-for-like comparison is made, activity in Victoria grew in both nominal and weighted terms rather than fell over the period used by Dr Sherbon's analysis.

Indexation Arrangements

Under the terms of both the Federal Financial Relations Intergovernmental Agreement and the related legislation, the Commonwealth must utilise the latest (and best) available data at June 30th 2012, for the calculation of the SPP indexation formula.

On this basis, for the 2011-12 SPP Determination, the Commonwealth should have used a raw (unweighted for hospital utilisation) national population growth figure of 1.4 percent rather than 0.03 percent, since:

- The ABS made a 'determination of growth in resident population' equivalent to 302k or 1.4 percent - see ABS 3101.0 (June 20th) and letter of June 14th 2012 from Mr Brian Pink to the Commonwealth Government.
- There has been no determination of growth by the ABS that contradicts a determination of 'actual growth in resident population' of 1.4 percent for the period between Dec 2010 and Dec 2011.
- All official publications of Australia's population growth have used 1.4 percent - including Commonwealth budget papers.

The Commonwealth Government submission to the Committee argues that a single-point-in-time "determination" by the ABS of "state and territory populations" (for December 2011) compared to a similar, though now outdated, determination in the prior year is the appropriate way to calculate raw population growth, leading to the 0.03 percent growth rate. Victoria contends that the 0.03 percent calculation is:

- inconsistent with the relevant agreement;
- inconsistent with relevant practice as agreed by Ministers;
- contrary to the reality of population and hospital utilisation growth; and
- falls short of good statistical practice.

It is Victoria's submission that the 0.03 percent figure is **not the latest available data "determined by the Australian statistician" as the number for "growth in resident population"**. Instead of the Australian Statistician making a determination of such growth, as

anticipated by the agreed approaches documented by the Ministerial Council on Federal Financial Relations (April 2011), the growth factor calculation for population growth was done solely by the Commonwealth Treasury. If it was based on a Determination by the ABS, it would have shown actual growth of 1.4 percent. The Commonwealth Government has conceded that it has based its calculations using a figure for December 2010 which is out of date or, at least not consistent with the revised data provided by the ABS in mid 2012. In effect, the Commonwealth Government has applied an arithmetic calculation but has not accurately calculated population growth.

It is worth recalling that the intent of the indexation arrangements agreed in 2009 was to ensure that Commonwealth funding for health kept up with real expenditure growth linked to population growth and ageing, prices and medical inflation. There is in fact no doubt that the population has grown and hospital utilisation has increased in the year in question. Victoria has been unable to find a population growth rate of 0.03 percent between December 2010 and December 2011 in ABS publications.

Once again, could I take this opportunity to thank you and the Committee members for your efforts in considering this issue, and I look forward to reading the final report of the Committee.

Yours sincerely

Hon David Davis MP
Minister for Health

28 / 02 / 13

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