Australian Healthcare and Hospitals Association

Submission to the

Finance and Public Administration References Committee
Inquiry into the
Implementation of the National Reform Agreement

Introduction

The Australian Healthcare & Hospitals Association (AHHA) welcomes the opportunity to provide a submission to Senate Finance and Public Administration References Committee Inquiry into the Implementation of the National Health Reform Agreement.

The Australian Healthcare & Hospitals Association is Australia's largest group of health care providers. Our membership includes state health departments, Local Hospital Networks and public hospitals, community health services, Medicare Locals and primary healthcare providers, universities, and individual health professionals and academics. We are uniquely placed to be an independent, national voice for universal high quality healthcare to benefit the whole community.

Response to Terms of Reference

(a) the impact on patient care and services of the funding shortfalls

- The National Health reform Agreement (NHRA) includes the objective to "improve local accountability and responsiveness to the needs of communities through the establishment of Local Hospital Networks and Medicare Locals".[i]
- The establishment of the National Health Funding Pool (NHFP) was intended to improve the transparency of public hospital funding. The NHFP results in devolution of budgets and budget responsibility to the local level. While the retrospective adjustment and reconciliation of funding allocations is a normal process, the impact of retrospective reductions could previously be 'buffered' by State and Territory Treasuries. The capacity for this has been reduced through the pooling of funds in the NHFP and the devolution of budgets to local areas.
- Additionally the flexibility of local hospital networks to absorb funding variations, in particular reductions applied to previous and current financial years, is limited and cannot be achieved without impact on clinical services.

- There is clear evidence as demonstrated in numerous media reports of direct impact on patients and services. These impacts are both direct, in the form of bed closures, cancelled surgery, service reductions and ongoing suffering for patients; and indirect in the form of the stress of the uncertainty of access for potential clients anticipating a need to access services in the future and the flow on effects of staffing reductions on workforce and community morale.
- The pressure to maintain services at the local level can result in the need to redirect resources to acute and urgent care at the expense of preventive or less urgent services. This perpetuates a cycle of service focused on emergency and reactive care rather than early intervention and prevention.
- The reduction of available hospital beds will have a significant impact as the increased demand associated with winter months and associated flu season are felt.

(b) the timing of the changes as they relate to hospital budgets and planning

- Health related financial transfers from the Australian Government to States and Territories under National Specific Purpose Payments (SPPs), National Partnership Agreements and the National Health Reform Agreement (NHRA)[ii] are covered by Schedule D of the Intergovernmental Agreement on Federal Financial Relations (IAFFR)[iii] and specific conditions contained in individual Agreements.
- While the October Mid-Year Economic and Fiscal Outlook (MYEFO) reduced SPP and NHRA allocations have as a result of the population adjustments, the Minister for Health can continue to state correctly that funding to the states and territories has increased and will continue to increase (Table 3).
- Equally the states and territories can correctly state that, compared to original allocations in the 2011-12 and 2012-13 budgets, Australian Government contributions have decreased.
- The National Health reform process has established a structure of Local Health Districts (LHD) across the country. The name, structure and function of the LHDs vary between jurisdictions but a consistent component is the establishment of service agreements between the LHD and the jurisdictional Health Department. The service agreements are negotiated on an annual basis with consideration to the available funding, resources, patient demand and service priorities. The unexpected reduction in funding from the Australian Government places additional pressure on services attempting to fulfil the requirements of the service agreements.
- Additionally the service reductions arising from the MYEFO cuts, place further pressure on the achievement of the national emergency access and elective surgery performance targets. None achievement of these targets can result in further reductions in Australian Government funding creating a cumulative effect of which the only beneficiary is the Australian Treasury.
- As with any business, there is limited capacity for local hospital networks to absorb sudden and unexpected reductions in revenue (funding) in the middle of a financial cycle. The

majority of hospital expenditure is in the form of labour costs and as a result staffing levels are the prime target when immediate and significant cost reductions are required.

- The challenge is for states and territories to accommodate the repayment of 2011-12 allocations, the reductions in 2012-13 allocations and the reduced allocation in subsequent years in a context of past financial year activity and expenditure, the remainder of the existing budgeted and planned financial year and the investment and expenditure planned for future years.

(c) the fairness and appropriateness of the agreed funding model, including parameters set by the Treasury (including population estimates and health inflation)

- Payments for the 2011-12 financial year were made as a SPP. From 2012-13 payments were covered by the NHRA.
- The total amount available to states and territories under the SPP is determined by:
  - (a) Distribution tables detailed in Schedule D of the IAFFR[iv]; and
  - (b) the Australian Statistician's determination of population share as at 31 December of the relevant year[v].
- The escalation of the funding under the healthcare SPP and NHRA[vi] is the product of:
  - (a) a health specific cost index (a five year average of the Australian Institute of Health and Welfare health price index);
  - (b) growth in population estimates weighted for hospital utilisation; and
  - (c) a technology factor (Productivity Commission derived index of technology growth).
- Thus changes to population projections affect both the total amount available and the distribution.

Health specific cost index

- The cost indexation reference figure used is the Australian Institute of Health and Welfare Total Hospital Price Index (THPI) which describes growth in total national health expenditure
- The THPI dropped considerably in 2010-11 to 0.9%.[vii]

Table 1: Health Price Index

%	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
THPI	2.8	3.8	3.2	3.7	4	3.5	2.3	2.3	2.4	0.9
5 year average	--	--	--	--	3.5	3.64	3.34	3.16	2.9	2.28

- The MYEFO attributes this reduction to the strength of the Australian dollar reducing the cost of imported medical equipment and consumables.
- Given that the majority of hospital costs related to personnel costs and in an environment of wage escalation in the order of 3%, a THPI of only 0.9% is surprising and requires explanation beyond the influence of the Australian dollar.

- The THPI is a composite index which includes a range of health service related expenditure categories, some of which have minimal influence on hospital based services. As a result the THPI may not reflect the actual cost increases experienced by hospitals and acute services.

Population estimates and hospital utilisation weighting

- It is the usual practice for historical population estimates to be adjusted following determination of the variation in population estimates between censuses (the intercensal error). This adjustment is usually applied to the five year period between censuses.
- Following the 2011 Census the Australian Bureau of Statistics (ABS) determined, as a result of improved data capture and matching processes, that the previous methodology for the estimation of 'undercount' had resulted in the undercount in previous censuses being overestimated and therefore the estimated population was also overestimated.[viii]
- Due to the resulting larger than normal 2006-2011 intercensal error, the ABS decided to revise historical population estimates over a 20 year period (1991-2011). This approach was selected following extensive consultation and to ensure that the credibility of the data was maintained and that the population growth for 2006-2011 reflected the components of growth (births, deaths, migration).
- Despite this approach by the ABS, the Australian Treasury has chosen to apply the adjustment to a single year (2011) which produces a population growth figure for 2011 of 0.03% which is in stark contrast to the ABS figure of 1.6%.
- The ABS further recommended that when calculating "population growth over the 2006-11 period, the comparison should focus on the components of growth (ie births, deaths and migration), rather than the difference in population levels. This recommendation has also been ignored by Treasury who have used the rebased Estimated Resident Population (ERP) figures instead.[ix]

Table 2: Population Growth Estimates

Population growth (%)	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
ABS[x]	1.1	1.6	1.9	1.0	3.3	0.2	1.5	1.9	1.6
Treasury									0.03

- As a result the health SPP and NHRA payments have been reduced for 2012-13 and subsequent years

Table 3: SPP / NHRA funding allocations

$ millions	2012-13	2013-14	2014-15	2015-16
2012-13 Budget papers[xi]	15,460	16,469	17,285	18,730
2012-13 MYEFO[xii]	15,112	15,966	16,890	18,620
reduction	348	503	395	110
% reduction	2.25%	3.05%	2.29%	0.59%

- Additionally payments made for 2011-12 have also been recalculated resulting in a requirement for states and territories to repay 'overpayments' arising from adjusted retrospective population growth figures.

Table 4: Treasury payment reductions

Payment reductions[xiii] ($ million)	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2011-12	48.90	39.71	40.15	6.34	10.96	1.95	0.60	1.05	149.67
2012-13	89.86	67.09	63.28	5.95	20.01	4.15	1.24	2.21	253.81
Total	138.76	106.80	103.43	12.29	30.97	6.10	1.84	3.26	403.48

- The application by Treasury of the intercensal error adjustment to a single year is in clear contradiction to the recommendations of the ABS and results in growth (or indeed reduction) in population which does not reflect the actual births, deaths and migration experienced at the state and territory level.
- This decision would appear to be motivated by the need to reduce expenditure to assist in the achievement of the budget surplus promised by the Australian Government: a promise that has now been withdrawn.
- The decision also creates a situation in which the SPP and NHRA payment methodologies are potentially using two contradictory sets of population data:
  - "population share as at 31 December of the relevant year" as determined by the Australian Statistician[xiv], and
  - "growth in population estimates weighted for hospital utilisation" which appears to be at the whim of Treasury[xv].
- While the use of population estimates to adjust payments is made clear in the NHRA and the IAFFR is clear and was agreed to by states and territories, neither agreement details the methodology to be used in making the estimates. It is reasonable to assume that the parties believed that sound and rationale methodologies would be used and that the expert advice of the ABS and the Chief Statistician would be applied.
- The Standing Committee on Health has acknowledged that the population estimate methodology was a decision by Treasury not the Department of Health.[xvi] This explains in part why media releases from the Minister for Health included references to statements by the ABS that the adjustments should be applied over long periods.[xvii]

(d) other matters pertaining to the reduction by the Commonwealth of National Health Reform funding and the National Health Reform Agreement

- There is no evidence of consultation with State and Territories health departments regarding the population estimate application and impact of reduced funding allocations prior to the release of the MYEFO.
- This is in contrast to the stated intentions of the NHRA for the "Commonwealth, State and Territory (the States) governments to work in partnership to improve health outcomes for all Australians and ensure the sustainability of the Australian

health system".[xviii] It also contradicts the stated joint responsibility to collect and provide "data to support the objectives of comparability and transparency…".[xix]

- As expected, the lack of consultation and transparency has significantly impacted on the confidence of the states and territories in the pooled funding arrangements as the unilateral manipulation of the funding formula components by Treasury significantly shifts the burden of risk to the states and territories.
- Additionally the lack of consultation and manipulation of the funding formula components has undermined the confidence of the states and territories in the overall National Health reform agenda as it raises serious questions about the Australian Government's commitment to content and spirit of the Agreements.

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[i] NHRA 3g
[ii] http://www.federalfinancialrelations.gov.au/content/npa/health_reform/national-agreement.pdf
[iii] http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx
[iv] IAFFR tables D2 to D5
[v] IAFFR D30
[vi] IAFFR D24
[vii] Australian Institute of Health and Welfare 2012. Health expenditure Australia 2010–11. Health and welfare expenditure series no. 47. Cat. no. HWE 56. Canberra: AIHW.
[viii] http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/3101.0Feature%20Article3Jun%202012?opendocument&tabname=Summary&prodno=3101.0&issue=Jun%202012&num=&view
[ix] http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/66175C17C773120DCA257A2200120F63/$File/31010_Dec%202011.pdf
[x] http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/3101.0Feature%20Article3Jun%202012?opendocument&tabname=Summary&prodno=3101.0&issue=Jun%202012&num=&view
[xi] http://www.budget.gov.au/2012-13/content/bp3/html/bp3_03_part_2a.htm
[xii] http://www.budget.gov.au/2012-13/content/myefo/html/index.htm
[xiii] Source – Treasury email
[xiv] section D30 of the IAFFR
[xv] section D24 of the IAFFR
[xvi] Standing Council on Health Communique 9 November 2012
[xvii] http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr12-tp-tp096.htm?OpenDocument&yr=2012&mth=11
[xviii] NHRA 1a
[xix] NHRA 7e