



**Australian Nursing Federation (Victorian Branch)**

**Submission**

**to the**

**Senate Finance and Public Administration  
Committee**

**on the Implementation of the National Health  
Reform Agreement.**

**14 February 2013**

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## Context

The Australian Nursing Federation (Vic Branch) is ideally placed to make this submission to the Senate Finance and Public Administration Committee on the Victorian context of impact of the implementation of the National Health Reform Agreement to Victorian public sector health services.

The Australian Nursing Federation (Vic Branch) has over 65,000 nursing and midwifery members in Victoria working across the entire health spectrum. References to “ANF” in this submission are references to the Victorian Branch of the ANF.

This submission will address all of the terms of reference:

- (a) the impact on patient care and services of the funding shortfalls;
- (b) the timing of the changes as they relate to hospital budgets and planning;
- (c) the fairness and appropriateness of the agreed funding model, including parameters set by the Treasury (including population estimates and health inflation); and
- (d) other matters pertaining to the reduction by the Commonwealth of National Health Reform funding and the National Health Reform Agreement.

## SUMMARY OF RECOMMENDATIONS

1. *The ANF recommends that a negotiated settlement be reached between the Victorian Premier and Treasurer, and the Prime Minister and her Treasurer, having regard to the inevitable 2013 ABS population adjustment and in such a way that ensures, through agreed targets, that additional funding is matched by the State Government.*
2. *The ANF recommends that the Commonwealth Government, immediately request the ABS revise the population data as foreshadowed, and immediately the revised ABS data is available, apply that revised data to the funding formula and adjust Victorian hospital funding accordingly.*
3. *The ANF recommends that where future statistics support a negative variation to Commonwealth funding for hospitals, the Federal Government should shift the budget adjustment into the ‘outyears’ rather than the current operating year, thereby taking the pressure off health services having to adjust their budgets half way through a financial year .*

## [TOR (a)] The impact on patient care and services of the funding shortfalls

1. Victoria has recently been impacted by, in the opinion of the ANF (VB), the deepest public health cuts since the early years of the Victorian Kennett Government from 1993 to 1996.
2. It is convenient at this point to state that while these cuts have occurred subsequent to the Federal Government adjustments to state funding, it does not immediately follow that this is the sole cause or motivation for the cuts.
3. Victorian Government Budget Papers show significant cuts to health funding by the Baillieu Government in both 2011/12 and 2012/13 of some \$616m:

**Table 1:** Cuts to health made in the 2011-12 Victorian State Budget <sup>1</sup>

(\$ million)

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Sub-total output initiatives</b>	..	408.4	396.3	386.5	392.1
Election commitments	6.2	74.0	119.4	125.9	125.9
Government-wide initiatives	4.2	1.4	..	..	..
Election commitment savings	-38.2	-77.4	-78.9	-80.8	-82.7
Measures to offset the GST reduction	..	-37.9	-28.8	-28.3	-28.9
<b>Total output initiatives</b>	<b>-27.9</b>	<b>368.6</b>	<b>408.0</b>	<b>403.3</b>	<b>406.4</b>

Source: Department of Treasury and Finance

**Table 2:** Cuts to health made in the 2012-13 Victorian State Budget<sup>2</sup>

(\$ million)

	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Sub-total output initiatives</b>	<b>0.2</b>	<b>319.9</b>	<b>280.9</b>	<b>276.9</b>	<b>278.8</b>
Total savings	..	-32.3	-33.1	-33.9	-34.8
<b>Total output initiatives</b>	<b>0.2</b>	<b>287.6</b>	<b>247.8</b>	<b>243.0</b>	<b>244.0</b>

Source: Department of Treasury and Finance

4. Historically Victoria has issued, through its Department of Health, reports of elective surgery waiting lists and emergency department waiting times. These are reasonable measures against which to assess the impact of the cut on patient care and services. The Baillieu Government implemented its election promise of quarterly health service

<sup>1</sup> Victorian Budget Paper No 3 2010/11 p.112

<sup>2</sup> Victorian Budget Paper No 3, 2012/13, p.23

reports, however since June 2012 has failed to update these reports, that is to say that no reports have been publicly issued since June 2012<sup>3</sup>.

5. Prior to ceasing these reports, the Baillieu Government had already negotiated with health services reductions in planned surgery of 9200 episodes<sup>4</sup>.
6. Ordinarily, Health Services enter into a “statement of priorities” (SOP) with the Department that are usually signed off by the Minister in October each year. These SOP’s set out the targets that health services will meet in return for funding. From time to time health services overrun these targets and receive top up funding in February of the following year.
7. Unlike previous years, no SOPs have been published although it is known that an initial set were negotiated and signed, but not published once the Gillard Government cut was announced. It may be inferred from this that cuts to services were already intended and that the Gillard Government cut added to this, rather than was the sole cause of it.
8. Hence this submission will refer to the impact of recent budget cuts on patient care, without necessarily inferring that it is the fault of either Government alone.
9. Cuts to services announced since the Federal funding adjustment are significant and across the board and are estimated by ANF at up to 559 bed closures at its peak. At this time. Most announcements are limited in their effect until 30 June 2013.
10. Cuts include extended bed and ward closures<sup>5 6</sup> and extended operating theatre closures<sup>7 8</sup>, both of which will have a massive impact on elective surgery waiting

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<sup>3</sup> <http://performance.health.vic.gov.au/Home/Categories/ElectiveSurgery.aspx#Anchor>

<sup>4</sup> See for example Bendigo Health Statement of Priorities 2011/12 (p.69 Annual Report 2011/12) in which elective surgery performance was intended to reduce from a peak of 1099 in the first quarter to 972 in the final quarter.

<sup>5</sup> E.g. Reduction of between 45 and 50 beds in acute, subacute and mental health programs at Eastern Health

<sup>6</sup> E.g. Barwon Health Geelong - Closure of 24 beds (mix of surgical and medical) will be reviewed in July 2013

<sup>7</sup> E.g. Casey Hospital (Southern Health) 2 operating theatres closed for Christmas/New Year will not re-open as planned.

<sup>8</sup> E.g. Austin Health reduction in elective surgery of 800 cases

times<sup>9 10 11</sup>, and bed and ward closures will have an immediate impact on ED transfer times<sup>12</sup> and further exacerbate Ambulance ramping times<sup>13</sup>.

11. Budgetary constraints have also impacted on inpatient mental health services with closures of desperately needed acute mental health beds<sup>14</sup>, and the temporary closure of an entire community mental health team<sup>15</sup>

***[TOR (b)] The timing of the changes as they relate to hospital budgets and planning***

12. Unlike the cuts imposed by the State, the Federal cut has been imposed mid-way through the financial year. By announcing them almost halfway through the financial year, the Federal Government effectively required the health services to manage cuts worth double the nominal amount.

13. Health services and the Department of Health were given no opportunity to prepare for the cut:

*“In most states budgets had already been issued to hospitals and so in passing on the Commonwealth hit, the political accountability was made clear. Hospitals, forced to revisit their budgets, have been required to find savings quickly and have implemented a full year of cuts over the five months after Christmas, exacerbating the impact of the Commonwealth cuts”<sup>16</sup>.*

14. Fortunately for the Baillieu Government, and less so for the Gillard Government, the timing of the Gillard Government funding adjustment has enabled the entire woes of the Victorian health system to be blamed on the actions of the Commonwealth. The absence of usually available State statistics has made this an easier task<sup>17</sup>.

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<sup>9</sup> E.g. Reductions in elective surgery by up to 1800 cases at Southern Health

<sup>10</sup> E.g. Southwest Healthcare Warrnambool 25% reduction in elective surgery

<sup>11</sup> E.g. Western Health 1300 planned elective admissions cancelled

<sup>12</sup> Note: Victorian data not publically available since June 2012

<sup>13</sup> Ramping times had already increased by between 8% and 207% (by hospital) between 2009/10 and 2011/12

<sup>14</sup> E.g. St Vincent's Public Hospital (includes Mental Health Program) Mental Health Adult Acute Beds eg 5 beds closed on the first floor mental health inpatient unit

<sup>15</sup> E.g. Central East Crisis Assessment & Treatment Team (Box Hill) Eastern Health

<sup>16</sup> Duckett, S. (2013), Cutting through the spin on Victoria's funding cuts, The Conversation, February 1, accessed on 14 February at <http://theconversation.edu.au/blame-game-cutting-through-the-spin-on-victorias-hospital-funding-cuts-11881>

<sup>17</sup> The Age, Public the losers in sick blame game, January 25 2013.

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

15. The National Health Reform agreement is clear about the basis on which federal payments for health would be made. It specifies a base year and also the factors on which future increases will be based. The Federal Government explains it this way:

*“The National Health Reform funding indexation rates are derived from three factors – the independent Australian Institute of Health and Welfare calculations of growth rates in the cost of health services, population shifts and a technology factor of 1.2 percent.”<sup>18</sup>*

16. Of these, the first two were subject to substantial revision due to the release of more accurate data in the lead up to the preparation of the Mid-Year Economic and Fiscal Outlook.

17. In the case of population growth, the revised data came from the 2011 Australian census, which showed previous population trend estimates to be wrong. When the more accurate data was used, they showed that the Australian Bureau of Statistics had overestimated Victoria’s population growth in between the two censuses.

*“The source of population growth estimates is the Australian Bureau of Statistics (ABS), which changed its method of population estimation. The only accurate measure of the population occurs at the census, and even that isn’t perfect. To check the census estimates, the ABS conducts a survey to verify what was reported, to check on people who have come back home after being away on census night and so on. For the 2011 census the ABS changed the way it did that, which changed the census base-line. Between censuses, the ABS makes “inter-censal” estimates by adding births, subtracting deaths and taking account of population movements. Obviously the beginning and endpoints of the inter-censal estimates ought to reconcile with the census, but for 2011 [in Victoria] they were 300,000 or so people out. Some states were previously recorded*

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<sup>18</sup> Commonwealth Government, Australia’s Federal Relations, Budget Paper No. 3, 2011/12, Department of Treasury, Canberra.

*as having a larger population than the new estimates (NSW 1.3% over, Victoria 1.6% over, Queensland 2.4% over), with other states being slightly under counted.”<sup>19</sup>*

18. A second factor contributing to the revised estimates was a significant downward revision in the estimated cost index for health, partly because of the effect of the rising value of the Australian dollar.
19. There is no doubt that the data adjustments were fair, reasonable and done according to an agreement to which the Baillieu Government and the Gillard Government were signatories. It did not help matters that Victoria complained about the data initially for the wrong reasons, suggesting that the Federal Government had imposed the cuts on the spurious ground that Victoria’s population had fallen when it was clearly increasing.<sup>20</sup>

***[TOR (d)] Other matters pertaining to the reduction by the Commonwealth of National Health Reform funding and the National Health Reform Agreement.***

20. Reductions in funding directly impact on capacity of health services to engage new nursing and midwifery employees. Health Workforce Australia, in its HWA2025 report, contemplates a significant shortage of nurses in Victoria by 2025. This forecast is made factoring in full employment of nursing and midwifery graduates. In 2013, in Victoria, up to 40% of new graduates were unable to secure a position. The forecast shortages will be severely exacerbated by this development.
21. One confusing aspect of a measure of the cost of providing healthcare is the apparent differences in tests applied to taxpayer funded health care as compared to privately insured healthcare, with the latter recently having 5.6% increases approved. Presumably an element of this is protecting profit margins.

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<sup>19</sup> Duckett, S. (2013), Cutting through the spin on Victoria’s funding cuts, The Conversation, February 1, accessed on 14 February at <http://theconversation.edu.au/blame-game-cutting-through-the-spin-on-victorias-hospital-funding-cuts-11881>

<sup>20</sup> (see for example <http://www.bordermail.com.au/story/1170827/davis-plea-on-spurious-health-cuts/> accessed on 7 February 2013).

22. The published reasons for a premium increases are 'current and forecast increases in benefit outlays'. This includes the increasing costs of treatments and services (in particular increased costs due to technology and higher healthcare provider costs) and higher utilisation of treatments and services. Other key reasons stated by insurers for premium increases were:

- Maintaining long term viability, including adequate underwriting (net) margins, sufficient capital to meet prudential standards and benefit outlays;
- Absorbing increased costs associated with an ageing membership profile;
- The rising cost of payments to the risk equalisation pool;
- Investment in chronic disease management programs and other broader health cover programs; and
- Ensuring an adequate return on investment in the health insurance business.

23. Many of these would appear to have equal application to the taxpayer funded health sector, however in the case of that sector measurements result in a lower cost and therefore lower funding, with the Victorian Treasurer's forward estimates showing that, when adjusted for inflation and population increases, health expenditure will fall slightly in 2013/14 and 2015/16

### **Action Required**

24. Most importantly from the perspective of the ANF is the need to address the current situation, and to stop any reoccurrence of it.

### **Immediate**

25. From an economic standpoint, there is no discernible effect between a small surplus and a small deficit. The decision by the Gillard Government to enforce the health cuts



was political rather than borne of economic necessity.<sup>21</sup> Similarly the Baillieu Government decision not to address the shortfall from within its own resources is a political rather than economic one<sup>22</sup>.

26. Efficiency savings or dividends are, in effect, a budget cut to health services requiring them to do the same, or more, with less actual funding. The Baillieu Government has imposed such a cut comprising \$616m over the 2011/12 and 2012/13 financial years.
27. Federal Government health payments to Victoria, or the amount the Commonwealth provides to Victoria for health purposes, has increased substantially from 2011 to 2016, with the exception of this financial year, when they will fall by almost 6% in real terms<sup>23</sup>.
28. Without the substantial increases in federal payments for every year except this one, state health expenses would be falling in real terms<sup>24</sup>.
29. Over the 7 years to 2015/16, the Federal Government's contribution to total Victorian health expenses is projected to increase from 25.3% to 31.2%<sup>25</sup>
30. To require one Government to increase funding, while the other decreases funding, is to the detriment of the health system overall.
31. The ANF recommends that a negotiated settlement be reached between the Victorian Premier and Treasurer, and the Prime Minister and her Treasurer, having regard to the inevitable 2013 ABS population adjustment and in such a way that ensures, through agreed targets, that additional funding is matched by the State Government.

### **Medium Term**

32. The ABS inter-censal adjustment that formed the basis for a significant element of the Federal adjustment to hospital funding will almost certainly be reviewed. The ABS

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<sup>21</sup> Unnecessary Pain? Victoria's health cuts: who is responsible and how we can make sure they don't happen again, Professor David Hayward, RMIT University, 8 February, 2013.

<sup>22</sup> *ibid*

<sup>23</sup> *ibid*

<sup>24</sup> *ibid*

<sup>25</sup> *ibid*

have clearly indicated that the inter-censal adjustment will be aggregated across the preceding 20 years rather than simply 2012<sup>26</sup>.

33. This is likely to occur as early as June 2013, or as late as November 2013. The effect of that adjustment will result in a higher population figure for Victoria than the initial inter-censal adjustment showed. Applying that adjusted figure to the inter-governmental funding agreement will see a reversal of the majority of the Commonwealth hospital payments.
34. The ANF recommends that the Commonwealth Government, immediately request the ABS revise the population data as foreshadowed, and immediately the revised ABS data is available, apply that revised data to the funding formula and adjust Victorian hospital funding accordingly.

### **Long Term**

35. The ANF recommends that where future statistics support a negative variation to Commonwealth funding for hospitals, the Federal Government should shift the budget adjustment into the 'outyears' rather than the current operating year, thereby taking the pressure off health services having to adjust their budgets half way through a financial year<sup>27</sup>.

Australian Nursing Federation – Victorian Branch

14<sup>th</sup> February 2013

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<sup>26</sup> Australian Bureau of Statistics 3101.0 June 2012

<sup>27</sup> This is supported by Duckett (as quoted by Hayward) and Hayward in Unnecessary Pain? Victoria's health cuts: who is responsible and how we can make sure they don't happen again, Professor David Hayward, RMIT University, 8 February, 2013.