

# Chapter 8

## Impacts on South Australian hospitals

*Removing 600 hospital beds; or*

- *Closing an entire hospital; or*
- *The cost of employing 3000 nurses; or*
- *Doubling elective surgery waiting times.*<sup>1</sup>

South Australian Government

### Introduction

8.1 As outlined in Chapter 3, the Parliamentary Budget Office's (PBO) submission provided a detailed state-by-state breakdown of the difference in Commonwealth hospital funding between the government's policy announced in the 2014-15 Budget and the former government's hospital funding arrangements under the National Health Reform Agreement 2011. The government's 2014-15 Budget marked a fundamental policy shift away from the previous government's activity based funding model, which established a national efficient price for hospital services. Instead, it reverts to the former block funding model based on CPI and population growth.

### Reduction to South Australian hospital funding

8.2 The PBO calculates that South Australia will receive \$4.2 billion less in hospital funding from the Commonwealth over the period 2014-15 to 2024-25 than if hospitals were funded according to the 2011 agreement.<sup>2</sup> The annual funding differences are set out in Appendix 4.

8.3 Consistent with PBO figures, South Australian (SA) public hospital services would see 'a loss of around \$4.6 billion over the next 10 years' as a result of the 2014-15 Budget, according to the SA Government's submission.<sup>3</sup>

8.4 The 2014-15 Budget had forecast \$444 million less in SA public hospital funding over the forward estimates.<sup>4</sup> In addition, the SA Government identified that the SA health sector would lose a further \$211 million from the termination of agreements that directly support public hospitals, including:

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1 South Australian Government, *Submission 24*, p. 6. See also, the Hon. Jay Weatherill, Premier, South Australian Government, *Committee Hansard*, 28 August 2014, p. 1.

2 Parliamentary Budget Office, *Submission 91*, p. 5.

3 South Australian Government, *Submission 24*, p. 6. See also, the Hon. Jay Weatherill, Premier, South Australian Government, *Committee Hansard*, 28 August 2014, p. 1.

4 Mr Steven Archer, Deputy Chief Executive, Finance and Business Services, Department for Health and Ageing, South Australia, *Committee Hansard*, 9 October 2014, p. 1.

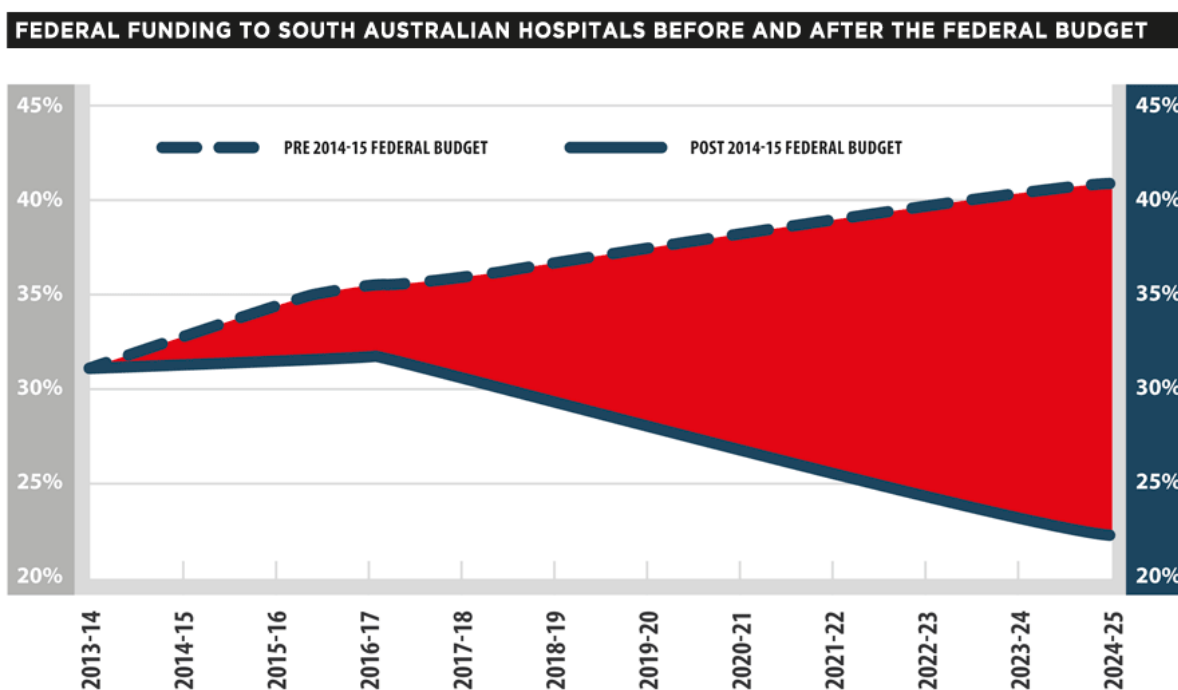
- \$120 million from the National Partnership Agreement on Improving Public Hospital Services; and
- \$42 million from the National Partnership Agreement on Financial Assistance for Long-stay Older Patients.<sup>5</sup>

8.5 The SA Government's submission equated the combined reduction of funding to the health sector from the 2014-15 Budget (\$655 million over four years) with:

- Removing 600 hospital beds; or
- Closing an entire hospital; or
- The cost of employing 3000 nurses; or
- Doubling elective surgery waiting times.<sup>6</sup>

8.6 Figure 3 below shows the difference in funding for South Australian hospitals between the AHRA and the 2014-15 Budget.

**Figure 3—Impact of 2014-15 Budget on South Australian hospital funding<sup>7</sup>**



5 South Australian Government, *Submission 24*, p. 10.

6 South Australian Government, *Submission 24*, p. 6. See also, the Hon. Jay Weatherill, Premier, South Australian Government, *Committee Hansard*, 28 August 2014, p. 1.

7 South Australian Government, *Submission 24*, p. 9. See also South Australian Government, *Federal cuts hurt – the facts*, <http://www.federalcutshurt.com.au/the-facts/>

## Departure from shared commitments

8.7 The SA Government expressed the view that the Commonwealth was 'renegeing' on funding commitments,<sup>8</sup> stating that:

The South Australian Government has demonstrated a strongly collaborative approach to national health reforms and has been disappointed at the Commonwealth renegeing on its commitments under the National Health Reform Agreement and associated National Partnership Agreements.<sup>9</sup>

8.8 SA Premier, the Hon Jay Weatherill MP, was critical of the manner in which the Federal Government had announced the cuts, particularly because the government avoided discussion of the proposed cuts at a COAG meeting just days before the budget.<sup>10</sup> The Premier explained his reaction:

It was a shock to every minister, chief minister and first minister around the table. I think I speak for all of them when I say that they were angry about the fact that they had been misled in that way. At its very lowest, it was misleading to have a briefing about the budget and not flag such dramatic changes that were on the way.<sup>11</sup>

8.9 The SA Government submitted that the end of the 2011 agreement would increase the 'potential for cost-shifting' between the Commonwealth and states and territories.<sup>12</sup> The submission highlighted that the Commonwealth's contribution to national hospital funding would reduce from 31 per cent in 2014-15 to 23 per cent in 2024-25, whereas the 2011 agreement had aimed to 'gradually increase the Commonwealth share of hospital funding to 50 per cent'.<sup>13</sup>

8.10 Rather than contributing to the solution, their submission argued that Commonwealth funding decisions 'leave the State bearing the risks associated with growing public hospital costs but without the resources required to meet the expected growth'.<sup>14</sup> The SA Government submitted that future Commonwealth funding:

...does not fully address the expected growth in public hospital expenditure, taking into consideration population growth and the ageing of the population, health CPI and increased costs for medical technology.<sup>15</sup>

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8 South Australian Government, *Submission 24*, p. 8.

9 South Australian Government, *Submission 24*, p. 2.

10 The Hon. Jay Weatherill, Premier, South Australian Government, *Committee Hansard*, 28 August 2014, p. 2.

11 The Hon. Jay Weatherill, Premier, South Australian Government, *Committee Hansard*, 28 August 2014, p. 3.

12 South Australian Government, *Submission 24*, p. 8.

13 South Australian Government, *Submission 24*, p. 8.

14 South Australian Government, *Submission 24*, p. 8.

15 South Australian Government, *Submission 24*, p. 7.

8.11 The end of funding under the National Partnership Agreement on Improving Public Hospital Services was regarded by the SA Government as a significant departure from earlier agreement. Despite not meeting emergency and elective surgery targets, the committee heard that 'South Australia expected to continue to receive reward funding acknowledging its significant efforts against these ambitious targets for the remaining two years'.<sup>16</sup> It was submitted that the Commonwealth was incorrect in treating '[a]ny failures... to meet the targets' as 'a breaking of the agreement'.<sup>17</sup>

### **Community impacts**

8.12 According to the SA Government, decisions in the 2014-15 Budget, including cuts to hospital funding, 'would be felt at the community level, particularly by the most vulnerable'.<sup>18</sup> This includes older Australians who often 'remain in hospital longer than would otherwise be necessary' while they wait for suitable aged care.<sup>19</sup> The SA Government urged the Commonwealth's:

Careful consideration of the impacts of primary health care services, preventive health and high quality aged care and disability services... on the demand for public hospital services.<sup>20</sup>

8.13 The Health Consumers Alliance of SA submitted that the additional funding cuts to hospitals would 'add further stress to an already strained public hospital system'.<sup>21</sup> For example, even before the federal government's cuts, the following stressors had been identified:

Over the last few months we have seen the queuing of ambulances at the Royal Adelaide Hospital, as the public hospital system has exceeded capacity. Patients have been triaged by Emergency Department staff while still in ambulances, in the hospital car park. Also of concern are the continuing reports of mental health patients being held in Emergency Departments for many days, being isolated in windowless rooms, physically and chemically restrained. This has all occurred prior to the impact of the Commonwealth Government's 2014 Budget cuts being felt.<sup>22</sup>

8.14 Emergency waiting times would significantly increase following the cuts to hospital funding, according to the SA Government:

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16 South Australian Government, *Submission 24*, p. 2.

17 South Australian Government, *Submission 24*, p. 2.

18 South Australian Government, *Submission 24*, p. 2; Australian Workplace Innovation and Social Research Centre (WISeR, University of Adelaide) for the Department of Premier and Cabinet, *Impacts of the 2014-15 Federal Budget Measures on South Australia* (2014), p. 43, <http://federalcutshurt.com.au/wp-content/uploads/2014/08/fed-budget-oct2014-n.pdf> (accessed 2 May 2016).

19 South Australian Government, *Submission 24*, p. 15.

20 South Australian Government, *Submission 24*, p. 14.

21 Health Consumers Alliance of SA, *Submission 92*, p. 3.

22 Health Consumers Alliance of SA, *Submission 92*, p. 3.

SA Health modelling shows the average emergency department wait times in South Australia are likely to increase to at least 66 minutes - up from the average current 20 minute waiting time.<sup>23</sup>

8.15 In addition, SA public hospitals would see increasingly complex cases as a result of funding cuts, with a 'significant impact on wait times for public procedures.'<sup>24</sup> An Ernst & Young analysis commissioned by the SA Government explained that:

It is estimated that acuity (or complexity of illness) would increase as public hospitals triage cases as normal – but under greater financial constraints. This would cause the less complicated cases (e.g. dental extractions, other knee procedures) to seek out the private system. This would in turn leave the more complicated cases (liver and heart transplants) inside the public system.<sup>25</sup>

8.16 Premier Weatherill summarised that '[b]y 2019-20, more than 56,000 patients per year will be left untreated in the public system, growing to more than 107,000 patients per year by 2024-25'.<sup>26</sup>

8.17 Further, the committee heard that elective surgery waiting lists times in SA would increase, reversing a 'consistent improvement' seen in recent years.<sup>27</sup> For example, a total hip replacement would have occurred after 99 days in 2014-15 but increase to 213 days in 2017-18.<sup>28</sup> Table 1 below shows the full extent of the elective surgery waiting times. The SA Government told the committee that:

...it is reasonable to expect that if Commonwealth funding had continued that further improvements to waiting times could have been made... The South Australian government had made a commitment to deliver a new strategy to keep waiting times low and focus on areas of growing demand over the next four years.<sup>29</sup>

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23 South Australian Government, *Submission 24*, p. 9. See also South Australian Government, *Federal cuts hurt – the facts*, [www.federalcutshurt.com.au/the-facts/](http://www.federalcutshurt.com.au/the-facts/) (accessed 2 May 2016).

24 South Australian Department of the Premier and Cabinet, *Public Health Expenditure and Distribution of Benefits – Technical Note* (Ernst & Young, 2016), p. 4.

25 South Australian Department of the Premier and Cabinet, *Public Health Expenditure and Distribution of Benefits – Technical Note* (EY), p. 3.

26 The Hon Jay Weatherill, Premier, South Australian Government, 'Report highlights dire consequences of Fed health cuts, Media release, 29 March 2016, [www.premier.sa.gov.au/index.php/jay-weatherill-news-releases/321-report-highlights-dire-consequences-of-fed-health-cuts](http://www.premier.sa.gov.au/index.php/jay-weatherill-news-releases/321-report-highlights-dire-consequences-of-fed-health-cuts), (accessed 6 May 2016).

27 South Australian Government, *Submission 24*, p. 11.

28 South Australian Government, *Federal cuts hurt – the facts*, [www.federalcutshurt.com.au/the-facts/](http://www.federalcutshurt.com.au/the-facts/) (accessed 2 May 2016).

29 South Australian Government, *Submission 24*, p. 11.

**Table 1—Growth of elective surgery waiting times in South Australia due to funding cuts<sup>30</sup>**

ELECTIVE SURGERY		
GROWTH IN DAYS WAITED DUE TO 2014-15 COMMONWEALTH BUDGET		
MEDIAN WAITING TIME	2013-14 DAYS	2017-18 DAYS
EAR NOSE THROAT	54	116
TOTAL HIP REPLACEMENT	99	213
TOTAL KNEE REPLACEMENT	152	327
LENS EXTRACTION	75	161
GALL BLADDER REMOVAL	33	71
TONSILLECTOMY	70	150
HYSTERECTOMY	44	95

8.18 Faced with more patients and more acute cases, hospitals in SA could be less prepared to treat them, as the state would 'have difficulty adopting new and more expensive life-saving technology'.<sup>31</sup>

8.19 Hospital redevelopment was also slowed by the 2014-15 Budget, with the SA Government submitting that it had suspended projects at the Queen Elizabeth Hospital (stage 3A), Modbury Hospital, Noarlunga Health Service (stage 2A) and Flinders Medical Centre, redirecting funding into a 'Health Capital Reconfiguration Fund'.<sup>32</sup>

### State Government response

8.20 Like several other states and territory governments, the SA Government has reallocated funding to mitigate the effects of reduced Commonwealth hospital funding, but cannot entirely address the shortfall. The SA Government website 'Federal cuts hurt' summarises measures proposed by the 2015-16 State Budget:

In our State Budget we have committed to make up for half of the cuts with the removal of the emergency services rebate and other income measures.

But a shortfall of \$332 million still remains.<sup>33</sup>

8.21 Before the Council of Australian Governments met in April 2016, Premier the Hon Jay Weatherill reiterated that 'the states and territories simply cannot afford to bear the brunt of these cuts'.<sup>34</sup>

30 South Australian Government, *Submission 24*, p. 9. See also South Australian Government, *Federal cuts hurt – the facts*, <http://www.federalcutshurt.com.au/the-facts/>

31 South Australian Government, *Federal cuts hurt – the facts*, [www.federalcutshurt.com.au/the-facts/](http://www.federalcutshurt.com.au/the-facts/) (accessed 2 May 2016).

32 South Australian Government, *Submission 24*, p. 11.

33 South Australian Government, *Federal cuts hurt – the facts*, [www.federalcutshurt.com.au/the-facts/](http://www.federalcutshurt.com.au/the-facts/) (accessed 2 May 2016).

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## Committee view

8.22 The committee commends the SA Government for refusing to pass on the most immediate impacts of the Federal Government's funding cuts to public hospitals across the state, but notes that the shortfall in funding remains considerable.

8.23 SA public hospitals must be supported in their efforts to reverse worrying trends in the length of waiting times and the number untreated patients. In 2016, SA was one of only two states (along with Tasmania) assessed as not meeting any targets in the Australian Medical Association's *Health and Hospitals Report Card 2016*. Particularly concerning for the committee was the marked decrease in the number of SA urgent emergency department patients seen within the recommended time, falling from 70 per cent in 2011-12 to approximately 58 per cent in 2014-15.<sup>35</sup>

8.24 The committee believes that state and territory governments cannot continue to cover the Commonwealth's planned funding reductions, which will grow steadily over time to a total of \$4.2 billion by 2024-25.

8.25 Long term funding certainty allows for better planning for infrastructure, managing staffing, waiting times and lists, and delivers increased efficiencies overall. When hospitals are forced to operate on year-to-year budgets, there is no capacity for planning ahead and making efficient investment in staff and services.

8.26 The committee believes that without long term funding, state and territory public hospitals will not be able to achieve efficiencies and adequately serve Australians. The committee calls on the Federal Government to create a long term, sustainable, funding model for hospitals which allows for appropriate contributions from governments, both state and federal.

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34 The Hon Jay Weatherill MP, Premier, South Australian Government, 'Report highlights dire consequences of Fed health cuts', Media release, 29 March 2016, [www.premier.sa.gov.au/index.php/jay-weatherill-news-releases/321-report-highlights-dire-consequences-of-fed-health-cuts](http://www.premier.sa.gov.au/index.php/jay-weatherill-news-releases/321-report-highlights-dire-consequences-of-fed-health-cuts), accessed 6 May 2016.

35 Australian Medical Association, *Public Hospital Report Card 2016*, p. 25.

