VHIA
Victorian Hospitals' Industrial Association
312 Kings Way South Melbourne VIC 3205 ABN 77 538 927 547
Switchboard 03 9861 4000 Employment Advice 1800 729 329 WorkCover Hotline 1800 466 637
Fax 03 9867 8540 Email vhia@vhia.com.au www.vhia.com.au

15 February 2013

Ms Christine McDonald
Secretary
Standing Committee on Finance
and Public Administration
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: fpa.sen@aph.gov.au

Dear Ms McDonald

Thank you for the invitation to respond to the Inquiry into the Implementation of the National Health Reform Agreement with regard to recently announced reductions by the Commonwealth of National Health Reform funding for state hospital services.

The role of Victorian Hospitals' Industrial Association is to represent and advocate on behalf of public hospitals in Victoria in their capacity as employers. Conventionally VHIA represents the health services in Enterprise Bargaining, Dispute Resolution, Change Management and Implementation and Workforce redesign projects and initiatives. Central to our objective is to ensure that the health industry workforce is stable, fairly remunerated and focused on patient care imperatives.

Our response to your invitation will relate to the following Terms of Reference and the imperative to minimize labour instability having regard to the significant workforce challenges confronting all health services:

(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

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

Most if not all hospitals priority in responding to the budget cuts was to minimise the impact on staff and patients.

One of the many strategies employed by public hospitals in Victoria to cope with the recent funding reduction was an extension of the low activity period over Christmas and throughout the month of January. Further low activity periods will be considered for the rest of the financial year, including over Easter. However, many health services have had to quickly make service cuts or service deferrals in order to maximise the savings capacity for the balance of the financial year.

The range of cost cutting initiatives are extensive and diverse and is not necessary to spell out all those details in this submission. Suffice to say each health service has made its own assessments of service imperatives and priorities having regard to the specific level of cut imposed upon it.

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

Achievement of significant cost savings half way through a budget cycle poses significant challenges for any organisation, particularly for public health services. Health services are required to sign up to specific and challenging activity and performance targets at the start of each year (as documented in Victoria within the Statement of Priorities). They must carefully plan resources and liaise with external service providers such as ambulance and community health to meet these targets, including clinical staff, equipment and support services staff.

The irony of the Commonwealth arbitrarily cutting capacity to meet its own targets as specified under the National Health Reform Funding Regime has not been lost on all of VHIA's members as they go about the unexpected business of reducing service capacity.

The nature of hospital forward planning is such that, any change to these financial arrangements part way through a budget year, cannot be made without significant cost or other detrimental implications. For example, each year new Junior Medical staff appointments and clinical rotations commence in February however budget planning and a commitment to these positions must be made in the final quarter of the preceding year. Further, surgical rosters and surgical activity are planned in advance for the coming year based on performance volumes and targets, and to allow for the scheduling of staff leave and other allowances such as sabbatical leave.

It has long been accepted by all governments that to ensure the best outcomes for patients, health services require funding certainty. The arbitrary and sudden withdrawal of funding part way through a financial year (relating in part to prior years) severely undermines the certainty that health services are entitled to expect from their signed funding agreements (Victorian Statements of Priorities). This in turn impacts negatively on the workforce by undermining critical labour stability and heightens industrial reactions. Prudent financial management may require that this uncertainty be factored into future financial planning decisions by health services; an outcome that is not in the best interests of the health system, the workforce or for patient care.

Given the magnitude of the funding reductions across the sector VHIA holds grave concerns for the ability of all public health services to achieve the reductions required within this time frame, which we predict will result in substantial budget deficits across the system for the 2012-13 financial year.

VHIA understands that forecasting future population and health care costs is an inexact science, and we recognise that the funding agreement has allowed for variations in these forecasts to be rectified. However we strongly urge that the timing of the imposition of such cuts be altered such that any budget reduction can be planned for and managed in the context of the creation of the annual budget for each health service.

This approach has two clear benefits:

1. Allowing the current financial year to be completed as planned within known revenue sources
2. Providing hospitals sufficient time to plan for and respond to the impacts of the budget adjustments.

Alternatively, Governments may wish to negotiate an adjustment to the COAG agreement so that budget reductions due to over-estimates, such that occurred in this case, are absorbed by Government and not passed onto public hospitals. Although this would require Governments to manage the financial implications of adjustments, the negative impacts will not be passed onto patients, clients and residents. Another approach might be to "amortise" the cuts over a longer period thus minimising the impact on service capacity and sustainability.

Consideration should also be seriously given to ameliorating the impact on rural health services by the Commonwealth absorbing these cuts thus avoiding negative service impacts given the limited labour flexibilities existing in rural settings. It is apparent that there has been a strong negative community reaction to these cuts in rural Victoria and therefore it is vital that these cuts be significantly ameliorated or eliminated.

VHIA is not only deeply concerned at the immediate effects on service capacity of public hospitals but is also troubled by the medium to long term implications for labour stability, recruitment and retention considerations. These cuts destabilise a highly skilled workforce and erodes confidence in the prospects of on going employment and career path development. VHIA is concerned that Unions will be forced to utilise all available delaying tactics as a response to the understandable concerns of their members. The industrial requirements for the resolution of such disputes will cause delay in the implementation of any cost cutting measures that impact negatively on employees or service provision. Perversely, this will force health services to make deeper cuts to meet the arbitrarily altered budget parameters within the necessary time frames.

In the unlikely event the committee requires more detail about the range and extent of cuts implemented by Victorian public hospitals, VHIA would be pleased to assist in this regard. The foregoing submission has been focused on the actual effects of the arbitrary cuts and their implications for on going service delivery and the viability of relevant performance targets.

VHIA strongly urges that the deliberations of your Senate committee leads to the conclusion that the imposition of the cuts and the manner in which they occurred has a seriously damaging effect on service capacity in this sector.

VHIA does not make any particular submissions in respect of items (C) & (D) of the Terms of Reference.

VHIA has no objection to the Committee making public this submission.

Yours sincerely

Alec Djoneff
Chief Executive Officer