Dr. Christine McDonald
Committee Secretary
Senate Standing Committee on Finance and Public Administration
PO Box 6100
Parliament House
CANBERRA ACT 2600
Email: fpa.sen@aph.gov.au

Dear Dr McDonald

Thank you for the opportunity to provide a submission to the Senate Finance and Public Administration References Committee Inquiry into the Implementation of the National Health Reform Agreement. My recommendations relating to the Inquiry are below.

1. Terms of Reference

On 7 February 2013, the Senate referred the following matter to the Finance and Public Administration References Committee for inquiry and report by 7 March 2013. 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, in particular:

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.

This submission principally relates to terms of reference c) and d) above. It addresses some broader aspects of the National Health Reform funding model and related Agreements that hold significant potential to adversely impact on the financial position of hospitals if potential inadequate levels of funding are not rectified. This involves, inter alia, the funding models of the Independent Hospital Pricing Authority for 2013-14 published during August 2012 for public consultation. It was published on the Authority's website and is called the "*Consultation Paper for Pricing Framework for Australia Public Hospitals Services 2013-14*".[1]

2. Victorian government concerns

The Victorian Government (2013, pg 2)[2] in its submission to the Senate Committee indicated that '*The Commonwealth's decision midway through the 2012-13 financial year to strip almost half a billion dollars over the forward estimates and reduce its scheduled payments to Victorian hospitals in 2012-13 by $107 million over seven months has had major negative consequences for the Victorian community, including the cancellation of Victorian hospital services and retrenchment of staff*'.

Nationally, the Commonwealth has unilaterally reduced the National Special Purpose Payments (SPP) for Healthcare by $1.6 billion over the forward estimates. This is a reduction against the Commonwealth Government's 2012-13 Budget forward estimates. This reduction has been communicated to all States and Territories by the Commonwealth Treasury. The Commonwealth began reducing funding into the National Health Funding Pool in December 2012 and is forecast to be

[1] IHPA (2012) Consultation Paper for the Pricing Framework for Australia Public Hospitals Services 2013-14. 31 August 2012 http://www.ihpa.gov.au/internet/ihpa/publishing.nsf/Content/sub-received-pricing-framework-2013-14
[2] Victorian Government (2013) Submission to the Senate Finance and Public Administration References Committee Inquiry into: The Implementation of the National Health Reform Agreement (Submission No 54). http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=fapa_ctte/public_hospital_funding/submissions.htm

a reduced payment by the Commonwealth every month for the remainder of the financial year. The Commonwealth reduction in its health funding payments has been confirmed by the Reserve Bank of Australia and the independent Administrator of the National Health Funding Pool (Victorian Government 2013).

All Victorian Local Hospital Network (LHN) budget allocations increased in 2012-13, relying partly on the Commonwealth delivering on their May 2012 budget commitment. The Victorian government argues that:

- the Commonwealth Treasurer used incorrect population figures to reduce its allocation of funding.
- The Commonwealth has not followed sound methodological practice and the Australian Statistician's advice to determine population *growth.*
- The calculation of Australia's population growth rate between 31 December 2010 and 31 December 2011 is a key issue.
- The Commonwealth Treasurer has, ***in two separate agreements***, determined that Australia's population growth rate between December 2010 and December 2011 was both 1.4 percent and 0.03 percent. However, Australia's population could <u>not</u> have grown by two different rates over the same period.
- the Commonwealth Treasurer relied on advice from the Australian Statistician, and used ***revised population figures for December 2010*** in making a Determination that Australia's population grew by 1.4 percent between December 2010 and December 2011 in finalising ***<u>Local Government Funding</u>*** (***in <u>June 2012</u>***); and
- the Commonwealth Treasurer ignored the same advice from the Australian Statistician in making a Determination that Australia's population grew by 0.03 percent between December 2010 and December 2011 in finalising health funding under the ***<u>Health SPP</u>*** (***in <u>October 2012</u>***);
- Had the Commonwealth applied the latest available ABS revised estimate for the population of Australia at December 2010, the growth rate between 31 December 2010 and 31 December 2011 would have been 1.4 percent compared with the 0.03 percent the Commonwealth used.
- This error should be corrected.
- The Victorian Government also has concerns about the application of the health price index. 'Victoria's own data would confirm the AIHW Total Health Price Index figure for 2010 has significantly understated health and hospital cost inflation' (Victorian government 2013 pg 10).
- The Commonwealth clawed back health funding from 2010-11, after patients have been treated; and re-based health funding for every year into the future based on the incorrect application of population growth data.
- Given the sudden cut in Commonwealth funding to LHNs, made half way through the financial year, after hospitals had set budgets, hired staff and scheduled patients, LHNs had to close beds, retrench staff and delay treatments, such as elective surgery. (Victorian Government, 2013).

The Victorian government (2013) in its submission to the Senate Inquiry made the following recommendation:

'To redress very significant disruptions, to avoid similar issues going forward and to ensure the successful implementation of the National Health Reform Agreement, Victoria recommends:

a. That the National SPP for Healthcare Determination of 20 October 2012 be withdrawn or amended for 2011-12 and the 2012-13 Mid Year Economic Fiscal Outlook (MYEFO) funding reductions reversed. The Commonwealth Treasury should correct the errors and repay the money into the Pool for Victorian LHNs.

b. That there are no future downward revisions in payments implemented mid financial year. A new process should be established (and agreed with all jurisdictions) so that LHNs budgets are not disrupted mid-year.

c. That the Commonwealth Government agrees to adopt best available data and methodological practice in calculating and applying the Healthcare National SPP factors.

d. That the application of data and methodology for calculating the Healthcare National SPP indexation is transparent and details disclosed and agreed with States and Territories. The working documents and calculations that underpin the Treasurer's Determination should be released in full' (Victorian Government, 2013, pg 12).

3. Victorian Health Care Association (VHA) concerns

The VHA (2013)[3] highlights that before 2014-15, NHRA is based on the previous mechanism applied by the Commonwealth to fund State health systems, the National Health Specific Purpose Payment (SPP). Although the SPP determination was governed by three factors viz, a technology factor, health inflation and population, it enables the Federal Treasurer significant flexibility in interpreting the data used to apply those factors (VHA, 2013).

From 2014-15, the Treasurer will lose this ability as federal health funding will be based on the growth in health spending in each state. The VHA is concerned that as federal health funding over the next four years will be lower than originally anticipated as a result of the changes identified in the MYEFO, growth in health spending from 2014-15 and beyond will be measured from a lower baseline (VHA, 2013).

This means funding growth will effectively be reduced in perpetuity. The reduction in growth funding will make it difficult for health services to maintain an appropriate level of service provision to meet targets established by the Commonwealth and administrative resources necessary to maintain accreditation (VHA, 2013).

4. New Commonwealth funding Decisions: 21 February 2013

On 21 February 2013 the Prime Minister, Julia Gillard, announced that she will reverse a retrospective cut of $107 million from Victoria's hospitals. The $107 million the federal government is directing to Victoria's hospitals is coming directly from other funds earmarked for Victoria's Treasury. The Health Minister, Ms Plibersek confirmed on 21 February 2013 that the $107 million rescue package consisted of $55 million budgeted for a project to streamline national and federal laws, and the rest from federal reward money for meeting health benchmarks. She indicated that there would be no need to allocate further rescue funding in the new financial year. However, she confirmed that the federal government would continue to use the new, lower estimates of Victoria's population to calculate payments. Mr Baillieu said that he had been told that half of the $107 million was being taken from reward payments for occupational health and safety reform. The remainder was unspecified (Lowe and Griffin, 2013)[4]

Recommendation 1

The Senate Committee note that:

- *I endorse the above recommendation made by the Victorian Government in its submission to the Senate Inquiry.*
- *The Prime Minister announced on 21 February 2013 that she will reverse the retrospective cut of $107 million from Victoria's hospitals, but the media reports it is coming directly from*

[3] VHA (2013) Submission to the Senate Finance and Public Administration References Committee Inquiry into: The Implementation of the National Health Reform Agreement (Submission No 20).
http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=fapa_ctte/public_hospital_funding/submissions.htm
[4] Lowe, A and Griffin M (2013) "Baillieu slams Gillard backflip on hospital funds" 21 February 2013. 10.28am
http://www.theage.com.au/opinion/political-news/baillieu-slams-gillard-backflip-on-hospital-funds-20130221-2esny.html#ixzz2LUvWGaP5

other funds earmarked for Victoria's Treasury - half from reward payments and the remainder unspecified.

- *The federal government will continue to use the new, lower estimates of Victoria's population to calculate payments according to the press reports of 21 February 2013. This issue needs to be further addressed by the Senate Committee given:*
    - *the concerns made by the Victorian Government in its submission to the Senate Committee about the discrepancy in the two population estimates over the same period for two difference agreements.*
    - *the VHA is concerned that as federal health funding over the next four years will be lower than originally anticipated as a result of the changes identified in the MYEFO, growth in health spending from 2014-15 and beyond will be measured from a lower baseline.*

5. Other key components of National Health Reform impacting on hospital funding levels

Australian Government Department of Health and Ageing and The Treasury (2013)[5] indicate that in addition to increased Commonwealth funding flowing through the National Health Funding Pool, the National Health Reform arrangements introduce additional governance arrangements aimed at improving the transparency of public hospital financing and performance. These include:

a. The Independent Hospital Pricing Authority (IHPA) to set an efficient price for public hospital services;

b. The Administrator of the National Health Funding Pool to report on Commonwealth and State expenditure on public hospitals;

c. The National Health Performance Agency (NHPA) to advise on the performance of individual public hospitals; and

d. An independent dispute resolution process to end the 'blame game'.

Since 2007-08 the Australian Government has made targeted investments in public hospitals to improve their capacity (Australian Government Department of Health and Ageing and the Treasury, 2013). The IHPA was established under legislation on 15 December 2011. The IHPA is responsible for determining the National Efficient Price (NEP) for public hospital services through the analysis of data on the actual activities and costs of public hospitals. The development of the NEP, combined with block funding, aims to ensure public hospitals receive an appropriate level of funding and will encourage all public hospitals to become more efficient.

The IHPA successfully delivered its critical milestone for 2012-13, publishing a *Pricing Framework* and *National Efficient Price Determination 2012-13* on 8 June 2012. This work enabled the commencement of the national system of ABF for public hospital services on 1 July 2012 (Australian Government Department of Health and Ageing and the Treasury, 2013).

Department of Health and Ageing and the Treasury (2013) highlight that the IHPA is well advanced in its development of the 2013-14 NEP and an updated pricing framework, both of which are expected to be published in early 2013. The IHPA has previously indicated that the 2013-14 pricing model was due to be presented to Health Ministers during 2012 with publication by IHPA due in early 2013. The updated pricing framework for 2013-14 is yet to be published by the IHPA.

[5] Australian Government Department of Health and Ageing and the Treasury (2013) Submission to the Senate Finance and Public Administration References Committee Inquiry into: The Implementation of the National Health Reform Agreement (Submission No 55). http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=fapa_ctte/public_hospital_funding/submissions.htm

My recommendation below relates to the Independent Hospital Pricing Authority's Consultation Paper on the 2013-14 Pricing Framework. In my view, that framework requires attention to ensure equity in the funding model and to avoid inappropriate underfunding. In my submission to the IHPA dated 18 October 2012, I noted, in accordance with Victorian Government recommendations, that price adjustments are needed for specialised services to extend beyond just 'isolated' sites. Further, block funding is required to supplement ABF payments for highly specialised low volume services such as transplantation and other state-wide referral services associated with major teaching hospitals. This can enable the risk adjustment of the funding model and enable the funding to more adequately match the health needs of patients (Antioch, 2012)[6].

Recommendation 2

That the Senate Committee note my submission to the Independent Hospital Pricing Authority, dated 18 October 2012 (attached), which provides substantial evidence I published in the European Journal of Health Economics on the need for block grants for highly specialised low volume services such as transplantation and other state-wide referral services in major public teaching hospitals. This relates to the need for risk adjustment in Activity Based Funding (ABF) formulas.

Yours sincerely,

Dr Kathryn Antioch
BA (Hons) MSc (UBC) AFCHSM CHE PhD (Health Economics)
Principal Management Consultant
Health Economics and Funding Reforms
Deputy Chair, Guidelines and Economists Network International (GENI) Board
Adjunct Senior Lecturer, Department of Epidemiology and Preventive Medicine Monash University
Advisory Board, Cost Effectiveness and Resource Allocation Journal
21 February 2013

Dr Kathryn Antioch was a member of the Expert Panel on Activity Based Funding (ABF) for the Australian Government to 2012 and is a current member of the State government's ABF Panel. She previously led the risk adjustment reform of ABF for the Victorian Government as Chair of the Risk Adjustment Working Group and worked in the Senior Management of Local Hospital Networks on this issue and Evidence Based Medicine implementation. Since 2010, she has participated in 11 Senate Parliamentary Inquiries on national health reforms, following her COAG briefings on the risk adjustment of ABF from 2008 to 2010. She has worked in Commonwealth and State Governments on ABF classification systems and funding models, at the AIHW on health expenditure estimates and health indices and for the Commonwealth on renegotiation of Health Care Agreements. She held two Ministerial appointments to the two Principal Committees of the National Health and Medical Research Council (NHMRC) for six years to 2009 - including the Health Advisory Committee, National Health Committee, and also the Privacy Working Committee and Lead Committee. The Victorian Governor in Council appointed Kathryn to a Victorian Health Practitioners Registration Board previously and she worked on a Canadian (British Columbia) Royal Commission on Health Care and Costs on hospital and aged care reforms.

[6] Antioch KM (2012) Submission to the Independent Pricing Authority (IHPA) consultation Paper on the 2013-14 Pricing Framework
http://www.ihpa.gov.au/internet/ihpa/publishing.nsf/Content/F7F044CD6146FF45CA257A7F0003F03B/$File/Dr%20Kathryn%20Antioch.pdf