NETWORK UPDATE

ACUTE CARE NETWORK

February 2013

MID-YEAR ECONOMIC AND FISCAL OUTLOOK

- There has been considerable media coverage of the impact of the hospital funding reductions arising from the Mid-Year Economic and Fiscal Outlook released by the Federal Treasurer in October 2012.

- While the Agreements covering the allocation of funding allow for adjustments, there are considerable issues with the methodology that has been adopted by the Australian Government and the subsequent impact on health service provision.

BACKGROUND

- 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)[i] are covered by Schedule D of the Intergovernmental Agreement on Federal Financial Relations (IAFFR)[ii] and specific conditions contained in individual Agreements.
- 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[iii]; and
    (b) the Australian Statistician's determination of population share as at 31 December of the relevant year[iv].
- The escalation of the funding under the healthcare SPP and NHRA[v] 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.

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ISSUES

- The Mid-Year Economic and Fiscal Outlook statement (MYEFO)[vi] released in October 2012 included revision to funding allocation under the health SPP and NHRA.
- These revisions were made on the basis of variations to the health specific cost index and the population estimates.

Health specific cost index

- The costs indexation reference figure is the Total Hospital Price Index (THPI) which describes growth in total national health expenditure
- The AIHW health price index 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.

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 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 Government 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%.

Table 2: Population Growth Estimates

Population growth (%)	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
ABS[ix]	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[x]	15,460	16,469	17,285	18,730
2012-13 MYEFO[xi]	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[xii] ($ 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

- Through the Standing Council on Health, the Health Ministers have acknowledged that the adjustments were the result of a decision by Treasury and not by the Minister for Health.[xiii]

DISCUSSION

Health Price Index

- 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

- The application by Treasury of the intercensal error adjustment to a single year is in clear contradiction to the recommendations of the Australian Bureau of Statistics 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. 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.[xvi]

Consultation

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

Service impact

- The 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".[xix]
- The establishment of the National Health Funding Pool 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 that the impact of the funding reductions are being passed on to local hospital budgets requiring local management to find budget savings through efficiencies or through the reduction of staffing and services.

Funding claims

- While the SPP and NHRA allocations have reduced 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, Commonwealth contributions have decreased.
- 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.

POSITION STATEMENT

- The AHHA rejects the methodology adopted by Treasury to apply funding reductions for the 2011-12 and 2012-13 years.
- The AHHA calls on the Treasurer to accept the advice of the Australian Bureau of Statistics, acknowledge the impact of the cuts on service provision and reverse the retrospective adjustments of the funding provided to States and Territories.

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[i] http://www.federalfinancialrelations.gov.au/content/npa/health_reform/national-agreement.pdf
[ii] http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx
[iii] IAFFR tables D2 to D5
[iv] IAFFR D30
[v] IAFFR D24
[vi] http://www.budget.gov.au/2012-13/content/myefo/html/index.htm
[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.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/3101.0Main%20Features1Jun%202012?opendocument&tabname=Summary&prodno=3101.0&issue=Jun%202012&num=&view=
[x] http://www.budget.gov.au/2012-13/content/bp3/html/bp3_03_part_2a.htm
[xi] http://www.budget.gov.au/2012-13/content/myefo/html/index.htm
[xii] Source – Treasurer email
[xiii] Standing Council on Health Communique 9 November 2012
[xiv] section D30 of the IAFFR
[xv] section D24 of the IAFFR
[xvi] http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr12-tp-tp096.htm?OpenDocument&yr=2012&mth=11

[xvii] NHRA 1a
[xviii] NHRA 7e
[xix] NHRA 3g