Commonwealth Funding for improving free, comprehensive care available to all in public hospitals and the 2016 Federal Budget

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• ‘The Commonwealth and the States will work in partnership to implement new arrangements for a nationally unified and locally controlled health system which will improve patient access to services and public hospital efficiency through the use of activity based funding (ABF) based on a national efficient price’

• ‘efficient’ growth of public hospital funding arises from population growth, ageing and health service improvement.

• Health service improvement includes provision of effective care from existing technologies to an increasing proportion of those who will benefit, improved quality of care and increased safety, as well as provision new technological developments
COAG National Health Reform Agreement
August 2011

• ‘In recognition of the implementation by the States of these reforms, the Commonwealth will provide at least an additional $16.4 billion in growth funding between 2014-15 and 2019-20 through meeting 45 per cent of efficient growth between 2014-15 and 2016-17

• and 50 per cent of efficient growth from 2017-18 onwards;

• in the event the additional growth funding is less than $16.4 billion, the Commonwealth will provide the remainder to States as top-up funding’
The 2014/15 Budget

- The 2014/15 Budget retained the Commonwealth commitment in the Health Reform Agreement (45% of efficient growth) until 2016/17.
- From 2017/18, it included only funding for population growth and ageing, but not for health service improvement.
- It also ended the Commonwealth’s commitment to Activity Based Funding.
2014/15 Budget Public Hospital Funding Reduction
Commonwealth funding for public hospitals in the chart on page 7 of the 2014-15 Budget Overview.

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<td>10</td>
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<td>15</td>
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The hospital expense projections consist of the Commonwealth contribution to public hospital funding under the *National Health Reform Agreement 2011*. No expenditure under National Partnership Agreements is included in these projections.

1. ‘..' indicates: not zero, but rounded to zero.
2016 Budget included the COAG Agreement 1st April 2016

• ‘Leaders agreed a Heads of Agreement for public hospitals funding from 1 July 2017 to 30 June 2020 ahead of consideration of longer-term arrangements. This will see the Commonwealth providing an estimated additional $2.9 billion in funding for public hospital services,

• with growth in Commonwealth funding capped at 6.5 per cent a year.’

• The Commonwealth again agreed to Activity Based Funding
The 2016 Budget returns 40% of the Public Hospital Growth removed in the 2014 Budget

• 2014 Budget decrease for 17/18, 18/19 and 19/20: $7billion (2014 dollars)

• 2016 Budget increase for 17/18, 18/19 & 19/20: $2.9billion (2016 dollars)
Why does Activity Based Funding Matter?

- In the 1980s, under the guidance of Sid Sax, Australian hospital budgets moved from line item funding to Global prospective budgets (Aust Health Rev. 1984;7(1):55-8. The Sax Report. "Report of the enquiry into hospital services in South Australia.")
- This allowed hospital managers to allocate their budgets efficiently
- Just as the first Commonwealth State hospital funding agreements were made under the new Medicare system
- Greatly expanding Commonwealth funding for public hospitals.
Why does Activity Based Funding Matter?

- As Commonwealth growth in hospital funding slowed in the 1990s
- Hospital expenditure had to be controlled to stay within the global prospective budgets.
- Managers limited the number of elective procedures to be performed each year as a way of staying within budget.
- If there was demand for more procedures than budgeted for, a waiting list built up.
- As an unintended consequence of prospective global budgets.
Why does Activity Based Funding Matter?

- Health systems that fund hospitals with retrospective activity based funding (ABF) are much less prone to excessive waits for elective surgery.
- Because if there is a waiting list, they can provide extra operations to clear the wait list, and get paid extra money for this work.
- This can be seen in insurance based systems (e.g., private health insurance in Australia, and the social insurance based German healthcare system).
- Retrospective ABF provides better allocative efficiency than prospective capped budgets: ABF is NOT inherently more expensive.
Why does Commonwealth Hospital Funding Growth Matter?

- Healthcare expenditure in Australia grows by 1% of GDP per decade:

<table>
<thead>
<tr>
<th>Year</th>
<th>%GDP</th>
<th>$(constant prices)</th>
<th>C’wlth PubHosp $</th>
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<tbody>
<tr>
<td>85/86</td>
<td>6.55%</td>
<td>$41.7b</td>
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<tr>
<td>95/96</td>
<td>7.38%</td>
<td>$62.7b</td>
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<tr>
<td>05/06</td>
<td>8.69%</td>
<td>$103.6b</td>
<td>$8.8b (8.5%)</td>
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<tr>
<td>13/14</td>
<td>9.77%</td>
<td>$154.6b</td>
<td>$14.7 (9.5%)</td>
</tr>
</tbody>
</table>
Why does Commonwealth Hospital Funding Growth Matter?

• If expenditure growth is not provided by government, it will occur through private expenditure.

• Unregulated private expenditure is prone to moral hazards such as supplier induced demand (unnecessary treatments) and inequality (those who cannot afford it do not get it).

• Regulated private expenditure (e.g., private health insurance) can in principle fill the gap, but in practice this would require re-regulation.

• Out-of-pocket costs are already higher in Australia than most comparable countries (except the US), and have caused inequitable access to healthcare (Commonwealth Fund comparative study).
Why does Commonwealth Hospital Funding Growth Matter?

- Politically, the winning party in every election since 1972 has been committed to free comprehensive public hospital services available to all. Each of the subsequent governments (except Fraser 1980-83) kept this promise, and left the national public hospital network in better shape than when they were elected.

- The Abbott/Hockey Budgets of 2014 and 2015 would have seen this progress halted from 2017. It could have led to states introducing fees or restricting access to some public hospital services.

- The 2016 Budget allows for some improvement momentum to continue, and may have effectively neutralised health as a negative issue for the Coalition at the July 2\textsuperscript{nd} election.