Martyn Goddard

Health policy analysis and development
65 Warwick Street ♦ Hobart ♦ Tasmania ♦ 7000
Phone (03) 6231 4264
Email martyng@netspace.net.au

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Mr Stuart Wright
Secretary
Legislative Council Government Administration Committee 'A'
Parliament House
HOBART TAS 7000

Dear Mr Wright

SUBMISSION ON THE ROYAL HOBART HOSPITAL REDEVELOPMENT FINANCE AND ON A SINGLE-FUNDER MODEL FOR HEALTH SERVICES

The Sub-Committee has before it many suggestions for improving efficiency in health services and other areas of government responsibility, and of therefore saving money which could be used to offset some of the most damaging of the current health cuts. You may find a number of these suggestions to be practical and helpful. But the fundamental problem facing the continued viability of Tasmania's health and hospitals system is structural and is unlikely to be addressed by marginally improved productivity.

I attach, as part of this submission, a recent research paper – *Saving Health* – on how such a structural change, through moving to a single-funder model, might work. The data drawn on in this paper pre-dates the current cuts: the critical situation in which we now find ourselves is not mainly the result of a passing problem with state finances but of a fundamental imbalance between acute health expenditure and state government revenues that has been compounding for decades.

The details of the case for change are in the paper, and there is no need to repeat them here. I commend the paper to you.

As part of my work on this, I researched the nature and effects of specific purpose funding (SPPs) on the state's capacity to fund health. This is included on page 13. The specific problems associated with the money negotiated by Mr Andrew Wilkie for the redevelopment of the Royal Hobart Hospital came up during this time. It is clear to me that the present cuts to hospital services would not have been necessary if this money had been negotiated differently, or not at all.

This is a complicated matter, so it might be best to start with the basics.

Money comes from Canberra to the states and territories in two main forms: the proceeds of the GST; and specific-purpose payments, which include national partnership agreement money, such as the National Partnership on Health Infrastructure from which the RHH money is drawn. SPPs together account for almost 40% of Commonwealth transfers to the states and territories.

Entitlement to the proceeds of the GST is calculated by the Commonwealth Grants Commission according to a policy of ironing out the differences between poor and rich states. Tasmania does well by this element of the process: we have about 2.5% of the population and this year will get 3.6% of GST. The advantage of GST over SPP funding is that GST can be spent according to the state's own needs and priorities; the SPP money is earmarked and can only be spent as the Commonwealth specifies.

SPPs are capable of upsetting the finely-calculated GST relativities between the states, so the Grants Commission has a process of dealing with this. When it calculates the actual amount of GST which is paid to each state or territory, it takes into account the impact of SPPs on these relativities. Therefore, a state which has received something that other states have not received will have its GST money reduced by a commensurate dollar-for-dollar amount, so that the total of Commonwealth transfers – GST and SPPs – conform to the Commission's relativities: in Tasmania's case, 3.6%. This money is redistributed over a three-year period; the timeframe is outlined in an appendix to the *Guide to the Budget* in this year's state budget papers.

Particular SPPs can be excluded from this redistribution process, and quite a number are. For instance, funding for the Mersey Hospital and for the Tasmanian forest industry deal are excluded; so too are facilitation and reward payments (but not project grants, unless specifically negotiated) under the National Partnership programs. Each year the federal Treasurer issues new Terms of Reference to the Commission outlining the framework for its annual update of GST relativities. I am attaching the 2011 document. As you will see, Mr Swan ordered three new exclusions, in items 9, 10 and 11, on aged and community care programs, the Northern Territory intervention, and Western Australian iron ore royalties.

It is not as if there is a lack of precedent in this area.

The agreements negotiated by Mr Wilkie, and signed by the state and federal governments, involve a Commonwealth contribution of $340 million and a state contribution of $225 million. The timeframe for these payments is outlined on page five of another attached document, *Project Agreement for the Redevelopment of the Royal Hobart Hospital.*

The Premier confirmed in Parliament on 23 November that this money was not excluded from Grants Commission redistribution. This means:

- The $340 million Commonwealth contribution will, in effect, have to be paid back in the form of lower GST payments than we would otherwise have received;

- All but about $12 million of this $340 million will therefore, after redistribution, have to come out of the state budget;

- The state will have to find an additional $225 million from its own budget as its contribution to fund the construction of new wards and operating theatres at the very time we are closing down the ones we already have.

- If this agreement had not been struck at all, the state would still have got the $12 million it will end up with as its eventual share of the Commonwealth contribution. All the money in the Health and Hospitals Fund (part of the National Partnership in Health Infrastructure) would have been distributed among the states and territories as the Commonwealth originally intended. This money would still have been subject to Grants Commission redistribution, no matter who got it originally, and Tasmania would have ended with the amount it is entitled to under GST relativities – this year, 3.6%.

- If the agreement had not been struck, Tasmania would not now have to spend $565 million on buildings.

The Royal Hobart Hospital is desperately in need of updating. But this should not come at the cost of immediate frontline services.

Mr Wilkie has defended his negotiation by saying the eventual outcome of all SPPs across all states and territories, will not be known for some time and are complex:

> But the facts are that GST calculations are complex and special purpose grants to any state for any project have a lesser impact on the GST carve-up and it is spread over years. No wonder the Tasmanian government welcomed the $340 million for the Royal Hobart Hospital at every opportunity and has never suggested handing it back. So, no, this $340 million will not cut $340 million from future GST allocations and, no, I am not responsible for Tasmania's budget debacle.[1]

This seems to me in part irrelevant and in part disingenuous. The fact that the both the payments and GST redistribution take place over several years is obvious but immaterial. Despite Mr Wilkie's claims, the state will be worse off by some $328 million than it would have been if he had negotiated an exemption for these payments. As the existence of the federal government depended on him at that time, it is not believable that he could not have obtained one.

It is also difficult to understand why the Tasmanian government agreed to this deal without trying to secure an exemption, or encouraging Mr Wilkie to obtain one. In Parliament on Wednesday 23 November, and again in a media release on the same day, the Premier defended the government's action by saying the state could 'not have its cake and eat it':

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1. 'Statements by members: Health funding', *Hansard,* House of Representatives, Parliament of Australia, Canberra 23 November 2011, p.48.

> While I would share some sympathy and on the one hand want to argue very strongly that it should be exempt, that does not bode well in terms of the bigger picture debate that we are having right now around the nation, around the horizontal fiscal equalisation scheme and the danger to Tasmania if that scheme is undermined. We cannot have our cake and eat it in that respect. We have to understand the equity and fairness principles that underpin HSC and abide by those and that is exactly what we are doing.[2]

There is no such requirement for state governments to agree to every funding offer made by the Commonwealth. It is the job of any state government to scrutinise every funding deal to see whether it is in the best interests of Tasmanians. If it is not, the government should either reject it or seek to amend it. It is extraordinary that in this case it did neither.

It would still be possible for the Royal Hobart Hospital project to be exempted from Grants Commission redistribution. The federal Treasurer's next Terms of Reference, for the Commission's 2012 update, will come out early in the new year. Mr Wilkie and the Tasmanian government should seek to obtain such an exemption.

The result would be that the current cuts to hospital budgets could be overturned and services reinstated. The committee has evidence before it that the cuts now in place will result in avoidable clinical complications, pain and misery, and probably a number of deaths. It is likely that the further cuts likely in future years will make the situation even worse. It is not an exaggeration to say that the incompetent way this redevelopment deal was negotiated will cost lives.

Remedying this deal would not alter the longer-term need for the Commonwealth to take on sole funding responsibility for state health services. But it would solve the immediate and immensely significant problem currently facing our hospitals.

For the record, all of this work has been done on my own behalf. It has not been funded by any person or organisation. I am not, and have never been, a member of any political party. I have worked in national health policy for almost 20 years, mainly in the consumer interest.

Yours sincerely

MARTYN GODDARD

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2. *Andrew Wilkie jumps to conclusions on GST,* Media release, Premier of Tasmania, Hobart 23 November 2011.