

Legislative Council Government Administration Committee
Inquiry into Department of Health and Human Services Cost Reduction
Strategies

Department of Health and Human Services Submission

Introduction

The 2011-2012 State Budget sets the Department of Health and Human Services (DHHS) a challenging task to achieve significant savings throughout the forward estimate period. This submission outlines the circumstances leading to the Budget savings requirement and the approach the DHHS is taking to meet these requirements, while continuing to meet the health and human services needs of Tasmanians. Details of how the savings are being achieved within the DHHS were reported orally by DHHS representatives to the Inquiry on 21 November 2011. This paper does not replicate those details, but rather provides the context within which the expenditure constraint is occurring.

Revenue

The ongoing effects of the Global Financial Crisis have resulted in a significant deterioration in the State's financial position. This change primarily reflects the impact on Tasmania's GST receipts and on State own-source revenues.

The 2011-2012 Budget indicates that GST receipts from the Australian Government in 2011-2012 will be \$239.0 million, or 12.1 per cent, lower than the amount expected when the 2008-2009 Budget was developed. Overall, when comparing the 2011-2012 Budget forward estimates to projections from the 2008-2009 Budget, the loss of GST and own source revenue from 2011-2012 to 2014-2015 is estimated to be \$1.7 billion. This loss is equivalent to approximately 8.5 per cent of total General Government operating expenses over that period.

The Government's ability to raise extra revenue is extremely limited. Over 60 per cent of Tasmania's revenue is from grants, including the GST and specific purpose payments from the Australian Government. The GST revenue component is largely dependent on the performance of the national economy. State taxes comprise approximately 20 per cent of Tasmania's revenue. While the 2011-2012 Budget included a small number of taxation measures to reduce concessions and rebates, in order to maintain Tasmania's business competitiveness the Government is committed to a policy of no new taxes or increases in existing taxes.

The funding initiatives in the National Health Reform Agreement (NHRA) will, over time, increase the Australian Government's contribution to health funding. From 2014-2015, the Australian Government will increase its share of public hospital funding by paying for 45 per cent of all efficient growth in public hospital services, increasing to 50 per cent in 2017-2018. This will see Tasmania receive a minimum of \$209 million in additional health funding by 2020, and up to around \$350 million depending on hospital activity levels and growth in the efficient price.

While the national reforms will go some way to alleviating the structural imbalance between revenue capacity and expenditure responsibilities between the Commonwealth and the states, they are unlikely to be the only long-term solution, and do not assist with the immediate fiscal challenge.

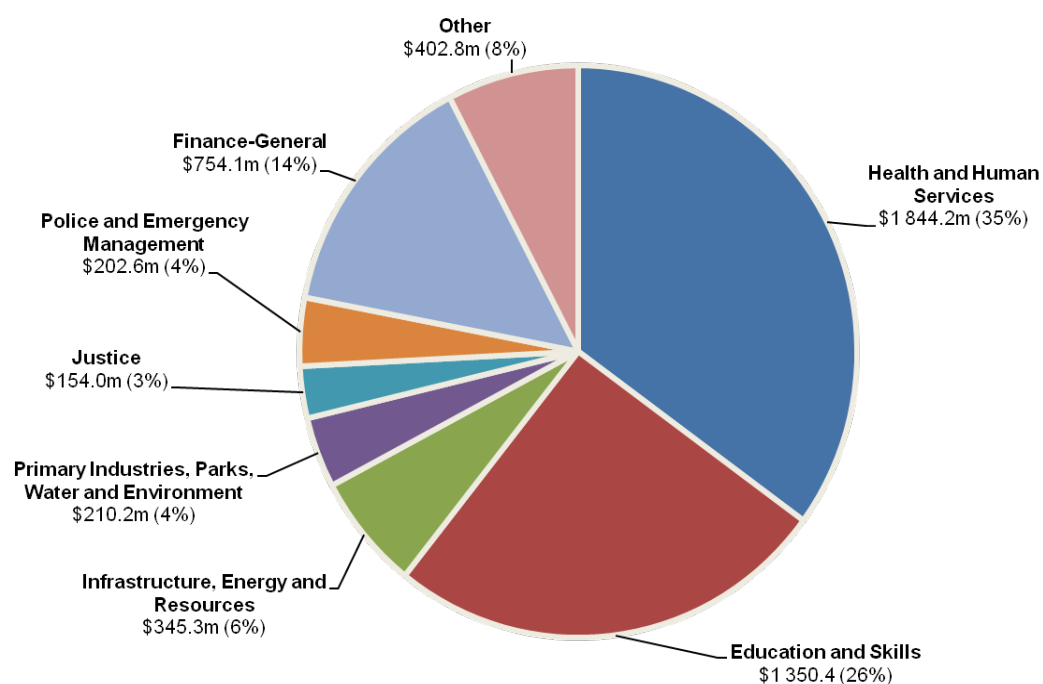
A proposal for the Australian Government to assume full responsibility for health funding in Tasmania has recently been put forward by health policy analyst Martyn Goddard, Independent Andrew Wilkie, the Tasmanian branch of the Australian Medical Association, the Mayor of Launceston and others. The Premier and the Health Minister have publicly stated that they are open to the idea of an Australian Government funding model for health and that the Minister has had discussions with the Australian Government on this issue. However, Minister Roxon has recently indicated that the Australian Government is committed to the principles of the NHRA and will not be changing health funding arrangements in the foreseeable future.

Expenditure

Given the State's very limited ability to influence revenue streams, the Government's primary option to meet the Budget challenge is to ensure expenditure is sustainable within the constrained revenue environment.

All agencies have been asked to implement savings strategies to ensure that the State's budget is managed on a sustainable basis. Total agency budget savings of \$176.7 million have been identified for 2011-2012, of which the DHHS' share is \$100.2 million. As shown in Chart 1, the DHHS is the largest department in the General Government sector, accounting for 35 per cent of Budgeted expenditure in 2011-2012. While DHHS has been required to make the largest savings of any agency, this should be considered in the context of the Department receiving the largest funding increase of any department, in both absolute and percentage terms, over the past 10 years.

Chart 1: Expenditure by Agency, 2011-2012



Source: 2011-12 Budget Paper Number 1.

Health Inflation

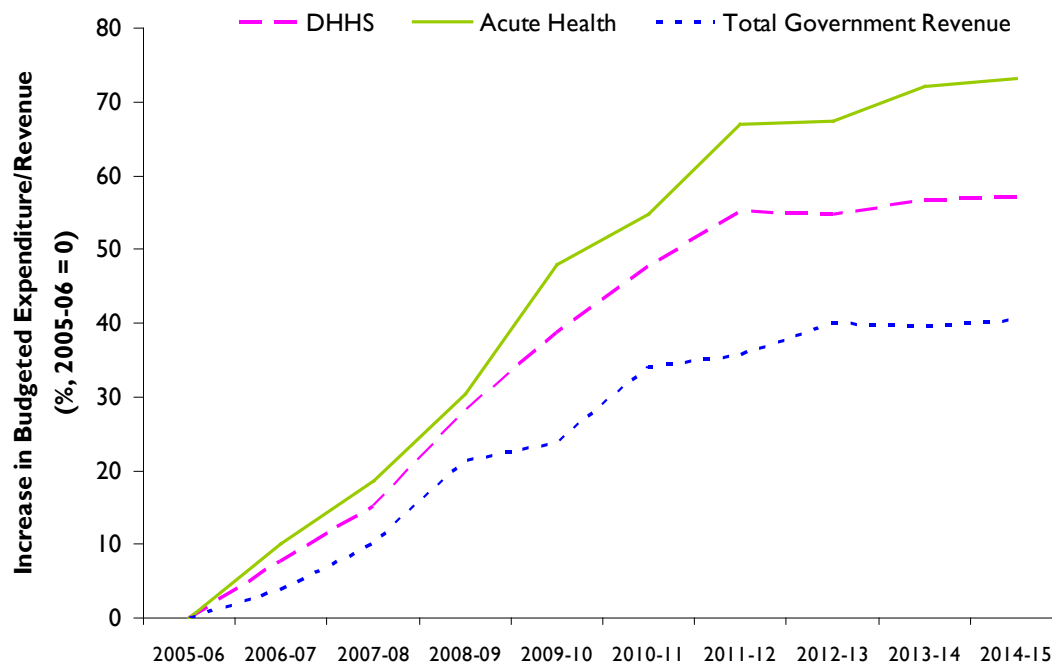
The State's present fiscal situation has highlighted the need to constrain health spending. However, growth in health expenditure has been on an unsustainable trajectory for many years, even before the impact of the GFC. For example, the Tasmanian Demographic Change Advisory Council published an Issues Paper¹ in October 2007 highlighting the pressure that health would place on the State budget, with cost drivers other than the ageing population accounting for the majority of the expected expenditure increase. These other drivers include:

- increased health costs due to the high cost of new technologies
- the ability to successfully treat a greater range of ailments and diseases
- increasing demand, in terms of quality and quantity, for health services
- large salary increases and
- limited opportunities to secure productivity improvements.

¹ *Demographic Change in Tasmania: challenges and opportunities*; Demographic Change Advisory Council; October 2007.

Chart 2 shows recent and projected growth in budget allocations for total DHHS expenditure, the Acute Health Services component (hospitals and ambulance) and total Government revenue. From 2005-06 to 2011-12, total DHHS expenditure is budgeted to increase by 55 per cent, with the Acute Health Services component increasing by 67 per cent. This is much faster than growth in total Government revenue, which has increased by around 35 per cent over the same period.

Chart 2: Growth in Budgeted Health Expenditure and Total Government Revenue, 2005-06 to 2014-15



Source: Budget Papers 2005-06 to 2011-12 (data for 2012-13 to 2014-15 are forward estimates from 2011-12 Budget).

With the projected slow down in revenue growth over the next four years, the recent rate of growth in health funding is unsustainable. If no action is taken to address the rate of health inflation, health will consume the entire State budget within the next few decades.

The savings targets in 2011-2012 and over the forward estimate period represent the amount required to return the Budget to a sustainable basis, given current revenue projections. However, due to indexation of wages and other costs, total health expenditure is still budgeted to increase over the forward estimate period. For example, compared with the 2010-2011 Budget, expenditure on Acute Health Services is budgeted to grow by \$70.7 million or 7.9 per cent in 2011-2012. Had there been no requirement to achieve savings, the increase would have been 14.8 per cent.

The savings target is based on reductions to actual budget allocations and is challenging. In particular, the cost of medical, surgical and pharmaceutical supplies has grown at a significantly higher rate than the consumer price index in recent years. These cost increases have been exacerbated by significant increases in the demand for the services provided by the DHHS. Meeting the current Budget target requires not only identifying measures necessary to return the Budget to a sustainable basis, but also limiting the ongoing cost growth in existing services.

Recent growth in Tasmanian health expenditure has been well above the national rate. The Productivity Commission's 2011 Report on Government Services showed that recurrent expenditure on public hospitals per person had increased by 26.5 per cent in real terms over the four years to 2008-2009 compared with the national average increase of 16.5 per cent over the same period.

The task to reduce growth in health expenditure is not only necessary to address the State's current Budget situation, but to also start addressing the cost of services delivered in Tasmania prior to the implementation of Activity Based Funding as part of National Health Reform. Based on the Australian Institute of Health and Welfare's Australian Hospital Statistics 2009-2010, Tasmania's cost per casemix-adjusted separation of \$5 363 is 14 per cent higher than the national average of \$4 703.

The issues facing the Government are not unique to Tasmania. Other jurisdictions, internationally as well nationally, are facing the challenges of increasing demands on their health services at a time of tight fiscal circumstances. For example, Victoria, which already has a health system structure similar to that required by the National Health Reform Agreement, announced health savings in their 2011-2012 Budget of \$443 million from 2011-2012 to 2014-2015. In the United Kingdom, a paper² estimated that the National Health Service was facing a financial contraction of £8-10 billion in real terms in the three years from 2011.

Savings strategy

Given the requirement to find \$100.2 million of savings in 2011-2012, DHHS' initial focus was on:

- changing the culture of the system, focusing the attention of all employees on improving efficiencies and effectiveness
- achieving the benefits and efficiencies from the implementation of new systems such as staff rostering
- a range of administrative savings, including more carefully managing expenditure on motor vehicles, conferences and travel, and optimising procurement opportunities
- reviewing the delivery and design of services across the organisation to improve service efficiency and effectiveness, reduce duplication and simplify support systems and processes
- reviewing the level and collection of service charges

² "Dealing with the Downturn"; The NHS Confederation; 2009.

- using policies to reduce the number of employees, including the employee renewal program and incentivised separation payment program (with explicit attention to minimise impact on service delivery and quality of care) and
- purchasing services from acute care hospitals in line with Tasmania's Health Plan.

These measures enabled the DHHS to find \$70 million in savings without directly affecting service delivery. However, in order to make the remaining \$30 million of savings in the current financial year, it was necessary to reduce funding for elective surgery.

The reduction in elective surgery funding does not involve blanket elective surgery cuts, halts or slow-downs. Every effort will be made to find savings by carrying out elective surgery more efficiently. Waiting lists will continue to be clinically managed by the Area Health Services to respond to individual patient needs.

The savings measures introduced have thus far resulted in DHHS reducing its total employment by more than 200 full-time equivalent (FTE) positions. Of those, at least 65 have come from the Departmental and Corporate Support Units. That represents a reduction of nearly ten per cent of staff in those areas. In contrast, the 135 FTEs reduced from the rest of the Agency, which includes the area health services and human services, represents a reduction of approximately 1.5 per cent of those staff.

The National Health Reform Agreement and the National Partnership Agreement on Improving Public Hospital Services

The current saving requirements are occurring at a time when the DHHS is undergoing a period of transition in order to fulfil the requirements of the NHRA. The savings measures that are being introduced are intended to complement the reforms, in order to ensure that the public health system operates more efficiently and to ensure that the State will have the capacity to sustainably expand health services in the future when financial conditions improve.

A key component of the reforms will be the establishment of Tasmanian Health Organisations (THOs) as Local Hospital Networks. The intent of the Tasmanian Health Organisation Bill 2011 (currently before the Legislative Council) is to convert the three existing area health services to THOs by establishing THOs as statutory authorities, providing each of them with a governing council, and appointing a chief executive officer to each THOs. The CEOs will be appointed as Agency heads under the State Service Act 2000.

The transition to THOs will introduce a clear separation between the roles of funder, purchaser and providers of health care. The DHHS is currently working to develop the most appropriate governance arrangements to support the new structure. However, what is clear is that the new structure will see the DHHS becoming a smaller "Ministry", primarily responsible for system managing the health system. It will remove the Department from operations-based decision making and therefore remove unnecessary bureaucratic resources and process. Savings measures introduced within the Department this financial year have been made with this goal in mind.

The NHRA also contains a maintenance of effort provision. The Government is satisfied that the decision it has taken in the 2011-2012 Budget to limit growth in health spending does not contravene those provisions, as expenditure is being constrained across all areas of Government and are not confined to the health system. It should also be noted that the budgeted 7.9 per cent increase for Acute Health Services in 2011-2012 is greater than the 7.1 per cent increase in the Australian Government's 2011-2012 National Healthcare Specific Purpose Payment to Tasmania.

The Government is also satisfied that its decision to reduce elective surgery expenditure should not jeopardise funding under the National Partnership Agreement (NPA) on Improving Public Hospital Services, which provides funding to assist in improving the performance of elective surgery and emergency departments.

Since the NPA was first established in 2010, Tasmania has consistently advised the Australian Government that additional resources above and beyond those on offer would be required to meet the challenging NPA targets. Tasmania was not in a position to commit this additional funding, even before the current Budget situation arose. Despite this, Tasmania eventually signed the NPA so that the Australian Government funding could be used to make as great an effort as possible toward the targets. The current budget situation makes achieving the NPA performance targets even more difficult. This has been openly communicated to the Australian Government and officials are working through the implications of the recent Budget decisions.