Chapter 2
The inquiry

Establishment of the Select Committee on Health

2.1 The resolution of the Senate Select Committee on Health requires the committee to inquire into and report on health policy, administration and expenditure, with particular reference to:

(a) the impact of reduced Commonwealth funding for hospital and other health services provided by state and territory governments, in particular, the impact on elective surgery and emergency department waiting times, hospital bed numbers, other hospital related care and cost shifting;

(b) the impact of additional costs on access to affordable healthcare and the sustainability of Medicare;

(c) the impact of reduced Commonwealth funding for health promotion, prevention and early intervention;

(d) the interaction between elements of the health system, including between aged care and health care;

(e) improvements in the provision of health services, including Indigenous health and rural health;

(f) the better integration and coordination of Medicare services, including access to general practice, specialist medical practitioners, pharmaceuticals, optometry, diagnostic, dental and allied health services;

(g) health workforce planning; and

(h) any related matters.

2.2 In its initial work the committee has focused on terms of reference a to c, although the evidence taken at hearings and received in submissions has included information relevant to the other terms of reference.

Issues identified to date

Much of the evidence the committee has received during its 15 public hearings and gathered through submissions has focused on concerns about the government's cuts to healthcare spending, primary health, and health promotion. This focus is unsurprising when the scale of the cuts is considered. The following table, published by the Royal Australian College of General Practitioners, shows the breadth and depth of the cuts, particularly on primary care. The following sections discuss the key areas of concern raised with the committee during its deliberations to date.

Table 1—2014-15 Budget cuts to healthcare[1]

Patient co-payments and access to healthcare

2.3 The government argues that the Medicare Benefits Schedule (MBS) is unsustainable.[2] The government has stated that a $7 co-payment will reduce presentations at GPs by 1 per cent.[3] The Abbott Government has also argued that the $7 co-payment is necessary to make Medicare sustainable but the government's claim of an unsustainable MBS was consistently rejected by witnesses.[4] Witnesses also argued that if the government's proposed $7 co-payment is introduced, the revenue raised will not be returned to Medicare, but siphoned off to the yet to be established Medical Research Future Fund.

2.4 As announced in the 2014-15 Budget, from July 2015, the government plans to introduce a $7 co-payment on all bulk-billed GP consultations, out-of-hospital pathology and diagnostic imaging services. All Australians including concession card holders and children will also pay the fee, capped to the first ten services. Of this, $5 of every $7 will go to the proposed Medical Research Future Fund.[5]

2.5 Also part of the government's healthcare Budget measures is an increase to the current Pharmaceutical Benefits Scheme (PBS) co-payment. The increased PBS co-payment will add an extra $5 towards the cost of each PBS prescription from July 2015. Concession card holders will pay an extra 80 cents.[6]

2.6 The PBS co-payment and the $7 co-payment have been heavily criticised. Nevertheless, the government is currently attempting to negotiate the passage of these co-payments. The committee explores the concerns raised about the passage of patient co-payments in Chapter 3 of this report.

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1 Royal Australian College of General Practitioners, *RACGP Overview of the Federal Budget 2014-2015 (Health)*, 13 May 2014, p. 1.

2 See for example, the Hon Peter Dutton MP, Minister for Health, *Address to CEDA Conference*, 19 February 2014.

3 Mr Richard Bartlett, Acting Deputy Secretary, Department of Health, *Committee Hansard*, 8 October 2014, p. 56.

4 See for example Dr Stephen Duckett, Director, Health Program, Grattan Institute, *Committee Hansard*, 8 October 2014, p. 26. Also see paragraphs 3.10–3.18 below.

5 Medicare Benefits Schedule — introducing patient contributions for general practitioner, pathology and diagnostic imaging services, 2014-15 Budget, *Budget Paper 2; Budget Measures*, pp 133–134.

6 Medicare Benefits Schedule—introducing patient contributions for general practitioner, pathology and diagnostic imaging services, 2014-15 Budget, *Budget Paper 2; Budget Measures*, pp 133–134. The $5 increase to the PBS co-payment will increase the maximum patient contribution from $37.70 to $42.70 from 1 January 2015.

Closure of Medicare Locals

2.7 The government has indicated it will close 61 Medicare Locals and establish a new system of 30 Primary Health Networks. This decision was outlined in the 2014-15 Budget.

2.8 In its hearings to date the committee has spoken to 14 Medicare Locals as well as to numerous individuals and organisations that are associated with Medicare Locals or benefit from their work. The significant concerns voiced about the closure of Medicare Locals is a key focus of this report and are the subject of discussion in chapters 4 to 6.

Abolition or merger of health care agencies

2.9 The 2014-15 Budget outlined the government's intention to abolish, merge, or consolidate agencies.[7] Among the agencies to be abolished were Health Workforce Australia and the National Preventative Health Agency. Legislation to abolish Health Workforce Australia passed on 22 September 2014; legislation to abolish the Australian National Preventative Health Agency (ANPHA) was defeated in the Senate on 25 November 2014.[8] However, in anticipation of the passage of the legislation, the government incorporated ANPHA's functions and staff into the Department of Health.[9] The 2014-15 Budget allocated no funding for ANPHA past June 2014, and labelled the abolition of the ANPHA as a measure to 'achieve savings of $6.4 million over five years from 2013-14'.[10] According to the government, any savings achieved through the abolition, merger, or consolidation of agencies will be directed to the Medical Research Future Fund. At the time of writing, no legislation to establish the Medical Research Future Fund has been introduced into either house of the Parliament.[11]

2.10 The funding for these organisations has been cut and the remaining funds will be redirected:

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7 The abolition, merger, and consolidation of agencies was a recommendation of the National Commission of Audit on the argument that it would create efficiency and remove duplication. The list of agencies to be abolished, merged or consolidated is at Budget Paper No. 2 – Budget Measures, Cross Portfolio, 'Smaller Government – additional reductions in the number of Australian Government bodies', p. 70.

8 *Journals of the Senate*, 25 November 2014, p. 1848.

9 Mr Andrew Stuart (Deputy Secretary) and Mr Nathan Smyth (First Assistant Secretary, Population Health Division), Department of Health, Senate Community Affairs Legislation Committee, *Committee Hansard*, 2 July 2014, p. 48.

10 'Smaller Government – Australian National Preventative Health Agency – abolish' Budget Measures 2014-15 – Part 2, p. 145.

11 See also paragraphs 2.16–2.18 and 3.50–3.52.

- funding for the Australia National Preventative Health Agency is to be invested in the Medicare Research Future Fund;[12] and
- reduced funding for Health Workforce Australia is to be directed to the Health Workforce Fund.[13]

2.11 The Department of Health is to deliver the functions of the agencies with reduced funding.[14] There is no information available, despite numerous questions to both the Department of Health and Treasury, as to how much funding will be available from the Department of Health's budget for the functions of health workforce planning and preventative health initiatives. A number of witnesses identified the loss of these agencies, particularly the National Preventative Health Agency, as a major issue.[15]

2.12 The 2014-15 Budget also counted amongst its "savings" the merger of the Organ and Tissue Authority (OTA) and the National Blood Authority (NBA). The 2014-15 Budget stated that work would begin on the merger later in 2014, with the new single authority to commence mid-2015, depending on the passage of legislation. The committee's examination of the merger between the OTA and the NBA is the subject of Chapter 7 of this report.

Reduced indexation of hospital funding

2.13 The government proposes to introduce changed indexation arrangements for public hospitals of CPI plus population growth from 2017-18. The government has also removed funding guarantees for public hospitals.[16]

2.14 Given that this represents a more than $50 billion reduction in funding,[17] the indexation of hospital funding is an area which the committee will continue to examine throughout its inquiry. The issue will be especially pertinent after the 2015-16 state and territory budgets have been handed down, as these will show the measures taken to address the significant shortfall in funding due to the reduced

12 'Smaller Government – Australian National Preventative Health Agency – abolish' Budget Measures 2014-15 – Part 2, p. 145.

13 'Smaller Government – More Efficient Health Workforce Development', Budget Measures 2014-15 – Part 2: Expense Measures, p. 146.

14 See both: 'Smaller Government – Australian National Preventative Health Agency – abolish' Budget Measures 2014-15 – Part 2, p. 145; and 'Smaller Government – More Efficient Health Workforce Development', Budget Measures 2014-15 – Part 2: Expense Measures, p. 146.

15 See for example evidence from Ms Meredith Carter, Spokesperson, VMAG, *Committee Hansard*, 7 October 2014, p. 2 and Professor Elizabeth Dabars, CEO and Secretary, Australian Nursing and Midwifery Federation (SA Branch), *Committee Hansard*, 9 October 2014, p. 29.

16 Australian Government, *Budget 2014-15, Overview*, p. 7, www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf.

17 Australian Government, *Budget 2014-15, Overview*, p. 7, www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf.

indexation of hospital funding, by the federal government. While most state government departments have not participated in the committee's inquiry to date, the evidence taken in South Australia reveals the impact of these cuts. This issue is discussed towards the end of Chapter 3.

Medical Research Future Fund

2.15 The government announced in the Budget a plan to establish a $20 billion Medical Research Future Fund (MRFF), claiming that 'every dollar of savings from health in this Budget will be invested to build this Fund, until the Fund reaches $20 billion.'[18]

2.16 Legislation to establish the MRFF is listed for introduction in the 2014 Spring Sittings. However at the time of writing the government claims that the establishment of the fund will also hinge on the passage of the co-payment legislation.[19] Some savings, such as those from the removal of the National Health Reform Agreements, will be available sooner for investment in the fund. Discussion of the merits of the MRFF has arisen in public hearings due to its link to the $7 co-payment. While many saw a future increase in funding for medical research to be positive, most were concerned that it was to be funded in a way which would increase inequity in access to healthcare,[20] and which asks the chronically ill to bear the greatest cost burden.

2.17 As the government is yet to announce the details of the MRFF, this issue is only considered in this interim report in the context of the linkage to the $7 co-payments. However, the MRFF is an area which the committee will continue to examine throughout its inquiry.

Mental health

2.18 Mental health consumers need to draw on the services of preventative, primary, and where needed hospital health care. A number of witnesses argued that mental health, already often neglected in terms of resourcing, will be further disadvantaged by the 2014-15 Budget cuts to health funding.[21] While not discussed

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18 Australian Government, *Budget 2014-15, Overview*, p. iv, www.budget.gov.au/2014-15/content/overview/download/Budget_Overview.pdf.

19 Department of the Prime Minister and Cabinet, *Legislation Proposed for Introduction in the 2014 Spring Sittings*, www.dpmc.gov.au/parliamentary/docs/legislation_proposed_2014_spring_sittings.pdf?d=20140821.

20 See evidence from Professor Mike Daube, Professor of Health Policy and Director, Public Health Advocacy Institute of Western Australia, Curtin University; and Director, McCusker Centre for Action on Alcohol and Youth, *Committee Hansard*, 10 October 2014, p. 24; and Professor Judith Walker, Chair, Federation of Rural Australian Medical Educators, *Committee Hansard*, 7 October 2014, p. 35.

21 See for example evidence from Ms Alison Fairleigh, Area Manager Townsville, Mental Illness Fellowship NQ, *Committee Hansard*, 21 August 2014, p. 12.

specifically in this interim report, mental health is an area which the committee will continue to examine throughout its inquiry.

Health prevention, promotion and education

2.19 Preventative health, health promotion and health education have also been themes raised at many of the committee's hearings and in a large number of submissions received.[22] Organisations in the preventative health sector have voiced concerns not only about the abolition of the ANPHA, but also of the detrimental effect that the PBS and $7 co-payments will have on preventative health. Towards the end of Chapter 3, the committee explores the government's proposal to abolish ANPHA.

2.20 The committee has frequently heard the argument that the patient co-payment will dissuade people from seeking primary healthcare, as the $7 co-payment applies to GP consultations, out-of-hospital pathology and diagnostic imaging services. As a result medical conditions which are able to be treated early or managed effectively are likely to be left untreated, leading to more interventionist hospital treatment and a greater expense to the state health system. Health prevention, promotion and education are areas which the committee will continue to examine throughout its inquiry.

Interim Report outline

2.21 This Interim Report is the first of the series of interim reports with which the committee will mark its progress in its inquiry. The committee expects to table an interim report on different subject matters approximately twice a year.

2.22 This report's main purpose is to explore the key issues so far identified by the committee's work. In particular, the report will examine:

- the proposed $7 co-payments relating to GP visits, pathology, and diagnostic imaging and pharmaceutical medicines; cuts to hospital funding; and the abolition of ANPHA (Chapter 3);
- the abolition of 61 Medicare Locals and the establishment of 30 PHNs (Chapter 4); and
- the proposed merger of the OTA and the NBA (Chapter 5).

Committee comment

2.23 The committee feels that this interim report is timely. The negative impacts of the healthcare changes which the government initiated in the 2014-15 Budget are now becoming apparent. Yet despite overwhelming evidence of deep concern over the

22 See for example: Australian Diabetes Educators' Association, *Submission 49*; Victorian Health Promotion Foundation (VicHealth), *Submission 80*; and Australian Health Promotion Association, *Submission 84*.

government's policies, work is continuing in areas such as the closure of Medicare Locals; the implementation of a $7 co-payment and an increased PBS co-payment; and cuts to hospital funding, to name just a few.

2.24 By international standards, Australia has a quality healthcare system which provides a high standard of care to all Australians regardless of income. The challenges faced by the Australian healthcare system include access, particularly in regional and rural areas; further recognition of the role of health prevention and education; workforce planning; and the use of emerging technologies. The government's claim that the healthcare system is unsustainable is considered in detail in paragraphs 3.10 to 3.18.

2.25 The issues examined in this report are those which, in the committee's opinion, are the most immediate and which demonstrate the need for a wholesale rethink of government policy.