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INQUIRY INTO HEALTH FUNDING

Standing Committee on Health and Ageing

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Executive Summary

Responsibility for health is divided between the Commonwealth and the individual State governments. A snap shot of the Commonwealth responsibilities is to fund Medicare, subsidise private health insurance, subsidise the cost of drugs through the Pharmaceutical Benefits Scheme, and fund aged care facilities like Nursing Homes. The states have the obligation to manage the public hospitals – with about 50 per cent of the funding coming from the Commonwealth directly and the rest from Commonwealth grants to the States and provide some limited community health services.

The Federal Government has argued that the proportion of funding from the Commonwealth is increasing faster than the States' spending on hospitals. The Commonwealth also argues that the need for public hospital funding is slowing, because greater uptake of private health insurance has seen public hospital admissions decline in favour of private hospital admissions.

The public and private sector deliver health services throughout NSW and Australia. The delivery of health services varies across the State with notable accountabilities to Federal and State Governments depending on the type of health service supplied.

Public Hospitals provide in the main, most of the acute care beds and emergency outpatient clinics in the State. Large public hospitals provide complex and complicated care such as intensive care, organ transplants, major surgery, renal dialysis and specialist outpatient clinics. Public Hospitals are directly funded by the State government.

Private Hospitals, like the Macquarie Hospital Group, are owned by for-profit and/or not-for-profit organisations. For many years Private Hospitals did not compete in the complex non-emergency care domain, but focused on simple elective surgical procedures and medical admissions.

However, over time large tertiary hospitals were developed and built with some of these tertiary facilities increasingly providing complex, high technology services in direct competition to the public sector.

Separate centres for day only surgery and other non-inpatient operating room procedures exist with the majority of day procedures centres operating in the private sector.

The majority of doctors are self-employed. A small proportion consists of salaried employees of Commonwealth, State or local governments. Salaried specialist doctors in public hospitals often have rights to treat some patients in these hospitals as private patients, charging fees to those patients and usually contributing some of their fee income to the hospital.

Other doctors contract with public hospitals to provide a range of medical services. There are many independent diagnostic, pathology and imaging services operated by doctors. For some allied health / paramedical professions, there is a significant proportion self-employed. Others are mainly employed by State and local government health organisations or Private Hospitals and Day Surgery facilities.

Terms of Reference

Term of Reference (A)

Examine the roles and responsibilities of the different levels of government (including local government) for health related services.

The provision of health care across Australia is a complex model of replication and duplication. With nine Department of Health the nation has a multifaceted and complicated approach to the delivery of health care and related services. The various levels of government provide services (in general terms) that promote and manage the basic health requirements of Australia. In short the roles of the state and federal governments (health) are to manage:

- i. population health
- ii. indigenous health
- iii. rural health services
- iv. private health insurance; and
- v. leadership and resource management

The role of any health department (federal or state) is to develop programs and align policy development to the needs of the states and territories. The development of policy for both Federal and State Health Departments should include:

- i. identifying key areas where overlaps, duplication and/or shortcomings in coordination and communication are perceived to jeopardise the effectiveness in program delivery
- ii. identifying good practices in alignment and coordination within and across Divisions and State and Territories
- iii. recommending options for structures and processes to improve alignment, coordination and communication within and across the State and federal boundaries and
- iv. examining the effectiveness and recommending options for improving interactions with stakeholders

The Department of Health and Ageing vision¹ is to build better health and ageing services for all Australians through a world class system which:

- i. meets people's needs, throughout their life
- ii. is responsive, affordable and sustainable
- iii. provides accessible, high quality service including preventative, curative, rehabilitative maintenance and palliative care and
- iv. seeks to prevent disease and promote health

The delivery of health services both Federal and State has similar goals and outcomes. The aim of NSW Health is to provide a sustainable health system for the people of NSW that not only meets the needs of today but will respond to the health needs of the future.²

¹ Department of Health and Ageing Annual Report 2002-03

² NSW Department of Health Strategic Directions and outcomes goal outcomes

The NSW Department of Health states that its responsibility is to ensure that the people of NSW are provided with the best possible health care and is responsible for monitoring the performance of the NSW public health system and supports the statutory role of the NSW Minister for Health. The NSW Health reforms for 2004-2008 are aimed at:³

- i. Improving quality care and patient safety
- ii. Improving patient access to public health services
- iii. Ensuring the health workforce matches demand for health services
- iv. Improving the health of the NSW population
- v. Improving efficiency and reducing the costs of health administration
- vi. Meeting the increase in demand for mental health services

The Department makes recommendations to the Minister on funding public hospitals and community health services, develops policy, and manages public health issues and some aspects of long-term and community care. It is responsible for regulating private hospitals, nursing homes, public and environmental health

It is without question that public health organisations play a major role in the planning, delivery and coordination of local health services. They are responsible for providing services such as public and community health, public hospitals, psychiatric hospitals, emergency transport, acute care, rehabilitation, counselling and many community support programs. These services are provided in a wide range of settings, from primary care posts in the remote outback to metropolitan tertiary health centres.

The ageing of the population is one of the major transformations being experienced by Australia's population, and is a current focus for both economic and social policy⁴. Much of the discussion around population ageing focuses on issues associated with an increasing proportion of older people; for example, expenditure associated with income support, the provision of health and disability services, and family and community care.

Overcrowded emergency departments, wards with no available beds, long waiting lists for elective surgery and a perpetual shortage of nursing and medical staff is a familiar scenario to anyone who has used the public hospital system over the last decade. This is worse in NSW due to the high ratio of public hospital beds compared to private beds.

The Commonwealth suggests that the problem is that the States aren't spending enough of the money they receive on their hospitals and the States state that the Commonwealth doesn't give them enough money to keep them going. But the problem goes deeper than just how much money is spent and by whom. A large part of the problem has to do with the complicated way in which our hospital funding is administered, say the experts.⁵

"Health is now such a dog's breakfast of divided responsibilities that sooner or later it will have to be sorted out," Tony Abbott, Australian Health Minister.⁶ Tony Abbott's words concisely sums up what many in the industry believe that we have an unnecessarily complicated and inefficient health system.

The division of health-care funding and service provision responsibilities between the federal, state and territory governments is unhealthy for a sustainable efficient health care service.

³ NSW Department of Health: Planning Better Health

⁴ http://www.dfat.gov.au/facts/health_care.html

⁵ Julie Smith The Australia Institute Discussion Paper Number 43 October 2001 page 2

⁶ The Sydney Morning Herald 24th May 2005

Term of Reference (B)

Simplifying funding arrangements, and better defining roles and responsibilities between the different levels of government, with particular emphasis on hospitals.

The Federal government, through the Australian Department of Health and Ageing, sets national health policies and subsidises the provision of health services by State and Territory governments and the private sector. Health currently accounts for about 9.3 per cent of Australia's gross domestic product.⁷

Australia faces growing pressures in health funding because of the ageing of the population, technological changes, labour shortages and increasing patient expectations. With these increasing expectations there needs to be a fusion of Commonwealth and State responsibilities which leads to a more efficient health care service. The duplication and replication of Federal and State administrative services significantly impacts on the economic and the cost effective delivery of health care.

The Federal government funds universal medical services and pharmaceuticals, and gives financial assistance to public hospitals, residential care facilities, hostels, and home and community care. The reduction of or the seamless integration of State and Federal responsibilities would significantly free up valuable health dollars and provide improved funding arrangements to the various levels of health care throughout Australia.

Term of Reference (C)

Considering how and whether accountability to the Australian community for the quality and delivery of public hospitals and medical services can be improved.

Sustaining public health activity into the future will be more successful if the delivery of these services and activities are well integrated into the core services of both the Commonwealth and State objectives. While some programs may fund infrastructure or service development at one level there is a real need to ensure that these programs are integrated with other health services to ensure a more coordinated and coherent service.

Public health is the sum of organised and deliberate efforts of society to promote, protect and restore the health of its populations and communities. In this sense 'public health' is a social enterprise. The term also refers to an institutional sector, the public health system, which is defined by its shared commitment to the health of the public⁸.

To ensure that we continue to improve public health there must be a clear strategy to integrate with stakeholders intrinsic to the health care programs and external stakeholders receiving the service. Conceptual frameworks for public health build on but go beyond the individual-focussed frameworks of the personal health care system and locate these within the wider frameworks of society, the economy and history.⁹

⁷ Australian Bureau Statistics: Australian Social Trends Population Scenarios for Australia's aging population

⁸ Maruad: Building Better Health Care (2003) page 2

⁹ Maruad: Building Better Health Care (2003) page 4

Improving the health of populations involves multiple pathways such as the:

- improvement in health care, including in personal preventive services
- choices towards healthier and safer ways of living; choices which are individual and collective and
- progress towards safer, healthier and more supportive environments
- personal awareness and accountability for their own health status

The more the health care system engages with its community and the more it is able to reflect and respond to its community then the more it is able to protect, promote and advance health. Primary Health Care provides the services, strategies and values which enable health systems to do this.

The health system of the future must make it easier for people to use and must have a greater focus on health promotion, prevention and early intervention within a competitive cost structure linked to appropriate outcomes.

Term of Reference (D)

How best to ensure that a strong private health sector can be sustained into the future, based on positive relationships between private health funds, private and public hospitals, medical practitioners, other health professionals and agencies in various levels of government.

The fusion of private and public, Federal and State health care services is vital to ensure sustainability and efficiency into the future. The improvement of health care delivery should include access to comprehensive health services to improve, maintain and restore people's health by providing access to a broad and comprehensive range of services at a local level.

To ensure that these targets are achieved there must be a commitment to integration and collaboration so that services are better coordinated by developing strong partnerships and collaboration with private, non government and local government providers, and developing collaborative systems that work across the various sectors.

To ensure programs and plans are achieved there must be increased opportunities for community participation through a range of all-inclusive and integrated initiatives that help people participate and make decisions in the management of their own health, and in the health of their communities.

Partnerships with non government and private providers must be strengthened via building upon existing partnerships with non government, private providers, General Practice and Local Government by formalised agreements, and by looking at the opportunities to enhance participation, funding and early involvement in planning and programs by private providers.

Term of Reference (E)

While accepting the contribution of the Commonwealth commitment to the 30 per cent and seniors Private Health Insurance rebates and Lifetime Health Cover, identify innovative ways to make private health insurance still a more attractive option to Australians who can afford to take some responsibility for their own health cover.

Private hospitals are an indispensable and integral component of the health care system. However, the present methodology for paying for private hospital and care (via private Health Insurance) is not viable for the long term.

Private health insurance cannot pay for Private Hospitals. Even with the expensive and restrictive policies of 30% subsidy and Lifetime Health Cover the funds are not adequate to the task. They fail the test of equity and efficiency.¹⁰

Private Hospitals manage and control a significant proportion of the health care market and can no longer accept the partialities and inequities of the present arrangements.

Private health insurance is an important component of funding of health care in Australia, providing about 11 per cent of total national health care funding¹¹. For insured people it provides added benefits such as choice of doctor, choice of hospital and choice of timing of procedure. Private insurance cover also assists with meeting the costs of private sector services which are not covered by Medicare, such as dental, optical, physiotherapy and podiatry services.

While the costs of concessions for private health insurance have escalated, the rebate has failed spectacularly to reduce public sector health spending or increase membership of private health funds. It has also contributed to a burgeoning Commonwealth Government health care bill exceeding 48 per cent of Australia's health care costs.¹²

The cost of providing subsidies for private health insurance is placing pressures on the Commonwealth health budget and draining funds from public hospitals and other public health priorities. On the other hand 44 % of the population remains uninsured, thus greater productivity exists in the Private Hospital system.

While public sector cutbacks over the last decade have resulted in queues in public hospitals and the axing of public dental care services, the Federal Government now provides a large public subsidy through the private health insurance rebate for high-income earners to jump hospital queues, obtain cosmetic surgery and dental care, and pay for their gym club membership.¹³

There exists an argument that the direct funding system for Private Hospitals is crucial and that both strategically and tactically this should be implemented to ensure consumers are not disadvantaged.

¹⁰ ACA: Beyond the private health rebate page 8

¹¹ Martin B Van Der Wyden the Medical Journal of Australia, Sydney

¹² Julie Smith The Australia Institute Discussion Paper Number 43 October 2001 page 2

¹³ Julie Smith The Australia Institute Discussion Paper Number 43 October 2001 page 3

A centralised funding model for Private Hospitals would have distinct advantages of creating complementarity between the Public and Private hospitals, rather than continuing today's wasteful duplication.¹⁴

Australia needs a system that is adequately and fairly funds health care services, of which private hospitals are an integral component. The Private Hospital network undeniably eases the pressure on the public hospital network and provides the consumer with competition and a choice.

In conclusion, the future of private health insurance is volatile and untenable in its current form. The inability to control or reimburse spiralling hospital and insurance costs, the changing profile of members and the rapidly declining value for money for consumers is a worrying concern for Private Hospital providers.

The need to identify alternate funding arrangements for Private Hospitals is essential, because the sustainability of Private Health insurance in its current form is unlikely to last for another decade unless it is subsidised to an absurd degree.¹⁵

¹⁴ ACA: Beyond the private health rebate page 9

¹⁵ ACA: Beyond the private health rebate page 10