



## ST VINCENT'S HEALTH AUSTRALIA

UNDER THE STEWARDSHIP OF MARY AIKENHEAD MINISTRIES

# 2016-17 Pre-Budget Submission

## Overview

We recognise the challenges that the current fiscal environment places on Federal Government spending. As such St Vincent's Health Australia is not recommending substantial new health programs this Budget.

We support the new health initiatives delivered by this Government and particularly welcome the significant investment in new drugs for Hepatitis C and national leadership in tackling ice (crystal methamphetamine).

However, we remain concerned about the disproportionate impact of a number of health savings measures from the past two Budgets on the poor and vulnerable, including the chronically ill.

In particular, the reductions in Commonwealth funding for public hospitals from the 2014-15 Budget are inequitable, unsustainable and inefficient.

Further, it is critical that any new decisions taken in the 2016-17 Budget do not exacerbate health inequalities. We support the current health policy reviews underway and urge that no further structural changes are made while these reviews take their course.

### St Vincent's Health Australia's health budget priorities for 2016-17

We urge the Government to:

1. Renegotiate **public hospital funding arrangements** with the states and territories to ensure the public health system remains sustainable beyond 2017.
2. Restore funding levels and commitments to programs that serve the poor and vulnerable – in particular the two very high priority areas of **dental health** and **mental health**.
3. Outline a strategy for evidence-based **preventive health** initiatives.
4. Make reducing **alcohol-related harm** a national health priority, alongside reforms to address methamphetamine use.
5. Reconsider proposed changes to the **Medicare Safety Net** and **pathology bulk billing** incentives that would impact on low income and chronically ill Australians.
6. Outline **reforms to the private health insurance sector** to improve transparency and choice for consumers and patients.

## 1. Public hospital funding

St Vincent's Health Australia remains very concerned about the impact of changes to Commonwealth funding for public hospitals in the 2014-15 Budget.

As a not for profit provider of public hospitals, St Vincent's Health Australia knows that public hospital budgets are already under immense pressure. Even the slightest funding change carries serious implications. The new indexation arrangements which are due to start in 2017-18 see us rapidly approaching a crisis point in public hospital funding.

### *Public hospital costs are rising*

Under the 2014-15 Budget changes to public hospital funding indexation, the Commonwealth has unwound previous commitments to fully share in rising public hospital costs.

The Commonwealth's commitment to continue to increase health funding from 2017 in line with inflation and population growth is not adequate. From our experience running hospitals, we know that costs are growing faster than population growth and CPI.

National health expenditure data shows this too. Over the period 2004-05 to 2013-14, real expenditure on public hospitals increased from \$1,416 per person to \$1,963 per person. This is growth of 39% in public hospital costs above and beyond increases in CPI and population growth<sup>1</sup>.

The Commonwealth's 2015 Intergenerational report notes that there are a range of factors other than population growth and CPI driving expected rises in health costs into the future (a function of both increases in the volume and prices of health services), namely:

- other demographic factors beyond population growth, in particular our ageing population; and
- non-demographic factors:
  - consumer demand for more and higher quality health services
  - changes in disease rates and the rising burden of chronic disease increasing complexity of care
  - wages growth (generally above CPI) which has significant impacts in labour intensive health services such as hospitals
  - technological change which can increase both demand for, and prices of, treatments<sup>2</sup>.

Volume growth (increased demand) is a major contributor to increased public hospital costs. In the last year, public hospital 'episodes of care' increased at twice the rate of population growth (3.2% compared to 1.6% population growth)<sup>3</sup>.

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<sup>1</sup> Productivity Commission 2016, Report on Government Services 2016: Volume E Health.

<sup>2</sup> Commonwealth of Australia 2015, Intergenerational Report: Australia in 2055.

<sup>3</sup> AIHW 2016, Australian hospital statistics 2014-15.

So while we support measures to improve operational efficiency of hospitals, Australia's system already delivers good value for money by international standards and our growing costs are in line with the OECD average.

The community will continue to demand more and better health services that can extend and improve their lives. At the same time, many vulnerable Australians have very high and complex health needs that are not being adequately addressed now.

### ***Public hospital funding is a shared responsibility***

Over the past decade expenditure by all governments on public hospitals has risen but the states and territories have disproportionately covered the costs.

Between 2003-04 and 2013-14, state government expenditure on public hospital services grew by 5.4% in real terms, compared with 3.2% growth in Commonwealth funding. In the second half of the decade (the five years to 2013-14), the difference is even more marked. Commonwealth real expenditure on public hospitals grew by just 1%, while the states' costs grew by 5.4%.

As a result, the Commonwealth's share of public hospital expenditure has fallen from 43% to 37% over the decade to 2013-14. At the same time the states' share has risen from 51% to 54%<sup>4</sup>.

The Commonwealth's 2014-15 Budget decision will see their share in public hospital costs decline even more dramatically over time – leaving major funding shortfalls. Based on modeling commissioned by the NSW Government, the states' combined annual funding shortfall for public hospitals will reach \$35 billion by 2030<sup>5</sup>.

We agree with the position of all states and territories that this funding gap is a shared responsibility that simply cannot be met from state budgets.

### ***Patient care will be affected....***

If the crisis in public hospital funding isn't addressed and we're unable to meet demand, we – along with other public hospital providers – will be forced to ration staff, beds and procedures. This means longer waiting times for patients and poorer health outcomes.

We are particularly concerned about the impact on low income and marginalised Australians who carry a higher burden of disease and have a greater reliance on public health care.

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<sup>4</sup> The remaining funding for public hospital comes from non-government sources including individuals and health insurers.

<sup>5</sup> "Addressing the fiscal gap: presentation to the COAG Leaders Retreat July 2015", found online at [https://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/c479176ea655e68fca257ecb00113856/\\$FILE/Tabled%20document%20-%20Budget%20Estimates%20-%20Reform%20of%20Federation%20-tendered%20by%20Premier%20Mike%20Baird%20MP.pdf](https://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/c479176ea655e68fca257ecb00113856/$FILE/Tabled%20document%20-%20Budget%20Estimates%20-%20Reform%20of%20Federation%20-tendered%20by%20Premier%20Mike%20Baird%20MP.pdf)

For our two major public hospitals in Sydney and Melbourne, every \$1 million in reduced funding equates to:

- around 1300 Emergency Department attendances;
- 200 palliative care treatments;
- close to 3300 MRI scans;
- 4,330 dialysis treatments;
- the annual cost of running six beds in a general ward or employing 11 nurses.

***... and there are negative impacts on system efficiency and effectiveness***

The 2014-15 Budget change also has implications for the operation of the health system as a whole; particularly fragmentation and cost-shifting between levels of government.

As articulated in the Reform of the Federation Discussion Paper:

*A fundamental challenge where the Federation plays an important role is overcoming the barriers between primary and hospital care to improve people's health and efficiency of the system, and to reduce cost-shifting between governments<sup>6</sup>.*

Under the previous funding model agreed as part of the National Health and Hospital Reform Agreement, the Commonwealth had agreed to share in efficient growth in public hospital costs 50:50 with the states.

This agreement meant the Commonwealth had a financial stake in reducing preventable hospital admissions. This is critical because the Commonwealth controls a number of the key levers that can help achieve this goal – particularly primary care, pharmaceuticals and aged care.

By no longer sharing the real growth in hospital costs with the states, the Commonwealth also no longer shares the financial incentives to mitigate cost growth. This has impacts in a whole range of health policy areas. For example:

- The Commonwealth lacks the incentives to increase funding for preventive health measures that could significantly reduce acute care costs down the track. In fact, the Government has made significant cuts to funding for preventive health over subsequent budgets.
- Current Commonwealth primary health funding arrangements provide no incentives for providers to effectively manage chronic illness to reduce avoidable hospital admissions. St Vincent's Health Australia looks forward to seeing the Government's response to the Primary Health Care Advisory Group.
- Policy changes that increase patient fees for primary care (for example, proposals for a GP co-payment and removal of bulk billing incentives for pathology) can see people on low incomes substitute primary care with public hospital care and/or delay treatment until health problems escalate.

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<sup>6</sup> Reform of the Federation: Discussion Paper (draft) 2015, p.35.

- A large number of hospital admissions each year are from residents of aged care facilities. We believe that many of these admissions could be prevented or managed by aged care services, which are funded by the Commonwealth.

It also means that innovative models of service delivery that we at St Vincent's Health Australia know will improve both health system efficiency and health outcomes can be hard to fund. These models like step-up and step-down facilities to reduce hospital length of stay and hospital in the home services incorporate elements of primary and acute care.

***We need the Commonwealth to renegotiate public hospital funding arrangements***

Public hospitals need a guarantee of greater funding if Australians – particularly low income Australians – are going to receive the level of healthcare they deserve and expect, now and in the future.

St Vincent's Health Australia urges the Commonwealth to reach a new agreement with the states on public hospital funding at the next Council of Australian Governments' meeting.

We believe a new agreement must involve:

- a long-term commitment to share in real hospital cost growth between the Commonwealth and States (not just population growth and CPI);
- transparent and independent mechanisms for determining and adjusting funding levels in line with costs and activity (through a national pricing authority or something similar); and
- incentives for both levels of government to improve efficiency, reduce preventable hospital admissions and better manage chronic illnesses.

## 2. Commonwealth programs that serve the poor and vulnerable

### *Funding for public dental services*

Public dental care is critical for low income Australians. Every day in our public hospitals, we see patients with shocking oral health because they simply have not been able to access affordable dental care. Poor oral health can lead to a range of other health complications and is a source of pain and anxiety.

Inadequate access to preventive dental care also leads to an inefficient use of health system resources. Acute dental conditions account for more than 10% of potentially preventable hospital admissions (around 65,200 admissions in 2014-15)<sup>7</sup>.

Affordable preventive dental care for low income Australians is a major gap in Australia's Medicare system that must be addressed.

Recent data from the AIHW<sup>8</sup> shows that low income adults aged 25 to 64 face the highest financial barriers to accessing dental care. Around 60% of adults in this age bracket that were eligible for public dental services (concession card holders) avoided or delayed visiting a dentist in 2013 due to cost. Further, of those that did access dental care in the past 12 months:

- 2 in 5 reported that they did not proceed with the recommended treatment due to cost; and
- 1 in 5 considered that their dental visits had placed a large financial burden on them.

Dental care affordability for adults has also declined over time. Between 1994 and 2013, there was an increase in the proportion of all adults (age 15 and above) delaying or avoiding dental care due to cost – from 25% to 35%.

A new *National Partnership Agreement for Adult Public Dental Services* was funded by the previous Federal government and due to commence 1 July 2014. It was supported by the Coalition in the 2013 election campaign but funding was deferred in the 2014-15 Budget, and then reduced in the 2015-16 Budget and provided to the states for one year only.

Coupled with less generous indexation for child dental services, this means over two budgets the Government cut more than \$550 million from public dental services.

We are also very concerned about media reports that the means-tested Child Dental Benefits Schedule may be ceased in the Budget. The Child Dental Benefits Schedule offers support to lower income families who may otherwise not be able to afford preventative dental care for their children.

St Vincent's Health Australia urges the Commonwealth to set out a sustainable, long-term arrangement for funding dental services for low income and vulnerable

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<sup>7</sup> AIHW 2016, Australian Hospital Statistics 2014-15.

<sup>8</sup> AIHW & University of Adelaide 2016, Oral Health and Dental Care in Australia: key facts and figures 2015.

Australians in this year's Budget. This includes confirming the previously allocated National Partnership funding for adult dental health services in 2016-17 and beyond, and maintaining support for low income children to access preventive dental care.

### ***Mental health funding***

St Vincent's Health Australia welcomes the Commonwealth's reform directions in mental health to enhance the role of primary and community-based care, trial integrated care packages and localise commissioning through Primary Health Networks. We also welcome the Government's commitment not to reduce funding for acute (hospital) mental health services. It is critical to maintain a strong acute mental health system to ensure consumers do not fall through the gaps during system reform.

However, we note that this package involved a reduction of \$140 million in Commonwealth community mental health funding over four years.

An estimated 45 per cent of Australians will experience some form of mental disorder in their lifetime, and mental illness comprises about 13 per cent of Australia's total burden of disease. Unmet need is high and persistent – less than half of people with a common mental illness receive treatment, and a quarter of a million emergency department presentations each year are for mental health issues<sup>9</sup>.

We need more investment in community-based mental health services, not less. We urge the Commonwealth to restore this mental health funding and commit to no further cuts to mental health programs in this year's budget given the high and ongoing level of unmet demand in this area.

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<sup>9</sup> National Mental Health Commission (2015) *Contributing Lives, Thriving Communities Paper 2: Mental health need and Australia's response*.

### **3. Preventive health**

St Vincent's Health Australia urges the Government to outline a strategy for funding effective preventive health programs over the long-term in the 2016-17 Budget.

It has now been two years since the Government abolished the National Preventive Health Agency and the National Partnership Agreement on Preventive Health. St Vincent's Health Australia is concerned that national leadership and momentum in this area has been lost.

Health promotion is critical to the long-term sustainability of the health system. Effective preventive health care has significant potential to reduce downstream health costs including demand on public hospitals.

## 4. Alcohol

While we welcome the Government's leadership in tackling ice (crystal methamphetamine), St Vincent's Health Australia is particularly concerned about a lack of progress nationally in reducing alcohol-related harm. Alcohol is second only to tobacco as a leading preventable cause of death and hospitalisation – a fact our two major public hospitals know only too well from the services we provide every day.

National policy coordination is required, along with national leadership in key areas of Commonwealth responsibility – namely alcohol pricing and taxation, and alcohol marketing and promotion.

St Vincent's Health Australia supports a coordinated approach to harm minimisation based on three important pillars – supply reduction, demand reduction and harm reduction – being applied together in a balanced way.

A key opportunity for Commonwealth action to reduce alcohol-related harm is by improving alcohol taxation arrangements. Replacing the existing Wine Equalisation Tax with a volumetric tax on wine and cider would generate up to \$2.9 billion in revenue while reducing the total alcohol consumed by 9.4 per cent.<sup>10</sup>

We urge the Commonwealth to also:

- Strengthen the regulatory framework around alcohol marketing, sponsorship and advertising with a special focus on the welfare of young people.
- Play a leadership role with the states and territories in helping to bring about uniform liquor licensing laws to ensure the responsible sale of alcohol.
- Use alcohol product labelling to promote health warnings at points of sale and consumption in a way that no other health promotion initiative can.
- Encourage all states and territories to collect and publish alcohol sales data which is an essential component in providing a comprehensive picture of alcohol consumption and informing evidence-based public policy decisions.
- Lead the development and collection of accurate, timely and comprehensive indicators and monitoring of alcohol-related harms at national and state levels.
- Drive the collection of national data on the prevalence of Foetal Alcohol Spectrum Disorder in Australia, which must be addressed through the development of a national repository that encourages the collection and sharing of standardised data.
- Champion a National Alcohol Summit to bring all major players to the table.

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<sup>10</sup> Foundation for Alcohol Research and Education (2016), 2016-17 Pre-Budget Submission.

## 5. Unlegislated savings from previous Budgets

St Vincent's Health Australia notes that the Government has reconsidered and subsequently abandoned a number of previously announced health savings proposals that would have a disproportionate impact on the poor and sick (for example, the GP co-payment and the increase in PBS co-payments and thresholds).

We suggest that the Government reconsider proposed changes to Medicare Safety Net and pathology bulk billing incentives for the same reason.

### *A new Medicare Safety Net*

The 2014-15 Budget proposed a new, single Medicare Safety Net where both costs that 'count' toward the safety net, and benefits paid under the safety net, would be capped at 150% of the MBS Schedule Fee. The indexation pauses on all MBS items and changes to bulk billing incentives will compound this impact as fees rise faster than the Schedule fee.

St Vincent's Health Australia is concerned that these changes will increase out of pocket costs for people with chronic illness who are frequent users of services with higher fees – for example, cancer patients using private radiotherapy. Significant in out of pocket costs for such services could place pressure on public hospitals.

We note Minister Ley's announcement that discussions on the new Medicare Safety Net are currently 'paused' and encourage the Government to reconsider this proposal.

### *Changes to pathology bulk billing incentives*

As a small, not for profit provider of pathology and diagnostic imaging services St Vincent's Health Australia is concerned about the impact of proposed changes to bulk billing incentives on poor and vulnerable Australians.

In particular, the changes to pathology bulk billing offer no protections for concessional patients who are least able to absorb fee increases while also carrying the highest burden of chronic disease. We are concerned that these cuts will exacerbate health inequalities if consumers delay or avoid necessary tests due to cost.

Although larger for-profit providers may be able to absorb the loss of revenue from their profits and continue to bulk bill, the proposed changes will make small, not-for-profit pathology providers (such as those operated by St Vincent's Health Australia) unviable without fee increases.

St Vincent's Health Australia asks that the Government consider alternate approaches to generating savings from pathology expenditure. We believe that volume discounts for pathology items would be more equitable, protect low income patients and retain diversity in the sector.

## 6. Private health insurance reform

St Vincent's Health Australia welcomed the opportunity to participate in consultations with the Government on private health insurance and we look forward to the Government's response.

St Vincent's Health Australia is in the unique position of servicing the private, public, aged care and community sectors.

We are strong supporters of the value proposition that underpins private health care. If private health insurance is under strain it puts our entire health system under strain – including our public hospital system which is already under enormous pressure.

Private hospitals are an integral part of our healthcare system – 40% of all inpatients and more than half of all surgeries take place in private hospitals. Roughly half the Australian population have private health insurance.

Our recent experience with the private health insurance sector is that more and more consumers are finding it harder to understand their level of coverage because of policy-complexity and product erosion. Third party health insurance brokers are contributing to the confusion and are ultimately playing a negative role in the sector as well as driving up the cost of premiums. As such, policyholders are becoming increasingly concerned with the value for money – or lack thereof – that they are currently receiving from their health insurance products.

As an operator of eight private hospitals around Australia, we support any reforms to the private health insurance sector which improve transparency and choice for consumers and patients.

## About St Vincent's Health Australia

St Vincent's Health Australia is the nation's largest Catholic not-for-profit health and aged care provider. Our services comprise more than 30 facilities along the east coast of Australia including six public hospitals, eight private hospitals, a growing number of aged care facilities and major research institutes including Victor Chang Institute, Garvan Institute of Medical Research and St Vincent's Institute of Medical Research.

From the health services established by the Sisters of Charity in 1857 at Woolloomooloo in Sydney, St Vincent's Health Australia has grown to encompass a diverse range of tertiary services including: acute medical and surgical services, emergency and critical care; aged and sub-acute care; diagnostics; mental health; correctional health; palliative care; residential care; research and education.

St Vincent's Health Australia operates more than 3,300 hospital beds, 1,100 aged care places, employs over 17,000 staff, works with over 2,500 medical practitioners and draws on the talents over 1,300 generous volunteers. Each year we provide care to more than 260,000 inpatients and over a million episodes of ambulatory care throughout our outpatient services.