

Blame game: cutting through the spin on Victoria's hospital funding cuts

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As Victorian hospitals have announced bed closures, job losses and elective surgery delays over the past six weeks, cuts to health service budgets look set to significantly affect patient care in the state.

The cuts are a result of a mid-year adjustment in health funding, costing Victoria more than \$100 million in 2012-13, with significant cuts in Queensland as well. The 2012-13 Budget estimated that \$16 billion would be allocated to the states for health care; this was revised down by more than \$400 million in the mid-year forecast to \$15.6 billion.

So who is to blame? The Victorian government would have you believe it's the Commonwealth's fault for revising its funding allocation; while the Commonwealth blames the state for passing the shortfall on to hospitals.

Federal Health Minister Tanya Plibersek will fly into Melbourne this morning to meet with her Victorian counterpart, David Davis to discuss the cuts.

Why the funding shortfall?

Current funding agreements provide that Commonwealth grants to the states for health care are adjusted based on estimates of health inflation, population change and the impact of technological change. All this is agreed.

What went wrong is that estimates of population growth (and to a lesser extent, health inflation) changed.

The source of population growth estimates is the Australian Bureau of Statistics (ABS), which changed its method of population estimation. The only accurate measure of the population occurs at the census, and even that isn't perfect. To check the census estimates, the ABS conducts a survey to verify what was reported, to check on people who have come back home after being away on census night and so on. For the 2011 census the ABS changed the way it did that, which changed the census base-line.

Between censuses, the ABS makes "inter-censal" estimates by adding births, subtracting deaths and taking account of population movements. Obviously the beginning and endpoints of the inter-censal estimates ought to reconcile with the census, but for 2011 they were 300,000 or so people out.

Some states were previously recorded as having a larger population than the new estimates (NSW 1.3% over, Victoria 1.6% over, Queensland 2.4% over), with other states being slightly under counted.

The question then becomes, should this be reflected immediately in reduced funds to the states?

Treasurer Swan, hunting desperately for money to contribute to achieving a slither of a surplus goal, announced the \$400 million hit to the budgets of the over-counted states as part of the October Mid-Year Economic and Fiscal Outlook.

The affected states have cried foul. The changes have taken place mid-year, with no discussion or forewarning. It was a plot hatched in Treasury, with health experts kept in the dark.

In most states budgets had already been issued to hospitals and so in passing on the Commonwealth hit, the political accountability was made clear. Hospitals, forced to revisit their budgets, have been required to find savings quickly and have implemented a full year of cuts over the five months after Christmas, exacerbating the impact of the Commonwealth cuts.

The Commonwealth has mounted a contemporary version of the Nuremberg defence: it is simply implementing the formula that's been agreed. It points out (correctly) that most states have squeezed their budgets and so the Commonwealth-attributed cuts are unfairly getting all the opprobrium.

The Commonwealth also points out that it is actually increasing its total contribution to health care, especially post 1 July 2014 when new growth funding arrangements, based on sharing the costs of increases in both the volume of patients treated and their costs (replacing the current formula for growth) kicks in.

All that is moot, of course, as the Commonwealth has well and truly lost the propaganda war. The public believes the front-line hospital workers and managers who are standing up and pointing out publicly what's happening locally in terms of bed closures. And the killer punch is that they are saying this was our budget before the Commonwealth changes and this is what it is now. The dots are pretty easily connected.

Finding a solution

The public has little patience with the blame game, and rightly so.

The Commonwealth will need some fast footwork to get out of this mess. It may be too late for it to retrieve its position, but one strategy is to offer the state a cost-neutral deferral.

In its search for significant budget savings, the Kennett government negotiated such a deal for Victoria in the early 1990s. The Keating government accepted a proposal from then Health Minister (the late) Marie Tehan whereby Victoria got an increase in funds in the first couple of years of the Commonwealth-state funding agreement, offset by reduced funding in the later years.

The Commonwealth has committed significant growth funds from 2014 onwards; it should not be beyond the wit of good-intentioned people to negotiate a way where both sides can claim victory.

But there are two main problems with this suggestion. On-again, off-again cuts are a management nightmare. And the current state of the Commonwealth-state morass may mean that good-intentioned people are now few and far between.

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