

Medi-muddle: hospital funding fight is resolved but the blame game goes on

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After months of battle between the Commonwealth and Victorian governments on hospital funding, Federal Health Minister Tanya Plibersek dramatically intervened last Wednesday by announcing a A\$107 million “rescue package” which would go directly to Victorian public hospitals.

Why did she do so, and what does it mean for health politics?

First, some background. In 2011, the Australian Statistician changed the way population estimates were calculated. As a result, population estimates were reduced in Victoria, New South Wales and Queensland.

Looking for ways to hold onto its tiny surplus, in late 2012 the Commonwealth used these new estimates to reduce payments to these states. Funds to Victoria were reduced by A\$107 million, compared to what the state had been promised in the Budget. The amount was passed on to hospitals as a cut against their budget, and hospitals started to announce bed closures.

A war of words began. The Commonwealth pointed out (correctly) that it was still increasing its funding this year compared to last. The state pointed out (also correctly) that it still faced a reduction against what was promised. And the Greens and the Opposition weighed in, with a Senate committee established to review the issue.

The bailout

The A\$107 million budget cut (the Commonwealth refers euphemistically to a reduction against the forward estimates) hurt the Commonwealth politically. Hospital CEOs announced budget cut after budget cut, blaming the service reductions on the changed Commonwealth funding parameters. Operating theatre lists were reduced, leading to deferrals of elective surgery.

Last week Minister Plibersek said enough was enough: the Commonwealth would pay the A\$107 million directly to hospitals. The details have not been worked out (How is money to be allocated among hospitals? One lump sum to each or monthly payments?) and there is some doubt as to the Constitutional validity of the payments. Notwithstanding, some hospitals have already said they will reverse their cuts. Yet a couple have said they will not, suggesting they may be using the Commonwealth-state battle as an excuse, as the Commonwealth has argued.

The new funding bypasses the current funding arrangements, which state that Commonwealth and state funding should be pooled: the states – the “system managers” – should determine the final total flow of funds to each hospital, albeit with the Commonwealth share clearly identified.

The Commonwealth bailout, however, may not lead to any extra money for Victoria and its public hospitals. Although the details are not clear, at least part of the money is coming from redirecting funds already allocated to Victoria for national occupational health and safety reforms.

Even though there may be no net increase to Victoria’s total Commonwealth funding this year – the A\$107 million paid to public hospitals may just be a pea and thimble trick – there is still a risk that other states will put out their hands for a similar deal.

The Senate hearings

Wednesday night’s drama continued into Thursday, the first day of hearings of the special Senate review of the cuts. Thursday’s second witness – Paul Gilbert, Assistant Secretary of the Australian Nursing Federation’s Victorian branch – dropped a bombshell near the end of his testimony:

It has been put to me that there was one example where a health service proposed to deal with the cuts by way of not closing any beds or reducing theatre sessions and that that proposal was rejected in favour of one that closed beds and reduced theatre sessions. I think Minister Davis, as is his role, for the good of Victoria, in his view, ensured that the impact was as severe as it could be in order to generate the positive outcome.

It's hearsay and gossip, for sure, but it's also symptomatic of the nastiness of the underlying politics.

Worse for the Commonwealth was the revelation it had not followed the Australian Statistician's advice in its calculations after all. What I (and others) had previously believed was that the Commonwealth had used the Statistician's new estimates of population growth, and that resulted in a reduced estimated population for Victoria, and reduced population growth estimates.

What is now clear is that the Commonwealth used the new estimates for the numerator, the new population, but the old method for the denominator or the base population from which growth was measured. Population growth was not calculated on a like-with-like basis using a consistent time series but, rather, the Commonwealth used one population point from the discarded series and one from the new. This was despite public advice from the Australian Statistician that the new population estimates should now be used.

Maths students are told to always show their workings, in order to demonstrate they have followed logical processes. In contrast, the Treasurer's determination of the health grant is a sparse piece of bureaucratese with no clarity of how the numbers were determined. Hopefully one outcome from the Senate inquiry will apply more generally: that the bases for all future determinations be clear and transparent.

An end in sight for the blame game?

We need greater transparency so that rival claims of Commonwealth-state relations can be assessed fairly. After all, "Commonwealth money" and "Victorian money" have a common source: taxpayers who are also Commonwealth and Victorian voters.

One of the sad things about the latest round of the blame game is that it comes so near to a dramatic change in how hospital funding is determined. From the 2014-15 year and onward, Commonwealth funding to the states will be based on the number of patients hospitals treat.

There will be no need to estimate population growth money will follow the patient. From 2014-15 the Commonwealth will pay 45% of the cost of increases in patients treated, regardless of how the population has changed.

An independent umpire, the Independent Hospital Pricing Authority, will set the price for additional hospital treatment, and do this transparently, publishing the annual price together with its reasoning. So hopefully we have just one more year of argy-bargy.

Blame shifting won't be eliminated in the new world, but a new, independent arbiter will help onlookers work out the truth behind the rhetoric.

Stephen Duckett is the Health Program Director at [Grattan Institute](http://GrattanInstitute).