The politics of health

Vernon Collins Oration
The Royal Children’s Hospital Melbourne

John Daley
Chief Executive Officer, Grattan Institute
15 October 2015
What would Vernon do?

Research matters – but so does running the hospital

- Staffing
- Holistic approach to welfare and care of children
- Modern medical records system
- Accountable in public on ethical issues

“Vernon was the man who was a little more politically aware, and knew how to use the system to achieve the best results”

Don Kinsey

So what would the well-rounded hospital director, who is politically aware, do today?
The politics of health

Australian government budgets are under pressure
• The mining boom and financial crisis masked ongoing Commonwealth deficits
• Capital accounts masked increasing State deficits

Health is the largest budget pressure
• Health costs are large, and growing much faster
• Increased costs are due to increased servicing, not ageing
• Health outcomes are improving

Reform will require some difficult decisions
• Governments are hoping for slower spending growth
• Australian spending on health is relatively efficient by global standards
• Victorian government spending on health is already less than other States
• A more systematic approach is required to cost management, and treatment choice
• Hospital professionals must choose: either reform, or have reform imposed
The Commonwealth’s structural deficits was masked by GFC and mining boom

Commonwealth budget balance
per cent of nominal GDP

Financial year ending

Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)
Source: Grattan Institute, Fiscal Challenges for Australia
Long term spending increased while revenue fell

Commonwealth expenditures and revenues per cent of nominal GDP

Expenditure
Revenue

Source: Grattan Institute, Fiscal Challenges for Australia
State operating budgets balanced, but their capital expenditure did not

State net debt and operating balance
$2013 bn

- Interest and depreciation increased from 7% to 10% of State government revenue

The politics of health

**Australian government budgets are under pressure**
- The mining boom and financial crisis masked ongoing Commonwealth deficits
- Capital accounts masked increasing State deficits

**Health is the largest budget pressure**
- Health costs are large, and growing much faster
- Increased costs are due to increased servicing, not ageing
- Health outcomes are improving

**Reform will require some difficult decisions**
- Governments are hoping for slower spending growth
- Australian spending on health is relatively efficient by global standards
- Victorian government spending on health is already less than other States
- A more systematic approach is required to cost management, and treatment choice
- Hospital professionals must choose: either reform, or have reform imposed
Health is a material component of all government expenditure

Combined government expenditure 2013-2014
100% = $545b

Source: Grattan Institute, Budget Pressures 2014
Health is over a quarter of Victorian government spending

Health 27%
- Hospitals
- Health - other
- Primary care and medical services
- Health - NFS

Education 24%
- Schools
- Skills
- Education - NFS
- Early childhood
- Infrastructure, transport and planning
- Economy & finance
- Government operations
- Disability services
- Climate change and environment
- Community services
- Industry
- Other

Everything else 38%
- Ageing and aged care services
- Criminal justice

Note: Other includes legal, arts and sport, housing, emergency services, water and employment.
Source: Grattan Institute, Budget Pressures 2014.
Health is the biggest pressure on government budgets overall

Change in Australian governments’ expenditure 2003-2014
$ bn relative to CPI

- Health
- Education
- Infrastructure
- Industry
- Defence
- Government
- Welfare
- Other
- Social services
- Debt mgt
- Crime justice

Source: Grattan Institute, Budget Pressures 2014
Health is driving Vic expenditure growth

Change in Victorian recurrent expenditure, 2002-03 to 2013-14
Real change in expenditure, 2003 to 2014, $2013 bn

- **Health**
- **Edu & research**
- **Infra., transport & planning**
- **Other**
- **Social services**
- **Crim. justice**
- **Industry**
- **Govt & econ**

**Real growth**

**Growth if revenue a constant % of GDP**

Note: ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance.

Source: Grattan Institute Budget Pressures 2014 Supporting Materials
Hospitals are the biggest driver of increases in health costs

Change in Australian governments’ expenditure 2003-2014
$ bn relative to CPI

Source: Grattan Institute, Budget Pressures 2014
Health cost growth is driven by servicing, not population ageing

Real increase in health expenditure 2003-2013
($2012 billion)

Source: Grattan Institute, *Budget Pressures 2013*
Government health spending increased the most for the over 70s

Government health spending per person, $2010

Source: Grattan Institute, *The Wealth of Generations*
Medical research spending tripled in a decade

NHRMC grants to universities, $2011 m

Source: Grattan Institute, *Mapping Australian Higher Education 2013*, p.46
As health spending increased, life expectancy improved

Life expectancy at 65 years of age

<table>
<thead>
<tr>
<th>Year</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>1880</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>1910</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>1940</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>1970</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>2000</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: Grattan Institute analysis of ABS (2008) cat no 3105.0.65.001 Table 7.6

Expected life quality for 65-year-old

<table>
<thead>
<tr>
<th>Year</th>
<th>Free of disability</th>
<th>Non-severe disability</th>
<th>Severe or profound core activity limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>65</td>
<td>70</td>
<td>85</td>
</tr>
<tr>
<td>2009</td>
<td>70</td>
<td>80</td>
<td>90</td>
</tr>
</tbody>
</table>

Source: AIHW (2012), Figure 13
As health spending increased, health improved

**Amenable mortality**
Deaths per 100,000 population

**Self-reported health status**
Percentage of population in lowest two categories ("fair" or "poor")

Source: AIHW

Source: ABS
The politics of health

Australian government budgets are under pressure
• The mining boom and financial crisis masked ongoing Commonwealth deficits
• Capital accounts masked increasing State deficits

Health is the largest budget pressure
• Health costs are large, and growing much faster
• Increased costs are due to increased servicing, not ageing
• Health outcomes are improving

Reform will require some difficult decisions
• Governments are hoping for slower spending growth
• Australian spending on health is relatively efficient by global standards
• Victorian government spending on health is already less than other States
• A more systematic approach is required to cost management, and treatment choice
• Hospital professionals must choose: either reform, or have reform imposed
Governments are counting on health spending falling

Real annual growth in government health spending

**Historical**

- 1994 to 2013: Grattan

**Projections**

- 2010 to 2050: IGR (2010)
- 2012 to 2028: PC (2013)

**Demographic growth**

**Non-demographic growth**

**Population increase**

**Ageing**

Helath isn’t the only spending forecast that relies on wishful thinking

Commonwealth real annual spending growth, per cent

Historical spending growth 2002-03 to 2012-13
Forecast spending growth 2012-13 to 2024-25

Source: PBO (2014), Projections of Government spending over the medium term
Australia already gets relatively good value for money in health spending

Life expectancy at birth, years, OECD countries, 2008 or latest available

Source: OECD Health care systems: getting more value for money
Victorian government spending on health is relatively low

Larger State government expenditure/resident $ per capita, 2012-13

Source: Grattan Institute, Budget Pressures 2014
Costs are someone else’s problem …

Views on own network relative to average Victorian network
Proportion of board members of Victorian LHNs,

Overall quality of health care
Safe and skilled workforce
Responding to health care incidents

Note: n = 233, 70% response rate, 96% of networks included
Source: Grattan Institute, Questionable care: avoiding ineffective treatment
Variation in the cost of specific operations is difficult to explain away

Cost of hip replacement, unadjusted, 2010-11

Note: I03B, the less complicated DRG category for the procedure
Source: Grattan Institute, Controlling costly care
Overall variation in public hospital costs is very hard to explain away

Hospitals

Average level of unexplained costs

Avoidable costs: unexplained costs above the average level

Note: Some small hospitals (total admissions < 4,000 p.a.) not shown

Source: Grattan Institute, Controlling costly care
Grattan identified 5 ‘do-not-dos’ and 3 ‘do-not-do routinely’ treatments

Based on NICE, MSAC and Prasad

Do-not-dos:
- Vertebroplasty for osteoporotic vertebral fractures
- Arthroscopic lavage or debridement for OA of the knee
- Laparoscopic uterine nerve ablation for chronic pelvic pain
- Removing healthy ovaries during a hysterectomy
- HBOT for a range of conditions (inc. osteomyelitis, cancer, and non-diabetic wounds and ulcers)

Do-not-do routinely:
- Fundoplication for gastro-intestinal reflux
- Episiotomy for spontaneous vaginal births
- Amniotomy to augment a normal delivery

Patients with ‘legitimating’ diagnoses are excluded
Grattan found patterns that are difficult to explain away

Proportion of relevant patients getting do-not-do procedure

Proportion of relevant patients getting do-not-do routinely procedure

Source: Grattan Institute, *Questionable care: avoiding ineffective treatment*
A system for improving practice

Identify poor treatments
- Payoff relative to cost
- Bottom up AND top down

Report on outcomes
- System level, by hospital
- Peer visibility

Continuously improve measurement
- Linked records – pathology, MBS, PBS, hospitals

Clinical reviews
- Start local
- Escalate for investigation and sanctions

Source: Grattan Institute, Questionable care: avoiding ineffective treatment
Clinical reviews with consequences – how a system might work

1. Identify outliers
2. Inform outliers that they are being closely monitored
   - Yes: Are they still outliers after one year?
     * Yes: State to initiate external clinical review
     * No: Does clinical review support practices?
       * Yes: Set clear targets for improvement
       * No: Are targets met?
         * Yes: No further action
         * No: Financial and/or governance sanctions
   - No: No further action
The politics of health

Australian government budgets are under pressure
- The mining boom and financial crisis masked ongoing Commonwealth deficits
- Capital accounts masked increasing State deficits

Health is the largest budget pressure
- Health costs are large, and growing much faster
- Increased costs are due to increased servicing, not ageing
- Health outcomes are improving

Reform will require some difficult decisions
- Governments are hoping for slower spending growth
- Australian spending on health is relatively efficient by global standards
- Victorian government spending on health is already less than other States
- A more systematic approach is required to cost management, and treatment choice
- Hospital professionals must choose: either reform, or have reform imposed