



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

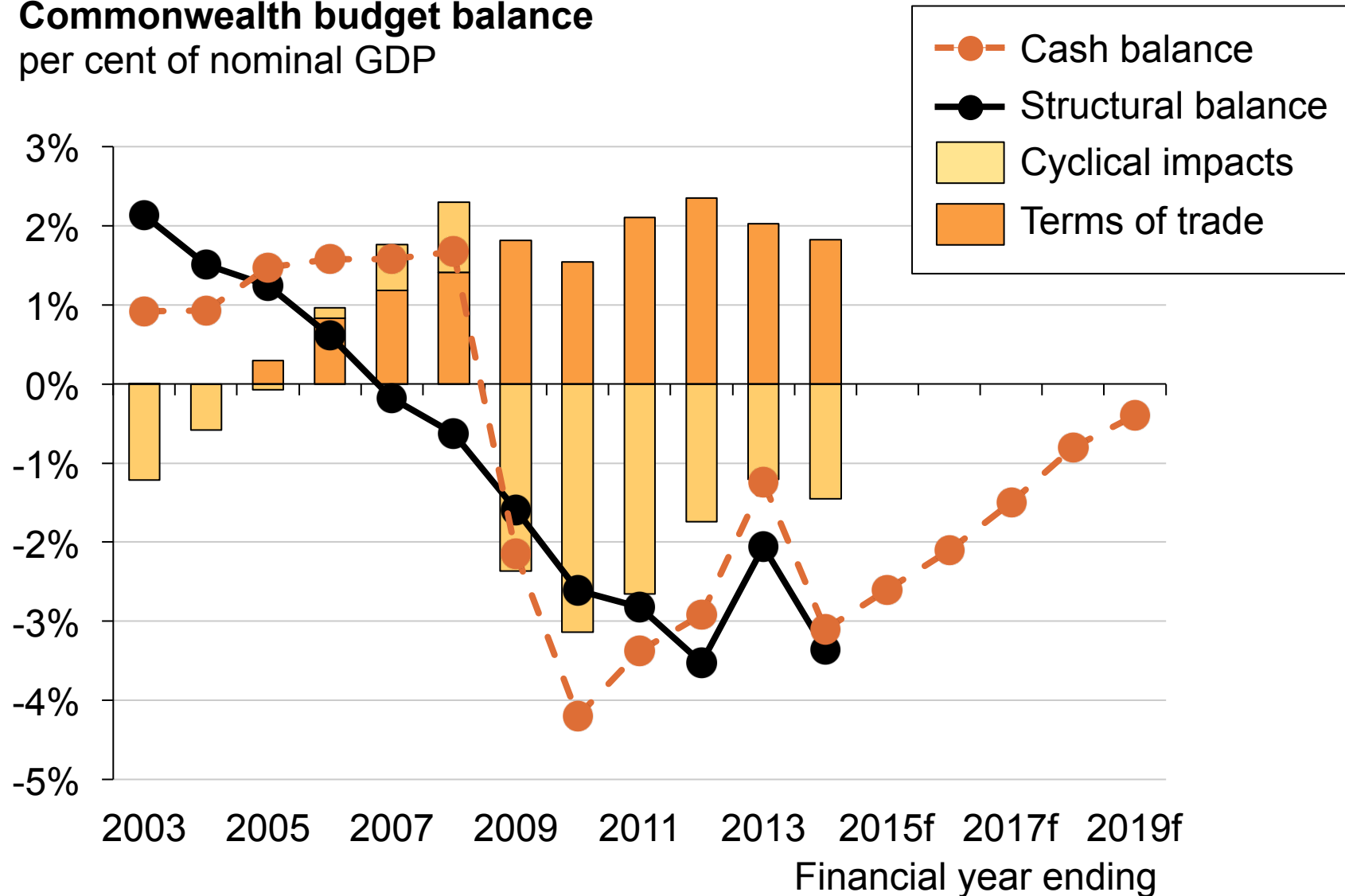
- Health costs are large, and growing much faster
- Increased costs are due to increased servicing, not ageing
- Health outcomes are improving

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 imposed₃

The Commonwealth's structural deficits was masked by GFC and mining boom

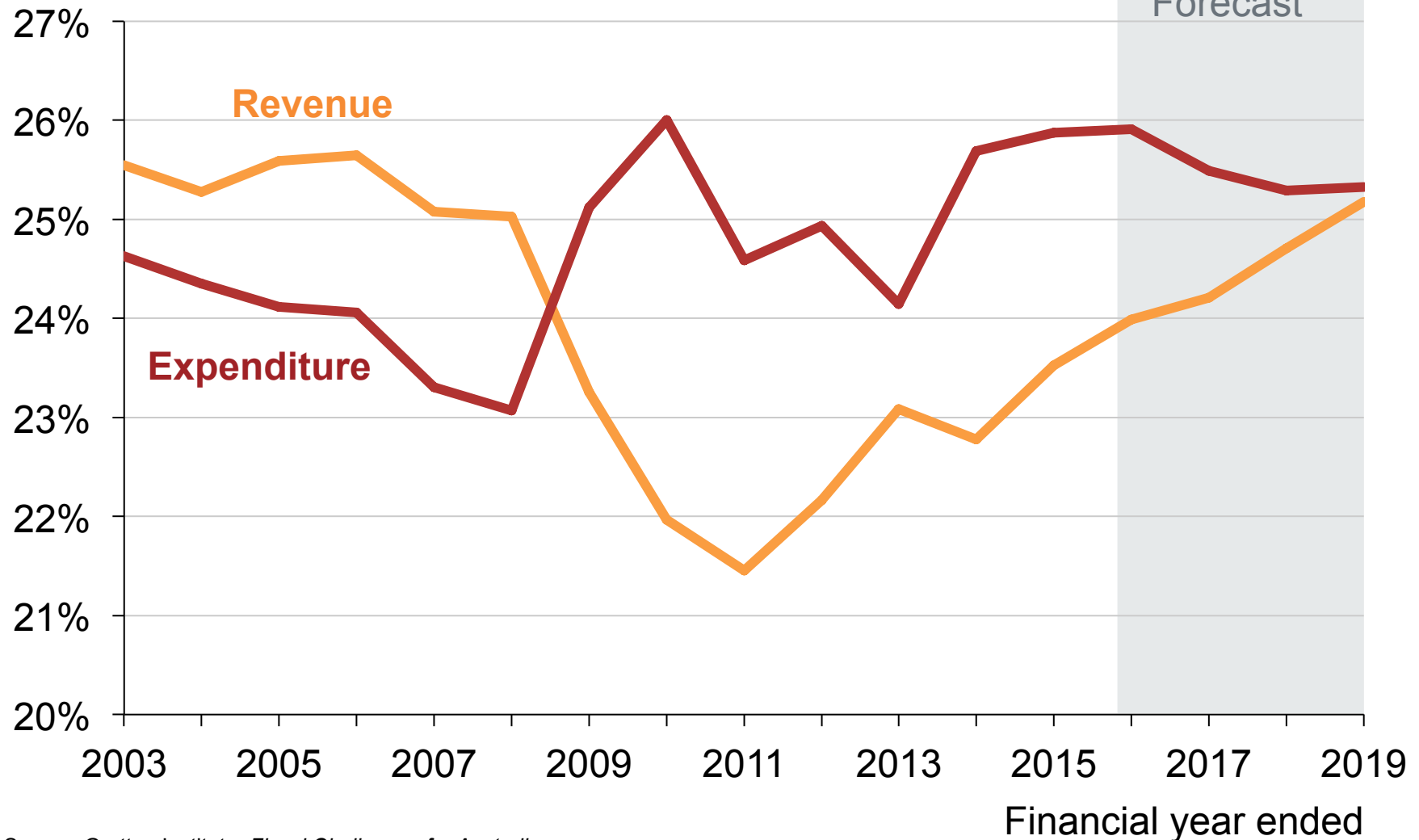
Commonwealth budget balance
per cent of nominal GDP



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*

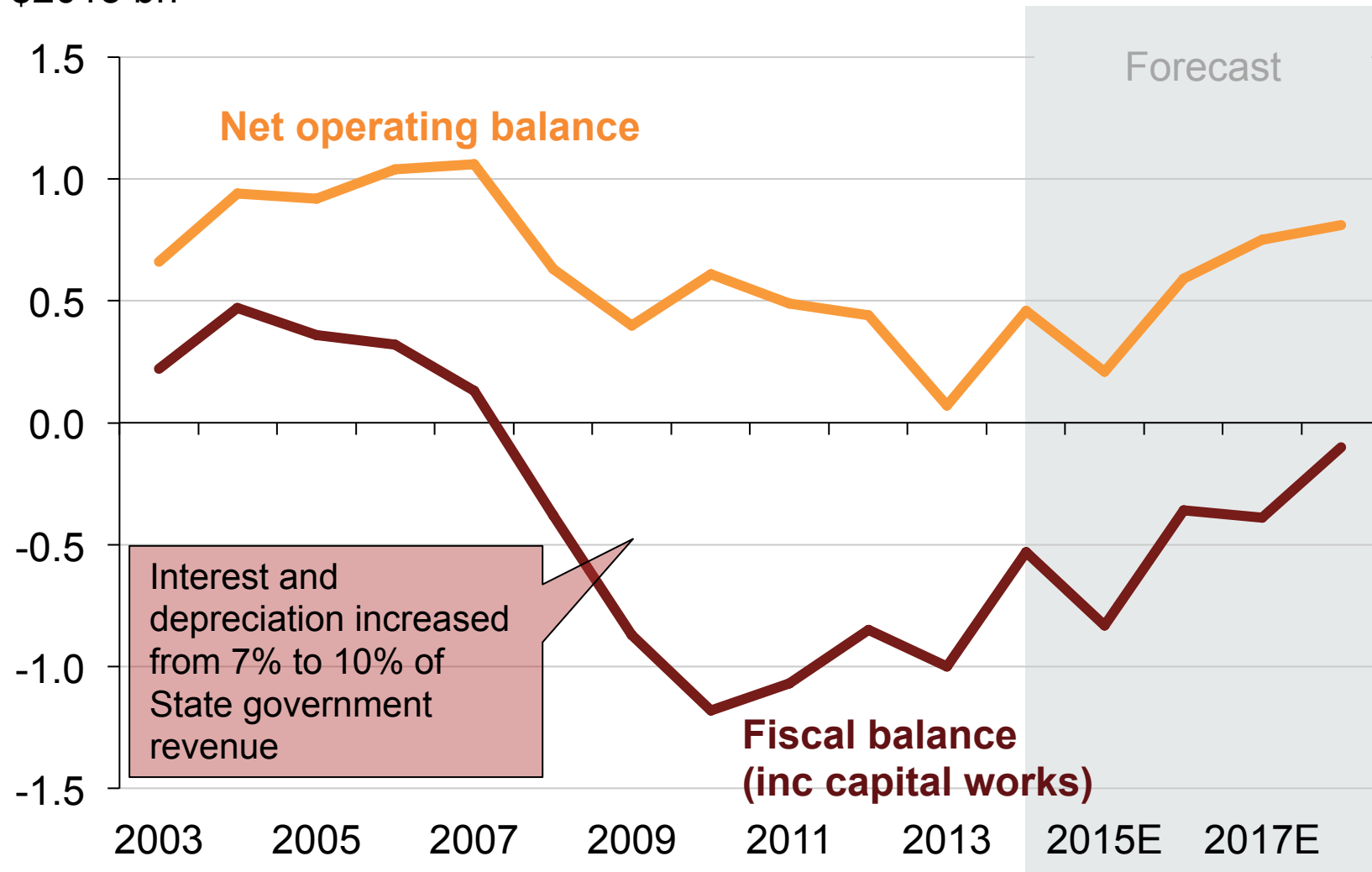
Long term spending increased while revenue fell

Commonwealth expenditures and revenues per cent of nominal GDP



State operating budgets balanced, but their capital expenditure did not

State net debt and operating balance
\$2013 bn



Source: Parliamentary Budget Office, *National Fiscal Trends* (2015)

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

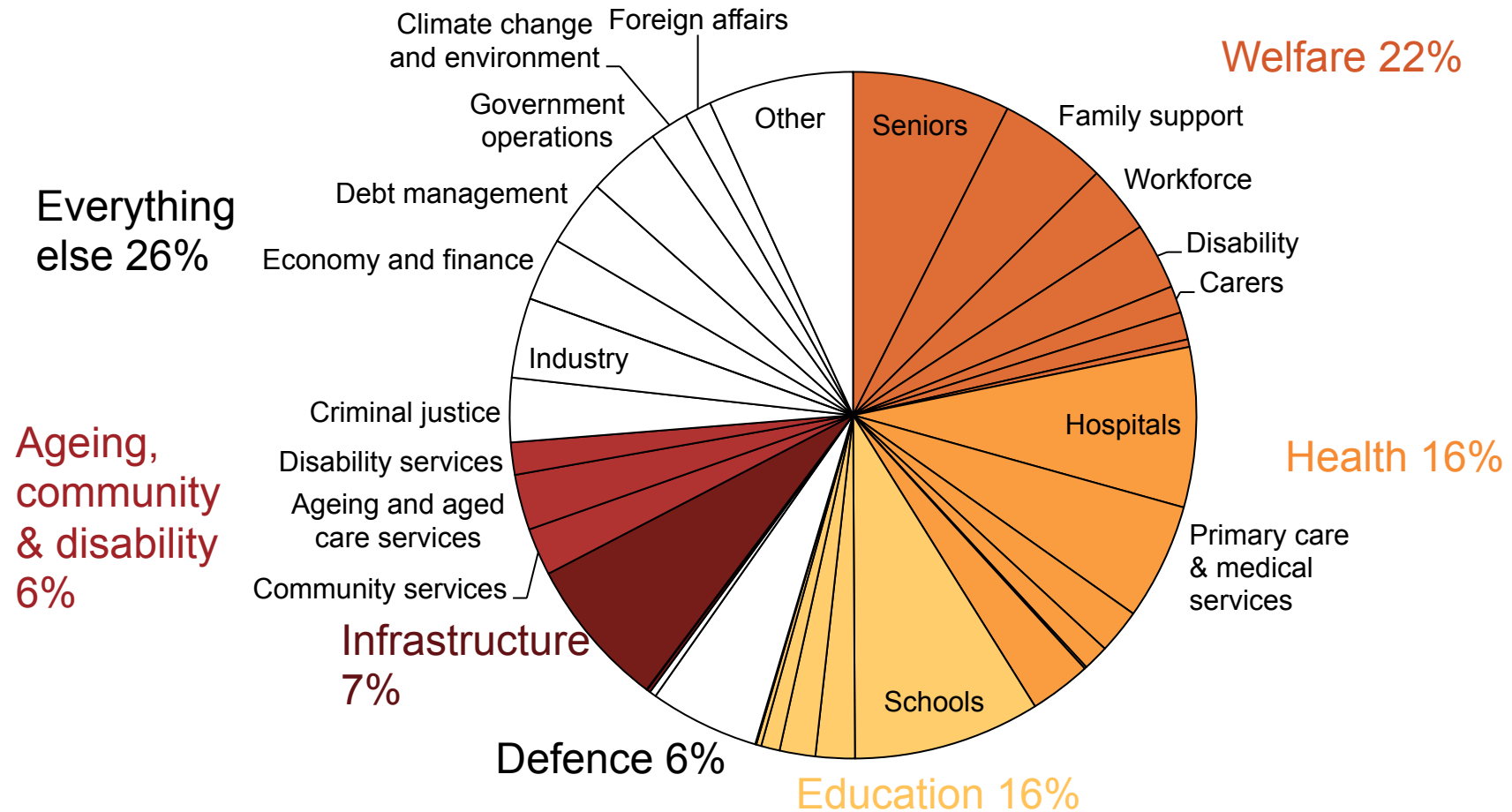
Reform will require some difficult decisions

- 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

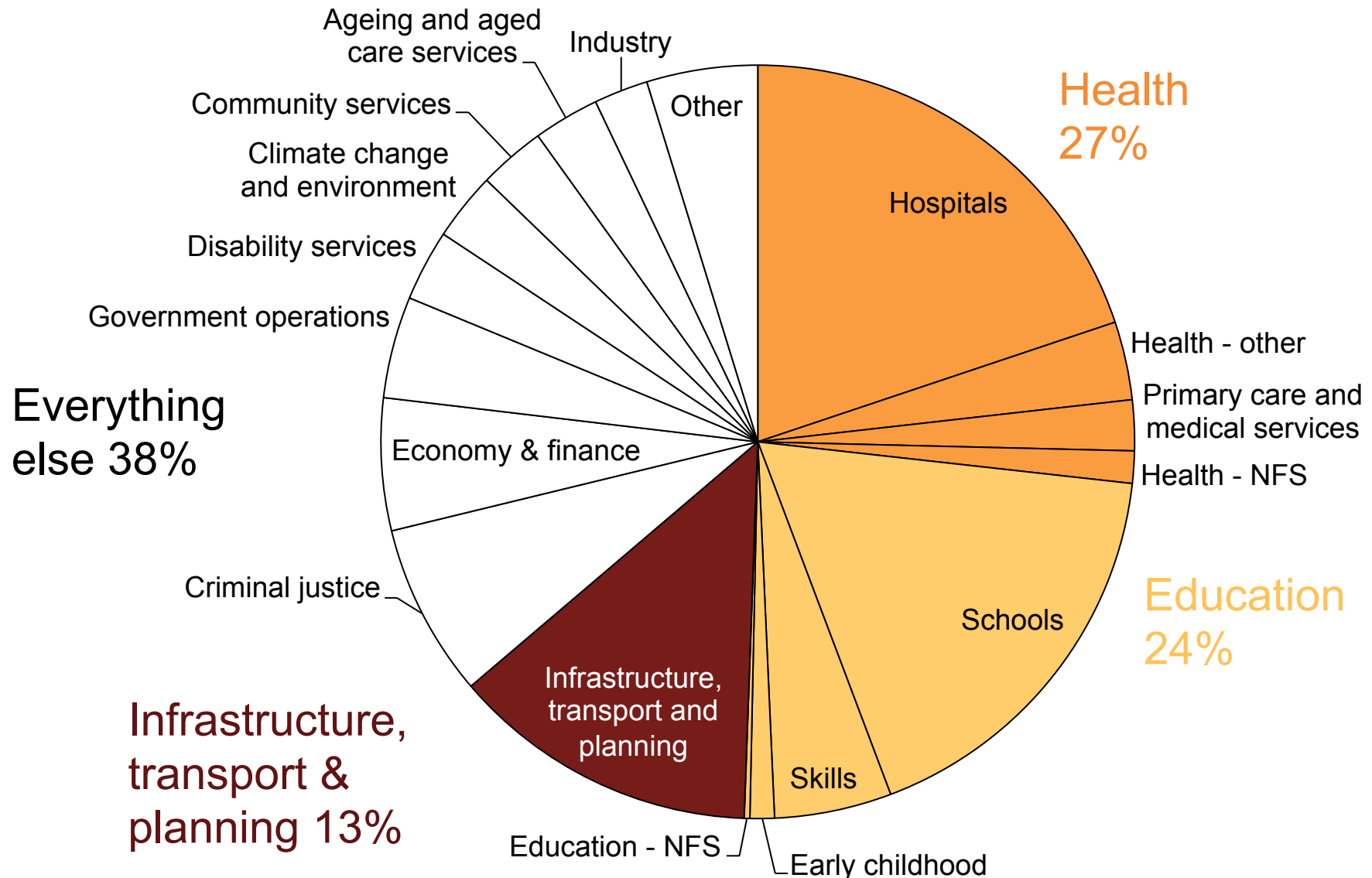
Health is a material component of all government expenditure

Combined government expenditure 2013-2014

100% = \$545b



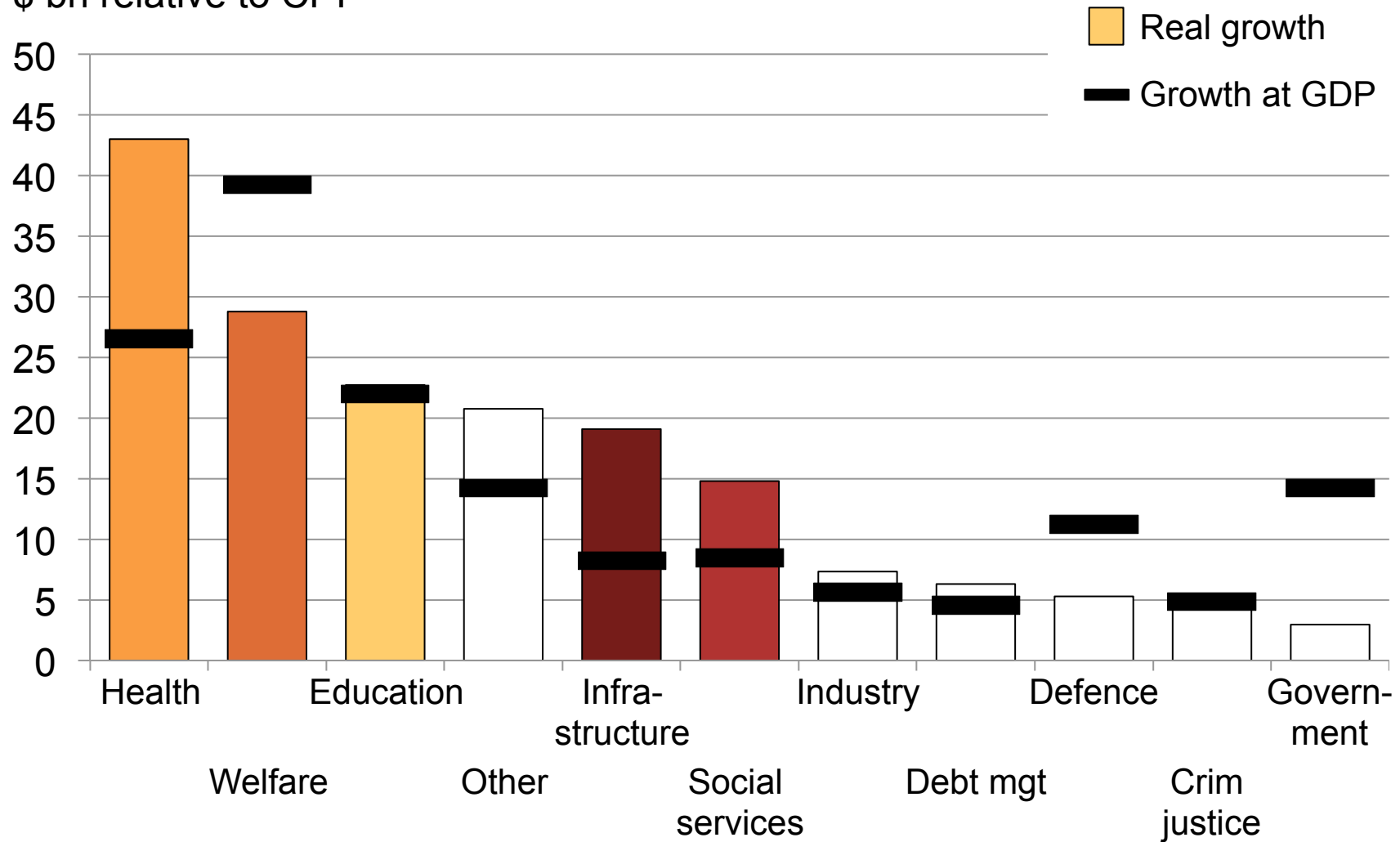
Health is over a quarter of Victorian government spending



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

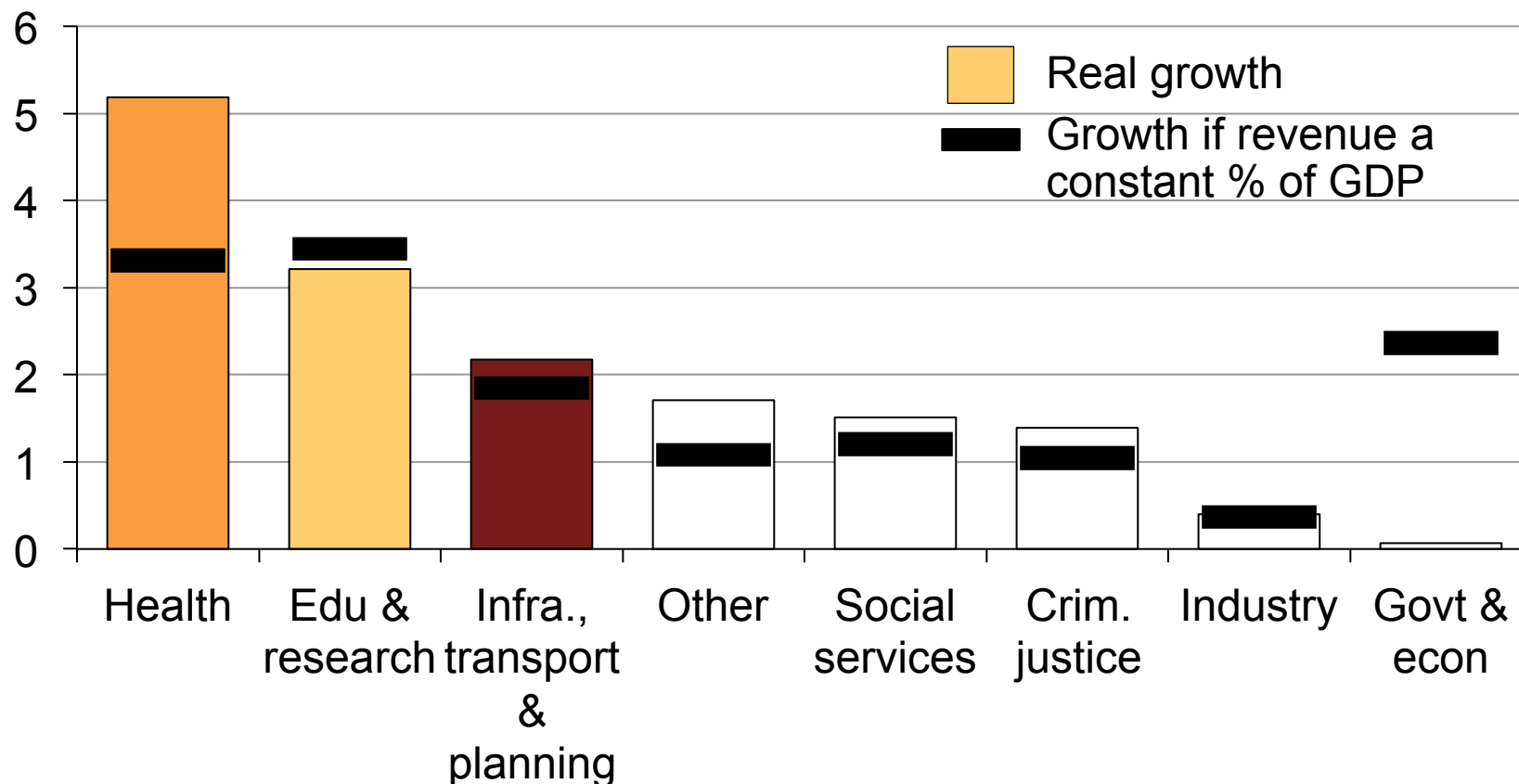
Change in Australian governments' expenditure 2003-2014
\$ bn relative to CPI



Health is driving Vic expenditure growth

Change in Victorian recurrent expenditure, 2002-03 to 2013-14

Real change in expenditure, 2003 to 2014, \$2013 bn

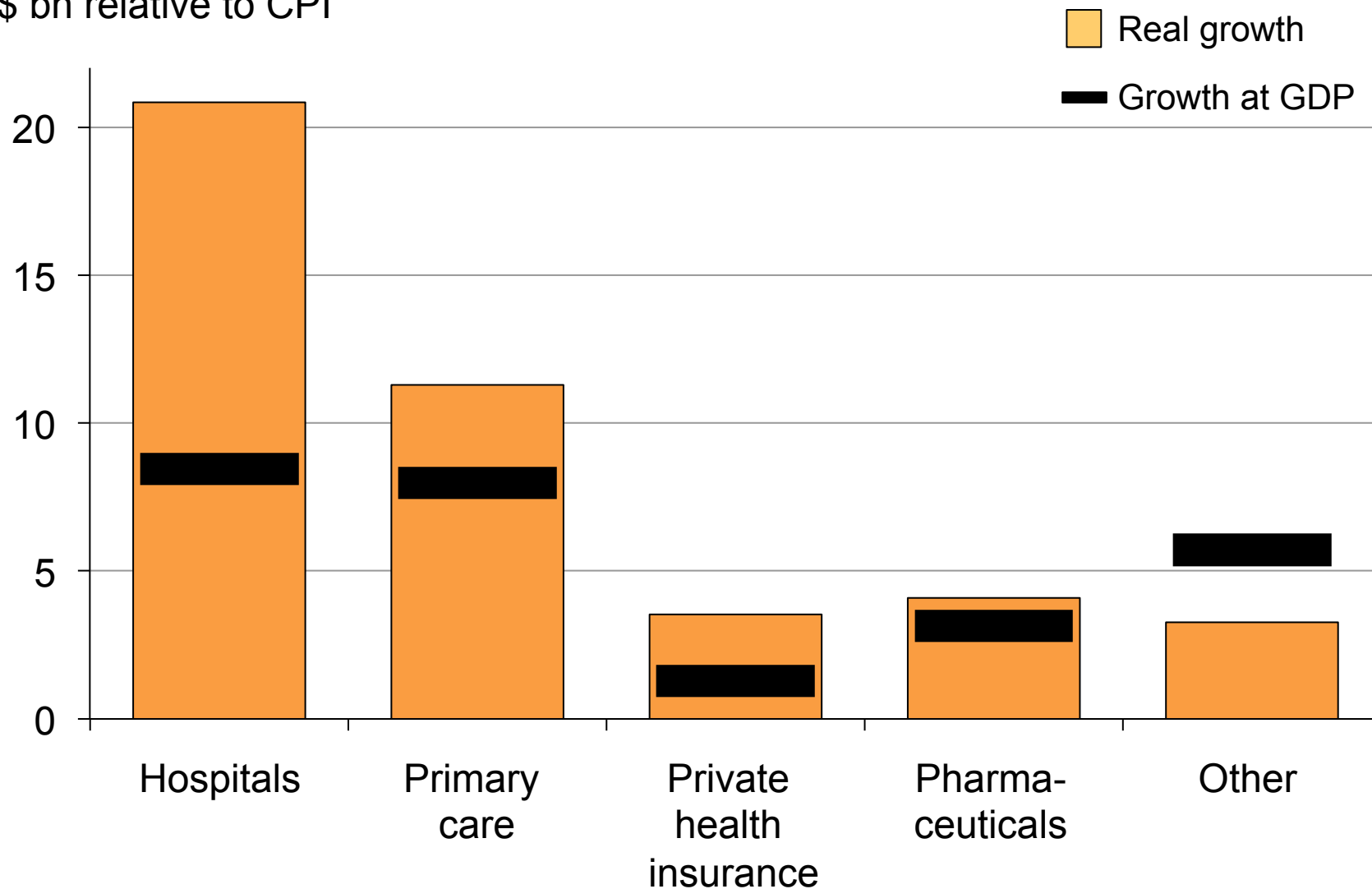


Note: 'Other' comprises all expenditure not elsewhere included. 'Social services' comprises ageing and aged care services, disability services, and community services. 'Govt & econ' comprises government operations and economy and finance.

Source: Grattan Institute *Budget Pressures 2014 Supporting Materials*

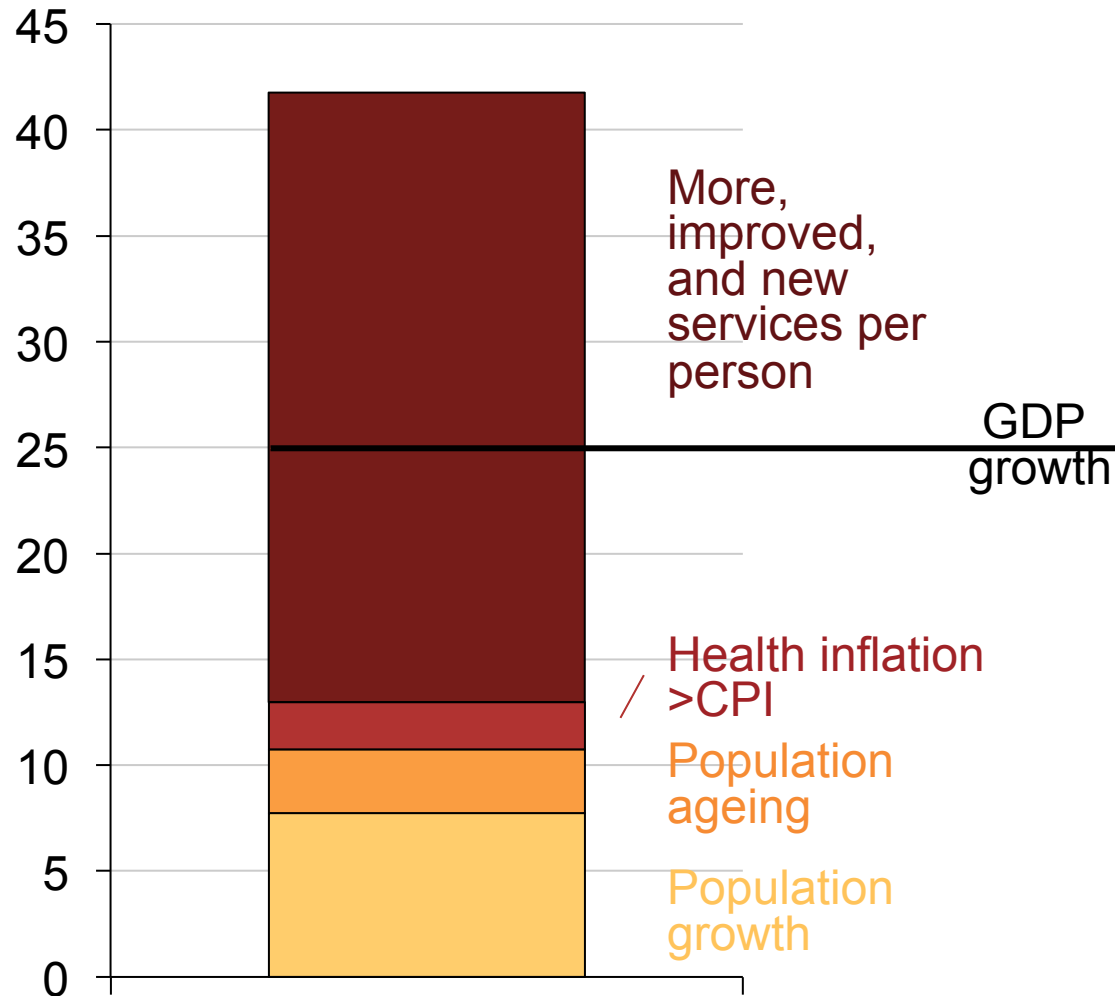
Hospitals are the biggest driver of increases in health costs

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



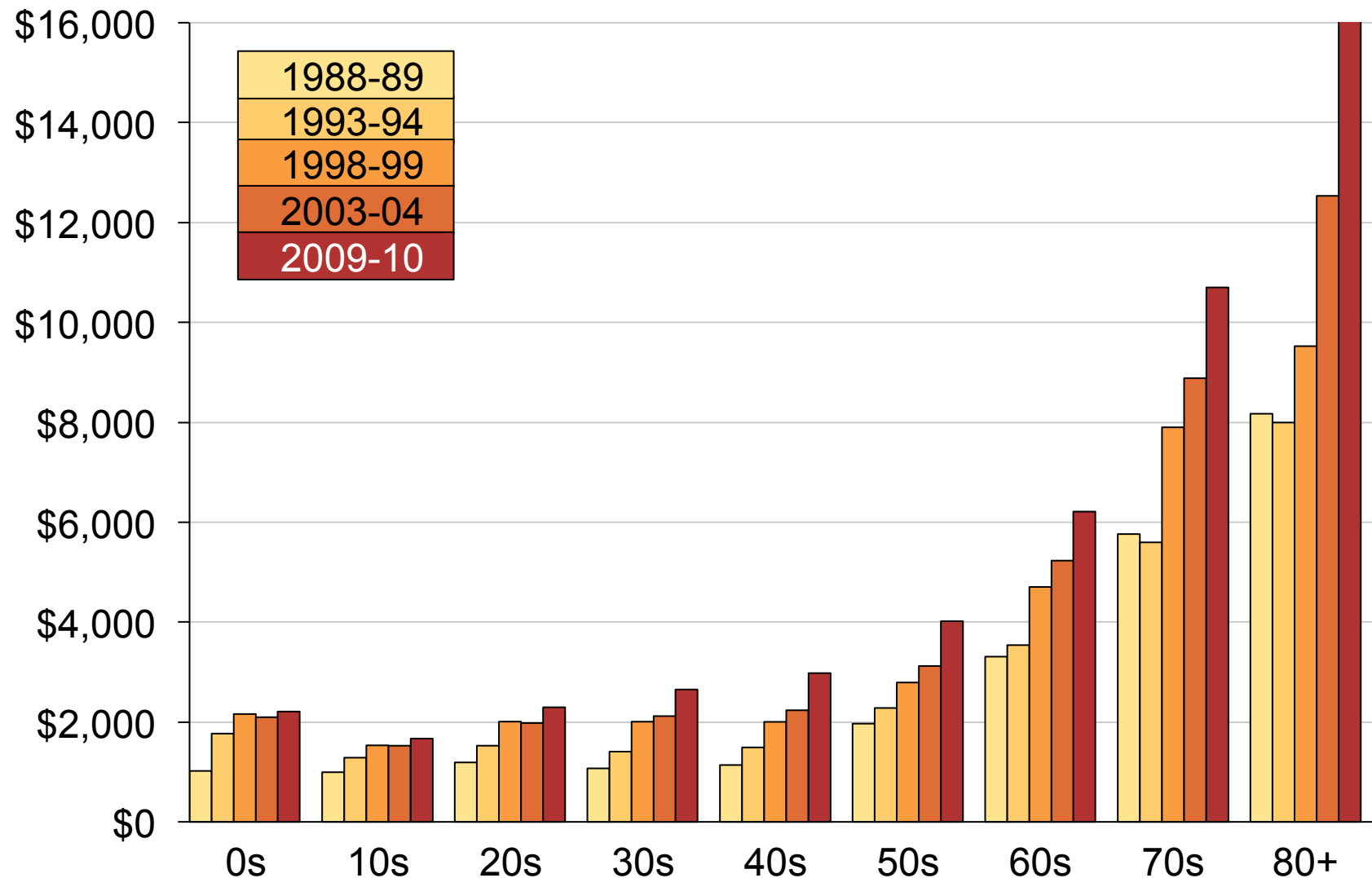
Health cost growth is driven by servicing, not population ageing

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



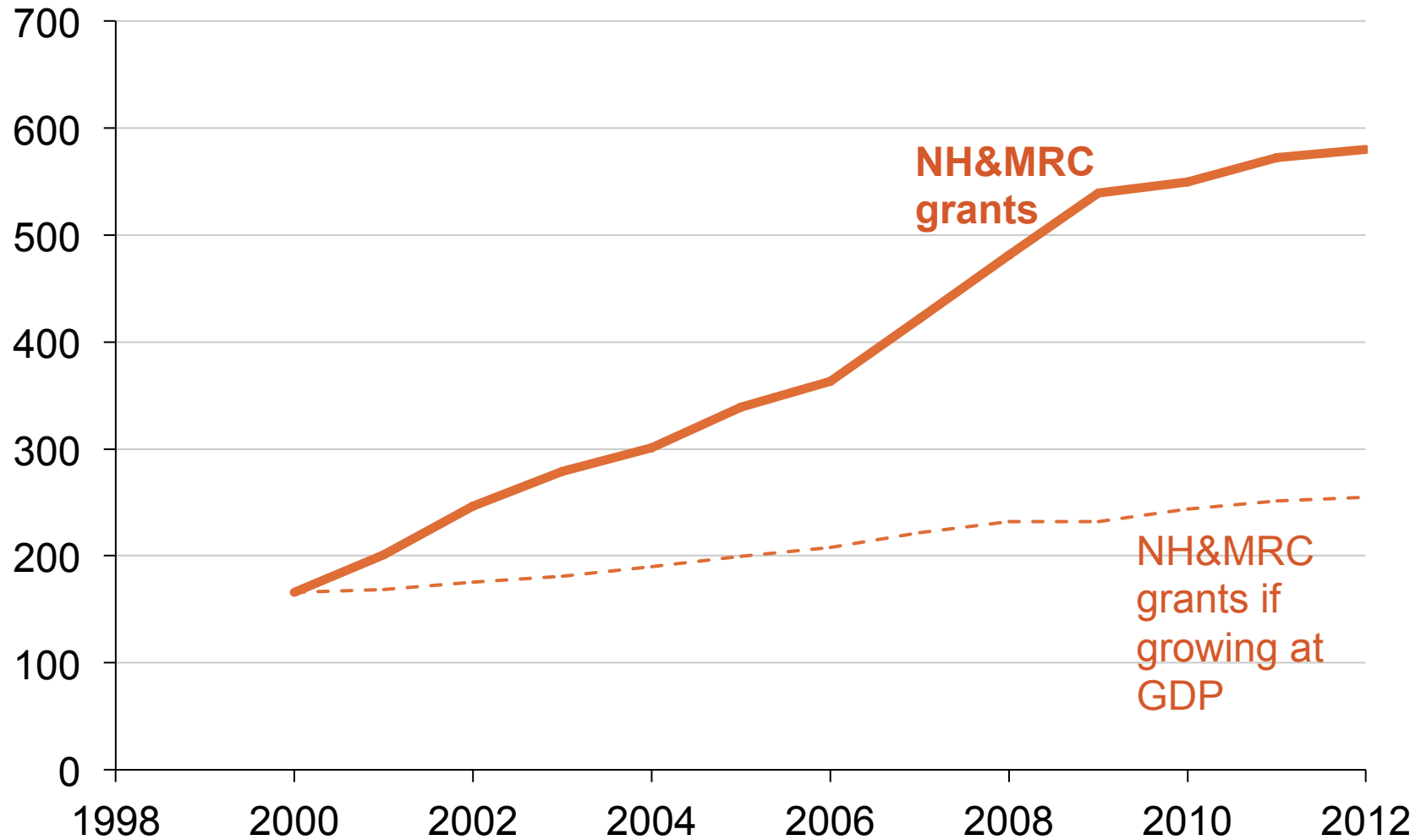
Government health spending increased the most for the over 70s

Government health spending per person, \$2010



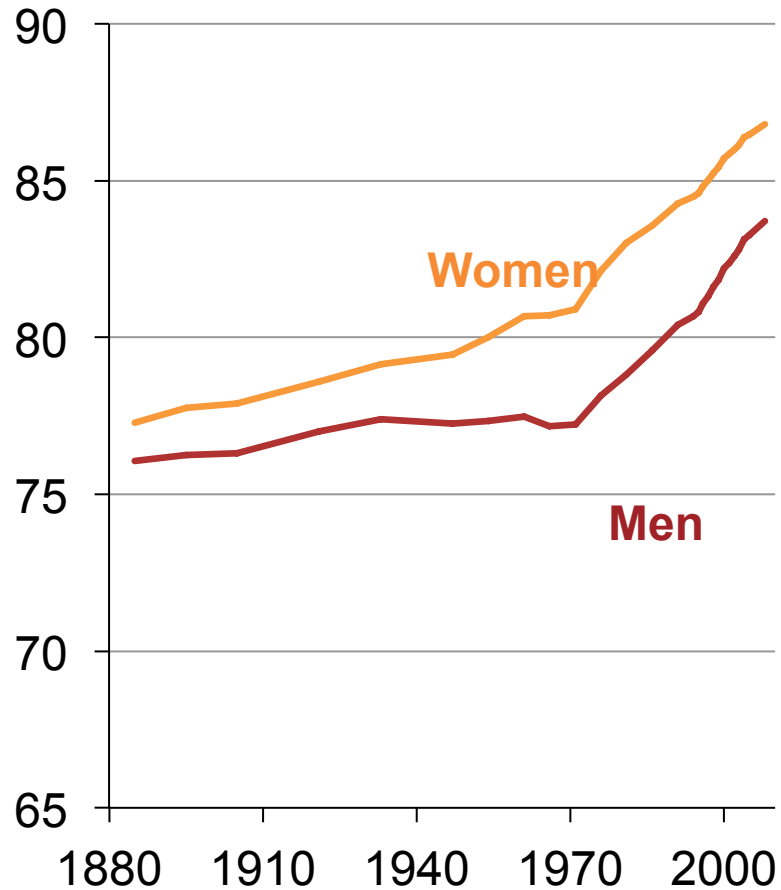
Medical research spending tripled in a decade

NHRMC grants to universities, \$2011 m



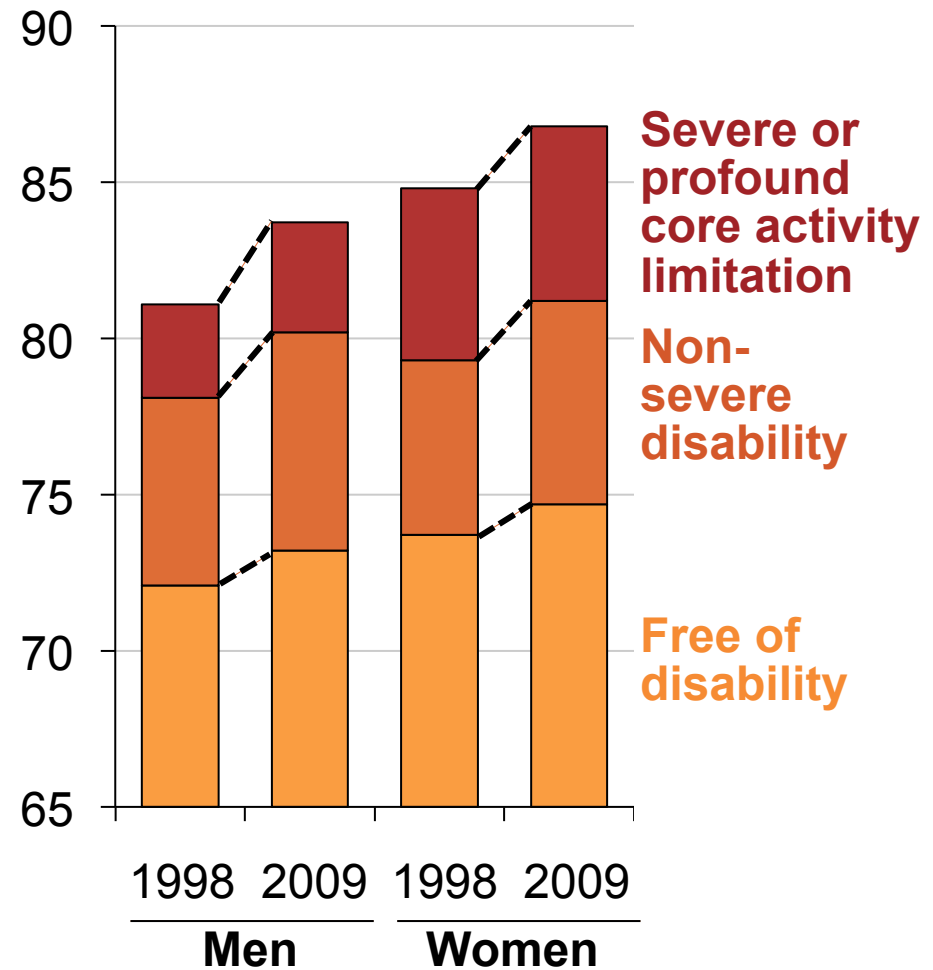
As health spending increased, life expectancy improved

Life expectancy at 65 years of age



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

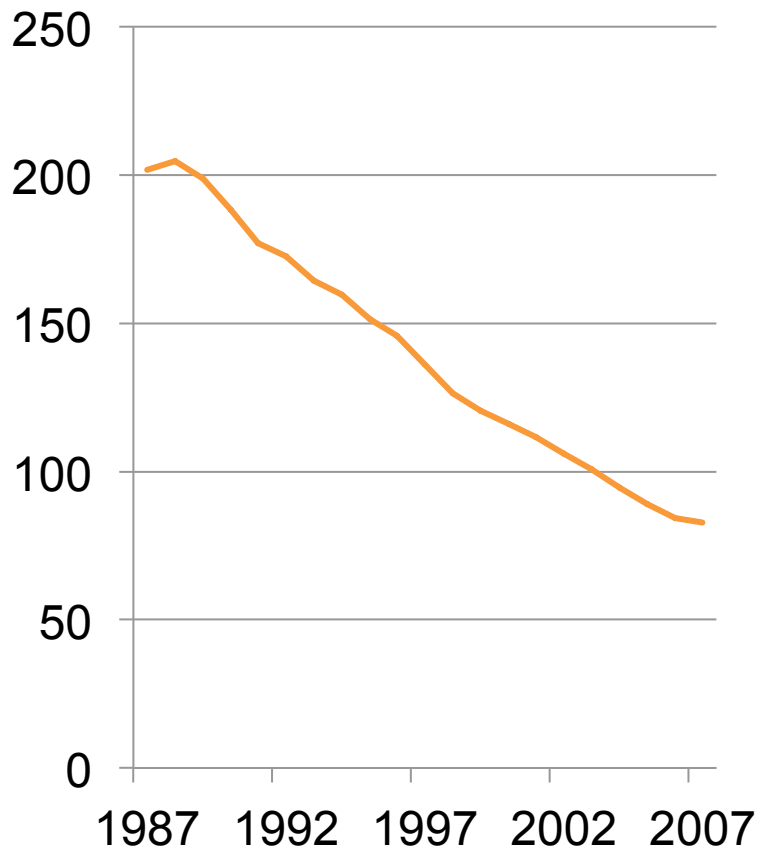
Expected life quality for 65-year-old years



Source: AIHW (2012), Figure 13

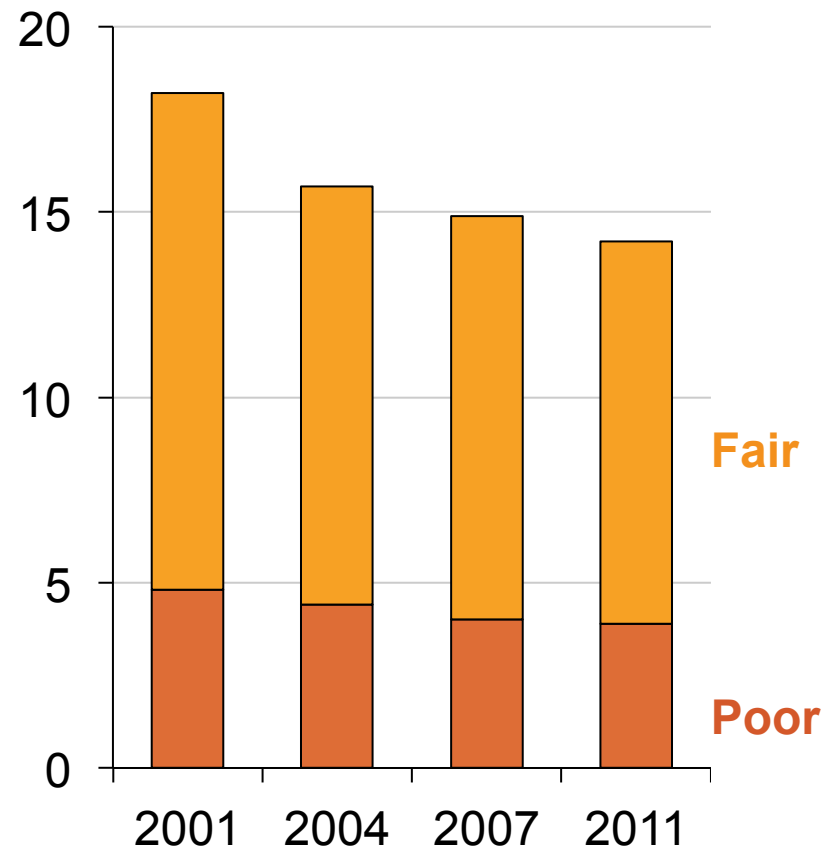
As health spending increased, health improved

Amenable mortality
deaths per 100,000 population



Source: AIHW

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



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

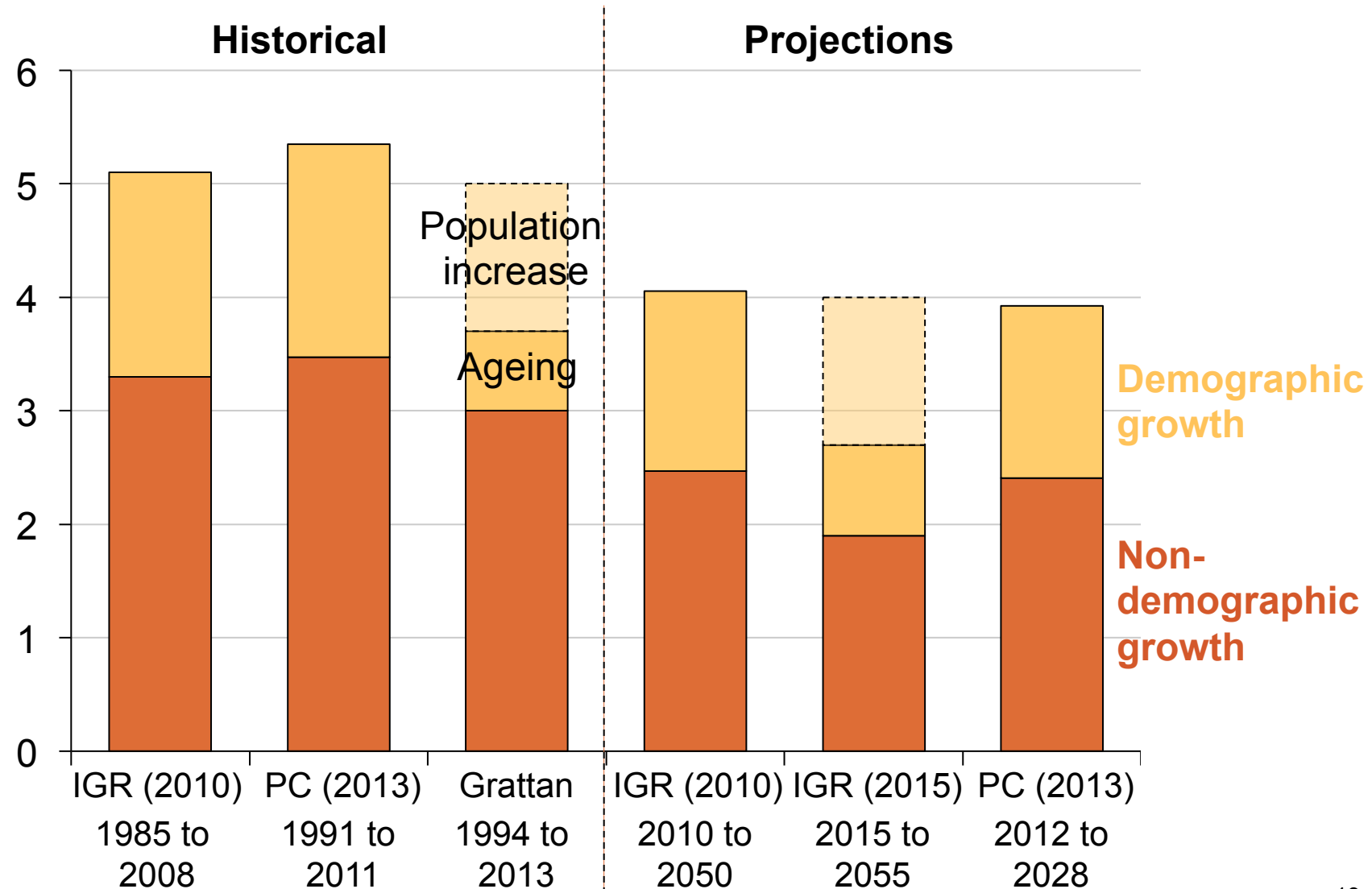
- Health costs are large, and growing much faster
- Increased costs are due to increased servicing, not ageing
- Health outcomes are improving

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

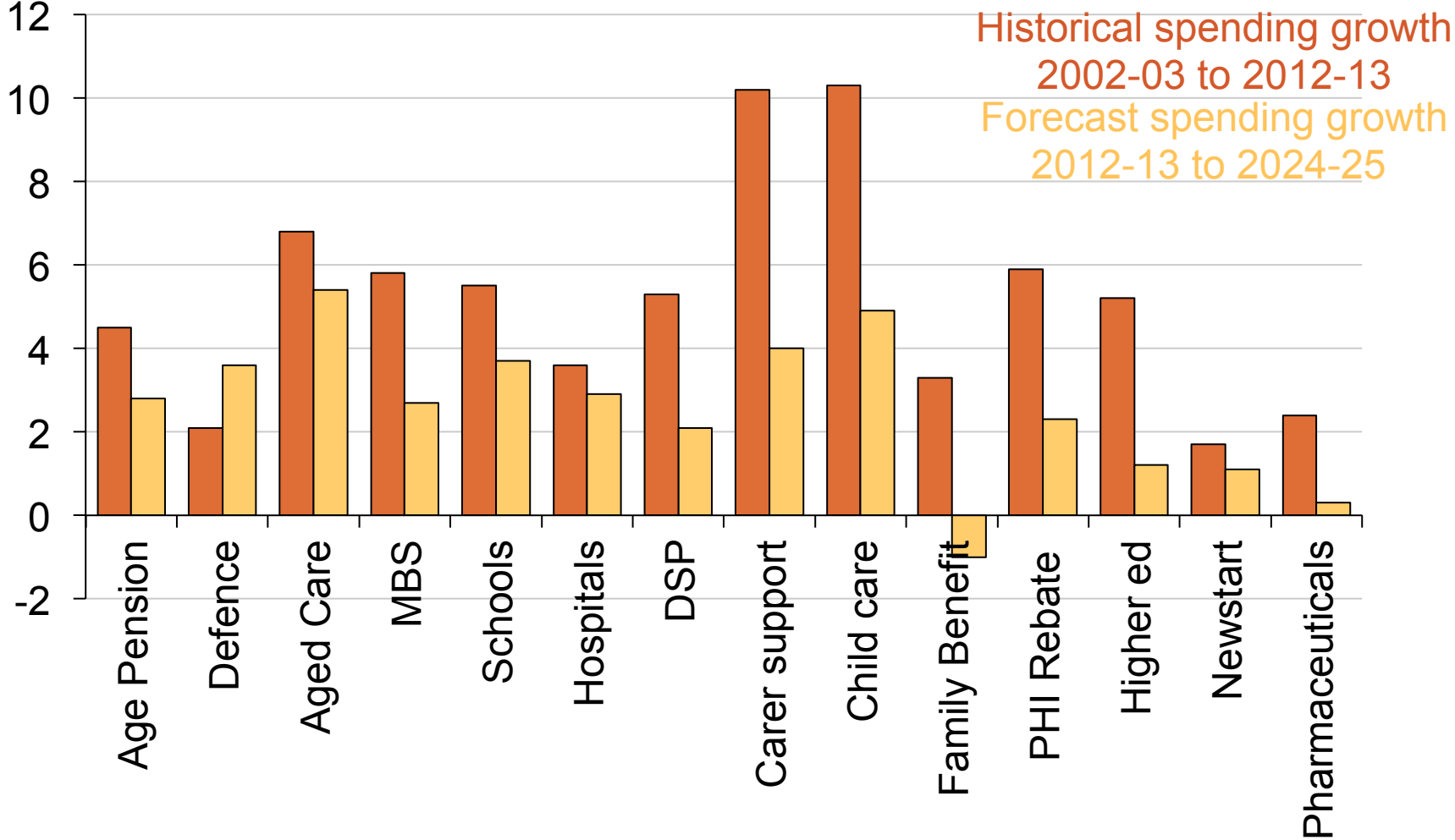
Real annual growth in government health spending



Source: Grattan Institute, *The Wealth of Generations*; Treasury, *Intergenerational Report* (2015)

Health isn't the only spending forecast that relies on wishful thinking

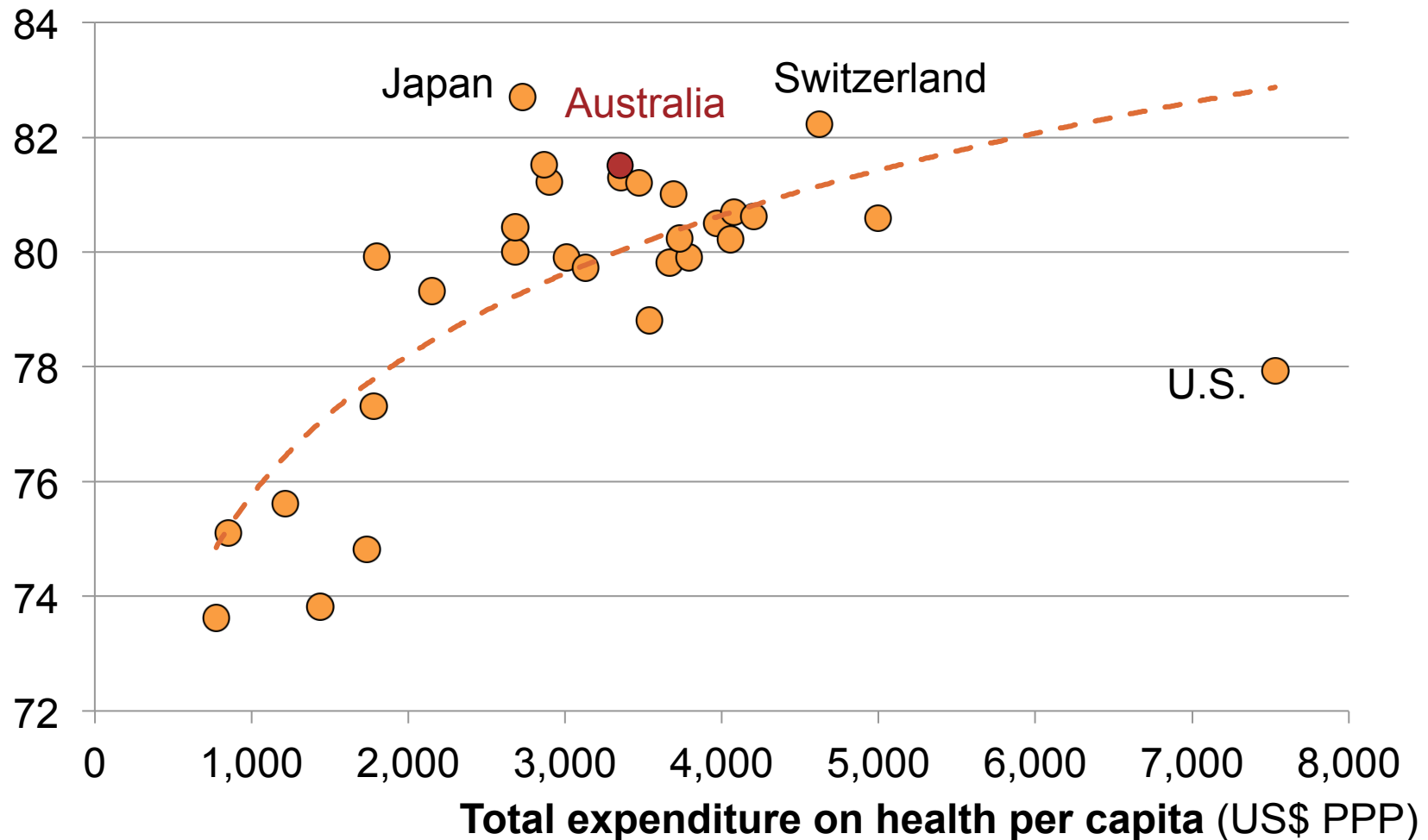
Commonwealth real annual spending growth, per cent



Source: PBO (2014), Projections of Government spending over the medium term

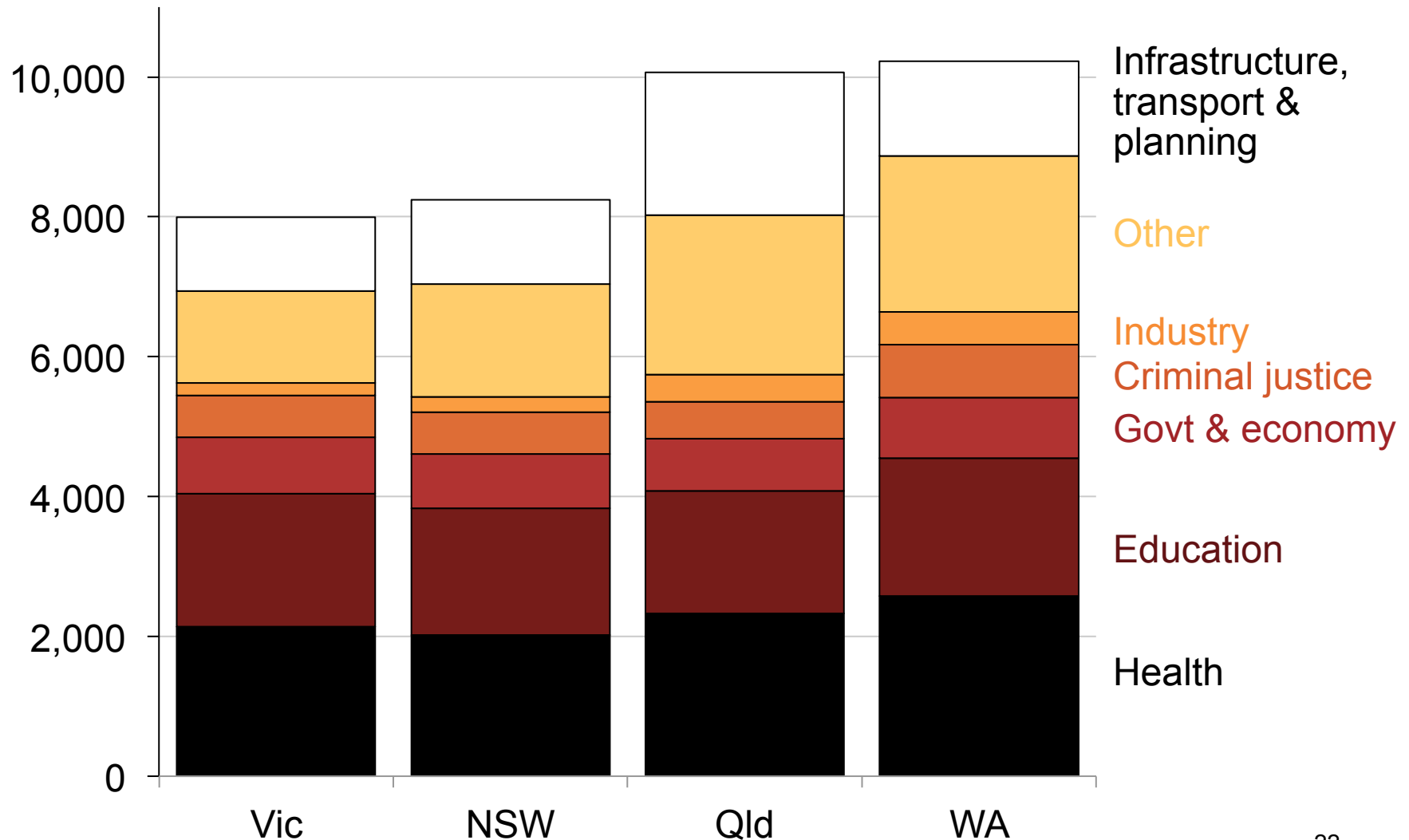
Australia already gets relatively good value for money in health spending

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



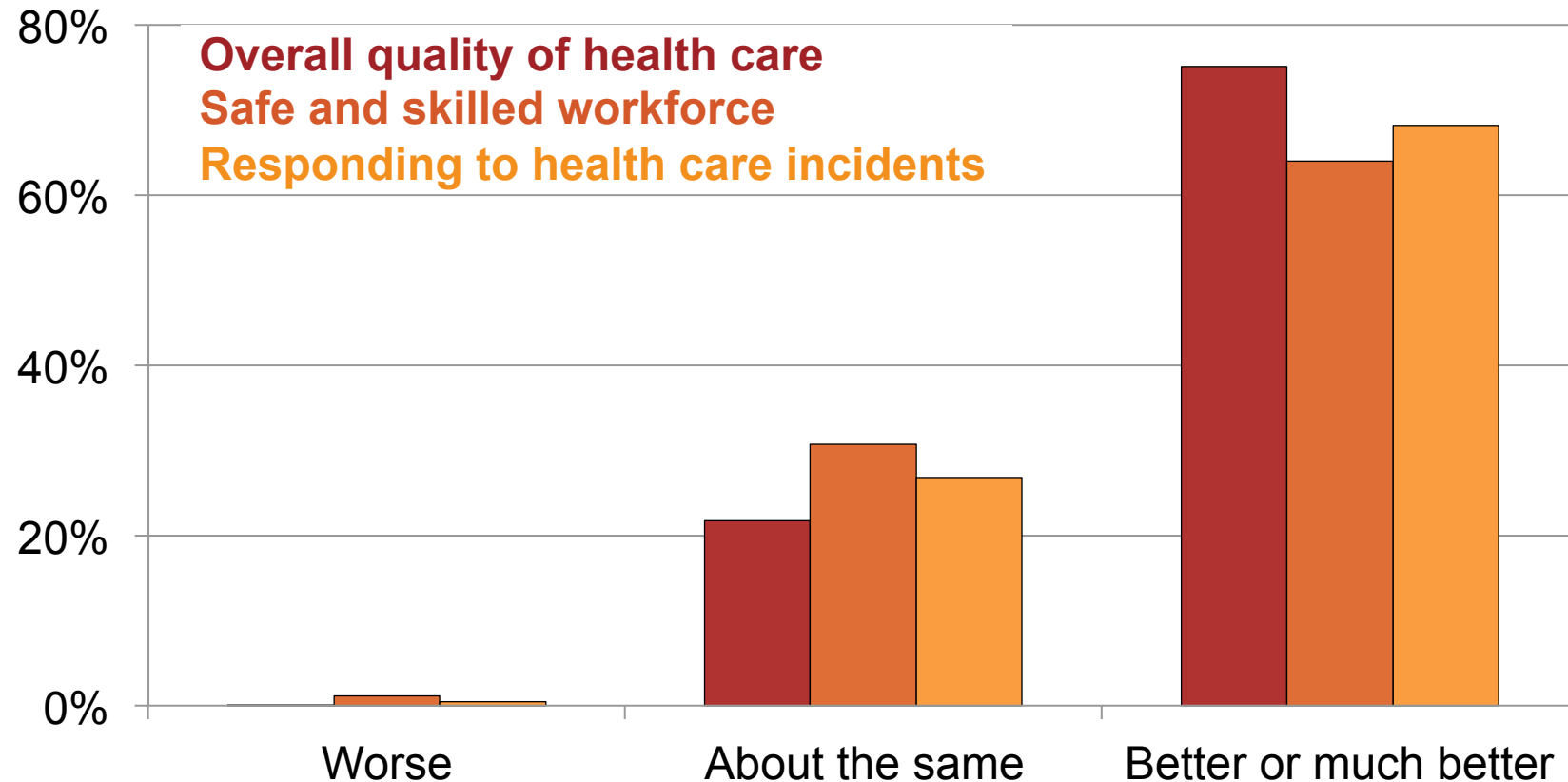
Victorian government spending on health is relatively low

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



Costs are someone else's problem ...

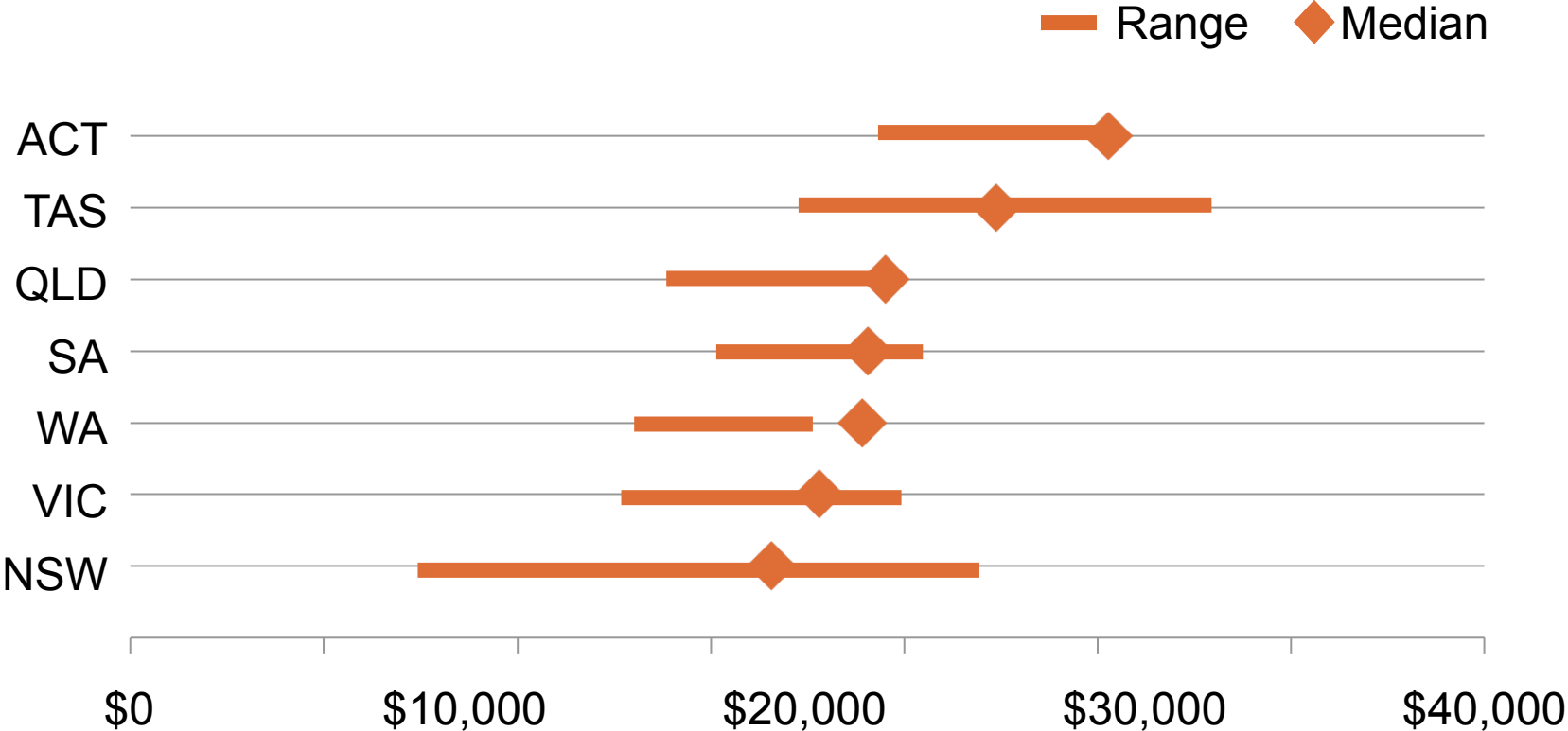
Views on own network relative to average Victorian network
Proportion of board members of Victorian LHNs,



Note: n = 233, 70% response rate, 96% of networks included
Source: Grattan Institute, *Questionable care: avoiding ineffective treatment*

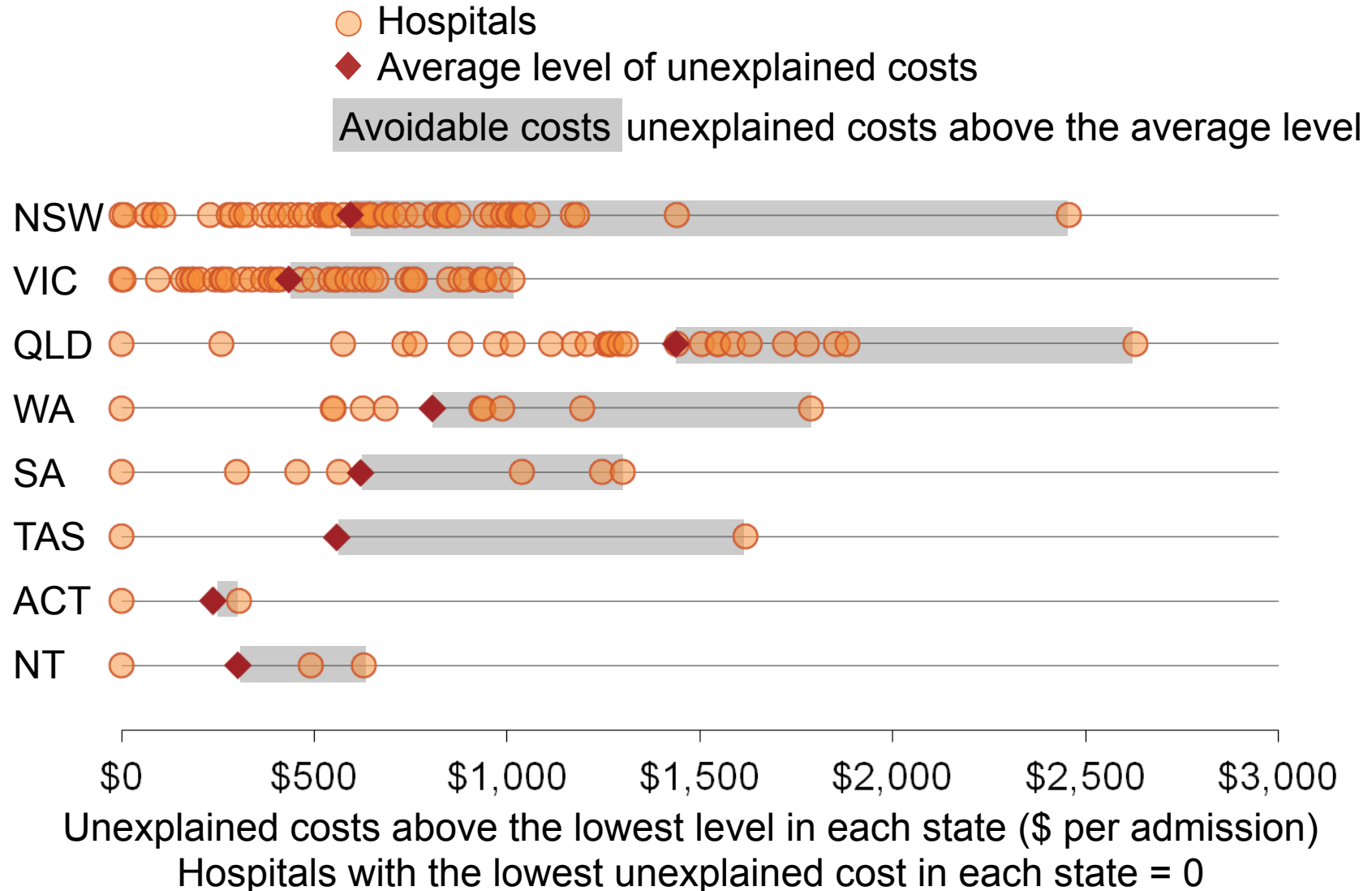
Variation in the cost of specific operations is difficult to explain away

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



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)

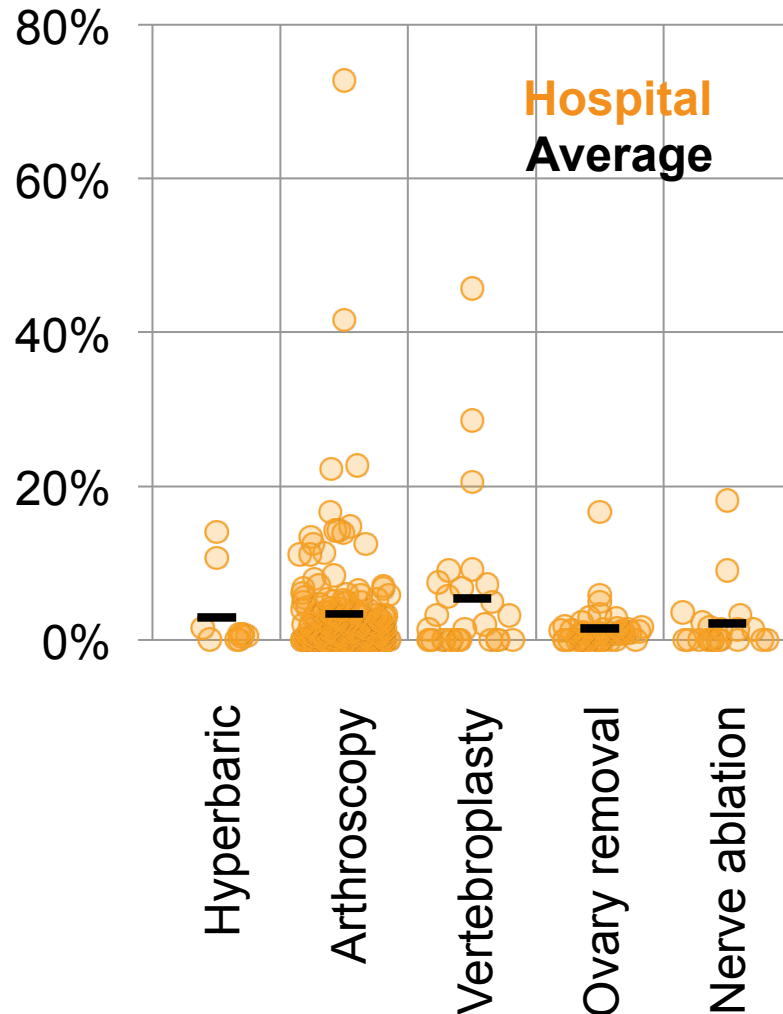
Do-not-do routinely:

- Fundoplication for gastro-intestinal reflux
- Episiotomy for spontaneous vaginal births
- Amniotomy to augment a normal delivery

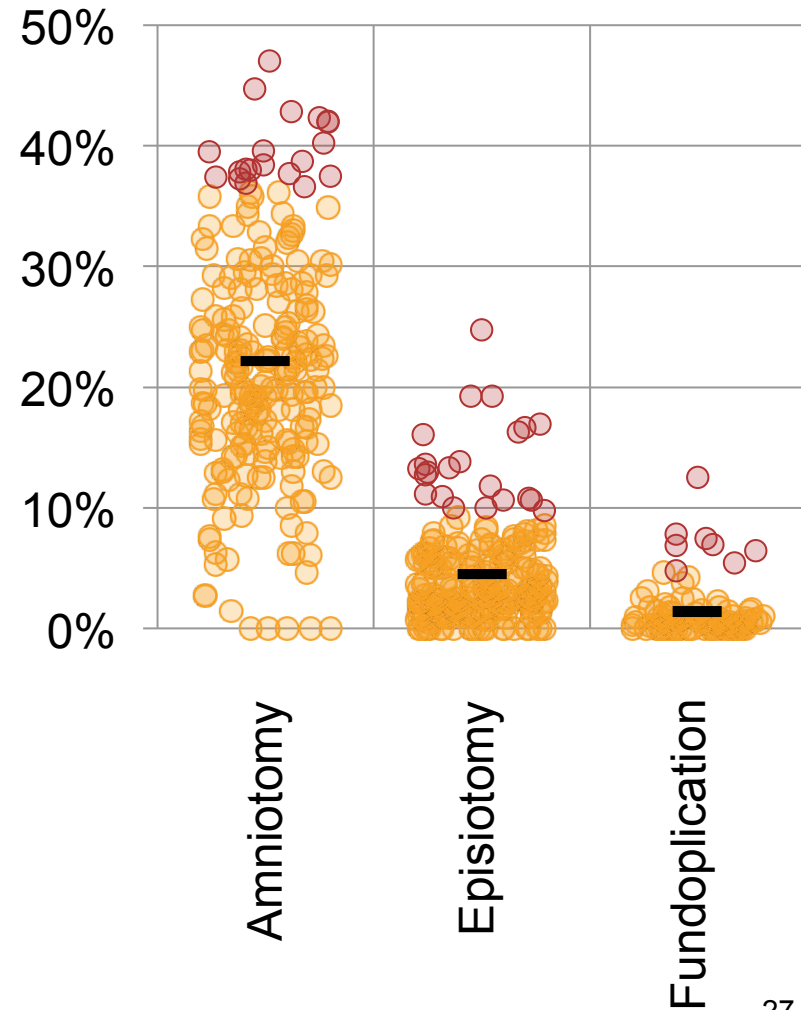
Patients with 'legitimizing' diagnoses are excluded

Grattan found patterns that are difficult to explain away

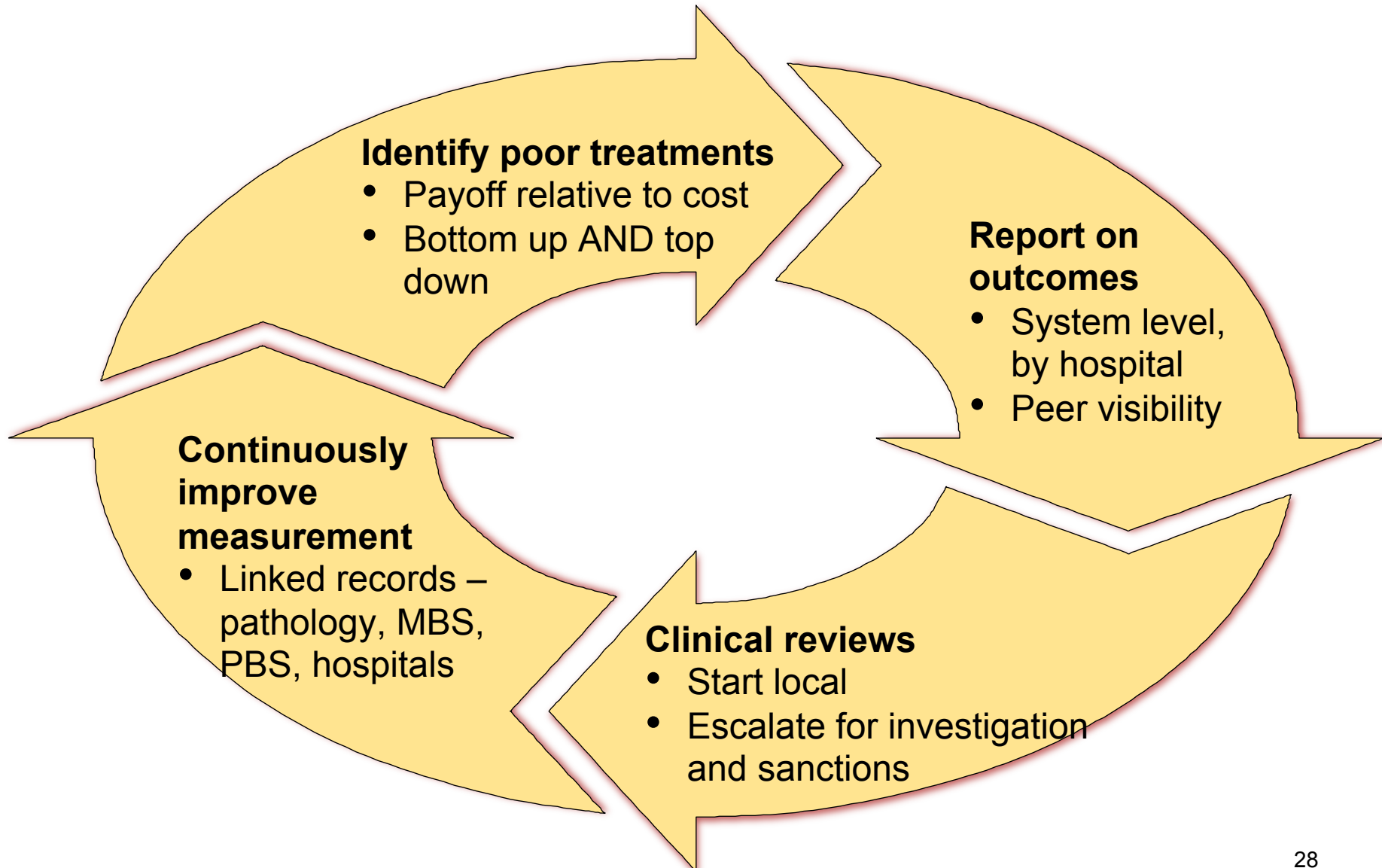
Proportion of relevant patients getting do-not-do procedure



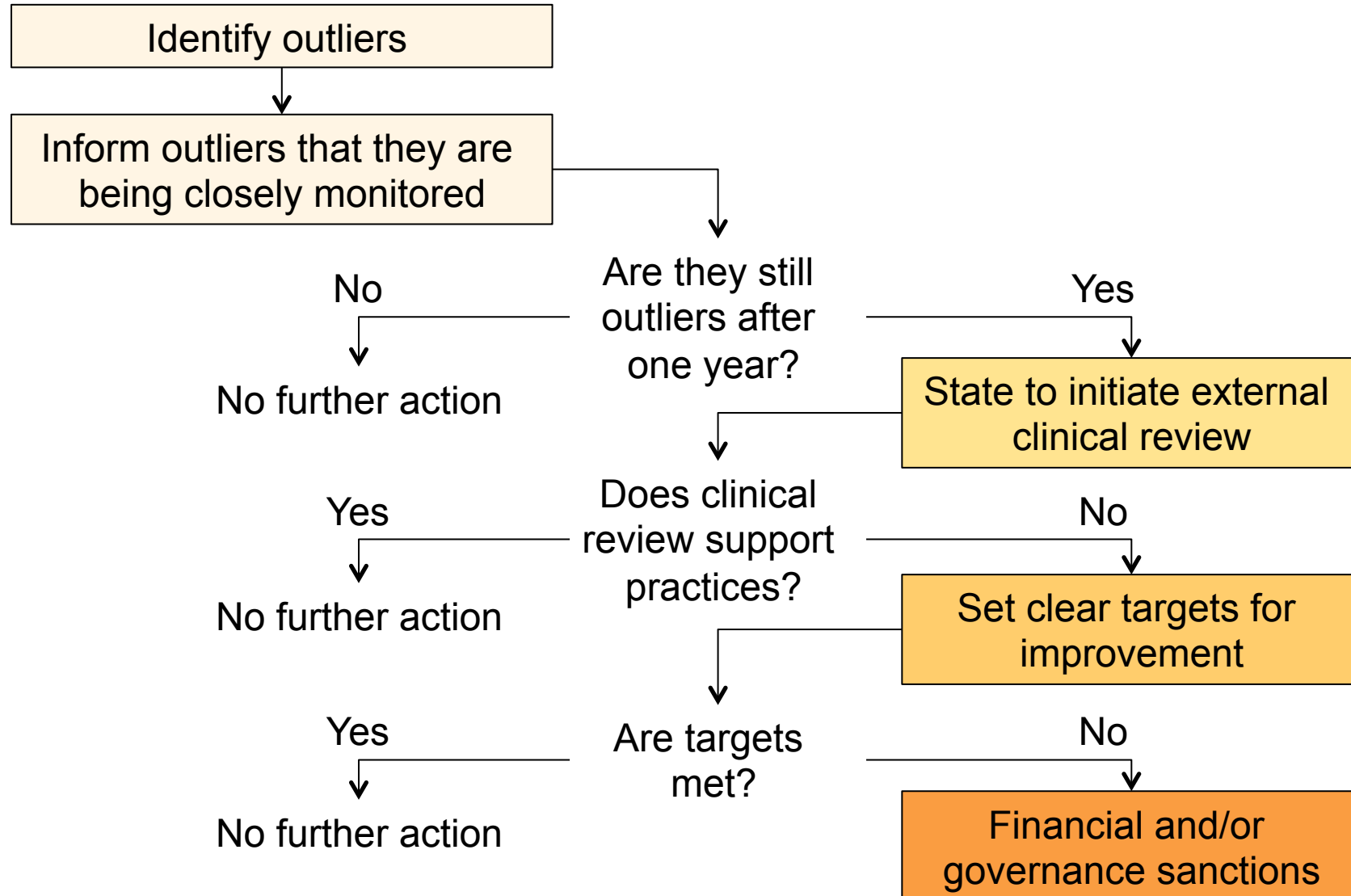
Proportion of relevant patients getting do-not-do routinely procedure



A system for improving practice



Clinical reviews with consequences – how a system might work



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