

Health Care Reform

The cost of health service delivery

There are significant problems of cost shifting between the Commonwealth and the States in the area of health service delivery. Pressure on health services arising from the ageing of the population and technological change will be felt by both the Commonwealth and the States. This increasing and changing demand for services will need to be funded from finite revenue. If these issues are not resolved as a priority, standards of health care for all Australians will decline.

In 2001-02, Australian governments spent \$45.5 billion on health care. In the ten years to 2001-02, government health expenditure grew at 5.4 percentage points higher than inflation (Australian Institute of Health and Welfare, 2003: pp 5&6). In 2004-05, the NSW Government will spend nearly \$10 billion on health.

The Productivity Commission has suggested that government expenditure on health as a proportion of GDP is set to almost double over the 50 years to 2050-51 (Banks, 2004: p. 23). The Commission has estimated that the ageing of the Australian population will account for an additional \$1.2 trillion in government-funded health spending over the 50 years to 2050-51. This is on top of continued pressure on health expenditure from new technology and consumer expectations of better and more extensive treatments.

The growth in health expenditure is not just an issue for the States; it is also a significant issue for the Commonwealth. The growth in expenditure will not just affect public hospitals (the responsibility of the States) but also pharmaceuticals, private health insurance and Medicare (each a Commonwealth responsibility).

The division of responsibility

The need for cooperative work by the Commonwealth, States and Territories in relation to Australia's health system is well understood. It is time to move on to developing a reform agenda based on what is known about the problems facing Australia's health services.

Responsibility for the funding and delivery of health services is divided between the States and the Commonwealth for different areas of health service delivery. That is, the States are responsible for providing free public hospital services (with Commonwealth funding assistance) and the Commonwealth is responsible for developing policy for, and securing the provision of, other health services such as general practitioners and aged care.

This division of responsibility is dysfunctional in a number of respects. It fails to recognise the impact that one area of health service delivery may have on another area, leading to problems of cost shifting and inefficiency. It also creates perverse incentives that make it difficult to ensure that the modes of treatment used are the most clinically appropriate and cost-effective in any given case.

The division cuts through the 'continuum of care' and fails to allow for the way in which people need to obtain a variety of health services. As a result, excess demand for some health services, such as aged care and general practice, flows into other parts of the system, such as public hospitals.

The end result is the inefficient use of public hospital beds as aged care beds and emergency departments for general practice. In addition, the public hospital system resources tied up in meeting these demands reduce the system's capacity to deliver less urgent, but nevertheless important, services such as elective surgery. This causes increased reliance on the private system at Commonwealth expense (through the Medicare Benefits Schedule and the private health insurance rebate) for those who can afford it, and reduced access to elective surgery services for those who cannot.

The role of COAG

The problems arising from Australia's fragmented health system in the face of demographic and technological change are genuine issues requiring national cooperation. COAG has the authority and wide-ranging capacity to bring governments together to deliver the required reforms.

New South Wales believes COAG should develop an integrated reform program informed by the findings of the many reviews undertaken of health services in Australia in recent years. This reform program should specifically address the split in responsibility for funding and delivering health services and should incorporate the nine priority areas agreed by Commonwealth, State and Territory Health Ministers in 2002, which are:

- the continuum between preventive, primary, chronic and acute models of care;
- the interface between aged and acute care;
- collaboration on workforce, training and education;
- hospital funding and private health insurance;
- improving Indigenous health;
- improving mental health;
- improving rural health;
- quality and safety; and
- information technology, research and e-health.

The emerging pressure on Commonwealth and State health spending underlines the urgent need for the Commonwealth to cooperate with the States to address the complexities in health policy and service delivery.

Similar issues and pressures to those experienced by the health sector exist in the other human services, such as child care, education and training and housing. As in the health sector, arbitrary division of responsibilities cuts across the continuum of service delivery, undermining efforts to ensure that the most appropriate and cost effective balance of services is provided. COAG should also consider reforms in these broader human service areas.

Without significant cooperation, neither level of government will be able to provide the best outcomes for Australians over the coming decades.

Natural Resources Management

Greenhouse gas abatement

There is a growing awareness that emissions trading is a flexible and cost effective approach to achieving greenhouse gas emissions reductions. In the absence of a national framework for emissions trading, the NSW Premier wrote to other First Ministers in November 2003 seeking their involvement in the establishment of an emissions trading scheme. State and Territory governments have been working collaboratively since then to develop a model for a multi-jurisdictional emissions trading scheme founded on State and Territory powers and actions.

New South Wales has already demonstrated the effectiveness of State-based schemes through its mix of market-based, regulatory and capacity building measures. For example, New South Wales was the first jurisdiction in Australia to create a clear incentive for greenhouse gas emission reductions through the NSW Greenhouse Gas Abatement Scheme. The scheme places enforceable greenhouse gas emission reduction targets on the electricity industry.

While a State and Territory based national emissions trading scheme is feasible, New South Wales recognises that Commonwealth participation would provide for a simplified administrative and constitutional framework for such a scheme.

A national emissions trading scheme administered by the Commonwealth would also enable Australia to participate in emerging international trading markets for greenhouse emissions reductions.

This is a pressing national concern and one that deserves the attention of COAG.

Native vegetation

The Productivity Commission's recent inquiry into native vegetation and biodiversity regulations made a range of recommendations pertaining to the impacts of these regulations on landholders. These recommendations focused on the need for good regulatory practice in native vegetation and biodiversity management; the need to ensure genuine, community-driven approaches that are responsive to regional and local needs; the need to base regulation on the best data and scientific information; the need for greater flexibility in the regulations; and the need to ensure equity in the distribution of the costs of regulation between landholders and the wider community.

While these recommendations are laudable, it is not clear that such outcomes are best delivered as a nationally coordinated agenda. In fact, such an approach could be inconsistent with the rightly identified need for flexible, community-driven and locally and regionally responsive regulation in these areas.

New South Wales has implemented significant reforms of its regulation of native vegetation management under the *Native Vegetation Act 2003*. New South Wales now has in place a flexible and equitable system to end broadscale clearing unless it

improves or maintains environmental outcomes. The direction of NSW's reforms are consistent with the Commission's recommendations.

New South Wales' reforms are the product of world-class science and extensive consultation with peak landholding and environmental groups. The reforms are based on the report of the Wentworth Group of Scientists and are being implemented with advice from an independent group involving representation by the NSW Farmers' Association and peak environmental groups. Moreover, the regulations are being developed in line with best practice regulatory principles of transparency, consultation and clear public benefit.

The reforms make allowance for the socio-economic impact of the regulations and financial assistance is being provided to landholders to repair areas damaged by over-clearing in the past. The costs of regulation are fairly allocated under this system with assistance provided to achieve biodiversity benefits above the landholder's duty of care. Furthermore, the system provides resource security for landholders, with property vegetation plans lasting up to 15 years.

The reforms will be implemented by 13 local Catchment Management Authorities established by the NSW Government. The Boards of these Authorities are made up largely of local landholders with extensive experience in natural resource and environmental management. These bodies operate at the local level with the authority and the resources required to ensure New South Wales' reforms meet local and regional priorities and needs.

New South Wales is implementing reforms to native vegetation and biodiversity regulation in a way that is most responsive to local and regional priorities, and consistent with the Productivity Commission's recommendations.

New South Wales does not consider that a case has been made for the need for, or value of, a national approach on this issue.

REFERENCES

Australian Institute of Health and Welfare, 2003, Health Expenditure Australia 2001-02, Health and Welfare Expenditure Series No. 17, AIHW Cat. No. HWE24, Canberra, Australian Institute of Health and Welfare.

Banks, G. 2004, An ageing Australia: small beer or big bucks?, presentation to the South Australian Centre for Economic Studies, Economic Briefing, 29 April 2004, <http://www.pc.gov.au/speeches/cs20040429/index.html>, 11 June 2004.