

NSW 30/5/03

Your Ref Submission Workers Compensation and OHS

Dear Sir,

I refer the above and enclose a report I wrote whilst at University. The University would not publish it because it is too controversial although I personally cannot see why except that factual evidence does have a way of ruffling the vested interests including academics

In so far as this enquiry is concerned your attention is drawn to section 6.2.5 of the report and schedule 9. The report itself is in electronic format but I am unable to email it because it is too big with current attempts being made to put it on a web-site. However difficulties are being experienced and it is unlikely to be ready by the closing submission date

Your attention is drawn to the following which should be followed up and confirmed

- I can recall reading an article in the AFR that in Victoria the following statistic was highlighted ie 20% of the number of claims represented 90% of the cost. Whilst this should be confirmed it is likely that the same ratio is applicable in the workcover organisations in other states
- There was a conference in Queensland within the last couple of years relating to safety where the main speaker was a Professor Quinlin one of Australia's foremost experts on safety

In any case all the safety experts got very excited at the top quality evidence he presented which highlighted the fact that Australia's safety record had deteriorated. My view is so what if my first point regarding workers compensation claims in Victoria is confirmed. As a matter of fact in the report I wrote in 1983 I made the point that in the interests of safety alone work practices be continually updated even when it went against the status quo. As a matter of fact it was this concept which gave rise to the duty of care first raised by a Lord Roben in the UK in his report in 1972. To make that point even clearer I suggest you review the letter in Schedule 9 from Rio Tinto who are very concerned about safety despite the union views

In general terms it is my view that in the public interest the above two points be confirmed and be made public. This does not mean that safety is not important nor that safety isn't a measure of management but rather to make the point that one does not make people better managers by legal means. Furthermore if it is considered to be in the public interest to try and enforce safety by legal means then there should be a trade off between the cost of enforcement and cost of safety and the above speaks for itself

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Business Report

Annual Reports 99/01

Health Departments Australia

Due 1 / 11/02

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I D 10149948

NSW

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Compensation and Safety

Health Dept. Annual Reports
3 Year Review Australia Wide
Executive Summary

The thesis of this exercise is caught in the words of an Australian labour party politician (W A I believe) who has been dead many years " The true test of leadership is to inform the people of those matters which effect them in their daily lives "As a matter of fact it is part of modern management theory that in a time of change people effected by change should be so informed A secondary aspect was to try and identify some strategic issues as well as the standardisation of annual reports All states fell short of the ideal some more than others with the main issues over the next 10 or 15 years being summarised as follows

- An ageing population along with a collapsed birth-rate and since this is a world wide problem it wont go away (eg staffing of hospitals and provision of a service)
- Social change in connection with the above (eg flexibility of nursing staff)
- Technology (eg IT and Health administration)
- Economics (eg financing of the Health system)

Tasmania was the only state that mentioned the ageing population and the long-term effect. It is worthy to note that Tasmania is the only state which disclosed the fact that it maintained comprehensive Human Resource statistics as well I might add an age profile of the workforce. NT mentioned it had recruitment problems and since other states have large rural areas they must be experiencing the same problem and if not now then they soon will be Bearing in mind that expenditure on public hospitals was in the region of \$22.25 billion per annum (excluding capital expenditure) of which some 49% related to direct salaries and wages the main conclusions were as follows

- If the aged profile of the Tasmanian health workforce was replicated across all health workforces forces then the retirement age of Health employees would have to be increased to 65
- More effective disclosure was required in the area of people (Human Resources) as well as performance of the system (performance indicators)
- i Arrangements should be put in place to ensure that over the period covered by this report and beyond Australia has an adequate supply of medical personnel and in particular nurses
- Technology in general and medical technology in particular has the potential to solve many problems for which currently there is no answer However there is some indication that at least one state (if not others) is a laggard
- More cooperation is required between the states and commonwealth in the area of Workers Compensation and Safety as well as the purchasing of Drugs and Medical supplies with substantial benefits to state budgets Cooperation in the area of technology would also be of benefit
- There is a need to develop a simple system based on outputs which in the long term will tend to modify political behaviour in the financing of the health system as well as improving health generally

1 Introduction

A request was made to all Premiers in Australia to ascertain if they would be good enough to arrange for the supply of Health Dept. annual reports for the years 1999, 2000 and 2001. The request was prefaced with the remark that it never ceases to amaze me at the inability of government departments to think strategically. All states cooperated with the exception of the ACT (which was not asked) and the commonwealth who declined on the basis that such reports were not available to the public. These states which had a summary copy of my report on Workers Compensation and Safety dated Feb 1983 (and still relevant and will always be true) and which amongst other things led to the reforms of the Australian Public Sector were initially reluctant to cooperate. However eventually they came round. As a matter of fact comments in letters from the Victorian public service are very relevant.

^a I appreciate your concern however this is a responsibility of the Minister of Health

® We all wish you the best of luck in your current exercise and future endeavours

2 Purpose

The theme of the exercise is caught in the words of an Australian labour party politician (WA I believe) who has been dead many years "The true test of leadership is to inform the people of those matters which effect them in their daily lives". As a matter of fact it is part of modern management theory that in a time of change those people effected should be so informed. A secondary aspect was to try and identify some strategic issues as well as issues relating to the standardisation of annual reports.

3 Scope

The area under review was the Health Dept annual reports Australia wide (with the exception of the ACT and the commonwealth) for the years 1999, 2000 and 2001. The method used was one of comparisons (benchmarking). Additionally the Queensland government who understand (as does Tasmania) that leadership involves the ability to acknowledge an other mans work made available a discussion paper "Smart State: Health 2020". This paper will form the basis of a report to the Premier of Queensland to determine a strategic direction for Health over the next 20 years.

4 Limitations

Some of the conclusions drawn for individual states may give a misleading impression of the administration in that state. This arises from the fact the production of an annual report is as much an art as a science and in any case there are differing legislative requirements. Consequently the pen picture drawn should be looked upon as the basis for review. Additionally because Health was organised differently in differing states assumptions had to be made regarding total dollar figures, these assumptions mean that the numbers ascertained are indicative for decision purposes.

5 Conclusions

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0-lie gl_{AT}format (6. 1-1)

- 5.2 As far as information infrastructure is concerned there are tentative indications that some states are lagging others. This may have implications when it comes to the ability to exploit technology (6.1)
- 5.3 The size of the report ranged from Queensland as the smallest to Tasmania as the largest each reflecting the culture of the state (6.1)
- 5.4 Although in many respects Tasmania was a model it is only suitable for smaller states. In so far as the larger states were concerned Queensland was the preferred model as it gave certainty to the administrator. However it suffers from the deficiency that in a time of change important information may be omitted (6.1)
- 5.5 Only Tasmania with its Human Resource statistics and Western Australia with its Performance indicators gave an indication that more was required than a generalised description (6.1)
- 5.6 Only Tasmania with its disclosures gave an awareness that the maintenance of Human resource statistics is a prerequisite for an efficient and effective administration (bearing in mind that 49% of costs relate to direct salaries and wages) (6.1 and 6.2.2)
- 5.7 The broad demographic numbers, in particular the fact that the medical needs of the projected migrant intake over the next 20 years have to be met from a smaller population base, indicate that in future the public hospital system may have difficulty coping (6.2.1)
- 5.8 In two states (Vic and SA) the total head count (dept plus hospitals) was not given indicating that perhaps the department was not aware of total number of employees by classification (6.2.3)
- 5.9 There is a need to identify why differing states have differing proportions of nurses (as well as doctors) as this may have policy implications bearing in mind the demographic situation (6.2.4)
- 5.10 Only Tasmania disclosed that it maintained an age profile of its workforce. Whilst Tasmania maybe a special case because of its declining population, if this profile is reflected across all states then over the next 10/15 years the public hospital system may have a few problems. In these circumstances it is in each states own interest to establish the age profile of its workforce and publish it in the annual report (6.2.4)
- 5.11 The theory of quality control as well as empirical evidence confirm that safety is a pretty good indicator of productivity (6.2.5.1)
- 5.12 It is not possible to accurately calculate the total cost of Workers Compensation in Health departments Australia wide because of differing systems and organisational structures. However the cost was estimated to be in excess of \$300 million per annum (6.2.5.2)

- 5.13 NSW was apparently the only state where workers compensation was effectively self-insured. Under these circumstances is the only state capable of determining the cost of accidents, the only way by which one can substantially reduce the cost of accidents. NSW should share its findings and policy implications with other states and in particular its "no lift " policy allied with automatic handling equipment which has a potential saving Australia wide of \$120 million per annum (6.2.5.3)
- 5.14 The implementation of the accrual accounting system may well have reduced Parliamentary accountability (6.3.1)
- 5.15 The annual cost of the public hospital system is estimated, as an indicative figure, to be in the region of \$22.25 billion, excluding capital expenditure of which 49% relates to direct salaries and wages (6.3.2.1)
- 5.16 The Australia wide figure of the cost of drugs and medical supplies (standard products in any hospital) was estimated at \$1.7 billion per annum. There might be opportunities here for national purchasing with substantial benefits to state budgets (6.3.2.1)
- 5.17 It is not possible to compare the financial performance of each state. However it was possible to establish these difference were due to political decisions (6.3.2.2)
- 5.18 As a result of the above it is the overriding conclusion that the only way to make the system more efficient from an economic point of view, as well as a higher standard of medical care was to develop a system which influenced political behaviour. Such a system is based on outputs (6.3.2.2 & 6.6.2)
- 5.19 There is a need for national standards of those critical performance indicators which reflect health outcomes (6.4)
- 5.20 Each state should devote part of its annual report to technological change as such change is likely to accelerate in the future with an impact on jobs and training of older staff (6.5)
- 5.21 Some thought should be given as to how debate can be generated regarding the effects of the ageing population and collapsed birth-rate bearing in mind that a leaders function is to lead (6.6.1)
- 5.22 Advances in medical technology and technology in general has the potential to solve many problems to which currently there is no answer (6.6.3)
- 5.23 There should be a national consistent approach to medical indemnity with indications being that a national administrative scheme would be the cheapest in the long run and the most equitable (6.6.4)

6 Body of Report

6.1 Overview

6.1.1 General

In a democracy the access to accurate and reliable information is not a luxury it is a right and given human nature as it is a necessity. It sees its expression in such legislation as Freedom of Information and in the context of this report the Health Department annual report. However the legislative requirements between states appear to differ

Prior to discussing this report it is as well because of the reforms to the public sector over the past 20 years to discuss the difference between Management and Administration "Simply stated management involves degrees of creativity, leadership, risk and concerns for future performance whilst administration involves supervising assigned activities or tasks that are essential to keep an administration afloat" (schedule 1)

Every manager /leader must be able to do both. Traditionally it has been accepted that management relates to the private sector whilst the public sector tends towards administration. This does not mean that Public Service administrators are any less able than their counterparts in the private sector but rather the training and mind set in the public service is different. Consequently to assume that recruiting from the private sector completely can automatically solve public sector problems misses the point. By and large managers from the private sector do not make very good Public Servants. This was a point well understood by John Fahey a former liberal Premier of NSW who once remarked "People from the private sector do not make very good public servants " However in a large department such as the Health department leadership is a prerequisite and if the public service has not trained its own it has problems The summary below, based on an analysis of the reports for the year 2001, give a broad indication of the differences in the annual reports in each state in Australia The state by state comparison which follows is based on a close reading of the reports and overall impression taken Australia as a whole

	NSW	Vic	Qld	SA	WA	Tas	NT
Body	39	109	70	73	76	206	164
Financial Statement	32	32	34	38	37	44	15
Human Resources						4	
Performance Indicators					110		
Appendix	120	17		8	21	4	10
Total	191	158	104	119	244	258	190

6.1.2NSW

This report was in many respects the least informative of all reports although as far as data was concerned it provided the most. Form a policy point of view one could not see the wood for the trees Its layout and content indicated two important points which may be historically related

It had organisational problems making policy control from the centre very difficult This is not very surprising given that it is the largest Health organisation in Australia No doubt each area health unit was pulling in different directions each claiming who should have priority

Compared to some other states it had an underdeveloped information infrastructure. The approach taken by the department of emphasising future initiative and since 2000 teamwork and incrementalism is probably the best in the circumstances. In the absence of political initiative the department should be congratulated for its foresight which is unusual in a large public sector organisation. However incrementalism and teamwork can be other names when nobody knows what to do and nobody wants to make a decision. Before this department's plans are set in concrete a quick independent review is in order to ensure that they are on the right track. In the future it should give serious consideration to maintaining and disclosing Human Resource data (a future initiative) as well as performance indicators.

6.1.3 Vic

The 2001 report was a well-designed readable report designed to give the impression that the department was in capable hands (private sector style). The fact that the department has a corporate communications section (public relations) may have a lot to do with it. It was noted however that it only gave the head count for the department (the hospitals are a separate organisation). This leads one to wonder if the management team has the necessary information to direct policy - the extensive use of consultants was noted. It was further noted that a substantial number of nurses was recruited in 2000 however this was only as a result of an Auditor General's report rather than an initiative of the department. Whilst discussions have been finalised for a Human Resources system it is not known what priority this will receive. Performance indicators used whilst impressive related to the volume of work undertaken rather than health outcomes. In the absence of a clear direction in which it is headed one can only endorse the need to maintain and disclose Human Resource data as well as performance indicators.

6.1.4 Qld

This report was the smallest of all states not that size is important, it is quality that counts. The format over the period of review was fairly standard and appears to be following a legislative requirement. This to a large extent made the administrators' job easy as it gives certainty. However in a time of change it suffers from the deficiency that important information can be omitted. A quick Head count for the period under review revealed two interesting points:

- Nurses down by 5% (877)
- Managerial staff up 7% (451)

An extract from a book called the Witch Doctors (schedule 2) regarding reforms to the UK national Health service lays to rest the fallacy that what the Health system needs is more administrators. Of course it may require better administrators but that is another issue and generally speaking is long term.

Although from the annual report the state has recently installed a Human Resource system the implication of the above is that it is not being used. Like Victoria performance indicators whilst impressive relate to volume of work undertaken rather than Health outcomes. For the future disclose more Human resource data as well as more informative performance indicators.

6.1.5 SA

A close second to Qld when it came to the size of the report with no performance indicators of any description. The state recognises its problems with a recent reform

of the public sector. For the period under review there was continual change in the administration. The department has a strategic plan and is giving priority to implementing a Human Resource system (but only for the metropolitan area) which is a pretty good indication that it has its priorities right

The only state which gave a Hospital activity chart and presumably they all have one since it is pretty basic. Such statistics with trends is of far more use to any administrator, particularly when compared with other state, than any financial data. Parliaments in other states would also be interested particularly if accompanied with explanations as to the reasons for the differences

Like all states there is the general point regarding the disclosure of Human Resource data and Performance indicators

6.1.6 WA

The only state which concentrates on performance indicators. However since it doesn't disclose volume related indicators like Vic or Qld probably means its information infrastructure is under developed. There has been a recent restructure of the public service and no doubt once this is bedded down there will be developments

However one can only go as fast as the people one has got

Like other states should consider the disclosure of Human resource data (it apparently has the system) as well as a reappraisal of some of its performance indicators

6.1.7 Tasmania

This is the lengthiest and most structured of all reports with the report format being consistent year after year. The structure and information given indicate that public sector administration is given pretty high priority in this state with everybody working to a plan. It is fully aware of the age structural problem and indications are that it realises that technology may be a partial solution to its problems. However one could question if there is sufficient in the way of Health outcomes

Other than that it is a model of how things should be done (suitable for a small state) with the only real question being the time and effort in producing such an exercise. Then democracy always was the most inefficient form of government there is

6.1.8 N T

This was the smallest organisation examined with obvious limited resources. Never the less it was a pretty commendable effort and was probably the most open of all reports. i.e. very little jargon and in plain English. It was the only state which made the point that Recruitment was an international problem and would become an issue in future. Since other states have large rural areas they must have similar problems with the only question being why did other states keep quiet

6.2 Human Resources

6.2.1 Demography

The demographic structure of Australia and its various projections is not known. However from everyday reading of the newspapers some broad issues are known although not with precision

There is an ageing population along with a collapsed birth rate and since this is a world wide problem it will not go away. If one assumes the retiring aged is 65 then the baby boomers will start to retire in 2011 and there is still time to prepare

Australia on current policy intends to accept approximately 2.2 million migrants by the year 2020

- Queensland is a growing state and over the next 20 years population will increase by 1.2 million
- 40% of all migrants will land in Sydney
- Tasmania has a declining population

In addition it is known from the Queensland discussion paper that the UK government intends to recruit 20,000 nurses over the next 5 years Since Australian nurses are well qualified many of these nurses will come from Australia With these broad numbers questions must be asked about the public hospital infrastructure and its ability to provide a future service This is particularly so since the medical needs of the migrants will have to be met from a smaller population base

6.2.2 Human Resource System

Although the total workforce in the Public Hospital system in Australia with all its classifications cannot be ascertained from the annual reports it was possible to arrive at an estimated cost of direct salaries and wages. This was 49% of total cost and was in the region of \$11 billion annually This is a huge number and implies that it needs to be managed However there is every indication that it is only in the last year or so that the public hospital system has woken up to the fact that it does not have the necessary systems The broad situation is as follows

- NSW- discloses head count and classification as well as 5-year trend. Human resource system a future initiative
- Vic- discloses head count for department but not hospital system. Human resource system a future initiative
- Qld-discloses head count by classification but no trend. Human resource system recently installed but capabilities unknown
- WA discloses head count by classification with 2 year trend Recently installed Human resource system but capabilities unknown
- SA-discloses head count for department but not hospital system Priority is being given to installing Human resource system but only for the metropolitan area
- Tas-discloses comprehensive human resource data and is years ahead of other states (schedule 3)
- NT _discloses head count by activity Future plans unknown but well aware of problem so probably has something installed

With the current known problem regarding nurses being well documented in the press it appears that a national policy should be developed regarding minimum Human resources statistics maintained and disclosed. This would be a prelude to developing a policy regarding the training of nurses Properly utilised such a system helps workforce planning in the following way

- Future requirements from the aged profile can be fed into the education system
- Recruitment policies can be developed
- Retention policies can be developed
- Personnel policies relating to part time staff can be developed
- Policies relating to salaries can be developed

- Can be used as a tool to direct technological development in terms of priorities
- Can be used to compare with other states if statistics are disclosed and is of use to the policy maker

In other words such a system is a strategic tool

6.2.3 Head Count

The disclosure of the Head count by classification is a crude measure of the broad changes going on in an organisation, particularly when given with a 5 year trend. This can lead to questions being asked about these changes with implication on policy with a three-year summary given in schedule 4 From this summary a number of broad questions can be asked

- Each state appears to have differing classifications so it is impossible to ask detailed questions However a broad analysis was undertaken

	Of staff to total			
	Tas NSW		Qld WA	
Nurses	34.5	40.3	40.1	38.1
Medical	6.6	7.4	7.1	8.2
Other	58.9	52.3	52.9	53.7
Total	100		100	

Whilst these differences might be due to differing geographical area, political circumstances and even perhaps classification they do raise an important question If Tasmania can provide a hospital service with a smaller proportion of medical employees then perhaps other states can also do so. This is important from a policy point of view when one considers the demographic situation Consequently it appears somewhat desirable that enquiries be made as to the reasons and implications of the Tasmanian situation. This is what bench marking is all about.

- It is impossible to make any comment about the balance of staff because of differing classifications. However the general point is made that with a standard classification system it could be used as an overall control on employment since it should be similar across all states

The only other point is that WA and Qld show an increase in managerial staff of 7% with comments already having been made about the dangers of thinking what is required is more managers. This may be so in certain circumstances but not as a rule

6.2.4 Aged Profile

As already mentioned only Tasmania discloses that it maintains an aged profile of the workforce

An analysis is given below on the assumption of retiring ages of 60 and 65 over the next 15 years

	Retirement age 60		Retirement age 65	
Child and Youth	130	43%	66	22%
Community and Rural	1452	53%	871	32%
Strategic and Corporate	156	45%	96	27%
Health Advancement	265	48%	160	29%
Hospital and Ambulance	1641	38%	924	22%
Housing	102	44%	58	25%
Total	3746	44%	2175	26%

NB in the retirement category age 60

Included were 308 over 60 so figures slightly inflated

On the basis that the age structure in the Hospital system is pretty much the same Australia wide which it probably is since Health is a career then some conclusions can be drawn

- The situation improves slightly if the retirement age is pushed out to 65. However this only defers the problem but it buys time
- The community and rural area is pretty badly affected and it is likely that other states with large rural area have similar problems. Certainly from the Queensland discussion paper Queensland have a problem with its large rural area
- When combined with the head count there is an indication that hospitals could have a problem if retirement age was 60
- Other areas reflect the way that Tasmania has structured its workforce and are peculiar to Tasmania. The implication is that other states should find out how they have structured their workforce

The overall implication is that it is in each state own interest to find out the age structure of its workforce

6.2.5 OHS and Workers Compensation

6.2.5.1 Theory

In the study of Quality control one finds that safety is a dimension of Quality Further Quality control is a measure of productivity It follows from this that safety is a measure of productivity Moreover the importance of safety was first identified by Maslow in his 5 Basic needs

The importance of safety has been confirmed by the Productivity Commission in its recent benchmarking exercise relating to the enquiry into the Coal industry Here it was found that those mines with the best safety record had the highest productivity and those with a poor safety record only moderate productivity These issues were first raised in 1983 and as well as leading to reform of the Australian public sector initiated economic reform generally

6.2.5.2 Cost

It was not possible to obtain the cost of Workers Compensation in the Hospital system Australia wide. This was due to the fact that states have differing organisational structures as well as differing systems. Self-insured through work cover and under theses circumstances certain assumptions had to be made. With this in mind it is thought that the total cost of workers compensation within the hospitals system, Australia wide, was in the region of \$300 million, the attached schedule 5 gives the state by state break down

6.2.5.3 Cost of an accident

It is only in NSW that it is possible to obtain the cost of an accident Knowledge of such costs is mandatory as it is the only way that management can be persuaded to make change, including capital investment

Trying to teach people to supervise or identify risks whilst nice in theory will not effect Australia's poor safety record one little bit One only learns to manage safety the hard way by doing there is no short cuts In the case of NSW (Annual report 2001 appendix 26) the cost of accidents has been classified as follows

Nurses	40%	Manual Handling	44%
Hotel Service	22%	Slip and fall	18%

General Admin	13% stress	14%
Ambulance	7% Hit by object	8%
Maintenance	4% other	16%
Other	14%	

Resulting from this was an economic justification for a no lift policy and the installation of appropriate equipment Without this economic justification all that one would have had was more training and more supervision which appears to be the line adopted by other states Consequently it is desirable that all other states liase with NSW regarding policy initiatives As an example of how easy it is the following calculation will suffice If one eliminates back injury amongst nurses by installing appropriate handling equipment then potentially one can save 44% of workers compensation costs. 44% of \$300 million is \$132million per annum ample justification for any capital investment

6.3 Financial Statements

6.3.1 General

The function of an accounting system is to provide relevant information to the various stakeholders in terms of their responsibilities It is contended that the public sector is fundamentally different from the private sector and that the accrual system which is designed to satisfy commercial interests is not appropriate. A politician is concerned in discharging his responsibilities in the public interest bearing in mind the short electoral cycle In effect a politician has two overriding concerns

- The economic effect of his decisions in terms of stimulating the economy and maintaining growth and employment i.e. his credentials as an economic manager
- Ensuring that the competing needs of the community are met in which he can exercise his political judgement i.e. his overriding concern is to get elected with the only control being a legal one

As Peter Drucker remarked in a book entitled The Practise of Management written in 1954 " Politicians can be somewhat irresponsible where votes are concerned " The comparison of annual reports shown in 6.1 above demonstrate that the Financial statements and accompanying notes are twice as long under the accrual method compared to cash accounting (NT) with no improvement in information (except output schedules and one doesn't need the accrual system for that) Further examination of some of theses reports would indicate that a layman (a politician) would find some of the notes confusing It is further contended that when one considers that under the accrual systems estimates and assumptions have to be made the practical effect is that there has been a reduction in control by the Parliament The fact that others are starting to question the accrual system are set out in the. attached schedule 6 which are summarised as follows

- Time for debate CPA May 2002
- Capital charging CPA July 2002

6.3.2 Comparison of States

6.3.2.1 Analysis of costs

It was not possible to conduct a precise state-by-state analysis of costs either by line item or in total. The basic reason was because some states (Vic and SA) the hospitalunits were separate legal organisations financed by a single line item . financial" accounts In effect Parliament does not know on a line by line basis w t money

was spent and it may be doubtful that senior management know. In addition in WA the hospital system was completely separate from the health department being financed separately- this has been corrected under the current restructuring Under these circumstances certain assumptions were made the practical effect of which is that the dollar figures calculated are indicative for decision purposes The attached schedule 5 gives the detailed state by state comparisons with the ball park national figures being summarised as follows

- Total public hospital costs in the region of \$22.25 billion
- \$10.9 billion relates to direct salaries and wages or 48.9%
- \$300 million relates to workers compensation or 1.38%
- \$770 million relate to drugs or 3.46%
- \$930 million relates to medical supply or 4.18%

The potential for reducing workers compensation costs has already been mentioned in 6.2.5.3 above In the case of drugs and medical supplies the total purchasing power is \$1.7billion. With modern technology being as it is it should be possible to undertake Australia wide purchasing, if not for all product lines then at least for the major ones. It should be noted that in all probability Pareto's rule applies i.e. a small number of products equate to a large value

6.3.2.2 Relative Performance

It was not possible to evaluate the performance of the states relative to each other in part because of the reasons outlined in 6.3.2.1 but also because none of the states gave any cost data (the exception was WA but only on direct salaries and wages) However the fact that there are differences in the costs for each state is given by the following "crude" data which was obtained by dividing annual direct salaries and wages by number of equivalent staff at the end of the financial year

Average salary					
	98/99	99/00	00/01	variation	
Tas	47094	46296			
NSW	41487	43294	43797	2310	5.5
Qld	39592	47930	50584	10992	27.7
NT	41294	42079	45206	3912	9.47
Variation	7502	5851	6787		
	18.9	13.9	15.4		

The variation in average salary between states needs to be explained with it being noticeable that Qld has gone from the lowest to highest paid in three years If nothing else this demonstrates a lack of a wages policy

From all the broad data as well as examination of financial accounts certain general comments can be made

- Personnel costs are approximately 59% of total costs and were due to industrial bargaining with ultimate responsibility being with the politician
- The balance of the line item costs proportionately are broadly similar which is not a surprising conclusion to arrive at as a hospital is the same where ever you go In a material way they cannot be influenced by the administration

This leads one to the conclusion that a cost accounting system has a very low priority in the public hospital system in order to identify costs In the private sector the cost accounting system is used to influence managerial behaviour, which is not

relevant in the public sector This in turn means that what medical people need are operating statistics which measure Health outcomes and which can be used to influence Health policy Further any financial comparisons either within a state (to measure cost of elective surgery) or when it comes to comparing States (in terms of unit costs) are largely meaningless from the point of view of deciding Health policy The average salary figure however is interesting

Consequently if it were desired in the long term to equalise between the states Health outcomes and generally increase Health overall a political method would have to be found which forced politicians to start rationalising their public hospital system from a health point of view. Given demographics this is important There is such a method and it is based on outputs. Conceptually this system was first advocated in Australia by a Dr Peter Wilenski who in 1982 wrote a report for Neville Wran, who was then Premier of NSW, entitled "Directions for Future Change " Peter Wilenski was Australia's expert on Public service matters and he advocated a system called PPBS (Planned Programmed Budgetary Systems) The idea was that the program (output) would be measured by statistical means which could be used to influence political behaviour regarding the allocation of resources . Treasury were very lukewarm as they realise the only thing a politician is concerned about is votes and winning the next election In any case the technology was not available A lot has happened in the last 20 years and a lot more will happen in the next 20 regarding technology and statistical methods (WA used statistics to advise on Health policy) It should be conceivable to devise a system between the Commonwealth and states whereby the commonwealth allocated funds in order to achieve a desired health outcome Further such a system could be refined over the years as knowledge grew This would force each state to allocate funds to achieve the desired health outcomes. This over the long term as well as improving health generally would tend to equalise health Australia wide and force the states to start rationalising their public health system through the normal democratic process The need to rationalise the Commonwealth / state health agreement is set out in the Queensland discussion paper and by and large is the only way Australia can take full advantage of the coming medical advances (schedule 7)

Further in so far as accounting systems are concerned there is a system which can be used to measure costs in a public hospital system It is called ABC or Activity Based Costing and has grown in use in the USA over the past 20 years in the private sector. It is starting to be used in the hospital systems in the USA but they are private orientated

However the Queensland discussion paper makes the point that in the future in maybe that one has to ration medical services which means they will be cost orientated This means it will be necessary to accurately cost the service In addition it maybe desirable to accurately cost those services provided currently under private insurance but such a system would depend on having qualified accountants

6.4 Performance Indicators

WA is the only state, which disclosed the fact that it maintained extensive Health and financial performance indicators. The framework used by the state is set out in Schedule 8 the results are summarised below

	Health	Financial
? Reducing the incidence Of preventable disease And disability and premature Death	7	5
2 Restoring healths of people With acute illness	17	6
3 Improving the Quality of Life of people with chronic Illness and disability	7	3
Total	31	14

The maintenance of such indicators are necessary in any well administered Public Hospital system irrespective whether or not they are published It is questionable as to who actually would understand the implication of such indicators outside an administrator who is required to advise on Health policy What is required from the point of view of annual reports is indicators which parliament and the public can understand regarding the effectiveness of the department from a health aspect There is in point of fact probably only a dozen such critical indicators if that and only two are mentioned

- SA maintains a hospital activity chart (schedule 8) which amongst other things measures length of stay eg in 2001 the numbers for SA was 4.1 and QLD 3.1

The average length of stay is an operational measurement (related to the true concept of quality control) from the point of view the effectiveness of the hospital system. It can be used to compare the relative performance of each state by including such indicators in the form of a league table in the annual report. It may well be that there are very good practical reasons for any difference. However it is only by disclosure and discussion that this can be corrected

- WA discloses waiting time for delays in elective surgery against the national average This is a reasonably good measure of political performance

The overall conclusion is that the administrators in each state need to discuss these performance indicators which should be disclosed from a medical view point rather than the opinion of some accountant or politician who doesn't appreciate what public health is all about It should be further mentioned that quite frequently what is needed is for these requirements to be given the force of law

6.5 Technology

Tasmania is the only state which discloses any information on the effects of technology However the Queensland discussion paper (schedule 7) points out that that medical advances have the potential to solve many problems to which currently there is no answer In addition there is going to be considerable change in information technology This will not only have an impact on the delivery of a service it will likely have an effect on jobs and the need for retraining of older workers It is critical that parliament who represent the community are informed of such changes so that informed debate can take place (as distinct from what appears

in the media) Running parallel with changes in technology is innovation (an attribute for success mentioned by NSW) Currently only WA in their 2000 report devote a section to innovation

Concurrently with all this each state appears to be at a different state of development with each apparently going its own way. Australia is a small country and it can be expensive for each state to go its own way without a broad umbrella plan This would appear to indicate that their needs to be closer cooperation between the commonwealth and the states than is apparent from the annual report. The commonwealth should take the lead as it has the resources

6.6 Some Future Trends

6.6.1 General

It is fundamentally wrong for democratic governments who are privy to confidential information to make future policy without involving the community. This is set out in the Queensland discussion paper (page 15) and is also identified as a requirement for success in the NSW 2000 annual. report. . Such a statement does not infer that the community should be involved in detailed discussions regarding policy as happened recently in NSW with predictable results. Rather what it means is that the community should be informed of the broad (and in some cases detailed) issues so that they can elect a government to implement what is needed i.e. lead. Consequently it is necessary for governments to provide more information regarding the ageing of the population and its consequences than is currently the case. It is not sufficient as the current Prime Minister once said, "the ageing of the population is Australia's greatest challenge"

6.6.2 Age Structure

Australia's population is ageing along with a collapsed birth rate. This is a worldwide problem and has major policy implications for all governments in terms of the public pension, delivery of health care and lower growth rates in the labour force. Fortunately the age profile in Australia is considerably younger than those of many O.E.C_D counterparts eg Japan, Spain and Sweden are already approaching the age profiles projected for Australia in 2020

Projected population structure of Selected OECD countries 2000-01

Percentage population Aged 65 and over

Australia	12.29
Canada	13.72
Denmark	15.2
Japan	16.94
Spain	16.13
Sweden	16.92
United Kingdom	15.92
United States	13.00

Source OECD

There are a number of implications from these broad numbers particularly when one considers the projected migrant intake over the next 20 years

- The medical needs of an increased population have to be met from a smaller population base unless people retire later. This has to be looked in a world context as everybody has the same problem
- The ageing population will pose its own medical needs associated with ageing. However since Australia, in relative terms, has a young population it can learn from other countries. Never the less the problem is one of economics and it is another 10/15 years before economic pressures force change upon Australia. Under these circumstances Australia should give serious consideration to getting the "system" correct which will give it the flexibility it needs in the future This of course brings into question the Commonwealth/ State health agreement which has been mentioned previously

6.6.3 Technology

There are many potential advances in medical technology (schedule 7) that can be summarised as

- Robotics
- Gene technology
- Enhanced drug design
- Minimising invasive surgery
- Xenotransplantation
- Stem cell technologies

In addition to these there developments in information technology (schedule 7). The practical effect of all the above is that there is going to be much change in the medical front in solving problems to which currently there is no answer. To take advantage of these advances it is necessary to put in place the appropriate economic system, which has been discussed previously

6.6.4 Medical Indemnity

The Queensland discussion paper identified medical indemnity as a major issue because of the increase in litigation. There are in fact a number of issues, which need to be considered if this matter is to be resolved

- The right of the individual to be compensated for the errors others and in particular the professional man
- The right of the medical practitioner to enjoy his profession without being put into penury
- The right of the insurance company to earn a reasonable profit

In addition to these we are living in a changing world with other factors, which need to be considered

- The insurance industry is changing world wide and not just in Australia (BRW15-21/08/2002 page 71/72). The practical effect is that the insurance industry is becoming riskier and more competitive and if a company is not fleet of foot it will go under
- Information technology is developing at such a rate that in the not to distant future medical records will be electronically encoded and on the net This in the long run will reduce the risk of medical error

Consequently the real task of the insurance company is to manage risk earlier. This is well illustrated in BRW 15-21/08/2002 page 72. The practical effect of this example from the USA is that the hospital admits guilt and comes to an arrangement with the patient. This reduces legal costs as well as payouts with the savings being substantial. This would appear to indicate that notwithstanding the current problems, which should be dealt with on a national basis, the cheapest and most equitable method would be a national administrative scheme