



***COMMUNITY AND OTHER HEALTH  
SERVICES***

***SUBMISSION BY SOUTH AUSTRALIAN  
DEPARTMENT OF TREASURY AND FINANCE***

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## **SOUTH AUSTRALIAN SUBMISSION ON COMMUNITY AND OTHER HEALTH SERVICES**

South Australia previously expressed concerns (in our February 2009 Submission) about the Commission's preferred assessment approach for this category - the subtraction model. Broadly, these concerns relate to the level of judgement involved in developing the model, substitutability assumptions and the volatility of the model.

In relation to subjective judgement, the subtraction model firstly requires the estimation of total expenses on community and other health services by all providers, allocated to each State by reference to the costs of providing the services to different population groups and the proportion of the population of each State in those groups (eg indigenous, low socio-economic status, etc). From these aggregates, expenses on services supplied by non-State providers are then deducted to derive the assessed expenses of the States.

Although the subtraction model simplifies the assessment for this category, considerable subjective judgement is required in determining the types of expenditure to be included in both the top-line expenditure amount and in the expenditure deducted for "non-State" service provision.

However, South Australia now has a higher degree of comfort in the disability factors applied to service delivery expenses (particularly the recognition of socio-economic factors in public health service usage). We note that it has been suggested by some States that location disabilities should be applied to the top line costs – we do not think this is necessary but note that, if accepted, those disabilities would also need to be applied to the costs later subtracted in the model. In theory, the same net result should occur as at present but, given the known data problems with the location assessment, we think it simpler to not add this extra level of complication.

South Australia also questioned the assumption of full substitutability between Australian Government, private provision and State provision of health services. Notwithstanding the conclusion by Professor Butler (ANU) supporting the overall validity of the substitution model, we continue to have doubts that full substitutability exists, especially in relation to Emergency Department services, which in South Australia are covered almost entirely by the public sector.

South Australia previously noted that the subtraction model has been modified several times by the CGC during its development and each iteration of the model has produced substantially different and sometimes counterintuitive results. Although we continue to hold concerns about the sensitivity/volatility of the model, we note that the proposed version in the Draft Report has produced more plausible results.

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