



# **Response to 2010 REVIEW DRAFT REPORT:**

## **Community and other health**

**Department of Treasury and Finance, Tasmania**

**September 2009**

## **Summary**

- Consistent with our previous submissions, Tasmania reiterates its support for the Community and Other Health subtraction method.
- In our response to the Position Paper, we qualified our strong conceptual support for the subtraction method pending an opportunity to review the changes to data and technical detail, projected, but yet to be incorporated, at the time the Position Paper was released.
- With the release of the draft assessment, we have reviewed the updated data and “walked through” the technical detail of the method.
- Our evaluation is that the successive iterations, culminating in the draft report, have produced a conceptually defensible and technically robust assessment method.
- The data refinements introduced since the Position Paper have resulted in a better targeted assessment.
- Tasmania understands that since the release of the Draft Report, the Northern Territory has suggested that the general location effect should be assessed conjointly with the socio-demographic composition and economic environment impacts within the subtraction model. Tasmania opposes such a move on pragmatic grounds.
- To internalise the general location effect within the subtraction model, would require a major reworking of the subtraction elements to maintain the subtraction approach symmetry and ensure that general location-driven cost differentials, met through Commonwealth or private sources, were appropriately subtracted. This would risk undermining the robustness of the current subtraction model approach.
- It is also noted that to the degree that an in-principle argument could be made to internalise the location effect, the same arguments would also extend to internalising service delivery scale and cross-border effects.

## **The conceptual approach**

1. Tasmania stands by previous comments in support of the conceptual case for the subtraction model as the preferred approach to capturing the socio-demographic composition and economic environment drivers of community and other health service provision.

## **Issues of technical detail**

2. In our response to the previous Position Paper, Tasmania noted in principle support for the proposed treatment of both the “top line” and subtraction components but reserved the right to comment further on the technical detail.

### *Socio demographic composition expenditure profile*

3. Consistent with our Position Paper submission, Tasmania continues to support the “top-line” allocation of total expenditure. That is, according to the age-sex expense profile of states, adjusted for indigeneity (based on the national expenditure profile), and socioeconomic status (using SEIFA IRSD).
4. Relative to previous iterations, Tasmania considers that the narrower scope of expenditure captured in the draft assessment has improved the robustness of the subtraction model.
5. The Commission states (paragraph 25, attachment 12 of the draft report) that applying both the remote indigenous adjustment and the general location adjustment could overstate the influences of the location of Indigenous people on state expenditures. Tasmania accepts that this may be the case but notes that the symmetrical treatment of the OATSIH grants (actual per capita) within the subtraction component of the model should help to mitigate this effect.
6. Tasmania remains troubled by the assumption that non-admitted and other health practitioner services have the same average cost across age-sex groups. However, we understand the practical data limitations that underpin this assumption and consider the “top line” expenditure allocation remains sufficiently robust.

### *Estimates of Commonwealth expenses in states*

7. Tasmania supports the subtraction of OATSIH grants in actual per capita terms. As the OATSIH grants are directly relieving the recipient states of expenditures they would otherwise incur, this recognises appropriately the economic environment effect. Furthermore, to the extent that grants to different states may also embody some regional location effect, this offsets to some degree the concern that the remote indigenous adjustment and the general location effect are potentially double counted (refer paragraphs 23-25 of Attachment 12 of the draft report).
8. Tasmania supports the use of MBS rebates paid across states as the appropriate basis to allocate selected Commonwealth medical services expenses as these provide consistent and reliable national data.
9. In relation to the email of 28 August (email titled “Location influences” circulated by Lace Wang), Tasmania endorses as appropriate the proposed exclusion of Medicare bulk billing supplementary incentive payments under the Strengthening Medicare program.
10. The email also notes that the subtraction model assumption that the extra cost of providing the same level of Medicare services in certain locations are not transferred to State governments, but rather to individuals or the private sector, is less robust in relation to section 19(2) exemptions.

11. Tasmania notes that section 19(2) exemptions are not the only circumstance where state governments end up bearing costs assumed to be borne by individuals/private practitioners under the subtraction model. However, at least in Tasmania, such cases are limited and the costs involved minor relative to the category overall, such that Tasmania questions the materiality of this as an issue.
12. It is our understanding that DoHA put a lot of requirements around section 19(2) exemption approvals such that a number of states, including Tasmania, did not pursue these exemptions, while others, such as Queensland, embraced the process and now have a number of approved exemptions.
13. The only section 19(2) exemption applying in Tasmania is in relation to the doctors employed at the Clarence Community Health Centre Medical Practice, an urban, rather than rural or remote, located facility. The doctors are employed under the salaried medical practitioners agreement and Medicare is billed for all GP consultations. The income from Medicare returns to the Tasmanian health department and is used as supplementation of the doctors cost. In reality this service operates at a loss as there is no incentive for the GPs to maximise the Medicare income as their salary is guaranteed regardless of the number of patients seen.
14. In Tasmania, all rural GPs are private practitioners. However, there are several ways in which the Tasmanian Government assists with their ongoing viability:
  - in a number of rural areas the Tasmanian health department employs local GPs through the Rural Medical Practitioners Agreement for the provision of sessional services to rural hospital inpatients (not dissimilar to what occurs in the major hospitals with specialists engaged as visiting medical officers). This should not give rise to any assessment issue as the state government sessional employment would be captured appropriately through the Admitted Patients assessment;
  - to assist recruitment and retention of GP services, at some sites, rooms are provided within the local rural health facility from which the GP conducts his private general practice business. This is the case for King Island, Flinders Island, Campbell Town, Oatlands, St Marys, Ouse, Nubeena, Dover, Queenstown, Rosebery, Swansea, Triabunna. While there is some marginal cost for the state government in the provision of these rooms, these costs would not be expected to be material;
  - in those communities where we have inpatient facilities and the market is such that a private provider would not set up a business, the Tasmanian health department has engaged a general practice management company to provide the service. The service contracts [King Island, Flinders Island, the West Coast (including Queenstown and Rosebery) and St Helens] are a direct cost to the

State Government. The contract amounts involved are readily quantifiable such that an adjustment could be applied should the Commission determine this to be a material issue at the national level.

*Allocating non-government expenses across states*

15. Tasmania supports the proposed allocation of individual out-of-pocket expenses and private medical insurance contributions to medical services using state proportions of MBS payments because they cover the same services. We agree this also ensures that the allocation is not affected by regional pricing effects.
16. Tasmania also supports the allocation of private health fund ancillary benefit fund expenses using data on the number of ancillary benefit recipients by service by state (actuals) weighted by the national average fee charged for each service. We agree that this approach ensures that the different costs of different services are recognised but without being affected by the differences between states or regions in state policies, service fees or benefits paid.
17. Finally, the draft report proposes (refer paragraph 79, dot point three of Attachment 12) that the remaining out-of-pocket expenses of uninsured individuals or expenses on items not covered by health insurance be allocated to states according to their adjusted uninsured population shares.
18. The specific adjustments proposed are the deduction of Indigenous populations (wherever resident) and non-indigenous populations resident in remote areas.
19. The rationale given for these adjustments is that:
  - indigenous people have a lower propensity to use non-government health services; and
  - remote populations have less access to these services.
20. While Tasmania does not dispute these observations, we note that a more conservative assumption would give some weight to remote population and indigenous use of these services. That is, while (1) and (2) imply that the usage weights for these populations would be something less than 1.0, the weights attributed in the draft report are effectively zero.

## **The Northern Territory proposal**

21. Tasmania understands that since the release of the Draft Report, the Northern Territory has suggested that the general location effect should be assessed conjointly with the socio-demographic composition and economic environment impacts within the subtraction model.
22. Conceptually, it should not matter which approach is taken as both should produce the same outcome.
23. That is, under the Northern Territory's combined approach, the subtraction model would combine socio-demographic composition expenditure and location expenditure weightings in the "top line". The symmetry inherent in the subtraction model approach, would then demand that the "subtraction components" appropriately include the additional location state-specific and region-specific non-policy pricing effects met from non-state government sources.
24. The overall result should be akin to that produced by the current approach where the state specific location factors are combined with the residual socio-demographic composition/economic environment factor produced by a subtraction model which abstracts from location-related pricing effects.
25. Tasmania opposes a move to the Northern Territory model on pragmatic grounds.
26. To internalise the general location effect within the subtraction model, would require a major reworking of the model to maintain the subtraction approach symmetry and ensure general location-driven cost differentials, met through Commonwealth or private sources, were appropriately subtracted.
27. In practice, while it would be comparatively easy to adjust the "top line" by the existing location factor derived on a state government expenditure basis, it is not clear that this would be the appropriate location factor for use in a total expenditure (state government plus non-state government) context.
28. Nor are the appropriate subtraction components necessarily the "actual" non-state government expenditures. The Commission has acknowledged these actuals may be subject to state-specific policy effects. The total exclusion of remote and indigenous populations within the allocation of uninsured non-government expenses, already questionable, also becomes more problematic in a context where location effects are also being captured.
29. Conversely, the successive iterations of the draft assessment model have brought the draft assessment approach to a point where the relevant subtraction components are clearly based on national pricing and abstract from state specific policy effects. The location effect that has been

constructed based on state government expenditure patterns is only then combined with the residual SDC/economic environment factor.

30. In this context, Tasmania considers the draft assessment model to be technically robust and road-tested relative to this unknown Northern Territory alternative. Tasmania would strongly oppose the substitution of an untested alternative, particularly at this late stage in the Review.
31. It is also noted that to the degree that an in-principle argument could be made to internalise the location effect, the same arguments would also extend to internalising service delivery scale and cross-border effects into the “top-line”.