



# Queensland Government

Queensland Treasury Response to  
Commonwealth Grants Commission  
2010 Review Draft Report Attachment 12

## **Community and Other Health Services**

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## SUMMARY OF QUEENSLAND'S POSITION

Queensland broadly supports the methodology proposed in the Commonwealth Grants Commission's Draft Report for the assessment of the Community and Other Health Services (COHS) category, but has ongoing concerns about the use of some data.

Queensland acknowledges a state's socio-demographic composition (SDC) is a major influence on its COHS expenditure and that the Commission intends to use a subtraction model to assess its SDC factor.

However, the subtraction model detailed in the 2010 Review Draft Report requires further consideration of the data used, particularly to address outcome distortions resulting from Commonwealth bulk-billing and location-specific incentive payments included in the Medicare Benefits Scheme (MBS) rebate data. MBS rebate data are used as a proxy of Commonwealth expenditure on COHS-like expenditure in each state. These Commonwealth incentive payments are not for state-like COHS services and should be excluded from Commonwealth payments used in the subtraction model.

Queensland acknowledges that should a potential culturally and linguistically diverse (CALD) disability factor be demonstrated as having a material impact on the GST distribution then it should be included in the relevant expenditure assessment. However, Queensland supports the Commission's decision in its 2010 Review Draft Report not to include a CALD disability for the COHS assessment category because a conceptual case has not been demonstrated.

### *Queensland's Position on Key Issues*

The methodology proposed in the Draft Report for the Community and Other Health Services assessment category requires further work before Queensland can support it. In particular, the data used in the subtraction model needs to be reviewed to address the inclusion of Commonwealth bulk-billing and location-specific incentive programs.

## PROPOSED METHODOLOGY

The COHS category includes all health expenses except those relating to admitted patients and patient transport. It includes expenses on the administration, inspection, support and operation of non-admitted patient services such as hospital emergency department and outpatient clinics, community health, public health and other health services.

The proposed assessment is divided into two components:

- **Service expenses** – This component comprises over 99 per cent of average community and other health services expenses. Four disabilities are assessed in this component:
  1. A SDC factor recognising the use and cost of state provided COHS differ among different population groups;
  2. A cross-border factor recognising the cost to the Australian Capital Territory of providing COHS to New South Wales residents;
  3. A service delivery scale factor recognising the cost of providing services in small population centres; and
  4. A location factor recognising differences in the cost of providing labour and non-labour resources between states.

- **Other expenses** – In this component an administrative scale disability factor is assessed recognising the costs to provide policy and administrative infrastructure necessary to provide a minimum unavoidable service. This component comprises 0.5 per cent of average expenses.

The majority of this assessment relates to the influence of socio-demographic characteristics on the level of services required and the costs of providing them, and the economic environment which affects the extent of private service provision. SDC disabilities, along with economic environment disabilities are calculated using a subtraction model, as follows:

- Estimate total national expenses on state and state-like COHS;
- Estimate total expenses in each state by allocating the national expenses among them on the basis of the SDC of their populations;
- Estimate the expenses in each state funded by the Commonwealth government;
- Estimate the expenses in each state funded by non-government sources; and
- Calculate assessed state expenses as the difference between the estimated total expenses and the estimated non-state expenses in each state.

Each state's assessed service expenses are obtained by applying its SDC, cross-border, service delivery scale, and interstate location factors to its per capita share of expenses. Finally, state relativities are then determined by dividing combined assessed service and other expenses per capita divided by the combined national assessed expense per capita.

## **ASSESSMENT APPROACH**

### ***Payments for state-like COHS used in the subtraction model***

The conceptual validity of the Commission's subtraction model is based on "services provided by the states and non-state providers being equivalent and substitutable"<sup>1</sup>. To ensure this is the case, Commonwealth and non-government provided COHS payment data must be for state-like COHS to ensure like can be subtracted from like.

The Commission notes in its 2010 Review Draft Report that "Commonwealth payments which relate to administrative tasks or Commonwealth responsibilities<sup>2</sup>" have been excluded from Commission analysis. Queensland accepts cleansing of the Commonwealth payment data is necessary to ensure only substitutable services are included in the payment data used in the subtraction model, and recommends this process be extended to include bulk-billing incentive schemes.

Queensland understands that the Commonwealth expense data (MBS rebate data) used in the subtraction model includes payments for two Commonwealth incentive programs put in place to increase the level of bulk-billing. These incentive programs are not for the provision of state-like services; rather the programs are Commonwealth policy payments and should be excluded from the Commonwealth expense data used in the subtraction model.

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<sup>1</sup> CGC 2010 Review Draft Report Attachment 12 Community and Other Health Services para 38 page 257

<sup>2</sup> CGC 2010 Review Draft Report Attachment 12 Community and Other Health Services para 58 page 263

If these incentive payments are not excluded from the Commonwealth MBS rebate data in the subtraction model then:

- Commonwealth expenditure for state-like services will be overstated;
- Outcome of the subtraction model will be distorted; and
- The SDC factor will be incorrect.

Queensland suggests Commonwealth program payments are re-examined to ensure that all payments used in the subtraction model are only for state-like COHS services. The following Commonwealth payments do not appear to have been appropriately addressed in the subtraction model proposed in the Commission's 2010 Review Draft Report.

### ***Incentive payments – Strengthening Medicare rebates***

Payments under the *Commonwealth's Strengthening Medicare – Incentive Payments to GPs* program are currently included in the MBS rebate data used in the subtraction model and include:

1. General incentive payments for general practitioners (GPs) to bulk bill; and
2. An additional incentive payment for GPs to bulk bill in regional, rural and remote areas under the *Strengthening Medicare* program.

These incentive payments are not for state-like services and are in addition to the fee-for-service paid under the MBS rebate scheme.

For the purposes of this subtraction model, Queensland accepts that the medical service provided by a GP is substitutable for state provided COHS but the additional incentive payments are not for a state-like service and should be excluded from the Commonwealth payments deducted from total national expenses. These data are readily available from the Commonwealth Department of Health and Ageing for a data adjustment to be made.

### ***Section 19(2) Payments***

The Commission has sought information from states on similar payments under the MBS rebate scheme. A further program includes Commonwealth MBS support of communities where, due to affordability or the absence of private sector GPs, access to primary health care is sometimes minimal or absent. The rate of bulk billing through the MBS is much lower, or non-existent in these communities. State governments are obliged to address this market failure and provide primary health care services that in normal circumstances would be funded by the Commonwealth. Section 19(2) exemptions under the *Health Insurance Act 1973* (the Act) allow remuneration to state governments providing non-admitted and non-referred primary health care services in approved locations.

In Queensland there are three types of Section 19(2) exemptions, namely:

1. The Inala General Practice Service (recently extended to Carole Park);
2. The Rural and Remote Medical Benefits Scheme (RRMBS) 19(2) for communities with large Indigenous populations; and
3. The Council of Australian Governments (COAG) 19(2) exemption for small rural and remote communities with populations of less than 7,000 people with an identified GP workforce shortage.

There are 58 communities in Queensland eligible for the RRMBS 19(2) exemption, but not all participate, often it is more costly to administer the Commonwealth's scheme than is warranted by the level of patient demand.

In sites that do have exemptions, the Queensland Government has additional expenditures overcoming barriers such as: attracting doctors; high doctor turnover; delays in obtaining MBS provider numbers; training doctors to correctly claim under the MBS; and the additional cost to administer the Section 19(2) exemptions. In reality, MBS rebates do not cover the total cost of primary health care in these communities and state government meets the shortfall.

Queensland believes these payments should be excluded from the Commonwealth expense data used in the subtraction model for four reasons:

1. Section 19(2) payments are made to address market failure and to deliver a nationally consistent Commonwealth policy of equitable access to GPs;
2. The MBS revenues are not discretionary;
3. Section 19(2) MBS payments do not cover the cost of state provided primary health care in communities without private sector GPs. state government meets the shortfall; and
4. Section 19(2) MBS payments are currently unique to Queensland. The Northern Territory and Western Australia have approved locations able to access Section 19(2) exemptions. Whilst Victoria, New South Wales, South Australia and Tasmania have opted not to access Section 19(2) exemptions.

These data are readily available from the Commonwealth Department of Health and Ageing for a data adjustment to be made. Attachment 1 details Queensland locations with Section 19(2) exemptions.

### ***Alternative Model***

In its 2010 Review Draft Report, the Commission highlights that location costs only impact on state community health expenses<sup>3</sup>. Queensland believes that this is incorrect and maintains that in addition to state expenses, location costs also influence Commonwealth COHS expenditure. The MBS location specific rebates discussed above under the headings, *Incentive Payments* and *Section 19(2)* clearly demonstrate that location factors influence both state and Commonwealth expenditure on COHS provided in some urban, rural and remote locations.

Queensland suggests that should the Commission be unable to remove the Commonwealth medical expense data of MBS location-specific incentive payments (bulk-billing and Section 19(2)), the subtraction model's outcome will not accurately reflect the costs faced by states in delivering COHS. The Commission itself has identified that the conceptual validity of the Commission's subtraction model is based on services provided by the states and non-state providers being equivalent and substitutable.

A simple alternative to removing parts of the Commonwealth expense data to recognise location disabilities could be the application of an appropriate location factor when allocating total national expenses across states<sup>4</sup>. Such an approach would account for the additional location costs experienced by both states and Commonwealth when delivering COHS, and removes the need to separately assess state location disabilities in the Service Expense component.

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<sup>3</sup> CGC 2010 Review Draft Report Attachment 12 Community and Other Health Para 22 page 255

<sup>4</sup> ie apply location factor to Line A of Table 12.10 CGC 2010 Review Draft Report Attachment 12 Community and Other Health page 268

*Which location factor?*

The location factor currently used in the Service Expenses component recognises the differences in the cost of providing labour and non-labour resources between states. This location factor would also be appropriate to assess location disabilities for all COHS sectors when allocating total national expenses across states because:

1. The Commission estimates that wages account for approximately 60% of COHS total expenses<sup>5</sup>;
2. Wage differences across states is already assessed as part of its calculation; and
3. It would maintain simplicity within the subtraction model.

***Culturally and Linguistically Diverse Populations***

Queensland supports the Commission's decision that should a potential CALD disability factor be demonstrated as having a material impact on the GST distribution then it should be included in the relevant expenditure assessment.

However, Queensland does not consider that sufficient evidence of the additional costs attributable solely to CALD has been provided. Where the Commission has data from only one state on CALD, it would be prudent for the Commission to consider how accurately the data reflects the national average position of states and if it uses the data as a basis for Commission judgement, to be conservative.

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<sup>5</sup> CGC 2010 Review Draft Report Table 22.4 Proportion of wages by expense category, 2002-03 to 2006-07  
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## Attachment 1

### Queensland facilities with exemptions - Section 19(2) *Health Insurance Act 1973*

Facility name	Programme	Health Service District
Aurukun	RRMBS	Cape York
Ayr	RRMBS	Townsville
Babinda	<b>COAG 19.2</b>	Cairns & Hinterland
Bamaga	RRMBS	Torres Strait
Burketown	RRMBS	Mt Isa
Camooweal	RRMBS	Mt Isa
Cardwell	<b>COAG 19.2</b>	Cairns & Hinterland
Charleville	RRMBS	South West
Cherbourg	RRMBS	Darling Downs - West Moreton
Cloncurry	RRMBS	Mt Isa
Coen	RRMBS	Cape York
Collinsville	<b>COAG 19.2</b>	Mackay
Cooktown	RRMBS	Cape York
Cunnamulla	RRMBS	South West
Dajarra	RRMBS	Mt Isa
Dimbulah	<b>COAG 19.2</b>	Cairns & Hinterland
Doomadgee	RRMBS	Mt Isa
Eidsvold	<b>COAG 19.2</b>	Sunshine Coast - Wide Bay
Goondiwindi	RRMBS	Darling Downs - West Moreton
Home Hill	RRMBS	Townsville
Hopevale	RRMBS	Cape York
Island Medical Service	RRMBS	Torres Strait
Julia Creek	RRMBS	Mt Isa
Karumba	RRMBS	Mt Isa
Kowanyama	RRMBS	Cape York
Laura	RRMBS	Cape York
Lockhart River	RRMBS	Cape York
Mapoon (via Weipa)	RRMBS	Cape York
Mareeba	<b>COAG 19.2</b>	Cairns & Hinterland
Miles	<b>COAG 19.2</b>	Darling Downs - West Moreton
Millmerran	<b>COAG 19.2</b>	Darling Downs - West Moreton
Monto	<b>COAG 19.2</b>	Sunshine Coast - Wide Bay
Mornington Island	RRMBS	Mt Isa
Mundubbera	<b>COAG 19.2</b>	Sunshine Coast - Wide Bay
Napranum	RRMBS	Cape York
Normanton	RRMBS	Mt Isa
Palm Island	RRMBS	Townsville
Pompuraaw	RRMBS	Cape York
Thursday Island	RRMBS	Torres Strait
Tully	<b>COAG 19.2</b>	Cape York
Weipa	RRMBS	Cape York
Woorabinda	RRMBS	Central Queensland
Wujal Wujal	RRMBS	Cape York
Yarrabah	RRMBS	Cairns & Hinterland