AUSTRALIAN CAPITAL TERRITORY

Issues Arising from Heads of Treasuries Meetings with Commonwealth Grants Commission

2015 Methodology Review

November 2014

Chief Minister, Treasury and
Economic Development Directorate

Introduction

The ACT offers the following comments in response to the request from the Commission in their email message of 30 October 2014 highlighting key issues raised by jurisdictions in their Heads of Treasuries discussions with the Commissioners.

Contemporaneity

The ACT's position on the contemporaneity issue is that, while we see merit in exploring the WA proposal, it requires thorough consideration of the key issues of volatility, accuracy and practicality. The WA Submission does not make it clear whether they consider such a radical change could be implemented within the current timeframe of the 2015 Review, except for an acknowledgement that reporting of preliminary and updated relativities by the CGC would be beyond their current terms of reference.

In our view, the best approach would be to consider the WA proposal under the umbrella of our proposed rolling review program – a structured and transparent examination within a suitable timeframe, but not a change which could be considered for adoption under the current Terms of Reference for the 2015 Review. In our view, there are too many issues to be sorted at this late stage of this Review to embark on such a radical departure from the current approach.

Health Services - Substitutability

The ACT considers that separating the assessment of substitutability of health services into three categories, covering emergency department services, outpatient services and community health, is logical and appropriate. This approach recognises that the level of substitutability and the availability of evidence as to that level is likely to vary between the categories. We consider that both clinical assessment and patient experience are relevant in assessing the degree of substitutability of services – patient beliefs, and hence behaviour, are crucial, but not sufficient, as clinical decision-makers or gatekeepers play a key role in every stage of a patient journey.

The information presented in the CGC's Draft Report indicates that there is substantive evidence to support a substitutability estimate of 40-45% for emergency department services. We do not agree with an interpretation by another jurisdiction of the ABS *Patient Experiences in Australia* study which would count only the 23% of services which people thought could have been provided by a GP as substitutable, and not also the 15% of services where people thought care could not be provided only or mainly because of the time of day when care was sought. The total of these two categories should be treated as the substitutability factor; while the time of day element represents availability of the service – which is already captured in the raw economic environment factor[1]. The latter view would go close to reconciling the clinical assessment and patient experience perspectives on substitutability. We consider that the data presented at Figure 4 on p.195 of the Draft Report also provide indicative support for a fairly high degree of substitutability between ED and GP services.

In relation to outpatient services, the figure of 50% with low substitutability due to a link to a previous admission is clearly evidence-based, with a somewhat greater degree of judgement in the estimate for substitutability within the remaining 50% of services. For community health, some greater uncertainty is introduced by the use of ED data for triage categories 4 and 5, and by the lack of patient survey or clinical assessment data to support estimates of substitutability.

[1] The ratio of assessed services to actual in the Direct Model (raw economic environment factor) can be characterised as availability – with an adjustment then made for substitutability to produce the weighted economic environment factor. To further clarify, while availability of a given service will vary across States, substitutability of a given service should be the same across States (eg: as shown by Table 9, Draft Report, p.197).

We have explored the issue of substitutability of community health services further with our Health Directorate and have not been able to identify data which provides a breakdown of public sector spending in the categories used by NSW Health. Estimates from a Local Health District within one State cannot be considered as sufficient evidence, and we would expect to see information from a number of other States before consideration could be given to its use in estimating substitutability for the community health component of the assessment.

The relative size of substitutable private services compared to total State services is of course critical to an assessment of States' health spending needs, but this is an issue both with the new model proposed by the CGC and the subtraction model adopted in the 2010 Review. Under either model, you first need to determine which services are substitutable and to what degree. Both models rely on assumptions about the level of substitutability and those assumptions in turn rest inevitably on subjective judgements. Where these judgements are supported by substantive evidence, such as consensus views of clinical experts and surveys of patient experiences, the estimates of substitutability should be considered as more robust and fit for purpose than those for which there is less substantive evidence.

The ACT is also concerned about the lack of information so far on the consultancy which the CGC has commissioned on the health substitutability issue. The results of this exercise will clearly be critical to the final position taken by the Commission, with potential to significantly alter the provisional estimates in the Draft Report. We would appreciate further information as soon as possible about the progress of the consultancy and its expected completion date, in light of the Commission's commitment to consult with States by the end of November on any significant changes to the Draft Report.

Mining Related Expenditure

The ACT notes the inability of Western Australia to apportion costs of regulation, services and infrastructure between mining and non-mining related activity. Instead, they have provided details on the allocation of the State's Royalties for Regions program, "much of which is support for the State's mining economy".

The WA Economic Regulation Authority (ERA) in a report last April[2] stated that Royalties for Regions is a program not subject to the same scrutinies as other government programs. It commented:

The ERA considers that Royalties for Regions results in inefficient outcomes and should either be repealed or amended to restrict regional funding to an amount determined as part of the annual budget process.

WA's Auditor General, in a report presented to the State Parliament in June[3], found that the Department of Regional Development didn't have stringent project selection criteria for Royalties for Regions projects and did not know if funded projects would achieve long-term benefits.

In light of this information we do not accept that expenditure under the Royalties for Regions program can be considered a reliable indicator of needs.

[2] *Inquiry into Microeconomic Reform in Western Australia* (Draft Report), Economic Regulation Authority WA, 11 April 2014.
[3] *Royalties for Regions – Are Benefits Being Realised ?*, Western Australian Auditor-General's Report, June 2014.