

30 January 2009

Hon. Sue Ellery MLC
Acting Convenor
Sub-committee Inquiry into Public Sector Expenditure
Legislative Council
Parliament House
PERTH WA 6000

Dear Hon. Ellery

RE: Sub-Committee Inquiry into Public Sector Expenditure – 3% efficiency dividend

The AMA(WA): expresses grave concerns regarding the Governments proposal to seek to effectively reduce the health budget by 3%, by seeking to claim back a "3% efficiency dividend".

Recommendations : Health be exempt so that any genuine efficiency savings can be reinvested in the reform agenda and fixing problems as promised.

: That the Capital Program be advanced to assist in realising recurrent efficiencies and assisting the economy.

The following key points are made:

1. Terms of reference

These enable the committee to inquire into and report on:

(a) "the impacts of the 3% efficiency dividend on the general level of service delivery across all agencies: in particular any impacts on service delivery to regional areas".

(b) provides for the committee to:

"consider alternative methods for achieving a 3% reduction in Government expenditure, including
"whether certain agencies or functions of agencies should be exempt from the efficiency dividend".

The AMA would argue that health should be exempt and any further efficiencies that can be achieved reinvested to fix the health system.

Health is a core role for the State Government. Promises of social dividends and fixing the health system have dominated Government and Opposition commitments to discharge their responsibilities.

Reducing health funding would be a fundamental breach of faith, which would put even more pressure on the state's struggling public hospitals. There has been unrelenting pressure on management and staff to increase efficiency and they have delivered year after year. To seek to reduce funding, rather than reinvesting would clearly undermine the reform agenda.

Hospitals are under staffed, under bedded and have excessive occupancy levels. It is estimated that there is a need for 400 additional staffed/funded beds required in Western Australia to meet international benchmarks and demand now. Demand for additional beds will only increase with a higher birth rate and population growth generally on the one hand, and increased numbers of aged patients.

It needs to be recognised that over 70% of the health budget is spent on salaries and wages and cuts can only effectively be made by reducing staffing which is clearly inappropriate given accepted workforce shortages.

The inevitable consequences of an ongoing 3% cut in the budget for an already overstressed health system will be, that free public services will have to be rationed or lead to a deterioration in the public health system. If that is the decision of Government, it should tell the public exactly where it is going to ration services and whether it is, as has previously been the case, considering reintroducing "means testing" to ensure those most in need of free Government health services are not disadvantaged. (See Appendix 1)

Whilst there is always a capacity to increase efficiency, the scope in a labour intensive environment which suffers from poor equipment, technology, lack of beds, ageing infrastructure and increasing demand, to provide more for less to the requisite quality is limited. Any efficiencies and savings that can be achieved desperately need to be reinvested to address these and other needs.

2. Health needs to be fixed.

It is demonstrable and indeed well known that WA's Health System has been under pressure for many years, that there have been numerous promises by various Governments to "fix health" and many reviews. The most recent substantive review, the "Reid Review", reported in 2004 It:

- (i) Recognised that in order to address demand, it was necessary to increase capacity, and
- (ii) Reinvest and modernise health infrastructure to facilitate increases in efficiency and dampen down growth in recurrent expenditure.

It has clearly been demonstrated that there is a chronic shortage of funded beds which is associated with overcrowded emergency departments, unsafe practices, and as research has demonstrated, consequent avoidable adverse outcomes and deaths.

To impose a 3% reduction in the budget, (it is a misnomer to refer to it as an efficiency dividend) against the back drop of continuing to strive to fix the health system, achieve increased efficiency, and provide high quality care to more and more patients attending the public system, completely contradicts the previous Government and the current Governments stated commitment to fix the health system and puts at risk the health and indeed lives of more West Australian's.

In the Associations view, health must be exempt from the proposed withdrawal of funds and future reduction in funding. Management and frontline workers must be given assurances that their endeavours to further improve productivity are not rewarded by reducing their budgets and that they are allowed to reinvest to endeavour to fix health's problems as promised by successive Governments.

3. Recurrent

The proposed 3% reduction in budget, seeks to extract some 120 million dollars per annum, or 60 million dollars for the remainder of the fiscal year and for this figure to increase on a per annum basis throughout the forward estimates period, with the new 97% base, subject to future to percentage adjustments. The aggregate effect of this over a four year cycle is admitted by Government to total approximately 450 million dollars being pulled out of health. If however, the Commonwealth's recent acceptance (at the urging of the State Government) of the need to increase indexation of health under the new Australian Health Care Agreement were to be applied, this figure would increase to around 600 million dollars. The consequences of reducing funding on the health systems capacity, future efficiency, services, the morale of staff and the retention of staff, which are already in short supply, cannot be underestimated. The implications for patients' services regardless of "spin" that frontline services will not be affected against the backdrop of an already strained system will be significant.

The approach is reminiscent on that taken in the 1990s, consequent on the McCarrey Review (August 1993) which saw State Government's being susceptible to ongoing adverse publicity e.g. "70 million dollar budget hole forces health cuts" (West Australian, page 1, September 9, 1997 (see Appendix 2)) and need to top up/deficit fund hospitals each year. These approaches are now being sought to be replicated but were major contributors to the disinvestment in health infrastructure. The Reid Review and subsequent acceptance of the need for recapitalisation (rather than repeat history) clearly seek to redress the faults of the past. Enormous damage to planning, operational services, recruitment/retention and efficiency in hospitals was done in the 90s as services were allowed to run down. It was also clearly a major contributor to the change in Government.

Rather than an "efficiency dividend" there needs to be a "social dividend " and "efficiency investment".

4. Capital

The Reid Review was the platform for developing a blueprint to address the disinvestment in health over the past decade or so, and modernise the health system to facilitate increased efficiency. With the advent of the global financial crisis and the recognised need for stimulus packages, including capital investment, the AMA would argue strongly that now is the time to bring forward projects such as the Fiona Stanley hospital, the new women's and children's hospital and planned secondary hospitals such as at Midland.

The Government has a fundamental role to play seeking to maintain economic activity and charter a path through the difficult times ahead.

The prospects of increased unemployment (and associated demand on the public system) and reduced cost escalation factors provide a golden opportunity to seek to fix the health system by bringing forward capital projects, whilst at the same time providing the necessary stimulus to the economy. The Association would urge the committee to recommend fast

forwarding non recurrent capital funding to facilitate further improvements and efficiency and, at the same time, stimulate the economy and help ameliorate the fallout from increasing unemployment which is associated with increased ill health and demand for mental health services.

5. Additional factors

It is the Association's submission that it is fundamental that the reform agenda and the associated required funding needs to be maintained and indeed it is argued, should be increased to also take account of a number of additional factors such as:

1. The increased demand on the public system consequent on economic downturn, increased unemployment levels and associated demand for mental health and other services.
2. The effect of recent increases in the private health insurance levy and economic downturn is likely to result in increased demand on the public system as private health insurance levels decline.
3. The clear need to address the relative under funding of rural health services and develop regional, rural and remote services to meet the needs of rural Western Australia and assist in "Closing the Gap" in relation to Aboriginal health needs.
4. The clear recognition from previous reports, e.g. the Monash report, that the replacement program for hospital equipment has been extremely poor, with significant amounts of equipment being out of date, inefficient and in urgent need of replacement. There are suggestions currently that equipment replacement is again suffering.
5. That demands on the public health system have increased, including in relation to training the next generation of doctors, nurses and other professional staff by existing staff. For example, belatedly, medical school numbers have been significantly increased and consequent requirements to train undergraduate, pre vocational and vocational medical practitioners is more than doubling. There therefore needs to be investment in metropolitan Perth and throughout rural WA regional centres to facilitate this workforce being appropriately supervised and trained to the requisite levels to maximise efficiency, provide the required standards of care and meet present and future staffing needs within hospitals and health services.

These and a variety of other factors underpin the Associations submission. The impact of a 3% reduction in the budget will be severe. Health should be exempt from the reduction, allowed to continue the reform agenda and reinvest any further efficiencies it can achieve in an appropriately motivated and equipped workforce, supported by appropriate capital investment and help fund rural and metropolitan Perth to deal with the increasing demand on health services.

This submission, whilst brief, outlines the broad parameters of the Association's concerns which it would welcome the opportunity of expanding upon before the Committee.

In summary, the Association would urge the committee to deal with this issue, having regard for the health needs of Western Australian's, recognise that short term cuts will derail the reform agenda and have both immediate and long term consequences. Investing to fix the public health system is an "efficiency investment". Withdrawal of funding will have a significant effect on morale and commitment of those who deliver the services at the frontline under unrelenting pressure, reduce the potential to achieve recurrent efficiencies

and most importantly, as clearly demonstrated by research will be to the detriment of the health and wellbeing of the patients that attend public hospitals.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter' followed by a stylized surname.

MR PETER JENNINGS
ACTING EXECUTIVE DIRECTOR
AUSTRALIAN MEDICAL ASSOCIATION

Appendix One

1. "Rich should pay for health care: Wilson"

The West Australian, September 6, 1991

2. "State eyes public patient means test"

The West Australian, May 14, 1998



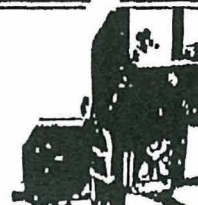
WIN
\$20,000
Cash and a Cruise

DETAILS: PAGE 32



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BIG weekend
FREMANTLE JAIL
CHANGING OF THE
GUARD

TOMORROW

Rich should pay for health care: Wilson

PEOPLE wanting treatment in public hospitals could face means tests under a plan proposed by WA Health Minister Keith Wilson to solve Australia's health crisis.

Mr Wilson said yesterday he could no longer accept the ideal that public hospitals provided free service, no matter what a person's income.

He said such means testing had yet to be ruled out by Federal Health Minister Brian Howe.

And Prime Minister Bob Hawke again refused to rule out a rise in the 1.25 per cent Medicare levy.

His refusal came as Government Senate leader John Button appeared to promise that the levy would not be increased.

The means testing idea has been strongly backed by the WA branch of the Australian Medical Association

By MARNIE McKIMMIE,
PETER REES and
DEANIE CARBON

funds to service the 1.6 million population.

WA's public hospitals have suffered budget cuts of up to \$6 million each in real terms.

AMA executive director Paul Boyatzis said the money available needed to be targeted at pensioners and low income earners who needed help the most.

HBF managing director Ray Walker said yesterday a growing number of WA's high income earners were dropping out or not taking up private health cover.

He said Australian Bureau of Statistics figures from last year showed that a quarter of Australians who earned more than \$1000 a week were not privately insured.

One-third of those who earned

Yet 650,000 Australians who earned less than \$240 a week were insured.

Mr Wilson said several of his friends on big incomes had not taken out private cover and relied on public hospitals.

He was angry that such people felt they had a right to free public hospital care because they paid their Medicare levy.

He said the levy paid for only a third of Australia's health costs.

Raising the Medicare levy was not the answer because the real cost of health care remained hidden, Mr Wilson said.

He said he had no objection to price signals such as the Federal Government's \$3.50 fee to see a general practitioner.

But he said Australia could not have a price signal for GPs and nothing for hospitals.

WA's public hospitals and wanted to use them, they should pay a fee.

The underprivileged and pensioners should be given first priority in the public hospital system, Mr Wilson said.

Mr Boyatzis said it was time the public realised the Medicare mirage was gone.

He said it was an inadequate system that had not lived up to its promises and was sending the country bankrupt.

However, the WA Council of Social Service opposed the idea of a hospital means test, saying the test could cause big problems.

The council's executive director, Bindi Other-Gee, said the hospitals probably would have to rely on the Department of Social Security's health care card system as a way of means testing.

Yet she said surveys had shown that about 35 per cent of people

In the Senate, Senator Button was asked whether Mr Hawke would keep his 1990 election promise that the Medicare levy would not be increased.

"The answer to that question is yes," Senator Button said.

Last night, the Government named the members of the caucus committee which Mr Howe appointed earlier this week to review the controversial \$3.50 Medicare charge.

The committee — WA Left MP Carolyn Jakobsen, SA Centre Left Senator Rosemary Crowley, Queensland Right MP Mary Crawford — must report by October.

In another development, the AMA and the Opposition urged Mr Hawke to sack his deputy, Mr Howe, over his call to lift the constraints on the number of foreign doctors coming into Australia.

Wendy Pryer
14/5/98

State eyes public patient means test

BY WENDY PRYER
AND CARINA TAN
VAN BAREN

WA HEALTH Minister Kevin Prince said yesterday his department was investigating whether it was legal under State laws to means test patients going to public hospitals.

Responding angrily to the Federal Government's allocation for public hospitals in Tuesday's Budget, Mr Prince said he did not have a plan to introduce the measure, which might be hard to implement in practical terms.

But it was an option being explored to address the crisis in the hospitals and drop-off in private health insurance.

Mr Prince said if the Federal Government failed to increase funding beyond the \$2.9 billion over five years — plus \$69 million to be sliced up among the States and Territories to reduce waiting lists — the State Government would have to be creative because its coffers had dried up.

The Commonwealth was boasting about a surplus which was partly WA taxpayers' money and that should be returned to them in the form of adequate hospital funding, he said.

But Prime Minister John Howard urged WA and others yesterday to sign the agreement, say-

ing the Budget allocation represented a 15 per cent real increase in health funding.

Mr Prince said WA would not lose anything by refusing to sign, with the exception of part of the \$69 million, because Mr Howard had promised to pay the money offered anyway.

Australian Medical Association WA president Scott Blackwell rejected Mr Prince's claim yesterday that the Federal Budget initiative to link general practitioners' Medicare rebates to inflation would result in more doctors bulk-billing.

The initiative appeared to be a one-off and the medical profession did not support bulk-billing because it could result in doctors being pressured to rush through patients, he said.

He also criticised the Commonwealth hospital allocation. He said hospitals needed more money regardless of who found it.

Mr Prince also said yesterday the Government could not afford to offer public hospital specialists a pay increase of more than 6 per cent over three years.

He did not expect doctors to work for nothing, but he did not agree with the AMA warning that doctors would begin to leave the public hospital system.

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Appendix Two

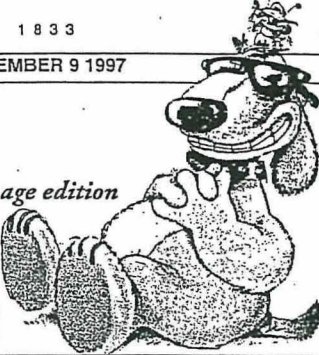
"\$70m budget hole forces health cuts"
The West Australian, September 9, 1997



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\$70m budget hole forces health cuts

BY AMANDA BOWER

WA'S public hospitals will have to cut services to save about \$70 million this year and avoid a massive budget blowout.

Senior health sources have told *The West Australian* that the WA Health Department does not have enough money to provide the services demanded of its public hospitals.

An increase in patient demand, nurses' pay rises, the flu epidemic and the exodus from private health insurance had combined to cause the budget crisis.

The sources said it would not be possible to keep all hospitals running at full capacity. Elective surgery is already reportedly being cancelled to save money.

Estimates of the shortfall range from \$43 million to \$160 million but the Metropolitan Health Services Board — which oversees all metropolitan hospitals and health services — is believed to be working from a figure of \$70 million.

WA Health Minister Kevin Prince is understood to have briefed Cabinet informally on the situation and been told there is no more money available.

In March last year, before the State election, the Government announced an \$81 million emergency rescue package to prevent public hospitals closing wards and theatres.

Yesterday, Mr Prince said there was "no endless bucket of money available for health" and that constraints would need to apply to elective surgery waiting lists if hospitals were to manage within their budgets.

"There will be a stronger focus on urgent and high-priority elective surgical work and those who have been waiting a long time, but this may lead to an increase in waiting times for lower priority patients," he said.

More than 14,000 people are waiting for elective surgery throughout the State.

A Fremantle Hospital surgeon said yesterday the hospital was cancelling operations to save money and meet its budget.

"One of the senior administration admitted that to me quite openly," the surgeon said. "They could find the nurses and the beds but they just don't have the money; they don't want to spend it because they are so far over budget."

Demand for accident and emergency services has grown up to 28 per cent at some hospitals, despite new and expanded facilities at Swan District and Joondalup, which were designed to ease the pressure.

A Health Department spokesman said yesterday the community would be encouraged to consult general practitioners instead of public emergency departments.

Opposition health spokesman Jim McGinty called on the Government to find the necessary money, and accused it of breaking its election promise of a social dividend.

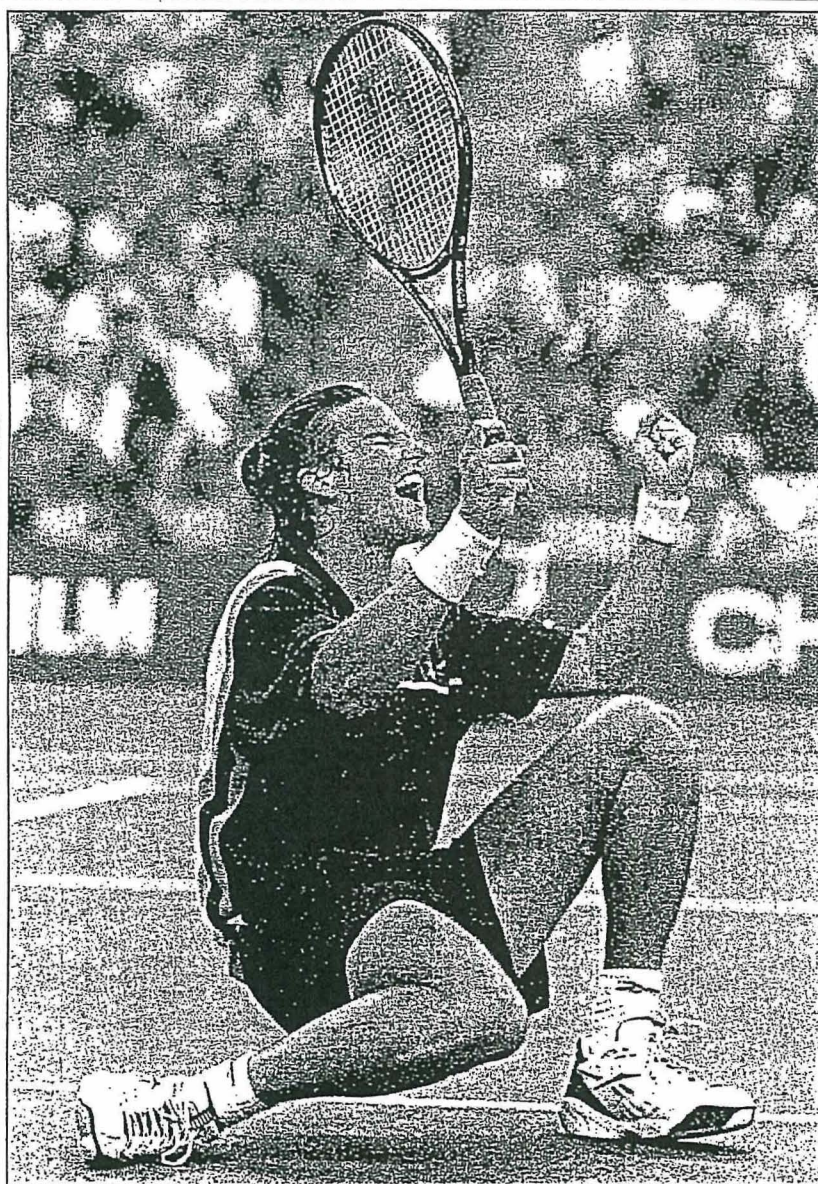
"Wards will close, waiting lists will blow out and the human toll will be enormous," he said.

Mr McGinty suggested the profits from the sale of the Dampier-Bunbury natural gas pipeline could be used to rescue the public health system.

The Health Department has asked the Federal Government for at least \$10 million and Mr Prince said yesterday that until Canberra lived up to its financial responsibility to the States, the pressure would not ease.

"We, as a community, need to seriously consider the amount of money we spend on health care," he said. "I would encourage those who can afford to do so to take out private health cover."

● Alston, page 13



Open delight: Pat Rafter drops to the court as he celebrates his victory over Briton Greg Rusedski in the final of the US Open. The modest Queenslander triumphed 6-3 6-2 4-6 7-5.

Rafter toast of the greats

NEW YORK
BY GEOFF STEAD

WITH his trophy tucked under his arm, US Open hero Pat Rafter invited some of the greats of Australian tennis to join him for a beer in a bar on New York's swank Park Avenue after his victory.

As John Newcombe, Ken Rosewall, Fred Stolle and Tony Roche toasted the new champion, 24-year-old Rafter was unsure whether he deserved to be in the company of players he calls tennis gods.

"I don't think it's fair to put me in their category yet," Rafter said. "I've still got a lot of work to do to get to their status."

The four-set victory over Briton Greg Rusedski sent Rafter soaring to No. 3 in the world. He started the year ranked 64th.

The win prompted a chorus of Waltzing Matilda from Australians in the crowd. They were later invited by Rafter to join the celebrations.

A big party is planned when Rafter returns to his home in Bermuda today even though hurricane Erica is headed for the island.

Brothers Peter and Stephen were courtside for the final but their parents, Jim and Jocelyn, watched the match on television in Brisbane because the time difference ruled out a dash to New York.

● Family affair, back page



Weather

Few showers. Fresh west winds ahead of a cold southerly change, 11-16 (yesterday 11.2 at 1.25am; 18.4 at 11.55am). Tomorrow: showers easing, max 17. Today liftout PAGE 16.

The World

Business

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