

# Improving the performance of Australia's health system

AHCRA Summit

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# Need to improve performance

- If Australia is to remain internationally competitive and maintain strong economic growth, our productivity performance must improve
  - CEDA 2017
- Health care reform is longer term and more fundamental
  - Productivity Commission 2017
- **There is a growing belief that if you want to radically improve healthcare you have to change how you pay for it”,**
  - The Economist, Sept 10, 2016

# Heads of Agreement 2018

- “Improving efficiency and ensuring financial sustainability”

As a strategic priority for health system reform

- “paying for value and outcomes”

For long- term development

# Improving productivity

- Remove artificial barriers between funding streams
- Pay the efficient price, not just for hospitals
- Payment methods that align incentives with better value
- Recognise the challenge of increasing corporatisation
- Better ways of dying
- Revenue raising that is more equitable

Hall and van Gool CEDA 201

# Lessons around financial incentives

- Centralised management of detail is expensive
  - Signal overload results from too many incentives
  - Focus on inputs not outputs ignores context;
- Paying for activity promotes activity
  - Total cost =  $p \times q$
- Value based pricing promotes high prices
  - Who should profit?

# Lessons around financial incentives

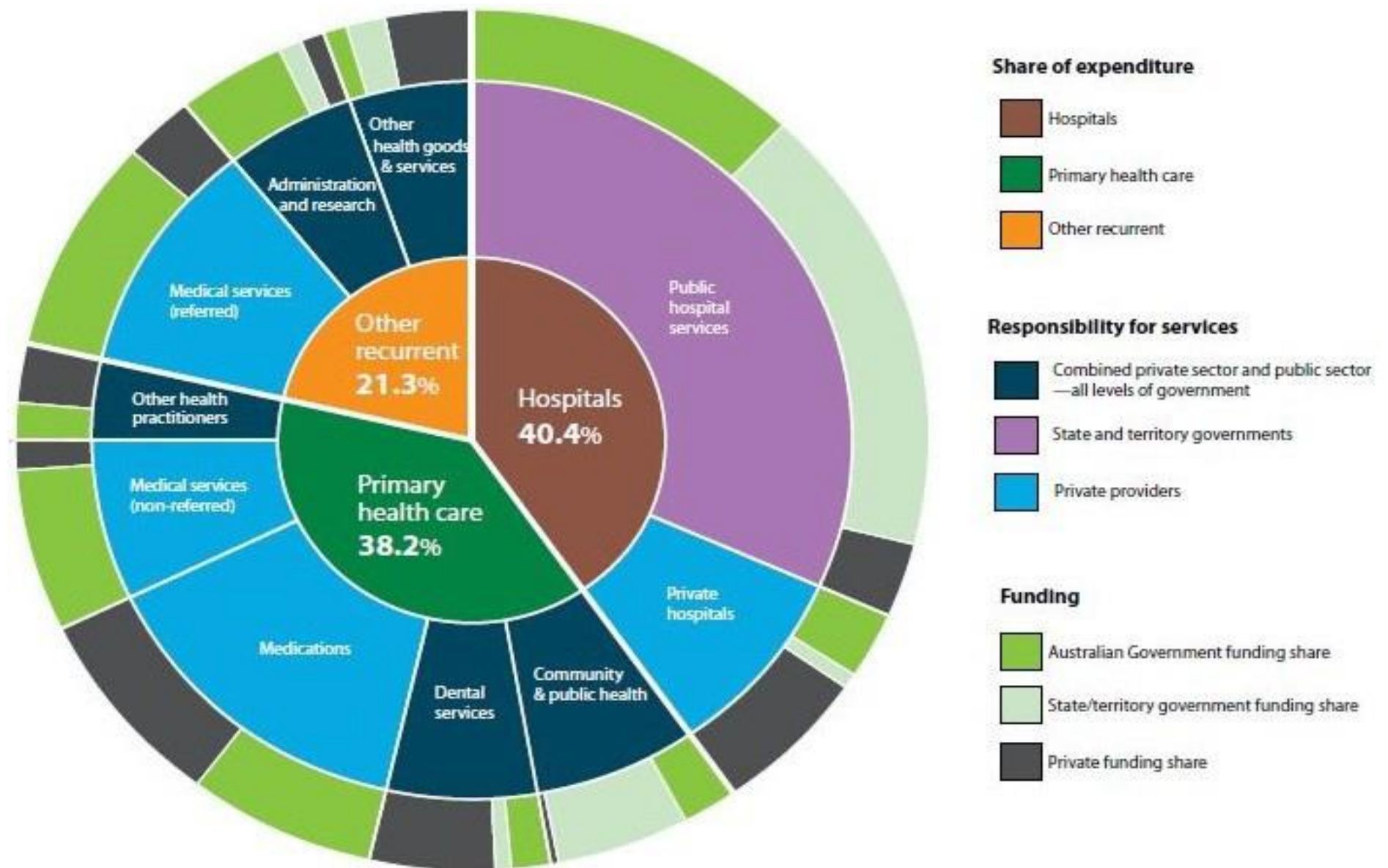
- Cost of achieving targets
  - Rewarding existing behaviour
  - Cost to provider
- Financial incentives interact with other factors
  - Non financial incentives;
  - Intrinsic vs extrinsic motivation
  - Altruism vs profit

# What is needed

- Align incentives at different levels of the system
- Manage price, volume and quality concurrently
- Purchase value buy pay efficient cost of production

# Funding and policy responsibilities

AIHW 2014.



Health services—funding and responsibility



# Options

Regional health authorities as purchasers

2018 Heads of Agreement

Managed competition

2009 National Health and Hospitals Reform Commission

# First principles

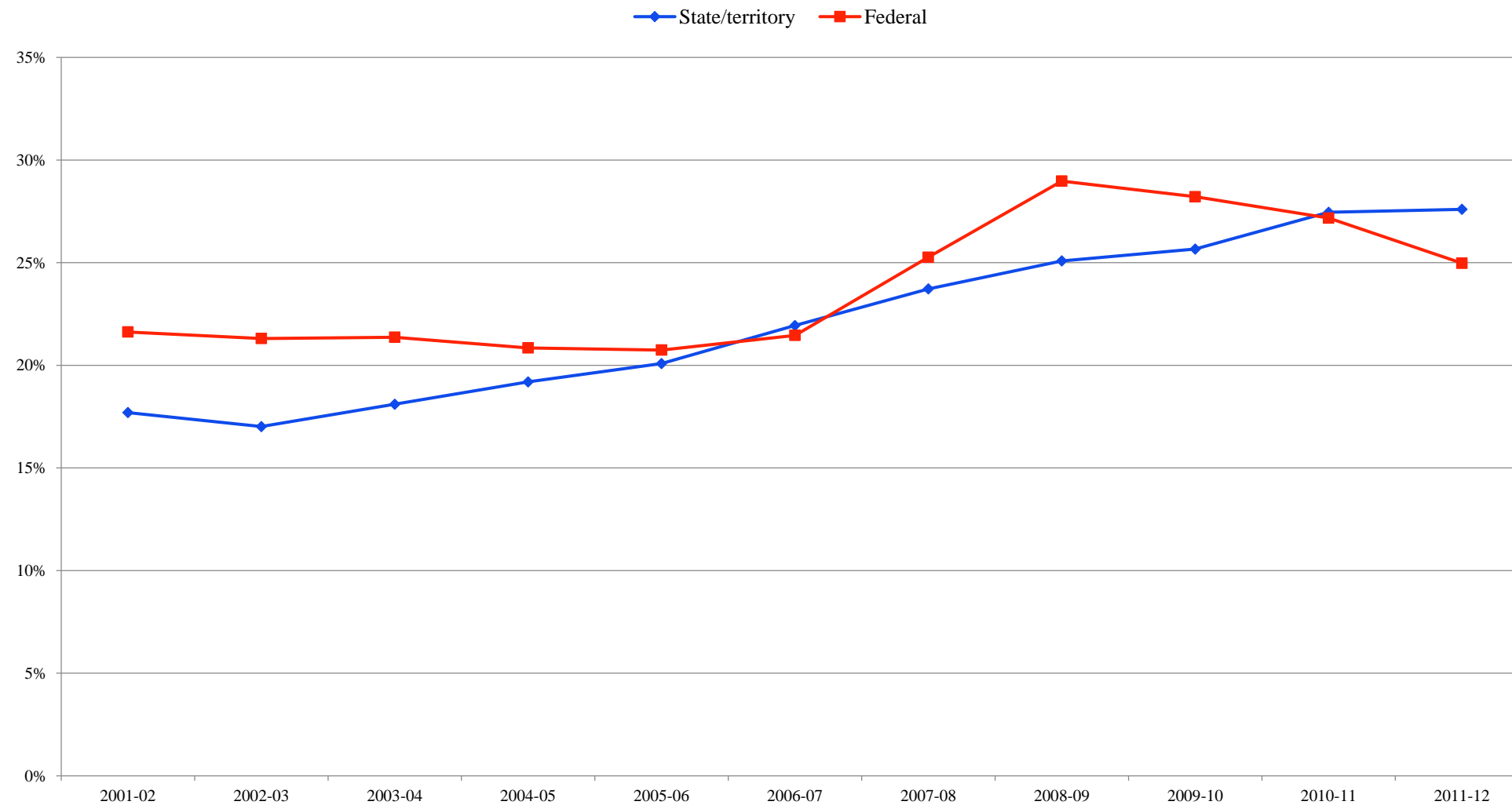
“examine the impact of historic changes to the original Medicare principles”

HoA 2018

The primary purpose of the proposed scheme is the financing of health care, but the relationships between financing and the production and distribution of services are both close and direct.

Scotton and Deeble 1968 Daring to Dream

# Health expenditure as a percentage of revenue AIHW, 2014



Note that GST revenue is counted in the State and Territory Government's denominator

# Public attitudes to increased spending

Health and schooling are top priority for more government spending (47%)

Prepared to pay more tax

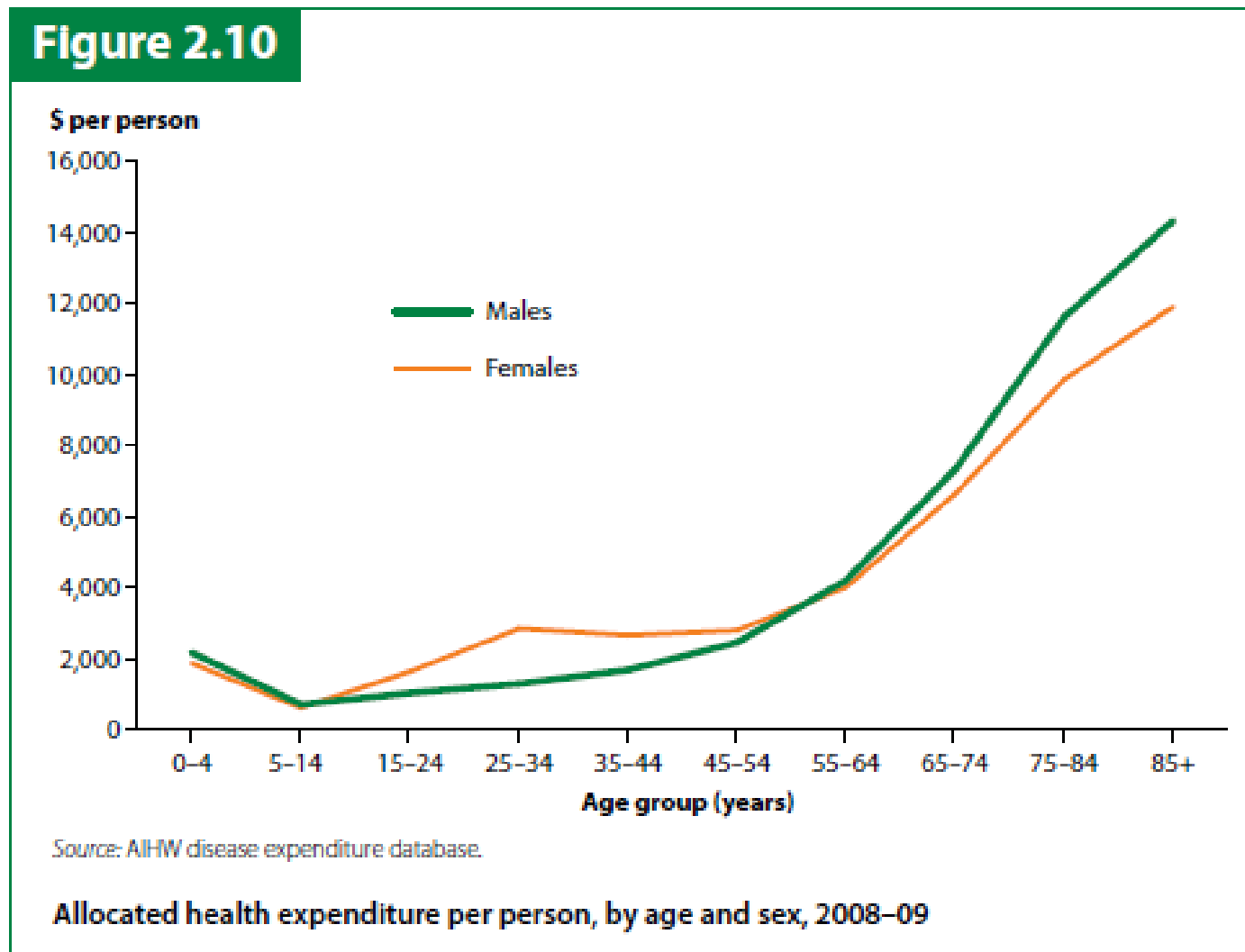
- Across all age groups (including 18-34 yr olds)

Much less support for general spending increases

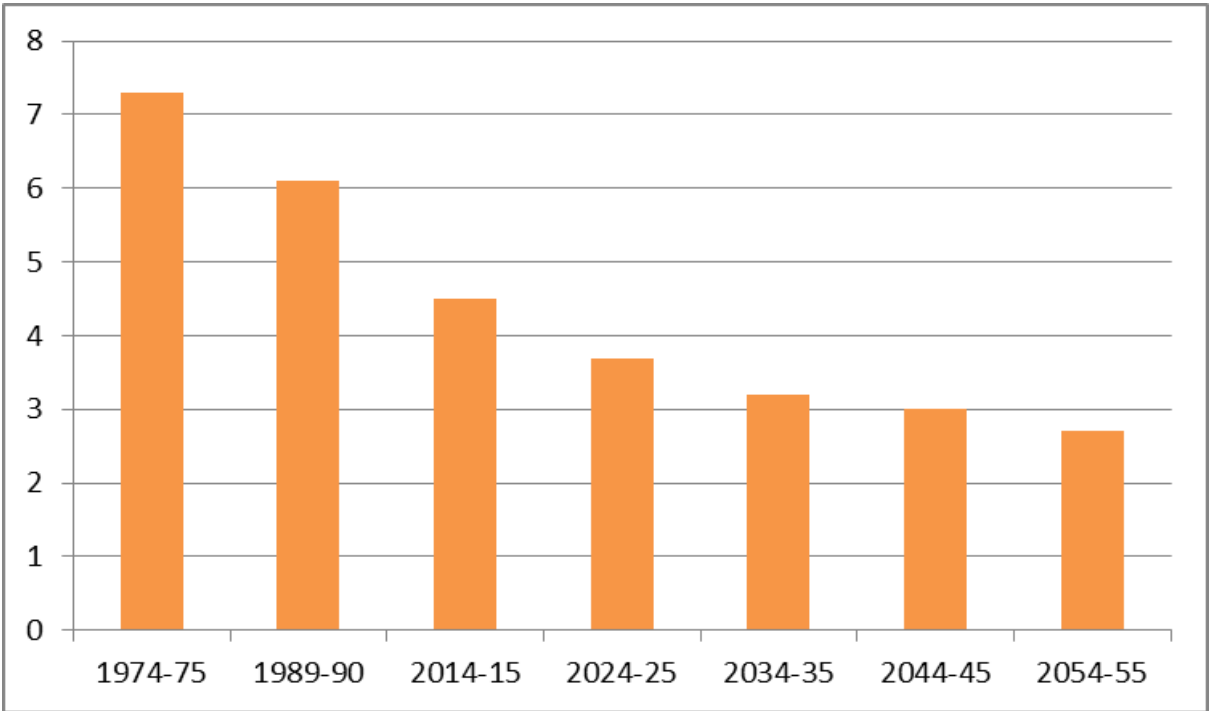
Source: ACOLA Australia's Comparative Advantage 2015;  
Commissioned survey of public attitudes

# Health care expenditure by age

AIHW 2014

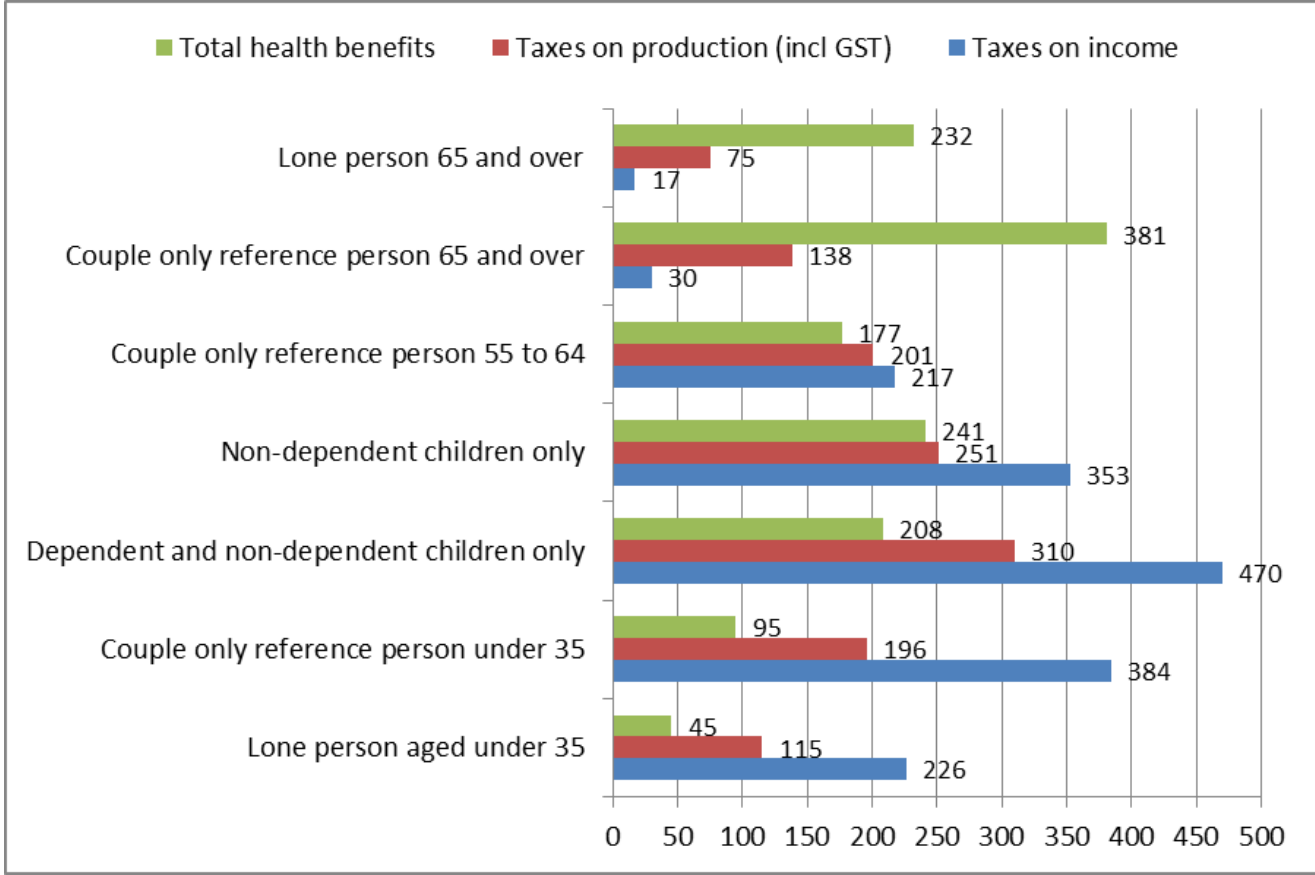


# Dependency ratios (older: working age)



- Source: Treasury IGR 2015

# Weekly government health benefits and taxes by household type (2009-10)



- Source: adapted from ABS 2012

# Bringing it together

Flexible funding – national funding pool (hypothecated taxes) to support fund holders

Managing price, volume and quality – incentives and fund holding at different levels

Efficient prices – to be extended beyond hospitals

Align incentives with value – purchase value, but pay efficient price

Revenue raising - Medicare contributions on wealth as well as income