



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/15

HOSPITAL PATIENT FEES

Prepared for the Commission's 2003 Conference on Draft Assessments

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for access to their inpatient and hospital establishment data. The data are provided to the Commission via the National Hospital Morbidity Dataset and the National Public Hospital Establishment Dataset which are collated and produced by the Australian Institute of Health and Welfare.

Note:

This paper has used the data from the 2001 National Health Survey (Australian Bureau of Statistics) to derive income status use weights. The results derived from the survey data reflect calculations carried out by the Commonwealth Grants Commission and not those of the ABS.

In this version of the paper State-specific expense data, and data referring to State-specific patient numbers have been removed for confidentiality reasons.

INTRODUCTION

1. This paper presents the draft assessment for the Hospital Patient Fees category for the 2004 Review. It builds on the staff proposals set out in *Discussion Paper CGC2002/29 Inpatient Services*.

1999 REVIEW

Scope of the category

2. The category covered hospital user charges derived from patient fees received from inpatients and non-inpatients in all public hospitals. All other user charges were classified to the Inpatient Services - User Charges category.

3. Table 1 shows the user charges for the five years of the 2003 Update assessment period and the previous year. In 2001-02, this category represented 5.26 per cent of gross standard user charges on Hospitals.

Table 1 HOSPITAL PATIENT FEES — STANDARD USER CHARGES, 2003 UPDATE

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
\$pc	34.96	33.07	41.42	41.38	33.80	35.27
% of Hospitals gross standard user charges	6.83	6.16	6.83	6.59	5.21	5.26

4. In the 2003 Update, the capacities of States to raise revenue from patient fees were assessed to differ in per capita terms. The assessment was based on national average use rates of private patients in public hospitals, adjusted for age, sex, region, Indigeneity and income.

5. The assessment structure used in the 2003 Update is shown in Table 2.

Table 2 HOSPITAL PATIENT FEES — ASSESSMENT STRUCTURE

User Charges component	Component weight	Factor	Basis of calculation
	%		
Hospital patient fees	100.00	Hospital patient fees	Standardised numbers of private patients in public hospitals by age, sex, Indigeneity, income and region, derived from 2000-01 Hospital Morbidity Data, and 2001 Census of Population and Housing data.

6. Compared with an equal per capita assessment, Table 3 shows the grants redistributed by the Hospital Patient Fees assessment in the 2003 Update.

Table 3 DIFFERENCE IN GRANT REDISTRIBUTION AMOUNTS FROM AN EPC ASSESSMENT, 2003 UPDATE

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Difference from EPC	-0.5	-3.3	1.8	0.4	-0.2	0.1	0.2	1.5	4.0

Source: Commonwealth Grants Commission, 2003 Update, Hospital Patient Fees assessment.

PROPOSED CATEGORY DEFINITION AND STRUCTURE

7. No changes to the category definition and assessment structure were proposed for the 2004 Review.

8. No State views were received concerning the category structure for the assessment.

Commission decisions

9. The Commission's decisions are summarised in Table 4

Table 4 COMMISSION DECISIONS – CATEGORY DEFINITION, ASSESSMENT STRUCTURE AND COMPONENT WEIGHTS

Decision	Reason
Retain the current category definition for the 2004 Review.	The 1999 Review category definition is still relevant for the 2004 review.
Assessment structure and component weights: Hospital patient fees 100%	The single component structure was maintained as no further breakdown of fees was required.

HOSPITAL PATIENT FEES FACTOR

10. **2003 Update.** In the 2003 Update, this factor assessed States' capacity to raise user charges from hospital patient fees based on national average rates of private patient separations in public hospitals, adjusted for age, sex, region, Indigeneity and income.
11. **Preliminary State views.** New South Wales stated it would like the Commission to take into account the level of patient charges it has to write off. These were due to the non-payment of bills by non-Australian residents who did not hold travel insurance and whose country did not have a reciprocal health care agreements.
12. It said that while its policy was to obtain payment in advance, this was often not practical or humane, particularly in emergency situations.
13. New South Wales stated it received the highest proportion of international visitors (XX per cent). In 1999-2000, it had to write off \$XX million and, in 2000-01, \$XX million.
14. In addition, New South Wales commented that the majority of the visitors stay in Australia less than 12 months. They are therefore not counted in the ABS population estimates and are not included in Commission calculations.
15. **Staff proposals.** *Discussion Paper CGC2002/29* provided data concerning the level of patient fees New South Wales and other States had to write off due to non-payment of patient fees.
16. Based on this data, New South Wales wrote off about \$XX million more than the national average in hospital patient fees. While Commission staff recognised this to be a financial burden to the State, the amounts involved were relatively small. Staff did not believe the amounts were material enough to warrant the introduction of a new adjustment.
17. **Further State views.** No States put forward further views concerning this assessment in their rejoinder submissions.
18. **Analysis.** Staff consider that the current assessment will continue to provide an accurate assessment of the capacity of States to raise user charges from private patients in public hospitals in the 2004 Review.
19. **Commission decisions.** The Commission accepts that a conceptual basis for continuing the current assessment exists. The conceptual case is supported by data which the Commission is satisfied is comparable and representative and provides a strong basis for continuing the current assessment.
20. Therefore, the Commission proposes that the current Hospital Patient Fees assessment be continued in the 2004 Review.
21. **Proposed method and results.** The 2004 Review Hospital Patient Fees factor will be calculated using the same methodology used in the 2003 Update assessment.
22. The hospital patient fees factor will be based on the data from:

- (i) the *National Hospital Morbidity Database* prepared by the Australian Institute of Health and Welfare (AIHW). This contains details of private patients in public hospitals classified by diagnosis related groups, age, sex, Indigeneity, region of residence (using ABS Remoteness Area classifications) and place of treatment. The age/sex and region groups are the same as those that will be used in the Inpatient Services assessment (see *Draft Assessment Paper 2003/28, Inpatient Services*);
- (ii) the *2001 Census of Population and Housing data* broken down by age, sex, Indigeneity, region and income; and
- (iii) the *2001 National Health Survey Database*¹. Data from this survey will be used to calculate new low-income weights for the age and sex groups. The low income weights reflect that people with low incomes are less likely to be private patients in public hospitals.

23. The factor will be calculated as follows:

- (i) the national average separations of private patients in public hospitals, cross-classified by age, sex, Indigeneity and place of residence, (derived from National Hospital Morbidity data and 2001 Census of Population and Housing data) will be calculated;
- (ii) a weight of zero will be given to Indigenous people because of the very low number of Indigenous private patients. Therefore, no use rates will be calculated for Indigenous inpatients;
- (iii) a low income weight will be applied to low income earners. The low income weights will be based on the ratio of private patients that use public hospitals who are low income earners compared to high income earners. The low income weights will be derived from the ABS 2001 National Health Survey; and
- (iv) the national average use rates calculated in (i) will be multiplied by a corresponding 2001 Census of Population and Housing data (ie, cross-classified by age, sex, Indigeneity, income and region of residence) for each State. The result reflects the level of demand for private patients services in public hospitals. This translates into the capacity of States to raise user charges from private patients in public hospitals.

24. A disability factor for each State will be derived by dividing each State's demand for private patients in public hospitals by the equivalent Australian figure.

25. ***Calculation of the low income weights.*** Low income weights are applied in the hospital patient fees factor as people on low incomes are less likely to use public hospital as

¹ Australian Bureau of Statistics, 2001 *National Health Survey Unit Record File*. ABS.

private patients. Therefore, States with above average levels of people with low income are likely to have a lower capacity to raise patient fees.

26. The low income weights were based on the ratio of low income private patients that use public hospitals compared to those with high incomes. The low income weights were derived from the ABS 2001 National Health Survey. Table 5 shows the low income weights proposed for the 2004 Review. A more detailed method for calculating the low income weights is provided in Attachment A.

Table 5 LOW INCOME WEIGHTS

1999 Review		0-59 years	60+years
Males		0.50	0.40
Females		0.50	0.40

2004 Review	0-19 years	20-59 years	60+ years
Males	0.57	0.68	0.68
Females	0.31	0.48	0.47

Source: 2001 National Health Survey, ABS.

Note: These results were derived by the Commonwealth Grants Commission, and not by the ABS.

27. **Summary of results.** The National Hospital Morbidity Data (NHMD), containing Remoteness Area classifications, were not available in time to include an updated hospital patients fees factor for the preliminary calculations. Therefore, the factors calculated for the 2003 Update have been used in the 2004 Review preliminary calculations.

28. **Updateability.** The updating of the hospital patient fees factor is dealt with in a separate Agenda Paper *AP2003/54 Updating of Census data in expenditure assessments*. In brief, the paper proposes that the factor be updated yearly.

29. **Reality Check.** The Hospital Patient Fees assessment uses data from the National Hospital Morbidity Dataset. This dataset is produced each year by the Australian Institute of Health and Welfare. The dataset provides a comprehensive picture of private patient use of public hospitals in Australia. It allows the Commission to calculate the capacity of each State to raise fees from private patients in public hospitals with a high level of accuracy.

30. States also appeared relatively satisfied with the approach taken by the assessment.

PROPOSED ASSESSMENT FOR THE 2004 REVIEW

31. **Summary of changes.** The only changes proposed for the 2004 Review Hospital Patient Fees assessment are:

- (i) a new regional classification will be used. The Remoteness Area classification (based on ARIA+ coding) will be used instead of the Rural, Remote, Metropolitan Areas (RRMA) classification. Discussion Paper, 2003/63 *Dispersion*, outlines the issues involved in changing to the Remoteness Area regional classifications; and
- (ii) the low income weights will be updated.

32. We do not expect any significant changes in the resulting factors due to using the new data.

33. Table 6 summarises the proposed Hospital Patient Fees assessment for the 2004 Review.

Table 6 PROPOSED ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

Component	Component weight	Factor	Basis of calculation
	%		
Hospital patient fees	100	Hospital patient fees	Based on separations of private patients in public hospitals cross-classified by age, sex, Indigeneity, income and region, derived from National Hospital Morbidity Data, and 2001 Census of Population and Housing data.

Calculating the category factor

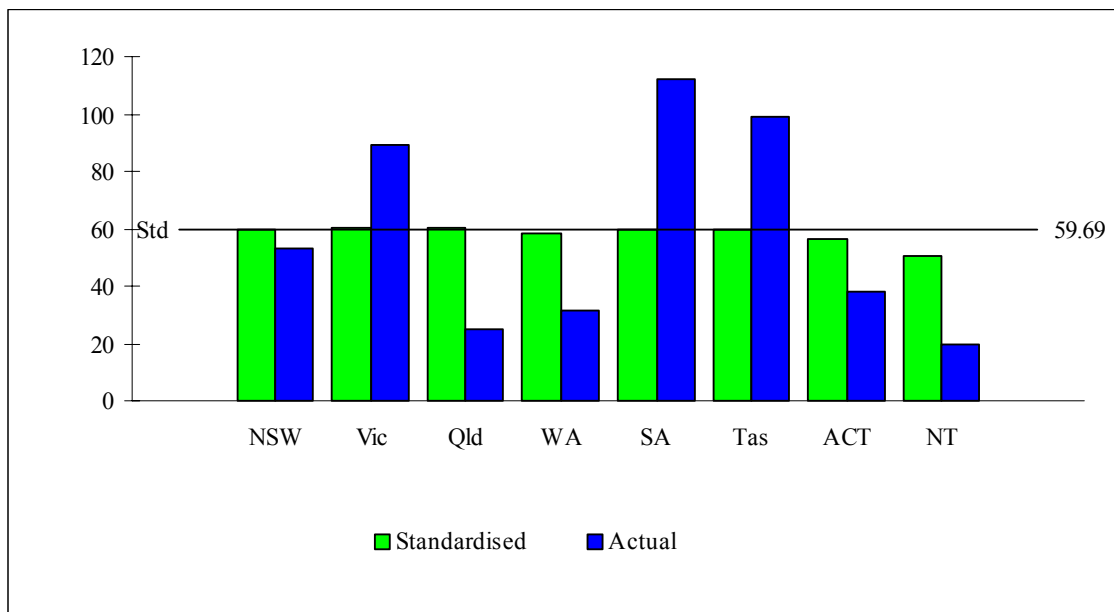
34. Table 7 summarises the components, component weights and disability factors assessed for this category for 2004 preliminary calculations. It also shows the calculation of the category factor.

Table 7 HOSPITAL PATIENT FEES —DERIVATION OF THE CATEGORY FACTOR FOR 2004 REVIEW PRELIMINARY CALCULATIONS

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Hospital Patient Fees Component	100%							
Hospital Patient Fees Factor	1.00384	1.00716	1.00744	0.98149	0.99499	1.00165	0.94941	0.84877
Component factor	1.00391	1.00723	1.00750	0.98156	0.99505	1.00172	0.94948	0.84883
Cont. to category factor	1.00391	1.00723	1.00750	0.98156	0.99505	1.00172	0.94948	0.84883
CATEGORY FACTOR	1.00391	1.00723	1.00750	0.98156	0.99505	1.00172	0.94948	0.84883

35. Figure 1 shows the gross user charges per capita for 2001-02 in terms of standardised, estimated and gross standard user charges.

Figure 1 HOSPITAL PATIENT FEES—GROSS USER CHARGES PER CAPITA—STANDARDISED, ESTIMATED AND STANDARD, 2004 REVIEW PRELIMINARY CALCULATIONS



Comparison of category factors

36. Table 8 shows the category factors calculated for the 2004 Review draft assessments compared with those assessed for this category in the 2003 Update. As mentioned above, the 2003 Update factors were used in the 2004 preliminary calculations.

Table 8 COMPARISON OF CATEGORY FACTORS, 2003 UPDATE AND THE DRAFT ASSESSMENT FOR THE 2004 REVIEW

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update	1.00391	1.00723	1.00750	0.98156	0.99505	1.00172	0.94948	0.84883
Draft Assessment - 2004 Review	1.00391	1.00723	1.00750	0.98156	0.99505	1.00172	0.94948	0.84883

Standardised user charges

37. Table 9 shows the standardised user charges for this category for 2001-02 in the 2004 Review draft assessment compared with those assessed in the 2003 Update.

Table 9 ESTIMATED, STANDARD AND STANDARDISED USER CHARGES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2003 Update -									
Estimated expenses									
\$m	691.25	318.60	129.47	88.88	68.54	49.79	18.96	12.24	4.75
\$ per capita	35.27	47.98	26.67	24.22	35.73	32.79	40.08	37.94	23.77
Standardised expenses									
\$m	691.25	235.14	172.47	130.43	66.41	53.30	16.72	10.81	5.99
\$ per capita	35.27	35.41	35.52	35.53	34.62	35.10	35.33	33.49	29.94
2004 Review									
Estimated expenses									
\$m	1169.93	351.33	434.46	90.61	60.26	170.24	46.88	12.24	3.91
\$ per capita	59.69	52.90	89.49	24.69	31.42	112.10	99.09	37.94	19.54
Standardised expenses									
\$m	1169.93	397.97	291.91	220.75	112.39	90.20	28.29	18.29	10.13
\$ per capita	59.69	59.93	60.13	60.14	58.59	59.40	59.80	56.68	50.67

Effect of assessment on grants

38. Table 10 shows the redistribution of grants resulting from the assessment in the 2003 Update and in the draft assessment for the 2004 Review.

39. Compared to an equal per capita assessment, the draft assessment redistributed \$5.3 million away from New South Wales, Victoria and South Australia to the other States, \$1.1 million more than in the 2003 Update.

40. The main reasons for the change in grants were due to the increase in the category standard (budget) from the 2003 Update to the 2004 Review.

Table 10 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION — HOSPITAL PATIENT FEES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities ^(b)	-0.5	-3.4	1.9	0.5	-0.2	0.1	0.3	1.5	4.2
Contribution to 2004 Review draft assessments relativities ^(b)	-0.7	-4.2	2.1	0.7	-0.3	0.1	0.4	2.0	5.3
Total change	-0.2	-0.8	0.2	0.3	0.0	0.0	0.1	0.5	1.1

(a) Total redistribution.

- (b) Assuming same pool and a constant population.
- (c) This figure shows the change in the amount redistributed among the States between the 2003 Update and the 2004 Review Draft Assessment. It does not necessarily equal the difference in the total contributions to the relativities between the two inquiries.

ATTACHMENT A

(NOTE: The 2001 National Health Survey data (from the Australian Bureau of Statistics (ABS)) were used to calculate the income weights. It should be noted that the results were derived by the Commonwealth Grants Commission and not by the ABS.)

Calculation of the low-income weights

1. In the 1999 Review, the low income weights applied in the Hospital Patient Fees assessment were derived by judgement of the Commission after considering the 1989-90 National Health Survey data and the trend over the last ten years in private health insurance membership by age, sex and income. The results of the 1994-95 National Health Survey (ABS) were not used as a split between private and public hospital use could not be derived.

2. For the purposes of calculating the 2004 Review Hospital Patient Fees assessment low income weights, we proposed to use data derived from the 2001 National Health Survey (NHS) conducted by the ABS. This survey provided the majority of the data required to calculate the low income weights. This included whether each respondent had been admitted as an inpatient over the last 12 months and if they were admitted as a Medicare or private patient. It also indicated the respondents age, sex, level of income and employment status.

3. While the survey did not, additionally, indicate whether the patient was admitted in a private or a public hospital, the national average proportion of private patients that used a public hospital was 16 per cent². Therefore, the number of private patients, as indicated by the survey, (broken down by age, sex and income groups) can be multiplied by 16 per cent to provide an estimation of the number of people who used public hospitals as private patients.

4. We are of the view that this method provides a satisfactory, evidence driven, estimation of the number of private patients using public hospitals and allows us the means to calculate low income weights using a data driven method instead of using a judgement driven approach.

5. In calculating the weights, the low and high income levels were the same as those set for the 2001 Census data³, however, they were further adjusted using the Henderson simplified equivalence scale which accounts for the number of children in a household and

² The proportion of private patients in public hospitals compared to all private patients was 16 per cent. Data on private patients were derived from the 2000-01 Australian Hospital Statistics, AIHW, Table 6.1 p93. Department of Veterans Affairs patients were not included in the calculations as they are Commonwealth funded patients and are not included in the Hospital Patient Fees assessment.

³ Low income was set as \$31,200 for households and \$20,800 for individuals.

whether either adult in the household was employed. As the 2001 NHS only indicated whether a child was present in a household or not, and not the number of children, only Henderson weights for ‘one child’, or ‘no children’, in a household were applied. The Henderson simplified equivalence scale is presented in Table 1.

Table 11 HENDERSON SIMPLIFIED EQUIVALENCE SCALE

Number of adults	Number of children	Weight-	
		Either adult working	Neither adult working
1	0	0.75	0.61
1	1	0.96	0.82
1	2	1.16	1.02
2	0	1.00	0.86
2	1	1.20	1.06
2	2	1.40	1.26

Source: Whiteford, P (1985). A families needs: equivalence scales, poverty and social security. Department of Social Security Research Paper No. 27. Department of Social Security, Canberra.

Note: For any additional child, 0.20 is added.

6. The low income weights were calculated in the following way:

- (i) the number of people admitted as private patients in the last 12 months were derived for age/sex and high/low (Henderson adjusted) income groups. The resulting numbers were multiplied by 16 per cent to derive an estimation of the number of people who used public hospitals as private patients. (Due to low cell counts the age groups were compressed (0 to 19, 20-59 and 60+ years) compared to the low income weight age groups used in the Inpatients Services category (0-4, 5-14, 15-19, 20-39, 40-59, 60-69 and 70+ years));
- (ii) the number of people who were not admitted to hospital in the last 12 months were derived for the same age/sex and income groups as mentioned above;
- (iii) The proportion of people admitted as private patients (weighted for public hospitals only) compared to people who were not admitted to hospital, were calculated. The resulting ratios were divided by the Australian average ratios.

7. The proposed 2004 Review low income weights are presented in Table 2.

Table 2 PROPOSED LOW INCOME WEIGHTS, 2004 REVIEW

Sex	Income group	0 to 19 yrs	20 to 59yrs	60 +yrs
Ratios of people who were private patients in public hospitals compared to the number of people who were not admitted to hospital.				
Males	low	0.003	0.006	0.017
	high	0.005	0.008	0.025
	Aus. avg	0.004	0.007	0.019
Females	low	0.002	0.007	0.013
	high	0.005	0.014	0.028
	Aus. avg	0.004	0.012	0.016
Each ratio was divided by the Australian average ratio for age/sex groups.				
Males	low	0.66	0.75	0.88
	high	1.15	1.11	1.30
Females	low	0.39	0.58	0.82
	high	1.26	1.21	1.73
2004 Review – proposed low income weights (low income ratio/high income ratio)				
Males		0.57	0.68	0.68
Females		0.31	0.48	0.47
1999 Review – low income weight			0-59 years	60+years
Males			0.50	0.40
Females			0.50	0.40

Source: 2001 National Health Survey, ABS.

Note: It should be noted that the results were derived by the Commonwealth Grants Commission and not by the ABS.