2025 Methodology Review

Significant changes since the Draft Report

Tasmanian Government Submission

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Department of Treasury and Finance

Tasmanian Government

Contents

1 Introduction

As part of the 2025 Methodology Review, the Commonwealth Grants Commission (Commission) released a paper on 8 November 2024 which set out the substantive and minor changes further to the 2025 Methodology Review Draft Report (Draft Report).

This submission responds to the Commission's request for State comments on the Commission Paper - *Significant Changes since the Draft Report* (Changes Paper).

Tasmania is generally supportive of the methodology changes introduced since the Draft Report. In particular, Tasmania is strongly supportive of the Commission's decision to revert to the 2020 approach for measuring socio-educational disadvantage within the schools assessment. Tasmania would also like to express its support for the Commission's decision to step away from an individual based housing assessment.

Overall, Tasmania is broadly supportive of the Commission's proposed 2025 methodology, noting that the justice assessment methodology will not be finalised until the 2026 Update.

Tasmania has provided comment on several elements of the health assessment:

Health

Tasmania acknowledges the Commission's concerns with the 2020 methodology, as noted in the Draft Report, regarding the use of private patient separations as the indicator of non-state sector admitted patient activity.

In the Draft Report, the Commission proposed to change the indicator of non-state sector activity to expenses measured by benefits paid by private health insurance funds.

Tasmania does not support the Commission's subsequent decision to revert to the 2020 methodology approach.

An alternative data source which captures complexity would be a more appropriate indicator of private sector activity. Tasmania contends that either benefits paid by private health insurers, or the number of bed days would provide a better equalisation outcome than the use of patient separations data.

Tasmania notes the Commission's intention to incorporate expenses associated with aeromedical services and the Patient Assistance Transport Scheme in the admitted patient assessment before the next review if satisfied that all states are providing the required data to the Independent Health and Aged Care Pricing Authority (IHACPA). Tasmania is unable to provide IHACPA with the data required to support this change.

2 Substantive Method Change - Health Assessment

2.1 Admitted patient non-state sector indicator

The Commission intends to revert to the 2020 Methodology Review approach of using private patient separations as the indicator of non-state sector admitted patient activity.

The non-state sector adjustment for all health assessment components, including the choice of indicator for non-state admitted patient activity, is included in the Commission's forward work program.

The Commission's assessment of admitted patient services acknowledges that the level of admitted patient services provided by a state is influenced by the number of similar services provided in the non-state (private) sector. For example, there is a conceptual case that a higher level of private childbirth services available within a state would, to some extent, reduce the level of public childbirth services needed.

Under the 2020 methodology, the Commission uses private patient separations funded by private health insurance as the indicator of non-state sector activity. At a simplistic level, hospital separations are a count of the number of hospital stays. They provide no information on the length of each stay or the complexity of treatment.

In the Commission's Draft Report, the Commission stated that an indicator of activity which takes account of complexity and other factors that affect costs would be a better indicator of activity than hospital separations. The Commission considered two options:

- patient bed days; and
- expenses measured by the amount of benefits paid by private health insurance funds.

The Commission stated that while bed days would be an improvement over separations, this approach was not possible as data on actual private patient bed days for the three smallest states are not available.

The Commission noted that the level of medical benefits paid by private health insurance funds can vary between states for the same procedure. For example, Western Australian private health insurers consistently paid higher benefits than the national average. Conversely, Victorian and South Australian private health insurers consistently paid benefits below the average.

The Commission acknowledged that using benefits paid may affect the assessment of a state's relative level of activity in the non-state sector. However, the Commission concluded that "given the relatively small differences in benefits paid for equivalent hospital services across states, expenses are considered to provide a better measure of activity than separations."[1]

In the Changes Paper, the Commission now proposes to revert to the 2020 methodology using separations data. Tasmania notes that the Commission does not raise any new issues with using the benefits paid data beyond those already discussed in the Draft Report. However, the Commission cites concerns that benefits paid would provide a biased measure of non-state sector activity as its reason for reverting to the 2020 approach.

[1] Paragraph 177, health chapter, Draft Report

Private patient separations

In Tasmania's initial response to the health consultation paper as part of its Tranche 1 submission, Tasmania supported the continuation of private patient separations as the indicator of non-state sector activity. However, having reviewed the information presented by other jurisdictions and by the Commission's analysis in the Draft Report, Tasmania acknowledges that this approach has several downsides.

Patient separations do not account for the acuity or complexity of the healthcare services provided. This means that all separations are treated equally, regardless of the resources required or the severity of the patient's condition. Healthcare services vary significantly in terms of acuity and complexity, and using separations as a measure fails to capture these important differences.

Moreover, separations do not reflect the actual resource utilisation or the intensity of care required for different treatments. For example, a simple procedure such as a colonoscopy or carpel tunnel release is a simple, same-day procedure that would typically require relatively few resources and be completed in under an hour. In contrast, a complex surgery such as a coronary bypass is a multi-hour surgery that would require substantially more resources including access to an intensive care unit and a five to seven day stay in hospital. Despite the vast difference in resources and time required, both procedures would equally count as one separation. While this inaccuracy would affect every state, for a small state such as Tasmania, this may materially overestimate the non-state sector's contribution to healthcare services.

Tasmania has a smaller, relatively limited private health sector compared to larger jurisdictions. There are many contextual factors which contribute to this. For example, the private hospital sector outside Hobart is limited by diseconomies of scale encountered in providing services to a dispersed population which in turn results in the provision of a limited range of specialties.[2] Moreover, private hospital activities in some locations are further constrained by their inability to treat more complex conditions in the absence of an intensive care unit.[3]

The goal of Horizontal Fiscal Equalisation (HFE) is to ensure that all states have the capacity to provide a similar standard of public services. Given private patient separations do not account for acuity or complexity, Tasmania has concerns with the reliability of these data to meet the objectives of HFE, compared to alternative non-state sector indicators such as patient bed days or benefits paid by private health insurer.

Patient bed days

As noted above, patient separations data represent the number of hospitalisations during a period. Each hospitalisation can vary in length from same day to many days or weeks. It is well established that length of stay is directly related to the severity and complexity of a patient's condition and is often a key metric used to identify resource utilisation and cost within hospitals.[4]

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[2] Tasmanian Department of Health and Human Services' submission to the Productivity Commission's study on the performance of public and private hospital systems (2009). https://www.pc.gov.au/inquiries/completed/hospitals/submissions/sub037.pdf

[3] Ibid.

[4] Stone K, Zwiggelaar R, Jones P, Mac Parthaláin N (2022) A systematic review of the prediction of hospital length of stay: Towards a unified framework. PLOS Digit Health 1(4): e0000017. https://doi.org/10.1371/journal.pdig.0000017

Patient bed days data capture the length of stay for each patient. In its Tranche 1 submission, Queensland presented a table comparing private separations with private patient bed days for each state.[5] Tasmania notes that the data for this table was published by the Australian Institute of Health and Welfare (AIHW) and includes all patients at public and private hospitals who used private health insurance as part of the funding source for the episode of admitted patient care. However, private hospital data are supressed for Tasmania, the Australian Capital Territory and the Northern Territory, so for these jurisdictions the figures in Queensland's table are only for public hospitals.

Tasmania has recreated this table below, using a combined figure for 'Smaller States' (Tasmania, the Australian Capital Territory and the Northern Territory) equal to the difference between the Total column and the sum of the known jurisdictions (NSW, Vic, Qld, WA and SA). Tasmania contends that this provides a reasonable estimate of private activity in the three smallest jurisdictions rather than the use of only public hospital figures.

As demonstrated in Table 1, the average length of stay is shortest among the smallest jurisdictions. The data suggest that New South Wales and Victoria have a larger private sector when compared using patient bed days than when using patient separations. Conversely, all other jurisdictions have a smaller private sector when measured using bed days rather than separations. This would suggest that the use of patient separations data is overestimating non-state sector activity for all but the largest two states, with the effect most pronounced for the smallest jurisdictions.

Table 1: Private separations and private patient bed days, public and private hospital, 2021-22

	NSW	Vic	Qld	WA	SA	Smaller States[a]	Total
Private separations	1 412 626	1 055 903	1 105 829	446 494	343 235	178 014	4 542 101
Per cent of total private separations	31.10%	23.25%	24.35%	9.83%	7.56%	3.92%	
Private patient bed days	3 601 723	2 607 602	2 566 447	1 033 487	766 863	393 069	10 969 191
Per cent of total private patient bed days	32.83%	23.77%	23.40%	9.42%	6.99%	3.58%	
Difference	1.73%	0.53%	-0.95%	-0.41%	-0.57%	-0.34%	
Average length of stay (days)	2.55	2.47	2.32	2.31	2.23	2.21	2.42

[a] Smaller States values are calculated as the difference between the Total and the sum of NSW, Vic, Qld, WA and SA.

Source: Australian Institute of Health and Welfare

Tasmania understands that in order to protect confidentiality, the AIHW suppresses private hospital data for the three smallest jurisdictions. However, data on actual private patient bed days is reported to the AIHW by all states. While there are potential confidentiality issues in accessing these data, Tasmania believes these could be addressed through the Commission's existing data confidentiality procedures.

[5] Queensland submission to Tranche 1 consultation papers, 2025 Methodology Review. Table 2.1 (p.15).

Benefits paid by private health insurers

Benefits paid by private health insurers capture the actual costs associated with patient care, including variations in treatment complexity and resource utilisation. In the Draft Report, the Commission noted that private patient benefits paid could potentially provide more information than separations or bed days on the relative costs of service provision, and therefore provide a better indicator of non-state sector activity than either of the alternatives.

The Commission presented data showing that the ratio of state benefits paid to the national average was relatively consistent across states, with most states having a large proportion of separations where the benefits paid were close to the national average. This consistency supported the use of benefits paid as a reliable indicator of activity.

While there are variations, the Commission initially concluded that the differences were not substantial enough to undermine the validity of using benefits paid as a measure. The Commission acknowledged that benefits paid provided a better measure of activity than separations, despite some state-specific variations. This conclusion was supported by New South Wales, Victoria, Queensland, Tasmania and the Australian Capital Territory.

As such, Tasmania would suggest that jurisdictions broadly support the use of benefits paid data as providing better information than separations or bed days. Tasmania would encourage the Commission to consider whether the presence of a consistent variance, driven by the market for some states, could be addressed via an adjustment or a discount.

Tasmanian position

Tasmania initially supported the use of private patient separations as the indicator of non-state sector activity. However, after reviewing additional information and analysis, Tasmania recognises the limitations of this measure, particularly its failure to account for the acuity and complexity of healthcare services in the private sector.

Tasmania now advocates for the adoption of more accurate indicators, such as patient bed days or benefits paid by private health insurers, either of which better reflect the true level of service provision and resource utilisation. These measures align more closely with the goals of HFE, ensuring a fairer and more precise assessment of non-state sector activity across all jurisdictions.

Tasmania acknowledges the late stage of the 2025 Methodology Review. However, Tasmania recommends that the Commission reconsider the appropriateness of these alternative data sources and move to a more suitable indicator from 2025.

2.2 Non-hospital patient transport

The Commission intends to incorporate expenses associated with aeromedical services and the Patient Assistance Transport Scheme in the admitted patient assessment before the next review if the following conditions are met.

- First, verification that all states are providing the data that the IHACPA needs to incorporate the aeromedical services and the Patient Assistance Transport Scheme activity into the National Weighted Activity Unit (NWAU).
- Second, the data being available for all three years of the assessment period when any such method change is implemented in a future update.

Under the 2020 methodology, costs associated with aeromedical services and the Patient Assistance Transport Scheme are assessed separately. In the Draft Report, the Commission noted uncertainty about the extent to which these non-hospital patient transport activities are included in the NWAU data produced by IHACPA. The Commission stated its intention to engage with IHACPA between reviews to determine whether a different approach would be more suitable for a future review.

In the Changes Paper, the Commission now proposes to incorporate these expenses in the admitted patient assessment before the next review if it can verify that all states are providing these data to IHACPA, and the data are available for all three assessment years at the time the change is implemented.

Although aeromedical services and the Patient Assistance Transport Scheme are used in the State, Tasmania does not provide data on aeromedical services or the Patient Assistance Transport Scheme activity to IHACPA. Moreover, advice provided from Tasmania's Department of Health indicates that there would be considerable work required to be able to report these data in future.

While Tasmania supports the Commission's intention to engage with IHACPA between reviews, Tasmania considers it highly unlikely that the Commission's conditions will be met during this review period.

3 Acronym Table

Acronym	Definition
AIHW	Australian Institute of Health and Welfare
GST	Goods and Services Tax
HFE	Horizontal Fiscal Equalisation
IHACPA	Independent Health and Aged Care Pricing Authority
NWAU	National Weighted Activity Unit