



Government of **Western Australia**
Department of **Treasury**

Your ref : A452641
Our ref : 00185815
Enquiries : Kylie Coulson
Telephone : 08 6551 2539



Dr G. G. Jacobs, MLA
Chair
Education and Health Standing Committee
Parliament House
PERTH WA 6000

Attention: Mr Matthew Bates

COSTS OF HEALTH SERVICE DELIVERY IN WESTERN AUSTRALIA

Thank you for your letter of 19 June 2014 requesting information on the strategies being developed to achieve convergence with the national average cost for health service delivery by 2017-18.

In the 2013-14 State Budget (delivered to Parliament on 8 August 2013), health service delivery in Western Australian public hospitals was explicitly purchased from WA Health on an activity basis for the first time. The approved budget settings shown on page 129 of the 2013-14 Budget Paper No. 2 required the cost per unit to be reduced each year, with the difference between the State's unit cost and the national cost benchmark, known as the Projected Average Cost (PAC), to be eliminated by the end of the forward estimates.

The 2014-15 Budget (delivered to Parliament on 8 May 2014) continues the requirement to achieve convergence with the PAC by 2017-18. Achieving this challenging target will require WA Health to address growth in its cost of service delivery in public hospitals, and strategies to achieve this are currently being developed by WA Health. The Department of Health has advised the Department of Treasury (Treasury) that it is not yet able to quantify the expected impact of these strategies.

Workforce costs are one of the main reasons for the current cost of service delivery in public hospitals being higher in Western Australia relative to the PAC. Adherence to the State's wages policy in future wage negotiations, and improving the efficiency of the workforce through a review of required staffing levels and rostering processes, will significantly contribute to lower cost growth.

In this regard, experience in other jurisdictions has demonstrated that a clear industrial relations strategy to deliver an appropriately structured and flexible workforce, and adherence to wages policy, are key to achieving challenging cost reductions. Queensland, for example, has indicated that it has reduced its public hospital costs over three years from being 11 per cent above the national average to three per cent below.

In addition, following a review of procurement processes and procedures, procurement and contract management reforms are underway in WA Health, and are expected to deliver cost savings in the future. Treasury is a member of WA Health's Finance, Purchasing and Performance Group, that considers reforms associated with the current rollout of activity based funding and management across WA Health, including service models and improvements in procurement processes.

Demand management is another key area that can contribute to lowering costs for public hospital service delivery. This includes aligning facilities and demand across the State, so that hospital capacity is efficiently managed. Treasury participates in the WA Health Transition and Reconfiguration Steering Committee, which is addressing these issues in the metropolitan area.

I trust that this information is of assistance.

Yours sincerely



Michael Barnes
ACTING UNDER TREASURER

29 JUL 2014

cc: Hon Dr Mike Nahan, MLA, Treasurer