

(In Progress) Working Paper

**Estimates of Savings Possible if Commonwealth, State and Territory Health Systems were Rationalised into a single National System or a System in which the Commonwealth's Role Reduces to that of Funding Only**

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(PhD student, University of Canberra: provisional thesis title: 'The Design of a "Best Possible" System of Government for Australia, with special Emphasis on Sub-National Government and Governance Structures, and the Powers and Responsibilities Assigned to Different Levels of Government)

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The estimates presented herein are derived following a methodology similar to that described in the article 'Costing Constitutional Change' (M. Drummond, Australian Journal of Public Administration, December 2002, pp. 43-56) but focus upon just the Health sector alone, rather than the public sector in its entirety. It is intended that the article 'Costing Constitutional Change' (henceforth CCC) be perused in association with what follows here.

**Key Results from CCC article**

Results [4], [14], [26] and [30], in CCC provide estimations as follows:

**Result [4]** provides the estimate that \$11.12 billion dollars (in 30 June 2001 dollar terms) could be saved each year *within the public sector alone* if Australia's eight state and territory public sectors horizontally amalgamated into a single Australia-wide state-type public sector. This estimate assumes that state/territory total annual public sector outlays can be described by the following linear model:

$$E = FC + MC \times P,$$

where

P = population of state and territory units (the independent variable);

E = total public sector expenses of states and territories (the dependent variable);

FC = fixed or overhead cost of state and territory public sectors; and

MC = marginal per capita cost of state and territory public sectors.

The model assumes that FC and MC are constant values, and could of course be proven inadequate, but data, from the Australian Bureau of Statistics (ABS) Catalogue 5512.0 (titled 'Government Finance Statistics') for the three years 1998-99 through 2000-01 fit this model and its underlying assumptions extremely well, with:

FC = \$1.5883 billion

MC = \$6615 (per person, i.e. per capita)

Coefficient of determination  $r^2 = 0.9904$ ; F statistic = 2277; so the probability that the linear relationship here arose by chance is just  $1.04 \times 10^{-23}$ .  
(see graph on page 48 of CCC)

The idea here is that if the eight state/territory public sectors amalgamated into just one, seven lots of these FC = \$1.5883 billion components could be saved, hence giving the savings estimate of  $7 \times \$1.5883 \text{ billion} = \$11.1 \text{ billion}$ .

**Result [14]** provides the estimate that \$20.2 billion dollars could be saved each year *within the public sector alone* if Australia's eight state and territory public sectors horizontally amalgamated into a single Australia-wide state-type public sector. Results [14] is considered an improvement on result [4] because, whereas [4] assumed FC and MC were held constant, [14] allows FC and MC to vary to reflect the changing situation that would arise as political units amalgamated one by one towards the single Australia-wide state-type public sector.

**Result [26]** provides the estimate that \$30.6 billion could be saved each year *within the public sector alone* if Australia's state, territory and Commonwealth public sectors all coalesced (through, in effect, a combination of horizontal and vertical amalgamations) into a single national public sector (along with all their regulatory roles, leaving local government and regionalised service delivery – i.e. through policing districts, health care/service regions etc. – more or less as in the present system).

**Result [30]** provides the estimate that \$45.9 billion could be saved each year *within the public and private sectors combined* if Australia's state, territory and Commonwealth public sectors all coalesced (through, in effect, a combination of horizontal and vertical amalgamations) into a single national public sector, hence facilitating a single national private sector as well.

### **Savings Estimates Corresponding to Those Set Out Above but for Just the Health Sector**

The analysis reported in CCC was carried out for Health, Education and other individual functional areas, as well as for public sectors as wholes, again using Government Finance Figures in ABS Catalogue 5512.0. For the Health purpose/function are alone:

- **Result [4] becomes** approximately **\$0.89 billion** (per annum), based on data for the years 1998-99 through 2000-01 (with  $r^2 = 0.9934$  – better than the 0.9904 for total public sector) in 30 June 2001 dollar terms. Based on figures for 2001-02 alone, the figure comes out at **\$1.19 billion** ( $r^2 = 0.9921$ ) in 30 June 2002 dollar terms. A figure of approximately **\$1.0 billion** emerges as a sound estimate.
- **Result [14] becomes** approximately **\$1 billion to 2 billion** per annum (in present dollar terms).

- **Result [26] becomes** approximately **\$2 billion to \$4 billion** per annum (in present dollar terms).
- **Result [30] becomes** approximately **\$3 billion to \$6 billion** per annum (in present dollar terms).

The above are offered as “sound ballpark” estimates in what is an inherently approximate exercise.

Results [4] and [14] as above, for just the Health component of the public sector, provide estimates that approximately **\$1 billion to \$2 billion per annum** could be saved *within the public health sectors* if Australia’s eight state and territory public health sectors horizontally amalgamated into a single Australia-wide state-type public health sector.

Result [26] above, again for just the Health component of the public sector, provides the estimate that approximately **\$2 billion to \$4 billion per annum** could be saved *within the public health sectors* if Australia’s state, territory and Commonwealth public health sectors all coalesced into a single national health sector/system, leaving health care/service regions more or less as in the present system.

Result [30] above, for just the Health component *of the public and private sectors combined*, provides the estimate that approximately **\$3 billion to \$6 billion per annum** could be saved within the Health sector as a whole (i.e. public and private combined) if Australia’s state, territory and Commonwealth public health sectors all coalesced into a single national public health sector, hence facilitating a single national private health sector as well.

### **Further Statistics and Discussion**

Statistics employed in establishing the above estimates have been obtained from the ABS Catalogue 5512.0 (from 1998-99 till 2001-02 inclusive) and also from the Australian Institute of Health and Welfare (AIHW) document ‘Health Expenditure Australia 2000-01’ (see especially Table 7 on page 14).

Table A10, on page 77 of the AIHW’s ‘Health Expenditure Australia 2000-01’, shows that total expenditure on administration amounted to \$1.7 billion in 1999-00, which made up 3.1% of all health expenditure in 99-00, which totalled \$55.6 billion. In 2000-01, estimated total health expenditure is \$60.8 billion. So savings of \$1 billion per annum represent about 1.6% of total health expenditure.

Table 31 of ABS Cat. 5512.0 for 2001-02 shows that general government health expenses totalled \$44.3 billion Australia wide, \$27.6 billion of which was spent by the Commonwealth (including approximately \$8 billion given in grants to the states for acute care institutions). It is noteworthy that the Commonwealth expenditure breakdown is as follows:

Acute care institutions	\$7.931 billion
Community health services	\$8.702 billion
Pharmaceutical	\$4.274 billion

Other	\$6.706 billion
TOTAL	\$27.613 billion

Some of the \$6.7 billion 'Other' category here is for health related research and development, but much is for administration and federal programs which the Commonwealth is required to carry out to some extent only to coordinate with and across state and territory governments. Much of such expenditure could be saved if health care became solely the responsibility of the federal/national government.

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According to the estimates provided on the lower part of page 2 here, horizontally amalgamating state and territory public health sectors could save about \$1 billion to \$2 billion per annum, and a similar amount again could be saved through the vertical amalgamation of state and federal health sectors into a single national system. This latter \$1b to \$2b savings component represents the elimination of vertical duplication and coordination burdens as between state and federal health sectors in the present system. Now a move to a system in which the Commonwealth's role reduced to that of funding only would also end up absent of such vertical duplication and coordination burdens, so it could be estimated that **\$1 billion to \$2 billion per annum could be saved through moving to a system in which the Commonwealth's role reduced to one of funding only.**

An obvious concern, however, is that a system without Commonwealth leadership and involvement would end up more fragmented, uncoordinated, inefficient and expensive than it presently is *horizontally across states and territories*, in which case any savings secured through the Commonwealth's reduced role might be cancelled out.

A final point is that much of the savings estimated in the CCC article relate to general government as distinct from function-specific savings in areas like health and education. So whereas some savings could be liberated by rationalising health as between state, territory and federal levels, much greater savings, that could become available for the health sector, would be possible if state, territory and federal governments coalesced into a single national government, giving rise to unified national public and private sectors.

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