

Structural deficits in public healthcare service budgets

Factsheet for public healthcare service Board Directors and other stakeholders

6 February 2024

In November 2023, the Victorian Healthcare Association (VHA) issued a [media release](#) that raised concerns about 'structural deficits' affecting public healthcare services in Victoria. This follows ongoing advocacy by the VHA to highlight and address the challenging financial conditions facing Victoria's healthcare system.

'[Keep health funding above inflation](#)' was a key platform of the VHA's campaign ahead of the 2022 Victorian State Election, and a commitment that the VHA continues to pursue with the Victorian Government. However, the extent of the structural deficits mean that focused policy interventions will not address the problem without more meaningful, systematic change.

As the cost-of-living debate continues to dominate discussions at all levels of government and corporate Australia, the VHA has prepared this explainer to provide context as to why balancing the health budget is becoming increasingly harder over time.

What is a structural deficit?

A structural deficit refers to a situation where an organisation's expenditure consistently exceeds its revenue. Within the context of government spending, a structural deficit occurs because of underlying economic or demographic conditions, even during periods of relative prosperity.

In Australia, state and territory governments spend on essential services such as education, health, public transport, and roads, but the cost of these services depends on external factors. Health expenditure is a helpful example, as expenditure is driven by Australia's ageing population. Irrespective of the health of the economy, expenditure on age-related health issues will grow over time.¹

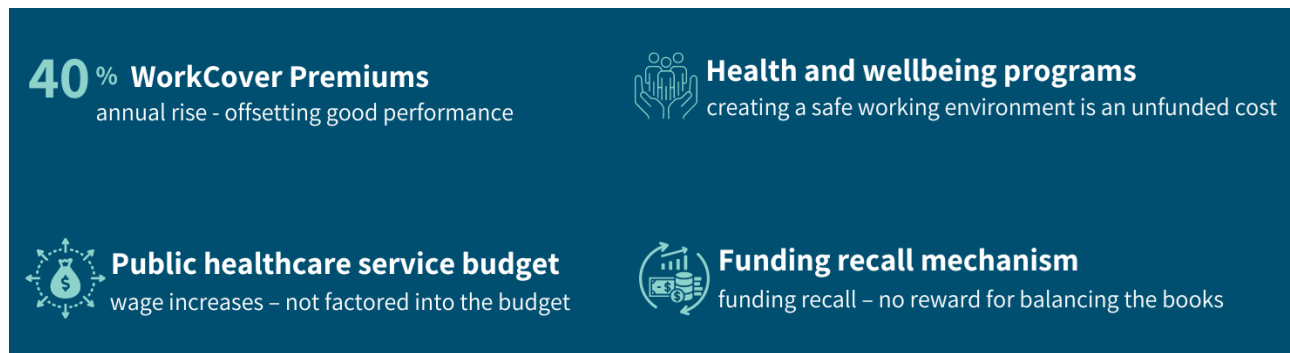
What does this mean for a public healthcare service?

Like governments, Victorian public healthcare services also carry structural deficits on their balance sheet. In addition to the demographic trends that impact on health expenditure at the local level, health services also have in-built financial losses caused by factors outside the control of the health service leadership, or the Board. These relate to the policy, regulatory and other settings determined by policymakers and governments.

¹ G. Lim, "Budget explainer: what is a structural deficit and why does Australia have one?" *The Conversation*, May 7 2015, accessed from <https://theconversation.com/budget-explainer-what-is-a-structural-deficit-and-why-does-australia-have-one-40089>

Why is this happening?

No one factor is responsible for the growing gap between revenue and the true cost of delivering healthcare. However, the VHA has identified several policy issues that are contributing to the structural deficit based on feedback from its members.



A summary of the key factors contributing to structural deficits

Compliance costs, including Workcover, are becoming increasingly unsustainable



The challenges facing WorkCover and its financial health are well known, following the Victorian Government's decision to increase premiums in the last Victorian State Budget.² Since 1 July 2023, Victorian businesses have paid 40 per cent more in WorkCover premiums compared to the previous year. This equates to an average of 1.8 per cent of remuneration, exceeding the premiums in both New South Wales (an average of 1.48 per cent) and Queensland (1.23 per cent).³

Earlier in 2023, the VHA conducted a member survey to which fourteen independent registered community health services responded. Survey results showed that respondents will pay between \$50,000 and \$663,000 more this financial year for their WorkCover premiums (a median result of \$140,000 more than the 2022-23 financial year). This is a significant increase in unavoidable expenditure for independent registered community health services, many of whom are small organisations operating on lean budgets.

More than just pocket change

While these numbers may not look substantial, the financial impacts are significant in real terms.

For one public healthcare service, the WorkCover premium has almost doubled from \$1.4 million to \$2.72 million.

² This followed a report by the Victorian Auditor General's Office in late 2021, which indicated that at 30 June 2021, the value of the outstanding insurance claims liability for WorkSafe had almost doubled over the last five years. See <https://www.audit.vic.gov.au/report/auditor-generals-report-annual-financial-report-state-victoria-2020-21?section=34007--2-financial-performance-and-position&show-sections=1#34007--2-financial-performance-and-position>

³ "Businesses blast 42 pc increase in Vic WorkCover premiums," *Financial Review*, May 19 2023.

Further to this change, public healthcare services who operate under multiple Workcover Industry Classifications⁴ have also highlighted the impact of amendments to the annual premium capping arrangement. Independent registered community health services who were previously capped at 30 per cent for their maximum year-on-year premium increase will now pay up to 75 per cent more.

Claims history is a large incentive to reduce premiums, however, this involves investment in people, processes, and a safe culture. Where a public healthcare service's claims performance is favourable in comparison to the industry average, public healthcare services can benefit from WorkCover premium discounts. However, these discounts may be minimal when the 2023-24 premium increase is taken in account. For example, one VHA member received a \$149,395 discount due to good claims performance and \$69,079 discount due to changes in the average industry performance – discounts that would have required a significant initial outlay to obtain. However, this was still countered by a premium increase of \$127,781.

Left unchecked, public healthcare services will continue to struggle to absorb these and various other increases in operational costs. When the *Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Bill 2023* failed to pass the Victorian Parliament in December 2023, and future increases to premiums are looking more likely, the VHA [raised its concerns in the media](#). A media release is available on [our website](#).

Employers pay out of pocket for measures that promote staff wellbeing and safety



All healthcare workers are entitled to a mentally healthy workplace. However, staff working in public healthcare services settings need to be equipped to manage the complexities of working with vulnerable people, or agitated clients and families waiting to access care.

WorkSafe offers tools and resources to support mental health and wellbeing in Victorian workplaces through its WorkWell program. Safer Care Victoria also offers initiatives to support workforce wellbeing. However, access to training that promotes improved wellbeing should be available regularly and targeted to a person's career stage. For example, training for healthcare workers new to the field may need to be more comprehensive, as they may not have experience or well-developed capabilities in de-escalation. While training and education programs to keep staff safe and well are key to their retention, this cost is not met by the funding a public healthcare service receives to provide care.

Some of Victoria's major metropolitan health services have also employed security personnel, who can have a presence in emergency departments, car parks and waiting rooms where conflict may escalate regularly. However, public healthcare services are not funded to provide security services for staff and patients. In this financial year, the VHA understands that some health services have subsidised the cost of security through other funding sources where staff are raising concerns about their safety and wellbeing.

Wage increases are outpacing indexation



The Victorian public health sector employs more than 139,000 full-time equivalent staff.⁵ These include doctors, nurses and midwives, medical scientists, allied health, mental health nurses, technicians, administrative and clerical staff, and a range of other staff working across more than 100 locations around the state. While each Victorian public healthcare service is an employer in its own right, for many employee groups (for example nurses, midwives, medical scientists, and allied health professionals) enterprise

⁴ For example, a community health service may pay premiums against multiple industry classifications if they provide general medical, dental, allied health and social assistance services, each of which is calculated on a different rate.

⁵ [Knowledge Bank - Public Health Workforce \(vicknowledgebank.net.au\)](https://vicknowledgebank.net.au)

bargaining negotiations are conducted on a statewide basis, between the Victorian Government and the relevant union.

Public healthcare service funding has not kept pace with the salary increases delivered through these agreements. Under the current enterprise bargaining agreement for nurses, for example, nursing salaries have increased 3 per cent each year. By contrast, between July 2020 and July 2023, the indexation calculated for public health services ranged between 1.5 and 2.37 per cent. A small number of health services received 3.29 per cent in 2023.⁶

Victoria's public healthcare workforce must be remunerated in a manner that recognises and values their role within the sector. However, these additional costs cannot be borne by public healthcare services and should be factored into the public healthcare service budget in full. The VHA would like to see public healthcare service budgets aligned to anticipated wage increases.

Funding recall mechanisms rely on cash reserves or government 'top ups'



Reigning in expenditure to address escalating costs places downward pressure on the ability of public health services to meet their activity targets within the financial year. While a health service may be able to deliver a balanced budget, this may have significant consequences.

Unlike private companies, who are rewarded for responsible fiscal management and can carry over funds into the new financial year, many public healthcare services with funded activity targets are subject to the Victorian Funding Recall Policy.⁷ This could lead to a recall of any savings achieved at the end of the financial year. As a result, many health services may operate balance sheets 'in the red' towards the end of the financial year. As they are delivering critical care to Victorians, they can request additional funding from government, or rely on cash reserves. While these arrangements keep the doors of a service open, they do not enable health services to operate a sustainable budget.

'Essentially, public health services are not being funded in line with the real costs of delivering services – costs which are increasing.'

'Just as inflation continues to hurt families, the cost-of-living crisis is having very real impacts on the ability of Victoria's public health services to run their operations sustainably and deliver essential healthcare in a sustainable way.'

VHA CEO, Leigh Clarke

Why broader reform is needed

A solution to these underlying structural problems requires multiple policy interventions. While a comprehensive reform agenda is generally not pursued by governments during periods of economic instability and fiscal constraint, the VHA welcomes a comprehensive conversation with the health sector, the Department of Health and the Victorian Government about future opportunities for funding policy reform.

⁶ <https://fac.dffh.vic.gov.au/dh-dffh-approved-yearly-indexation-rates-ngoero-0>

⁷ Small rural health services are exempt from the recall policy for some types of services (i.e. acute, subacute and primary health). See <https://www.health.vic.gov.au/policy-and-funding-guidelines-for-health-services>