

This article was first published in the *Otago Daily Times* on 7 November 2008

Taxpayers Deserve Value for Money for Health Spending

What would you expect a minister of health to do if presented with a report by respected researchers that raised serious questions about the quality of health spending?

More precisely, a report that found that the unit costs of hospital services had gone up by 18% in real terms in the five years to 2006, while hospital productivity – the volume of services produced per person employed – had gone down by 8% in the same period.

You might assume the first reaction would be to read and understand the report, ask the Ministry of Health to investigate and verify the findings, and invite the researchers in for a discussion about the trends and possible causes.

Not so the reaction of health minister David Cunliffe. He dismissed the report as 'silly' and launched into an ideological rant about privatisation of health.

The report *Productivity Performance of New Zealand Public Hospitals 1998/99 to 2005/06* (available at www.nzbr.org.nz) was the work of former secretary to the Treasury and former chairman of the Health Funding Authority Dr Graham Scott, and former Ministry of Health Manager Information Mani Maniparathy. It was part-funded by the Business Roundtable.

The study built on and extended earlier work by the Treasury and the Ministry of Health into public hospital efficiency and productivity.

A 2005 Treasury report found that hospital efficiency had declined by 7.7% from 2000/01 to 2003/04 when it had increased by 1.1% in the previous three years.

The Treasury study measured efficiency by comparing the growth in costs, after allowing for inflation, with the volume of services produced. The Scott/Maniparathy study recalculated that measure and extended it over two more years, which confirmed the Treasury's findings and showed that hospital efficiency continued to fall.

That measure of efficiency was influenced by salary increases in the period studied. To remove this effect, the latest study also calculated the volume of hospital services divided by the staff numbers employed. This is a standard measure of labour productivity, and produced the finding that overall labour productivity in public hospitals fell by 8% (with a fall of 15% for medical personnel and 11% for nurses).

Thus the minister's response that salary increases were needed to attract and retain health professionals is irrelevant to the productivity findings. Nor are the findings related to how hard doctors and nurses work, contrary to claims by the Association of Salaried Medical Specialists.

The research goes no further than analysing trends in productivity and unit costs of services; it does not investigate their causes.

Explanations so far offered by the minister of health are unconvincing.

Mr Cunliffe pointed out that the government has invested in primary health care and in hospital infrastructure, but such investments should cause hospital productivity to go up, not down.

He claimed more front line professionals have been employed, but then why has their average output decreased? As well, many more administrators and board members have been employed. Are they lowering average productivity?

Another claim was that the report doesn't look at quality improvements. This is correct, but the implicit assertion that quality improvements have occurred was unsubstantiated, and they would need to be large to offset the productivity decline. Fragmentary evidence from the Ministry of Health presents a mixed picture with two quality measures showing improvement and two no change, and no causal effect between quality measures and the

decline in productivity has been established. The Health and Disability Commissioner has issued numerous critical reports on hospital safety, which is an important dimension of quality.

Finally, the minister stated that more people are accessing health services. So they should be with recent 8.5% average annual increases in health spending, but this has nothing to do with productivity.

The negative efficiency and productivity trends compared with the prior improvements raise questions about the effectiveness of current policies for the funding, governance and management of hospitals.

The findings of the latest study are of no small moment. Just keeping hospital productivity at its previous level would have allowed District Health Boards to carry out work equivalent to an extra 30,000 hip replacements (which might have cleared the whole waiting list). Alternatively, they could have cared for as many additional patients as the Waitemata DHB cared for in 2005/06.

Moreover, the findings for the health sector add to concerns about other declining productivity trends in the economy. Annual labour productivity growth for the measured sector of the economy (essentially the business sector) was only 1.1% in 2000-07, the lowest rate of growth for any cycle since the series began in 1978.

Health minister David Cunliffe's response to the study's findings should be regarded as unacceptable. Health accounts for 20% of government spending and 8% of the economy. Ministers are accountable to taxpayers for getting value for money for the taxes they pay. Three separate studies now suggest this is not happening.

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