UNSUSTAINABLE

The innovation we need won't come from government.

It might surprise you that someone with a background like mine that didn't include health would be talking about health. But as a new member of Parliament I realised very quickly that the single most important issue that faces the federal government is health policy.

So, like any good consultant, I made it my task to think deep and hard over the last couple of years about health policy. I got involved in it and looked at it on a very local level as well as at a much more macro level. I'll get to that in a moment, but at the heart of the problem is the need for innovation.

I am very fond of what's known as Moore's Law. Moore's Law is the very simple idea that we consistently overestimate the impact of innovation and technology in the short term and we underestimate it the long term. I've experienced Moore's Law in person with business. I have started seven different businesses over the course of my career; generally, the failures were because I breached Moore's Law and the successes were because we were aligned with it. Time and time again, I have seen that innovation, if focused on technology alone, will fail.

In my many years as a management consultant I learned again and again that for technology and innovation to succeed, you have to get a lot right. You have to get a whole series of things right. It can't be just the technology, it has to be the business model, the delivery model, the governance and everything else around it. When you finally get all of that right, innovation has impact.

What I want to talk about tonight is what I think has to change in the health ecosystem — the whole system, not just one piece of it — in order for genuine reform to have impact. And I actually agree that the co-payment as a standalone initiative was never going to be a genuine reform in the health system. It had to be much broader, much deeper, much more profound, and much more fundamental.

I think it's incredibly important to articulate the problem we are trying to solve. Many failures in government in recent years have been because we haven't articulated the problem. Mark and Rohan have both articulated it pretty well, but I bring it down to a very simple level, which is that we have spending growing at something like double-digits right now. I'm going to disagree with what was just said — I don't think that it is sustainable.

The simple reason is that the compounding impact of spending growing at close to 7% or 10% per year, is that very soon that's all we'll be spending our money on — and in no economy will that work. Politically you have a revolution before we get to that point. We would have to raise taxes to a level where no one wants to work anymore, we'd have to stop doing everything else we do and that simply is not going to happen. So we do have a sustainability spending problem.

The recent Intergenerational Report was much-maligned, but at the heart of the report was an incredibly simple proposition: that if you have taxes rising at 3% and spending rising at 4%, in a relatively short period of time debt will exceed GDP and you are Greece. That's all there is to it, and it's unsustainable.

The Hon Angus Taylor MP is federal member for Hume.

At the heart of spending rising faster than tax is health and welfare, the two biggest items in the federal budget and the two fastest-growing items in the federal budget. Frankly this is unsustainable and whilst I understand that service providers enjoy that growth of spending—I would too if I were a service provider. There is nothing better than an industry growing at double-digit rates. As a consultant, those were the industries I always looked for. But as a purchaser of services, which is what the federal government is (and we can debate about whether or not they should be), that is simply not sustainable.

The second part of the problem is on the customer and the population side. Rohan articulated this well, I thought. The crucial issue here became very clear to me in my first week as a candidate in the electorate of Hume. Soon after I was preselected I got access to the previous member's database of every constituent. Every local member or candidate has access to a big database, and if your previous member likes you, they will allow you into their database. In that database there are many years of records about what people care about most. The overwhelming thing I saw was that the number one issue in my electorate by a country mile was health.

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Now in my electorate, which runs from south of Sydney down to Canberra and west from there, there is an older demographic, but even when I looked at the regions with younger demographics it was the same result. Health was the number one priority. People care deeply about this, this is a big issue for them, it is a big political issue and it's a big real-world issue that they have to deal with.

That is the fundamental collision we've got going on. This is the number one issue, certainly in my electorate, and we've got spending growing at a totally unsustainable level.

So what do we do about it? As I said a moment ago, the solution has to be broad and I bring it down to four different areas. The first is technology, specifically medical technology — and I'm using that term broadly to include both hardware and software information management. Second, we need breakthroughs in how we deliver health, including workforce and organisational models. Third, we need breakthroughs in how we fund and purchase health services. Fourth, we need breakthroughs in the governance model and that includes the intergovernmental relationships and the relationship between the private and public sector. Let me just expand on each of those four areas for a moment.

In terms of medical technology, there is a lot of focus on eHealth Records and that is just the beginning. When you look at the whole information flow around the health system it is much more complex, much richer than just eHealth Records. There is patient registration, provider bookings, care tracking, the common patient record (which is the eHealth system effectively), patient portals, performance management and analytics, and the financial side of it. All of these have to be linked across multiple providers; hospitals, doctors, specialists, pharmacists, allied health practitioners. Without that level of integration you don't solve the problem. So that integrated information management is absolutely fundamental if we are going to solve the underlying problem that I've described.

Of course, on the hardware side we have got a revolution happening in remote sensing and monitoring — not just in health but in many industries — and of course there's no doubt that'll have a big impact on health in the coming years. So that's the technology side and there are many elements to that which are a good starting point but none of that is even remotely useful if we don't solve problems in the delivery model.

Right now we have a system which is based on, at least in primary care, high levels of activity by GPs through consultations with a Medicare provider number which is used very regularly — and I would argue heavily overused — for a basic consultation, and you are rewarded for activity. What we actually need is a system where you have flexible team-based integrated workforces that don't overuse that simple model of the GP meeting the patient. I'm talking particularly here on primary health care, which is the federal government's problem, but of course the same principle applies as you move to hospitals and specialist care and so on.

Within that is a fundamental competition problem, which is that we have created barriers to entry for the workforce, in particular specialists. The Harper review looked hard at this and there is no doubt we are going to have to deal with that in time. It's been a big problem in the U.S. health system and it is undoubtedly a problem in our system. The other part of the delivery model that clearly needs reform is in the quality improvement processes — and measuring and using those measurements to adapt and change the way we actually provide the services will be fundamental.

The third area I talked about is reforms in payment and funding models. I think that this has to be much more significant than many realise— and this is where I depart from the idea that just having a co-payment is going to do the job.

We do have a fundamental problem of moral hazard and information asymmetry in health. Around the world we are seeing pretty significant changes in payments and funding models. We are seeing worldwide a shift to what many like to call blended payment models where instead of paying a practitioner for activity you are paying them for outcomes and you are thinking hard about how you actually reward doctors and other health practitioners in ways other than just giving them a few dollars every time they actually do something.

Now, much of that innovation is being led by the private insurance sector, and that I think is an important lesson that I'll come back to. That shift to blended funding models is particularly important when we get to chronic disease. There is no doubt about it — whether it's diabetes, or a cancer, or respiratory disease or so on — that chronic disease and how we actually pay practitioners for dealing with chronic disease will be critical. We are seeing this shift to blended funding models based on risk stratification and understanding the risk associated with each patient, who's a high risk patient, who's a low risk patient, where are we prepared to pay more, and where are we prepared to pay less, will be central to the sort of payment systems that are going to succeed in the future.

All of that requires integration across primary care, hospital care, specialists and so on — and that integration of course is at the moment being impeded by our federal model. There is a lot of money in getting that right, and avoiding hospitalisation through better primary care is going to be a critical element in containing costs in the future. We know within the payment models there is a lot of work to do on compliance, on the Medicare Benefits Schedule and in the way we purchase the goods themselves. There is no doubt in my mind that the Pharmaceutical Benefits Scheme (and I know some of you here in the audience will differ from me on this) has left a lot of money on the table, and I think there are significant ways of reducing our costs particularly when looking at generics which again the government has been doing in recent times.

Let me finish with governance because I think it is the most important part of all. There is no doubt that there is dysfunction between governments in the way we manage health. The UK and New Zealand health care systems have a big advantage in that you don't have the multiple layers of government that are causing dysfunction. The Federation White Paper, if it is to deliver anything useful, must deal with that dysfunction across federal and state governments in health.

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Secondly, we failed to harness private-sector insurers and private-sector service providers in the way that I think we need to. Most innovation in my experience will always come from the private sector. Yes, fundamental R&D can be facilitated by government, but if you don't have fiercely competing innovators out there looking for solutions to problems then you're not going to get the solutions to problems.

Government — as I'm learning very quickly — is the biggest conglomerate in the economy, and therefore it is not innovative. It struggles to ever come up with innovative solutions to difficult problems if it's trying to do it on its own. Failure to harness private-sector insurers and service providers is a big issue we are going to have to deal with in the future. We have very serious resistance to that from unions and we're going to have to politically find a way through that.

I think the most important thing we can do on the governance side to drive those reforms is shifting power to customers. In sector after sector, people are saying how terrible it is that politicians don't seem to have the courage to drive reform. The fact of the matter is politicians have one incentive given to them above all, and that's to win the next election. So if you really want reform, then don't give the power to the politicians, give the power to the customer.

Whether it's in education, health, or any other sector where the government plays a big role, I think shifting power to customers will force reform at a pace that government and politicians themselves will never be able to achieve. That means transparent information, it means taking away information asymmetries. I'll use an analogy from education. One of the best innovations of the last government was the MySchool website, because for the first time ever we could compare the performance of schools. Why don't we see that with doctors, why don't we see that with hospitals? We are starting to see that emerge around the world now, and that measurement and that feedback to customers and practitioners will be fundamental in driving reform in the coming years.