MBF Australia Limited (MBF) is the largest privately owned health insurance company in Australia. MBF currently provides 21% of all private health insurance memberships in NSW/ACT.¹

The NSW government, through the *Health Insurance Levies Act 1982*, imposes a levy on health funds in respect of their contributors with hospital cover who are residents of NSW. Contributions raised by this levy are paid into NSW Government consolidated revenue. As highlighted in the NSW Independent Pricing and Regulatory Tribunal (IPART) Issues Paper, as part of the $331.2 million received by the NSW Ambulance Services, health funds contributed one-third in 2003/04 of such income ($98 million) through the Health Insurance Levy (HIL). It is expected that health funds will contribute $102 million in 2004/05.

The health industry is faced with increasing health care costs due largely to our ageing population, advances in medical technology and increasing demand. The Private Health Insurance industry is committed to ensuring that members’ premiums are contained at a sustainable and affordable level and that member premiums are used in an equitable, accountable and fair manner.

**Scope of the Review**

The NSW Independent Pricing and Regulatory Tribunal (IPART) have been requested to undertake a review of the financial aspects of the Ambulance Service of NSW with a focus on:

1. A detailed analysis of revenue and charging structures of the Ambulance Service, taking into account the system-wide effects of implementing different fee structures;

2. A cost index to quantify changes in the cost of providing medical and transport operations undertaken by the Ambulance Service and to sustain services into the future.

The focus of the review is the way in which the Ambulance Service is funded, the charges for the medical and transport services it provides, and how its fees should be adjusted over time. The terms of reference ask the Tribunal to undertake a detailed analysis of the Ambulance Service’s revenue and charging structures, and examine the possible use of a cost index to quantify changes in its operating costs.

In March 2005, to assist stakeholders in making submissions, IPART released an Issues Paper outlining the key issues the Tribunal will consider as part of this Review. The key issues are stated as follows:

- Is the current approach to funding the Ambulance Service appropriate? How should the revenue required to meet its funding requirements be sourced?
- Can the Ambulance Service’s effectiveness and efficiency be improved? What standards of quality, reliability and safety should it be required to meet?

¹ As at 31 March 2005
'How should the fees charged by the Ambulance Service be adjusted over time? Is there a role for an appropriately constructed cost index in the fee adjustment process?

What implications would changing the Ambulance Service’s charging structure have for its own borrowing and capital requirements? For its need for government funding? And for consumer protection and society in general?

Our submission is confined to the above matters that directly impact the Private Health Insurance sector.

**Is the Current Funding Scheme Appropriate?**

As outlined in the IPART Review Paper, total funding received for the Ambulance Service of NSW in 2003/04 was $349.2 million with an anticipated compound annual growth rate of 6.5%. This is funded by various sources, including NSW Government funding through consolidated revenue, transport fees and other revenue streams (of which contribution is minimal). Health funds contribute $98 million by way of the HIL imposed under the *Health Insurance Levies Act 1982*. This represents one-third of total income received by the Ambulance Service of NSW in 2003/04.

As highlighted in the IPART Review paper, in recent years there has been an increase in the demand for Ambulance services in Australia. This can be attributed to a number of factors such as the ageing population, growth in the use of hospitals and the community, in general, making greater use of the Service. This of course leads to an increase in funding requirements and the necessity to look at reform of the funding of the current arrangements to ensure the service can continue to meet demand.

In addition to the growing costs and usage of ambulance services, the Ambulance Service of NSW have also faced significant challenges in:

- Recovery of debt from non-privately health insured consumers who have utilised the ambulance service
- Appropriate and sustainable charging to ensure a proper level of service is maintained
- Fairness in the funding of ambulance services
- Appropriate national coverage of NSW residents through interstate reciprocal arrangements

The majority of the above mentioned challenges highlight some of the issues associated with the existing funding structure of the Ambulance Service in NSW. Our submission aims to address these issues, through recommending a different funding mechanism for ambulance services in NSW.

**Existing Funding Mechanism**

The existing funding mechanism for ambulance services in NSW is primarily based on a combination of:

- a) The NSW Government Ambulance Subscription Scheme which includes the contribution from private health insurance funds through the HIL (part of which is funded through the Federal Government rebate on Private Health Insurance);
- b) Direct government revenue which in part is sourced from NSW/ACT residents contributions to consolidated revenue;
- c) Bulk agreements with for eg. hospitals, the Department of Veteran Affairs, WorkCover NSW; and
- d) Transport fees levied on certain users
Private Health Funding

Hospital members of private health insurance funds are charged a levy (the HIL). This enables them to be covered for ambulance services in NSW through their private health insurance cover. Currently, the HIL for a single contributor is $53.56 per year, while the rate for a family is double that at $107.12 per year, and as outlined above this is expected to increase. It is worthwhile to note that the majority of such contributions are provided by Medibank Private, MBF and HCF, the largest contributors of private health insurance in NSW.

In 2003/04, Private Health Insurance (PHI) contributed $98 million through the Health Insurance Levy (HIL), however the cost to the Ambulance Service of NSW for PHI members was only $14.4 million.

This demonstrates the imbalanced distribution of ‘contributions’ against ‘service usage’ that privately insured hospital members are faced with in NSW compared to privately insured members in other states.

As a result of the Federal Governments initiative to partly subsidise private health insurance contributors, the HIL is in part subsidised through the Federal Government via the Federal Government Rebate on Private Health Insurance.

The contribution from the Federal Government Rebate towards the HIL increased on 1 April 2005 as a result of the increased rebate for Senior Australians. The value of this increase is dependant on how many privately insured are pensioners and thus exempt from the HIL.

NSW/ACT residents that are privately insured are also required to contribute to consolidated revenue (from which the Ambulance Service of NSW is partly funded) through taxpayer contributions.

This further contribution exacerbates the inequitable subsidisation of the Ambulance Service of NSW by NSW/ACT privately insured hospital members. The HIL is an additional and inequitable burden on NSW/ACT PHI members.

Inefficiencies/lost revenue under the current Scheme

Inefficient Billing Practices

The IPART review paper highlights the deficient debt collecting process currently employed by the Ambulance Service of NSW. In 2003/04 the NSW Ambulance Service directly invoiced patients for $13.6 million however it allowed for $6.4 million in bad and doubtful debts, this represents 47% of the amount invoiced to members. Furthermore, it is estimated that the notional value of services provided to “treat and not transport” patients in 2003/04 was almost $8 million.

The total loss of revenue of $14.4 million through these two areas alone represents approximately 72% of total contributions for 2003/04 through the HIL on PHI contributions.

We had the benefit of reading the submission prepared by Pricewaterhouse Coopers for the IPART and concur with their recommendations on how to improve the debt collecting process currently employed by the Ambulance Service of NSW.

Foregone Revenue

To ensure affordability of the ambulance service, exemptions to contributors to the ambulance service funding are in place for pensioners and concession cardholders. This subset of the population are significant users and heavily reliant on the ambulance service.
The IPART review states that an estimated $84 million is foregone through patients who are not charged for ambulance services in NSW, the main category being pensioners and concession cardholders.

The above inefficiencies highlight the inadequacies of the existing funding mechanism for the Ambulance Service of NSW.

Policy options for an alternative/amended Scheme

Replacement of the current Scheme

It is clear that Private Health Insurance Funds, its members and the Federal Government contribute an inequitable amount of revenue into the NSW Ambulance Service. It is MBF’s contention that the current scheme ought be abolished and replaced with a community based funding model similar to that in place in Queensland, (known as the Community Ambulance Cover (CAC)). The CAC model works by imposing a broad based charge that aims to spread the cost of providing ambulance services across the community. The Queensland Government has achieved this through attaching a levy to the majority of Queensland residents’ electricity bills.

The abolishment of the current system in favour of the CAC model overcomes many of the inefficiencies currently experienced by the Ambulance Service of NSW, for example its billing practices, but in particular abolishes the unfair contributions made by PHI members.

Apart from ensuring an equitable distribution of funding the cost of the Ambulance Service of NSW, it may positively impact on the certainty of coverage for ambulance services to Australian residents nationally. The existing diverse ambulance service systems have created the need for reciprocal interstate arrangements for those needing the services, particularly residents on state borders who may require transport to the nearest hospital, which may be across the border. As a result not all Australian states apply the reciprocal arrangements and many Australian residents are significantly out-of-pockets as a result.

It is MBF’s submission that the adoption by NSW of a similar arrangement to the CAC will, amongst other matters, minimise and/or eliminate the existing issues between the Queensland and NSW borders. It may also encourage a national common approach to funding of ambulance services so Australian residents can access an Australia wide service without the problems currently experienced through some States’ failure to enter into reciprocal arrangements.

The proposed model will allow the NSW Government to spread the cost of Ambulance Services across a wider population. This will enable the abolishment of the existing levy on private health insurance hospital members and ensure a fairer distribution of the contribution across NSW residents. It will further support privately insured members with a reduction in PHI premiums and reduce the liability to the Commonwealth of its current Government Rebate.

Additional funding through the HIL on Private Health Insurers

The IPART review suggested that a possible way of funding Government grants to the Ambulance Service of NSW might include:

- a one – off increase in the HIL
- indexing the HIL to the CPI or some appropriate index
- widening the coverage of the HIL in some way
- or a mix of all of the above
For the reasons outlined above, the current scheme highlights the inequities of the HIL on PHI members together with the Federal Governments unfair subsidisation of the scheme. To impose an additional levy, or even increase the levy does not address this inequity but rather exacerbates this unfairness. Furthermore, this is not a long term solution to the current funding arrangements given that the use of ambulance services, and hence the costs are increasing resulting in an additional increasing cost burden to PHI members. To impose an additional levy is contrary to Federal Government initiatives to encourage the uptake of and retain current PHI members.

**Conclusion**

It is MBF’s submission that the current funding arrangements and the inefficiencies of the Ambulance Service of NSW places an inequitable financial burden on PHI hospital members through the HIL. The replacement of the current Scheme with a CAC like model, will not only ensure that the cost of providing ambulance services will be fairly spread across the community, but it may result in appropriate national coverage of NSW residents through interstate reciprocal arrangements.

If you require clarification and/or would like to discuss any matters raised in this submission, please contact Roisin Nolan on (02) 9323 9545.

Yours sincerely

**Roisin Nolan**  
Public Officer/Senior Lawyer