

## CHAPTER 3

### ***Term of Reference C: Levels and methods of funding mental health services in New South Wales, including comparisons with other jurisdictions***

#### *(i) Comparisons with levels and methods of funding of mental health services in other jurisdictions*

The main source of data which allow comparisons to be drawn between the per capita expenditures in each State and Territory is the National Survey of Mental Health Services.

The survey was developed in the context of the First and Second National Mental Health Plans and has been conducted annually since 1992/93. Its results are published in the *National Mental Health Report*. Data from the survey allow for a time series to be constructed in relation of mental health expenditures by the Commonwealth Government and the states and territories.

While the survey is the best source available for financial comparisons, it is subject to a number of qualifications. For example:

- The survey focuses on expenditure, which does not adequately describe the effort made by the states, territories and the Commonwealth to improve mental health services. Analysis of spending patterns does not take account of what is actually delivered, in terms of either volume or quality of services, or the outcomes achieved.<sup>1</sup>
- It does not include all expenditures related to services for people with mental illness. For example it does not include expenditures on non-specialised services provided in general settings, such as general acute wards or emergency departments.
- It includes certain types of services for some states but not others. For example, Queensland includes brain injury rehabilitation and Victoria, components of aged care services.
- As yet the survey does not account for interstate flows of patients and payments made related to these patients.

The scope of the survey, as it applies to state expenditures, is confined to 'specialised mental health services', which are determined by an advisory committee for the national report. The decisions of the committee could be considered somewhat arbitrary. For example, the analysis of Commonwealth expenditures includes medical benefits paid for services delivered by general practitioners but excludes a range of expenditures associated with services delivered to people affected by mental illness in general health settings in the states, such as general hospital beds, emergency departments and non-designated staff in community health centres. In addition, it is only concerned with recurrent expenditures and does not track capital expenditures.

In NSW, expenditure outside the mental health program deemed to be 'specialised mental health services' for inclusion in the National Mental Health Report comprises:

- the Confused and Demented Elderly (CADE) units,
- some psycho-geriatric wards and associated ambulatory services;
- designated mental health workers in Emergency Departments;
- designated mental health workers funded under the Aboriginal Health program;

- a specialised psychiatric service at the Children’s Hospital Westmead;
- some expenditures in the Community Health Program, and
- some expenditures in the Teaching and Research program specifically related to mental health.

The Table below compares per capita recurrent expenditure by states and territories for 1999/00. For unadjusted expenditures, NSW expenditure for that year was 95.4% of the Australian average. If Commonwealth funding allocations through the National Mental Health Strategy and the agreement with the Department of Veterans’ Affairs are removed, NSW expenditure is 93.7% of the Australian average.

**Recurrent Expenditure Per Capita by State/Territory: 1999-00**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Aust	NSW as % of Australia
Unadjusted Expenditures	\$81.91	\$88.53	\$82.34	\$97.87	\$91.92	\$84.83	\$72.29	\$77.82	\$85.87	95.4%
Adjusted Expenditures (See Note 2)	\$76.44	\$84.49	\$79.45	\$95.60	\$86.13	\$79.66	\$67.13	\$73.50	\$81.54	93.7%

Notes

1. Preliminary data, final validation ongoing prior to publication in National Mental Health Report 2001
2. Adjusted Expenditures are based on State and Territory government spending but excludes Commonwealth funding provided under the National Mental Health Strategy Funds (NMHS) and through the Department of Veterans’ Affairs and other Commonwealth funds.
3. Depreciation expenses have been excluded.

A particular focus of the National Report on Mental Health Survey is to consider whether states and territories have ‘maintained’ effort in relation to mental health services. To meet this requirement, a number of adjustments are made at the national level to the data reported by states and territories. These include the removal of:

- Depreciation expenses (as these are considered to relate to the question of ‘capital’);
- Expenditures related to Commonwealth funds provided under the National Mental Health Strategy; and
- Payments made by the Department of Veterans Affairs.

A final adjustment is made to compare costs over time. A deflation factor is applied, based on the deflator for Government Final Consumption Expenditure on Hospital and Clinical Services. Factors specific to each state and territory are calculated.

The use of state/territory specific deflators is quite problematic in examining the maintenance of effort question. These deflators show costs increasing in NSW at a substantially higher rate than other states. However, in almost no other health context are differences between states in cost inflation recognised. This issue impacts on an analysis of how mental health expenditures have increased in NSW versus other states and territories. Applying a single deflator for all states and territories would indicate NSW increased mental health expenditure by 21.6% rather than 16.6% over the period 1992/93 to 1999/00.

The following Table shows the growth in per capita expenditures for each of the states and territories over the period 1992/93 to 1999/00, using the same deflation factor for each state and territory. The data suggest that over the long term real per capita expenditure nationally (excluding NSW) is growing by around 2.4% per annum, although increases over the last 3 years have been 2.9%.

### Comparison of Increases in Real Per Capita Expenditures in NSW and other States

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Aust	Australia Less NSW
1993-94	-1.6%	-6.4%	-1.4%	2.6%	2.5%	4.3%	-2.6%	-5.9%	-2.2%	-2.5%
1994-95	2.7%	3.5%	1.8%	-0.4%	-1.6%	2.3%	5.8%	8.1%	2.1%	1.8%
1995-96	2.4%	1.8%	5.1%	5.6%	0.0%	6.8%	5.4%	8.4%	2.7%	2.8%
1996-97	6.4%	1.0%	10.1%	12.3%	10.4%	1.1%	10.1%	5.6%	6.2%	6.2%
1997-98	3.6%	-1.2%	3.4%	12.1%	4.3%	0.2%	-3.5%	6.0%	3.3%	3.1%
1998-99	3.9%	1.6%	8.1%	0.3%	-2.1%	0.2%	-2.9%	0.7%	2.8%	2.3%
1999-00	2.5%	2.6%	5.9%	1.0%	3.7%	-2.8%	6.5%	-1.1%	2.9%	3.1%
Average Annual Increase 92 to 00	2.9%	0.4%	4.7%	4.8%	2.5%	1.7%	2.7%	3.1%	2.5%	2.4%
Average Annual Increase 97 to 00	3.4%	1.0%	5.8%	4.5%	2.0%	-0.8%	0.0%	1.9%	3.0%	2.9%

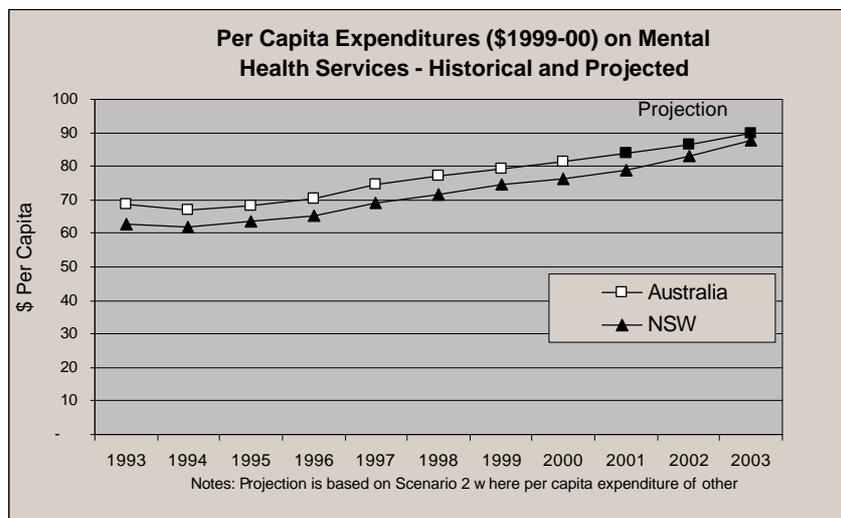
Where NSW stands relative to other States by 2003/04 will depend on the level of increased expenditures for mental health services in the other States. This is difficult to estimate, as not all states have published budget data that would allow for comparison. Only NSW has a guaranteed three year budget for health services, including mental health.

It would be reasonable to expect real per capita expenditures in other States to increase by between 1.5% and 3.5%. These extremes and the mid point 2.5% were modelled. The next Table shows how NSW expenditure will compare with other states/territories under each of the scenarios:

#### Impact of alternative rates of increase in per capita mental health expenditures by other States

	NSW as % of Australia
Scenario 1: Other States grow by 1.5%	99.8%
Scenario 2: Other States grow by 2.5%	97.9%
Scenario 3: Other States grow by 3.5%	96.0%

Under scenario 2, NSW will move from being 93.7% of the Australian average in 1999/00 (using the adjusted expenditures data reported above) to being 97.9% in 2002/03. The following graph shows how the gap between NSW and the other states/territories will be reduced under this scenario.



Another potential source of comparative data on mental health expenditures is the assessments of the Commonwealth Grants Commission. However, the Commission itself has acknowledged significant problems in data reported on a range of expenditure categories. The Commission has had to estimate expenditure category splits for 1998/99 to 2000/01, although the resulting estimates are extremely problematic. To illustrate these problems, the 2002 report of the Commission identified 2000/01 per capita expenditures in NSW on mental health as \$66.58 and community health services as \$199.52, a total of \$266.10 per capita for both categories. However, for Victoria per capita mental health expenditures are estimated as \$108.50 and Community Health expenditures as \$81.81, a total of \$190.31 for both categories. This suggests the estimate methods have significantly misclassified expenditures between these categories.

(ii) *Variations in the distribution of recurrent and enhancement funding between Area Health Services and separate mental health services within these Area Health Services*

The mental health program expenses as reported in the NSW Health Annual Reports. For 1998/99, 1999/2000 and 2000/2001 are \$479.9 million, \$510.0 million and \$549.7 million respectively.

Mental health program expenses as reported in the audited annual reports for 2000/01 by area health services, the Children's Hospital Westmead and Corrections Health Service are set out in the following table which also includes estimated mental health expenses for the Department of Health.

Mental health expenditures by Area Health Services are also reported through the National Survey of Mental Health Services. The survey also includes a range of expenses that relate to mental health, but occur outside the mental health program. These are also presented in the table.

***Expenditure Reported for Mental Health Services in 1999-00***

<b>Area</b>	<b>Service</b>	<b>Reported Under Mental Health Program \$000</b>	<b>Reported Under Other Program \$000</b>	<b>Total \$000</b>	<b>Area Total \$000</b>
Central Sydney	Central Sydney NGOs	1,624		1,624	63,853
	Central Sydney Other Mental Health	15,092		15,092	
	Concord	6,599		6,599	
	Rivendell	2,868		2,868	
	Royal Prince Alfred	6,638		6,638	
	Rozelle	31,032		31,032	
Northern Sydney	Coral Tree Family Service	1,744		1,744	74,022
	Gladesville Macquarie	27,203		27,203	
	Northern Sydney NGOs	1,469		1,469	
	Northern Sydney Other Mental Health	30,662	3,107	33,769	
	Royal North Shore	9,837		9,837	
Western Sydney	Cumberland	30,420		30,420	70,526
	Redbank	4,719		4,719	
	Western Sydney NGOs	859		859	
	Western Sydney Other Mental Health	26,043	3,054	29,097	
	Westmead	5,431		5,431	

Wentworth	Wentworth Area Mental Health Wentworth NGOs	12,395 292		12,395 292	12,687
South West Sydney	Bankstown Mental Health Service Liverpool Mental Health Service Macarthur Mental Health Service South Western Sydney NGOs South Western Sydney Other Mental Health	8,398, 10,434 8,537 333 5,289	4,362	8,398 10,434 8,537 333 9,651	37,353
Central Coast	Central Coast Area Mental Health Central Coast NGOs Central Coast Other Mental Health	11,114 213 1,306	1,617	11,114 213 2,923	14,250
Hunter	Hunter Other Mental Health James Fletcher Morisset Hunter NGOs	22,263 13,740 17,515 385	1,445	23,708 13,740 17,515 385	55,348
Illawarra	Illawarra Community Mental Health Illawarra NGOs Illawarra Other Mental Health Shellharbour	9,032 151 1,880 9,693		9,032 151 1,880 9,693	20,756
South Eastern Sydney	Eastern Suburbs South Eastern Sydney NGOs South Eastern Sydney Other Mental Health St George St Vincents Sutherland	20,421 929 1,791 9,537 10,271 7,635	1,287	20,421 929 3,078 9,537 10,271 7,635	51,871
Northern Rivers	Northern Rivers Area Mental Health Northern Rivers NGOs Northern Rivers Other Mental Health	9,355 1,215 2,959		9,355 1,215 2,959	13,529
Mid North Coast	Mid North Coast Area Mental Health Mid North Coast NGOs	10,165 267		10,165 267	14,584
New England	New England Area Mental Health New England NGOs New England Other Mental Health	7,656 70 3,400		7,656 70 3,400	11,126
Macquarie	Macquarie Area Mental Health	4,337		4,337	4,337
Mid Western	Mid Western Area Mental Health Mid Western Other Mental Health	22,719 1,794		22,719 1,794	24,513
Far West	Far West Area Mental Health Far West Other Mental Health	4,551 588		4,551 588	5,139
Greater Murray	Albury Hospital Greater Murray Other Mental Health Wagga Wagga Hospital	3,508 2,234 3,826	948	3,508 3,182 3,826	10,516
Southern	Kenmore Southern Other Mental Health	4,547 8,763	871	4,547 9,634	14,181
Children's Hospital Westmead			3,628	3,628	3,628
Corrections Health Service		10,723		10,723	10,723
<b>Total</b>		<b>491,819</b>	<b>21,123</b>	<b>512,942</b>	<b>512,942</b>

In April 2000, the NSW Government announced a three year mental health enhancement funding package which will deliver a total additional \$107.5 million in recurrent funding by 2002/03. The next Table shows how additional funding will be provided over the three year period. The package comprised two parts including Cost Escalation of \$32.5 million and new real recurrent growth funding totalling \$75 million, \$28 million of which is to support the operating costs associated with the capital program.

**Summary of Increases in Mental Health Funding for Period 2000-01 to 2002-03**

Year	Cost Escalation \$m	Enhanced Services \$m	Total Increases \$m
2000-01	12.5	24.0	36.5
2001-02	9.7	18.7	28.4
2002-03	10.3	32.3	42.6
<b>Total Increase in Annual Allocation for Mental Health Services</b>	<b>32.5</b>	<b>75.0</b>	<b>107.5</b>

Capital works of \$25.2 million are planned for the three year period. The total package will deliver:

- 700 additional direct care staff
- 12,000 new community service clients resulting in 450,000 new community service contacts each year
- 155 new acute beds, 90 in rural areas.

Specific initiatives, other than inpatient services, include:

- Mental Health Liaison Nurses in 14 emergency departments across the state;
- The establishment of a Centre and Professorship for Rural and Remote Mental Health in Orange;
- Expansion of the telepsychiatry at the New Children's Hospital to service the needs of rural and remote communities;
- Expansion of the Transcultural Mental Health Centre; and
- Additional funding for Non-Government Organisations.

The following Table shows the increases in mental health recurrent funding that will have been provided during the three year period.

**Increases in Recurrent Funding 2000-01 to 2002-03**

	GENERAL SERVICES			SPECIALIST SERVICES		Total Additional Recurrent Funding	Total Additional Beds
	Additional Recurrent Funding for Enhanced Services	Additional Recurrent Funding associated with new capital works	Additional Beds	Additional Recurrent Funds associated with new capital works	Additional Beds		
	\$'000	\$'000		\$'000	\$'000	\$'000	
Central Sydney	500					500	-
Northern Sydney	1,000					1,000	-
Western Sydney	7,000				4	7,000	4
Wentworth	1,700	2,800	20			4,500	20
South West Sydney	9,000			4,000	10	13,000	10
Central Coast	4,500					4,500	-
Hunter	4,000			2,500	12	6,500	12
Illawarra	1,400	2,100	15			3,500	15
South Eastern Sydney	2,500					2,500	-
Northern Rivers	2,000	3,500	25			5,500	25
Mid North Coast	800	5,700	41			6,500	41
New England	600	1,400	10			2,000	10
Macquarie	500	2,500	18			3,000	18
Mid Western	1,500					1,500	-
Far West	1,000					1,000	-
Greater Murray	4,000					4,000	-
Southern	500					500	-
New Children's Hospital (Telepsychiatry)	1,500					1,500	-

Correctional Health Service	500			3,500		4,000	-
Support for Carers	1,000					1,000	-
Other	1,500					1,500	-
<b>Total</b>	<b>47,000</b>	<b>18,000</b>	<b>129</b>	<b>10,000</b>	<b>26</b>	<b>75,000</b>	<b>155</b>

In addition to the 155 beds identified in the above table, a further 90 have been or will be commissioned. These are:

Liverpool (20),  
 Wyong (50),  
 Kempsey (10)  
 Kestrel (4)  
 Cumberland (6)

A new secure forensic facility (135) is also planned.

An area health service planning process has been developed to support the effective application of the enhancement funds. The key features are:

- The requirement for areas to develop and submit Activity, Resource, Workforce and Financial plans, to support their proposals for applying the new enhancement funds.
- The development of reporting requirements, including the reporting of activity through the Health Service Performance Agreements.

The process is led by central guidelines on priorities for service development and is supported by a range of performance indicators that will assist areas in the evaluation of their plans. It is ongoing and is supported by the development of information systems including the Mental Health Information Development Program and the Mental Health Outcomes and Assessment Training program. The aim is to develop consistent and relevant reporting to improve the quality of decision making at all levels from the clinician to central management.

The general enhancement funds for 2001/02 and 2002/03 have been allocated to area health services to enable them to develop their non-inpatient mental health services in priority areas. The area plans for 2000/01 and 2001/02 indicate that \$6 million in recurrent funds was allocated to specialist child and adolescent mental health services; \$17.2 million to adult mental health services; and \$2.5 million to mental health services for older people. A further \$2.5 million is being allocated by the areas from their enhancement funds to develop mental health services provided through non-Government organisations.

(iii) *Recent NSW Health Department initiatives in mental health service provision including:*

- *Three-year enhancement funds for mental health services, allocated to Area Health Services in April 2000;*
- *The distribution of those enhancement funds between Area Health Services;*
- *Current Area Health Service proposals for and expenditure of these enhancement funds;*
- *Progress towards fair funding for each Area Health Service.*

Details of the three year enhancements were provided in the previous section.

Allocations of these enhancements among area health services were based on a number of considerations including:

- To ensure mental health services in all area health services received some level of enhancement; and
- To make substantial progress towards achieving a fair distribution of funding across area health services.

The basis for assessing the fairness of the distribution of resources is the mental health resource distribution formula (RDF). The distribution of funding across the area health services as at 1999-2000 largely reflected historical allocations and local funding decisions rather than a set of articulated funding or planning principles. Over the late 1990s, NSW Health has been working towards the development of a RDF for mental health, that specifically reflects mental health needs. A draft mental health RDF is being developed.

The draft being developed is based on principles developed by the Mental Health Economic Task Force. In developing the draft it was explicitly acknowledged that the formula would be used to guide the allocation of **new** resources, rather than be used to redistribute existing resources.

The draft mental health RDF has been used in guiding allocations of additional enhancement funding for general acute funding for area health services, but not in relation to the allocation of funds for specialist statewide and non-acute services. There are several reasons why the application of the draft mental health RDF has been limited in this way.

In proposing the inclusion of factors to reflect variation in needs between the area health services, the limitations of currently available data and research were acknowledged. The factors proposed were based on judgement rather than modelling of the general factors that influence current utilisation of services in NSW. This approach was necessary because, until recently, the only reasonable data on utilisation related to inpatient services, and inpatient services alone are a poor reflection of the overall nature of mental health services provided. Finally, it is acknowledged that in relation to severe mental illnesses, patients are likely to relocate for a variety of reasons. These issues were particularly pertinent to identifying need factors related to long term non-acute patients. The approach recommended in relation to non-acute patients was to recognise the level current allocations as they stand, and to deal with these strategically through other processes.

The key elements of the proposed RDF are as follows:

- Components of expenditure not included in the RDF calculation are excluded. These are: non cash components of expenditure such as depreciation, funding provided under the National Mental Health Strategy, funding to non government organisations, and funding provided through the contract with the Department of Veterans Affairs;
- An allowance made for Statewide Services based on their current and planned allocations;
- A range of special services, including non-acute services and services for people with no fixed abode are specifically identified and an allowance made for these based on the estimated costs of these services. Actually identifying non-acute patients in the community has been problematic. The approach taken has been to identify long term inpatients of facilities. It could be argued this approach fails to capture the costs of non-acute non-inpatient services, but until recently there has been no data on which to identify these services;

- Population and need factors are applied to the remainder of mental health funding, estimated to be 74% of mental health funding. The need factors include:
  - Age weightings;
  - Additional weightings for indigenous people;
  - Additional weightings for people from non English speaking backgrounds;
  - Standardised premature mortality ratios for the Area Health Services, based on the observation that people with mental health have elevated mortality rates;
  - Socio-economic status measures using the ABS index of Educational and Occupational Disadvantage;
  - In addition, factors were included to reflect the additional costs of delivering services in rural communities and to recognise the extent to which use of private hospital services for mental health services was substituted for public sector services.

The RDF was used to guide the allocation of the general additional funding available for the three year period 2000-01 to 2002-03. Of the \$75 million available for enhancement of services, \$65 million was applied to improve general services and \$10 million for new Statewide services. Of the \$65 million, \$60.5 million was allocated to area health services, with the remainder allocated to the Children's Hospital Westmead, the Corrections Health Services and other projects.

The table below describes how this \$60.5 million has been allocated across area health services. The table also describes the estimated impact of the additional funding on the target shares for the population component of funding, and how this compares with the share of resources implied by the draft mental health RDF. It should be noted that the explicit approach is to achieve RDF shares through the allocation of additional resources rather than redistributing existing resources. However, the allocations have been targeted towards improving the capacity of general services in areas that have been historically under-resourced, in particular in improving services for many rural areas.

It is estimated that the additional \$60.5 million will move areas substantially closer to their target RDF share. In some instances areas will move from being under the target RDF share to be slightly over the RDF target share.

#### Implication of additional funding on share of resources

	Allocation of New Funding for General Services \$'000	Share of Expenditures on General Services 1999-00	Estimated Share of Expenditures on General Services 2002-03	Share of Resources implied by the draft mental health RDF for 2002-03
Central Sydney	500	12.3%	10.4%	7.8%
Northern Sydney	1,000	12.0%	10.3%	10.7%
Western Sydney	7,000	7.8%	8.4%	10.5%
Wentworth	4,500	3.5%	4.1%	4.7%
South West Sydney	9,000	9.5%	10.3%	12.3%
Central Coast	4,500	3.4%	4.1%	4.5%
Hunter	4,000	8.2%	7.9%	8.2%
Illawarra	3,500	5.7%	5.7%	5.4%
South Eastern Sydney	2,500	14.1%	12.5%	11.6%
Northern Rivers	5,500	3.3%	4.2%	4.3%
Mid North Coast	6,500	3.9%	5.0%	4.4%
New England	2,000	3.0%	3.1%	3.0%
Macquarie	3,000	1.2%	1.8%	1.9%
Mid Western	1,500	3.2%	3.1%	2.6%
Far West	1,000	1.4%	1.5%	1.0%
Greater Murray	4,000	2.7%	3.4%	4.0%
Southern	500	4.7%	4.1%	2.9%
<b>Total</b>	<b>60,500</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- (iv) *The distribution of funds between hospital inpatient services, community mental health, rehabilitation and mental health promotion and preventive services, by Area Health Service.*

The distribution of funds varies across each of the 17 Area Health Services according to the relative mix of inpatient services and the needs of the community.

- (v) *Allocation of funding to non-Government mental health organisations*

The NSW Health Non-Government Organisation Grant Funding Program offers financial assistance to eligible organisations for the provision of specified health services and projects in NSW for the people of NSW. The Minister for Health approves all grants to NGOs under the Program.

Grant payments to NSW mental health NGOs have increased as is shown below:

<b>Year</b>	<b>NSW Health Department</b>	<b>Area Health Services</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
1996/97	2,343	6,020	8,363
1997/98	893	6,424	7,317
1998/99	1,314	6,974	8,288
1999/00	979	7,573	8,552
2000/01	6,445	8,318	14,763
2001/02 (Estimate)	11,407	7,593	19,000

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<sup>1</sup> Commonwealth Department of Health and Aged Care: *National Mental Health Report 2000 page 16*