

**Re: NSW Specialist Commission for Health Care Funding**  
Reply via email

Monday, 17 February 2025

Dear Mr Bearsley SC,

I am writing on behalf of the Royal College of Pathologists Australasia (RCPA) to highlight the urgent funding challenges impacting pathologists and pathology services in New South Wales (NSW). As the foundation of approximately 70% of all medical diagnoses, pathology plays a critical role in ensuring the health and wellbeing of the community. However, the sustainability of this vital sector is under threat due to a range of funding-related issues that must be addressed as a matter of priority.

**The National Funding Context**

In Australia, pathology services are primarily funded through a mix of federal and state government contributions. The federal government plays a major role by subsidising most pathology tests under Medicare through the Medicare Benefits Schedule (MBS), ensuring patients can access bulk-billed or partially subsidised services. Private pathology providers primarily operate under this model. State and territory governments fund pathology services within public hospitals and health facilities, covering tests for inpatients and emergency department patients. This division means that while outpatient and community-based pathology is mostly federally funded via Medicare, hospital-based pathology is primarily a state responsibility.

This division creates fragmentation in patient pathology services funding, with costs borne across both systems, administrative burdens, and potential cost-shifting between states and federal via Medicare, and vice versa. Additionally, differences in billing and reporting structures create inefficiencies.

The funding of the pathologist workforce in Australia is primarily tied to the public and private healthcare systems, with both federal and state governments playing a role. In the public sector, pathologists working in public hospitals and state pathology services (such as NSW Health Pathology) are salaried employees, funded both through state health budgets and partly by private billings funded by federal government. In contrast, private sector pathologists, who work in privately operated laboratories, generate income through Medicare rebates under the MBS, as well as private billing arrangements with hospitals, specialists, and patients. This dual funding model creates disparities in remuneration and workforce distribution, with private pathology remuneration often being more lucrative, leading to recruitment and retention challenges in public hospitals, particularly in regional and rural areas. Ensuring sustainable workforce funding requires incentives for public sector retention,

registrar training programs, and improved coordination between government and private providers to maintain a stable and equitable pathology workforce.

## **NSW Workforce Shortages and Training Constraints**

The shortage of pathologists in NSW is acute and growing. Nationally, the RCPA projects a shortfall of **20-30% in pathologists and senior scientists by 2030<sup>i</sup>**, driven by increasing demand for services and an ageing workforce. Currently, **44.5% of Australian pathologists are aged 55 or older<sup>ii</sup>**, indicating a significant wave of retirements in the coming decade. Our internal workforce projections show that NSW will face a workforce shortfall of 122 full-time equivalent pathologists by 2027, increasing to 186 FTE by 2032 and 291 FTE by 2037, representing 15% of the workforce.<sup>iii</sup> However, in NSW, workforce training positions remain stubbornly underfunded, with demand for registrar training far outstripping supply. For Anatomical Pathology alone, NSW requires nearly 20 additional graduating trainees per year to address the shortfall.

Rural and regional areas are particularly affected, as they struggle to attract and retain pathologists due to limited funding for incentives and relocation support. The result is an uneven distribution of services, with rural populations frequently experiencing delays in diagnostic testing. Our data shows that in some regional areas, there are fewer than **20 pathologists per million people**, compared to **86.4 per million in metropolitan NSW**. This disparity often results in delayed diagnoses and treatment, which can significantly impact patient outcomes, particularly for time-sensitive conditions like cancer and infectious diseases.

Our recommendations:

1. Establish a central workforce planning function within NSW Health to systematically address maldistribution and shortfalls.
2. Expand funding for registrar training positions, prioritising specialties and locations with the greatest deficits.
3. Expand funding for specialist consultant positions to address specialist pathologist workforce shortages, and to cover work from regional and remote areas
4. Introduce financial incentives and relocation support to attract pathologists to underserved regions.

## **Inadequate Support for Technological Advancements**

Modern pathology relies on cutting-edge technologies, including molecular diagnostics, genomic sequencing, and digital pathology systems. However, funding models have failed to account for the high capital and training costs associated with implementing and maintaining these technologies. NSW Health Pathology, which processes over 70 million tests each year<sup>iv</sup>, faces significant challenges in upgrading infrastructure to keep pace with demand. For instance, telepathology and digital pathology—an essential service for rural and regional NSW—remains underfunded, limiting access to specialist expertise and delaying results. According to NSW Health Pathology data, rural regions experience diagnostic delays of up to 48 hours due to the lack of telepathology and digital pathology infrastructure, compared to metropolitan areas where turnaround times are significantly shorter.<sup>v</sup> The availability of digital pathology will be more impactful for rural areas as access to specialised pathology support from metropolitan areas will improve the speed and quality of regional pathology results.

Artificial intelligence (AI) has potential applications in pathology, such as enabling faster and more accurate diagnostics. However, its implementation requires significant investment, and current funding models do not fully support infrastructure upgrades or training. The infrastructure and funding for specialist genomic testing in NSW lag behind those of other states. For instance, despite the lymphoid NGS panel being listed on the MBS for over 12 months, NSW Pathology has yet to implement it, resulting in continued reliance on interstate laboratories for testing.

Our recommendations:

1. Create dedicated funding streams for telepathology, digital pathology, and AI infrastructure, especially in rural and regional NSW.
2. Adjust the Activity-Based Funding (ABF) model to incentivise adoption of advanced technologies, incorporating capital costs into recurrent funding.
3. Develop a state-level strategy for AI integration in pathology, including funding for pilot programs, validations and ongoing monitoring.

### **Activity-Based Funding (ABF) Limitations**

Pathology services are often constrained by the limitations of the Activity-Based Funding (ABF) model. This model's emphasis on service volume fails to reflect the fixed costs and complexity of many pathology tests. For example, advanced tests for rare diseases or genetic conditions, though critical, are often underfunded because they are less frequently performed. During public health emergencies, such as the COVID-19 pandemic, pathology services experience surges in demand that are not adequately addressed by ABF, leading to financial strain.

The ABF model also does not account for the cost-savings potential of AI in pathology. AI can improve efficiency, expand specialised expertise throughout the state between metropolitan and regional areas, and reduce long-term expenses, particularly for complex diagnostics. The potential flow on effect of cost savings through efficiency generated by AI should be taken into consideration when funding public pathology services, and its implementation requires upfront investment. Adjusting ABF metrics to incentivise AI adoption could drive innovation in NSW pathology services, and will create long term cost savings.

Our recommendations:

1. Reform ABF metrics to reflect the complexity and value of specialised pathology services.
2. Introduce blended funding mechanisms that reward innovation and efficiency, particularly for emerging technologies such as AI and digital pathology.
3. Establish a contingency fund to address surges in demand during public health emergencies.

## Rural and Regional Disparities

The funding gap is particularly stark in rural and regional NSW. While **35% of pathology services are delivered in rural areas**<sup>vi</sup>, these regions often face higher operational costs and fewer resources. Patients in these areas experience longer turnaround times for test results, further exacerbating healthcare inequalities, delayed diagnosis and treatment which may ultimately lead to longer hospital stays and long term effects of chronic diseases. For example, in some rural health districts, sample transportation to centralised laboratories adds delays of up to **24-48 hours** for routine diagnostics.<sup>vii</sup> A recent report indicated that **only 20 pathologists per million people** serve some regional areas, compared to **86.4 per million in metropolitan NSW**. Additionally, operational funding in rural NSW laboratories accounts for less than **15% of total state pathology expenditure**, despite serving a disproportionately high-needs population.<sup>viii</sup>

Our recommendations:

1. Increase operational funding for rural pathology laboratories to align with their proportional service delivery.
2. Implement targeted strategies to reduce turnaround times, including expanded transport networks and appropriate decentralised testing facilities.
3. Invest in regional training programs to build a sustainable local workforce.
4. Increase funding for AI and digital pathology infrastructure to provide support for rural laboratories and pathologists to attain metropolitan expert support for more specialised and complicated pathology testing.

Kind regards



Dr David Andrews  
CEO Royal College of Pathologists of Australasia

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<sup>i</sup> Royal College of Pathologists Australasia (RCPA), Workforce Projections Report 2023.

<sup>ii</sup> Australian Institute of Health and Welfare (AIHW), Medical Workforce Data 2016.

<sup>iii</sup> Royal College of Pathologists Australasia (RCPA), Workforce Projections Report 2023.

<sup>iv</sup> NSW Health Pathology, Test Volumes Report, 2023.

<sup>v</sup> NSW Rural Health Service Delivery Report, 2023.

<sup>vi</sup> Parliamentary Inquiry into Rural Health, NSW Legislative Assembly, 2023.

<sup>vii</sup> NSW Rural Health Service Delivery Report, 2023.

<sup>viii</sup> NSW Treasury, Pathology Funding Expenditure Analysis, 2023.