

CHAPTER 5: NATIONAL STANDARDS FOR A UNIFIED HEALTH SYSTEM

The Commonwealth will require strong national standards and transparent reporting in the health system.

For the first time, Australians will be able to access transparent and nationally comparable performance data and information on hospitals and health services — including emergency department and elective surgery waiting times, bed occupancy rates and reporting of adverse events and hospital acquired infections.

Eight state and territory systems

Information on individual health and hospital services available today can vary substantially from state to state. While most states report information on their individual public hospitals in annual or quarterly reports that are published on state government health department websites, nationally comparable data is limited.

The November 2008 COAG agreement was the first step towards rectifying the lack of transparency over health and hospital services in Australia. For the first time, all Australian Governments agreed that there would be health system wide reporting — including the Commonwealth reporting on primary health care indicators.

A lack of transparency for a significant taxpayer investment — particularly at individual hospital level

Although around \$70 billion in taxpayer funding was spent on health and hospitals over the last year, there is little nationally consistent and comparable information available on the performance outcomes of individual health and hospital services. Patients and the Australian community do not have sufficient information about the performance of their local hospitals, general practitioners and other health care providers in the system.

While a substantial amount of system and government-level information is available, less information is published about local health services, how they are delivered and how they perform.

A lack of access to individual hospital level data was also highlighted in the Productivity Commission's recent report into public and private hospitals, which argued that 'long-term improvements to health outcomes need comprehensive public reporting of quality and patient safety by all hospitals.... Hospitals vary significantly, and reporting broad statistics masks the major variation that can occur between hospitals, as observed by the Australian Commission on Safety and Quality in Health Care. It is hospital-level data, not jurisdictional, that health care consumers, providers, funders (private health insurers and governments), regulators and policy makers need to inform their decisions.'

The NHHRC also pointed out that no level of government currently formulates policies that take into account the health system as whole, and recommended that:

- › systems be put in place to provide comparative clinical performance data back to health services and hospitals, clinical units and clinicians;
- › the Australian Commission on Safety and Quality in Health Care should analyse and report on safety and quality across all health settings, and that this also include patient experience surveys and patient-reported outcomes measures;
- › hospitals, primary health care centres, and residential aged care services publicly report on how they are progressing with quality improvement activities and research; and
- › there should be regular reporting that tracks progress in tackling health inequity.

Setting national standards to deliver a nationally unified system

The Commonwealth Government will use its position as the majority funder of health and hospital services in Australia to impose strong national standards for health care and build a nationally unified health system. These national standards will clearly state the high expectations all Australians can have of their health and hospital services.

A particular area of concern and variability in the performance of the eight states and territories has been access to emergency departments and elective surgery. As part of its national leadership role, the Commonwealth will increasingly look to insist on higher national standards of performance, more consistently applied across the country, with new targets backed up by explicit financial rewards and penalties.

Other areas in which national standards will be developed include:

- › access to local GPs and other health professionals;
- › financial performance and efficiency; and
- › safety and quality — such as reporting of adverse events and hospital acquired infections.

Over time, the Commonwealth will move to increase the link between health and hospital performance and funding — particularly in critical pressure points such as elective surgery and emergency departments. As part of its national leadership role, the Commonwealth will be alerted to poorly performing hospitals (for example in the event of continuing failure to meet emergency department targets, or poor quality and safety outcomes) and will require states to step in and fix these problems.

Improved clinical governance will be a key feature of the new system. Services that are of low quality, unsafe or based on poor evidence result in poorer care for patients, and increased cost to the system. Governments need to support clinicians to lead the drive towards continuous improvement in quality and safeguarding high standards of care, as they are the experts in this field.

This would include developing and using clinical guidelines that, while set by clinicians and experts nationally, are applied at the local level and contribute to redefining local service mix and approach. Feedback from the consultations suggests that clinicians are seeking this involvement. Reconnecting clinicians as partners in planning and delivering health care is fundamental to health reform.

A combination of enhanced data collection and reporting (for example through activity based funding), more decentralised management of hospitals (through Local Hospital Networks), development of clinical standards (with extensive clinician involvement), and local initiatives will provide rich information for clinicians to be able to reflect on their own practices and drive continuous improvement. As a result, more patients will receive high quality care that is aligned with best practice.

For its part, the Commonwealth will provide leadership in relation to safety and quality by promoting national clinical standards.

National governance functions to drive increased accountability and transparency

National standards will be underpinned by three new national functions for performance reporting and auditing, pricing hospital costs and clinical standards (to evolve from the Australian Commission on Safety and Quality in Health Care):

- › Monitoring and reporting will be undertaken on the performance of the whole health system and that of individual hospitals. This will provide **clear and transparent reporting** on public and private hospital performance, as well as state performance, and independent reporting on the Commonwealth's primary health care performance.
- › An independent umpire at arm's length from governments will set the **nationally efficient price** (including transitional prices), determine the scope of the activity based funding system and provide independent, binding arbitration on cost-shifting. This will reduce the blame game on funding issues.
- › Setting and monitoring national **quality and safety standards**, and working with clinicians to identify best practice clinical care, to ensure the appropriateness of services being delivered in a particular setting.

Clear and nationally consistent performance information will hold hospitals and state governments accountable for meeting performance standards. For the first time, this will include information on individual public and private hospitals. This and other performance information — including on the Commonwealth Government's performance in primary health care — will be publicly released to provide Australians with more information than ever before about the performance of their local hospital, and of their health system at large. This information will also help health providers promote a culture of continuous improvement.

How the Government will implement this reform

The Commonwealth Government will work with state governments, clinicians and local communities to develop local performance standards and information that is useful for patients in evaluating the care they receive.

Over time the Commonwealth will also seek to increase the link between performance and funding to promote a culture of continuous improvement.

CHAPTER 6: LOCAL HOSPITAL NETWORKS TO DRIVE ACCOUNTABILITY AND PERFORMANCE

The Government will introduce Local Hospital Networks to run small groups of hospitals, so that hospitals better respond to the needs of their local community. Local Hospital Networks will collaborate to provide patient care, manage their own budgets, and be held directly accountable for their performance.

A hospital system without enough clinical and local engagement

Health governance structures vary across Australia, from highly centralised models to those that are more devolved to the hospital level. For example, the Victorian system is comparatively devolved, with separate health authorities operating public hospitals. By contrast, New South Wales has a more centralised system with health and hospital services managed by a smaller number of Area Health Services.

In the Government's consultations, many clinicians and local communities made it clear they do not feel they have the opportunity to be involved in decisions about the delivery of health services in their communities. This is a particular issue in rural and regional communities. The result is that services are not responsive to local needs and opportunities to improve clinical safety and quality are lost.

A lack of ownership and ability to drive change at the hospital level can lead to low staff morale. The NHHRC concluded that effective clinical governance is a vital element in retaining our health workforce. Clinicians need to be closely linked to decision making processes to contribute knowledge, advice, leadership and guidance on clinical issues and service planning. This will result in real improvements in care quality and safety.

Local Hospital Networks with the flexibility to improve performance

The Government will require states to introduce Local Hospital Networks — small groups of public hospitals with a geographic or functional connection, large enough to operate efficiently and to provide a reasonable range of hospital services.

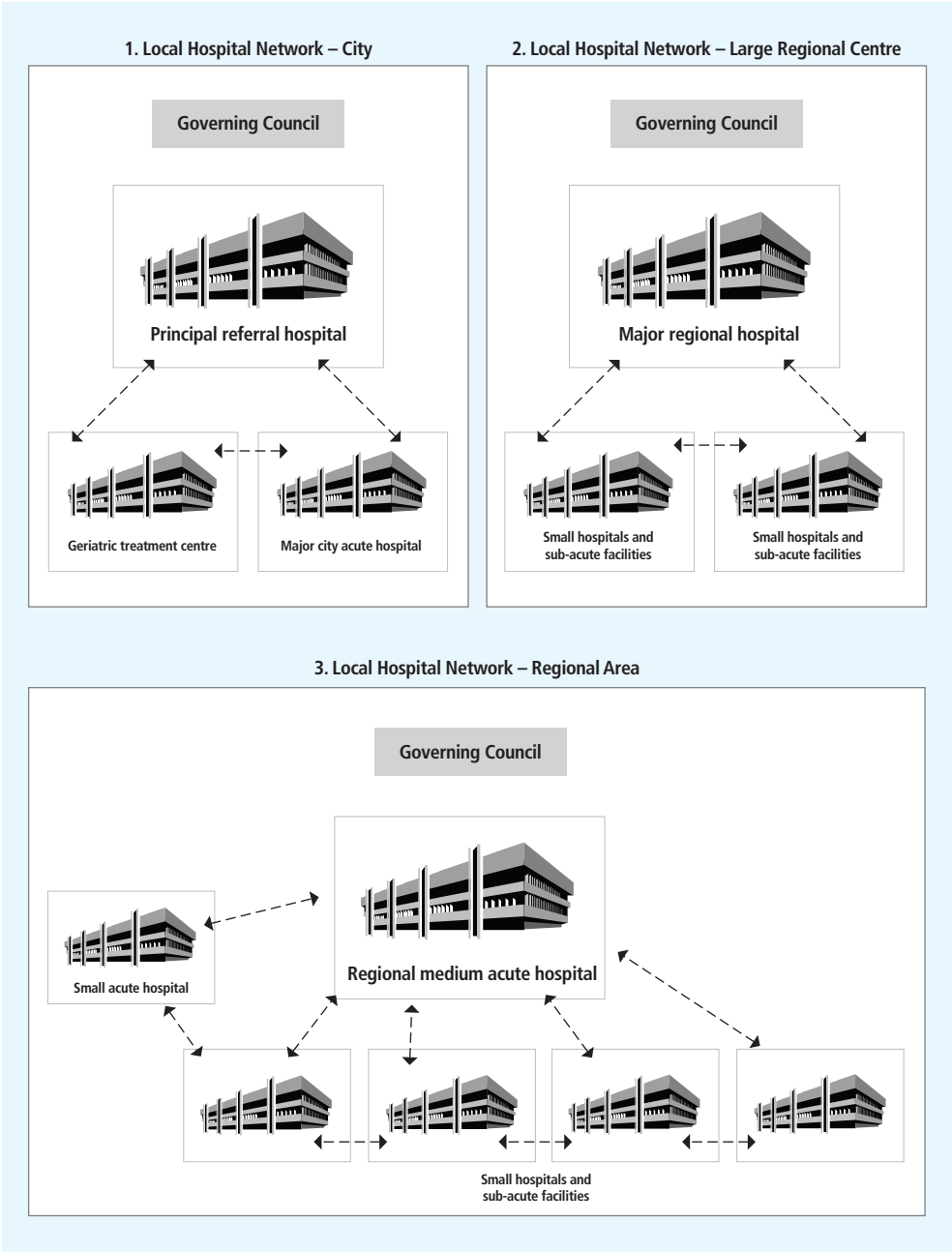
Networks will be responsible for making decisions on the day to day operations of hospitals within their Network. This includes planning at the Network level to deliver on performance standards and manage budgets. Performance at a Network level will be published and transparent to clinicians and the broader community, on a nationally comparable basis.

Networks will be responsible for delivering on agreed services and performance standards. This negotiated outcome could be formalised through an annual “service contract” — in which the state would set out a target for the amount of hospital services to be purchased, and the Network would set out the performance targets and benchmarks that it agreed to reach. In general, service contracts will leave significant flexibility for Networks to determine the most appropriate service mix to meet their performance targets and the needs of their community.

Devolving decision making to Local Hospital Networks will give communities and clinicians a greater say in how their hospitals are run, and avoid the sometimes rigid management by remote health bureaucracies.

Networks will be established as separate state statutory authorities. They will comprise between one and four hospitals in most networks, with regional networks potentially including more small hospitals. In consultation with local communities, states will have the flexibility to determine the regional, rural and remote network structure that best meets the needs of these communities and best takes into account the challenges of managing multiple small hospitals. This will include deciding whether to incorporate smaller regional and remote hospitals within larger Local Hospital Networks, or whether to create further Networks. Networks will avoid the fragmentation and duplication that would come from individual hospitals operating independently from each other, and also avoid the centralised controls and excess layers of bureaucracy that characterise some systems.

Figure 10: Illustrative models of Local Hospital Networks



The Commonwealth Government expects that Local Hospital Networks should be established by states within current health department staffing levels. States will be expected to restructure their health departments and regional structures so that people, along with management responsibilities, are devolved to Networks. As a result, the Commonwealth Government will not provide funding for this specific initiative.

Professional governance councils to drive local responsiveness and improve efficiency

Local Hospital Networks will have a professional Governing Council and Chief Executive Officer (CEO), who will be responsible for delivering agreed services and performance standards within an agreed budget. Governing Councils will include local health, management and finance professionals, with an appropriate mix of skills, expertise and backgrounds. Members will need to have the professional capability to run the large, complex organisations that most Local Hospital Networks will be. Council members will be appointed under state legislation. Each Network's CEO will be appointed by the Council and accountable to the Council.

The devolution of management accountability, combined with paying hospitals directly, places incentives on local managers and clinicians to increase service levels and reduce costs. This will mean that a local hospital should no longer have to seek the approval of a large bureaucracy for matters that relate to the day-to-day delivery of hospital services. Where a Local Hospital Network operates more efficiently, they will be able to locally retain and re-invest the financial benefits. In addition, future Commonwealth Government payments will be designed to reward Networks for good performance — and provide Networks with local flexibility and choice in how to invest the proceeds of good performance.

The role of state health departments

State health departments will have a different role in this system. State health departments will specialise in system-wide service planning and performance management issues, and work with Networks to negotiate service contracts, meet unanticipated challenges, transfer good practice and identify and remediate poor practice. Some functions, such as procurement, may be more effectively administered at a state level. Networks will be the employers of hospital staff, but with conditions of employment managed by states.

In circumstances in which independent and transparent reporting concludes that Network performance is good, Governing Councils and CEOs could expect relatively 'light touch' management from states in an earned autonomy system. Conversely, where Network performance is not meeting the performance standards outlined in the service contract, state health departments will take a more visible and intrusive role. As a last resort, the Council may decide to remove the CEO, or the state Minister may choose to remove the Chair of the Council, or both. As part of its national leadership role, the Commonwealth will be alerted to poorly performing hospitals, and will require states to step in and fix these problems.

Further detail on the distribution of roles and responsibilities across the unified Australian public hospital system is provided in figure 11 below.

Figure 11: Proposed roles and responsibilities in the National Health and Hospitals Network

Decisions relating to public hospitals	Local Hospital Networks	Regions (e.g. Area Health Services)	States	National
Determine efficient price, pay 60% for each service provided, and pay 60% of other costs including capital				◆
Pay remaining costs, including any costs above the efficient price			◆	
Capital planning and management			◆	
Capital ownership			◆	
Performance metrics and target setting				◆
Standards setting, guidelines, quality and safety and national clinical leadership				◆
Receive Commonwealth funding for services	◆			
Hospital workforce planning			◆	◆
Performance management and remediation			◆	
Agree local activity targets, service mix and provision for highly specialised services	◆		◆	
Provisioning services between facilities	◆			
Industrial relations negotiations			◆	
Procurement	◆		◆	
Corporate services (human resources, payroll, etc.)	◆			
Managing operational budget	◆			
Local implementation of clinical guidelines and pathways	◆			

◆ Proposed location

Clinical leadership to drive continuous improvement

Clinical leadership will be an integral part of the design of Local Hospital Networks. There will be clinical representation on the Governing Council, and Networks will work with local clinicians to incorporate their ideas and perspectives into the day to day operation of the hospitals.

Driving integration beyond public hospital doors

Networks will need to develop a number of critical relationships with other parts of the health and hospital system. Good communication between public and private hospitals will continue to be necessary, as will care pathways and linkages with local primary health care and aged care providers. Many Networks will have strong engagement with university clinical schools and research centres, and this engagement will be critical to translating clinical research into clinical practice, ongoing professional development and training the next generation of clinical leaders.

With the introduction of Networks, the Australian public will see hospitals become more accountable and responsive to local communities. Patients will receive better care through stronger clinician engagement in hospital decision-making. Hospitals will be accountable for treatment outcomes, responsive to their patients' needs, and make active decisions about the control of their own budget.

How the Government will implement these reforms

In establishing Local Hospital Networks, states will be asked to create groupings of hospitals that can ensure geographic linkages, management quality, economies of scale, an appropriate service mix, and referral pathways within the Network:

- › In cities, the Networks will be built around each principal referral hospital or specialist hospital.
- › Smaller city hospitals will be incorporated within these Local Hospital Networks on the basis of logical links to lead hospitals, whether through patient catchment or referral linkages.
- › In regional Australia, the Networks will be built around each large regional acute hospital.
- › States can decide whether to incorporate smaller regional and remote hospitals within these Local Hospital Networks, or whether to create further Networks.

CHAPTER 7: PAYING LOCAL HOSPITAL NETWORKS DIRECTLY FOR THE SERVICES THEY PROVIDE

The Commonwealth Government will pay 60 per cent of the efficient price of every public hospital service provided to public patients.

The Commonwealth Government will directly pay Local Hospital Networks for each service they provide, according to a national efficient price determined by an independent umpire.

This transparent system of activity based funding will provide Local Hospital Networks with national consistency in their funding, and give them flexibility to shape the mix of services they deliver.

Too much inefficiency and waste

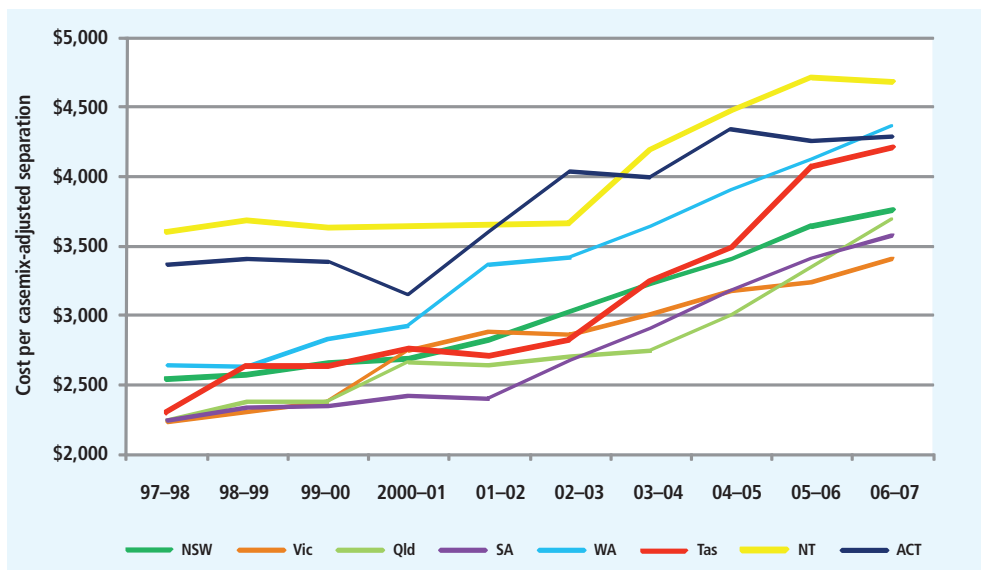
Today, the Commonwealth supports the delivery of free public hospital services through block grant funding paid to the states. Each state then determines funding for individual hospitals. There is considerable variation in mechanisms for payment to individual hospitals around the country, though many states are shifting to some form of activity based funding for acute care.

The differing payment mechanisms for public hospitals often reflect the structures that have developed in particular states over a period of time and the considerable variation in costs across different hospitals. For example, small hospitals — such as rural hospitals — with variable throughput and capacity, and children’s hospitals and referral hospitals, tend to have higher costs for particular procedures than general hospitals. In addition, funding to hospitals often does not reflect service levels or local needs.

At a time when hospitals are struggling to meet current levels of demand, hospitals need to improve their efficiency — to keep downward pressure on costs, and to free up resources to meet increasing demand. The Productivity Commission estimates that some public hospitals may be running up to 20 per cent less efficiently than best practice.

Available data suggests that the efficiency of public hospitals varies substantially between states, indicating there is significant room for improvement even after taking into account geographic and population variation between states.

Figure 12: Recurrent cost for each hospital admission



Source: National Hospital Cost Data Collection, 2009.

Reforming how we pay for hospitals

The Commonwealth Government will increase the efficiency and transparency of public hospital funding by directly funding Local Hospital Networks for each service provided to a patient, through activity based funding. Local Hospital Networks will work with states to determine the range and number of services each Network will provide. Local Hospital Networks will have the assurance of directly receiving payments linked to the number and type of services that they provide. These changes represent a significant departure from current arrangements, under which the Commonwealth contributes to public hospital funding through block grants, which are not explicitly tied to the efficient delivery of services.

Under the new arrangements, the Commonwealth will fund 60 per cent of the efficient price of every public hospital service Local Hospital Networks provide. Currently there are constraints on growth caused by workforce, infrastructure and limits on funding. While some controls on demand for hospital services are necessary, the current constraints create waiting lists for elective surgery and waiting times for emergency departments that are out of step with clinical standards and community expectations.

By providing 60 per cent of the efficient cost of public hospital services and also holding full funding and policy responsibility for primary health care, the Commonwealth will also have a financial incentive to ensure that Australians do not unnecessarily visit hospitals when they can be cared for more appropriately in the community.

International experience suggests that activity based funding in concert with effective clinical leadership and a strong safety and quality regime can support improvements in quality and patient care. This has the capacity to slow the rate of growth in hospital costs over time, thereby increasing the long-term sustainability of health care funding.

These reforms will help to ensure that hospital financing can dynamically adjust to:

- › shifting populations;
- › local demographic characteristics;
- › changing costs of delivering medical services from technological and clinical innovation; and
- › the complexity and location of delivering hospital services.

The Commonwealth will move to a nationally consistent patient level costing and pricing regime for public hospitals over time. This will be undertaken through the establishment of an activity based funding unit price, a series of loadings that adjust the price for the most important patient and hospital factors, and a series of cost weights that reflect the cost differences between different diagnoses and procedures. To do this, the Government will accelerate the activity based funding work program agreed with states at COAG in November 2008.

Once fully implemented, the majority share of the funding for every public hospital in Australia will be linked to the number and type of actual services they deliver. The implementation timeline is set out below.

An independent umpire to determine the efficient price

To ensure that the nationally efficient price is determined on a fair and equitable basis, an independent umpire will set the nationally efficient price and advise the Government on appropriate timelines and path for transition for all hospital services.

In setting the nationally efficient price, the umpire will be required to strike an appropriate balance between reasonable access, clinical safety, efficiency and fiscal considerations. Price loadings will be established to recognise, for example, the particular circumstances and health care needs of people living in rural Australia and Indigenous Australians.

CHAPTER 8: TAKING A REFORM PLAN TO THE STATES

The Commonwealth Government will take this Reform Plan to the states for agreement at a COAG meeting in April.

Should the states not agree to the Plan, the Commonwealth reserves its right to seek a mandate from the Australian people to implement the Plan.

A comprehensive reform plan

This document outlines a series of major reforms to the structure of our health system that will drive efficiency and better equip the system to meet future challenges.


Over the coming weeks and months the Government will announce additional reforms across a range of areas — including in public hospitals, GP care, health workforce, and e-health. These reforms will tackle key pressure points in the system and deliver better health outcomes for the Australian community.

Putting our proposals to the states

The reforms outlined in this document represent the proposition the Government will take to the states at COAG in April.

Since November 2007, the Commonwealth Government has worked closely with states to deliver much-needed improvements to the Australian health system. These include increasing public hospital funding, tackling pressure on emergency departments and elective surgery waiting lists, and training more doctors and nurses.

However, greater effort is required to ensure the long-term sustainability and quality of Australia's health system. The Commonwealth Government calls on state governments to continue the cooperation they have shown over the last two years to implement the important reforms contained in this Plan. These reforms are necessary to provide Australian taxpayers with a high quality, sustainable health care system into the future.



Under the National Health Reform Plan, in return for providing a secure funding base for public hospitals into the future, the Commonwealth will require the states to commit to system-wide reform to improve public hospital governance, performance and accountability. These include the establishment of Local Hospital Networks, and cooperation with the Commonwealth on transferring funding responsibility for state-funded general practice and primary health care services.

The Commonwealth Government will continue working closely with state governments through the COAG process to ensure the reforms in this plan are implemented as quickly as possible. These essential reforms are required as building blocks for future reforms, and to ensure that additional investment in the system is used efficiently and effectively.

Should the states not agree to the Plan, the Commonwealth also reserves its right to seek a mandate from the Australian people to implement the Plan. Furthermore, consistent with the Government's previous commitments, the Commonwealth also reserves the right to then proceed to a full funding takeover of the system in the future.

The reforms outlined in this document are ambitious. Their implementation will require commitment to reform from all levels of government, as well as from the doctors, nurses and other health professionals who make up our health system.

As the NHHRC made clear, the Australian health system is at a tipping point. After extensive consultation with the Australian community, the Government is more convinced than ever that the time to act is now. Bold reform is necessary to ensure that Australians can access a high quality health system that is sustainable into the future.