



Australian Government

A NATIONAL HEALTH AND HOSPITALS NETWORK FOR AUSTRALIA'S FUTURE



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***A NATIONAL HEALTH AND
HOSPITALS NETWORK
FOR AUSTRALIA'S FUTURE***

FOREWORD

This Government was elected with a mandate to prepare Australia for the challenges of the future.

One of our greatest challenges is to ensure that future generations will enjoy world class, universally accessible health care — the quality of care that has helped deliver Australians the third longest life expectancy in the world.

As this document makes clear, Australia's health and hospital services are struggling to keep pace with the unrelenting growth in demand.

The Third Intergenerational Report released this year showed that these pressures will only intensify as a result of the ageing of the population. In addition, demand for high standards of care will place pressure on the Government to increase expenditure, as will technological innovation.

Without major changes, as rising health costs outstrip revenue growth, state budgets will be at risk of being overwhelmed.

If Australians are to continue to enjoy access to world class health care, we must undertake far reaching reform of our health and hospital system now.

The Government's National Health Reform Plan will deliver the most significant reforms to health and hospitals since the introduction of Medicare. It will also deliver one of the biggest reforms to the federation in its history. It will provide better health and better hospitals.

This document sets out major structural reforms to establish the financing and governance foundations of a National Health and Hospitals Network for Australia's future.

The Government expects that these reforms will permanently establish the Commonwealth Government as the majority funder of hospitals and place the Australian health system onto a sustainable and self-improving footing for the future.

They will create a nationally unified and locally controlled National Health and Hospitals Network.

The National Health and Hospitals Network will build on the major health reforms the Government has already delivered: record funding for public hospitals, increased numbers of elective surgery procedures, taking the pressure off emergency departments, and a record investment in training more doctors and nurses.

The reforms will also build on the strengths of our current health system, such as access to primary health care through Medicare, and free public hospital treatment for public patients — and ensure that these remain sustainable into the future.

The National Health Reform Plan represents not just reform to health and hospitals — this is also a major economic reform that will underpin the sustainability of public finances in our federation.

We thank Dr Christine Bennett and her fellow Commissioners for their work on *A Healthier Future for all Australians*, the National Health and Hospitals Reform Commission's Final Report, which provides the roadmap for our National Health Reform Plan.

The Australian Government is committed to acting now to tackle our nation's long-term challenges. The National Health and Hospitals Network will play a key role in tackling those challenges and building Australia's future — so that all Australians can enjoy access to high quality, efficient and sustainable health care in the decades ahead.



The Hon. Kevin Rudd MP
Prime Minister



The Hon. Wayne Swan MP
Treasurer



The Hon. Nicola Roxon MP
Minister for Health and Ageing

March 2010

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OVERVIEW

1. A NATIONAL HEALTH AND HOSPITALS NETWORK FOR AUSTRALIA'S FUTURE

The Commonwealth Government's National Health Reform Plan will deliver the most significant reforms to Australia's health and hospital system since the introduction of Medicare and one of the biggest reforms to the federation in its history.

This document sets out the architecture and foundations of the Government's historic National Health Reform Plan, which will deliver major structural reforms to establish the foundations of Australia's future health system.

These major structural reforms will mean that the Commonwealth Government:

- › becomes the majority funder of public hospitals;
- › takes over all funding and policy responsibility for GP and primary health care services;
- › dedicates around one third of annual Goods and Services Tax (GST) allocations currently directed to state and territory governments (referred to throughout this document as 'states') to fund this change in responsibilities for the health system;
- › changes the way hospitals are run, taking control from central bureaucracies and handing it to Local Hospital Networks; and
- › changes the way hospitals are funded, by paying Local Hospital Networks directly for each hospital service they provide, rather than by a block grant from the Commonwealth to the states.

These reforms focus on improving public hospital and primary health care services, since these services underpin Australia's entire health system. They will drive major improvements in service delivery as the Government goes about building a new health and hospital system for the future. The reforms will build on the strengths of our current health system, such as access to primary health care through Medicare, and free public hospital treatment for public patients, and ensure that these pillars of the Australian health system remain sustainable into the future. Most importantly, they will build on the skills, experience and ingenuity of the Australians who work on the front line of our health and hospital system.

The National Health Reform Plan will build on the major health reforms the Government has already delivered: record funding for public hospitals, increased numbers of elective surgery procedures, taking the pressure off emergency departments, and a record investment in training more doctors and nurses.

Reform is necessary if we are to continue to deliver high quality health care. Our current health care system is fragmented, contributes to cost-shifting between different levels of government, involves too much waste, and results in long waiting times for patients.

Our rates of hospital admission are much higher than comparable countries, indicating we can do better at keeping people healthy in the community. The health care system also faces a formidable set of future challenges — an ageing and growing population, rapid innovations in technology that drive increased health costs, and growth in the burden of chronic disease.

Without reform, these challenges will put governments around the country under increasing fiscal pressure, add to the workload of already overstretched staff and lead to longer waiting times. Moreover, there is a real risk that state governments will be overwhelmed by their rising health spending obligations, as a result of rapidly rising costs for health and hospitals and narrower, less efficient taxes — putting our health system at risk. Reform of the nation's health care system — if it is to provide a sustainable funding model for health and hospitals — must involve reform of the nation's finances.

In implementing its reforms, the Government recognises the importance of continuing the role that private hospitals and other private health care providers play in delivering strong health outcomes.

The Government is prepared to address the current and future challenges facing our system. This reform package builds on the recommendations of the National Health and Hospitals Reform Commission (NHHRC), and more than 100 consultations the Government has conducted with health professionals and the community. It represents the system-wide reforms upon which additional investments will build over the course of 2010. This reform package is the position the Government will take to states for their agreement at the next meeting of the Council of Australian Governments (COAG) in April.

2. PROBLEMS WITH OUR HEALTH SYSTEM TODAY

2.1 *A system that isn't prepared for future challenges*

While Australia's health system serves most Australians well, at a cost to the community that is around the average of other advanced nations, it is facing a number of serious challenges:

- › An **ageing population** will substantially increase both health care needs and expenditure, while further constraining our health workforce. The 2010 Intergenerational Report forecasts the proportion of our population aged over 65 will increase from 14 per cent in 2010 to 23 per cent by 2050.
- › Our **population is projected to grow** from 22 million people today to 36 million by 2050. This growth will create the need for more health services, new investment in health infrastructure and an expanded health workforce.
- › **Chronic disease** is a large and increasing burden on our health system. For example, the cost of type two diabetes is projected to increase by more than 520 per cent from 2002–03 to 2032–33.
- › **Costs have increased sharply** in recent years and are expected to continue growing. The 2010 Intergenerational Report projects health costs to increase from 15 per cent of all Commonwealth Government spending now (4.0 per cent of GDP) to 26 per cent by 2050 (7.1 per cent of GDP).
- › **Workforce shortages** are already placing limitations on the delivery of health care — particularly in regional and rural Australia. As well as training more health professionals, we will need to be more effective at making the most of the skills and dedication of our existing health workforce.

2.2 Too much blame and fragmentation between governments

In effect, Australia currently has eight different state and territory health systems. The distribution of responsibilities for health between different levels of government is blurred and unclear, resulting in duplication, cost-shifting and blame-shifting. The relative financial contributions of different levels of government to hospital services are fiercely disputed, especially when hospital funding arrangements are negotiated.

Further, patients find it hard to work out which level of government is accountable for their care, when all they want is the services they need. Clear boundaries need to be set between the responsibilities of each level of government, and services designed accordingly.

2.3 Gaps and poor coordination in health services that people need

Too many patients are either falling through the gaps or receiving uncoordinated care. Changes that streamline the delivery of care and remove fragmentation in services are long overdue, particularly for people living with chronic disease.

In addition, not all Australians get the services they need. People living in rural and regional areas, for example, sometimes struggle to access primary health care. Many people are unable to access out of hours GP services. Some groups in our community, such as Indigenous Australians and those living in highly disadvantaged areas, have poor health outcomes, and are unable to access appropriate care.

2.4 Too much pressure on public hospitals and health professionals

Our public hospital system is struggling to cope with growing patient demand and stretched budgets. For more than half a decade, almost one in six elective surgery patients and one in three people attending emergency departments have been waiting longer than the recommended time for treatment. Australia's rates of hospital admission are above the Organisation for Economic Cooperation and Development (OECD) average and significantly higher than comparable countries such as the United States, New Zealand, and Canada. This pressure and constant strain on resources is also felt in the everyday working lives of health professionals.

These problems are not likely to be resolved through incremental funding and policy changes. New arrangements that fundamentally change the way hospitals are funded and run are needed to ensure additional hospital capacity, greater efficiency, and better services.

2.5 An unsustainable funding model

The cost of providing health care is expected to continue to increase into the future. But state government revenue growth is not keeping pace with growing health care costs.

In the five years to 2007–08, public hospital expenditure has grown at an average of close to ten per cent per year. Projections show that by 2045–46, health spending alone would be more than all revenue collected by state and local governments — and that in some states, this will happen earlier. Strong action is needed to ensure the sustainability of health care funding.

2.6 Too much inefficiency and waste

Waste and inefficiency are ongoing challenges for the health system. The Productivity Commission estimates that some public hospitals may be running up to 20 per cent less efficiently than best practice. Costs per patient vary between state public hospital systems, suggesting efficiency in some states is better than in others.

The Commonwealth Government currently funds states with block grants for public hospital services. Despite recent improvements through the National Healthcare Agreement, the transparency of health care funding and spending is still relatively limited. This lack of transparency means taxpayers and the governments that serve them are unable to make robust comparisons across states, or easily identify where there is inefficiency.

Part of the problem is overly centralised and bureaucratic administrative arrangements for hospitals in some states, which sap the innovation and drive of local clinicians and managers, and reduce incentives to improve performance.

2.7 Not enough local or clinical engagement

Many clinicians and citizens are not adequately involved in decisions about the delivery of health services in their local community. Current arrangements fail to make the most of the expertise and commitment of our clinical workforce. It also means that some services are poorly tailored to community needs. Decisions made at a local level, with appropriate clinician and community engagement concerning service mix and delivery options, can bring significant improvements in both productivity and service quality.

3. BUILDING ON MAJOR REFORM

In its first two years in office, the Government has undertaken major reforms across health and hospitals: increasing funding for public hospitals, targeting key pressure points such as emergency departments and elective surgery and training more doctors and nurses.

3.1 *Increased funding for health and hospitals*

In November 2008, the Government signed a \$64 billion agreement for health and hospitals funding over the next five years, which delivered a 50 per cent increase on the previous Australian Health Care Agreements. Additional funding was linked to a range of performance indicators across prevention, primary and community care, hospital and related care, aged care, the patient experience and sustainability. States agreed to national outcomes and outputs, challenging new targets, and increased service levels.

The agreement also included:

- › **\$1.1 billion to train more doctors, nurses and allied health workers** in the largest single investment in the health workforce.
- › **\$750 million to take pressure off emergency departments** with an agreed performance benchmark that by 2012, 80 per cent of emergency department presentations will be seen within the clinically recommended time for treatment. Thirty seven hospitals around the country are receiving upgrades as a result of this investment.
- › **\$500 million for sub-acute care facilities** including rehabilitation, palliative care, geriatric evaluation and psychogeriatric services.

In addition, the Government has invested **\$600 million in an elective surgery waiting list reduction plan** that has already delivered more than 62,000 additional procedures and new elective surgery equipment and operating theatres for 125 hospitals.

3.2 More doctors, nurses and allied health professionals — and making smarter use of our health workforce

As part of the November 2008 COAG agreement, the Government has made an unprecedented investment in training more doctors, nurses and allied health professionals.

This includes:

- › raising the number of GP training places to a total of 812 by 2011 — a 35 per cent increase on the limit imposed since 2004;
- › 73 additional specialist training places in the private sector each year;
- › additional funding to train nursing, allied health and medical supervisors; and
- › establishing Health Workforce Australia to plan for future workforce needs.

The Government has also undertaken reform to make smarter use of our workforce by providing nurses and midwives with access to the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme.

3.3 Comprehensive health care that is close to home through GP Super Clinics

To provide comprehensive services close to home, 36 GP Super Clinics are being built across the country. GP Super Clinics bring together GPs, nurses, visiting medical specialists, allied health professionals and other health care providers to provide integrated, multidisciplinary care in a single convenient location. This infrastructure will particularly benefit Australians with chronic and complex diseases.

3.4 Focusing on prevention rather than cure

The Government has made an \$872 million investment in preventative health programs to be rolled out in schools, workplaces and local communities with a high incidence of chronic disease. These programs will focus on reducing lifestyle risk factors such as smoking and obesity and increasing physical activity and healthy eating. This investment included the establishment of a National Preventative Health Agency, to advise all governments on the evidence base for future investments in prevention.

To tackle binge drinking amongst young people, the Government has increased the excise on ready-to-drink beverages and implemented a National Binge Drinking Strategy.

3.5 Closing the life expectancy gap between Indigenous and non-Indigenous Australians

To help close the gap between Indigenous and non-Indigenous health outcomes, the Commonwealth, states and territories are investing \$1.6 billion in measures to reduce the burden of chronic disease in the Indigenous population — the biggest contributor to the life expectancy gap. These measures include support for tackling high rates of smoking in the Indigenous community, and improving management of chronic diseases such as diabetes through additional support for primary health care practices with Indigenous patients.

3.6 Addressing workforce shortages in regional and rural Australia

The Government has recognised the challenges faced by Australians living in regional and rural areas in accessing basic health care services. As part of a \$134 million investment, some 500 communities will benefit from a number of new initiatives, which means that around 2,400 doctors in rural Australia will, for the first time, become eligible for financial support to stay in rural and remote areas.

3.7 Investing in hospitals, medical research and clinical training infrastructure

In the first ever major investment by a Commonwealth Government in state health infrastructure, \$3.2 billion has been invested in 35 infrastructure projects across the country, including:

- ▶ \$1.5 billion to upgrade 18 hospitals around the country, including Nepean Health Services Redevelopment — \$96.4 million; expansion of Townsville Hospital — \$250.0 million; and the Health and Medical Research Institute at Royal Adelaide Hospital — \$200.0 million.
- ▶ \$1.3 billion over six years to modernise Australia's cancer infrastructure — including two comprehensive cancer centres in Sydney and Melbourne linked into a network of regional cancer centres.
- ▶ \$430 million to upgrade 12 medical research and clinical training facilities.

3.8 Sustainable, high quality aged care

The Government is committed to sustainable, high quality aged care and to providing funding for more services to older Australians. This year, the Government will make more than 12,000 new aged care places available, with a strong focus on community care.

Over its first two Budgets, the Government increased total funding for aged and community care from \$8.3 billion in 2007–08 to \$10.0 billion in 2009–10, an increase of around 20 per cent. This included:

- › \$300 million in zero real interest rate loans for residential aged care places in areas of need; and
- › 2,000 transition care places to provide restorative care for long-stay older patients in public hospitals, free up acute care beds in public hospitals and provide more tailored support to prepare older patients for discharge back to their homes or aged care services.

3.9 A more financially sustainable health system

The Government has undertaken reforms to health care spending to ensure our system remains fair and sustainable into the future. This includes:

- › rebalancing support for private health insurance, so that those with greater capacity to pay do so — this is expected to save \$100 billion over the next 40 years, with private health insurance coverage expected to remain at around 99.7 per cent of existing levels; and
- › capping areas of the Extended Medicare Safety Net where there have been excessive fee increases.

4. LISTENING TO THE COMMUNITY AND EXPERTS

At the same time as making investments to fix immediate gaps, the Government set in train long-term, system-wide health reform. It commissioned the most comprehensive structural review of Australia's health and hospital system in 20 years, by establishing the National Health and Hospitals Reform Commission.

The NHHRC's final report, which was released at the end of July 2009, contained 123 recommendations for immediate and longer-term reforms. It emphasised the need to focus on three main goals:

- › tackling major access and equity issues that affect health outcomes for people now;
- › redesigning our health system so that it is better positioned to respond to emerging challenges; and
- › creating an agile and self-improving health system for long-term sustainability.

Following the release of the NHHRC report, the Government undertook an extensive consultation process to test the report's recommendations with patients, health professionals and the Australian people. In 2009 and 2010, the Prime Minister, the Health Minister, other Ministers and senior officials conducted more than 100 consultations with patients, health professionals and the public.

The Government has also consulted on the development of this plan with state and territory governments through the COAG process. At the COAG meeting in December 2009, the Commonwealth and states agreed that long-term health reform is needed to deliver better services, more efficient and safer hospitals, and more responsive primary health care.

The Government has listened carefully to the expert advice and views put forward by the Australian community. Key feedback from consultations indicated a community desire for:

- › a stronger Commonwealth Government leadership role, coupled with higher standards and increased funding for public hospitals;
- › reduced health sector bureaucracy, simplified governance and accountability, and greater autonomy and flexibility at the local level;
- › better access to multidisciplinary primary health care;
- › better public hospital services and shorter waiting times;
- › better access to health care in rural Australia and disadvantaged areas; and
- › improved integration of information technology across our health system.

Another source of expert input has been the 2010 Intergenerational Report. This report projected that growth in all categories of Commonwealth health spending would increase, driven by population growth and ageing, increased demand for health services, and new technology. The report forecasts that rising health costs will be by far the largest contributor to increased Commonwealth spending to 2050, accounting for around two-thirds of the overall increase in Commonwealth spending. This is consistent with, and reinforces the conclusions of, the previous two Intergenerational Reports. It provides further evidence that the ongoing sustainability of the system will be challenging.

5. REFORMS TO ESTABLISH THE FOUNDATION OF A NEW HEALTH SYSTEM

The policy positions outlined in this section represent the proposal the Government will put to states at COAG in April. These reforms will equip the system to serve Australians well into the future, by building the foundation for effective future investment in health and hospitals.

5.1 Taking majority funding responsibility for public hospitals

The Commonwealth Government will become the majority funder of the Australian public hospitals system. The Commonwealth will fund:

- › **60 per cent of the efficient price of every public hospital service provided to public patients;**
- › **60 per cent of recurrent expenditure on research and training functions undertaken in public hospitals;**
- › **60 per cent of capital expenditure, both operating capital and planned new capital investment, to maintain and improve public hospital infrastructure; and**
- › **over time, up to 100 per cent of the efficient price of ‘primary health care equivalent’ outpatient services provided to public hospital patients.**

For the first time, the Commonwealth will take clear financial leadership in the hospital system. The Commonwealth will fund 60 per cent of the efficient price of every public hospital service delivered in Australia. This is a fundamental change from the current contribution of around 35 per cent provided under the National Healthcare Agreement. The Commonwealth’s increased financial stake will provide leverage for system reform and a secure funding base for public hospitals into the future. In particular, this reform will permanently reverse the decline in the Commonwealth funding contribution for public hospital services over the past decade and put an end to the blame game over hospital funding.

Consistent with the NHHRC’s recommendations, the Commonwealth will use its strengthened financial position in the hospital system to drive system-wide reform and create a better integrated, more unified national health system, with national standards and increased transparency and accountability. These changes will ultimately improve performance and health outcomes.

States will continue to be responsible for meeting the remaining costs of public hospital services, including meeting any costs over and above the efficient price, as well as the remainder of research, training and capital costs. This funding split creates a strong incentive for states to be as efficient as possible in playing their ongoing role in our public hospital system.

The Commonwealth will work with states to implement these new arrangements. These sweeping changes to hospital funding responsibilities will help address the challenges facing our health and hospital system. They will end the blame game, provide an unprecedented basis for national leadership of a unified health system, and ensure that incentives and responsibilities for delivering high quality, efficient health and hospital services are appropriately balanced across the federation.

5.2 Taking full funding and policy responsibility for GP and primary health care

The Commonwealth Government will take full policy and funding responsibility for GP and primary health care services in Australia.

This important structural change to roles and responsibilities within the health system means that one level of government — the Commonwealth — will be responsible and accountable for the strategic direction, planning and public funding of primary health care, as recommended by the NHHRC.

Currently, the Commonwealth subsidises privately provided GP and some nursing and allied health services. States provide a range of services including community health centres, subsidised GP clinics, allied health services, child and maternal health clinics, drug and alcohol services, and community mental health services.

Over time, this arrangement has resulted in duplication of effort by Commonwealth and state governments in some areas and delivery gaps in others. Consequently, primary health care services are not as effective as they need to be. This means that many patients — particularly those with chronic and complex conditions, and those who are most disadvantaged — end up in hospital, when they could have received better care in the community.

The failure to provide adequate care in the community puts pressure on our hospital services. Australia's hospitalisation rate is higher than many comparable countries. In 2007–08, there were an estimated 441,000 hospital admissions each year (9.3 per cent of total admissions) that could have been avoided through providing better care in the community.

As a result of taking full funding responsibility for all GP and primary health care services, the Commonwealth will be able to draw services together so they are better integrated, better coordinated, and more responsive to the needs of patients. In practice, this may mean being able to bring state community health services and Commonwealth funded services together in the one setting, such as a GP Super Clinic.

Locating primary funding responsibility for all GP and primary health care services with the Commonwealth Government will allow services to be provided in the most appropriate care setting for the patient, breaking down the artificial barriers that are created by having multiple funders. This change will:

- › improve the efficiency of the system;
- › reduce cost-shifting and blame-shifting, as the Commonwealth Government will be clearly accountable for GP and primary health care services in Australia;
- › allow the Commonwealth to reduce duplication of services, improving efficiency and reducing waste in primary health care; and
- › make it easier for patients to receive the services they need, improving patient outcomes.

Some hospital outpatient services are better characterised as part of the primary health care system. Within its new hospital funding arrangements, the Commonwealth will initially fund 60 per cent of the cost of these 'primary health care equivalent' outpatient services, and move over time to fund up to 100 per cent of the efficient price of these services. This change will make the Commonwealth Government financially responsible for ensuring that patients who do not need to visit a hospital can receive treatment in more convenient and less costly locations.

The Commonwealth will work with states to implement these new arrangements, including setting appropriate boundaries between primary health care and acute care, and primary health care and community care, including the Home and Community Care Program.

5.3 Rebalancing financial responsibility in the federation

As part of its increasing responsibility for health care funding and services, the Commonwealth Government will dedicate around one-third of total GST revenue directly to health spending, and fund the majority of growth in health and hospital costs.

The establishment of a National Health and Hospitals Network is vital to ensure the long-term sustainability of Australia's finances and the capacity to provide high-quality health services into the future.

The Australian Government will take majority financial responsibility for the health and hospital system — paying 60 per cent of the efficient price of all public hospital services and full financial and policy responsibility for GP and related services.

Over the first five years of the reforms, approximately \$90 billion in GST revenue will be dedicated to health and hospital spending, invested through a new National Hospitals Fund that will be clearly identified and detailed in Commonwealth Budget papers.

Because the GST does not keep up with the growth in health care costs, the Commonwealth Government will play an even more important role in financing future health and hospital services in Australia.

Hospital costs have been growing at close to ten per cent per annum, and are expected to continue to outpace growth in GST of around six per cent per annum over the medium term.

These new arrangements represent a fundamental change to federal financial relations, which will help underwrite the sustainability of the health system, better balance fiscal responsibilities across the federation and lead to economy-wide efficiencies.

The 2010 Intergenerational Report, *Australia to 2050*, warned of the impact of burgeoning health costs on the future of the Australian economy and the critical need for financing reform of the health system to prevent it from collapsing under its own weight.

Without fundamental reform there is a real risk that state governments will not have the financial capacity to meet health spending obligations in the longer term — placing our health system and hospital services at risk.

If current trends continue, by 2045–46 spending on health and hospitals would consume the entire revenue raised by state governments. This means that states would not be able to fund their health and hospital system, let alone meet their other responsibilities.

By ensuring that the Commonwealth takes on greater financial responsibility for the health and hospital system, these reforms respond to this important national challenge.

The Commonwealth's increased funding role will put funding for our health and hospital system on a sustainable footing, and provide states with more scope to invest in other services such as roads and schools.

In responding to the challenge the Commonwealth is also improving the long run productivity of the national economy.

These reforms mean the level of government in Australia with the most stable and efficient means of raising revenue will now be the majority funder of the fastest growing area of public expenditure.

In order to help address the challenge of rising health care costs, the Government will also pursue greater efficiencies in health and hospitals — most notably through the introduction of activity based funding and reforms to primary health care services.

Under this reform, no state will be worse off over the upcoming forward estimates and all will be better off in the medium term. Over the period between 2014-15 and 2019-20 the projected benefit to the states and territories is in the order of \$15 billion.

The reforms are consistent with the Government's fiscal strategy as it is fully funded over the forward estimates and consistent with returning the Budget to surplus by 2015–16, while keeping the share of taxation to GDP on average below 2007–08 levels. Fiscal sustainability will be delivered through the Government's commitment to ensure that real growth in spending is constrained to two per cent once the economy returns to above trend growth and until the Budget returns to surplus.

The proportion of GST directed to health care will be fixed over time from 2013–14. This proportion will be determined over the upcoming forward estimates by the spending on health in each state, but in the aggregate will represent around one-third of the GST. The total GST pool will continue to be distributed across the states in accordance with relativities recommended by the Commonwealth Grants Commission.

Final arrangements on this matter will be discussed with the states.

5.4 National standards for a unified health system

The Commonwealth Government will require strong national standards and transparent reporting in the health system, including for emergency department and elective surgery waiting times, bed occupancy rates, reporting of adverse events and hospital acquired infections.

The 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. This was an important theme in the NHHRC's report.

These national standards will apply across the health system, in key areas including:

- › access to public hospital care, particularly emergency departments and elective surgery;
- › access to local GPs and other health professionals;
- › financial performance and efficiency; and
- › safety and quality in the health system.

Strong national standards will help ensure consistent, high-quality health care, and provide greater levels of transparency and information about the health system to increase accountability and drive improved outcomes. Increased information will help consumers to make more informed choices about their health services.

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.

Central to delivering a nationally unified health system will be increased transparency through the establishment of three national governance functions: an independent pricing function; a performance reporting and auditing function; and a clinical standards function (evolving from the Australian Commission on Safety and Quality in Health Care). These national governance functions will deliver significantly enhanced accountability for public and private hospitals. Clear and consistent information, released at least annually, will mean that Local Hospital Networks are held accountable for meeting performance standards. States will also be subject to more rigorous and transparent performance reporting to the Australian community.

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 health system. Over time, the Commonwealth will seek to strengthen the link between performance and funding.

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.

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. 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.

5.5 Local Hospital Networks to drive accountability and performance

Responsibility for hospital management will be devolved to Local Hospital Networks made up of small groups of local hospitals that collaborate to deliver patient care, manage their own budget and are held directly accountable for their performance.

As an integral part of system-wide reform, the Government will require that states introduce Local Hospital Networks — small groups of public hospitals with a geographic or functional connection, large enough to operate efficiently and provide a reasonable range of hospital services.

Local Hospital Networks will avoid the fragmentation and duplication that would come from individual hospitals operating independently from other hospitals in their area, and also avoid centralised controls and excess layers of bureaucracy. 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.

Local Hospital Networks will be separate state statutory authorities. They will comprise between one and four hospitals in most networks, with regional networks potentially including more small hospitals. These networks will typically be built around principal referral hospitals in major cities or regional centres, and specialist hospitals such as children’s 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.

The decentralisation of hospital management will play a vital role in strengthening hospitals. Networks will increase accountability by having a professional Governing Council and a Chief Executive Officer responsible for delivering agreed services and performance standards. Increasing local accountability will drive improvements in performance, as management is empowered to make day to day operational decisions that would have otherwise been made by a central bureaucracy. 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 large, complex organisations.

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

Local Hospital Networks will be obliged to work with local primary health care providers and aged care providers to ensure that locally responsive and tailored care extends beyond hospital doors. Networks will also collaborate with local private hospitals.

5.6 Paying Local Hospital Networks directly for the services they provide

The Commonwealth Government will pay Local Hospital Networks directly on the basis of an efficient price per hospital service, determined by a new independent national umpire. This should reduce waste and increase the number of services provided for each dollar invested.

The Commonwealth will directly fund Local Hospital Networks for 60 per cent of the efficient price of each service a Network provides to a patient, using a system of activity based funding. This arrangement will ensure each Local Hospital Network is funded for the services it provides. It will provide hospitals with a strong financial incentive to provide more services, subject to meeting safety and quality standards. Local Hospital Networks will work with states to determine the range and number of services each Network will provide.

Currently, the Commonwealth Government provides block hospital funding to states, who then determine how and where this money is spent. With these reforms, the Commonwealth will fund a share of every service that Local Hospital Networks provide.

These reforms will provide the Commonwealth, and the taxpayer, with the confidence that scarce health dollars are being used as efficiently and effectively as possible. It will drive hospitals to eliminate waste and ensure that each additional dollar funds more hospital services, rather than overheads. It will mean an increase in the effective number of hospital beds in the system, and is an essential part of tackling elective surgery waiting lists.

The introduction of activity based funding for hospital services was recommended by the NHHRC as one of the most important drivers of efficiency within the health system.

To minimise disruption in hospital services and ensure that no state is worse off, the Commonwealth Government will transition to activity based funding over time. From 2011–12, the Commonwealth will pay states 60 per cent of recurrent public hospital expenditure. In 2012–13, the Government will then move to directly paying Local Hospital Networks 60 per cent of a state-specific price for each service they provide.

Over time, the Government will shift from a state-specific price and phase in payment of 60 per cent of a nationally efficient price for each service a Local Hospital Network provides. In taking this path, the Government will accelerate and extend the activity based costing approach agreed with states at COAG in November 2008, and apply that model to funding on a national basis.

An independent umpire at arm's length from Commonwealth and state governments will set the nationally efficient price. The independent umpire will be charged with striking an appropriate balance between the sustainability of the hospital system, reasonable levels of access, clinical safety, efficiency, and the significant fiscal impact that hospital funding will have for both the Commonwealth and the states. The price will be adjusted to recognise particular circumstances and health care needs, for example people living in rural Australia and Indigenous Australians.

Local Hospital Networks that deliver high quality services more efficiently will be able to reinvest in further innovation or services.

This transparent and nationally consistent approach to hospital funding will give Local Hospital Networks flexibility to shape local service delivery according to local needs. Through greater transparency and the direct funding of services actually provided, local communities will have more information than ever before on what services a hospital provides, how they are performing, and how they are spending their budgets. This increased information will allow ready identification of high-performing hospitals, which would then be able to share their effective and innovative practices with other hospitals, helping to create a self-improving hospital system.

6. A COMPREHENSIVE REFORM PLAN

The reforms outlined above will provide the architecture and foundation of a National Health Reform Plan to meet Australia's future health needs.

These important structural reforms will create a nationally unified health system, which is locally controlled and majority Commonwealth funded.

The reforms outlined in this document address the need, identified by the NHHRC, to redesign our health system so that it is better positioned to respond to emerging challenges. These reforms will lay the foundations for an effective, efficient health system that governments and taxpayers can be confident will be sustainable into the future.

Over the coming weeks and months, the Government will announce additional reforms that will build on existing investments and the structural reforms outlined in this document. These reforms will be made across a range of areas, including in:

- › **public hospitals**, especially public hospital emergency departments and access to elective surgery;
- › **GP and primary health care**, in particular improving coordination of GP and other kinds of health care for people with chronic illness;
- › **the health workforce**, to ensure there are sufficient numbers of well-trained doctors, nurses and allied health professionals to meet the growing demand for health services; and
- › **e-health**, to take further steps towards the introduction of a personally controlled electronic health record for all Australians.

Over time, the Government will build on existing investments in prevention, aged care, dental health and mental health.

Additional funding directed to the Government's reforms will be provided consistent with the Commonwealth Government's fiscal rules, including holding spending growth to two per cent in real terms.

7. TAKING A REFORM PLAN TO THE STATES

Since November 2007, the Commonwealth Government has worked closely with states to deliver much-needed improvements to the Australian health system. Through cooperation and agreement, the Commonwealth and state governments have been able to address several key pressure points in the health system, including a lack of services, long waiting lists, workforce shortages and increasing demands on public hospital services. In particular, governments agreed the 2008 National Healthcare Agreement, which represented a \$64 billion commitment for health and hospitals and a 50 per cent increase on the previous Australian Health Care Agreements.

However, more work is required to ensure the long-term sustainability and quality of Australia's health system. The Commonwealth Government calls on state governments to continue their cooperation in implementing the necessary reforms contained in this National Health Reform Plan. The Commonwealth Government will continue working closely with state governments through the COAG process to ensure the Plan is 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.

In return for its greatly increased funding contribution as set out in this document, the Commonwealth will require the states to make substantial changes. The Commonwealth will be putting this plan to states at COAG 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. Furthermore, consistent with the Government's previous commitments, the Commonwealth also reserves the right to proceed to a full funding takeover of the system in the future.

The Commonwealth looks forward to productive negotiations with states to deliver landmark reforms for health and hospitals.