



Australian Government
Department of Health and Ageing

**Submission to the Senate Finance and Public Administration
Committee inquiry into the *National Health Reform Amendment
(Administrator and National Health Funding Body) Bill 2012***

INTRODUCTION

The Department of Health and Ageing notes that the principal issues for consideration identified by the Senate Selection of Bills Committee in referring the Bill for a Committee inquiry were:

- the role of the Funding Body and the Administrator;
- justification for the establishment of additional bureaucracy;
- administrative requirements for the Commonwealth, states, territories and other parties;
- transparency and efficiency of processes in administering funding; and
- fiscal implications for the Commonwealth.

The Department's submission provides an overview of the national health reform agenda, and responds to the Committee's principal issues. This submission is provided in addition to information in the Explanatory Memorandum and Second Reading Speech for the Bill, as well as the Bill itself.

The Department does not wish the Committee to consider keeping its submission confidential.

BACKGROUND

On 2 August 2011, the Council of Australian Governments (COAG) entered into the National Health Reform Agreement (the Agreement) with states and territories, to work in partnership to implement new arrangement for a national unified and locally controlled health system to:

- improve patient access to services and public hospital efficiency through the use of activity based funding (ABF) based on a national efficient price;
- ensure the sustainability of funding for public hospitals by increasing the Commonwealth's share of public hospital funding as a contribution to growth;
- improve the transparency of public hospital funding;
- improve standards of clinical care;
- improve performance reporting;
- improve accountability at a national and local level;
- improve responsiveness to the needs of communities;
- improve the provision of GP and primary health care services; and
- improve aged care and disability services.

As well as implementing non-legislative aspects of the agreement, such as the establishment of Medicare Locals, the Government has already legislated to give effect to the Agreement by establishing the following statutory authorities:

- the Australian Commission on Safety and Quality in Health Care which will contribute to the improvement of standards of clinical care;
- the National Health Performance Authority which will improve reporting on the performance of hospitals and report on the health of local communities; and
- the Independent Hospital Pricing Authority to determine a nationally efficient price for hospital services.

The current Bill provides for the establishment of the Administrator of the National Health Funding Pool (the Funding Pool) and the National Health Funding Body (the Funding Body), which will contribute to the Agreement's objective of improving transparency of public hospital funding.

All Commonwealth Government funding for public hospital services, including activity based funding and block funding for small rural and regional hospitals and teaching, training and research carried out in hospitals will be channeled through the Funding Pool, ensuring transparency in the flow of Commonwealth Government for public hospitals.

State and territory activity based funding for public hospital services will also flow through Funding Pool, and their funding for other hospital services will flow through State Managed Funds which will be reported on by the Administrator.

As required under the Agreement, the states and territories will also introduce legislation to establish the Administrator, thus ensuring that state and territory funding is under the control of a state or territory officer. All governments have committed to have the new arrangements in place by 1 July 2012.

The Administrator will monitor and report on all funds moving in and out of the Funding Pool and State Managed Funds, ensuring transparency of both Commonwealth and state and territory funding to Local Hospital Networks (LHNs).

PRINCIPAL ISSUES FOR CONSIDERATION

1. The Role of the Funding Body and the Administrator

The roles of the Administrator are to:

- calculate Commonwealth funding and advise the Commonwealth Treasurer of payments to be made into the Funding Pool;
- monitor payments into State Pool Accounts within the Funding Pool;
- make payments from State Pool Accounts at the direction of state and territory Ministers; and
- report on the operations of the State Pool Accounts and State Managed Funds.

The Administrator will be an independent statutory officer appointed by the Commonwealth and each state and territory, distinct from Commonwealth and state and territory departments. The Administrator will not be subject to the control or direction of any Commonwealth Minister, but will be required to comply with any directions given by COAG in relation to his or her functions.

Further information in relation to the specific operations of the Funding Pool and the appointment of the Administrator are outlined in detail in the Agreement (pp 31-39), and the Explanatory Memorandum (pp 4-8).

The sole function of the Funding Body is to support the Administrator in carrying out his or her functions under Commonwealth and State legislation. The Funding Body will be prescribed as an inter-jurisdictional agency under Commonwealth legislation, and will be staffed under the *Public Service Act 1999* (the PS Act). The Funding Body's staff will operate under employment relationships which are common to many statutory agencies and will be subject to the usual accountability mechanisms which apply under the *Financial Management and Accountability Act 1997* and the PS Act. The staff of the Funding Body will not be subject to direction by any Commonwealth Minister while undertaking duties as directed by the Administrator.

2. Justification for the establishment of additional bureaucracy

The establishment of the Administrator and the Funding Body were agreed to by the Commonwealth and all states and territories through the COAG agreement. Clause 17 of the Agreement provides that the arrangements outlined in the Agreement should be delivered with no net increase in the bureaucracy across Commonwealth and state and territory governments as a proportion of the ongoing health force.

The Department of Health and Ageing has been undergoing a Strategic Review to improve its systems and processes, which will result in an overall decrease of 520 staff over two years. It is expected that the total number of staff required for the effective operation of the new statutory authorities established under the Agreement will only be approximately 120, which means there will still be an overall reduction in staff across the health portfolio.

3. Administrative requirements for the Commonwealth, states and other parties

The Agreement sets out the administrative requirements for the Commonwealth and the states and territories (pp 4-9) and the Second Reading Speech details how the administrative requirements will operate.

In relation to public hospital services, the Commonwealth and the States will be jointly responsible for funding public hospital services, using ABF where practicable and block funding in other cases, and funding growth in public hospital services and the increasing cost of public hospital services. They will also be jointly responsible for establishing and maintaining nationally consistent standards for healthcare and reporting to the community on the performance of health services.

The States will be solely responsible for system management of public hospitals, including:

- establishment of governance arrangements, including establishing, and managing relationships with, LHNs;
- system-wide public hospital service planning and performance;
- purchasing of public hospital services and monitoring of delivery of services;
- planning, funding and delivering capital;
- planning and delivering teaching, training and research; and
- state-wide public hospital industrial relations functions.

4. Transparency and efficiency of processes in administering funding

The new funding arrangements will result in vastly improved transparency about the performance of the public hospital system and funding flows from the Commonwealth and states down to a local hospital level. For the first time, Australians will be able to access transparent and nationally comparable performance data and information on their local hospital services. These increased transparency measures will allow for ready identification of high-performing hospitals, support sharing of innovative practices across LHNs, and help to create continuous improvement within the hospital system

The Administrator will be required to produce and publish a monthly report showing how much money has gone into the Funding Pool from each government, and how much has been paid out to each LHN, and the basis for these payments.

The Funding Pool will contain separate state accounts, which will be audited and have complete transparency in reporting and accounting.

The Administrator is to provide state ministers with a copy of his or her advice to the Commonwealth Treasurer on the calculation of Commonwealth payments, and may provide other relevant information to ministers.

The Administrator is also required to prepare special purpose financial statements on the operation of each state pool account which will be audited by state auditors-general and then included in the Administrator's annual report.

The Commonwealth government intends to make regulations prescribing the funding body as an inter-jurisdictional agency under part 6A of the *Financial Management and Accountability Act*, ensuring that state ministers will have access to information about the operations of the Funding Body on the same basis as the Commonwealth minister.

5. Fiscal implications for the Commonwealth.

The costs associated with the establishment and ongoing function of the Funding Pool Administrator and the Funding Body will be borne by the Commonwealth. This funding will be announced in the 2012-13 Federal Budget.

Under the Agreement, the Commonwealth will increase its contribution to efficient growth funding for hospitals to 45 per cent in 2014-15, and to 50 per cent from 2017-18 onwards. This means that from 2017-18 the Commonwealth will fund half of every dollar required to meet increases in the efficient cost of public hospital services, including growth in demand.

The Commonwealth has guaranteed that it will provide at least \$16.4 billion in additional efficient growth funding under these arrangements over the period 2014-15 to 2019-20, in addition to the contribution the Commonwealth would otherwise have made to base funding under the National Healthcare Specific Purpose Payment arrangements.

In the event that the additional growth funding is less than \$16.4 billion, the Commonwealth will provide the remainder to the states and territories as top-up funding.