Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

I hereby provide my submission to the Senate Economics Committee Inquiry into the Federal Financial Relations Amendment (National Health and Hospitals Network) Bill 2010. My submission strongly supports the Bill and the work of the Government in this very important area of health and financing reforms in Australia. Section 1 of my submission considers the House of Representatives Federal Financial Relations Amendment (National Health and Hospitals Network) Bill 2010 Second Reading Speeches and related debates held on 27 October 2010 and 24 November 2010. The paper also covers GST issues, recent political developments in Victoria and governance, management and performance transparency issues.

Section 2 provides evidence for cost effectiveness under the hospital network governance structure in Victoria and Evidence Based Medicine implementation which was undertaken in the context of Activity Based Funding (ABF). The result was improvements in quality and efficiency. This supports the Federal reforms given they are modeled to some extent on the Victorian system. This evidence was also recently provided in my supplementary submission to the Senate Community Committee on Legislation on the National Health and Hospitals Network Bill (2010) (attached) and to COAG in 2009.

Victoria has implemented risk adjustment reforms to its Activity Based Funding arrangements. Risk adjustment enables the funding to more accurately reflect health need and is crucial for equity across and within states. The new National Health and Hospitals Network (NHHN) Agreements (2010) do include a 'risk adjustment' factor called patient complexity (including aboriginality). This is discussed further in section 3 below. Sections 4 and 5 relate to my conclusions and recommendations.

1. House of Representatives Federal Financial Relations Amendment (NHHN) Bill 2010 Second Reading 24 November and 27 October 2010

On 27 October 2010, Swan[1] announced that the "Bill creates a National Health and Hospitals Network Fund through which payments will be made to the states or joint intergovernmental funding authorities for the states out of:

- funding sourced from the previous National Healthcare Specific Purpose Payment;
- an agreed amount of GST revenue, retained and dedicated to health and hospital services; and
- additional top-up funding to be paid by the Commonwealth from 1 July 2014. As the Commonwealth takes on greater responsibility for financing growth in health and hospital costs through these reforms, top-up funding will apply when spending growth exceeds the growth in the GST and funding sourced from the existing National Healthcare Specific Purpose Payment.

Each state's dedicated GST revenues will be allocated to health and hospital services in that state. This will be revenue-neutral for both the Commonwealth and the states over the forward estimates" (Swan 2010) [1] Swan, (2010)[2] emphasized that the Federal Financial Relations Amendment (National Health and Hospitals Network) Bill 2010 is an important bill. Australia's population is ageing and our health costs are rising. The *Intergenerational* report highlights that over coming decades, we will have a significantly older population and relatively fewer taxpayers to support that ageing population. The government is acting on the challenges through this bill. In April 2010, COAG, with the exception of WA, reached a historic agreement on health and hospitals reform—the establishment of a NHHN. This is one of the most significant reforms to Australia's health and hospital system

[1] Swan W (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 27 October 2010 pg 1751-1753..

since the introduction of Medicare. It was agreed that a proportion of GST would be dedicated to health in each state. This bill provides the legislative underpinning of that agreement (Swan, 2010)[2]

Under the NHHN, the Commonwealth government will become the majority funder of Australia's public hospitals. The Commonwealth will fund 60% of the efficient price for all public hospital services and 60% of capital, research and training in public hospitals. It will also take funding and policy responsibility for GP, primary healthcare services and aged-care services. The Commonwealth is committed to reducing cost shifting and to strengthening the integration between care provided in hospital and in community settings. It will move, over time, to fund 100% of the efficient price of primary healthcare equivalent outpatient services. This will still see the budget back into surplus in three years. The investment is fully funded over the forward estimates, and does not add to the budget deficit. An independent pricing authority will determine the amount the Commonwealth will pay for hospital services. The Commonwealth's share will be based on the amount the independent authority says that a particular service should cost. This will ensure that taxpayers receive the best value for their investment in health care and will drive efficiency in delivery of health services (Swan, 2010)[2]

On 24 November 2010, the opposition raised several issues relating to the Bill (Hockey[3] Fletcher[4]; Randall[5]; Marino[6]; Stone[7] and Smith[8], 2010) and Hockey (2010)[3] moved the following second reading amendment: That all the words after *"that" be omitted with a view to substituting the following words: "the House declines to give the bill a second reading until: (a) there has been laid on the table of the House a copy of an agreement reached between the Commonwealth and each of the states and territories about GST handback in relation to the measures in this bill; (b) each of the states and territories has signed that agreement; and (c) given that the state opposition parties in New South Wales and Victoria have signaled that they do not support the current agreement, the people of those states have voted in their upcoming state elections".*

Swan (2010) [2] noted that the opposition expressed concern about the GST dedication that has been agreed with seven of the of the eight states and territory as part of the COAG Agreement. However, Swan notes that the coalition's own policy states that they would ask the states to surrender a proportion of GST. Further, the coalition speakers suggest we should 'junk our health reforms' because only seven of the eight states and territories are signed on. However, the detailed implementation of the COAG agreement will require revisions to the IGA on Federal Financial Relations, and these revisions will need to be agreed by all states and territories. The revisions to the IGA can be designed to allow WA to join the health reforms or to remain separate from the health reforms. The bill preserves the existing federal financial relations arrangements for WA until it becomes a signatory to the NHHN Agreement, and Premier Barnett has indicated that WA will not stand in the way of other states participating in health reform (Swan, 2010) [2]. Opposition speakers were surprised that different amounts of GST will be dedicated in different states. Wayne Swan emphasized that this was clear in the NHHN Agreement, the 2010-11 budget and 2010-11 Mid Year Economic and Fiscal Outlook (MYEFO). The dedicated portion of GST reflects how much of the GST the state itself spends on health. The proportion is different between states because different states spend different amounts on health. But in each state the allocations from dedicated GST combined with contributions from the healthcare SPP will provide 60% of hospital funding and fund 100 % of GP and primary healthcare services, which are currently provided by the states.

The Opposition noted that ministerial determinations made under this bill are not disallowable instruments. However, Wayne Swan emphasized that the bill limits the discretion in making these determinations. New section

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[2] Swan W (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 88-89.

[3] Hockey J 2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 17-21.

[4] Fletcher P (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 79 - 81.

[5] Randall D (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg. 22-24

[6] Marino N (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 27-29.

[7] Stone S (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 31-33.

[8] Smith A (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 83-84.

21A requires that the minister consider the NHHN Agreement and the intergovernmental agreement when making determinations. New section 21B prevents the minister from making determinations inconsistent with the NHHN Agreement that would result in substantial financial detriment to one or more states unless a proper process was followed. The determination must be tabled and approved by each house of parliament as part of this process. Opposition speakers claim that these reforms will make state and territory finances worse off. Wayne Swan asserts that this view is untrue. The dedicated amounts of GST will all be spent on health. The Commonwealth expects to provide an additional $15.6b for health and hospitals out to 2019-20 directly from the Commonwealth budget. This is in addition to the dedicated GST amounts and the previous estimates of Commonwealth health spending. States will not be worse off in the short term and over the longer term they will be significantly better off under these reforms (Swan, 2010)[9]. The Procedural Text for the Second Reading of the Bill at page 79 states "Bill read a second time. Message from the Governor General recommends appropriation announced". The Bill was read a third time at page 91. Connors (2010)[10] noted that the bill passed the lower house last week and will go to the Senate in early 2011.

Political developments in Victoria

Recent developments in the Victorian election are important to consider. Mr Ballieu is poised to gain power in Victoria and signaled he may not support the proposed Federal changes to hospital funding (Dunckley, 2010)[11]. The Baillieu agenda is to introduce a major health plan within 150 days of taking office and has promised more capital spending for hospitals (Skulley, 2010)[12]. Dodson (2010)[13] emphasizes that Baillieu indicated he would not be bound by the deal on the hospital package agreed by Mr Brumby, which provided for an extra $402m in funding for sub-acute hospital beds, and may seek to renegotiate. The Australian Financial Review[14] indicates he would join WA in shunning Federal labor's hospital reform plan which requires States to surrender GST revenues.

Dunley (2010)[15] indicates that Victoria failed to sign a second Inter-government Financial Agreement committing to hand over about 26% of GST to the Federal Government to help fund the reforms before the election was called. This GST agreement could be rendered void in all States if Mr Baillieu becomes Premier and refuses to sign up. This is because legislation required that every state must agree to the GST change before it can take effect. None of the States has yet signed this GST deal. Mr Baillieu has stated that he might scrap the health agreement if he wins the election. "If we get the details of what John Brumby signed up to and its not in Victoria's interest then we will think again" (Dunley, 2010) [15] Roxon plans to expedite a briefing for Mr Baillieu on the details of the agreement and Mr Baillieu indicated that he will examine the agreement before making a decision (Meden, 2010)[16]. Roxon has warned that Victoria's Coalition government will miss out on 330 new hospital beds if Ballieu does not sign a health funding deal. Ballieu has indicated that he will seek to renegotiate if there are problems with the details (Murphy and Dunckley, 2010)[17]

Governance, management and performance transparency issues

Hockey (2010, pg 17) [3] indicates that *"The government's new health policy aims to achieve accountability by better delineation of health responsibilities. However, the new model adds an extra layer to the administration of the health system and will not end the blame game that is the nature of health care in Australia. Measures such as the local hospital networks sound good in practice but will do nothing to alleviate incompetent management in some hospitals. The litmus test for these health reforms will be better and more accountable service under this new system"*. Further, Fletcher (2010, pg 79) [4] states that *"This bill was supposed to get rid of waste, duplication, of unclear accountability…So does this bill, and the arrangements embodied within it, deliver on that promise to get rid of the waste and duplication? The answer to that is no. It establishes arrangements of remarkable complexity.*

[9] Swan W (2010) House of Representatives Federal Financial Relations Amendment (National Health and hospitals Network) Bill 2010 Second reading speech 24 November 2010 pg 88-89.
[10] Connors E (2010) "NSW threat to national health reform" *Australian Financial Review* 30 November 2010 pg 12.
[11] Dunckley M (2010) "Baillieu poised for power" *Australian Financial Review* (AFR) 29 November. pg 1
[12] Skulley M (2010) "Gaming industry likely to be first cab off the rank" *Australian Financial Review* 29 November, pg 53.
[13] Dodson, L (2010) "Gillard's national reform task harder" *Australian Financial Review*. 29 November pg 8
[14] Australian Financial Review (2010) "Baillieu must grasp the nettle" *Australian Financial Review*. Opinion. 29 November, pg 54.
[15] Dunley S (2010) "Hospital Funding deal in a state of unravel' *The Australian 29 November pg9.*
[16] Meden J (2010) "Health deal safe: Roxon" *The Age* 1 December. pg 5
[17] Murphy J and Dunckley M (2010) "Warning signs for health deal" *Australian Financial Review* 1 December pg 11.

The governance arrangements and the interaction between many of the various entities which are established are left very unclear and we can have very little confidence indeed that there is going to be any systematic addressing of the current levels of duplication and unclear accountability".

Swan (2010) [1] had previously emphasized that *"We need reform to end the blame game and cost shifting. We want to provide national leadership on health and hospitals, but also allow greater control at the local level. That is why we are determined to work with state and territory governments to deliver the National Health and Hospitals Network. Our reforms focus on three key objectives. First, they will reform the governance of our health and hospital system and ensure funding sustainability for the future. The Commonwealth will take responsibility for funding the majority of Australia's health and hospital system. We will implement wide reform to health services across the country. We will strengthen governance, report on performance transparently and put in place our new national standards.*

Second, these reforms will deliver better access to high-quality integrated care that is patient-centric. We will deliver health care that is designed around the needs of patients, not the needs of the health system. And we will focus on prevention, early intervention and providing care in the community. Patients should only be in hospital if they need to be there for clinical reasons. Third, these reforms will provide better care and better access to services for patients right now, through increased investments in hospitals, better infrastructure and more doctors and nurses. The Commonwealth's $7.3 billion investment will deliver immediate health and hospital service improvements, as well as supporting the new health network. The Bill deals with the Funding elements of the reforms" (Swan, 2010, pg1751) [1]

2. Victorian evidence for cost-effectiveness under network governance and Activity Based Funding

I agree with Swan's view above and I provide evidence below based on the performance of the hospital network structure and Evidence Based Medicine (EBM) implementation in Victoria which was undertaken in the context of Activity Based Funding (ABF). These findings support the new reforms given they are modeled to some extent on the Victorian system. The evidence in Table 1 below was also recently provided in my supplementary submission to the Senate Community Committee on Legislation on the National Health and Hospitals Network Bill (2010) (attached) and to COAG in 2009. My submission to that Senate Community Committee should be read in conjunction with this submission as it provides additional information on the Victorian reforms and their implications.

The governance network structure in Victoria has enabled greater control at the local level, strengthened governance across two major hospital networks using leading edge Evidence Based Medicine implementation based on NHMRC and international methodologies. It enabled performance transparency with feedback to staff to enable improvement, high quality and integrated care which was patient centric. The result was improvements in quality and efficiency.

Table 1 below shows national cost savings based on quality and efficiency improvements in the Victorian model of hospital networks in the context of Activity Based Funding (ABF) and the implementation of best practice medicine. This included, in two large hospital networks, a very high level of local engagement of physicians and clinical staff in the governance structure. The methodology for implementation of EBM was based on that of the NHMRC and The Netherlands[18], considered to be a world leader in safe health systems. The methodology used by Antioch et al (2002) [18] was published in the *European Journal of Health Economics* and was attached to the submission to the Senate Community Affairs Legislation Committee.

The government's broad reform agenda draws, in general, on the Victorian State system of corporate governance via hospital networks in the context of ABF. In my view the government's reforms will facilitate greater quality and efficiency by assisting Local Hospital Networks and other organizations to achieve even greater outcomes than that achieved in the Victorian experience to date. Indeed, the reforms will directly impact on front line services.

[18] Antioch KM, Jennings G, Botti M, Chapman R and Wulfsohn V (2002) Integrating cost-effectiveness evidence into clinical practice guidelines in Australia for Acute Myocardial Infarction. *European Journal of Health Economics* 3:26-39

The Victorian reforms on EBM implementation in the two hospital networks, led by Antioch, were presented across all Australian states and Territories in the context of the renegotiations of the Australian Health Care Agreements and were sponsored by the Australian Health Care and Hospitals Association. The key recommendation from the presentations was to implement the methodology nationally. In briefs to COAG and other Federal and State stakeholders from 2008 to 2010 it was recommended that the methodology could be implemented with economies of scale by the establishment of State Centres of Evidence Based Medicine, Health Services and Workforce Redesign and, for the 2010 briefing, by creating an International Centre of EBM and Health Economics.

These recommendations would address to some extent the concerns expressed by Penington (2010)[19], who has advocated a leading role for clusters of medical schools and teaching hospitals which are national leaders in clinical research to spearhead quality and innovations. As clearly specified in Antioch et al (2002) [18] linkages to key academic centres were a central feature of the work undertaken. They would be easily integrated into the proposed State Centre and International Centre concept.

Given the government's concern to enable cost savings, then the estimated State/Territory and National cost savings per annum of $273.5m and over five years of $1,367.6m, estimated based on the Victorian experience may be instructive, especially given the Australian Commission on Quality and Safety in Health Care could further enhance these potential cost effective gains. Table 1 below shows these results. Further details on the calculation of these cost savings are shown in Antioch (2009)[20]. The costs are modeled in reductions in adverse events and length of stay found in evaluations of the Victorian hospital network experience and were presented by Dr Antioch at the National Hospital Reform Summit in 2010 and the National Hospital Performance Measurement Summit in 2009.

Table 1: Hospital Cost Savings by State/Territory (Annual and 5 years)[21]
Implementation of State/Territory Centres of Evidence Based Medicine, Health Services and Workforce Re-design

State	Annual Cost Savings ($)	5 Year Cost Savings ($)
NSW	85,797,730	428,988,649
Victoria	77,119,721	385,598,603
Qld	46,042,088	230,210,442
WA	26,458,577	132,292,886
SA	22,923,166	114,615,830
Tas	5,701,114	28,505,570
ACT	4,446,008	22,230,038
NT	5,035,507	25,177,534
National	273,523,910	1,367,619,552

The work of the Australian Commission will assist in the work of the proposed State and International Centres and the government could further consider these initiatives in the context of the MYEFO given the need for cost savings. This could be a consideration for the government's deliberations for the Health and Hospital Fund and expenditure for regional hospitals and related planning.

3. Activity Based Funding and risk adjustment in Victoria and NHHN Agreements (2010)

Victoria has implemented risk adjustment to its Activity Based Funding arrangements (See Antioch, Ellis and Gillett et al 2007[22] - attached). Risk adjustment enables the funding to more accurately reflect health need and is crucial for equity across and within states. The new NHHN Agreements (2010) do include a 'risk adjustment' factor called patient complexity (including aboriginality). In my view the Agreements provide an excellent form of risk adjustment. The experience in Victoria of risk adjustment by the Risk Adjustment Working Group (RAWG), a key government committee with hospital and government representation, found that risk adjustment holds the potential to appropriately reduce under-funding, and hence hospital deficits, by 10% by ensuring that hospital

[19] Penington D "Health Revamp won't end the blame game" *The Age* November 23 pg 13,
[20] Antioch KM (2009) *Intergovernmental Agreements: Update on Reforms on Risk Adjustment of Health Funding and Evidence Based Medicine (EBM) Implementation (submission to COAG)* http://www.health.gov.au/internet/nhhrc/publishing.nsf/Content/297-interim
[21] Costs shown in 2006 prices.
[22] Antioch KM, Ellis RP, Gillett S et al (2007) Risk adjustment Policy Options for Casemix Funding: International Lessons in Financing Reforms. *European Journal of Health Economics*. 8: 195-212. September. http://people.bu.edu/ellisrp/EllisPapers/2007_AntiochEllisGillett_EJHE_RiskAdj.pdf

funding is more closely aligned with the health needs of the patients. The evidence provided by the RAWG (chaired by Antioch) is published in the *European Journal of Health Economics* (Antioch et al 2007)[22] and attached.

4. Conclusion

I strongly endorse the views of Wayne Swan (2010)[2] where he states: *'In summing up, this bill underpins historic reforms to Australia's health system—reforms which will put Australia's federal financial relations on a more sustainable footing for the future and allow us to better manage expenditure on health for growth. These changes are designed to deliver value for money from our spending on important health services so that future generations can enjoy the affordable and sustainable healthcare system they all deserve'*.

I would also like to commend the excellent work of Nicola Roxon, Kevin Rudd and Julia Gillard in the development of these outstanding health reforms. In my view the reforms represent excellent Evidence Based Policy.

5. Recommendation

That you note the above which should be read in conjunction with my submission to the Senate Community Committee on Legislation on the National Health and Hospitals Network Bill (2010) and the evidence provided in attachments to these submissions.

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1 December 2010

Dr Antioch currently holds three appointments to Government Expert Panels (Federal and State) relating to Activity Based Funding and Casemix Reforms and for the provision of Health Economics advice. She led the risk adjustment reform of Activity Based Funding (ABF) in Victoria for the Victorian Government. She previously held two ministerial appointments, as the health economics member, to the Principal Committees of the National Health and Medical Research Council (NHMRC) for six years to 2009. These were the Health Advisory Committee and National Health Committee, which approved Clinical Practice Guidelines and translated evidence into clinical practice. Dr Antioch worked as part of Senior Management of Bayside Health (now Alfred Health) in Melbourne until 2005 where she led the translation of evidence into clinical practice across three tertiary, community and rehabilitation hospitals. She led similar work across Western Health Network until 2007. She presented the model of EBM translation across Australia in 2007, sponsored by the Australian Health Care and Hospitals Association, in the context of the renegotiations of the Australian Health Care Agreements and briefed COAG and other Federal/State stakeholders on the recommendations arising from the national consultations and recent national forums. She previously worked on a Canadian Royal Commission on Health Care and Costs on hospital and aged care reforms and for Australian Federal and State Governments.