



**Australian Government**  
**Department of Health and Ageing**

SECRETARY

Christine McDonald  
Secretary  
Senate Standing Committee on Finance and Public Administration  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Secretary

Thank you for your letter of 14 May 2010, inviting the Department to provide a submission to the Senate Inquiry into COAG Reforms Relating to Health and Hospitals.

I note that you also sought submissions from central Commonwealth agencies. After consultation with those departments, we agreed that a joint submission would be most appropriate.

I am therefore providing the submission at Attachment A to the Senate Standing Committee, as a joint Department of Health and Ageing, Department of the Prime Minister and Cabinet, Department of Finance and Deregulation, and Treasury submission.

There is no need to keep any part of the submission confidential.

Yours sincerely

Jane Halton PSM  
Secretary

27 May 2010

## Submission to the Senate Inquiry into COAG Reforms Relating to Health and Hospitals

**By the Departments of Health and Ageing, the Prime Minister and Cabinet, Finance and Deregulation, and the Treasury.**

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Greater detail on all of the COAG Reforms Relating to Health and Hospitals outlined in this submission is available in 'A *National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*,' released on 12 May 2010. Included with this submission is a copy of the book, which forms part of the submission.

The key outcomes agreed by the Commonwealth Government and five states and two territories at the Council of Australian Governments (COAG) meeting on 19 April and 20 April 2010 and the process of consultation between the states and Commonwealth prior to these agreements and related matters, including but not limited to:

The Government is continuing negotiations with Western Australia to seek their agreement to the reforms agreed by five states and two territories at the COAG meeting of 19 and 20 April 2010, to ensure that people in Western Australia receive the full benefits the National Health and Hospitals Network will deliver. Details of funding provided in this submission reflect the establishment of the National Health and Hospitals Network across all states and territories. However, throughout this submission, the term 'states' does not refer to Western Australia unless otherwise specified.

### *Process for consultation*

Negotiation on the National Health and Hospitals Network occurred collaboratively between the Commonwealth and states and territories. Negotiations between the Commonwealth and states and territories occurred at Ministerial level and at officials' level.

The Prime Minister and Minister for Health and Ageing met frequently with their state and territory counterparts in order to advance the negotiations in the lead up to the COAG meeting. In addition, negotiations occurred at officials' level between February and April 2010. This occurred through Senior Officials of First Ministers' departments and through a dedicated Health Reform Working Group, comprising officials from Commonwealth and state and territory First Ministers' Departments, Treasuries and Health Departments.

To support this work and to address some key issues in more detail, three Commonwealth – state and territory sub-groups were created under the Health Reform Working Group, focused on primary health care services, public hospitals, and financing.

The new financial arrangements between the Commonwealth and the states and territories were discussed at the meetings of the: Heads of Treasuries on 12 March 2010; Deputy Heads of Treasuries on 18 March 2010; and Ministerial Council on Federal Financial Relations on 26 March 2010.

To support the consultation and negotiation process, the Commonwealth published two policy documents to ensure clarity of its proposed reform agenda:

- *A National Health and Hospitals Network for Australia's Future* on 3 March 2010; and
- *A National Health and Hospitals Network: Further Investment's in Australia's Health* on 12 April 2010.

The final negotiations occurred at the Council of Australian Governments meeting held on 19 and 20 April 2010, where agreement was reached between the Commonwealth and all states and territories except Western Australia.

- (a) the new financial arrangements between the Commonwealth and states and territories over the forward estimates and the conditional requirements upon the states for receipt of additional Commonwealth funding.

#### *Details of new federal financial arrangements*

##### National Health and Hospitals Network Agreement

The new National Health and Hospitals Network Agreement combines reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Commonwealth and the states and territories to deliver better health and hospital services. The changes to the funding arrangements will provide a secure funding base for health and hospitals services in the future.

Under the National Health and Hospitals Network, the Commonwealth will become the majority funder of the Australian public hospital system. The Commonwealth will fund:

- 60 per cent of the national efficient price of every public hospital service provided to public patients;
- 60 per cent of recurrent expenditure incurred by states and territories on research and training functions undertaken in public hospitals;
- 60 per cent of block funding paid against a COAG-agreed funding model, including for agreed functions and services and community service obligations required to support small regional and rural public hospitals;
- 60 per cent of capital expenditure, on a 'user cost of capital' basis where possible; and
- over time, up to 100 per cent of the national efficient price of 'primary health care equivalent' outpatient services provided to public patients.

The Commonwealth will also take on full policy and funding responsibility for primary health care and aged care, including the Home and Community Care program (other than in Victoria).

##### National Health and Hospitals Network funding

The Commonwealth will fund its increased responsibilities through a combination of:

- funding sourced from the current National Healthcare Specific Purpose Payment (SPP);
- the Commonwealth retaining an agreed amount of GST to be dedicated to health and hospital services; and
- from 2014-15, an additional top-up payment to be paid by the Commonwealth, reflecting its greater responsibility for financing growth in health costs.

From 2011-12 to 2013-14, the amount of GST dedicated to health care will be the amount required in addition to the funding sourced from the existing National Healthcare SPP in each State to fund the Commonwealth's 60 per cent hospital funding contribution, 100 per cent of General Practitioner (GP) and primary health care services undertaken by states and territories, and the net additional cost to the Commonwealth from changes in roles and responsibilities for the Home and Community Care and related programs. The amount of GST dedicated to health care will be fixed in 2014-15, based on the amount of GST dedicated in 2013-14, and indexed at the rate of overall GST growth. To support these new funding arrangements, around one-third of total GST revenue will be retained by the Commonwealth and invested in health and hospitals through a National Health and Hospitals Network Fund.

The Commonwealth has guaranteed to pay no less than \$15.6 billion in top-up payments between 2014-15 and 2019-20. If the amount required to fund the Commonwealth's hospital and primary care commitments is less than \$15.6 billion, the residual amount will be paid to the states and territories to fund any health services that will assist in ameliorating the growth in demand for public hospital services.

##### Funding governance

A new National Health and Hospitals Network fund will be established into which Commonwealth funding for the National Health and Hospitals Network will be paid. The Commonwealth's funding contribution at 60 per cent of the efficient cost of delivery of hospital services will be determined by an independent pricing authority setting an efficient national price for hospital services. In each jurisdiction, the Commonwealth

contribution, along with the state or territory contribution, will be paid to a state or territory based National Health and Hospitals Network funding authority for payment directly to Local Hospital Networks. This will provide a clear line of sight of Commonwealth funding to Local Hospital Networks.

*Conditional requirements upon states and territories for receipt of additional Commonwealth funding*

Key conditional requirements upon states and territories for receipt of additional Commonwealth funding are set out in the National Health and Hospitals Network Agreement. The key requirements of the states and territories include:

- to establish Local Hospital Networks (refer paragraph A4 of the Agreement);
- to establish a National Health and Hospitals Network Funding Authority as a joint intergovernmental authority which is state or territory based with a board of supervisors – one from the state or territory, one from the Commonwealth, and an independent chair chosen jointly between the parties (refer paragraph A8 of the Agreement);
- provision of data to the Independent Hospital Pricing Authority on state funding contributions towards public hospital services provided by Local Hospital Networks under Local Hospital Network Service Agreements and other data necessary for the calculation of the national efficient and state or territory specific prices (refer paragraph A28 of the Agreement);
- to maintain their current level of effort in the delivery of GP and primary health care services (refer paragraph B37 of the Agreement); and
- to ensure that appropriate levels of health expenditure (including hospital capital investment and funding) are maintained until the end of 2013-14 (refer paragraph C12 of the Agreement).

In regard to additional funding for emergency departments, elective surgery, sub-acute care, and flexible funding, the Commonwealth and states and territories will enter into a National Partnership Agreement, with agreed implementation reporting and performance requirements. In the case of emergency departments and elective surgery, a proportion of funding will be reward payments for meeting agreed targets. In the case of sub-acute care, ongoing funding will be tied to states and territories meeting performance targets.

Further details are available from pages 29 to 34 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

(b) what amounts of the \$5.4 billion Commonwealth funding is new spending, what is re-directed from existing programs/areas, the impact on these existing programs and what savings are projected in existing health programs across the forward estimates from these new financial arrangements, including the inputs, assumptions and modelling underpinning these funding amounts.

Details of the Government's funding for initiatives announced at the 19 and 20 April 2010 COAG meeting are provided in the 2010-11 Budget Paper No. 2. Further, Appendix B – Summary of Measures of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals,' released on 12 May 2010, provides details of all National Health and Hospitals Network initiatives, including those announced after the COAG meeting of 19 and 20 April 2010.

(c) the projected number of additional/new services this additional funding will provide in elective surgery treatments, in emergency department treatments, in expected numbers of patients to sign up to the diabetes spending measure, in additional general practitioner (GP) treatments in aged care facilities, including the inputs, assumptions and modelling underpinning these projections.

*Elective Surgery – \$650 million over four years in recurrent funding*

By 2013-14, 22,000 additional elective surgery procedures in that year, based on the marginal cost of delivering services agreed with the states and territories.

Additionally, \$150 million over four years is being provided in capital funding, which will support the delivery of these services.

*Emergency Departments – \$500 million over four years in recurrent funding*

This will provide for the equivalent of an estimated 805,000 emergency department attendances in 2013-14, based on the marginal cost of delivering services agreed with the states and territories.

Additionally, \$250 million over four years is being provided in capital funding, which will support the delivery of these services.

*Sub-acute Care – \$1.6 billion over four years in capital and recurrent funding*

This will fund the creation of 1,316 additional beds in the public hospital system by 2013-14. Subsequent to the COAG Agreement, it has been estimated that based on an average length of stay for sub-acute care of 19.29 days (AIHW Australian Hospital Statistics, 2007-08, tables 7.11 and 7.12), this will support the delivery of an estimated 24,900 services over the next four years, and on an ongoing basis once all the new beds are operational. It will also free up an equivalent number of beds in public hospitals.

*Sub-acute Care - \$122.0 million over four years in capital funding*

This will fund the creation of 286 sub-acute beds, or their equivalents, in new and existing Multi-Purpose Services. Subsequent to the COAG Agreement, it has been estimated that based on an average length of stay for sub-acute care of 19.29 days (AIHW Australian Hospital Statistics, 2007-08, tables 7.11 and 7.12), this will support up to 5,400 services a year and will increase the availability of more appropriate care options for long stay older patients in rural and remote areas.

*Flexible Funding (\$200 million) – to be directed at Emergency Departments, Elective Surgery or Sub-Acute Care*

The distribution of these funds will be agreed between the Commonwealth and each state. This will support the equivalent of either:

- 325,000 emergency department attendances per annum, based on the marginal cost of delivering services agreed with states and territories;

OR

- 13,700 additional elective surgery procedures per annum, based on the marginal cost of delivering services agreed with the states and territories;

OR

- 300 additional sub-acute beds. Subsequent to the COAG Agreement, it has been estimated that this will support the delivery of an estimated 5,700 services per annum (based on an average length of stay for sub-acute care of 19.29 days).

Further details are available from pages 92 to 99 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

*Coordinated Care for Patients with Diabetes*

This measure, which provides an additional \$449.2 million over four years from 2010-11, will enable the flexible delivery of coordinated primary health care services through general practice for the treatment and ongoing management of people with diabetes who voluntarily enrol with their general practice.

Over 4,300 accredited general practices, covering around 60 per cent of all general practices, are expected to sign-on to the program in its first year of operation (2012-13). It is expected that approximately 260,000 patients with diabetes will be enrolled with their general practice by 2013-14.

Further details are available from pages 65 to 66 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

### *Aged Care*

This measure will provide:

- increased financial incentives to GPs to provide more services to older Australians in aged care homes; and
- flexible funding to target gaps in primary health care for older Australians.

From 1 July 2010 incentive payments will increase from \$1000 to \$1500 a year for GPs who provide at least 60 attendances to older people in aged care homes and from \$1500 to \$3500 a year for GPs who provide at least 140 attendances to older people in aged care homes.

The increased financial incentives through the Aged Care Access Initiative (ACAI) are expected to support around 105,000 additional GP services being provided to older Australians in aged care homes in the four years to 2013-14.

Under this measure, the Government will also set up a flexible funding pool from 2012-13, to be administered by Medicare Locals and to target gaps in primary health care services for aged care recipients. This is expected to result in an additional 190,000 primary health care services in the two years to 2013-14.

Further details are available from pages 115 to 123 of the '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*' book.

(d) the \$15.6 billion top-up payments guaranteed to the states by the Commonwealth in the period 2014-15 to 2019-20, including exploring the breakdown of expenditure relating to hospitals, outpatient services, capital expenditure, GP and primary healthcare, aged care and other areas of health expenditure.

The top-up payments reflect what is required, over and above the Healthcare Specific Purpose Payment (SPP) and the fixed dedicated share of GST, to fund the Commonwealth's 60 per cent hospital funding contribution outlined in provision 4 of the National Health and Hospitals Network Agreement and 100 per cent of GP and primary health care services.

In '*A National Health and Hospitals Network: Further Investments in Australia's Health*,' these payments were estimated to total \$15.6 billion over the period 2014-15 to 2019-20.

The top-up payments arise because the new Commonwealth responsibilities are projected to grow more rapidly than growth in the Healthcare SPP and the dedicated share of GST. The top-up payments were calculated using an aggregate projection of health and hospitals expenditure, and were not allocated to the various components of hospital and primary care spending.

The Commonwealth has guaranteed that the top-up payments will amount to no less than \$15.6 billion between 2014-15 and 2019-20. If the amount required to fund the Commonwealth's hospital and primary care commitments is less than \$15.6 billion, then the residual funds will be paid into the National Health and Hospitals Network fund for distribution to the states and territories.

These residual funds will be spent by states and territories on health services that ameliorate the growth in demand for hospitals services, including:

- chronic disease management programs;
- preventive health programs;
- mental health programs;
- hospital admission avoidance programs; and
- hospital early discharge programs.

As jointly agreed by the Commonwealth and the states and territories, funding will be additional to, and not replace, existing spending on these programs. The detail of the mechanism and the timing to give effect to these commitments will be developed by Treasurers for COAG agreement in 2010-11.

Further details are available from pages 52 to 56 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

- (e) the names, roles, structures, operations, resourcing, funding and staffing of any new statutory bodies, organisations or other entities needed to establish, oversee, monitor, report upon or administer the National Health and Hospital Networks, Primary Care Organisations and the funding channels to be established under the COAG agreements.

New governance arrangements will be established to support the effective functioning of the National Health and Hospitals Network. These institutions will fulfil three roles: planning and managing the delivery of services to suit local needs; national institutions to develop and oversee national standards and performance; and national institutions overseeing the new funding arrangements.

#### *New institutions delivering tailored services in local communities*

Governance and management of local health and hospital services will be devolved to the local level. To support this, new local governance institutions will be established, ensuring that health and hospital services meet local needs and circumstances: Local Hospital Networks and Medicare Locals. These organisations will work together to improve patient care and the quality of health and hospital services, ensuring better integration of GP and primary care services and hospital care services.

To formally enhance cooperation between hospital and primary care services in a community, Medicare Locals will be expected to have some common membership of governance structures with Local Hospital Networks, and vice versa. In addition, Medicare Local funding agreements will require them to work closely with Local Hospital Networks, and vice versa.

Local Hospital Networks and Medicare Locals will also work with the new aged care one stop shops, responsible for helping older Australians and their families more easily access information and assessment for aged care services, connect with assessment services, and access services in the place that best suits them. These links will ensure smoother transitions for patients across the entire health and hospital system, including aged care.

Further details are available from pages 35 to 44 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

#### Local Hospital Networks

Local Hospital Networks will be responsible for managing and delivering hospital services. They will be established as separate legal entities under state or territory legislation, in line with nationally agreed characteristics and in close consultation with the Commonwealth. Local Hospital Networks will:

- be responsible for making decisions on the day to day operations within their Network – this will include managing budgets and planning to deliver services in accordance with their annual service agreements with the state or territory;
- comprise single or small groups of public hospitals with geographic or functional connection;
- be overseen by professional Governing Councils, comprising local health, management and finance professionals, with an appropriate mix of skills and expertise; and
- be managed by Chief Executive Officers, appointed by and accountable to the Governing Council, and responsible for delivering agreed services and performance standards within agreed budgets.

The Commonwealth is not providing funds to the states and territories for the establishment of these Networks. The Commonwealth and states and territories have agreed that the National Health and Hospitals Network should be delivered with no net increase in bureaucracy as a proportion of the ongoing health workforce. The Commonwealth Government expects that Local Hospitals Networks will be established by state and territory governments within current health department staffing levels.

The Commonwealth and states and territories will work together to ensure, wherever possible, common geographic boundaries with Medicare Locals (details below).

#### Medicare Locals

Medicare Locals will work with local GPs and Local Hospital Networks to improve patient care and quality and safety of health services. They will:

- be independent legal entities with strong links to local communities, health professionals and service providers, including GPs, allied health professionals and Aboriginal Medical Services – this will allow them to respond more effectively to local needs;
- operate with strong local governance arrangements, including broad community and health professional representation, as well as business and management expertise;
- be responsible for a range of functions aimed at making it easier for patients to navigate the health care system and to provide more integrated care – this will result in smoother transitions between service providers and fewer gaps in services;
- be responsible for improving primary health care service delivery at the local level, to reduce service gaps and improve access to high quality integrated care centred around patients' needs, including after hours;
- over time, drive an increased focus on local community based approaches to preventive health, by identifying and managing risk factors in local communities; and
- be expected to work with universities and education and training providers to support the education of health professionals in communities.

The first Medicare Locals will commence operations in mid-2011, with the remainder commencing operations in mid-2012. Where possible, Medicare Locals will be drawn from existing Divisions of General Practice, and over time, will replace the Divisions Network. The Commonwealth and states and territories will work together to ensure, wherever possible, common geographic boundaries with Local Hospital Networks (details above).

The Government is providing \$416.8 million over four years to establish a national network of Medicare Locals and to improve access to after hours primary care services.

The Department will be consulting with stakeholders on the implementation arrangements for Medicare Locals over the coming months.

#### *Ensuring national standards and accountability*

The National Health and Hospitals Network will be underpinned by strong national standards and transparent reporting. For the first time, Australians will be able to access transparent and nationally comparable performance data and information on their local hospital and health services. Two new independent authorities will be established by the Commonwealth to establish and oversee these national standards: the Australian Commission on Safety and Quality in Health Care and the National Performance Authority.

Further details are available from pages 45 to 47 of the '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*' book.

#### Australian Commission on Safety and Quality in Health Care

The Australian Commission on Safety and Quality in Health Care (the Commission) will have an expanded role that will see it developing national clinical safety and quality standards for clinical best practice and enhanced safety in the health system. This will include developing clinical guidelines for the treatment of key diseases and conditions and standards of clinical care. It should be noted that clinical guidelines will be validated by the National Health and Medical Research Council.

In developing national clinical safety and quality standards, the Commission will work with clinicians to identify best practice clinical care, to ensure the appropriateness of services being delivered in a particular setting. Clinical guidelines and standards will, over time, be implemented across all sectors of the health system.



The Commonwealth Government has made an additional \$35.2 million available over four years for the Commission to perform its functions. States and territories would be contributing to the financial arrangements following detailed agreement on scope and financial implications by Health Ministers.

#### National Performance Authority

In undertaking its work, the National Performance Authority will provide comparative analysis across jurisdictions, identify best practice, and focus on the achievement of results. The reforms include a new performance and accountability framework which will be agreed and adopted by the Commonwealth and the states and territories, as described in clause D3 of the National Health and Hospitals Network Agreement.

The functions of the National Performance Authority are to:

- provide clear and transparent quarterly public reporting of the performance of every Local Hospital Network, the hospitals within it, every private hospital and every Medicare Local, through the new Hospital Performance Reports and Healthy Communities Reports;
- monitor the performance of Local Hospital Networks, Medicare Locals and hospitals against these performance measures and standards of the performance and accountability framework in order to identify:
  - high-performing Local Hospital Networks, Medicare Locals and hospitals, to facilitate sharing of innovative and effective practices; and
  - poorly performing Local Hospital Networks, Medicare Locals and hospitals to the Commonwealth and states and territories, to assist with performance management activities; and
- develop additional performance indicators as appropriate, when asked by the Commonwealth Health Minister at the request of COAG.

The National Performance Authority will be established from 1 July 2011 as an independent Commonwealth statutory authority under the *Financial Management and Accountability Act 1997*.

The costs associated with the establishment and ongoing functioning of the National Performance Authority will be borne by the Commonwealth. \$118.6 million over four years is available to meet the costs of the Authority. The Government will provide \$163.4 million over five years to develop the infrastructure and applications framework needed to accelerate the implementation of the activity based funding ahead of what was previously agreed to be implemented at COAG November 2008. It will also enable the Independent Hospital Pricing Authority and National Performance Authority to analyse and report on relevant activity based funding data.

#### *Ensuring transparent funding arrangements*

The National Health and Hospitals Network will see, for the first time, Commonwealth and state and territory funding for public hospitals clearly identified and clearly linked to actual services delivered to patients. This will introduce new levels of transparency in funding for public hospitals as well as the number of services provided and paid for. The new system will provide Local Hospital Networks with funding certainty and give them flexibility to shape the mix of services they deliver.

To support these new financing arrangements, two new institutions will be established: the Independent Hospital Pricing Authority and state and territory based National Health and Hospitals Network Funding Authorities.

Further details are available from pages 48 to 51 of the 'A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals' book.

#### Independent Hospital Pricing Authority

The Independent Hospital Pricing Authority will:

- calculate and determine the national efficient price, state-specific prices, and the relevant cost weights to be applied to Commonwealth payments for admitted patient, emergency department, sub-acute and outpatient services in line with the provisions contained in Appendix 2 of the National Health and Hospitals Network Agreement; and
- maintain, update and determine the national activity based funding classifications and costing models.

The state-specific prices and national efficient price to be used for Commonwealth funding will be calculated in a manner which ensures: reasonable access to public hospital services; clinical safety and quality; efficiency and effectiveness; and financial sustainability of the public hospital system.

The Independent Hospital Pricing Authority will be established from 1 July 2011 as an independent Commonwealth statutory authority under the *Financial Management and Accountability Act 1997*. COAG will agree the terms of reference of the Independent Hospital Pricing Authority. These will build on the interim terms of reference outlined in the National Health and Hospitals Network Agreement in Clause E21.

The costs associated with the establishment and ongoing functioning of the Independent Hospital Pricing Authority will be borne by the Commonwealth. \$91.8 million is available over four years to meet the costs of the Authority.

#### National Health and Hospitals Network Funding Authorities

State and territory specific National Health and Hospitals Funding Authorities will:

- be jointly governed by the Commonwealth and the state;
- transparently report on the number of services provided and paid for;
- receive clearly identified Commonwealth and state funds, with Commonwealth funds flowing on directly to Local Hospital Networks based on services provided; and
- have no policy or operational role, beyond receiving activity-based payments from the Commonwealth and state/territory and making payments directly to Local Hospital Networks.

The Commonwealth is not providing funds to the states and territories for the establishment of these Funding Authorities.

(f) what arrangements are in place, or are being negotiated for states that have not signed up, nor fully signed up to the COAG agreements, including what contingencies have been put in place for states that may want to alter agreements in future.

As at the lodgement of this submission, Western Australia has not yet signed the National Health and Hospitals Network Agreement. Discussions are continuing between the Commonwealth and Western Australia at both Ministerial and officials' level.

Clause 17 of the Agreement also provides for a review of the level of GST to be dedicated once the system has transitioned to an efficient price.

At this point, Victoria has not agreed to the transfer of responsibility for aged care Home and Community Care services to the Commonwealth. The Commonwealth Government remains committed to continuing discussions with Victoria and other stakeholders, so that Victorians can also benefit from a unified aged and community care system.

Any change to the National Health and Hospitals Network Agreement requires the agreement of all parties, including the Commonwealth. The Commonwealth does not anticipate any changes to the Agreement.

(g) the intent of the state and territory governments and their preferred number and size of Local Hospital Networks in each state and territory.

The National Health and Hospitals Network Agreement signed at COAG on 20 April 2010 states that the final number and boundaries of Local Hospital Networks will be primarily a matter for states and territories to resolve, with the number and boundaries to be resolved bilaterally between the Prime Minister and Premiers or First Ministers, as appropriate, by 31 December 2010.

Local Hospital Networks will be established by states and territories in line with nationally agreed characteristics and in close consultation with the Commonwealth. The Commonwealth will work with states and territories to align geographic boundaries, wherever possible, between Local Hospital Networks and Medicare Locals.

The Commonwealth and the states and territories are currently developing a mechanism for further development of Local Hospital Networks. The Commonwealth expects the states and territories to consult with local communities, to listen and respond to their concerns and to take their views into account in developing Local Hospital Network boundaries.

Further details are available from pages 36 to 39 of the '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*' book.

(h) the number of hospitals which will receive: activity-based funding, block grant funding, or a mix of both.

In accordance with Clause E12 of the National Health and Hospitals Network Agreement, the Independent Hospital Pricing Authority will provide advice to COAG on the definition and typology of public hospitals eligible for:

- block funding only;
- mixed activity based funding and block funding; and
- activity based funding only.

Based on that advice, COAG will determine the number of hospitals that will receive activity-based funding, block grant funding, or a mix of both.

(i) aged care:  
(i) the 2 500 new aged care beds to be generated by zero interest loans,

The Government will provide an additional \$300 million in zero real interest loans to assist in expanding the availability of residential aged care. These loans will be available to aged care providers to build or expand aged care homes in areas of high need, including those areas with higher numbers of long stay older patients. The additional funding will support the construction of an additional 2,500 places nationally.

The loans will be allocated through two rounds, totalling \$150 million in 2010-11 and \$150 million in 2011-12. Providers will be able to seek loans in respect of new allocations of places and allocations of places that they already hold but have not yet succeeded in bringing into operation.

Loan recipients will pay interest at a rate equal to the Consumer Price Index. They will be required to repay the principal of the loan over twenty-two years, with no repayment of principal in the first two years.

(ii) the 2 000 beds for long stay older patients to be established,

The Government will allocate up to 2,000 time-limited flexible care places to states and territories to provide care similar to high care residential aged care to long stay older patients in public hospitals.

This will cover patients who, after receiving acute medical attention and having been assessed as needing aged care, cannot be discharged until their care arrangements have been finalised.

As the number of long stay older patients is expected to decline over time as a result of other reforms announced as part of the National Health and Hospitals Network package, the Government will fund up to 2,000 places in 2011-12, up to 1,700 places in 2012-13, and up to 1,400 places in 2013-14.

(iii) the funding for the above,

The net impact of the additional \$300 million in zero real interest loans will be \$145 million over four years, including implementation costs. Loans are treated as financial assets and therefore only the concessional interest cost of offering the loan impacts on the fiscal balance. The interest revenue foregone is an upfront cost to the Budget in the years that the funds are lent out, amortised over the life of the loan. Provision for the recurrent funding for the places constructed with the assistance of zero real interest loans has already been included in the forward estimates.

Provision for the recurrent funding for the 2,000 places that will be allocated to states and territories for Long Stay Older Patients has already been included in the forward estimates for aged care places. The Government will redirect existing funding of \$276.4 million over three years from 2011-12 from high care residential aged care places to states and territories to provide similar levels of care for Long Stay Older Patients in public hospitals. Implementation costs are provided through the 2010-11 Budget.

(iv) the establishment of the Commonwealth Government as responsible for full funding, policy, management and delivery responsibility for a national aged care system.

Aged care services are fragmented, leading to confusion for older people and overlap and duplication in service provision. Through the establishment of the National Health and Hospitals Network for the first time, the Australian Government will take full policy and funding responsibility for aged care services, including services through the Home and Community Care program (except Western Australia and Victoria) ending the fragmentation, blame shifting and cost shifting.

This will allow the Government to build a nationally consistent aged care system, covering the full spectrum of services from basic care at home through to high level residential care, as care needs change.

The Commonwealth will take funding and regulatory responsibility for aged care services for older people (those aged 65 years and over, and 50 years and over for Aboriginal and Torres Strait Islander people). It will also fund care provided to older people in National Disability Agreement services. Access to aged care services will be through one-stop shops – a single access point linked with Local Hospital Networks and other parts of the health system.

As a result of these changes a new national aged care system will be built, improving care and allowing older people to seamlessly move from basic help at home through to residential care as their care needs change. The overlap of services provided by different government programs with different cost structures and eligibility requirements will end, making it easier for older Australians to access the care they need. State and territory governments will take responsibility for funding and regulating services for younger people with a disability and responsibility for funding younger people in residential aged care facilities and packaged care.

Further details are available from pages 115 to 123 of the '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*' book.

(j) mental health matters.

Under the National Health and Hospitals Network Agreement, the Australian Government will take full funding and policy responsibility for primary mental health care services for common mild to moderate disorders such as anxiety and depression, including those services currently provided by states and territories (except in Western Australia).

The Government's investment of \$1.6 billion to support 1,316 additional sub-acute care beds will support more 'step up, step down' sub-acute services for people with mental health needs, easing their transition

from acute care to the community. These community-based residential mental health services provide an alternative to hospitalisation, and will also support recently discharged patients with severe mental illness whose conditions have stabilised but who still need some ongoing care.

The Government has also signalled its determination to improve the system for people with severe mental illness and to provide greater policy and funding leadership for specialist community mental health services, which care for people with severe and persistent mental illness, over time. In this context COAG also agreed to undertake further work on the scope for additional mental health service reform for report back in 2011. This will include looking at the current allocation of roles and responsibilities in the sector.

The Department of Health and Ageing will lead work across Australian Government agencies, with states and territories and with mental health stakeholders in taking forward the next stage of discussions about mental health reform, building upon the foundation provided through the recent COAG agreement.

It was agreed at COAG that the Australian Government would make an immediate investment in mental health targeting existing service gaps particularly for young people. The 2010-11 Budget provides \$175.8 million to improve the mental health system, including \$123.2 million in new funding, as part of the National Health and Hospitals Network. This includes:

- \$78.8 million over four years to deliver up to 30 new headspace youth friendly services, provide extra funding for the existing 30 headspace sites, and improve telephone and web-based support services for young people;
- \$25.5 million over four years to expand the Early Psychosis Prevention and Intervention Centre model in partnership with interested states and territories;
- \$13 million over two years to employ 136 extra mental health nurses under the existing Mental Health Nurse Incentive Program; and
- \$58.5 million over four years from 1 April 2010 will be directed to deliver new flexible care packages to better support people with severe mental illness who are being managed in primary care, to be delivered through Access to Allied Psychological Services arrangements.

In addition, \$5.5 million has been allocated to extend the existing Mental Health Support for Drought Affected Communities initiative to June 2011.

The Government will work further with states and territories, mental health consumers, carers, experts, and leading advocates in the mental health sector, on the detailed implementation of the COAG reforms.

Further details are available from pages 109 to 114 of the '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*' book.

(k) any other related matter.

Details of additional reforms are outlined in the attached book, '*A National Health and Hospitals Network for Australia's Future: Delivering Better Health and Better Hospitals*,' including in the areas of health workforce, prevention and primary care.