

Introduction

People might say that a billion here or there does not matter too much but, actually, \$1 billion is \$1 billion.¹

- 1.1 In 2006 the Australian National Audit Office (ANAO) conducted a performance audit of the Department of Health and Ageing's ('Health') administration of state and territory compliance with the Australian Health Care Agreements (AHCAs). The report of the audit was tabled on 25 January 2007.²
- 1.2 On 7 February 2007 the House of Representatives Standing Committee on Health and Ageing ('the committee') resolved to review the audit report. The committee held two private briefings with the ANAO to examine the report and then held a public hearing on 28 March 2007 to take evidence from both the ANAO and Health.

Australian health care agreements

- 1.3 State governments are responsible for providing hospital services, for public patients, either through ownership or funding of public hospitals or contract arrangements with private hospitals.³ The Commonwealth contributes to the costs of state public hospital

1 Private briefing.

2 Australian National Audit Office (ANAO), *Administration of State and Territory Compliance with the Australian Health Care Agreements*, Audit Report No. 19 2006-2007, Commonwealth of Australia, 2007 ('ANAO, Audit Report').

3 State and territory governments are referred to as 'states' for the purposes of this report.

services on the condition that the states will comply with certain principles and conditions.⁴

- 1.4 The principles and conditions are set out in the AHCAs, which are bilateral five-year agreements between the Commonwealth and each of the states.⁵ The principles and conditions are the same in each agreement, although the agreements do differ in the levels of funding provided to each state.⁶ The present AHCAs commenced on 1 July 2003 and are due to expire on 30 June 2008. The 2008-2013 agreements were being negotiated as the committee conducted its inquiry.
- 1.5 The Commonwealth is contributing an estimated \$42 billion during the life of the 2003-08 agreements while the states are collectively contributing some \$58 billion.⁷ Thus total government expenditure on public hospital services under the AHCAs over the five years will be some \$100 billion.⁸
- 1.6 Clause 6 of the AHCAs sets out their primary objective, which is to secure community access to public hospital services, based on three principles drawn from the *Health Care (Appropriation) Act 1998*. The principles are that:
- eligible persons are to be given the choice to receive, free of charge as public patients, health and emergency services of a kind or kinds that are currently, or were historically, provided by hospitals;
 - access to such services by public patients free of charge is to be on the basis of clinical need and within a clinically appropriate period; and
 - arrangements are to be in place to ensure equitable access to such services for all eligible persons, regardless of geographical location.

Commonwealth responsibilities

- 1.7 Under the AHCAs, Health administers three main responsibilities on behalf of the Commonwealth:
- ensuring that the terms of the AHCAs are complied with by the states before Commonwealth funds to them are disbursed;
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4 The Australian Government is referred to as 'the Commonwealth' for the purposes of this report as that is the term used in the Australian Health Care Agreements (AHCAs).

5 Copies of the AHCAs for each state and territory are available on Health's website at: www.health.gov.au/internet/wcms/publishing.nsf/Content/health-ahca-agreement.htm viewed on 16 July 2007.

6 The AHCAs are considered identical for the purposes of this report; see also Appendix D footnote at p 43.

7 ANAO, Audit Report, pp 11, 23.

8 ANAO, Audit Report, p 11.

- providing policy development for national program activities initiated under the auspices of the AHCAs; and
- publishing the annual *The state of our public hospitals*, which ‘considers how the states...are performing in the delivery of public hospital services and records their expenditure on public hospitals’⁹.

State and territory responsibilities

- 1.8 In turn, to obtain the full level of funding available from the Commonwealth, each state government must:
- adhere to principles set out in clause 6 of the AHCAs;
 - increase their own source funding at a rate which at least matches the estimated cumulative rate of growth of Commonwealth funding under the AHCAs; and
 - meet the performance reporting requirements outlined in the AHCAs.¹⁰
- 1.9 If the Commonwealth Minister, currently the Minister for Health and Ageing (‘the Minister’), is satisfied that a state has met all the compliance requirements, it will receive in addition ‘a compliance payment’ equivalent to approximately four per cent of its base health care grant entitlement.¹¹
- 1.10 AHCA payments are transferred directly to the state governments, so states are responsible for ensuring that their hospitals (or other providers) comply with the agreements.

Committee report – *The Blame Game*

- 1.11 During the period of the audit, the committee was conducting a broad-ranging inquiry into health funding. The report of the inquiry, entitled *The Blame Game*, was tabled in the Parliament on 4 December 2006.¹²

9 AHCAs, clause 9; see also Minister’s foreword, Department of Health and Ageing (Health), *The state of our public hospitals, June 2006 report*, Commonwealth of Australia, 2006, p iii.

10 AHCAs, clause 25.

11 AHCAs, clause 31.

12 House of Representatives Standing Committee on Health and Ageing (HAA), *The Blame Game: Report on the inquiry into health funding*, Parliament of the Commonwealth of Australia, Canberra, 2006.

- 1.12 That report commented directly on the function and future of AHCAs. The committee recommended, among other things, the adoption of a national health agenda. As part of that agenda, the committee wanted a rationalisation of the roles and responsibilities of governments, including their funding responsibilities. In turn, several recommendations were made to change the current AHCA model of public hospital financing.
- 1.13 At the tabling of this report, there was still no government response to the recommendations of *The Blame Game*. Accordingly, the committee considered it prudent to review the audit report on the assumption that the 2008-2013 AHCAs, at least, will be similar to the current ones. However, Members recognise that the recommendations in this report may become redundant if those in *The Blame Game* become government policy.

Structure of the report

- 1.14 The next chapter reviews the ANAO's findings and Health's response to the ANAO recommendations. The following three chapters discuss key issues arising from the audit report and the committee's inquiry.
- 1.15 Chapter three focuses on the states' compliance with their obligations to provide public hospital services to the standard specified in clause 6 of the AHCAs.
- 1.16 Chapter four examines the difficulties associated with measuring whether the states have matched the growth rate of the Commonwealth's recurrent expenditure under the AHCAs.
- 1.17 In Chapter five, the committee discusses performance reporting and the need for greater public accountability for hospital performance.
- 1.18 The final chapter returns to the recommendations in *The Blame Game* and concludes by encouraging all levels of government to consider adopting a national health agenda.
- 1.19 The appendices list the witnesses who appeared at the single public hearing for the inquiry, relevant recommendations from *The Blame Game* report, State and Territory Auditors-General reporting, and contain the New South Wales agreement as an example of an AHCA.