

The Australian

Tabled document no: **1**By: *Senator Fierravanti-Wells*Date: *23* February 2011

Julia Gillard to junk Kevin Rudd health reform

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- From: The Australian
- February 05, 2011 12:00AM

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JULIA Gillard is preparing to dump Kevin Rudd's plan to make the commonwealth the dominant funder of hospitals, favouring an alternative model so unpopular among states that any hope of reaching a national health reform agreement appears lost.

After 12 months of wrangling with the states and the signing of a historic health funding agreement in Canberra last year, the federal government is developing a new model to deliver its funding directly to hospitals, and without the states receiving promised funds for expenditure growth and capital works.

In an attempt to finalise the new health funding agreement before the meeting of state and federal leaders in Canberra on February 14, the federal government has put forward a tough new proposal from Treasury and Prime Minister and Cabinet.

The aggressive action from the federal government threatens to cost states that do not agree \$15 billion in new funding with almost \$5bn slated for NSW, \$3.8bn for Victoria and \$1.7bn for Western Australia.

Ms Gillard's new position was relayed to state officials by Department of Prime Minister and Cabinet secretary Terry Moran at Melbourne's Sarti Restaurant and Bar on Thursday night. Somewhat pointedly, it happened without the involvement of Department of Health head Jane Halton.

Mr Moran reportedly said the Prime Minister's position was not negotiable - something the states took as a sign Ms Gillard was adopting a "crash or crash through" attitude - and would be outlined in a commonwealth paper at the next Council Of Australian Governments meeting on February 14.

While interpretations of the Gillard model differ, several state government sources told The Weekend Australian there would no longer be any clawback of the GST - a key sticking point for Victoria and Western Australia - but, in return, the commonwealth would revert to its original position of funding only 40 per cent of the health system.

Mr Rudd - after initially threatening to take over state-run hospitals if he could not achieve reform - struck a deal that would have made the commonwealth the dominant funder, taking 60 per cent responsibility, including future growth, in exchange for roughly 30 per cent of the states' GST payments.

With recent floods and cyclones putting more pressure on the federal budget, and the proposed flood levy still under a cloud, Ms Gillard is prepared to walk away from Mr Rudd's commitment to growth funding and some capital works.

The loss of growth funding alone would cost the states about \$15.6bn between 2013-15 and 2019-20.

Furthermore, the commonwealth contribution would no longer go into state pools to be distributed to hospital networks, but directly to the planned hospital networks themselves, perhaps from a national pool or via a Medicare mechanism, which has previously been questioned by Western Australia.

The states had argued for the right to pool funds to make efficient use of resources.

The Gillard model is not being developed by the Department of Health and Ageing, but by Treasury and the Department of Prime Minister and Cabinet, and draws on financial concepts considered more than 12 months ago.

Last night, sources in one state said the Gillard model was "about a finance grab, not about health reforms", while others remained unsure of the detail and whether Mr Moran was acting with the imprimatur of the Prime Minister.

Ms Gillard would not comment, Mr Moran could not be contacted, and Health Minister Nicola Roxon's office would only say that the negotiations, which some described as fast-moving, and ever-changing, would continue ahead of COAG.

"The government has always made clear we will not be signing blank cheques," Ms Roxon's spokesman said.

Since Mr Rudd's health summit in April last year, the former Victorian Labor government was defeated and the newly elected Liberal Premier, Ted Baillieu, joined his West Australian counterpart, Colin Barnett, in calling for fundamental changes to the Rudd model.

Mr Baillieu's office reiterated his concerns yesterday, as did a spokeswoman for Mr Barnett.

Victoria has missed both the October 31 deadline for submitting its implementation plan for the agreement as well as the December 31 deadline for new networks of primary healthcare organisations, known as "Medicare locals".

NSW Premier Kristina Keneally remains strongly supportive of the existing deal, but the state is facing an election next month and the Liberal opposition, led by Barry O'Farrell, has signalled it will not sign over its GST to fund the agreement until the federal government reveals the new efficient price for hospital procedures that will determine state hospital funding levels.

SA Premier Mike Rann refused to comment on the new model yesterday, while Queensland Premier Anna Bligh - busy responding to natural disasters in her state - is likely to oppose any move to cost-shift back to the states.

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