

Appendix 3

National Health Reform Agreement

Background

The Commonwealth and state and territory governments jointly fund public hospital services. Since the introduction of Medicare in 1984, the transfer of funds from the Commonwealth to the states and territories has been made pursuant to agreements entered into by the respective governments.¹ The Medicare Agreements were followed by the Australian Health Care Agreements (AHCAs). The AHCAs were five year bilateral agreements. The indexation under the AHCAs was calculated according to (weighted) population figures which took into account demographic characteristics such as ageing and the Commonwealth Wage Cost Index 1.² Following the election of the Rudd Labor Government, the final AHCA was extended into the 2008–09 financial year.

In December 2007, COAG agreed to commence a program of substantive reform in order to increase productivity, address emerging inflationary pressures and improve the quality of services delivered to the Australian community in seven areas including health and ageing.³ As part of this process, the National Health and Hospitals Reform Commission (NHHRC) was established in February 2008. The NHHRC provided advice on a framework for the next AHCAs and development of a long-term health reform plan to provide sustainable improvements in the performance of the health.⁴

At the March 2008 COAG meeting, it was agreed that in developing the new health care agreement there would be a review of the indexation formulas for the years ahead. COAG also agreed that the new Australian Health Agreement should move to a proper long-term share of Commonwealth funding for the public hospital system. COAG also agreed that the new health care agreement would be signed in December 2008 with a commencement date for the new funding arrangements of 1 July 2009.

COAG also agreed for jurisdictions, as appropriate, to move to a more nationally-consistent approach to activity-based funding for services provided in public hospitals but one which also reflects the Community Service Obligations required for the maintenance of small and regional hospital services.⁵

-
- 1 For a description of funding arrangements from 1975 to 2000, see Senate Community Affairs Committee, *First Report: Public Hospital Funding and Options for Reform*, July 2000, pp 31–37; and Department of Health and Ageing and the Treasury, *Submission 55*, p. 9.
 - 2 Senate Community Affairs Committee, *First Report: Public Hospital Funding and Options for Reform*, July 2000, p. 39.
 - 3 Council of Australian Governments, *Communique*, 20 December 2007.
 - 4 Council of Australian Governments, *Communique*, 20 December 2007, Attachment 1.
 - 5 Council of Australian Governments, *Communique*, 26 March 2008.

At the March 2008 COAG meeting, a new model for federal financial relations and modernisation of payments for special purposes was agreed. The Commonwealth also announced an immediate allocation of one billion dollars to the public hospital system, half of which was to be provided in 2007–08. Funding of \$9.7 billion for public hospitals was announced for 2008–09.⁶

At the 29 November 2008 COAG meeting, the new National Healthcare Agreement (NHA) was announced. Under the measures agreed, the Commonwealth provided \$60.5 billion over five years with \$4.8 billion in additional base Specific Purpose Payment funding.⁷ In addition, the Commonwealth committed to a more generous indexation formula which delivered 7.3 per cent per year compared to 5.3 per cent under the previous agreement.

The *Intergovernmental Agreement on Federal Financial Relations* (IGA) provided for the growth factor for the National Healthcare SPP. The growth factor is defined as the product of:

- a health-specific cost index (AIHW price index);
- the growth in population estimates weighted for hospital utilisation; and
- a technology factor (the Productivity Commission-derived index of technology growth).⁸

The National Health and Hospital Network Agreement was announced in April 2010. COAG, with the exception of Western Australia, reached agreement on significant reforms to the health and hospitals system – the establishment of a National Health and Hospitals Network. The National Health and Hospitals Network Agreement combined reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Commonwealth and the States to deliver better health and hospital services.

The National Health Reform Agreement

In February 2011, heads of agreement on National Health Reform were negotiated by COAG and in August 2011 the National Health Reform Agreement (NHRA) was signed by all states, territories and the Commonwealth under the framework for federal financial relations.⁹ This agreement supersedes the NHHNA.¹⁰ A range of other agreements have also been revised:

The Council of Australian Governments (COAG) has also agreed to a revised National Partnership Agreement on Improving Public Hospital

6 Parliamentary Library, *Bills Digest: Federal Financial Relations Bill 2009*, p. 18.

7 Council of Australian Governments, *Communique*, 26 March 2008; Department of Health and Ageing and the Treasury, *Submission 55*, p. 9.

8 Australian Government, *Budget Paper No 3, 2009–10*, p. 30.

9 Department of Health and Ageing and the Treasury, *Submission 55*, p. 5.

10 *National Health Reform Agreement*, August 2011, p. 4; Department of Health and Ageing and the Treasury, *Submission 55*, p. 10.

Services (following the National Partnership Agreement on Improving Public Hospital Services Expert Panel Report) as well as amendments to the National Healthcare Agreement and the Intergovernmental Agreement of Federal Financial Relations.¹¹

The NHRA is part of the broader National Health Reforms (NHR) which are also supported by the following agreements between the Commonwealth and state and territory:

- National Partnership Agreement on eHealth;
- National Partnership Agreement on Closing the Gap in Indigenous Health Outcomes;
- National Partnership Agreement on Hospital and Health Workforce Reform;
- National Partnership Agreement on the Elective Surgery Waiting List Reduction Plan;
- National Partnership Agreement on Preventive Health (NPAPH); and
- National Partnership Agreement on Health Infrastructure.¹²

The NHRA aims to deliver a national unified and locally controlled health system through:

- Introducing new financial arrangements for the Commonwealth and states and territories in partnership
- Confirming state and territories' lead role in public health and as system managers for public hospital services
- Improving patient access to services and public hospital efficiency through the use of activity based funding (ABF) based on a national efficient price
- Ensuring the sustainability of funding for public hospitals by increasing the Commonwealth's share of public hospital funding through an increased contribution to the costs of growth
- Improving the transparency of public hospital funding through a National Health Funding Pool
- Improving local accountability and responsiveness to the needs of communities through the establishment of local hospital networks (LHNs) and Medicare locals
- New national performance standards and better outcomes for hospital patients.¹³

11 National Health Reform Agreement, <http://www.yourhealth.gov.au/internet/yourhealth/publishing.nsf/Content/nat-health-reform-agreements>, (accessed 20 February 2013).

12 National Health Reform Agreement, <http://www.yourhealth.gov.au/internet/yourhealth/publishing.nsf/Content/nat-health-reform-agreements>, (accessed 20 February 2013).

States, territories and the Commonwealth are jointly responsible for funding public hospital services under the NHRA. An activity based funding model is used where practicable and block funding is used in other cases. Activity based funding replaced the previous arrangements whereby the states and territories received block grants, negotiated through health care agreements. The NHRA also explains how states will go about budgeting for public hospitals under an activity based funding system and how activity based funding will affect other Commonwealth funding streams to the states for health care.

The funded services are provided for under the NHRA:

Under the Agreement, the scope of public hospital services that are funded on an activity or block grant basis and are eligible for a Commonwealth funding contribution currently includes:

- All admitted and non-admitted services
- All emergency department services provided by a recognised emergency department
- Other outpatient, mental health, sub-acute services and other services that could reasonably be considered a public hospital service.¹⁴

For services outside the scope of the agreement, such as dental services, primary care, home and community care, residential aged care and pharmaceuticals, public hospitals continue to receive funding from other sources, including the Commonwealth, states and territories.¹⁵

To implement and administer the agreement, a National Health Funding Pool (NHFP) has been established under Commonwealth, state and territory legislation. The NHFP is administered by an Administrator who is a statutory office holder distinct from Commonwealth and state and territory government departments.

The Administrator and Acting Administrator are appointed by the Standing Council on Health (SCoH). An Acting Administrator is responsible for acting in the role of the Administrator during any period when the office is vacant.

The National Health Funding Pool is the collective term for the state pool accounts of all states and territories. A state pool accounts is a Reserve Bank account established by a state or territory for the purpose of receiving

13 National Health Reform Agreement, <http://www.publichospitalfunding.gov.au/national-health-reform/agreement>, (accessed 8 February 2013).

14 National Health Reform Public Hospital Funding, <http://www.publichospitalfunding.gov.au/national-health-reform/funding-who>, (accessed 8 February 2013).

15 National Health Reform Public Hospital Funding, <http://www.publichospitalfunding.gov.au/national-health-reform/funding-who>, (accessed 8 February 2013).

all Commonwealth and activity based state and territory NHR funding, and for making payments under the Agreement.¹⁶

The National Health Funding Body (NHFB) has also been established as an independent statutory authority to assist the Administrator in performing his or her functions:

The Administrator is responsible for ensuring that state and territory deposits into the pool accounts, and payments from the pool accounts to local hospital networks are made in accordance with directions from the responsible State or Territory Minister, and in line with the Agreement. The Administrator is also responsible for calculating the Commonwealth public health funding contribution to states and territories and ensuring funds are deposited into pool accounts accordingly and in line with the Agreement. In addition, the Administrator is responsible for reconciling estimated and actual service volumes, authorising payment instructions, and reporting on all activities for the National Health Funding Pool.¹⁷

Several other bodies have also been established to support the implementation of the NHRA, including:

- the Independent Hospital Pricing Authority;
- the National Health Performance Authority; and
- the Australian Commission on Safety and Quality in Healthcare.¹⁸

The Administrator of the National Health Funding Pool provides a range of reports, including monthly reports of NHR funding at a national, state or territory level, and local hospital network level for each state and territory. The monthly national reports also include information on the NHR payments to states and territories.

Sources of NHR funding are divided into four categories:

- **Commonwealth ABF funding** represents acute admitted public, acute admitted private, non-admitted, and emergency department service categories, which are funded through the state pool account and subsequently paid to local hospital networks.
- **Commonwealth Block funding** represents mental health, small rural and metropolitan hospitals, sub-acute, teaching, training and research, and other categories, which are paid to state managed funds.

16 National Health Reform Public Hospital Funding, <http://www.publichospitalfunding.gov.au/national-health-reform/funding-who>, (accessed 8 February 2013).

17 National Health Reform Public Hospital Funding – Role of the Administrator, <http://www.publichospitalfunding.gov.au/national-health-reform/funding-who>, (accessed 8 February 2013).

18 National Health Reform Public Hospital Funding, <http://www.publichospitalfunding.gov.au/national-health-reform/funding-who>, (accessed 8 February 2013).

- **Commonwealth Other funding** represents other amounts transacted through the state pool account and subsequently paid to state or territory health departments. This currently represents the Commonwealth contribution to public health.
- **State/territory funding** represents funding contributions paid in by states and territories into their own state pool account, and subsequently paid to local hospital networks within the state or territory and/or to state or territory health departments.¹⁹

19 National Health Reform Public Hospital Funding, NSW Report, September 2012, p. 7.