Australian Government

The Treasury

National Health Reform

The Australian experience

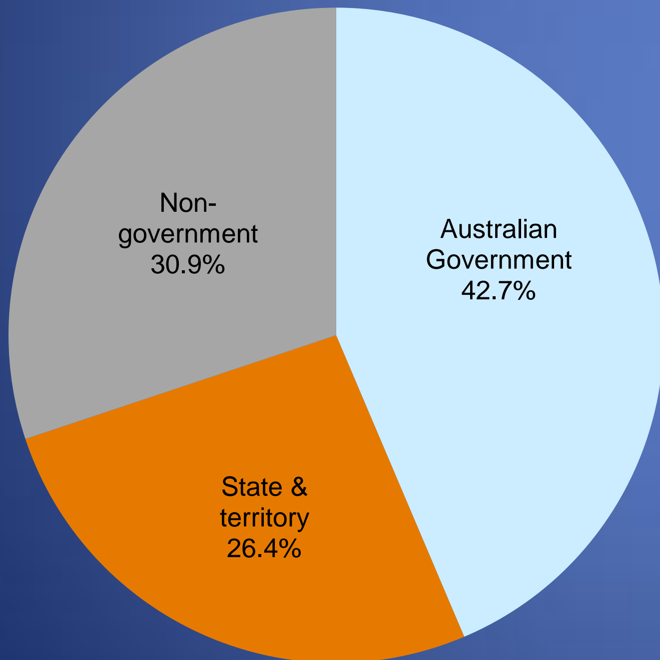
Background to reform

- Budget funded
- Federal
  - Australian Government directly subsidises private doctors, allied health care practitioners, medicines, aged care
  - States responsible for public hospitals and community health services
    - The Australian Government provides grants to help with the cost of delivering state health services

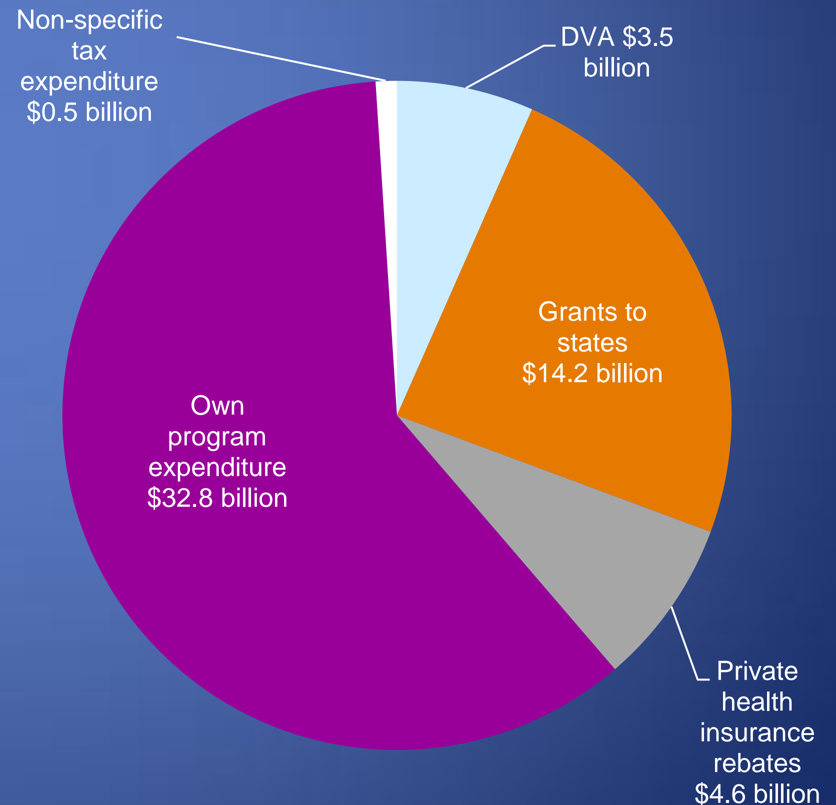
Australian Health System

- Total health expenditure $130 billion (2010-11), 9.3% of GDP
- Real growth in health expenditure between 2000-01 and 2010-11 was 5.3% per year

- Three sources of funding



- Commonwealth funding



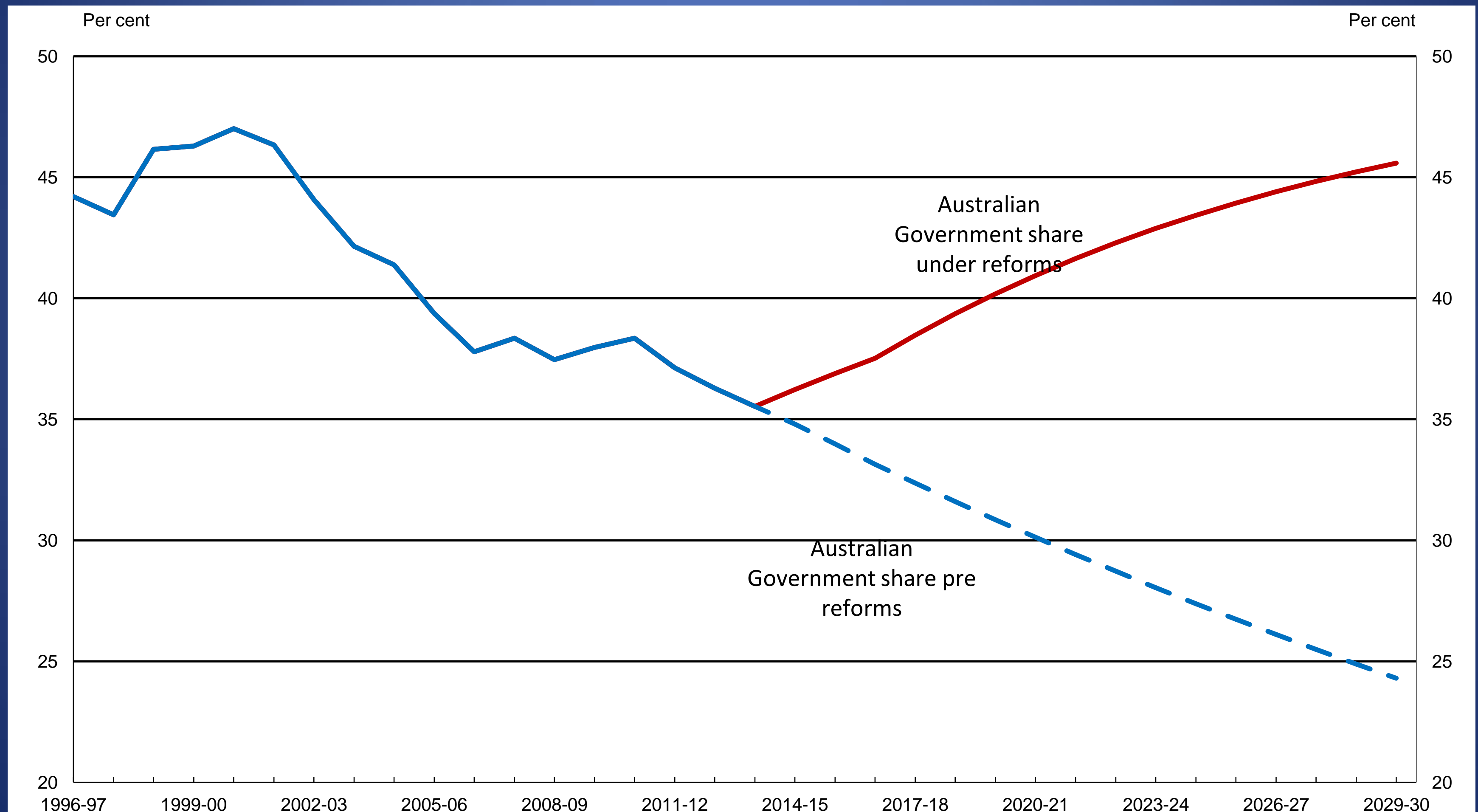
Objectives of reforms

- Financial sustainability
  - For health costs more generally
  - Between Commonwealth and the states
- Improved health outcomes
  - Efficiency
  - Local governance
  - Increased transparency

Financial sustainability

- Health expenditure more than doubled as a share of the economy over last 50 years
  - Expected to grow even further
- ‘Vertical Fiscal Imbalance’
  - States responsible for many areas of service delivery but with limited, and inefficient, revenue bases
  - Australian Government has a broad range of more efficient revenue sources and has a significant role in funding health

Australian Government share of public hospital funding



Elements of reforms

- New Federal financing arrangement
- Activity based funding
- Local governance
  - Local Hospital Networks
  - Medicare Locals
- Increased transparency
  - National Health Funding Pool
  - Independent monitoring and reporting of safety, quality and performance

New financing arrangements for public hospital services

- Increased Australian Government funding of growth in public hospital expenditure
- Growth based on hospital activity and the National Efficient Price (NEP)
  - NEP set by Independent Hospital Pricing Authority
  - Small rural and regional hospitals; teaching, training and research; public health activities continue to be ‘block funded’

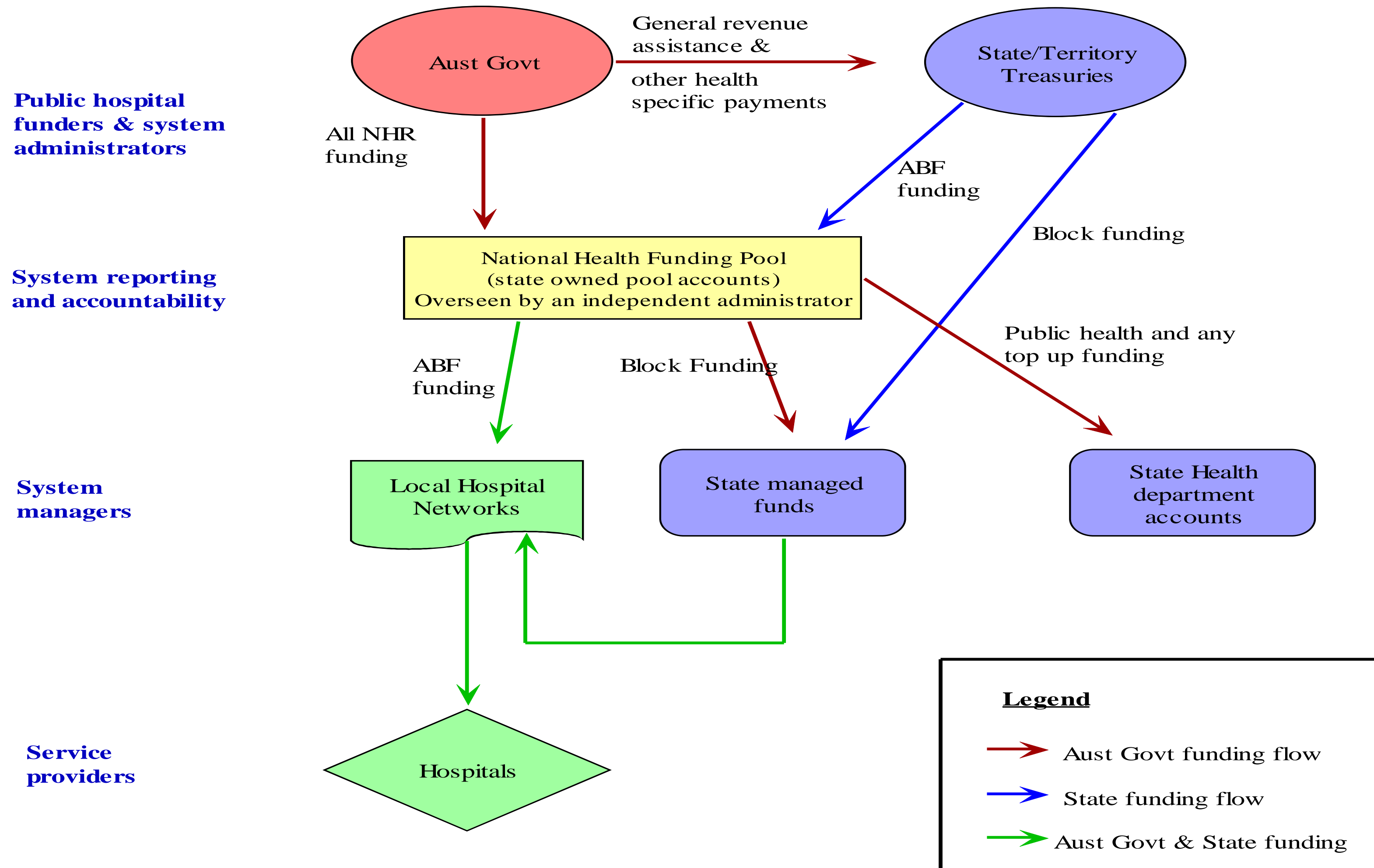
Transition to ‘uncapped’ growth funding

- Guaranteed minimum of $16.4 billion in additional funding over six years
- Capped for the first two years
- Uncapped from 2014-15
  - 45% of ‘efficient growth’ for next two years
  - 50% of ‘efficient growth’ from 2017-18

Activity Based Funding

- Hospital services given a price weighting
- Loadings
  - for remoteness, patient complexity and other ‘legitimate and unavoidable cost differences’
- NEP initially set at the average cost
- States meet the balance of the cost
  - Not required to use NEP
  - But NEP creates a benchmark that will drive change

Financial governance arrangements



Local hospital networks

- Responsible for operational management
- State Governments remain responsible for overall system management
  - Establishment of LHNs under State law and managing performance
  - Purchasing of services
  - Planning, funding and delivering capital

Medicare locals

- Co-ordinate delivery of primary health care
- Identifying service gaps putting in place services to address these gaps
- Expected to work closely with LHNs

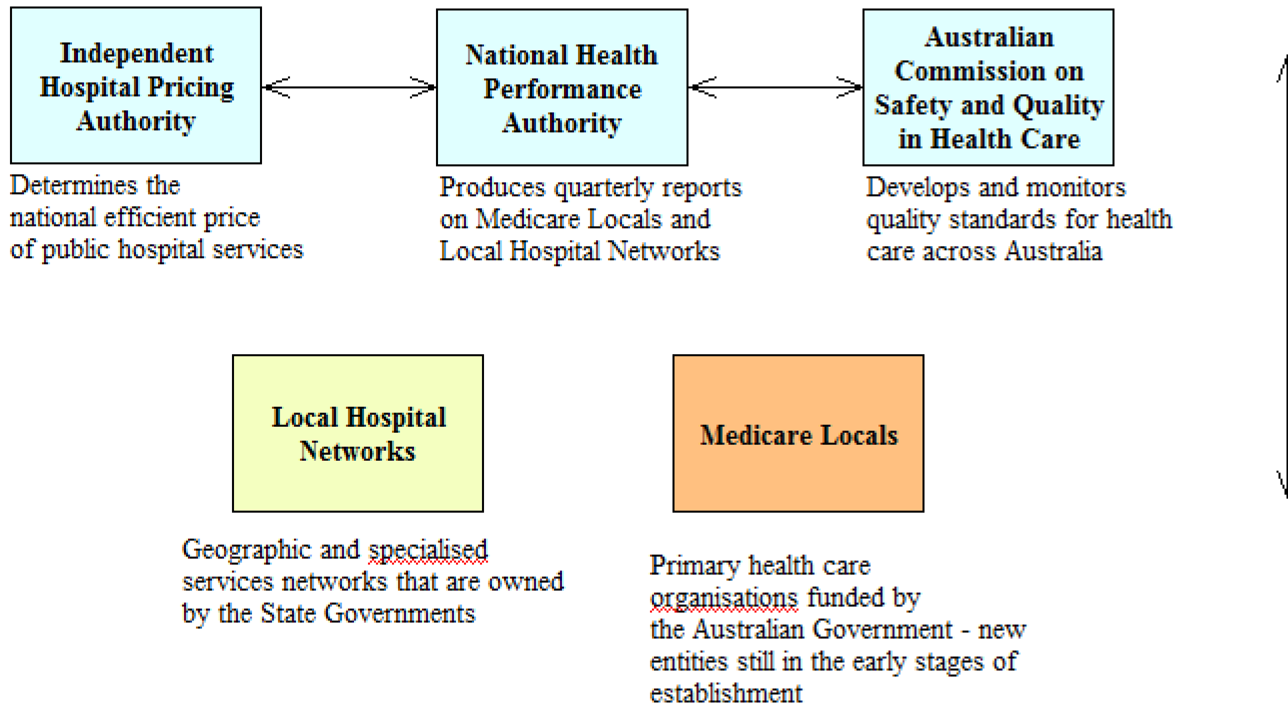
Increased transparency

- Payments to Local Hospital Networks through a National Health Funding Pool
- Clearer accountability/reduced blame-shifting
  - Australian Government funding follows State decisions about the services they choose to purchase

Independent monitoring

- National Health Performance Authority
- Australian Commission on Safety and Quality in Health Care
- Helps protect against over-emphasis on cost cutting and throughput

National health system governance framework



Other reforms

- Using financial leverage to improve efficiency and patient outcomes
- $3.4 billion for elective surgery, emergency department (ED) and subacute care services
- Funding linked to performance benchmarks
- National Elective Surgery Target
- National Emergency Access Target – 90% of patients seen within four hours

Unfinished business

- Primary Health Care
  - Would a single government funder lead to more integrated and coordinated services?
  - Working together on policy and planning of General Practice and primary health care services.
- Boundary between public hospitals and community health services
  - Will the new funding arrangements reverse the trend towards delivering more services in a community setting?

Reform timeline and process

- February 2008: National Health & Hospital Reform Commission announced
- July 2009: Commission's final report provided to Government
- April 2010: National Health & Hospitals Network Agreement signed by (nearly all) governments
- February 2011: National Health Reform Heads of Agreement
- August 2011: National Health Reform Agreement signed by all governments