

Heads of Agreement – National Health Reform

Preliminaries

1. This Agreement sets out the shared intention of the Commonwealth, State and Territory governments (the States) to work in partnership to improve health outcomes for all Australians and ensure the sustainability of the Australian health system. These reforms will deliver better health and hospitals by:
 - a. helping patients receive more seamless care across sectors of the health system;
 - b. improving the quality of care patients receive through higher performance standards, unprecedented levels of transparency and improved engagement of local clinicians; and
 - c. providing a secure funding base for health and hospitals into the future.
2. National Health Reform will deliver a nationally unified and locally controlled health system that will ensure future generations of Australians enjoy world class, universally accessible health care through:
 - a. introducing new financial arrangements for the Commonwealth and States to share equally the costs of growth in the public hospital system;
 - b. confirming the States' role as system managers for public hospital services including:
 - i. system-wide public hospital service planning and performance;
 - ii. purchasing of public hospital services;
 - iii. planning, funding and delivering capital; and
 - iv. planning, funding (with the Commonwealth) and delivering teaching, research and training.
 - c. confirming the States' lead role in public health;
 - d. acknowledging the Commonwealth's lead role in delivering primary health care reform to enable patients to receive the care they need when and where they need it – and in doing so, taking pressure off public hospitals; and
 - e. affirming the Medicare principles, high-level service delivery principles and objectives, outcomes, outputs and measures agreed by COAG in 2008.

Key Elements

Funding public hospital services in partnership

3. The parties agree to continue Commonwealth base funding for hospital services set at levels outlined by the Intergovernmental Agreement on Federal Financial Relations (IGA FFR) and the National Healthcare Agreement (base funding).
4. In addition to its contribution to base funding, the Commonwealth will increase its contribution to efficient growth funding for hospitals to 45% from 1 July 2014, increasing to 50% from 1 July 2017.
 - a. The Commonwealth guarantees that this contribution will be no less than \$16.4 billion between 2014-15 and 2019-20;
 - b. If this contribution is less than \$16.4 billion, the residual funds under the guarantee will be paid into the national funding body for distribution to States;
 - i. these residual funds will be spent by the States as funding for any health service that will assist in ameliorating the growth in demand for hospital services, including:
 1. chronic disease management programs;
 2. preventive health programs;
 3. mental health programs;
 4. hospital admission avoidance programs; and
 5. hospital early discharge programsas jointly agreed by the Commonwealth and States. Funding will be additional to and not replace existing spending on these programs;
 - c. The Commonwealth's contribution to efficient growth is independent of any other funding arrangements including National Partnership Agreements and those relating to private patients; and
 - d. The detail of the mechanism to give effect to this commitment will be developed by Treasurers for COAG agreement, including providing advice to COAG on how to ensure that States which improve their levels of efficiency against the national efficient price will be rewarded by retaining the savings associated with that improvement.
5. From 1 July 2017, the Commonwealth will contribute half of every dollar required by States to meet increases in the efficient price of providing public hospital services and growth in service provision.
6. The parties agree that the Commonwealth's contribution to public hospital services will comprise funding relating to:
 - a. public hospital services for public patients, with funding provided on the basis of activity;
 - b. block funding amounts for public hospital services better funded in that way, including relevant services in regional and rural communities;

- c. teaching, training and research functions funded by States undertaken in public hospitals; and
 - d. public health programs.
7. Efficient growth funding is comprised of:
- a. the increase in the efficient price of delivering services and the increase in service provision for public patient services funded on the basis of activity; and
 - b. the increase in the efficient price of delivering public hospital services funded by block grants, and teaching, training and research.
8. The parties agree that this means that efficient growth in hospital costs will be funded as an equal partnership between the Commonwealth and States.
9. The parties agree that this arrangement will ensure hospitals will be properly funded into the future to meet the rising costs of care.
10. The parties acknowledge that this arrangement will mean the Commonwealth's share of public hospital funding will increase over time and that the performance of Australia's public hospitals will improve over time.
11. The parties agree that this Agreement will be implemented so that no State government will be worse off in respect of Commonwealth transfers in the short term and all States will be better off in the long term, relative to existing arrangements in the Healthcare Specific Purpose Payment, the \$15.6 billion guarantee in the National Health and Hospitals Network Agreement, and the \$3.4 billion National Partnership Agreement on Improving Public Hospital Services, on an equivalent level of activity basis.
12. The parties agree that Treasurers will develop a process to ensure ongoing maintenance of effort and real growth in public hospital services, and its interaction with the operation of the funding guarantee (see clause 4).

A national funding pool – improving transparency of funding flows

13. The parties agree to contribute funding for hospitals into a single national pool which will be administered by an independent national funding body, distinct from Commonwealth and State Departments, to be operational from 1 July 2012.
- a. this funding will include base and growth funding on an activity basis; and
 - b. additional streams of funding will be added, once agreed by COAG, with the aim of optimising transparency and efficiency of all public hospital funding flows.
14. There will be complete transparency and line of sight of respective contributions into the pool and from the pool through State accounts to Local Hospital Networks (LHNs), and of the basis on which the contributions are calculated.
15. The parties agree that funding on the basis of activity from the national pool for public hospital services will flow to State accounts, and from there to LHNs, based on:

- a. the efficient price set by the Independent Hospital Pricing Authority (IHPA) (see clause 27 below);
 - b. the volume of services provided in accordance with service agreements agreed by State governments, as the managers of the hospital system, and negotiated with LHNs (see clause 44 below); and
 - c. State variations in payments to LHNs in that State to reflect differences in the efficiency of public hospital services within that State and other factors.
16. The national funding pool would also pay directly to State governments, into discrete State managed funds:
- a. block funding amounts (including base and efficient growth funding) for services better funded in that way, including relevant services in regional and rural communities; and
 - b. teaching, training and research funding undertaken in public hospitals.
17. The funds could only be used consistently with relevant intergovernmental agreements.
- a. Legislation would provide that State accounts would be quarantined from any other monies used for any other purpose. This will ensure that money from any particular State could only be spent on public hospital services for that State and that Commonwealth money in respect of any particular State can only be spent on public hospital services for that State.
 - b. State accounts would be audited, have complete transparency in reporting and accounting, and meet all other transparency requirements established by COAG and the national funding body.
 - c. Monthly reporting would be provided publicly by the national funding body on flows of money in and out of State accounts.
18. The parties agree that Commonwealth legislation will govern the Commonwealth payments in and out of the national funding pool and State legislation will govern the State payments in and out of the state accounts. Legislation in all jurisdictions will be required to give effect to funding arrangements under this Agreement.
- a. A joint group of officials will draft the legislation (both Commonwealth and State) and resolve final governance arrangements, business rules, accountability framework and administrative arrangements for the national funding body, reporting back to the next COAG meeting as part of finalising the proposed National Health Reform Agreement.
19. States will determine the amount they pay for public hospital services, and will meet the balance of the cost of delivering public hospital services, including any costs over and above the Commonwealth's contribution. Should a State not make the contribution to the single national pool required under this agreement, Commonwealth contributions will also not be paid in respect of that State.

A national funding body for National Health Reform

20. The function of the national funding body will be to provide for the transparent and efficient administration of funding in the Australian public hospital system. It will not be responsible for health system policy, planning and purchasing.
21. The parties agree that the independent, jointly governed national funding body will be a statutory body recognised by legislation in all jurisdictions.
22. The parties agree that the national funding body will transparently report on the number of services provided and paid for by the single national pool – and that this will mean that funding for public hospital services will be much more transparent and accountable.
23. The parties agree that payment arrangements from the national funding body will reinforce the States' role as system managers, and will involve each State directing the disbursements from State accounts to LHNs in that State.
24. The national funding body will be developed in such a way as to complement reporting arrangements under the National Health Reform Agreement and related agreements and to avoid duplication and overlap.

A fair and efficient price for hospital services

25. The parties agree to the establishment of a national approach to activity based funding (ABF) and that public hospital services will be funded, wherever possible, on the basis of a national efficient price for each public hospital service provided to public patients.
26. The parties agree that this national system of ABF, introduced from 1 July 2012, will make public hospital funding more transparent, and help to drive efficiency in the delivery of hospital services.
27. The national efficient price for public hospital services will be set by the IHPA, to be established as soon as possible.
28. The Terms of Reference of the IHPA will be agreed by COAG and the IHPA's implementation of the Terms of Reference must have regard to principles that will be agreed by COAG.
29. The efficient price set by the IHPA will take into account a small number of loadings to reflect legitimate and unavoidable variations in the costs of service delivery, including those driven by hospital location.
30. The parties also agree that some small rural hospitals will continue to be funded by block grants where ABF alone would not enable these hospitals to maintain community service obligations. Block grants would also be used to fund other COAG-agreed services that are difficult to manage on an ABF basis.
31. The Commonwealth share of the national efficient price in any given year will be set at the start of the year, based on the original National Healthcare Agreement contribution and any increases due to the higher growth contribution under this agreement, and would then be applied to all hospital services provided under LHN service agreements. States will have different cost structures and levels of efficiency which will necessarily be recognised in the State funding contribution. States will be responsible for making a

substantive contribution to the cost of providing a service before that service would attract the Commonwealth contribution.

32. The parties also agree that variations in the State funding contribution in respect of individual LHNs for services funded under this Agreement may be required to enable States to play their role of system managers. States will report their variations in funding contributions in line with the national system of ABF, for those services the Commonwealth is funding on an activity basis. States will also identify variations in contributions to block grants and teaching, training and research.
33. All funding through the single national pool would be provided in advance, with reconciliations based on agreed variations to LHN Service Agreements to take account of such matters as changing health needs, variations in actual service delivery, hospital performance and natural disasters.
34. It is not intended that, as a result of this Agreement, there will be any change to the financial arrangements in respect of private patients in public hospitals.

Better outcomes for hospital patients

35. The parties agree to the continued implementation of strong national standards for public hospital services and have signed the National Partnership Agreement on Improving Public Hospital Services (National Partnership).
36. The parties agree that the Australian Commission on Safety and Quality in Health Care (ACSQHC) will develop, monitor and implement national standards for improving clinical safety and quality in hospitals and health care settings to improve patient outcomes.
37. The parties agree that strong national standards, together with the other reforms in this agreement, will help to drive improvements in performance of hospitals and health services and deliver improved outcomes for Australian patients.
38. These national standards include the four-hour National Access Target to reduce emergency department waiting times, and the National Access Target and National Access Guarantee for elective surgery to help ensure elective surgery patients are treated within clinically recommended times.
39. COAG will seek the advice of an Expert Panel comprising a chair, an expert clinician and a former senior health administrator, on the effective implementation of these standards during the lifetime of the National Partnership.
 - a. The Expert Panel will be appointed by COAG and will issue its first report to COAG prior to 30 June 2011.
 - b. The parties agree that COAG will:
 - i. actively consider the recommendations of the Expert Panel and address its substantive findings;
 - ii. publicly release the report following COAG consideration;
 - iii. only reject the recommendations of the report:

1. if they are outside the terms of reference; or
 2. on the agreement of the Commonwealth and two or more States.
40. Ahead of the report of the Expert Panel, the Commonwealth agrees to bring forward \$80 million from 2011-12 to 2010-11 and \$120 million from 2012-13 to 2011-12 to change these from reward payments to facilitation payments.
- a. Following receipt of the advice of the Expert Panel, COAG will consider the appropriate balance between facilitation and reward funding in the National Partnership, within existing Commonwealth overall funding levels.

New national performance standards and improved transparency

41. The parties agree that more transparency on the performance of health services will help to drive improved performance, and will help patients to make informed choices about their health care.
42. The parties agree that the National Performance Authority (NPA), to be established under Commonwealth legislation from 1 July 2011, will develop and produce reports on the performance of hospitals and health care services, including primary health care services.
43. The parties agree that the MyHospitals website will continue to report information on the performance of individual hospitals as well as on the performance of LHNs, enabling patients to compare services available at, and performance of, different hospitals in their local area. The parties also agree to enhance and expand the information available on the MyHospitals website over time.

Local governance

44. The parties agree that LHNs, to be established by States, will be single or small groups of public hospitals with a geographic or functional connection that are large enough to operate efficiently and provide a range of hospital services, and small enough to enable the LHNs to be effectively managed to deliver high quality services.
45. The parties agree that the establishment of LHNs will give local communities and clinicians a greater say in the delivery of their local health services.
46. LHNs will be established as separate legal entities under State legislation and will operate with a Governing Council and Chief Executive Officer who will be responsible for delivering a range and volume of services agreed with the relevant State government, within an agreed budget.
47. The parties agree that Medicare Locals – primary health care organisations to be established by the Commonwealth – will be responsible for coordinating and better integrating primary health care services in their local communities and regions. The parties agree that both Medicare Locals and State funded health and community services will work cooperatively to achieve these objectives in each local community.
48. The parties agree that devolving the control of hospital management to LHNs, and the establishment of Medicare Locals, will lead to services which are more responsive to the needs of local communities.

49. The parties agree that Medicare Locals and LHNs will work together to integrate services and improve the health of local communities.

Clarifying responsibility for public hospitals

50. The parties agree that States will be responsible, as the system manager of public hospital services, for:
- a. day-to-day hospital system operation to deliver strong performance and patient outcomes; and
 - b. system-wide public hospital service planning and policy.
51. Public hospital service delivery will be governed by a 'LHN Service Agreement' agreed between the State and each LHN. The Commonwealth will not be a party to the LHN Service Agreement, and will have no role, directly or indirectly, in the negotiation or implementation of the LHN Service Agreement. Commonwealth funding will flow automatically from the national funding body to LHNs in accordance with these Service Agreements.
52. The parties agree that States are responsible for planning and delivering teaching, research and training in public hospitals. States agree to transparently and publicly identify (as far as practicable) all jurisdictions' investments in teaching, research and training.
53. The parties agree that States are responsible for planning, delivery and decision-making for public hospital capital projects. States are also responsible for funding capital.
54. From time to time, the Commonwealth may provide States with investment for public hospital capital projects to meet national policy priorities, including continuing to meet commitments already made to such projects, including under the Health and Hospitals Fund.

Reforming primary health care

55. A strong primary health care system is the key to providing patients with the health care they need when and where they need it – and in doing so, to taking pressure off hospitals. Better integrated primary health care will help manage emerging challenges for the health system, including an ageing population and the increasing burden of chronic disease.
56. Accordingly, the Commonwealth will pursue the following reforms in primary health care.
- a. Establishing Medicare Locals, primary health care organisations, to improve coordination and integration of primary health care in local communities, address service gaps, and make it easier for patients to navigate their local health care system. Medicare Locals will reflect their local communities and health care services in their governance, including consumers, doctors, nurses, allied health and State-funded community health providers;

- i. Medicare Locals will identify local health care needs and service gaps, and will have the responsibility and flexibility to address these needs through coordinating and funding services;
 - ii. Medicare Locals will be tasked with driving improvements in access to after-hours services in their local communities by coordinating local after-hour services, which will help take pressure off emergency departments;
 - iii. The National Performance Authority will transparently and publicly report on primary health care services and outcomes in the local communities and regions of each Medicare Local, including on local demography and health status; local services; and health outcomes such as rates of avoidable hospitalisations; and
 - iv. Medicare Locals will improve the coordination of the primary health care system and work with existing providers – including State-funded community health services - to enhance information and integration of services. This will better position all parties to consider further steps in reform in the future.
- b. Establishing 64 GP Super Clinics in local communities and providing primary care infrastructure grants for approximately 400 upgrades to existing practices. This will provide comprehensive services in a single location bringing together GPs and other health professionals such as nurses, visiting medical specialists and allied health professionals; and
 - c. Continuing to invest in training: up to 1200 more GPs a year, more allied health professionals, supporting up to 4600 practice nurses in general practices and making the most of the skills and dedication of our existing workforce.

57. The Commonwealth will:

- a. bring forward the establishment of more Medicare Locals to realise the benefits more quickly of integration across GP and other primary health care services;
- b. bring forward after hours GP care reform to enable Medicare Locals to plan and support face to face GP services outside normal hours. This in turn will reduce the strain on the public hospital system; and
- c. over time, empower Medicare Locals with more flexible funding to target services to their local community's specific needs.

58. The parties acknowledge that the Commonwealth will renew its efforts to improve primary health care services in the community in order to improve care for patients.

59. The Commonwealth acknowledges the significant role States will continue to play in the delivery of primary health care services.

60. The parties agree to work together on system-wide policy and State-wide planning for GP and primary health care services, because it impacts on the efficient delivery of

hospital services and other State funded services, and because of the need for effective integration across Commonwealth and State funded health care services.

Reforming aged care, mental health and dental health

61. The parties agree to pursue further reforms in mental health, dental health and aged care over the next three years. The parties acknowledge that provision of greater growth funding by the Commonwealth (as set out in clause 4 above) will particularly benefit those areas of public hospital services where gaps continue, such as mental health.
62. The parties agree that the Commonwealth will be the level of government with full funding, policy, management and delivery responsibility for a national aged care system.
63. The parties (excluding Victoria and Western Australia) agree to the changes, as set out in the NHHN Agreement, in roles and responsibilities for Home and Community Care aged care and disability services.
 - a. Victoria and Western Australia, in consultation with relevant local government stakeholders, agree to work with the Commonwealth to consider potential changes in responsibilities for these services, for resolution before the next COAG meeting, noting the different model currently in operation and the importance of maintaining existing service delivery strengths in Victoria and Western Australia.

Implementation

64. The parties agree to preserve all other elements of the 2010 NHHN Agreement and the National Partnership Agreement on Improving Public Hospital Services that are not amended by this document or are not otherwise amended by COAG.
65. The parties agree that this Heads of Agreement will form the basis of negotiations leading towards a new National Health Reform Agreement, and any consequential amendments to other agreements, which will be developed and signed by the parties by 1 July 2011.
 - a. These will be developed for COAG agreement following further work by Senior Officials further work will include
 - i. consideration of how best to ensure that the technical detail of payment processes by the national funding body meets the objectives of this Heads of Agreement;
 - ii. consideration of a range of important technical matters including:
 1. cash flow implications, including treatment of interest and any unspent funds, and
 2. treatment of innovative capital mechanisms such as public private partnerships.
66. To provide greater certainty and security to States, the Commonwealth commits to put in place the following:

- a. legislation requiring a process to be followed, should the Commonwealth seek to vary this Agreement. The process would involve the Commonwealth taking the following steps:
 - i. provide three months' notice of the proposed variation to all governments prior to consideration by COAG, unless all governments agree otherwise; and
 - ii. gain COAG's agreement to the variation.
- 67. COAG will commission a review of the national governance and financial arrangements established in this agreement in 2015 and thereafter every 5 years.
- 68. The parties agree that this Heads of Agreement will lapse after the National Health Reform Agreement is signed by all parties.

HEADS OF AGREEMENT – NATIONAL HEALTH REFORM

The Parties have confirmed their commitment to this agreement as follows:

<p><i>Signed for and on behalf of the Commonwealth of Australia by</i></p> <p>The Honourable Julia Gillard MP Prime Minister of the Commonwealth of Australia</p> <p style="text-align: center;">February 2011</p>	
<p><i>Signed for and on behalf of the State of New South Wales by</i></p> <p>The Honourable Kristina Keneally MP Premier of the State of New South Wales</p> <p style="text-align: center;">February 2011</p>	<p><i>Signed for and on behalf of the State of Victoria by</i></p> <p>The Honourable Ted Baillieu MP Premier of the State of Victoria</p> <p style="text-align: center;">February 2011</p>
<p><i>Signed for and on behalf of the State of Queensland by</i></p> <p>The Honourable Anna Bligh MP Premier of the State of Queensland</p> <p style="text-align: center;">February 2011</p>	<p><i>Signed for and on behalf of the State of Western Australia by</i></p> <p>The Honourable Colin Barnett MLA Premier of the State of Western Australia</p> <p style="text-align: center;">February 2011</p>
<p><i>Signed for and on behalf of the State of South Australia by</i></p> <p>The Honourable Mike Rann MP Premier of the State of South Australia</p> <p style="text-align: center;">February 2011</p>	<p><i>Signed for and on behalf of the State of Tasmania by</i></p> <p>The Honourable Lara Giddings MP Premier of the State of Tasmania</p> <p style="text-align: center;">February 2011</p>
<p><i>Signed for and on behalf of the Australian Capital Territory by</i></p> <p>Mr Jon Stanhope MLA Chief Minister of the Australian Capital Territory</p> <p style="text-align: center;">February 2011</p>	<p><i>Signed for and on behalf of the Northern Territory by</i></p> <p>The Honourable Paul Henderson MLA Chief Minister of the Northern Territory of Australia</p> <p style="text-align: center;">February 2011</p>

APPENDIX: List of acronyms

ABF – Activity Based Funding

COAG – Council of Australian Governments

CRC – COAG Reform Council

GP – General Practitioner or General Practice

HACC - Home and Community Care

Healthcare SPP – Healthcare Specific Purpose Payment

HHF – Health and Hospitals Fund

IGA FFR – Intergovernmental Agreement on Federal Financial Relations

IHPA – Independent Hospital Pricing Authority

LHN – Local Hospital Network

National Partnership – National Partnership Agreement on Improving Public Hospital Services

NPA – National Performance Authority

NHA – National Healthcare Agreement