

# Heads of Agreement between the Commonwealth and the States and Territories on public hospital funding and health reform

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*This Agreement is made between the COMMONWEALTH OF AUSTRALIA (Commonwealth) and NEW SOUTH WALES, VICTORIA, QUEENSLAND, WESTERN AUSTRALIA, SOUTH AUSTRALIA, TASMANIA, the AUSTRALIAN CAPITAL TERRITORY and the NORTHERN TERRITORY (the States)*

## **Preliminaries**

1. The Commonwealth and the States (the Parties) agree this Heads of Agreement (the Agreement) will form the basis of negotiations for a new five-year national health agreement (NHA) to commence on 1 July 2020 and conclude on 30 June 2025.
2. The Parties agree four strategic priorities for reform in our health system:
  - a. Improving efficiency and ensuring financial sustainability;
  - b. Delivering safe, high quality care in the right place at the right time;
  - c. Prioritising prevention and helping people manage their health across their lifetime; and
  - d. Driving best practice and performance using data and research.
3. The NHA will be subject to the Intergovernmental Agreement on Federal Financial Relations and should be read in conjunction with that agreement and any subsidiary schedules.
4. This Agreement recognises that responsibility for health is shared between the Commonwealth and the States.
  - a. The States will remain system managers for public hospitals and will remain responsible for their infrastructure, operation, delivery of services and performance;
  - b. The Commonwealth will continue to have lead responsibility for general practice (GP) and primary health care, including the Primary Health Networks, and continue to support private health services through the Medicare Benefits Schedule (MBS), the Pharmaceutical Benefits Scheme (PBS), the Private Health Insurance Rebate; and
  - c. All governments have a shared responsibility to integrate systems and services to improve health outcomes for Australians, acknowledging the interoperability of the health system, as well as areas such as aged care and disability services.

5. The Parties note the Medicare Principles:
  - a. 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;
  - b. 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
  - c. arrangements are to be in place to ensure equitable access to such services for all eligible persons, regardless of their geographic location.
  
6. The Parties agree to maintain the independence and functions of the Independent Hospital Pricing Authority, the Administrator of the National Health Funding Pool, the National Health Funding Body and the Australian Commission on Safety and Quality in Health Care. Parties also agree to continue the functions of Local Hospital Networks and Primary Health Networks.

### **The national health agreement**

7. Based on this Agreement, the NHA will include:
  - a. public hospital funding arrangements to apply from 1 July 2020 until 30 June 2025;
  - b. ongoing reforms commenced under the Addendum to the National Health Reform Agreement (NHRA) to improve Australians' health outcomes and decrease avoidable demand for public hospital services through:
    - i. better coordinated care, particularly for patients with complex and chronic disease;
    - ii. funding and pricing for safety and quality, to avoid funding unnecessary or unsafe care;
    - iii. reducing avoidable readmissions to hospital; and
    - iv. the Commonwealth continuing to focus on reforms in primary care that are designed to improve patient outcomes and reduce avoidable hospital admissions.
  - c. new long-term system wide reforms agreed for further development by the COAG Health Council (CHC):
    - i. Paying for value and outcomes;
    - ii. Joint planning and funding at a local level;
    - iii. Nationally cohesive health technology assessment;
    - iv. Empowering people through health literacy;
    - v. Prevention and wellbeing; and
    - vi. Enhanced health data (including health system data and developing a Commonwealth-State primary and community care dataset to inform the development of quality indicators).
  - d. enacting other reforms:
    - i. My Health Record implementation; and
    - ii. The Australian Health Performance Framework (as agreed by CHC in 2017).

8. Commonwealth and State Health Ministers will lead the development of the NHA for COAG agreement before the end of 2018. This Agreement will lapse following COAG agreement to the NHA.

#### **Private patients in public hospitals**

9. The Parties agree to ensure the information and process for patients electing to use private health insurance in public hospital emergency departments is appropriate, robust and best supports consumer choice.
10. In developing the NHA, the Parties will work together to:
  - a. examine the underlying drivers of growth of private patients in public hospitals;
  - b. develop reform initiatives to improve admission policy and practices to support patient choice, and to deliver comprehensive data provision and more consistent financial reporting on private patients; and
  - c. examine the impact of historic changes to the original Medicare principles and ensure the final agreement supports access to public hospital services by all patients on the basis of clinical need.

#### **Public hospital funding arrangements for 2020-21 to 2024-25**

11. The Parties agree, consistent with Clause A(1) of the NHRA and its subsequent Addendum, that the Commonwealth's contribution to hospital services from 1 July 2020 until 30 June 2025 will comprise funding relating to:
  - a. hospital services provided to public patients in a range of settings, and eligible private patients in public hospitals and a range of settings ,with funding provided on the basis of activity based funding (ABF);
  - b. block funding for public hospital services better funded through block grants, including relevant services in regional and rural communities and teaching, training and research functions; and
  - c. public health activities.
12. The Parties agree that ABF will be the preferred basis for funding public hospital services where ever practicable.
13. From 1 July 2020 to 30 June 2025, the Commonwealth will fund 45 per cent of the efficient growth of activity based services, subject to a cap in the growth of overall Commonwealth funding outlined in Clause 16 below. Schedule A outlines ABF arrangements.
14. Where services or functions are more appropriately funded through block grants, the Commonwealth will provide 45 per cent of the growth in the efficient cost of providing these services.
15. Commonwealth payments for public health activities for the period 2020-21 to 2024-25 will be calculated consistent with the process outlined in the NHRA.

16. Under the NHA, growth in Commonwealth funding for public hospitals will not exceed 6.5 per cent per year. The funding cap will continue to be applied through the 'national funding cap' and 'soft cap' methodology, agreed as part of the Addendum to the NHRA.
17. Where a jurisdiction may receive less funding under these arrangements than block funding, indexed at Consumer Price Index and population growth, the Commonwealth will work with any effected jurisdiction to ensure they are no worse off under these arrangements.
18. Parties agree to continue the use of Data Conditional Payments, as contained in the Addendum to the NHRA.
19. States will determine the amount they pay for public hospital services and functions and the mix of those services and functions, and will meet the balance of the cost of delivering public hospital services and functions over and above the Commonwealth contribution.
20. The States agree to maintain, at a minimum, their current levels of funding for public hospitals, while having regard to new, appropriate models of care that may change the setting in which care is delivered.
21. In developing the NHA, all Parties agree to discuss development of a single Commonwealth contribution rate across ABF service categories, consistent with Deputy Senior Officials' discussions of 24 February 2017.
22. The Commonwealth commits to finalising the reconciliation of 2015-16 National Health Reform funding prior to the 2018-19 Commonwealth budget, contingent on the timely receipt of updated advice from the Administrator of the National Health Funding Pool.
23. The Commonwealth commits to reconciling future determinations in a timely fashion contingent on the timely receipt of advice from the Administrator of the National Health Funding Pool.
24. The Parties agree to work together to examine processes for reviewing determinations and dispute resolution to ensure timely, accurate and transparent reconciliations in the future, building on the existing reconciliation and dispute resolution processes implemented in the Addendum to the NHRA.

#### **Long-term reforms to improve health outcomes and drive health system improvements**

25. The Parties agree to develop, by 1 November 2019, detailed implementation plans, including timelines, for the long-term system wide reforms outlined at Clause 7(c) above. These reforms will be incorporated into the NHA.
26. The immediate focus of discussions will be progressing:
  - a. exploring a nationally cohesive health technology assessment process;

- b. enhanced health data, including:
    - i. The Commonwealth will provide a timing commitment on the provision of patient-level MBS and PBS data for the use of system managers.
    - ii. States will provide a timing commitment on the provision of patient-level data for all services funded under the Agreement.
27. Implementation of these reforms will need to take into account each State's particular circumstances.
28. The Commonwealth will provide \$100 million for a Health Innovation Fund, with project criteria to be agreed by COAG by 1 July 2018, to fund trials that support health prevention and the better use of health data (consistent with the reforms outlined at Clauses 7(c)(v) and (vi)).
- a. 50 per cent of this fund will be made available for the use of States that sign up to this Agreement on 9 February 2018, to be divided amongst signatory States.
    - i. In the case of Tasmania, recognising their caretaker period, they will have access to this portion of the fund should they sign up to this Agreement within two weeks of the swearing in of the next Tasmanian government.
  - b. All States (inclusive of those at Clause 28(a) above) will have access to the remaining 50 per cent of this fund from 1 July 2020 once all States have signed this Agreement.
  - c. Allocations will be made on an equal per capita basis.
29. Developing the NHA provides an opportunity to incorporate Commonwealth-state health funding arrangements into a single health agreement and to streamline terms and conditions to demonstrate citizen benefit, remove any duplication and balance accountability and autonomy.
- a. This work will be progressed through a working group with Deputy Senior Officials from First Ministers', Treasuries and Health departments, reporting to COAG Senior Officials.
30. In the event that arrangements outlined in this Agreement are subsequently changed or updated, any jurisdiction that signs this Agreement on 9 February 2018 will be subject to the new or changed terms, subject to agreement by those affected First Ministers.
- a. This clause also applies to Tasmania, should they sign up to this Agreement within two weeks of the swearing in of the next Tasmanian government.

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

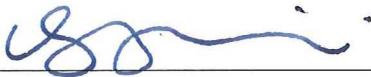
*Signed for and on behalf of the Commonwealth of Australia by*



**The Honourable Malcolm Turnbull MP**  
Prime Minister of the Commonwealth of Australia

February 2018


*Signed for and on behalf of the State of New South Wales by*



**The Honourable Gladys Berejiklian MP**  
Premier of the State of New South Wales

February 2018

*Signed for and on behalf of the State of Victoria by*



**The Honourable Daniel Andrews MLA**  
Premier of the State of Victoria

February 2018

*Signed for and on behalf of the State of Queensland by*



**The Honourable Anastacia Palaszczuk MP**  
Premier of the State of Queensland

February 2018

*Signed for and on behalf of the State of Western Australia by*



**The Honourable Mark McGowan MLA**  
Premier of the State of Western Australia

February 2018

*Signed for and on behalf of the State of South Australia by*



**The Honourable Jay Weatherill MP**  
Premier of the State of South Australia

February 2018

*Signed for and on behalf of the State of Tasmania by*



**The Honourable Will Hodgman MP**  
Premier of the State of Tasmania

February 2018

*Signed for and on behalf of the Australian Capital Territory by*



**Andrew Barr MLA**  
Chief Minister of the Australian Capital Territory

February 2018

*Signed for and on behalf of the Northern Territory by*



**The Honourable Michael Gunner MLA**  
Chief Minister of the Northern Territory of Australia

February 2018

## SCHEDULE A – Improving efficiency and ensuring financial sustainability

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### Activity Based Funding (ABF) Arrangements for 2020-21 to 2024-25

1. For the period 2020-21 to 2024-25, the Commonwealth's funding for each ABF service category will be calculated individually for each State by summing:
  - a. *previous year amount*—the Commonwealth's percentage funding rate for the relevant State in the previous year, multiplied by the volume of weighted services provided in the previous year, multiplied by the National Efficient Price (NEP) in the previous year;
  - b. *price adjustment*—the volume of weighted services provided in the previous year, multiplied by the change in the NEP relative to the previous year, multiplied by 45 per cent (or a lower rate if the funding cap is reached);
  - c. *volume adjustment*—the net change in volume of weighted services to be provided in the relevant State (relative to the volume of weighted services provided in the previous year), multiplied by the NEP, multiplied by 45 per cent (or a lower rate if the funding cap is reached).
2. The Commonwealth's contribution to activity based funding (including efficient growth) will be calculated at the start of each financial year, and will be updated or revised based on advice from the Administrator, including a final reconciliation of public hospital services, consistent with arrangements established under the National Health Reform Agreement (NHRA).
3. The Administrator of the National Health Funding Pool will calculate and advise the Commonwealth Treasurer of the monthly Commonwealth payments into the National Health Funding Pool.
4. The States, in consultation with the National Health Funding Body (NHFB), will determine when state payments are made into the Pool and State managed funds.
5. Payments will be made out of the Pool accounts to Local Hospital Networks and state managed funds as set out in the NHRA.
6. The Parties agree that the NEP and National Efficient Cost will continue to be set by the Independent Hospital Pricing Authority (IHPA) as set out in the NHRA (as amended in 2017) and that the IHPA's:
  - a. ongoing costs will continue to be met by the Commonwealth; and
  - b. functions will continue as set out in the Addendum to the NHRA and existing legislation, including maintaining the independence of the IHPA.
7. The Parties also agree that the single national health funding pool will continue as set out in the Addendum to the NHRA and existing legislation, including that:
  - a. the Administrator of the National Health Funding Pool (the Administrator) and the NHFB will continue to provide for the transparent and efficient administration of public hospital funding;

- b. the roles of the Administrator and the NHFB will continue as set out in the Addendum to the NHRA;
- c. the Administrator will use IHPA's determination of the National Efficient Cost to calculate the Commonwealth's funding contribution for block funding; and
- d. the States will continue to provide data on public hospital services to the Administrator as set out in the Addendum to the NHRA.