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Introduction

> *…when we are talking about what is world class…when we are overseas and get sick, where do we want to be? Almost without exception people want to come to Australia…(home). So whilst I think we are actually very harsh on our own health service…in fact, it stacks up against just about any health service in the world.*[1]

> *…Australia does not need to spend more money on health. We should be spending it much more effectively and efficiently than we do. I often say that treasurers and treasury departments should be the allies in forcing reform. Reform is needed. We do need to get better value for money.*[2]

1.1 The Australian health system delivers many health outcomes of which we should be proud. Highly skilled and motivated health professionals working in both community and hospital settings are generally able to provide the health care that we need, when we need it.

1.2 Population ageing, including the ageing medical workforce, advances in medical technology and an increasing demand for medical services are all contributing to the rising cost of health care to the Australian economy.

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1 Green D, Australian Healthcare Alliance, transcript, 26 May 2006, p 50.

2 Menadue J, transcript, 21 July 2006, p 26.

1.3 Health workforce shortages significantly affect access to health services for some members of the community, such as rural, regional and indigenous people. Despite recent increases in training opportunities at universities, it will be around 10 years before additional numbers of doctors, nurses and other allied health professionals will contribute fully to the operation of the health system.

1.4 Changes to health funding arrangements are required to provide incentives for healthcare service providers to deliver more appropriate care and take advantage of the different methods of treatment resulting from rapid changes in technology. Changes are also required to develop a health workforce that can sustain teaching and learning over the long term, in the private and public sectors.

1.5 While many participants[3] to the committee's inquiry suggested the need to increase expenditures in some areas, such as specific population groups and in regional and remote areas, there was not universal support for the need to increase funding overall in the short term.

1.6 The concern was for equity and access to health services, regardless of where they live.

1.7 Debate over health funding arrangements is inevitably tied to issues relating to Australia's federal system. Different funding models for public and private health that change the roles and responsibilities of different levels of government have been discussed by governments at various times.

1.8 The committee considers that significant momentum is gathering within the community to address the fragmented Commonwealth-state responsibilities for health financing and service delivery. Several different funding models, including the Commonwealth assuming full responsibility as a purchaser of health care services, warrant serious consideration by governments to determine if these funding models can deliver better health care than current arrangements. Consumers do not care which level of government pays – only what services are provided.

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3 See for example, Australia Dental Association, sub 28, p 1; Rural Doctors Association of Australia, sub 31, p 2; Sprogis A, Hunter Urban Division of General Practice, transcript, 20 July 2006, p 53; Australian Division of General Practice, sub 15, p 3; Enteral Industry Group, sub 119, p 2.

Setting the context

1.9 There are many areas of Australia's health system that deliver world-class outcomes for patients. Advocates of the need for change point to a range of adverse outcomes for some population groups, such as Indigenous Australians and people suffering from mental illnesses, as well as biases towards treating 'illness' rather than promoting 'wellness'.

1.10 Many submissions to the inquiry highlighted some of the poor outcomes for mental health patients from the Australian health system. The committee largely deferred the mental health aspects of health funding to the Senate Select Committee on Mental Health, which conducted an inquiry during 2005 and 2006.[4]

1.11 The committee welcomes the commitment of $1.8 billion of new Commonwealth funding to improve mental health services in the community.[5] The committee encourages the states to meet their funding and service delivery commitments under the *National Action Plan on Mental Health 2006 – 2011*, developed as part of the Council of Australian Governments' process. Some states have already made a commitment.

1.12 During the course of the inquiry there has been significant discussion within government about reforming health funding and service delivery arrangements. The former secretary of the Department of Health and Aged Care, Mr Andrew Podger, headed a taskforce commissioned by the Prime Minister to examine how to improve the delivery of health services.[6] The taskforce report was not publicly released. Further consideration has also been given to health funding by the Council of Australian Governments, which involved discussions between senior bureaucrats primarily behind closed doors.

1.13 The committee considers that undertaking this inquiry in parallel with these discussions between governments has provided for a transparent engagement with organisations and individuals outside government about their ideas on health funding.

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4 Senate Select Committee on Mental Health 2006, *A national approach to mental health – from crisis to community*, First report, March.

5 Hon Tony Abbott MP, Minster for Health, media release, *Commonwealth commitment to mental health services*, 5 April 2006.

6 Hon John Howard MP, Prime Minister of Australia, media release, *Appointment of secretaries*, 22 October 2004.

1.14 Partly as a response to discussions between governments and evidence to the committee, the Commonwealth has announced significant health policy changes and additional funding to address some issues (box 1.1).

Box 1.1 Significant health care related reforms and initiatives, 2005–2006

Mental health services – Following the February 2006 Council of Australian Governments (COAG) meeting, the Commonwealth announced that $1.8 billion in new funds for mental health services, with a commitment of around $500 million in the fifth year and ongoing, for the five-year action plan that is being developed.[7] As part of the package, the Commonwealth announced several new items would be added to the medicare benefits schedule from November 2006 to support better access to psychiatrists, psychologists and GPs.[8]

Improvements to private health insurance products to broaden coverage to out of hospital services – From April 2007, health funds will be able to offer products that cover a broader range of health care services that do not require admission to hospital but which are part of an episode of hospital care or substitute for or prevent hospitalisation.[9]

COAG response to health workforce issues — In response to a research report by the Productivity Commission into Australia's health workforce, the Commonwealth has announced an additional 600 medical places.[10] Additional places for nursing have also been announced.[11] Broader health workforce reforms include the establishment of national registration and accreditation bodies for health professions, the development of an agreement with the states for the allocation of places for university based education and training of health professionals within each jurisdiction and the prospect of limited practitioner delegation arrangements to increase task flexibility.[12]

Enhanced primary care services — several 2005-06 and 2006-07 budget initiatives have strengthened the capacity of primary health care, including general practitioners providing coordinated care for chronically ill patients, incentives for earlier intervention in selected at-risk groups and wider bulk billing and after-hours GP access.[13]

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7 Hon John Howard MP, Prime Minister of Australia, media release, *Better mental health services for Australia*, 5 April 2006.

8 Hon Christopher Pyne MP, Parliamentary Secretary to the Minister for Health and Ageing, media release, *Better access to mental health services*, 9 October 2006.

9 Department of Health and Ageing, sub 143, p 5.

10 Hon John Howard MP, Prime Minister of Australia, media release, *More doctors and nurses for the health system*, 8 April 2006; media release, *More doctors, nurses and allied health professionals for Australia's health system*, 13 July 2006.

11 Hon Tony Abbott MP, Minister for Health and Ageing, media release, *Developing the health workforce to meet community needs*, 9 May 2006.

12 Council of Australian Governments, *Communique*, 14 July 2006.

13 See for example, Hon Tony Abbott MP, Minister for Health and Ageing, media release, *GPs benefit from Budget*, 11 May 2005; media release, *New Medicare item for Indigenous health, refugees and palliative care*, 1 May 2006; media release, *Government expands Medicare*

1.15 The committee generally welcomes these changes, which should lead to measurable improvements in access to health care services and health outcomes for many members of the community. Where relevant, the committee has taken account of these significant changes in making its recommendations for future health financing arrangements.

1.16 Overwhelmingly, inquiry participants noted the significant impact on access to health services resulting from shortages in skilled health care workers. Part of the shortage of health professionals is likely to be due to an under-investment in training places over the past 15–20 years. Health funding arrangements can also contribute to a mal-distribution of health professionals, less opportunity for quality training in public hospitals and a reduced capacity for older experienced health professionals to train the next generation of health workers — primarily because of the increased work demands and insufficient professionals.

1.17 There is a need for the Commonwealth to engage with the states[14] about longer term reform of health funding arrangements. The committee proposes a national health agenda to guide future reform and improve the long term sustainability of the health system.

1.18 Some see the renegotiation of the next five-year Australian Health Care Agreements (AHCAs) as the best opportunity to develop and implement meaningful health reform. However, in conjunction with the AHCAs, the committee considers that a separate process via a national health agenda is more likely to produce positive results.

Conduct of the inquiry

1.19 On 16 March 2005, the committee resolved to conduct an inquiry into health funding. The inquiry was launched on the same day, with the chair of the committee issuing a media release calling for public submissions.[15] Advertisements calling for submissions were placed in *The Australian* in March 2006 and letters were sent to individuals and

for chronically ill, 9 June 2005; media release, *After-hours GPs: Improving access for families and local communities*, 23 May 2006; media release, *Government expands Medicare for the chronically ill*, 9 June 2005.

14 In this report, references to 'states' or 'each state' includes the territories.

15 Hon Alex Somlyay MP, media release, *Somlyay launches new inquiry into health funding*, 16 March 2005.

peak bodies, including state and territory governments inviting them to make a submission to the inquiry.

1.20 A total of 159 submissions were received (see appendix A) and 59 exhibits were accepted as evidence to the inquiry (see appendix B). Submissions were received from all states and territories from groups and individuals residing in metropolitan and regional areas.

1.21 Five state governments made submissions — ACT, Victoria, Northern Territory, Western Australia and South Australia. The committee welcomed the contributions from these governments and was disappointed that the remaining governments have not contributed to the inquiry. The NSW and Queensland governments indicated to the committee that they were providing input to health reform through the Council of Australian Governments (COAG) process and declined to provide submissions to the inquiry or appear at public hearings.

1.22 During the course of the inquiry, there was considerable media coverage about problems in the Queensland public hospital system. The Queensland government eventually established a Commission of Inquiry in 2005 into allegations about the care of patients at Bundaberg Hospital.

1.23 To further involve the community in the inquiry, the committee held 18 public hearings in almost all states and territories between 30 May 2005 and 4 September 2006 (see appendix C). Some 9 site inspections were held by the committee, including the viewing of pathology laboratories, an IVF clinic, a midwife-led birthing centre and the national 'Critical Care and Trauma Response Centre' at Royal Darwin Hospital.

1.24 Copies of the transcripts of the public hearings are available from the committee's website.[16]

1.25 The committee also received 28 private briefings from various Commonwealth agencies, individuals and academics working in relevant fields. During the course of the inquiry, committee members also attended a number of public health conferences and briefings.

16 House of Representatives Standing Committee on Health and Ageing, www.aph.gov.au/house/committee/haa/index.htm; PO Box 6021, Parliament House, Canberra, ACT, 2600.

Scope and structure of the report

1.26 The terms of reference for the inquiry are broad. The committee has generally focussed on high-level structural health funding issues rather than addressing the issues at a program by program level.

1.27 While the report structure is loosely aligned around the terms of reference, the committee has developed a number of key themes from the evidence that run across different parts of this report:

- the health system is complex. Any change to funding arrangements needs to take a holistic approach because of the mutually dependent and complementary nature of different parts of the health (and education) system in delivering health services;
- funding for health needs to be re-oriented to support a system that focuses on 'wellness' rather than illness — this applies to both public and private funding sources;
- the private sector is an important part of the health system and its interactions with the public sector can be crucial to providing quality care. It needs to be better integrated to take advantage of the things that it does well, and for the skills and experience of its employees to be better used;
- traditional health funding arrangements do not support the health (and education) system delivering a health workforce that will be sustainable into the future. More explicit attention as to how governments fund the training and education of the health workforce, the delivery of training in universities, and in the public and private hospital system is warranted.
- the community's knowledge and understanding about the Australian health system needs to be improved to clarify expectations about rising private health insurance premiums, out-of-pocket costs and waiting times for treatment.

1.28 A brief introduction to the complexity of health funding and service delivery arrangements is presented in chapter 2, together with evidence of how Australia's health care system compares favourably with overseas equivalent. Some of the shortcomings of funding and service delivery arrangements are also discussed.

1.29 In chapter 3, the committee outlines the need to develop a national health agenda to guide future reform and clarify objectives for

Australia's health system. Options for radical and incremental reform are discussed.

1.30 The importance of the health workforce to deliver high quality health care is the focus of chapter 4. The effects of health funding arrangements on the equitable provision of services and the need for urgent attention to be given by the Commonwealth and the states to providing clinical experience for the rising number of health workforce trainees are examined.

1.31 Chapter 5 discusses options for restructuring health funding arrangements to take account of the disadvantages experienced in rural and remote areas.

1.32 In chapter 6, the committee acknowledges the often under recognised contribution local governments make to the provision of health care services.

1.33 For many people, public hospitals are the cornerstone of the health system. Funding and service delivery arrangements are the focus of chapter 7, which examines a range of options that the Commonwealth should consider in future agreements with the states for joint funding of public hospital services.

1.34 In chapter 8, the committee examines the important contribution that the private sector makes to the health system. The importance of recent reforms to private health insurance arrangements are discussed and further options for reform are also canvassed.

1.35 Accountability for the provision of health services is weakened by shared funding arrangements for many parts of Australia's health system. Chapter 9 examines how the community's understanding about the complexity and costs of the health system can be improved and the need to better inform the community about the quality of services provided by medical professionals.