

SUMMARY OF HEALTH REFORM ISSUES- VICTORIAN GOVERNMENT CONCERNS (as at 29th March 2010)

1. Governance

- Jurisdictional flexibility will be essential in delivering Local Hospital Networks (LHNs). A rigid model applied in cities and regional communities alike will not deliver the best outcomes. Resolution of how regional difference will be accommodated by the LHN model needs to be achieved as a matter of priority.

2. Overall funding model

- Commonwealth direct payments to LHNs may create gaming in the system and compromise the role of the State as the system manager. A more appropriate mechanism to flow funds from the Commonwealth to the State, then to LHNs, needs to be developed.
- There are many critical questions yet to be answered regarding the proposed funding model, including the method that will be used to calculate and implement an efficient price, financial flows and accountability, and the dynamics of risk and control.

3. Activity based funding

- **System management – industrial relations (IR) issues**
 - There is a risk that a nationally efficient price will lag behind Enterprise Bargaining Agreements, leaving the State exposed. The role of the Commonwealth in IR under the proposed model is unclear and requires further exploration.
- **General**
 - A key accountability issue will be ensuring States have clear control of the volume and mix of services through service contracts. If this clear system manager accountability is lost then the system will suffer. We need to resolve this issue as part of the broader funding and governance fix and have a clear understanding that State decisions about service contracts will not be disturbed by the Commonwealth.
- **Country hospitals**
 - Victorian experience has shown that ABF in small country hospitals does not work.
 - Block funding in these cases is most appropriate to ensure the State delivers on its community service obligation.
- **Emergency departments**
 - Victoria has committed to examining the strength of ABF in the context of emergency departments, but wishes to highlight the complexities of this task and the risk of creating perverse incentives. We need an open dialogue to ensure that we achieve a common sense outcome on this and other related matters of payment mechanisms.

4. Performance-based reward funding for LHNs

- International experience has shown that performance-based reward funding for hospitals is not the optimal way to inject positive incentives into hospital systems.
- There is a need to consider alternative models for inclusion in a national reform plan that can better stimulate innovation and performance improvements.

5. GST clawback

- Victoria supports the Commonwealth Government's goal to play a larger role in hospital funding but does not see a GST clawback as a necessary step to deliver on this.
- A cornerstone of this agreement is the injection of new money to get us back to a 50:50 share of hospital financing, rather than a rearrangement of existing funds or one-off pots of money.

6. Capital

- It remains unclear how hospital capital would be treated under the Commonwealth's proposed model and further exploration of this issue is needed.

7. Aged care, prevention and primary care reform

- To ensure hospital reform is successful, there is a need for immediate action in areas that directly affect the health of our nation and demand for hospital services.
- This includes action to tackle the 32 per cent of Australia's total burden of disease which could potentially be prevented, to address the significant shortage of quality aged care and to deliver integrated and accessible primary health care.