

Fund health, not illness

Submission to the mid-term review of the National Health Reform Agreement



Executive summary

The VHA welcomes the opportunity to make a formal submission to the mid-term review of the National Health Reform Agreement (NHRA). The submission calls for critical reforms in the NHRA to move from a funding model that incentivises the treating of illness to a model that supports Australians to stay healthy and out of hospital.

The VHA is calling for the NHRA mid-term review to adopt three key recommendations that will enable Australia's world-class public healthcare system to meet contemporary healthcare needs of all Australians.

Transition to a 50:50 funding agreement



The existing funding arrangement between the state and commonwealth governments is imbalanced, burdening the states and hindering the delivery of quality healthcare services. It is essential to move towards a fairer funding model, establishing a 50:50 funding agreement between the state and commonwealth governments. This shift will ensure equitable contributions, empowering states to effectively manage their public health systems and meet the growing demands of their populations. Furthermore, this transition requires the removal of the arbitrary 6.5 per cent funding increase cap, which currently restricts the necessary financial resources for the improvement and sustainability of our public health system.

Increase funding for out-of-hospital care



The NHRA must recognise the importance of comprehensive healthcare delivery beyond hospital settings and allocate more funding for out-of-hospital care within the NHRA. Out-of-hospital care plays a crucial role in preventing hospitalisations, promoting community-based care, and enhancing overall healthcare outcomes. By incorporating increased funding for out-of-hospital care, the NHRA can provide a comprehensive framework that addresses the continuum of care, ensuring better health outcomes for Australians and reducing the burden on hospital services.

Use the NHRA to streamline health, aged and disability care for all Australians



A unified funding agreement would facilitate greater efficiencies through better coordination of health, aged care, and disability services, whilst ensuring a person-centred model of care that follows Australians throughout their healthcare journey.

These recommendations aim to address funding imbalances and enhance the continuum of care, ultimately improving the efficiency and effectiveness of our public health system – for the better health and wellbeing of Australians.

About the VHA

The VHA is the peak body supporting Victoria's public and community health services to deliver high-quality care. We represent Victoria's diverse public healthcare sector, including public hospitals, aged care, ambulance and community health services.

Background

The NHRA is a pivotal agreement that governs the funding and delivery of public healthcare services in Australia. However, certain aspects of the agreement require immediate attention and reform to ensure the funding model meets the contemporary healthcare needs of Australians.

This submission highlights three significant areas that demand urgent action: the funding agreement between the state and commonwealth governments, the inclusion of more funding for out-of-hospital care within the NHRA, and the need for better coordination between healthcare, aged care and disability care.

Adapting the NHRA to the changing health landscape

Population health trends play a significant role in shaping the healthcare landscape. Demographic shifts, such as an aging population, increasing prevalence of chronic diseases, and a growing population, are reshaping the healthcare landscape. Over the past decade there has been close to a doubling of healthy years of life lost demonstrating the growth in burden of chronic disease from 2.25 million in 2010 to 5.5 million in 2025.¹ The NHRA must adapt to these changes by prioritising funding that is reflective of contemporary healthcare needs.

Recommendation 1: Transition to 50:50 funding agreement

Move towards a balanced funding model between state and commonwealth governments, removing the arbitrary 6.5 per cent funding increase cap that hampers the public health system.

The current funding arrangement between the state and commonwealth governments disproportionately burdens the states, hindering their ability to deliver efficient healthcare services. (See diagram 1)

In Victoria, this is exacerbated by the 10 per cent reduction in overall commonwealth funds due to the end of supplementary payments to support the COVID-19 public health response. This funding reduction comes despite hospitals continuing to manage ongoing pandemic-related elective surgery backlogs and incidents of delayed care amongst a critical workforce shortage and inflation pressures.

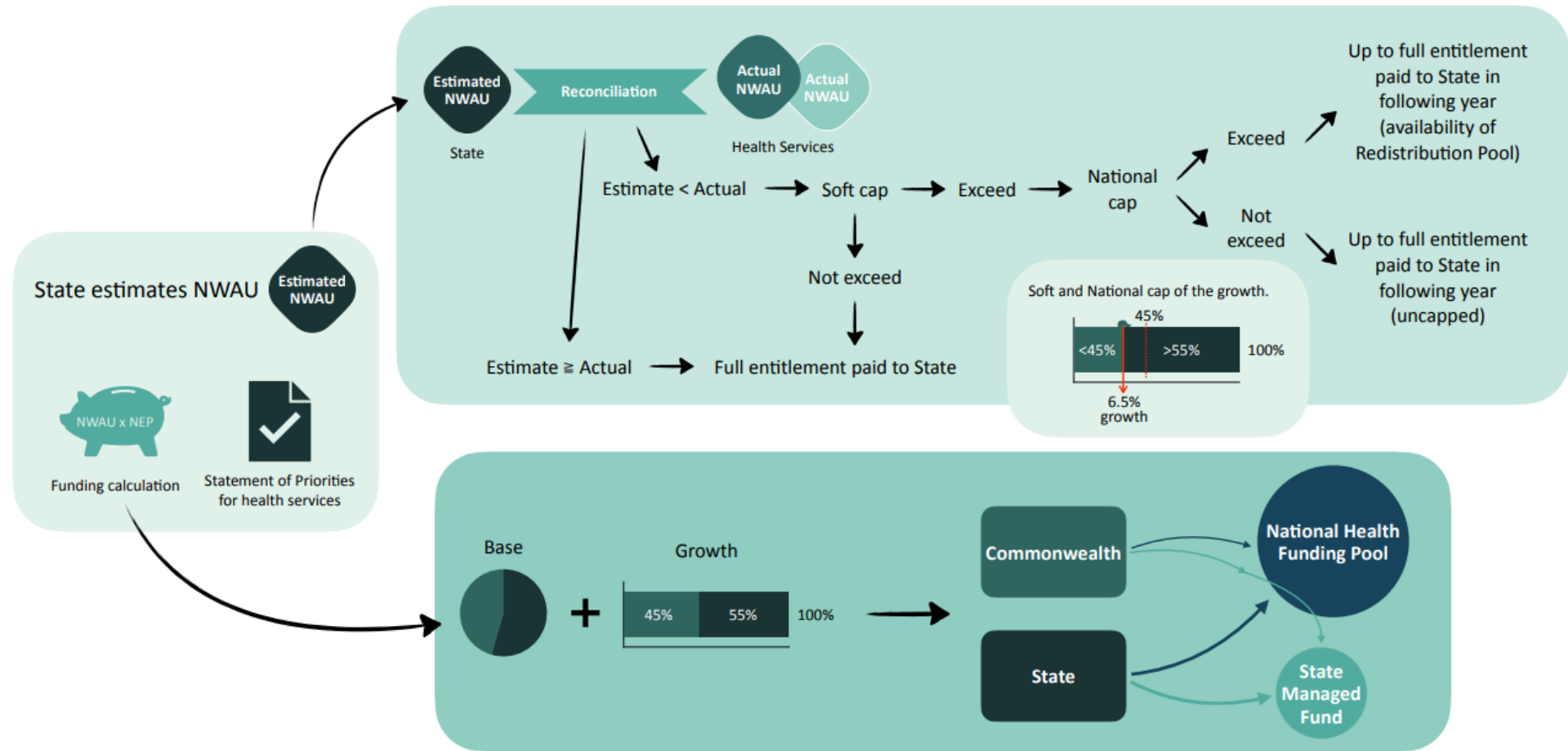
To rectify this imbalance, the VHA strongly recommends transitioning to a 50:50 funding agreement. This shift would ensure that both levels of government bear equal responsibility for funding healthcare, alleviating the financial burden on the states and empowering them to allocate resources more effectively.

The arbitrary 6.5 per cent funding increase cap significantly restricts the financial resources required to meet the increasing demands on the public health system. To enable sustainable growth and improvement, it is crucial to remove this cap, allowing for greater flexibility in funding allocations and resource planning.

¹ Australian Institute of Health and Welfare. (2015). Australian Burden of Disease Study: Fatal burden of disease 2010. Retrieved from <https://www.aihw.gov.au/reports/burden-of-disease/australian-bod-study-fatal-burden-of-disease-2010/contents/table-of-contents>

Australian Institute of Health and Welfare. (2022). Australian Burden of Disease Study: Impact and causes of illness and death in Australia 2011. Retrieved from <https://www.aihw.gov.au/getmedia/d9ae4bfa-df27-4e3c-9846-ba452bef6ac5/aihw-bod-37.pdf.aspx?inline=true>

Diagram 1: Flowchart of the commonwealth and state's contribution to Victoria's acute care funding, showing a 45:55 divide.



Recommendation 2: Increase funding for out-of-hospital care

Shift the NHRA to prioritise keeping people healthy and out of hospital

The current pressure on the health system shows we need to think differently. With increasing demand for acute services, funding models need to encourage greater care in the community – so that urgent care is available to those that need it. Funding reform that incentivises the public healthcare system to keep people out of hospital will lead to benefits in the long term.

The NHRA currently enables block funding for rural health services through flexible funding models for thin markets like the Multi-Purpose Service. This flexibility enables local tailored healthcare by providing flexibility, autonomy, and the ability to allocate resources according to specific community needs, including programs for out-of-hospital care. This is a strong feature of the NHRA and should be expanded to further improve access in rural communities.

Further funding flexibility including capitated or bundled payments offer an opportunity to reward services for delivering more out-of-hospital care – but this needs to be built into the NHRA to enable states and territories to continue to innovate service delivery.

HealthLinks – capitation funding

Victoria has already trialled a capitation funding model program, [HealthLinks](#), which enabled five health services to better treat chronic conditions outside of hospital. One local version, the MonashWatch program, had interim results which showed a **20–25 per cent reduction** in hospital acute emergency bed days compared to usual care.

However, evaluation by the Productivity Commission highlighted the need for funding certainty and long-term investment for these approaches to work.

Recommendation 3: Use the NHRA as a tool to streamline health, aged and disability care for all Australians

Successive reviews of Australia’s healthcare system demonstrate how current funding arrangements create barriers to coordinated, clinically effective and efficient healthcare.² As the 2017 Productivity Commission review adeptly put it:

‘Australia’s messy suite of payments are largely accomplices of illness rather than wellness, only countered by the ingenuity and ethical beliefs of providers to swim against the current’

– Productivity Commission³

Earlier this year, Xavier, a young Victorian quadriplegic was stuck in Royal Children’s Hospital for 12 months after a breakdown in care between the healthcare system and disability care sector⁴. Distressing situations similar to Xavier are sadly commonplace – the root causes are a fragmented system underpinned by a complex funding model, which is not designed to enable holistic care.

² Calder, R., Dunkin, R., Rochford, C., & Nichols, T. (2019). Australian health services: Too complex to navigate. A review of the national reviews of Australia’s health service arrangements. Australian Health Policy Collaboration, Policy Issues Paper No. 1 2019, AHPC.

³ Productivity Commission. (2017). Shifting the Dial: 5 year productivity review. Retrieved from <https://www.pc.gov.au/inquiries/completed/productivity-review/report>

⁴The Sydney Morning Herald, 2023. Accessed | <https://www.smh.com.au/healthcare/xavier-has-been-ready-to-leave-hospital-for-months-but-with-nowhere-else-to-go-he-s-stuck-20230327-p5cvh7.html>

To prevent this costly and harmful lack of service coordination, it is imperative to establish a fit-for-purpose funding model that accurately reflects the care needs of Australians.

The mid-term review of the NHRA provides a chance to set a national consensus on stewardship goals and strategies that effectively regulate and shape the healthcare system, thereby enhancing coordination and promoting improved integration across the health, aged care and disability sectors. It is an opportunity to address the significant structural funding barriers that hinder coordinated and efficient care, ensuring a more streamlined and cohesive healthcare experience for all Australians.

Conclusion

The VHA welcomes the opportunity to formally submit recommendations for the mid-term review of the NHRA. This submission emphasises the need for critical reforms to enhance the efficiency and effectiveness of Australia's public healthcare system in a changing healthcare landscape.

The three recommendations encompass transitioning to a 50:50 funding agreement between the state and commonwealth governments – empowering states to effectively manage their public health systems and meet the growing demands of their populations – while increasing funding for out-of-hospital care and streamlining health, aged care, and disability services to foster a comprehensive and person-centred model of care.

These recommendations aim to modernise the NHRA to address funding imbalances, improve the continuum of care, and enhance the overall efficiency of the public health system, ensuring better healthcare outcomes for all Australians.

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