

PM's \$90bn health gamble

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Prime Minister Kevin Rudd has challenged the states and territories to accept a \$90 billion offer to restructure the health system by using some of the annual GST revenue to transfer power to a network of local hospital authorities.

His blueprint seeks to create up to 130 local hospital authorities to take over daily management from state bureaucracies, backed by a 60:40 split of federal and state funding.

Objections to the plan emerged late yesterday in states including Victoria and Western Australia, which expressed concern there would be no net increase in total funding for at least four years.

The funding dispute presents a huge challenge to the Rudd government because any one state can veto changes to GST arrangements and other federal-state partnership agreements, forcing Mr Rudd to take the reforms to a referendum.

Outlining reforms that could decide the election this year, Mr Rudd used the announcement to recover from political controversies of recent weeks and emphasise a long-term vision for one of voters' top priorities.

The government indicated it would make further health-care decisions in the months ahead as Opposition Leader Tony Abbott bluntly rejected the new plan, ensuring a bruising political fight about health.

Mr Rudd said the system was a "total mess" because of overlapping state and federal responsibilities and would

RISKY REFORM

'For this to work, Kevin Rudd must get it all locked in before polling day – which makes this high-risk, high-reward reform.'

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be replaced by a national health and hospital network to decide on funding for local authorities.

"For the first time, eight state-run systems will become part of one national network," he said. "And there will be one set of tough national standards to drive and deliver better hospital services." This was a reference to a plan to pay an independently fixed fee for services provided by hospitals.

Business and health-care sector reaction was mixed. Ramsay Health Care chief executive Christopher Rex described the plan as benign for the private hospital sector.

Mr Rudd said the changes amounted to the biggest single health-care reform since the launch of Medicare and delivered on "every word" of his 2007 election promise to improve the system or seek a mandate at the next election for a full health takeover. Rather than handing total control to Canberra, the plan would transfer "dominant funding responsibility" to the commonwealth and give it greater authority to set the benchmarks that

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Mr Rudd will announce measures to cut waiting lists further soon.

Photo AAP

PM takes \$90bn health gamble

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hospitals and other health services would have to reach.

Mr Rudd promised seven broad changes to the system but kept some vague, leaving him scope to announce the details in coming months.

The commitments were to increase federal funding from 35 per cent to 60 per cent of recurrent and capital expenses, offer full federal funding of all GP services, set aside one-third of GST receipts for health care, impose more national standards, devolve management to local networks, pay hospitals on performance rather than with untied "block funding" and increase investment in primary care.

Asked how he could cut hospital waiting lists, Mr Rudd said he would announce further measures in the near future.

While the financial arrangements are subject to negotiation, the federal plan would direct about one-third of overall GST revenue — about \$15 billion next year — into the health networks, bypassing state departments. Mr Rudd said late yesterday there would be no increase in the 10r cent rate of GST.

The GST overhaul would contribute to Canberra's funding 60 per cent of public hospital expenses and 100 per cent of primary care such as outpatient services and GP consultations.

Mr Rudd's commitments would add about \$16 billion to Canberra's annual health outlays in the next few years, but this would be wholly covered by redirecting GST.

The commonwealth would take on an extra \$11 billion in public hospital costs each year to reach the 60 per cent level, and it would have to increase primary care spending from \$9 billion to \$14 billion annually.

The focus on primary care is based on the hope that authorities could cut the rate of hospital admissions, which are high compared to those of other developed nations, and rely more heavily on cheaper GP clinics or outpatient services.

Mr Rudd said the commitment was "in the order of \$90 billion over the first five years of the new arrangements" and amounted to a major economic as well as health reform.

While the GST contribution would swell over time, the federal budget would eventually feel the weight of the increased health spending, adding \$15 billion to expenses after about 2015.

Because the budget is expected to return to surplus by 2015, the health plan would not deepen the deficits already projected in the budget papers.

Mr Rudd's election promise gave some the impression he wanted to take over the health system entirely but he said yesterday it was better for the states to retain some accountability.

"We believe that 60 per cent gets the balance about right," he said "We still want the states to have some skin in the game. That is why we are doing it this way."

Failure to agree on the reform at a Council of Australian Governments meeting in Canberra after Easter



Nicola Roxon and Kevin Rudd ... taking on an extra \$11 billion in public hospital costs each year. Photo: ANDREW SHEARGOLD

would trigger Mr Rudd's threat to hold a referendum to authorise a full federal takeover.

He phoned premiers yesterday to discuss the changes and later indicated they had expressed major concerns about redirecting GST revenue.

"The premiers said other things as well — some of them monosyllabic," he quipped after a speech to the National Press Club.

State Treasury officials should find the commonwealth offer to take on the lion's share of long-term funding attractive, he added.

"I think a rational analysis from a states' point of view may point you in the direction of working with us rather than against us, but we'll see which way they jump."

Jim Birch, lead partner in Ernst & Young's health and human services practice and a former chief executive

of South Australia's health department, said states should be attracted to Mr Rudd's plan because it would help resolve a fiscal time bomb.

"I would think the Treasury department in each of the states would be saying: 'we've got to sign up to this'," he said. "The real incentive for the states is they've got an unsustainable financial position going forward."

Mr Abbott dismissed the plan as an election ploy and said the hospital networks would not increase local control of public hospitals. "In fact, it will add another layer of bureaucracy to the administration of hospital services with the federal health bureaucracy in the driver's seat."

Political resistance to the reform also strengthened in the afternoon when Family First's Steve Fielding attacked Mr Rudd, indicating the government would have great difficulty

getting Senate approval for e changes.

"The PM said he would take over the ailing health system at the last election, yet when it comes time for action he's shirked away from his responsibility coming up with some half-baked hybrid idea," Senator Fielding said in a statement.

Others backed the reforms but said they wanted to see more details. The Doctors Reform Society said the changes could cut waiting lists but were unclear about adding staff. Aged Care Association Australia chief Rod Young said the reform agenda failed to address the issues of aged care.

"The Prime Minister's proposed reforms are a solid down-payment on a more consistent and sustainable health system for Australia," said Tony McBride, chairman of the Australian Health Care Reform Alliance.

with John Breusch and AAP