Issues Paper
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'Rolling the PHOFAS into the AHCAs': COAG reforms to Specific Purpose Payments ('SPPs')

Issue:

- The Rudd government is proposing a range of changes to the ways the federal and state/territory levels of government operate and the reforms being considered include significant changes in the ways HIV, Hepatitis C and other public health funding is handled, potentially reducing the states/territories accountabilities for appropriate levels and targeting of funds.

- AFAO, member organisations and other public health sector organisations need to be aware of potential changes and consider what strategies and advocacy initiatives we need to take to influence them as effectively as we can.

Background:

- The new Government is moving rapidly to implement its election commitments within its over-arching election themes – Cooperative Federalism (chiefly through re-energising the COAG processes), Making Government More Efficient (chiefly through reforms to inter-governmental funding models) and the Social Inclusion Agenda (re-shaping human services and prioritising those most in need).
- At the COAG meeting in December, the government expressed its intention to reform Specific Purpose Payments ('SPPs') made to the States. Specific purpose payments – worth about $30 billion a year – cross all service-oriented portfolios. FaCSIA alone distributes $2 billion a year in SPPs, through three large programs: the Commonwealth State Housing Agreement (public housing), Commonwealth-State Disability Agreement (disability services), and the Supported Accommodation Assistance Program.
- The largest SPP in the health area are the 'AHCAs'; (Australian Health Care Agreements), which up till now have been the chief mechanism for the Commonwealth to provide funding to the states for hospitals. About $8.8 billion per annum is transferred through the AHCAs and the current five-year AHCA is due to expire on 30 June 2008.
- The PHOFAs (Public Health Outcomes Funding Agreements), another SPP, provide funding to the states/territories for communicable diseases (including HIV/AIDS), cancer screening and health risk factors such as alcohol and tobacco use, women's health, and sexual and reproductive health.
- The PHOFAs were introduced by the Coalition government in 1997; they are signed with each state/territory and have a set of performance indicators within them; however, they do not require the state/territory to match the funding which the Commonwealth transfers to them. The PHOFAs have allowed the states/territories to vary the relative expenditures across the various components covered by the PHOFA.

Rudd Government changes to the SPP Framework

- The COAG commitment forms part of the Rudd government's election agenda[1], and is expressed in terms of Labor's commitment to co-operative federalism. Prime Minister Rudd is quoted as saying,

> *"If you have worked in these areas before, as I have, they are a source of frustration at multiple levels given the multiplicity of them and the way they have been designed. We want to see the SPPs rationalised in the future. We want to see the SPPs reflect a combination of outcomes and outputs so that people can measure whether the money being invested is actually delivering real and improved services for the Australian community"*[2]

- Prime Minister Rudd has been quoted as aiming to reduce the number of SPPs across government from 80 to 20.
- The meeting of the Australian Health Ministers Conference on 31 January 2008 agreed that the forthcoming renewal of the Australian Health Care Agreement provided an opportunity for reform. The Communiqué from the meeting reports that agreement was reached that some other Specific Purpose Payments in Health will be integrated into the AHCA; this forms part of the government's broader health reform agenda.
- The current Specific Purpose Payments in the Health portfolio are:
  - Health care grants (AHCAs) - $8.8 billion per annum
  - Highly specialised drugs - $580 million p.a.
  - Vaccines - $240 million p.a.
  - Public health (PhoFAs) - $230 million p.a.
  - Royal Darwin Hospital (emergency response prep.) - $3 million p.a.
  - Youth health services - $2.5 million p.a.
  - Repatriation general hospitals - $2 million p.a.
  - Westmead hospital (special equip) - $1.1 million p.a.
  - Health programme grants - $1.1 million p.a.
  - Organ transplant services $1.8 million p.a.
  - Organ donation - $1.3 million p.a.

Current situation:

- The current AHCAs are due to expire at 30 June 08 and the PHOFAs on 30 June 2009. The Health Ministers' Meeting Communiqué indicates that all of these would be rolled into a new 'National Health and Hospitals' funding agreement (tentative title) by 1 July 2008.
- This timetable implies that most major financial decisions will be made very soon so they can be incorporated into the May 08 federal Budget.
- As the Health Ministers appear to have all agreed in principle to moving in this direction it appears unlikely that public health – or any particular components, such as HIV or Hepatitis C funding - could be extracted from it.

Key issues of concern:

- Rolling public health programs in with hospitals funding has the potential to reduce focus and expenditures on public health – at both the agency level and system level. This is because any agency – from Minister down to clinical service provider – inevitably faces greater pressure to address immediate clinical needs and divert attention and resources from prevention and public health needs. Delegation of responsibility to the states/territories may therefore be counter-productive as the long-term costs of treating communicable diseases are borne by the Commonwealth, and hence there is minimal incentive for the states to undertake effective prevention.
- The 'natural constituency' for public health is relatively small and quite scattered as a sector compared with the large concentrations of clinicians and institutions responsible for clinical care. Similarly, within government

[1] See http://www.socsci.flinders.edu.au/spis/newsandevents/ALPadvisoryGroupPaperOnSPPsFINAL.pdf
[2] http://www.theaustralian.news.com.au/story/0,25197,22957311-601,00.html

departments and area/regional health services the ‘public health’ sections carry far less weight than those for clinical services.

- The medium and long-term effects of this reform therefore may include a transfer of resources from public health to clinical services - particularly as media organisations routinely feature ‘horror’ stories critical of state/territory government Ministers and Departments.
- The broad-banding of HIV funding in 1997 and its subsequent reduction in most jurisdictions (including the Commonwealth), as highlighted during the ThinkTank processes last year, provide a clear indication of how this wider ‘broad-banding’ is likely to evolve over the next 5-10 years.

Current Options:

- In view of the government’s overall policy direction of simplifying the SPPs, strong support from Treasury, the agreements already reached at the Health Minister’s Conference meeting on 31 January and the relative weakness and fragmentation of the ‘public health sector’, it seems unlikely that rolling the PHOFAs into the widened version of the AHCAs can be prevented.
- Given this, AFAO’s current proposed position is to focus on achieving an Agreement which:
  - Identifies Public Health (possibly even ‘Communicable Diseases’) as a sub-program of the Agreement (as is the case for Mental Health and Quality Measurement in the current AHCA);
  - That the sub-program has its own specific, robust performance indicators and outcome measures;
  - That the sub-program has ‘hypothecated’ funding (or some other mechanism of ‘ring-fencing’);
  - An argument could be mounted that HIV and Hepatitis C provide a special case, in that most future costs of treating these diseases will be borne by the Commonwealth through the PBS, rather than by the states/territories through clinical treatment. The Commonwealth therefore has a strong interest in ensuring that prevention programs are maintained.
- A concurrent – or perhaps alternative – strategy could be to develop a wider campaign for an over-arching ‘National Prevention & Health Promotion Strategy’ which could include blood-borne diseases. However, given the current timelines it appears this would be better viewed as a longer-term strategy.

Actions to date:

- AFAO Executive Director and Policy Team have been actively analysing the proposed changes (as far as they are known), the context in which they are being generated and potential allies in seeking to protect public health priorities and resources.
- At this stage, as far we can ascertain, potential allies views are as follows:
  - ACOSS is aware of the issue and thinks it likely that reform of Specific Purpose Payments will proceed. Their principal concern is to ensure appropriate performance indicators and guarantees of service within any future funding framework. ACOSS is currently working on a discussion paper on the issue, which should be available in the next week or two.
  - NCOSS is also aware this issue or potential issue. NCOSS is concerned that any such “macro-funding” mechanism has the potential to negatively impact on specific health priorities such as public health, women’s health, etc. NCOSS is planning to raise the issue with their Health Policy Group (NSW-based), and work towards articulating a position.
  - Royal Australian College of Physicians (Public Health chapter) is very concerned and considering strategies; the College is intending to raise their concerns with Minister Roxon.
  - The Public Health Association of Australia (PHAA) and the AMA are currently considering their respective positions.