



Special Commission of Inquiry into Healthcare Funding

ISSUES PAPER 3/2024

FUNDING MODELS AND THE WAY NSW HEALTH FUNDS HEALTH SERVICES IN NSW

22 OCTOBER 2024

A. Introduction

By Letters Patent issued on 23 August 2023, the Governor of New South Wales appointed Richard Beasley SC to conduct a Special Commission of Inquiry into the funding of health services provided in NSW and related matters (**the Inquiry**). The Commissioner is to deliver his report to the Governor by 26 March 2025.

A copy of the Terms of Reference (**TOR**), as amended on 21 February 2024, is attached to this Issues Paper (see **Annexure A**).

B. Hearings

The Inquiry will hold hearings between 18 and 22 November 2024, focussing on the issues raised by TOR A and C.

C. Key issues and themes that have emerged in the submissions and evidence

The Inquiry has received submissions and heard some evidence relating to the issues raised by TORs A and C.

A summary of some key themes and issues that have emerged so far is set out below. That summary is not intended to be exhaustive or capture all matters raised, whether in submissions or the evidence.

Activity Based Funding: benefits and limitations

1. Activity Based Funding is a core feature of the National Health Reform Agreement.
2. However, a consideration of Activity Based Funding of public hospital services is relevant to more than just the arrangements between the Commonwealth and the States and Territories. In this respect, the Inquiry has received submissions and heard evidence concerning the use of Activity Based Funding in allocating budgets to Local Health Districts, Specialty Health Networks, and individual facilities.
3. At a general level, Activity Based Funding has been recognised as having advantages. Those advantages include transparency of how funding is allocated and expended, and promoting technical efficiency.

4. However, the Inquiry has heard that Activity Based Funding of public hospital services also has limitations. For example, it has been suggested that Activity Based Funding does not readily support or incentivise allocative efficiency, the development and implementation of innovative models of care or other innovations, or the prioritisation of preventative health measures and other models of care directed to keeping people healthy and well in the community. Other limitations of the Activity Based Funding model have been said to include its ability to accurately capture and fund the cost of high complexity, resource intense and long-term care, and the delivery of care in regional, rural and remote areas.

Low-value care

5. The Inquiry has heard that measures prioritising value-based health care, accompanied by disinvestment in low-value care, could maximise the health budget and improve health outcomes.

Local Health District/Specialty Health Network budgets

6. It has been recognised that optimal planning of public health services involves an assessment of the needs of the community, which may differ across the State. It has also been recognised that in funding health services, regard should be given to the nature and extent of the services and resources (capital and human) required to deliver the services directed to meeting the community's needs.
7. However, it has been suggested that the current approach to allocating budgets is primarily driven by historical activity levels rather than an assessment of the population's health needs and identifying the resources required to meet those needs. That approach has been said to result in Local Health Districts lacking the flexibility necessary to design and implement services to meet the specific needs of the communities that they serve, including in developing and implementing innovative models of care and preventative health measures, some of which may not generate activity that attracts Activity Based Funding.
8. In this respect, the allocation of funding within the New South Wales public health system has been described as inapt to account for the growing, ageing, and changing health needs of the population, including, for example, the increase in the shifting burden of chronic disease.
9. The Inquiry has also heard that the application of the State Efficient Price in allocating the budgets to the Local Health Districts and Specialty Health Networks needs to reflect the costs of delivering services across many parts of the State. The Inquiry has heard evidence that the disparity between the State Efficient Price and the cost of delivering services has sometimes resulted in Local Health Districts being unable to deliver the volume of services required by their Service Agreement within allocated budgets.
10. The Inquiry has also heard that the budgets that form part of the Service Agreements entered into between the Secretary and Local Health Districts can be difficult to understand, requiring Local Health Districts to direct resources to analyse them so that they can be implemented.

Capital funding

11. It has been suggested that capital investment decisions relating to the development or redevelopment of facilities do not always align with an assessment of the health needs of the population within the relevant region or the services that will be required to deliver effective care within a sustainable health system.
12. The Inquiry has also heard evidence that funding allocations do not always adequately provide for increased costs associated with the operation of new or redeveloped facilities on an ongoing basis.

13. The Inquiry has heard that there has been an increasing trend of capital equipment having supporting systems that require ongoing investment as opposed to one-off purchases (for example, adoption of Cloud based digital technologies, rather than software or hardware purchases), which is not always fully recognised in budgets or funding allocations.

The impact of short-term funding cycles

14. It has been suggested that one-year budget cycles prevalent in the New South Wales public health system can result in uncertainty as to whether funding will be available for particular initiatives or services on an ongoing basis, which can impact the planning and commissioning of services and initiatives.
15. Short-term funding cycles raise challenges for Affiliated Health Organisations and Non-Government Organisations that receive funding from the New South Wales Ministry of Health to deliver certain services. While it might be said that Local Health Districts and Specialty Health Networks can (to some degree) predict the level of funding they are likely to receive on an ongoing basis, Affiliated Health Organisations and Non-Government Organisations are not guaranteed any level of funding on an ongoing basis. Short-term funding arrangements for those organisations create difficulties in planning and investing in service delivery, including recruiting and retaining staff.

D. Issues to be explored during the hearings between 18 and 22 November 2024

The Inquiry intends to hold a public hearing between **18 and 22 November 2024**, focusing on the issues raised by TORs A and C.

Below is a summary of the issues the Inquiry intends to explore during those hearings. It is not intended to be exhaustive or to limit the matters that may be considered in relation to the issues raised by TORs A and C. The Inquiry encourages interested parties to raise matters or issues not included or captured by those set out below for consideration in those hearings.

Issues
Funding approaches and methodologies
<ol style="list-style-type: none"> 1. An identification of national funding structures and funding models by which the New South Wales government receives funding for the delivery of health services from the Commonwealth including (but not necessarily limited to): <ol style="list-style-type: none"> a. the processes under the National Health Reform Agreement; b. other bilateral or multilateral agreements; and c. grants from the Commonwealth to New South Wales, including those administered by the Commonwealth Grants Commission.
<ol style="list-style-type: none"> 2. An identification of: <ol style="list-style-type: none"> a. the role and function of the Independent Health and Aged Care Pricing Authority; b. the role and function of the National Funding Pool Administrator;

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<p>c. the manner and extent to which the New South Wales government, including the New South Wales Ministry of Health, engages with those bodies.</p>
<p>3. An identification of the role and function of New South Wales government, including Treasury and the New South Wales Ministry of Health, in meeting New South Wales's obligations under the National Health Reform Agreement, and any other bilateral or multilateral agreements that relate to the delivery of health services in New South Wales.</p>
<p>4. An identification of the process by which:</p> <ul style="list-style-type: none">a. budgets are allocated to the New South Wales Ministry of Health by Treasury;b. budgets are allocated by the New South Wales Ministry of Health to its agencies, including:<ul style="list-style-type: none">i. Local Health Districts,ii. Speciality Health Networks, (including St Vincents in its capacity as a networked Affiliated Health Organisation);iii. New South Wales Ambulance and the other Health Administration Corporation entities;iv. the Pillars, <p>including the methodology used and the matters considered in the allocation of those budgets by Treasury and the New South Wales Ministry of Health respectively.</p>
<p>5. An identification of the process by which:</p> <ul style="list-style-type: none">a. the New South Wales Ministry of Health may, from time to time, seek funding from Treasury in addition to its allocated budget;b. Local Health Districts, Specialty Health Networks (including St Vincents in its capacity as a networked Affiliated Health Organisation), New South Wales Ambulance and the other Health Administration Corporation entities, and the Pillars, in its capacity as a networked Affiliated Health Organisation may, from time to time, seek funding from the New South Wales Ministry of Health in addition to their allocated budgets, <p>including the methodology used and the matters considered by Treasury and the New South Wales Ministry of Health respectively in considering those requests.</p>
<p>6. An identification of the process by which Local Health Districts and Specialty Health Networks allocate budgets to their respective facilities and services, and to Affiliated Health Organisations.</p>
<p>7. Whether those budget processes (and if so how) include an evaluation of:</p> <ul style="list-style-type: none">a. the health needs of the population in the relevant area,

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<ul style="list-style-type: none">b. the mix of infrastructure and services required to efficiently provide adequate standards of patient care to meet that need;c. the resources (capital and human) required to deliver services to meet that need.
<p>8. Whether the use of the State Efficient Price by the New South Wales Ministry of Health is an effective methodology in allocating budgets to Local Health Districts and Specialty Health Networks (including St Vincents in its capacity as a networked Affiliated Health Organisation), including:</p> <ul style="list-style-type: none">a. the rationale for the use of the State Efficient Price;b. the basis for any variance between the State Efficient Price and the National Efficient Price;c. whether the State Efficient Price accurately reflects the actual cost of health service provision across New South Wales.
<p>9. Whether the Services Agreements and budgets allocated to Local Health Districts and Specialty Health Networks (including St Vincents in its capacity as a networked Affiliated Health Organisation) provide them with adequate resources and flexibility to:</p> <ul style="list-style-type: none">a. develop and deliver innovative models of care, and pursue other innovations;b. develop and deliver preventative and community health initiatives.
<p>10. An identification of the process by which funds are allocated to non-government organisations, including but not limited to community health organisations, alcohol and other drug service providers, mental health service providers, Aboriginal Community Controlled Health Organisations, research bodies and universities.</p>
<p>11. Whether funding is allocated to non-government organisations on terms that appropriately balances the need for flexibility in the delivery of programs or initiatives to ensure that they effectively meet the needs of the local communities with appropriate levels of governance in the expenditure of public funds.</p>
<p>12. An identification of the process by which capital projects, such as the development of new facilities or re-developments of existing facilities, are:</p> <ul style="list-style-type: none">a. identified;b. evaluated, including the extent to which the health needs of the community and the services and facilities required to meet those needs, are considered;c. approved or refused as the case may be; andd. if approved, funded including the extent to which ongoing operational expenses of those new or redeveloped facilities are modelled and funded.

Issues

13. Whether the existing approaches and models used in the allocation of funds within New South Wales (whether by New South Wales Ministry of Health or Treasury) adequately and effectively support and incentivise:

- a. the delivery of health services in hospitals and community settings required to efficiently provide adequate standards of patient care that meet the health needs of the population;
- b. the delivery of preventative healthcare, and care in out of hospital settings;
- c. equitable access to health services across New South Wales, including:
 - i. for those living in rural/regional/remote areas;
 - ii. First Nations and culturally and linguistically diverse communities;
 - iii. preventative and community health initiatives, including the delivery of integrated and coordinated care across the primary, secondary and acute care settings for the prevention, early detection and ongoing management of people with chronic and complex condition;
- d. the efficient and economic operation of the health services in New South Wales including:
 - i. prioritisation of value based health care and disinvestment in low value care.
 - ii. providing transparency of public funds provided to health services in NSW.
- e. The development and implementation of innovative models of care and investment in technology to meet current and future population health needs, including the shifting burden of disease and increasing prevalence of patients presenting with multiple chronic and complex conditions.

14. Whether the existing approaches and models used in the allocation of funds within New South Wales (whether by New South Wales Ministry of Health or Treasury) adequately support the maintenance of a sustainable public health system.

15. Whether funding models used in New South Wales incentivise the delivery of health services that provide the overall best health outcomes for the people of NSW.

16. Whether there are any alternative methodologies or approaches to funding of health services in New South Wales that could address any of the barriers or limitations in current approaches or to otherwise support the safe delivery of high quality, timely equitable and accessible patient-centred care, now and into the future.

Issues
Adequacy of available funding
17. Whether the New South Wales Ministry of Health has historically received adequate funding to deliver the services needed to meet the health needs of the people of New South Wales.
18. Whether, by reference to available projections, the New South Wales Ministry of Health is likely to receive adequate funding to deliver the services needed to meet the health needs of the people of New South Wales into the future.
19. Whether the budgets allocated to the New South Wales Ministry of Health provide sufficient funding to it build, develop and maintain capability within the Ministry to adequately and effectively support the wider public health system.
20. Whether the budgets allocated to Local Health Districts and Specialty Health Networks (including St Vincents in its capacity as a networked Affiliated Health Organisation) have historically provided sufficient funding to enable them to: <ul style="list-style-type: none">a. deliver the services required of them in their respective services agreements, including whether the funding allocated accurately reflects the cost of delivering the services required under the Services Agreement;b. in the case of Local Health Districts, fulfill their primary purposes and perform their functions, as set out in sections 9 and 10 of the <i>Health Services Act 1997</i> (NSW);c. in the case of the Specialty Health Networks, perform their functions.
21. Whether, by reference to available projections, the budgets allocated to Local Health Districts and Specialty Health Networks (including St Vincents in its capacity as a networked Affiliated Health Organisation) are likely to provide sufficient funding to enable them to: <ul style="list-style-type: none">a. deliver the services required of them in their respective services agreements;b. in the case of Local Health Districts, fulfill their primary purposes and perform their functions, as set out in sections 9 and 10 of the <i>Health Services Act 1997</i> (NSW);c. in the case of the Specialty Health Networks, perform their functions.
22. Whether the funding allocated to Affiliated Health Organisations is sufficient to cover the cost of delivering the services required under their respective Services Agreements.
23. Whether the funding allocated to non-government organisations is sufficient to cover the cost of delivering services, initiatives or research which are the subject of the relevant grant.

Next steps

The Inquiry will contact a range of stakeholders and interested parties to identify witnesses who may be able to give relevant evidence about one or more of the issues above. However, the Inquiry also invites any person, organisation or body who believes that they may be able to provide relevant evidence about the issues set out above to contact the Inquiry directly at contact.hfi@specialcommission.nsw.gov.au

Annexure A

Condensed Terms of Reference

This version of the Inquiry's terms of reference includes the key parts of the Letters Patent dated 23 August 2023, which were then altered and varied by Letters Patent dated 21 February 2024.

Full copies of the Letters Patent are available on the Inquiry's website (healthcarefunding.specialcommission.nsw.gov.au) and should prevail over this summary if there is any inconsistency.

The Inquiry is to inquire into and report on:

- A. The funding models used to provide health services in NSW and whether they most effectively support the safe delivery of high quality, timely, equitable and accessible patient-centred care and health services to the people of NSW, now and into the future.
- B. The existing governance and accountability structure of NSW Health, including whether:
 - i. it provides the best balance between central oversight and locally devolved decision making (including the current operating model of Local Health Districts);
 - ii. local communities are appropriately engaged in health service development and delivery;
 - iii. the governance structures best support efficient implementation of state-wide reform programs;
 - iv. privatisation and outsourcing has adversely impacted on the delivery of health services and health outcomes to the people of NSW or otherwise;
 - v. governance structures support a sustainable workforce and delivery of high quality, timely, equitable and accessible patient-centred care to improve the health of the NSW population;
- C. Whether the funding models for health services or the way NSW Health funds health services delivered in public hospitals and community settings;
 - i. incentivises the delivery of health services that provide the overall best health outcomes for the people of NSW;
 - ii. provides the best value for the costs incurred in providing such health services;
 - iii. best supports (and does not obstruct) access to preventive and community health initiatives that provide the best overall health outcomes;
 - iv. maintains a financially sustainable healthcare system;
- D. Whether the strategies of NSW Health that are in place or in the process of implementation best manage escalating costs, the limitation of wastage, minimise overservicing and appropriately identify gaps and improvements in financial accountability and efficiency;

- E. Whether the current procurement strategies and processes of NSW Health are appropriate and enhance support for operational decision making, service planning and delivery of quality and timely health care, including consideration of supply chain disruptions;
- F. The current capacity and capability of the NSW Health workforce to meet the current needs of patients and staff, and its sustainability to meet future demands and deliver efficient, equitable and effective health services, including inquiry into:
 - i. the existing skills and distribution of health workers in NSW, including whether there are shortages of workers and particular skill sets in any locations;
 - ii. the financial and non-financial factors impacting on the retention and attraction of staff;
 - iii. existing employment standards;
 - iv. the role and scope of workforce accreditation and registration;
 - v. the use of locums, Visiting Medical Officers, agency staff and other temporary staff arrangements;
 - vi. the relationship between NSW Health agencies and medical practitioners;
 - vii. whether there are opportunities for an expanded (or working to full) scope of practice for the health workforce including paramedics, pharmacists, community and allied health workers, nurses and midwives;
 - viii. the role of multi-disciplinary community health services in meeting current and future demand and reducing pressure on the hospital system;
 - ix. opportunities and quality of care outcomes in maintaining direct employment arrangements with health workers;
- G. Current education and training programs for specialist clinicians and their sustainability to meet future needs, including:
 - i. placements;
 - ii. the way training is offered and overseen (including for internationally trained specialists);
 - iii. how colleges support and respond to escalating community demand for services;
 - iv. the engagement between medical colleges and local health districts and speciality health networks;
 - v. how barriers to workforce expansion can be addressed to increase the supply, accessibility and affordability of specialist clinical services in healthcare workers in NSW;
- H. New models of care and technical and clinical innovations to improve health outcomes for the people of NSW, including but not limited to technical and clinical innovation, changes to scope of practice, workforce innovation, and funding innovation; and

- I. Any other matter reasonably incidental to a matter referred to in paragraphs A to H, or which the Commissioner believes is reasonably relevant to the inquiry.

AND FURTHER, *[the Inquiry is to]* make recommendations to address the issues raised including in relation to National structures or settings, including the National public hospital funding model and/or National Health Reform Agreement and the impact of aged and disability care in NSW public hospitals, where such recommendations would support or enhance any changes recommended by the Special Commission.

...The Special Commission may be assisted by one or more experts on matters that *[the Commissioner]* considers require expert opinion.

.... in conducting the inquiry:

- J. *[it is]* To have regard to existing reviews, reports and recommendations in relation to the national public hospital funding model and other national settings insofar as they impact on the delivery of high quality, timely, equitable and sustainable public hospital and community health services in NSW, in particular co-payments, oversight of compliance and influence of private capital on the health services market; and
- K. *[it is]* not required to inquire, or to continue to inquire, into a particular matter to the extent that you are satisfied that the matter has been or will be sufficiently and appropriately dealt with by another review, inquiry or investigation.

AND pursuant to section 21 of the *Special Commissions of Inquiry Act 1983* (NSW) it is hereby declared that sections 22, 23 and 24 shall apply to and in respect of the Special Commission...

[The Inquiry is to report no later than 26 March 2025]