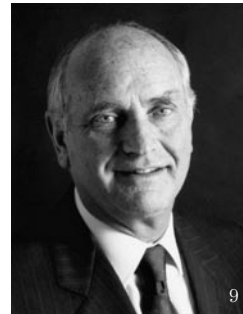


# 2.

Putting the Act into action  
The creation of VicHealth

# The first Board of VicHealth



1. Sir Gustav Nossal
2. Dr Nigel Gray
3. Ms Terri Jackson
4. Mr Ron Casey
5. Mr Russell Hopper
6. Ms Sue Natrass
7. Mr David Parkin
8. Sir Donald Trescowthick
9. Mr John Clemenger
10. Ms Pam Ryan
11. The Hon. Graeme Weideman (Liberal Party)
12. The Hon. William McGrath (National Party)
13. The Hon. Michael Arnold (Australian Labor Party)

Once the Tobacco Act had been passed into legislation, and the foundations laid for the creation of VicHealth, fast action was needed. A torrent of money was coming down the sluice, and it was necessary to create an organisation that could spend it. Sir Gustav Nossal had already been appointed VicHealth's first Chair. A skeleton team was then appointed on short-term contracts under the leadership of Andrew Herington (an advisor to David White and the head of the Tobacco Project Group within the Health Department). Temporary quarters were arranged at the offices of the Anti-Cancer Council until new quarters in Carlton were ready, and a committee was formed (and an executive search organisation hired) to choose VicHealth's first Chief Executive Officer.

VicHealth needed a structure to manage the workload and the politics, personnel committed to the cause of improving people's health, the capacity to adapt as society changed and the needs of the community progressed, and a reliance on partnerships and networks to make things happen. Not only that, the team at VicHealth had to complete the pragmatic, yet substantial, tasks of devising grant schemes, informing the community about them, processing applications and quickly getting funding to organisations.

### **THE IMPORTANCE OF A TRIPARTISAN BOARD**

The tripartisan nature of VicHealth's Board has been, and continues to be, one of its greatest strengths. An elected representative from each of the parliamentary parties – the Australian Labor Party, the Liberal Party and the National Party – and high-profile hard-working members

with expertise in research, medical science, sport, the arts and business/marketing have been critical to the organisation's credibility, profile and success in reaching deep into many parts of the community.

The Board's first National Party representative, Bill McGrath, agrees. "The political support from the different parties sent out a clear message – it emphasised the importance of what VicHealth was doing."

Mark Birrell says the structure was important for many reasons. "I was looking for a structure that met the goal of ensuring VicHealth outlived the inevitable challenges and threats that reforming agencies face. We needed VicHealth to have a governance structure that was balanced and representative. We found a precedent in the councils that oversaw universities, which enshrined representations from all shades of politics. It was the perfect model. I should add that by amending the original Tobacco Bill this way, I was also able to convince doubting members of my party that the initiative deserved their vote."

It wasn't, however, just the structure that made it work. The quality of the people on the initial Board, and the attitudes of parliamentarians responsible for monitoring VicHealth's activity were vital. Mark Birrell credits David White with creating the initial environment for good governance: "David White helped ensure a broad tripartisanship and that was particularly important in making it work after it was created. He did not seek to politicise VicHealth, which despite everything you could write into the legislation in terms of safeguards, could still have been done. It was of enduring importance that he ran it true to its spirit."

## Political support for a generation

Any success in managing VicHealth's myriad objectives started at the top. Former Chair Professor John Funder says: "VicHealth has been fortunate to have had good Ministers." Politicians such as David White, Mark Birrell, the late Marie Tehan, Rob Knowles, John Thwaites and Bronwyn Pike have been Health Ministers who have supported VicHealth and the ideals forged through the creation of the Tobacco Act.

Political support is vital, as VicHealth's existence is inherently vulnerable. Often public health and health promotion results take a long time to emerge. In politics, that isn't always attractive. Therefore the organisation needs champions; supporters who understand the benefits of investing at least part of the health budget in long-term initiatives. Former Health Minister Rob Knowles (Liberal) says it's why it is worth fighting for. "As a Health Minister, one thing I was very clear about is that public health initiatives per se are slow in delivering results, but the results they deliver are much more sustainable and have a much greater impact on the wellbeing of the community generally than the quick fixes."

Bill McGrath, the Board's first National party representative, was definite about the value of VicHealth: "The tobacco growers in the main accepted the change. At the time there were a lot of messages coming out from



Former Health Minister Rob Knowles (Liberal), one of many strong supporters of VicHealth, celebrates 10 years of health promotion achievement in Victoria with VicHealth CEO Rhonda Galbally (centre) and Chair Professor John Funder (right).

the Cancer Council, and from the medical research available Parliament understood the detrimental effects to smokers. It was important to get the anti-smoking messages out to young people." McGrath says that there was no better way to do this at the time than through the football leagues across Victoria, like the Ovens & Murray league, which is still strong. "Local members were invited to the games, which were much more high profile then."

As long-serving Liberal politician and VicHealth Board member Graeme Weideman says: "We had the opportunity to do things that had never been done before. We had

to use the money available with the greatest amount of respect and get value for our money. I believe we did."

Not only that, but a collection of people with skill, ideals and integrity gathered together to sit on the first Board (see page 83 for full listing) and began a tradition of excellent and cooperative governance that continues today. The Board, as David White says, was "stacked with credibility". All he, as Minister, purported to do was provide emotional support, and let those on the Board shape its character.

White is adamant that the intention to create something above politics was essential for such an organisation to survive and prosper. “The question is why develop something that is going to be abolished? It’s just rubbish”, says White. “It needed to be tripartisan because no one stays in government forever.”

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**“The ebullient Graeme Weideman, representing the Liberal Party, was so enthusiastic a Board member that we had to assign a staff member to respond to his multitude of suggestions and ideas. Ron Best was the longest serving National Party representative; he used his Board position to search for every possibility to fight for every drop of money for the rural sector. Labor party member Eddie Micallef often joined up with Ron Best (always supported by Graeme Weideman) to promote any group from the wrong side of the tracks. Eddie would also join with Sir James Gobbo to keep ethnic interests strongly on the agenda.”**

Rhonda Galbally, former Chief Executive Officer of VicHealth

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Having such a high-profile Board, being an independent statutory authority and being answerable to Parliament has enabled VicHealth to keep discussion of health promotion and public health issues focused towards outcomes for the public good. It has allowed the organisation to advance agendas that may be considered too hot for government departments to handle and to trial leading-edge models for change. For example, in 2000 Rob Moodie, Robert Doyle (Leader of the Opposition) and the ALP’s

Bruce Mildenhall visited North America and Europe to investigate harm minimisation approaches taken in relation to illicit drug use.

“Tripartisan support is very special”, says Professor John Catford, Dean of Health and Behavioural Sciences at Deakin University. “It has meant some of the more difficult things [to deal with] have been taken away from any political bunfights, which is, of course, very good.”

Those behind the model, such as Birrell, say that it was critical that the structure be kept at arm’s length from day-to-day government. “I hoped it would be a body that was a pace setter in public health initiatives and that it could be a respected leader and advocate because it was broadly based. My aim was to get it above day-to-day politics.”

#### **APPOINTING A WORTHY LEADER**

The appointment of Sir Gustav Nossal to lead the first Board was seen as critical to the credibility of the organisation. Nossal, AC, Kt CBE, Emeritus Professor, University of Melbourne, is a world leader in fundamental immunology research. Knighted in 1977, he was made a Companion of the Order of Australia in 1989, was Australian of the Year in 2000 and is regarded as one of Australia’s National Living Treasures. Born in Austria in 1931, he emigrated with his family to Australia before the outbreak of World War II and is renowned both as an extraordinary researcher and as a communicator of complex scientific topics. Both revered and respected, he was an inspired choice.

His charisma and intellect brought the Board together and inspired

those involved to work for the greater good. He played no small part in providing some armour plating for the organisation when it came under threat or attack.

Rhonda Galbally, who was selected as VicHealth’s first Chief Executive Officer (see Chapter Three), had no doubt about his contribution: “As the most eminent research scientist in Australia, and CEO of Australia’s most prestigious research institute, the Walter and Eliza Hall Institute, Gus was naturally devoted to medical research. The world of health promotion was new to him. He was faced with a Board full of sectional interests. Some wanted funding for their own organisations; others felt they had to deliver funds to their sector. Others had political interests, where geographic constituents certainly influenced their decision making. It could have been the Board from hell. Yet somehow Gus managed to pull these disparate individuals together into a team. He achieved this through the passion of his presentation, usually about an aspect of the research program. Calling Gus charismatic is an understatement. It was his integrity that literally rallied a potentially disparate group into a tight pack.”

The essence of this description was repeated in various forms over and over again by members of the Board. “Gus was a great person to have in the driving seat”, says Bill McGrath, who represented the National Party. David Parkin, former AFL coach and long-term member of the Board, was effusive in his praise: “We were led by the most magnificent leader. I have not found in all my walks of life another person who was so intelligent but so people oriented. He just made everyone around that [Board] table

feel good about themselves – he never failed to reward people for their time and their effort. And, he made some tough decisions too.”

## CREATING A SUSTAINABLE FUNDING MODEL

Establishing a sustainable funding base for health promotion activity is notoriously difficult. It’s why the use of hypothecation – a tongue-stretching name for the tax Victoria put on cigarettes that was to be dedicated to underpinning VicHealth – became a funding model scrutinised throughout the health promotion world.

Peter Worland, former advisor to Health Minister David White, is credited with the idea. White said that Treasury, renowned for disliking earmarked taxes, first heard of the idea in 1985. Rob Jolly, then Treasurer and a man who liked the idea but was not sold on the need for dedicated tax, told White to be patient. In 1987 White’s patience paid off. “We persisted and we got it”, said White. From Jolly’s perspective it was the strength of the community support that was important. “It became a really strong community issue; to such an extent I was able to persuade the Department to actually introduce hypothecation. There was a greater prospect of getting money for that area of activity than some other that was regarded as a lower priority. The priority given to it by government reflected the community’s concern on the extent of smoking. Hypothecation served the dual purposes of allowing people to know where money was coming from and also elevating the importance of it in the community’s eyes, because it was a rare event for such a thing to happen.”

Its effect is not to be underestimated in the story of VicHealth. Such a

mechanism was revolutionary; a world first that created in Victoria a sustainable base and structure for health promotion.

Rob Knowles, Liberal Health Minister from 1996 to 1999, is just one of many people who argue the dedicated funding stream was critical to VicHealth’s success.

The dedicated tax was an efficient and unique way for the Government to raise sufficient funds to enable VicHealth to buy out the tobacco industry’s sponsorship of sport and the arts. As Randall Kent, Finance & Administration Director at VicHealth, who recalls picking up by hand the cheque from the State Revenue Office each month, says: “The concept itself was interesting – tax a harmful product, tobacco, to fund schemes and programs that benefit the community.”

The *Tobacco Act 1987* put a levy on top of existing state tobacco fees, which saw 5% of tobacco sales hypothecated to the Health Promotion Fund. In its first full year, 1988–1989, VicHealth’s budget was A\$25.215 million.

The tax was also an effective tobacco control strategy in its own right. An increase in price caused by the tax would mean fewer sales in particular segments of the market and therefore less smoking. Studies around price elasticity had shown that the price increase caused by the Tobacco Act would reduce the smoking rates of those under 18. Politically such an impact was popular. Free market/free choice arguments carried some weight in relation to the adult community, but all thought that stopping young people from taking up smoking was a reasonable and, it must be said, vote-catching objective.



Revered and respected, Sir Gustav Nossal (second from left) was an inspired choice to lead VicHealth’s first Board. He is pictured here celebrating VicHealth’s first anniversary in 1988 with Shadow Health Minister Mark Birrell (left), CEO Rhonda Galbally and Health Minister David White (right).



Peter Worland, former advisor to Health Minister David White.



The Premier, Mr John Cain, with Nunawading Quit Spectre’s captain Michelle Timms at the launch in 1989 of the VicHealth billboards in which she features.

## **A CHANGE OF GOVERNMENT PUTS HYPOTHECATION UNDER THREAT**

The benefits of such a scheme to health promotion were obvious and the gain hard won. However, its popularity with Treasury was only ever lukewarm. Treasury officials generally do not like dedicated taxes. They argue they distort priorities. The system would come under threat again in 1992, after a change of government. Everything related to government finances was coming under heavy scrutiny. VicHealth was no exception. New State Treasurer Alan Stockdale believed that the Health Department could determine health promotion's importance and allocate an appropriate budget to reflect that. He could see no reason for a dedicated tax.

Mark Birrell remembers it as a dangerous time for the tax. However, sufficient contemporary knowledge of how the legislation had been passed meant a degree of ownership over VicHealth existed within the Liberal Party. Birrell said it diverted the debate away from removal of hypothecation on principle to ensuring VicHealth survived with appropriate funding: "I wouldn't suggest that there was no tension. We'd capped the hypothecation, but Treasury wanted all the money back. Its view was – and probably still is today – that if what VicHealth did was a legitimate function of government then it should be funded out of the Health Budget. The funding in fact is a huge achievement, but it's still a drop in the ocean, and it would be obscene to take that drop away."

Graeme Weideman, a constant and vociferous supporter of VicHealth and the Tobacco Act, and a founding Board member of the organisation, was also crucial in convincing the party of the merits of retaining the original model.

Many believe the survival of hypothecation was critical to the survival of VicHealth. Knowles, who was then assistant to the Treasurer, was part of the fight to retain the dedicated funding stream. "Those in the health area knew full well that the end of hypothecation would be the death knell of VicHealth. Health funding is influenced by waiting lists and ambulances so it was crucial for us to win the argument. We did concede that VicHealth would make its contribution to recovery, as every other program would, however we'd made that concession to win the argument on hypothecation."

In *Restoring Victoria's Finances: A Beginning*, Alan Stockdale, the new Treasurer, spelt out what this meant for VicHealth:

*The Victorian Health Promotion Fund currently receives 5 percentage points or one-tenth of tobacco franchise fee receipts. For 1992–93, the VicHealth share shall be re-expressed as a fixed amount of A\$25 million, and the Government will review its funding base before the 1993–94 Budget. This measure [the rate rise, the harmonisation of Australian rates, and the capping of VicHealth funds] is estimated to raise additional revenues of A\$39 million in 1992–93 and A\$120.6 million in 1993–94.<sup>4</sup>*



VicHealth in danger with the change to a Liberal government in 1992 headed by Jeff Kennett.

<sup>4</sup> A. Stockdale, *Restoring Victoria's Finances: A Beginning*, 28 October 1992.

The Labor Party opposed this change to its legacy in Parliament. The debate that followed was in some ways a fuller consideration of the hypothecation issue than had occurred in the first instance. It was now universally conceded that VicHealth was a good thing, only the funding method was in question. Bill Forwood, now a VicHealth Board member, speaking for the Government, said in Parliament:

*There is no doubt that the Victorian Health Promotion Foundation has been an outstanding success. It was a brilliant idea, it was received well and its gestation period has proven to be effective. I will continue to argue strongly and consistently that the Victorian Health Promotion Foundation has a significant role to play in the health of Victorians. That is obviously a matter that the Government is highly aware of and will encourage.*

**However, Forwood said also:**

*Hypothecation is a difficult issue. I know that both the Treasurer and the Shadow Treasurer are on the record as opposing it ... it is one of those issues that does not enjoy unanimity of support on either side of the House.*

**White, architect of the Tobacco Act, interjected:**

*You should have seen the trouble I went to to get it in the first place.*

**Forwood:**

*I am firmly committed to arguing in every forum that we should move back to full hypothecation as quickly as possible. The current situation, however, is that the Victorian Health*

*Promotion Foundation is now getting on with the job, as are other organisations in the State, of coping with tight fiscal circumstances.*<sup>5</sup>

Hypothecation became nominal only, as the funding to VicHealth was capped without indexation from 1992 to 1996, initially at A\$25 million before moving to A\$22 million (see table next page). The annual amount allocated to VicHealth from tobacco franchise fees was determined by the Treasurer. In three years, VicHealth's budget dropped by 29%. Kent remembers the time well: "Symbolically the rationale was we can't afford to exempt VicHealth from all the cuts. Everything is getting cut, so you have to take your medicine too."

Gus Nossal and Rhonda Galbally kept quiet publicly, but behind the scenes worked feverishly to maintain the organisation close to its original state. Some in the Labor Party believed it should have fought harder and more loudly to retain funding at original levels. Compromises were made and VicHealth did change its focus, but its work continued.

Rob Knowles says it was actually a good battle for VicHealth to face, as it contained lessons for the future. "In terms of finances VicHealth doesn't necessarily rank highly, unless there are really difficult circumstances like in 1992. Having had to go through that challenge once, if we're in dire straits we could do what we did in 1992 again."

VicHealth had survived a challenge in the toughest of circumstances because the merits of its programs were obvious to everyone in Parliament.



The Hon. Bill Forwood (Liberal), who debated the hypothecation issue in Parliament.

<sup>5</sup> State Taxation (Further Amendment Bill), Second Reading, 17 November 1993, p. 1078.

## OUT OF EVERYONE’S HANDS

Hypothecation as a source of revenue for VicHealth would not survive beyond 1997. That year the High Court of Australia (following legal challenges by retailers and wholesalers upon whom licence fees were imposed) invalidated state and territory business franchise and licence fees, including tobacco fees, by deciding the tax was unconstitutional. (State franchise fees on tobacco, alcohol and petroleum were in effect excise duties. Under the Constitution, excise is the sole prerogative of the Federal Government.)

It was a worrying time for VicHealth, admits Kent, but was resolved quickly. State business franchise fees on

tobacco were abolished. VicHealth was funded from consolidated revenue to remove the immediate threat and then funding came out of standard budget expenditures – a situation that continues today. Since 1 July 1998, annual funding for VicHealth has been determined by the Treasurer, appropriated as part of Victoria’s annual budget within the Department’s appropriation.

Rhonda Galbally thinks it is a great pity that the dedicated tobacco tax was capped, then abolished. “It became the model that we were still pushing internationally, because it was the only model many countries could afford, however it wasn’t the model we were using.”

How VicHealth has been funded						
	1988	1989	1990	1993	1995	1997+
Total Victorian tobacco licence fees (as a percentage of value of wholesale sales)	30%	35%	50%	75%	100%	Nil
Proportion hypothecated to health promotion fund	1/6	1/7	1/10	1/15 (max)	1/15 (max)	Nil
Percentage of wholesale sales for health promotion	5%	5%	5%	5% (max)	6.66% (max)	Nil

### NOTES

- 1987–88 to 1991–92: Full hypothecation calculated as percentage of Victorian *ad valorem* tobacco franchise fees (the tobacco levy).
- 1992–93 to 1995–96: Nominal hypothecation, but capped. VicHealth funded from tobacco fees but actual amount capped and less than the specified maximum.
- 1996–97: Indexation of 3% introduced.
- 1997–: On 5 August 1997 the High Court of Australia invalidated state and territory business franchise and licence fees, including tobacco fees. Since then VicHealth has been funded from consolidated revenue as part of Victoria’s annual budget and paid via the Department of Human Services.