

# Appendix 4



**Parliament of Australia**  
**Parliamentary Budget Office**

## Submission to the Senate Select Committee on Health regarding Commonwealth funding of public hospitals

3 February 2016

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# Introduction

- 1 The Secretary of the Senate Select Committee on Health (the Committee) wrote to the Parliamentary Budget Officer on 16 December 2015 requesting the preparation of a submission to the Committee in relation to Commonwealth funding of public hospitals. A copy of this request is provided at [Attachment A](#).
- 2 In response to this request the PBO has provided the following information:
  - [Table 1](#)  
Aggregate and State breakdown of the difference in Commonwealth hospital funding under current Government policy (indexation by Consumer Price Index (CPI) and population growth, see Table B1 at [Attachment B](#)) and the scenario where Commonwealth hospital funding was to be provided in accordance with the *National Health Reform Agreement 2011* (the 2011 Agreement, see Table B2 at Attachment B),<sup>1</sup> over 2014–15 to 2024–25.
  - [Table 2](#)  
Aggregate and State breakdown of the difference between Commonwealth hospital funding with and without the funding guarantee specified in clauses A67 to A79 of the 2011 Agreement in place, over 2014–15 to 2017–18.
  - [Table 3](#)  
Aggregate and State breakdown of the difference in Commonwealth funding under current Government policy and the scenario where the National Partnerships terminated in the 2014–15 Budget were still in effect, over 2014–15 to 2024–25.

## Background

### National Health Reform

- 3 On 2 August 2011 the Council of Australian Governments (COAG) agreed to the 2011 Agreement, replacing the former National Healthcare Specific Purpose Payment (SPP).
- 4 Under the 2011 Agreement, from 1 July 2014 Commonwealth funding for public hospitals would use an activity based funding (ABF) approach with a national efficient price for hospital services. The Commonwealth agreed to meet 45 per cent of the efficient growth in activity based funding initially, rising to 50 per cent after 1 July 2017.
- 5 The 2011 Agreement also set out an approach for hospital services and functions where block funding was deemed appropriate (such as those provided in rural/small hospitals). As per the ABF approach, the Commonwealth agreed to meet 45 per cent of the efficient growth in block grant funding based on the national efficient cost initially, rising to 50 per cent after 1 July 2017.

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1 Note the 2011 Agreement profile used to derive these amounts did not include the funding guarantees.

- 6 Further, the 2011 Agreement provided a guarantee that the Commonwealth funding under the ABF approach would provide at least an additional \$16.4 billion in growth in funding between 2014–15 and 2019–20. As such, in the event the ABF approach resulted in additional funding of less than \$16.4 billion over the period, the Commonwealth would provide the remainder to States as top-up funding.
  - a Of the \$16.4 billion guarantee up to \$9.5 billion in top-up funding (referred to as the state specific guarantee) was to be provided to states based on an annual reconciliation of what was provided under the ABF approach and what would have been provided under the former National Health Care SPP.
  - b An assessment of the amount of the remaining top-up funding under the national guarantee (\$6.9 billion) was to occur in 2017 at which time decisions regarding the quantum and timing of the remaining guarantee funding would be made (refer to clause A75 of the 2011 Agreement).
- 7 In May 2015 the Government announced that from 1 July 2017 the Commonwealth’s contribution would grow in line with CPI and population growth.
- 8 The 2014–15 Budget included two measures ceasing the National Partnership on Preventive Health and the National Partnership on Improving Public Hospital Services.

**Table 1: PBO projections—Aggregate and State breakdown of the difference in Commonwealth hospital funding under current Government policy (indexation by CPI and population growth) and the scenario where Commonwealth hospital funding was to be provided in accordance with the 2011 Agreement, over 2014–15 to 2024–25<sup>2</sup> (a)(b)(c)(d)(e)(f)**

(\$m)	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	Total
New South Wales	-	-	-	-371	-801	-1,265	-1,782	-2,359	-2,988	-3,679	-4,436	-17,681
Victoria	-	-	-	-272	-589	-952	-1,356	-1,806	-2,298	-2,838	-3,430	-13,541
Queensland	-	-	-	-199	-464	-752	-1,074	-1,433	-1,824	-2,254	-2,726	-10,726
Western Australia	-	-	-	-168	-308	-474	-658	-863	-1,087	-1,333	-1,602	-6,493
South Australia	-	-	-	-103	-206	-312	-429	-559	-701	-858	-1,029	-4,197
Tasmania	-	-	-	-20	-53	-83	-117	-154	-195	-240	-289	-1,151
Australian Capital Territory	-	-	-	-84	-113	-145	-180	-218	-260	-306	-356	-1,662
Northern Territory	-	-	-	-30	-46	-63	-82	-103	-125	-150	-178	-777
<b>Total</b>	-	-	-	<b>-1,247</b>	<b>-2,580</b>	<b>-4,046</b>	<b>-5,678</b>	<b>-7,495</b>	<b>-9,478</b>	<b>-11,658</b>	<b>-14,046</b>	<b>-56,228</b>

- a The impacts are on a fiscal balance basis.
- b Figures presented are based on economic and fiscal parameters as at the 2015–16 MYEFO.
- c Note the 2011 Agreement profile used to derive these amounts did not include the funding guarantees (this is addressed in Table 2).
- d Amounts may not sum due to rounding.
- e The aggregate financial implications are considered to be of **medium** reliability. The estimates for hospital funding under the current policy setting (where growth is based on population and CPI) are considered reliable particularly given that population is relatively stable and has predictable growth. The estimates for hospital funding based on the 2011 Agreement are less reliable as they are based on estimated total hospital expenditure (Commonwealth and state governments) which are less predictable as there is limited historical data (particularly for growth in efficient prices).
- f The state breakdowns are of **medium** reliability as the estimates are calculated based on state proportions of the total in the last known year of available data, and the future distribution of the Australian population across states and territories may differ, particularly as the projection period increases.

2 Timeframe as requested by the Committee.

**Table 2: PBO projections—Aggregate and State breakdown of the difference between Commonwealth hospital funding with and without the funding guarantee specified in clauses A67 to A79 of the 2011 Agreement in place, over 2014–15 to 2017–18<sup>3</sup> (a)(b)(c)(d)(e)**

(\$m)	2014–15	2015–16	2016–17	2017–18	Total
New South Wales	-	-	-	-	-
Victoria	-	23	109	3	135
Queensland	17	92	160	87	356
Western Australia	-	43	74	58	174
South Australia	-	-	21	-	21
Tasmania	-	-	7	-	7
Australian Capital Territory	-	1	1	-	2
Northern Territory	-	-	-	-	-
<b>Total</b>	<b>17</b>	<b>158</b>	<b>371</b>	<b>148</b>	<b>695</b>

- a The impacts are on a fiscal balance basis.
- b Figures presented are based on economic and fiscal parameters as at the 2015–16 MYEFO.
- c Amounts may not sum due to rounding.
- d The aggregate financial implications are considered to be of **low** reliability. The estimates for the withdrawal of the funding guarantee were derived using the estimates for Commonwealth hospital funding, based on the 2011 Agreement, and estimates for the National Healthcare SPP, and a state breakdown of the funding guarantee amounts outlined in the 2011 Agreement. The reliability of estimates for funding based on the 2011 Agreement are outlined in notes to Table 1, and the estimates for the National Healthcare SPP are slightly more reliable as they are based on the formula specified in the 2009 *Intergovernmental Agreement on Federal Financial Relations*. As the aggregate implications are dependent on the two series of estimates mentioned, they are rated as low reliability as the margins for error compound.
- e The state breakdowns are of **medium** reliability as the estimates are calculated based on state proportions of the total in the last known year of actual data and may differ particularly as the projection period increases.

3 Timeframe as requested by the Committee.

**Table 3: PBO projections—Aggregate and State breakdown of the difference in Commonwealth funding under current Government policy and the scenario where the National Partnerships terminated in the 2014–15 Budget were still in effect, over 2014–15 to 2024–25<sup>4</sup> (a)(b)(c)(d)**

(\$m)	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	Total
New South Wales	17	49	74	42	-	-	-	-	-	-	-	182
Victoria	13	38	56	32	-	-	-	-	-	-	-	139
Queensland	11	32	48	27	-	-	-	-	-	-	-	117
Western Australia	6	16	24	14	-	-	-	-	-	-	-	60
South Australia	4	11	16	9	-	-	-	-	-	-	-	40
Tasmania	1	3	5	3	-	-	-	-	-	-	-	12
Australian Capital Territory	1	2	4	2	-	-	-	-	-	-	-	9
Northern Territory	1	2	3	2	-	-	-	-	-	-	-	6
<b>Total</b>	<b>54</b>	<b>153</b>	<b>230</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>567</b>

- a The impacts are on a fiscal balance basis.
- b Figures presented are based on economic and fiscal parameters as at the 2015–16 MYEFO.
- c Amounts may not sum due to rounding.
- d The aggregate financial implications and state breakdowns are considered to be of high reliability as the amounts are as presented in the 2014–15 Budget and the funding that would be provided under the relevant National Partnerships were fixed amounts and not dependent on population or price factors.

4 Timeframe as requested by the Committee.

## Data Sources

- 1 The Department of Finance and the Treasury provided 2015–16 MYEFO parameter and population projections.
- 2 Commonwealth Budget, MYEFO and Final Budget Outcome documents.
- 3 Council of Australian Governments National Health Reform Agreement, February 2011:  
[http://www.federalfinancialrelations.gov.au/content/npa/health\\_reform/national-agreement.pdf](http://www.federalfinancialrelations.gov.au/content/npa/health_reform/national-agreement.pdf)
- 4 Intergovernmental Agreements on Federal Financial Relations, Schedule D, March 2009:  
[http://www.federalfinancialrelations.gov.au/content/inter\\_agreement\\_and\\_schedules/superseded/Schedule\\_D\\_March\\_09.pdf](http://www.federalfinancialrelations.gov.au/content/inter_agreement_and_schedules/superseded/Schedule_D_March_09.pdf)
- 5 Australian Institute of Health and Welfare—Health Expenditure Australia annual publications.



# Attachment B

**Table B1: PBO projections of commonwealth hospital funding under current Government policy (indexation by Consumer Price Index (CPI) and population growth), at an aggregate and state and territory level, over 2014–15 to 2024–25<sup>5</sup> (a)(b)(c)**

(\$m)	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	Total
New South Wales	4,878	5,243	5,523	5,755	5,987	6,236	6,491	6,755	7,028	7,312	7,605	<b>68,813</b>
Victoria	3,851	4,134	4,331	4,533	4,734	4,931	5,132	5,341	5,557	5,781	6,013	<b>54,338</b>
Queensland	3,061	3,284	3,451	3,629	3,778	3,935	4,096	4,263	4,435	4,614	4,799	<b>43,345</b>
Western Australia	1,755	1,831	1,956	2,001	2,095	2,182	2,271	2,364	2,459	2,559	2,661	<b>24,134</b>
South Australia	1,125	1,188	1,238	1,270	1,315	1,370	1,426	1,484	1,544	1,606	1,670	<b>15,236</b>
Tasmania	334	349	359	378	388	404	421	438	455	474	493	<b>4,493</b>
Australian Capital Territory	305	321	343	296	308	321	334	347	362	376	391	<b>3,704</b>
Northern Territory	158	174	193	184	191	199	207	215	224	233	243	<b>2,221</b>
<b>Total</b>	<b>15,466</b>	<b>16,525</b>	<b>17,394</b>	<b>18,047</b>	<b>18,796</b>	<b>19,578</b>	<b>20,378</b>	<b>21,207</b>	<b>22,065</b>	<b>22,955</b>	<b>23,875</b>	<b>216,286</b>

a The impacts are on a fiscal balance basis.

b Figures presented are based on economic and fiscal parameters as at the 2015–16 MYEFO.

c Amounts may not sum due to rounding.

5 Timeframe as requested by the Committee.

**Table B2: PBO projections of scenario where Commonwealth hospital funding was to be provided in accordance with the National Health Reform Agreement 2011, over 2014–15 to 2024–25<sup>6</sup> (a)/(b)(c)(d)**

(\$m)	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	Total
New South Wales	4,878	5,243	5,523	6,126	6,788	7,501	8,273	9,114	10,016	10,991	12,041	86,494
Victoria	3,851	4,134	4,331	4,805	5,323	5,883	6,488	7,148	7,855	8,619	9,443	67,880
Queensland	3,061	3,284	3,451	3,828	4,242	4,687	5,170	5,695	6,259	6,868	7,525	54,070
Western Australia	1,755	1,831	1,956	2,169	2,403	2,656	2,929	3,227	3,546	3,891	4,263	30,626
South Australia	1,125	1,188	1,238	1,373	1,521	1,681	1,854	2,043	2,245	2,464	2,699	19,431
Tasmania	334	349	359	398	441	487	538	592	651	714	782	5,645
Australian Capital Territory	305	321	343	380	421	466	514	566	622	682	748	5,368
Northern Territory	158	174	193	214	237	262	289	318	350	384	420	2,999
<b>Total</b>	<b>15,466</b>	<b>16,525</b>	<b>17,394</b>	<b>19,294</b>	<b>21,377</b>	<b>23,623</b>	<b>26,055</b>	<b>28,703</b>	<b>31,545</b>	<b>34,613</b>	<b>37,922</b>	<b>272,517</b>

a The impacts are on a fiscal balance basis.

b Figures presented are based on economic and fiscal parameters as at the 2015–16 MYEFO.

c Amounts may not sum due to rounding.

d Note these figures exclude ant state specific of national guarantee funding.

6 Timeframe as requested by the Committee.