



Policy costing

Better Hospitals Fund	
Party:	Australian Labor Party
<p>Summary of proposal: The proposal has four components.</p> <ul style="list-style-type: none">• Component 1: The Commonwealth Government would fund an increased share of the annual growth in the efficient cost of activity-based and block-funded hospital services over the period 2020-21 to 2024-25.<ul style="list-style-type: none">– The share of growth funded by the Commonwealth would gradually increase from the baseline level of 45 per cent to 50 per cent by 2024-25 with the cost of this graduated increase to be \$1 billion over the period 2020-21 to 2024-25. <p>Funding from 2025-26 onwards would be determined in the negotiations of the next <i>National Health Reform Agreement</i>.</p> <ul style="list-style-type: none">• Component 2: \$1,000 million would be provided for new capital projects for hospitals and other health facilities over five years from 2019-20. Of this funding, \$50 million would be committed to the proposal to build the new Nepean Hospital Comprehensive Cancer Care Centre in 2024-25.• Component 3: \$250 million over five years would be provided to reduce the size of elective surgery waiting lists in public hospitals.• Component 4: \$517.7 million over five years would be provided for projects related to delivering better hospital services. <p>Components 1 and 4 would commence 1 July 2020 and Components 2 and 3 would commence on 1 July 2019.</p>	

Costing overview

The proposal would be expected to decrease both the fiscal and underlying cash balances by \$1,295 million over the 2019-20 Budget forward estimates period. This impact is entirely due to an increase in administered expenses.

The proposal is expected to have an impact beyond the 2019-20 Budget forward estimates period. The estimated financial implications over the period to 2029-30 are at [Attachment A](#).

Departmental expenses are not expected to be significant and have not been included in the analysis.

The estimates for Component 1 are sensitive to projections of demand for hospital services and the efficient price of those services, as determined by the Independent Hospital Pricing Authority. The estimates for Components 2, 3 and 4 are based on specified capped amounts.

Table 1: Financial implications (\$m)^(a)

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-123	-253	-388	-531	-1,295
Underlying cash balance	-123	-253	-388	-531	-1,295

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

Component 1 – Fund an increased share of the annual growth in the efficient cost of activity-based and block-funded hospital services

- Based on information from the Department of Health, growth rates for activity-based and block-funded components under the current activity-based funding model are as follows.
 - The National Efficient Price grows by 1.6 per cent per year.
 - The National Weighted Activity Units grow by 3.9 per cent per year.
 - The National Efficient Cost grows by 2.9 per cent per year.
- To meet the criteria of a gradual increase in funding to reach 50 per cent of the annual growth in the efficient cost of activity-based and block-funded hospital services by 2024-25 at a cost of \$1 billion, the funding trajectory starts at 45 per cent in 2019-20 and rises as follows: 46 per cent in 2020-21; 47 per cent in 2021-22; 48 per cent 2022-23; 49 per cent in 2023-24 and 50 per cent 2024-25.
- Consistent with the budget treatment of hospital funding when a subsequent agreement with the states and territories has not been finalised, policy settings from 2025-26 onwards revert to the current policy baseline. That is, the Commonwealth Government would fund 45 per cent of the annual growth in the efficient cost of activity-based and block-funded hospital services over the medium term, with annual funding growth capped at 6.5 per cent.
- The amounts provided for public health activities under the National Health Reform Agreement 2011 would continue.

Methodology

Component 1 – Fund an increased share of the annual growth in the efficient cost of activity-based and block-funded hospital services

The financial implications of this proposal represent the difference between the 2019-20 Budget baseline and the specified changes to funding arrangements, with the assumed trajectory for reaching 50 per cent of annual growth in efficient costs of hospitals services as outlined above. Efficient growth in hospital services was estimated using the Department of Health’s hospital funding model, and would be maintained at 2024-25 levels over the period to 2029-30.

Components 2 and 3 – New capital projects and Elective surgery waiting lists

The financial implications of these components are equal to the specified capped funding amount over the period from 2019-20 to 2024-25.

Component 4 – Projects to deliver better hospital services

This funding is calculated as the remainder of the total of expenditure for Components 1, 2 and 3 over the period 2019-20 to 2024-25 and the \$2.8 billion announced by the Australian Labor Party in their *Better Hospitals Fund* commitment.

All components

All estimates were rounded to the nearest \$100,000.

Data sources

The Department of Health provided the 2019-20 Pre-election Economic and Fiscal Outlook hospital funding model.

Attachment A – Better Hospitals Fund – financial implications

Table A1: Better Hospitals Fund – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
Expenses													
<i>Administered</i>													
<i>Component 1 – Fund an increased share of the annual growth in the efficient cost of activity-based and block-funded hospital services</i>	-	-26.9	-83.6	-173.1	-298.7	-464.0	-464.0	-464.0	-464.0	-464.0	-464.0	-283.6	-3,366.0
<i>Component 2 – New capital projects</i>	-98.4	-180.3	-180.3	-180.3	-180.3	-180.3	-	-	-	-	-	-639.4	-1,000
<i>Component 3 – Elective surgery waiting lists</i>	-24.6	-45.1	-45.1	-45.1	-45.1	-45.1	-	-	-	-	-	-159.8	-250.0
<i>Component 4 – Projects to deliver better hospital services</i>	-	-0.7	-79.0	-132.5	-156.9	-148.6	-	-	-	-	-	-212.2	-517.7
Total	-123.0	-253.0	-388.0	-531.0	-681.0	-838.0	-464.0	-464.0	-464.0	-464.0	-464.0	-1,295.0	-5,133.8

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.