



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Hospital Funding We Deserve* (letter of 1 July 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

/ July 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Hospital Funding We Deserve
Summary of proposal:	<p>The proposal includes the following three components:</p> <p><u>Component 1 – Hospital funding</u></p> <p>This component would set the annual growth in Commonwealth funding to states and territories for public hospitals from 1 July 2017 to 50 per cent of the efficient growth in public hospital costs.</p> <p><u>Component 2 – Darebin Community Health Centre National Partnership Payment (NPP)</u></p> <p>This component would provide \$8.8 million in 2016-17 for Darebin Community Health Centre Preston in Preston, Victoria.</p> <p><u>Component 3 – Tweed Hospital NPP</u></p> <p>This component would provide \$100 million in 2016-17 for Tweed Hospital in Tweed Heads, New South Wales.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	30 March 2016 http://greens.org.au/healthcare
Date costing request received:	1 July 2016
Date costing completed:	1 July 2016
Additional information requested:	On 1 July 2016 clarification was sought from the office of Senator Di Natale (the office) as to the start date for Component 1.
Additional information received:	On 1 July 2016 the office advised that the start date for Component 1 is 1 July 2017.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by \$792.8 million over the 2016-17 Budget forward estimates period. This impact is entirely due to an increase in administered expenses.

Departmental expenses have not been included for the Department of Health or The Treasury as the proposed options are not expected to impact significantly on administrative activities currently undertaken by these agencies.

A breakdown of the financial impact by component over the 2016-17 Budget forward estimates period is provided at [Attachment A](#). The proposal would have an ongoing impact beyond the forward estimates period (relating to Component 1 only) growing to an annual impact of around \$4 billion in 2026-27.

The financial implications provided are considered to be of low reliability as, while Components 2 and 3 are specified capped amounts, the estimates for Component 1 are highly sensitive to:

- the growth in the National Efficient Price (NEP) and volume (National Weighted Activity Units) which determine the level of activity based funding
- the National Efficient Cost which determines the level of hospital block funding.

Since the Commonwealth funding of public hospitals has been linked to the efficient growth in the cost of hospital services from 2014-15, there have been material revisions to these cost drivers.

Table 1: Financial implications (outturn prices)^(a)

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-108.8	-110	-226	-348	-792.8
Underlying cash balance	-108.8	-110	-226	-348	-792.8

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

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

Key assumptions

For Component 1, it has been assumed that:

- the amount provided for public health activities under the National Health Reform Agreement 2011 (2011 NHRA) would continue from 2017-18
- for the base policy setting, beyond 2019-20 Commonwealth funding for public hospitals would be indexed by a combination of population growth and the consumer price index, and would not include amounts provided for public health activities under the 2011 NHRA.

Methodology

Component 1: Hospital funding

Base policy setting

Commonwealth public hospital funding estimates are drawn from the 2016-17 Budget.

Proposed policy settings: 50 per cent of the efficient growth in public hospital costs

From 1 July 2017 the estimates reflect the Commonwealth funding 50 per cent of the efficient growth in the cost of hospital services. These estimates were derived from the Department of Health's 2016-17 Budget hospital funding model (*see Data sources*).

The impact of this proposal is the difference between estimates under the base policy setting and those under the proposal.

Amounts have been rounded to the nearest \$1 million.

Component 2: Darebin Community Health Centre NPP and Component 3: Tweed Hospital NPP

Administered expenditure estimates for both components are as specified in the request.

Data sources

- The Department of Health provided the 2016-17 Budget hospital funding model.
- 2016-17 Budget - Payments to support state health services.
- Administrator of the National Health Funding Pool: Total hospital funding
<http://www.publichospitalfunding.gov.au/reports/national>
 - National Health Reform funding by funding type.
- Independent Hospital Pricing Authority, National Efficient Price Determination 2016-17
<https://www.ihpa.gov.au/publications/national-efficient-price-determination-2016-17>
 - NEP and growth in NEP.

Attachment A: Hospital Funding We Deserve— financial implications

Table A1: Hospital Funding We Deserve—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal and underlying cash balances – expenses/payments					
Component 1 - Hospital funding	-	-110	-226	-348	-684
Component 2 – Darebin Community Health Centre NPP	-8.8	-	-	-	-8.8
Component 3 – Tweed Hospital NPP	-100	-	-	-	-100
Total	-108.8	-110	-226	-348	-792.8

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

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

- Indicates nil.