Parliamentary Budget Office

Hospital Funding and Waiting List Blitz	
Party:	Australian Greens

Summary of proposal:

The proposal has 3 components and would have effect from 1 July 2022.

Component 1 would fund 50% of the annual growth in the efficient cost of activity-based and block-funded hospital services on an ongoing basis and would maintain the activity-based funding model.

- Under the baseline policy, the Australian Government will fund 45% of the annual growth in the efficient cost of activity-based and block-funded hospital services over the period to 2032-33, with annual funding growth capped at 6.5%.

Component 2 would establish an independent national health agency (the new agency) to support the integration of health services at a regional level.

- The new agency would take over the functions of the Independent Hospital Pricing Authority, the Administrator of the National Health Funding Pool, the Australian Institute of Health and Welfare, the Australian Digital Health Agency, and the Australian Commission on Safety and Quality in Health Care. These agencies would be abolished.
- The new agency would also have responsibility for stewardship and funding decision making for primary care and dental care, with these functions transferring from the Department of Health.
- All new agency staff would be co-located in Canberra.
- The new agency would be distinct from the Commonwealth, state and territory health departments, and would report directly to the National Cabinet or the Health National Cabinet Reform Committee.

Component 3 would provide one-off payments to the states and territories to help eliminate public hospital waiting lists for particular categories of clinical urgency. These payments would be spread over 2 years from 1 July 2022, with 80% paid in 2022-23.

- The payment would be based on the number of patients on elective surgery waiting lists who have been waiting longer than clinically indicated for their category as at 30 June 2022. All patients in clinical urgency categories 1, 2 and 3 would be eligible.
- The payment rate per patient would be based on the national efficient price for each category of surgery as per the Independent Hospital Pricing Authority's cost determinations.
- The requestor has sought a breakdown of costs by state and territory, alongside national total costs.

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around $2,385 million over the 2022-23 Budget forward estimates period. This reflects an increase in administered expenses of around $2,040 million and an increase in departmental expenses of around $345 million, including capital expenses of around $140 million.

The 2022-23 Budget baseline does not include ongoing funding beyond 2022-23 for the Australian Digital Health Agency[1], whereas ongoing funding is included under the proposal. This is a key contributor to the financial implications for Component 2.

Departmental expenses for Components 1 and 3 are not expected to be significant and have not been included.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables and distributional analysis for Component 3) over the period to 2032-33 is provided at Attachment A.

The estimates for Component 1 are sensitive to projections of demand for hospital services and the efficient price of those services. The funding estimates across states and territories are also sensitive to the proposal's interactions with arrangements around funding caps, reconciliation and redistribution. The financial implications of Component 1 are relatively small as Commonwealth funding growth in the baseline is expected to reach the 6.5% cap for most years over the policy period, leaving very limited scope for additional funding under the proposal.

The estimates for Component 2 are sensitive to the level of funding provided for the abolished agencies under the budget baseline. The financial implications are also sensitive to assumptions of redundancy levels and costs, lease-break costs and capital expenses, and parameter variations in the consumer price index and wage cost index.

The estimates for Component 3 are highly sensitive to the estimated cost per surgery and number of eligible patients. The eligible patient data underpinning this costing are collected at the state and territory level. It is not clear whether the method of classifying patients and assessing wait times is applied consistently across states and territories. The estimated state and territory impacts are also sensitive to variations in the types of surgeries that are performed in each state and territory, as such variations could cause inconsistencies when state and territory patient data are mapped to price data that are only available at the national level. The costing makes no judgement about whether the states and territories will be able to fully utilise the funding provided to achieve elimination of waiting lists, which will also be dependent upon the surge capacity available in hospital systems.

Further, there are heightened uncertainties around the degree to which COVID-19, and any associated interruption to elective surgeries, would impact the number of patients on elective surgery waiting lists as at 30 June 2022.

[1] Commonwealth of Australia, 2022. *Portfolio Budget Statements 2022-23 Health Portfolio,* Canberra.

Table 1: Financial implications ($m)[a][b]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-1,290.0	-573.5	-257.1	-264.8	**-2,385.4**
Underlying cash balance	-1,290.0	-573.5	-257.1	-264.8	**-2,385.4**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

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

Component 1 – Fund 50% of the efficient growth in 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 would be as follows:
  - The national efficient price would grow by around 2.4% per year.
  - The national weighted activity units would grow by around 4% per year.
  - The national efficient cost would grow by around 3.3% per year.
- The amounts provided for public health activities under the *2020-25 National Health Reform Agreement* would continue.

Component 2 – Establish an independent national health agency

- The new agency would sign a new lease agreement in Canberra and there would be lease-break costs incurred on all current lease arrangements for the agencies being abolished.
- Current Sydney-based staff would be offered redundancies and existing Canberra based staff undertaking functions that would be transferred would move to the new agency. Natural attrition has been factored into redundancy estimates.
- The overall staffing level under the proposal would be in line with those employed to perform the current functions assumed by the new agency.
- The new agency would be funded by the Australian Government without assistance from state and territory governments.

Component 3 – Payments to states and territories to reduce public hospital waiting lists

- Over the period to 30 June 2023, the number of eligible patients in each state and territory would increase by the average annual increase observed between 2016-17 and 2018-19. Using the pre-COVID-19 data instead of the most up-to-date data is to remove the undue COVID-19 impact on elective waiting list growth.
  - The actual data to 2020-21 were extracted from Australian Institute of Health and Welfare (AIHW) elective surgery waiting times reports.
- The average cost per surgery for eligible patients would be $9,317 in 2022-23 and $9,547 in 2023-24, calculated as the product of the national efficient price in the relevant year and the average price weight across all relevant elective surgeries conducted in 2019-20.

  - The average price weight would be around 1.6, calculated as the weighted average cost over all category 1, 2 and 3 surgical procedures reported by the AIHW, excluding transplants and neonatal surgeries as these surgeries would be performed within the clinically indicated time.
  - The national efficient price would increase annually from the 2022-23 determination by the Independent Hospital Pricing Authority of $5,797 in accordance with estimates provided by the Department of Health.
- The composition of surgery types for those eligible under the proposal would be the same as the composition of surgeries performed in 2018-19 to reflect pre-COVID-19 times.
- Existing methodologies for hospitals and physicians to classify patients into each clinical urgency category would remain unchanged.

Methodology

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

Component 1

The financial implications of this proposal represent the difference between the 2022-23 Budget baseline and the specified change to funding arrangements. Efficient growth in hospital services was estimated using the Department of Health's hospital funding model.

The financial implications for Component 1 are the product of the change in Commonwealth funding share under the proposal and the total change in activity-based funding and block funding, subject to the overall 6.5% cap on annual growth in Commonwealth funding.

Component 2

The baseline administered and departmental expenses over the 2022-23 Budget forward estimates period were obtained from the Department of Health. The budget baseline funding for each agency was projected out over the period to 2032-33. Some of the current functions that would be assumed by the new agency do not have ongoing funding under the budget baseline and their funding is subject to future decisions by the Australian Government.

The administered and departmental expenses under the proposal have been derived from baseline expenses by accounting for:

- the ongoing nature of the new agency
- voluntary redundancy costs, lease-break costs, capital expenses and other departmental costs, which were based on similar budget measures
- savings from consolidating the corporate functions of the amalgamated agencies.

Administered expenses were grown by the consumer price index. Departmental expenses were estimated by growing the appropriate wage cost index net of the efficiency dividend as at the *Budget 2022-23*.

[2] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Component 3

Administered expenses in each state and territory were calculated by multiplying the assumed number of eligible patients by the assumed average cost per surgery as discussed in *Key assumptions*.

The specified cost split of 80% in 2022-23 and 20% in 2023-24 was applied to the estimated administered expenses at the state level.

Total administered expenses at the national level are the sum of the administered expenses in all states and territories.

Data sources

The Department of Health provided the *Budget 2022-23* hospital funding model and details on the agencies to be abolished under the proposal.

The Department of Finance provided the consumer price index, wage cost index and efficiency dividend data as at the *Budget 2022-23*.

Commonwealth of Australia, 2022. *2022-23 Budget*, Canberra: Commonwealth of Australia.

Australian Institute of Health and Welfare, 2022. *Elective surgery waiting times supplementary tables*, accessed 14 April 2022.

Australian Institute of Health and Welfare, 2019. *Australian refined diagnosis-related groups (AR-DRG) version 9.0 data cube, 2018-19*, accessed 14 April 2022.

Australian Institute of Health and Welfare, 2019. *Elective surgery waiting times 2018-19: Australian hospital statistics.*

Australian Institute of Health and Welfare, 2018. *Elective surgery waiting times 2017-18: Australian hospital statistics.*

Australian Institute of Health and Welfare, 2017. *Elective surgery waiting times 2016-17: Australian hospital statistics.*

Bureau of Health Information, 2020. *Healthcare Quarterly, July to September 2020*, accessed 25 April 2022.

Independent Hospital Pricing Authority. *National Efficient Price Determination 2022-23*, accessed 25 April 2022.

Attachment A – Hospital Funding and Waiting List Blitz – financial implications

Table A1: Hospital Funding and Waiting List Blitz – Fiscal and underlying cash balances ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Expenses													
Administered													
Component 1 – Increase hospital funding	-	*-48.5*	*-7.1*	*-6.8*	*-8.7*	*-9.2*	*-9.8*	*-10.3*	*-4.6*	*-4.9*	*-3.9*	***-62.4***	***-113.8***
Component 2 – Abolish existing agencies	*1,060.0*	*870.0*	*880.0*	*900.0*	*920.0*	*940.0*	*960.0*	*990.0*	*1,010.0*	*1,040.0*	*1,070.0*	***3,710.0***	***10,640.0***
Component 2 – Establish independent agency	*-1,060.0*	*-1,060.0*	*-1,080.0*	*-1,100.0*	*-1,130.0*	*-1,160.0*	*-1,190.0*	*-1,220.0*	*-1,250.0*	*-1,270.0*	*-1,300.0*	***-4,300.0***	***-12,820.0***
Component 3 – Eliminate hospital waiting lists	*-1,110.0*	*-280.0*	-	-	-	-	-	-	-	-	-	***-1,390.0***	***-1,390.0***
Total – administered	***-1,110.0***	***-518.5***	***-207.1***	***-206.8***	***-218.7***	***-229.2***	***-239.8***	***-240.3***	***-244.6***	***-234.9***	***-233.9***	***-2,042.4***	***-3,683.8***
Departmental													
Component 2 – Abolish existing agencies	*249.0*	*182.0*	*185.0*	*179.0*	*180.0*	*181.0*	*182.0*	*183.0*	*185.0*	*186.0*	*187.0*	***795.0***	***2,079.0***
Component 2 – Establish independent agency	*-290.0*	*-237.0*	*-235.0*	*-237.0*	*-239.0*	*-240.0*	*-242.0*	*-244.0*	*-245.0*	*-247.0*	*-250.0*	***-999.0***	***-2,706.0***
Component 2 – Capital costs	*-139.0*	-	-	-	-	-	-	-	-	-	-	***-139.0***	***-139.0***
Total – departmental	***-180.0***	***-55.0***	***-50.0***	***-58.0***	***-59.0***	***-59.0***	***-60.0***	***-61.0***	***-60.0***	***-61.0***	***-63.0***	***-343.0***	***-766.0***
Total (excluding PDI)	**-1,290.0**	**-573.5**	**-257.1**	**-264.8**	**-277.7**	**-288.2**	**-299.8**	**-301.3**	**-304.6**	**-295.9**	**-296.9**	**-2,385.4**	**-4,449.8**

(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.

\- Indicates nil.

Table A2: Hospital Funding and Waiting List Blitz – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	*-15.0*	*-36.0*	*-46.0*	*-53.0*	*-61.0*	*-70.0*	*-80.0*	*-91.0*	*-103.0*	*-117.0*	*-140.0*	***-150.0***	***-812.0***
Underlying cash balance	*-13.0*	*-33.0*	*-45.0*	*-52.0*	*-60.0*	*-69.0*	*-79.0*	*-90.0*	*-102.0*	*-115.0*	*-138.0*	***-143.0***	***-796.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) 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.

Table A3: Hospital Funding and Waiting List Blitz – Distributional analysis for Component 3 – Fiscal and underlying cash balances ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
New South Wales	*-304.0*	*-77.0*	-	-	-	-	-	-	-	-	-	***-381.0***	***-381.0***
Victoria	*-321.0*	*-82.0*	-	-	-	-	-	-	-	-	-	***-403.0***	***-403.0***
Queensland	*-137.0*	*-35.0*	-	-	-	-	-	-	-	-	-	***-172.0***	***-172.0***
Western Australia	*-115.0*	*-29.0*	-	-	-	-	-	-	-	-	-	***-144.0***	***-144.0***
South Australia	*-116.0*	*-28.0*	-	-	-	-	-	-	-	-	-	***-144.0***	***-144.0***
Tasmania	*-73.0*	*-18.0*	-	-	-	-	-	-	-	-	-	***-91.0***	***-91.0***
Australian Capital Territory	*-27.0*	*-7.0*	-	-	-	-	-	-	-	-	-	***-34.0***	***-34.0***
Northern Territory	*-17.0*	*-4.0*	-	-	-	-	-	-	-	-	-	***-21.0***	***-21.0***
Total	**-1,110.0**	**-280.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-1,390.0**	**-1,390.0**

(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.

\- Indicates nil.

[3] Online budget glossary – Parliament of Australia (aph.gov.au)