



# **Determination 02: Adjustments to Commonwealth funding under the National Health Reform Agreement – *Growth period***

**Date of Issue: 18 August 2014**

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## **1. Purpose**

- 1.1 This determination sets out the framework that the Administrator of the National Health Funding Pool (the Administrator) will use to adjust Commonwealth National Health Reform (NHR) funding contributions during a financial year to allow for factors affecting Commonwealth contributions.

## **2. Application**

- 2.1 This determination applies to all jurisdictions.
- 2.2 This determination is operative from the date of issue.
- 2.3 This determination applies to the 'growth period' (2014-15 to 2016-17) of the National Health Reform Agreement (NHRA).
- 2.4 This determination supersedes the previous Determination 02 (issued 27 November 2012) which applied only to the transitional (fixed) period of the NHRA (2012-13 and 2013-14).

## **3. Adjustment types**

- 3.1 There are two forms of adjustment undertaken by the Administrator to the Commonwealth NHR funding. These can be defined as *ex-ante* and *ex-post* adjustments.
- 3.2 *Ex-ante* adjustments are those which occur prior or during the funding period (i.e. current financial year), and *ex-post* are those adjustments that occur once the period has concluded (i.e. adjustments relating the prior financial year).
- 3.3 The *ex-ante* adjustments are listed below and will be applied in the following order:
- a. Commonwealth Budget and Mid-Year Economic and Fiscal Outlook (MYEFO),
  - b. Changes to LHN National Weighted Activity Unit (NWAU) estimates, and
  - c. Revisions of the Independent Hospital Pricing Authority (IHPA) National Efficient Price (NEP) and National Efficient Cost (NEC) determinations.

- 3.4 The *ex-post* adjustments are listed below:
- a. Reconciliation of actual activity to estimated service volumes, and
  - b. Final Budget Outcome (FBO) determination.
- 3.5 These adjustments are outlined in sections 4 and 5 respectively.
- 3.6 Other adjustments as allowed for under the NHRA, such as pilot programs or emergency funding allocations, may occur *ex-ante* or *ex-post*. These adjustments are outlined in section 6.

## 4. *Ex-ante* adjustments

### Commonwealth Budget and MYEFO statement

- 4.1 Parameter changes in the Commonwealth Budget and annual MYEFO statement may affect Commonwealth NHR funding contributions for Public Health and the calculation of the former National Healthcare Specific Purpose Payment (SPP). Prior to the release of the Commonwealth Budget and MYEFO, the Commonwealth Treasury (on behalf of the Treasurer) will advise the Administrator of these impacts.
- 4.2 The Administrator will advise the Treasurer of the Commonwealth NHR funding for each state and territory for publication in the Commonwealth Budget and MYEFO. Once finalised, this information will also be provided to jurisdictions along with advice relating to any resulting Commonwealth contribution adjustments.

### Changes to LHN NWAU estimates

- 4.3 Clause B57 anticipates adjustments to Commonwealth NHR funding due to changes in LHN service estimates as documented in service agreements.
- 4.4 Any changes to LHN annual service estimates during the course of the financial year must be expressed as NWAU according to the IHPA's pricing framework. These adjustments are to be reflected in amended LHN service agreements.

### Service agreements and local hospital network activity estimates

Clause B75 of the NHRA requires states and territories to provide the Administrator a copy of the service agreement for each local hospital network (LHN), once agreed.

Service agreements will be used as a formal forecast of the Commonwealth contribution along with other relevant components (clause A36).

Whenever LHN estimates are updated, service agreements are required to be amended (clauses B50 and B57) and publicly released within fourteen calendar days of amendment (clause D9).

Agreed amendments between a state or territory and its LHNs are to be advised to the Administrator within 28 calendar days by the state or territory (clause B51).

## Revisions of IHPA NEP and NEC determinations

- 4.5 Each year IHPA determines the NEP and NEC for the following year. The Administrator uses the NEP and the NEC to calculate the Commonwealth contribution. Where the NEP and the NEC are updated and re-issued by IHPA during the year, the Administrator will incorporate these into the calculation of the Commonwealth NHR funding entitlement for each state and territory.
- 4.6 The Administrator will advise states and territories of the Commonwealth contribution adjustments (if any) resulting from the NEC and NEP determinations.

## Timing and processing of *ex-ante* adjustments

- 4.7 The processes relating to *ex-ante* adjustments are detailed in the Administrator's *Growth and Funding Guarantees* document.<sup>1</sup>
- 4.8 *Ex-ante* adjustments will be calculated as if the factors giving rise to them related to the entire financial year. The resultant funding adjustment will be spread evenly over the remaining months of the financial year (with any remainder from rounding applied to the last month).
- 4.9 Where the change results in a downward adjustment for a particular LHN that cannot be fully applied within the current financial year (due to insufficient Commonwealth contribution funding available), the adjustment will equal the Commonwealth contribution funding available (i.e. the Commonwealth contribution funding for the remainder of the financial year will be adjusted to zero). Any remainder owing will be considered as part of the annual reconciliation (to actual activity) for that financial year and applied if necessary.
- 4.10 Adjustments advised to the National Health Funding Body (NHFB), on behalf of the Administrator, via [nhfa.administrator@nhfa.gov.au](mailto:nhfa.administrator@nhfa.gov.au) by the last business day on or before the 15th of a month, will take effect in the Commonwealth NHR funding contribution in the following month. If advised later than the 15th of the month, the change will take effect in the second following month.

*For example, a change to an annual service estimate to take effect from the Commonwealth contribution on 7 December must be advised to the NHFB by COB 15 November.*

- 4.11 After the 15th of the month, the NHFB will calculate any necessary adjustments and the Administrator will advise the Commonwealth Treasurer of the amounts to be paid for the month ahead.
- 4.12 The Administrator will advise each state and territory of any revised schedule of contributions at least five days prior to the first affected Commonwealth NHR contribution payment. The Administrator's advice will include details for each state and territory of the adjustment by funding stream, being Public Health, Activity Based Funding, Block and entitlement to funding guarantees under the NHRA<sup>2</sup>.
- 4.13 The Administrator has discretion each month on the application and operation of these timelines.

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<http://www.publichospitalfunding.gov.au/Media/2014/05/Growth%20and%20Funding%20Guarantees.pdf> (see Appendix C).

<sup>2</sup> In the 2014-15 Budget, the Commonwealth Government announced that it will not fund the funding guarantees under the NHR Agreement from 2014-15.

## 5. *Ex-post* adjustments

### Reconciliation of actual activity to estimated service volumes

- 5.1 Clauses B59 to B64 set out the requirement for the Administrator to undertake six-monthly and annual reconciliation of estimated and annual service volumes.
- 5.2 The processes and timelines relating to these adjustments are detailed in the Administrator's *Reconciliation Framework* document, issued each financial year.<sup>3</sup>

### FBO determination

- 5.3 Prior to the release of the FBO, the Treasury will advise the Administrator of the Commonwealth NHR funding calculated under the former SPP framework and Public Health funding allocation.
- 5.4 Based on the latest NWAU estimate, the Administrator will advise the Treasurer of the Commonwealth NHR funding for each state and territory for publication in the FBO.
- 5.5 The reconciliation of actual activity delivered will incorporate the outcomes of the total FBO entitlement for each state and territory for that year.

### Timing and processing of *ex-post* adjustments

- 5.6 Once the annual reconciliation of actual hospital services is completed, the Administrator will calculate the state and territory funding entitlements for that particular year. The Administrator then requests the Treasurer to issue a Determination under the *Federal Financial Relations Act 2009* (Commonwealth) based on the state and territory entitlements calculated (by the Administrator).
- 5.7 When the Treasurer's Determination is issued, the Administrator will advise states and territories of the adjustments resulting from the Determination and reconciliation of annual actual activity.

## 6. Other adjustments

- 6.1 Other adjustments, as allowed for under the NHRA, may be required for events such as emergency responses or pilot projects. These will be undertaken by the Administrator, with full disclosure of the issue and the impact to jurisdictions.

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<sup>3</sup> <http://www.publichospitalfunding.gov.au/Media/2013-14%20Reconciliation%20Framework.pdf>

# Appendix A: Relevant Extracts from the NHRA

## Payments from the National Health funding Pool and State Managed Funds

- B50. States and Local Hospital Networks can agree amendments to Service Agreements in order to adjust service volumes or pricing to take account of such matters as changing health needs, variations in actual service delivery and hospital performance.
- B51. States, as the system manager of public hospitals, can determine the frequency of alterations to Service Agreements. States will notify the Administrator, within 28 calendar days, of agreed variations to a Service Agreement.
- B57. States can cause Commonwealth payments to be modified by changing the relevant Service Agreements, if they wish, and by notifying the Administrator of an agreed variation, in accordance with clause B51. These changes to Commonwealth funding will take effect in the next payment period.

## Adjustments to the Commonwealth's Contribution to Local Hospital Networks Funding

- B59. There will be two levels of adjustments to the Commonwealth's funding contribution to Local Hospital Networks:
  - a. a six-monthly adjustment, and
  - b. an annual adjustment.
- B60. The six-monthly adjustment will be conducted in arrears and will arise from the reconciliation conducted to determine the actual volume for services provided by the Local Hospital Networks for Commonwealth payment purposes. Any State may request that the Commonwealth conduct this reconciliation more frequently. Having regard to technological and operational improvements, States will consider moving to more frequent reconciliation and adjustment arrangements.
- B61. The annual adjustment will be conducted in arrears once actual volumes have been validated by the service volume reconciliations to ensure the Commonwealth meets its agreed contribution to the funding of efficient growth and to effect any payment arising from the funding guarantee, as detailed in clauses A67-A79.
- B62. Any variation to Commonwealth payments arising from the adjustments will be spread equally across payments for a subsequent quarter.
- B63. States will provide to the Administrator, within at least three months (with a preference to reducing the period over time) of the end of each reconciliation period, gross volume and patient identified data regarding actual services delivered for those public hospital functions funded by the Commonwealth on an activity basis to enable reconciliations to be undertaken in accordance with clause B60. Variations for the service volume reconciliation will include, but not be limited to, the reconciliation of general transcription errors, including the incorrect coding of services provided and duplicate entries, and the exclusion of services paid for by the Commonwealth via other funding streams, the exclusion of services for which data has not been provided, and the exclusion of services with incomplete data.
- B64. In order to attract a Commonwealth funding contribution for each public hospital service provided on an activity basis, States must ensure that all data relevant to the funding of that service has been provided. In order to attract a Commonwealth funding contribution for each public hospital service funded on a block grant basis or function, States must ensure that all data relevant to that service or function has been provided.

## Provision of service level data and service agreements to the Administrator

- B73. States will provide the Administrator with a confidential estimate of weighted service volumes for a financial year, as an aggregated total, by the end of March in the preceding financial year.
- B74. States will provide the Administrator with confirmed aggregate weighted service volumes for a financial year, and estimated service volumes for each Local Hospital Network, by the end of May in the preceding financial year. The estimated weighted service volumes provided are to incorporate the level of disaggregation required by the Administrator in order to calculate the Commonwealth's funding contribution, in accordance with clause B26a.
- B75. States will provide the Administrator with a copy of the Service Agreement for each Local Hospital Network once agreed between the State and the Local Hospital Network.

## Adjustments to Service Agreements

- D9. Service Agreements will be publicly released by States within fourteen calendar days of finalisation or amendment and will then be also be made available through relevant national bodies. States may agree additional matters with Local Hospital Networks (such as the delivery of additional programs).