



Administrator
National Health
Funding Pool

Growth and Funding Guarantees

May 2014

Document Control Sheet

Document Information

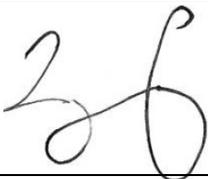
Document Name	Growth and Funding Guarantees
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Change History

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Approval

Title	Administrator of the National Health Funding Pool
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Date	1 May 2014

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1 Legislative requirement

Section 238(1) of the *National Health Reform Act 2011* and associated state and territory national health reform legislation require the Administrator of the National Health Funding Pool (Administrator) to calculate and advise the Commonwealth Treasurer of the amounts to be paid by the Commonwealth into the National Health Funding Pool (the Pool) and each state and territory's Pool account, each financial year. This responsibility includes advising on any reconciliation of those amounts based on subsequent actual service delivery.

The Administrator's calculation of the Commonwealth contribution through the Pool will include growth, funding guarantees and top-up funding between 2014-15 and 2019-20.

2 Purpose

The purpose of this document is to set out the approach and processes the Administrator will adopt in implementing and calculating the growth and funding guarantee clauses of the *National Health Reform Agreement* from 2014-15. This document will be the mechanism used to ensure a clear understanding of the processes by all stakeholders.

All calculations outlined in this document are conducted by the Administrator, unless otherwise stated.

3 Related documents

This document should be read in conjunction with the following documents, which collectively detail the Administrator's data requirements and reconciliation process:

- Rolling Three Year Data Plan, and
- Reconciliation Framework (relating to each financial year).

This document also aligns to the Administrator's methodology for calculating the Commonwealth contribution.

4 Document updates

This document is subject to change and may be updated and reissued by the Administrator. Changes, if any, will be communicated to all stakeholders.

Changes may include refinement of processes and/or incorporation of further information as it becomes available and is required to be reflected in this document.

5 Document structure

This document includes the following components:

- High-level summary of the growth, funding guarantee and top-up funding components in chapter 7.
- Description of the overarching policy considerations, elements and computations in chapters 8 and 9.
- Calculation steps are outlined in chapter 12 to demonstrate the complete end-to-end process, along with a worked example in Appendix A and a flowchart overview of the process in Appendix C. These three sections should be read in conjunction with each other.
- A growth and funding guarantee calculation planning tool is included at Appendix B. This tool is developed for use by jurisdictions for planning purposes and to further assist in clarifying the growth and funding guarantee calculation components.
- For this process to be completed successfully and in a timely manner, there are a number of dependencies on other entities which are outlined throughout the document and listed in chapter 10.
- Milestones outlined in the *National Health Reform Agreement* relevant to the review of growth and funding guarantee elements are highlighted in chapter 11.
- A growth and funding guarantee timeline is included in Appendix D and should be read in conjunction throughout this document. The timeline relates to the 2014-15 financial year as an example; however the milestones are consistent each financial year.
- Relevant *National Health Reform Agreement* clauses are included at Appendix E for ease of reference.

Note, within this document any reference to:

- 'State' denotes 'states or territories'.
- 'Clauses' relate to clauses within the *National Health Reform Agreement*.
- 'Growth year' relates to the year for which growth funding is being calculated.
- 'Base year' relates to the year prior to the growth year.
- 'Calculated national health reform funding' relates to the sum of the calculated Public Health, Block and Activity based funding under the *National Health Reform Agreement*, which is aggregated to assess whether any funding guarantees are triggered.
- 'Increased contribution to efficient growth funding' is defined in clause A69 as the amount paid in excess of the amount that states and territories would have received under the former National Healthcare Specific Purpose Payment (SPP).

Note, the majority of the calculation examples within this document use 2014-15 as an illustrative period. All figures and examples are fictitious and for illustrative purposes only.

6 Background

National health reform introduced major reforms to the organisation, funding and delivery of health care. The new financial and governance arrangements for Australian public hospital services ensure a stronger financial basis for the health system into the future.

Under national health reform funding arrangements, Commonwealth contributions into the Pool to each state and territory for 2012-13 and 2013-14 are equivalent to the amount that would otherwise have been payable through the National Healthcare SPP (clauses A32 and A33).

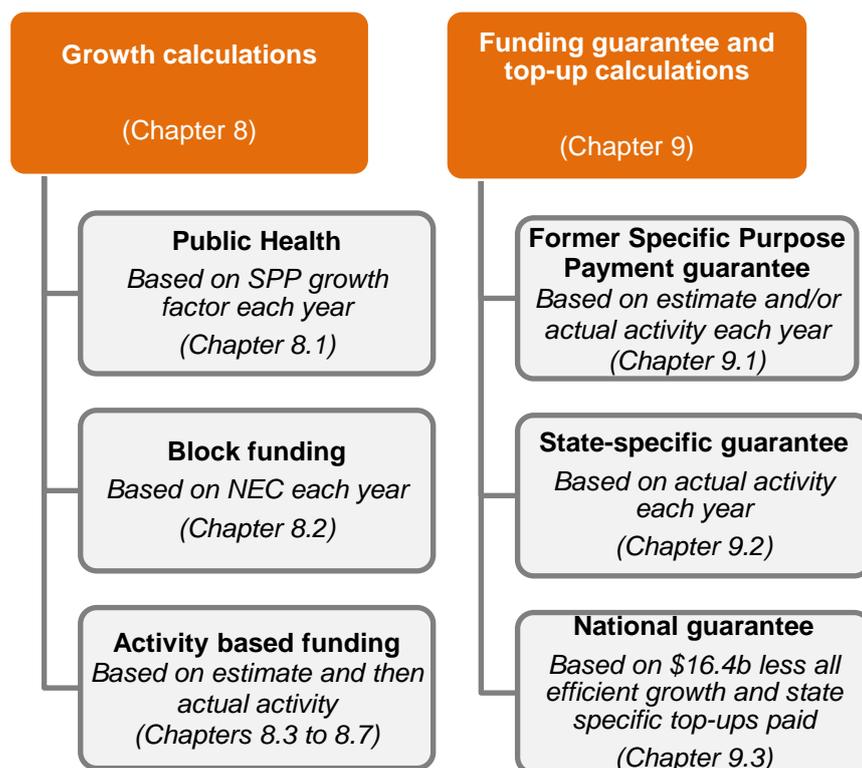
From 2014-15 onwards, the Commonwealth will provide at least an additional \$16.4 billion in growth funding between 2014-15 and 2019-20 through meeting 45 per cent of efficient growth between 2014-15 and 2016-17 and 50 per cent of efficient growth from 2017-18 onwards. In the event the additional growth funding is less than \$16.4 billion, the Commonwealth will provide the remainder to states and territories as top-up funding (clause 12).

This funding ensures that up to 50 per cent of efficient growth of public hospital services will be met by the Commonwealth, and that states and territories will receive additional funding to operate their health system.

7 Summary

The growth and funding guarantee elements under the *National Health Reform Agreement* are outlined in Figure 1, including the relevant chapters within this document in relation to each component.

Figure 1: Calculation component summary



8 Growth elements

The following sections outline the different components in relation to growth calculations, the sum of which is considered 'calculated national health reform funding' under the *National Health Reform Agreement*.

8.1 Public Health funding

The Public Health funding amount for each state and territory will continue to grow by the former National Healthcare SPP growth factor from 2014-15 onwards, unless otherwise agreed (clauses A43 and A44).

The mechanism for delivering Commonwealth funding for Public Health activities to states and territories in 2015-16 and future years will be re-considered by the Commonwealth and states and territories in the context of a review of the National Partnership Agreement (NPA) on Preventive Health (clause A46).

The Commonwealth Treasury will continue to calculate the National Healthcare SPP growth factor and the SPP growth factor for each state and territory each financial year. The SPP growth factor determination (and provision to the Administrator) will need to align with the Administrator's Commonwealth contribution calculation timelines each financial year.

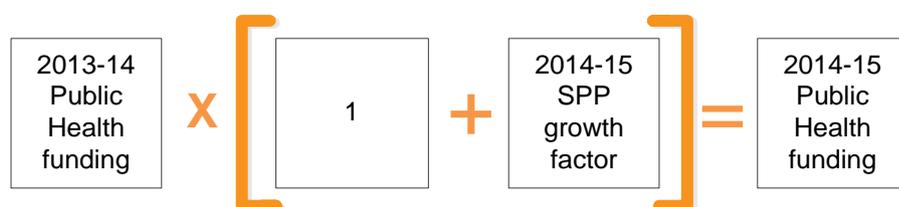
Changes in the SPP growth factor may occur for any financial year (for example arising from the Mid-Year Economic and Financial Outlook and the Financial Budget Outcome). A change in the SPP amount may lead to a change in the overall calculated national health reform funding amount. Any resulting adjustment to Commonwealth contributions will be processed in accordance with the Administrator's *Determination 02: Adjustments to Commonwealth Funding under the National Health Reform Agreement* (Administrator's *Determination 02*). All stakeholders will be advised of the change and its subsequent impact.

If and when this adjustment occurs during the year, Public Health calculations will be recalculated, which may lead to a consequential change in the overall calculated national health reform funding amount.

Calculation:

For each state and territory the base year Public Health amount will be multiplied by the SPP growth factor (plus 'one') relating to the growth year to calculate the Public Health amount for the growth year.

Figure 2: Public Health funding calculation



Commonwealth payment:

Public Health funding will be paid at an aggregate state and territory level via the Pool to State Health Departments in equal monthly amounts (clauses B46 and B52(d)).

8.2 Block funding

The Commonwealth will fund 45 per cent of growth in the efficient cost of providing Block services or performing the functions from 2014-15, increasing to 50 per cent from 2017-18 (clauses A4, A50 and A51). The Teaching, Training and Research Block component has separate provisions (clauses A47 and A48); however, the percentages are the same as Block services.

The Administrator will apply the Block services and functions eligible for Commonwealth Block funding as per the Independent Hospital Pricing Authority's (IHPA's) National Efficient Cost Determination each financial year (clauses A29 to A30). The provision of this Determination will need to align with the Administrator's Commonwealth contribution calculation timelines each financial year.

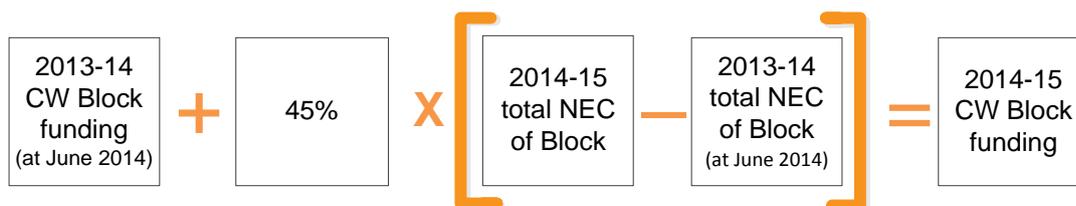
During the course of each year if IHPA alters its National Efficient Cost Determination, Block funding amounts will be recalculated, which may lead to a change in the overall calculated national health reform funding amount. As per the Administrator's *Determination 02*, the last opportunity for IHPA to advise the Administrator of an alteration to take effect in the relevant year is 15 May. All stakeholders will be advised of the change and its subsequent impact.

Calculation:

Block funding will be calculated at a service category level for each state and territory. It is conducted on this basis to reflect IHPA's National Efficient Cost back-casting multipliers which are set at a service category level, and to capture any significant changes in the national cost model between relevant years. Refer to chapter 8.9 for further information on back-casting.

The relevant growth percentage (i.e. 45 or 50 per cent) is multiplied by the change in the National Efficient Cost of each Block funding service category for each state and territory and this amount is then added to the base year's Commonwealth contribution for the relevant service category to determine the Commonwealth contribution for the growth year.

Figure 3: Block funding calculation



Commonwealth payment:

Block funding will be paid at an aggregate state and territory level via the Pool to the State Managed Fund in equal monthly amounts (clauses B46, B52b and B52c).

8.3 Activity based funding - summary

The scope of services eligible for Commonwealth activity based funding will be based on IHPA's National Efficient Price Determination and Pricing Framework prior to the commencement of the relevant financial year.

Clause A3 states that from 2014-15 the Commonwealth will fund 45 per cent of efficient growth of activity based services, increasing to 50 per cent from 2017-18, with efficient growth consisting of the:

- i. national efficient price for any changes in the volume of services provided, and
- ii. growth in the national efficient price of providing the existing volume of services.

As per clauses A34 and A38, Commonwealth funding will be calculated for each activity based funding service category, individually for each state and territory by summing the:

- a) previous year (i.e. base year) amount,
- b) price adjustment, and
- c) volume adjustment.

'Price' is the National Efficient Price, set by IHPA, and 'volume' is measured in National Weighted Activity Unit (NWAU).

The requirement for activity based funding to be calculated at a service category level is outlined in the *National Health Reform Agreement*. However it is also needed to:

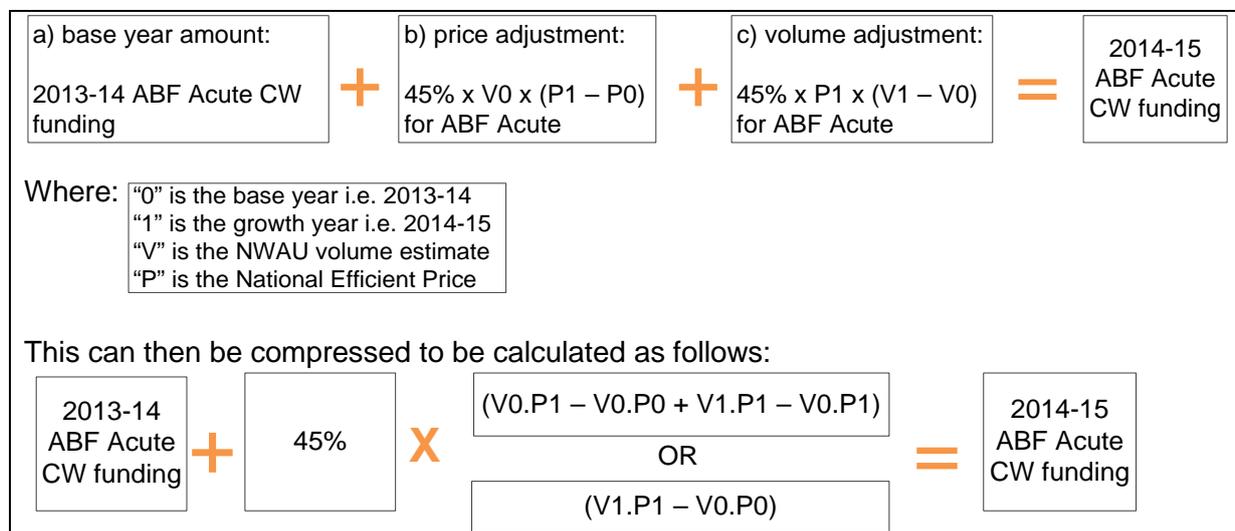
- Reflect any inclusions or exclusions of activity based funded services and changes in the scope of services between financial years. An example of this is the change of activity based funding services categories from 2012-13 to 2013-14, with the inclusion of Admitted mental health and Sub-acute components. As national health reform funding arrangements continue there will be more services transitioning to activity based funded services as per clauses A42b and A49.
- Account for the IHPA National Efficient Price back-casting volume multipliers and back-casted National Efficient Price (if relevant), which are developed and determined at a service category level. Refer to chapter 8.9 for further information on back-casting.
- Ensure that activity based funding is calculated on the most appropriate basis and level of accuracy.
- Allocate the Commonwealth activity based funding contribution correctly which (over time) will differ between service categories.
- Ensure that each local hospital network (LHN) receives the correct amount of Commonwealth activity based funding, reflecting its agreed scope, type and mix of activity based funded services provided.

If NWAU estimates or the National Efficient Price Determination are adjusted during the course of each year, the activity based funding allocated will be recalculated, leading to a change in the overall calculated national health reform funding amount. As per the Administrator's *Determination 02*, the last opportunity to advise the Administrator of an alteration to take effect in the relevant year is 15 May. All stakeholders will be advised of the change and its subsequent impact.

Calculation:

The activity based funding calculation is shown diagrammatically in Figure 4, with the Acute admitted service category used as an example.

Figure 4: Activity based funding calculation



The National Efficient Price is, at this time, the same for all activity based funding service categories, and the volume or NWAU is based on a state or territory aggregation of LHN service category activity.

Clause A89 states that Commonwealth cross-border funding will flow to the provider state or territory (where the service occurred). The quantum of services provided for interstate residents is included in each state and territory's LHN NWAU and hence will be reflected in the Commonwealth contribution for activity based funding (for both estimates and annual reconciliation of actual activity). This will ensure each state and territory's entire activity based funding service levels (including cross-border services) are included in the activity based funding calculation.

Activity based funding - interaction of 2013-14 and 2014-15

The Commonwealth activity based funding contribution for 2013-14 (the 'base year' for 2014-15 growth calculations) is calculated at an aggregate activity based funding level; however from 2014-15 onwards, activity based funding will be calculated at a service category level.

The 'base year' 2013-14 Commonwealth funding amount (calculated at an aggregate level) will need to be allocated to each service category.

For growth calculations based on estimates, the aggregate state and territory LHN NWAU for each activity based funded service category, as provided by states and territories, will be used to apportion this amount.

This is illustrated in 'Example 1'.

Once actual 2013-14 activity volumes are finalised through the annual reconciliation process, these data will form the base for calculating 2014-15 growth based on actual activity for each service category.

Example 1: Activity based funding – interaction of 2013-14 and 2014-15

2013-14 Activity based funding allocation (calculated by the Administrator)

State A	
\$m	
<i>Amount of national health reform funding to be allocated to ABF</i>	
Unadjusted ABF	\$ 2,000
<i>Adjustment to ABF funding for cross border activity</i>	
Gross cost of cross border outflows	\$ 100
Gross cost of cross border inflows	\$ 50
Net cross border adjustment	\$ (50)
<i>Total Commonwealth funding for ABF</i>	
Activity Based Funding (adjusted for cross border)	\$ 1,950

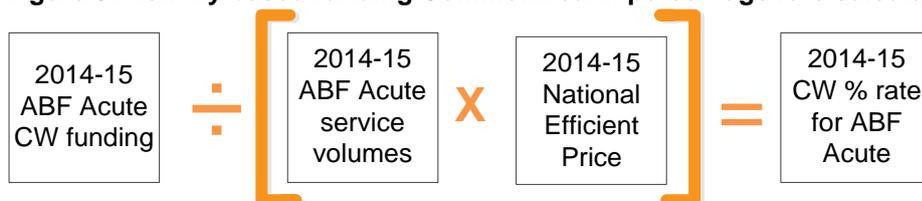
Total State A LHN NWAU (advised by State A)		Activity based funding by service category		\$m
Acute Admitted	300,000	Acute Admitted	= (300,000 / 613,000) * \$1,950m	\$ 954
Emergency	200,000	Emergency	= (200,000 / 613,000) * \$1,950m	\$ 636
Outpatients	15,000	Non-admitted	= (15,000 / 613,000) * \$1,950m	\$ 48
Sub-acute	23,000	Sub-acute	= (23,000 / 613,000) * \$1,950m	\$ 73
Admitted Mental Health	75,000	Admitted Mental Health	= (75,000 / 613,000) * \$1,950m	\$ 239
	613,000			\$ 1,950

The activity based funding calculation is then incorporated into the calculation of the Commonwealth percentage funding rate as per clause A35.

This rate is calculated for each service category, by dividing the growth year’s calculated activity based funding allocation (the sum of components a), b) and c) in Figure 4 by the growth year’s aggregate volume of weighted services (NWAU) for each activity based funded service category multiplied by the growth year’s National Efficient Price.

This will result in a Commonwealth percentage rate for each service category for each state and territory.

Figure 5: Activity based funding Commonwealth percentage rate calculation



The Commonwealth activity based funding amount for each LHN by service category is determined by multiplying the LHN’s NWAU by the growth year’s National Efficient Price, and by the relevant Commonwealth percentage rate for each service category¹.

Figure 6: Activity based funding calculation for each LHN



¹ Where a state or territory provides the LHN NWAU by service category for the growth year, the allocation of the funding to the LHN will be based on the NWAU for that service category. Where service category NWAU estimates are only provided at the state or territory level, the aggregate total NWAU for all service categories together with the total calculated growth will be applied proportionately to each LHN (relative to total state or territory activity)

Commonwealth payment:

The Commonwealth activity based funding for each LHN, (being the sum of the amounts for each service category), will be paid via the Pool in equal monthly amounts (clauses B46 and B52a).

8.4 Stages in calculating Activity based funding

There are three stages in the calculation and determination of Activity based funding, being:

1. Based on estimated activity for both the base and growth years,
2. Based on actual annual activity for the base year and estimated activity for the growth year, and
3. Based on actual annual activity for both the base and growth years.

These milestones are highlighted in the Timeline at Appendix D.

The Activity based funding calculation process is the same for each calculation stage, however some of the values may alter in each stage due to the finalisation of annual actual activity data.

Chapters 8.6 and 8.7 provide further information in relation to the Activity based funding calculation using estimates and then annual actual data respectively.

8.5 Growth and negative growth

The total Activity based funding to be applied will be calculated in the same manner whether the net growth is positive or negative.

A decrease in expected or actual service levels (sometimes referred to as 'negative growth in volume') will be treated in the same way as an increase in estimated or actual service levels. If a decrease in estimated or actual service levels is significant (relative to the base year) it may lead to a net reduction in funding compared to the previous year for one or more service categories. Similarly, a decrease in the NEP may give rise to a net reduction in funding if there is insufficient volume growth to offset the decrease in price.

Negative growth in volume may still result in an increase to funding relative to the previous year if the NEP and/or the Commonwealth contribution percentage increase sufficiently to offset the decrease in volume.

8.6 Activity based funding – based on estimates

Prior to actual annual hospital activity data becoming available, Activity based funding calculations and payments will be based on each LHN's estimated NWAU activity by service category². These service estimates must align to those in publicly available Service Agreements between the relevant state and territory and each of its LHNs (clauses A36a, B75 and D9).

These are considered preliminary growth payment entitlements, with the final growth payment and funding guarantee entitlements made after the annual reconciliation and adjustment process in relation to that year (clause A39). This concept aligns to part 5, section 17 of the *Federal Financial Relations Act 2009*³ (the FFR Act) where the Treasurer is able to make 'advances' to a state or territory of the amount to which it appears to the Minister [the Treasurer] that the state or territory will be entitled under part 3A of the FFR Act [national health reform payments] for a financial year.

The use of these estimates for Activity based funding reinforces the need for states and territories to have estimates that are as robust as possible and that reflect actual activity to the greatest extent possible.

Example 2 outlines the calculation of the Activity based funding based on estimates for both the base and growth years (stage 1 identified previously), with the Acute admitted service category shown in the example. The example does not include the impact of 'back-casting', which is outlined separately in chapter 8.9.

Example 2: Activity based funding – based on estimated activity (base and growth years)

Information at the commencement of the current year (estimates):

2013-14 ABF Acute CW funding (at June 2014) =	2,087.0 \$million
V1, 2014-15 ABF Acute NWAU =	1,145,468 estimate
P1, 2014-15 NEP =	\$ 5,007
V0, 2013-14 ABF Acute NWAU =	1,075,318 estimate
P0, 2013-14 NEP =	\$ 4,993

The Acute activity based funding allocation would be calculated as:

$$\$2,087.0m + 45\% \times [(1,145,468 \times \$5,007) - (1,075,318 \times \$4,993)] = \mathbf{\$2,251.8m}$$

The Commonwealth percentage rate for Acute would be calculated as:

$$\$2,251.8m / (1,145,468 \times \$5,007) = 39.3\%$$

This Acute Commonwealth percentage rate would then be applied to each LHN's Acute NWAU and National Efficient Price to determine its Acute funding allocation.

This process would then be undertaken for each service category.

² Where a state or territory provides the LHN NWAU by service category for the growth year, the allocation of the funding to the LHN will be based on the NWAU for that service category. Where service category NWAU estimates are only provided at the state or territory level, the aggregate total NWAU for all service categories together with the total calculated growth will be applied proportionately to each LHN (relative to total state or territory activity)

³ http://www.comlaw.gov.au/Details/C2012C00665/Html/Text#_Toc335396826

8.7 Activity based funding – based on annual actuals

From 2014-15, Commonwealth Activity based funding will be directly linked to the level of actual services delivered by public hospitals.

As per the Administrator's Rolling Three Year Data Plan and the Reconciliation Framework relating to each financial year, a reconciliation between estimated and actual service volumes will be performed to ensure that the Commonwealth contribution to each LHN ultimately reflects the actual level of services delivered by the LHN.

As per clause A39, a preliminary amount for growth funding will be allocated to states and territories based on estimated data prior to the finalisation of actual activity. Final growth calculations will be made after the annual reconciliation process to ensure the Commonwealth meets its agreed contribution to the funding of efficient growth (clause B61).

The 2013-14 base level activity may vary following the outcomes of the Administrator's annual reconciliation activities, including any outcomes of data matching exercises as per clauses A6 and A7 and *"the exclusion of services paid for by the Commonwealth via other funding streams"* as per clause B63.

Calculation:

The calculation of Activity based funding, based on actual annual activity relating to the base year (stage 2 identified previously, noting that the growth year still reflects estimated activity) is shown in Example 3, with the Acute admitted service category used in the example. The components that differ from the estimated activity calculation are highlighted in red and italics. The example does not include the impact of 'back-casting', which is outlined separately in chapter 8.9.

This calculation will be again undertaken when actual annual activity relating to the growth year is finalised (stage 3).

Example 3: Activity based funding – based on base year actual annual activity

Continuing on from the worked example in chapter 8.6, base year annual actuals are now finalised, necessitating Activity based funding allocations to be recalculated.

Components that have altered based on the base year annual actual reconciliation are highlighted in red and italics; all other components remain consistent with the activity based funding calculation based on estimates in chapter 8.6. (The example assumes that the jurisdiction has not revised its total 2014-15 NWAU estimate from that provided prior in the beginning of the year.)

Updated information based on annual actuals:

2013-14 ABF Acute CW funding (at June 2014) =	<i>2,057.3</i> \$million
V1, 2014-15 ABF Acute NWAU =	1,145,468 estimate
P1, 2014-15 NEP =	\$ 5,007
V0, 2013-14 ABF Acute NWAU =	<i>1,154,547</i> actual
P0, 2013-14 NEP =	\$ 4,993

The Acute funding allocation, based on base year annual actuals would now be calculated as:
\$2,057.3m + 45% x [(1,145,468 x \$5,007) – (*1,154,547* x \$4,993)] = **\$2,044.1m**

The recalculated Commonwealth percentage rate for Acute, based on base year annual actuals is:
\$2,044.1m / (1,145,468 x \$5,007) = **35.6%**

This recalculated Acute Commonwealth percentage rate based on base year annual actuals would then be applied to each LHN's Acute NWAU and National Efficient Price to determine the Acute

funding allocation for each LHN.

This process would be undertaken for each service category.

Commonwealth payment:

Commonwealth Activity based funding for each LHN (being the sum of the amounts for each service category) will be paid via the Pool to LHNs.

The preliminary Pool amounts paid to LHNs in respect of Commonwealth Activity based funding for a year are subject to adjustment once the annual reconciliation process for that year is finalised.

Adjustments to Commonwealth funding as a result of the annual reconciliation will be effected in equal monthly amounts for the remainder of the funding year.

8.8 Adjustments during the year

During the course of each financial year, Commonwealth contributions may need to be adjusted (as per the Administrator's *Determination 02*) following changes in one or more inputs. These changes may reflect revised SPP amounts, Determinations by IHPA, updated LHN NWAU estimates, and other adjustments allowed for under the *National Health Reform Agreement*.

Any resulting adjustments in the Commonwealth contribution calculation will be transacted in equal monthly amounts for the remaining months of the financial year, with all stakeholders advised accordingly.

8.9 Back-casting

As set out in clause A40, if IHPA makes any significant changes to the Activity based funding classification system or costing methodologies the Administrator will back-cast those changes to the year prior to the implementation.

As informed by IHPA, the back-casting requirement is intended to ensure that changes between years are correctly accounted for and that Commonwealth growth funding is not adversely impacted by known changes in the national pricing and cost model over consecutive years. This includes changes to, between and within activity based funding and Block funding streams.

IHPA will publish back-casting multipliers for each state and territory and service category, where relevant, in its National Efficient Price and National Efficient Cost Determinations.

Operationally, this means if in 2015-16 IHPA makes any significant changes the Administrator will apply the changed methodology to the 2014-15 data to calculate a new base that is consistent with the 2015-16 calculations, ensuring a more appropriate estimate of growth funding for 2015-16.

The Administrator will work with IHPA and jurisdictions with regard to the requirement to back-cast and its application to ensure the Commonwealth contribution calculation in the growth period is robust and reflective of all developments in costing and pricing methodologies. The Administrator will advise all stakeholders of the outcomes of any back-casting.

See Example 4 for a worked example of the calculation approach of back-casting.

Example 4: Back-casting example

The Acute admitted service category is shown in the example. The same process will be conducted for each service category with Activity based funding and Block funding streams, individually for each state and territory.

- 1. Gather relevant information** for each state and territory and each service category. This is conducted initially using estimated data and then actual annual data.

	<u>Data source</u>	
2013-14 ABF Acute CW funding (at June 2014)	<i>Adminstrator's calculations</i>	= 2,087.0 \$million
V1, 2014-15 ABF Acute NWAU	<i>S/T advice</i>	= 1,145,468 estimate
P1, 2014-15 NEP	<i>IHPA</i>	= \$ 5,007
V0, 2013-14 ABF Acute NWAU	<i>S/T advice</i>	= 1,075,318 estimate
P0, 2013-14 NEP	<i>IHPA</i>	= \$ 4,993
Back-casted P0, Back-casted 2013-14 NEP in 2014-15	<i>IHPA</i>	= \$ 4,819
2014-15 Acute back-casting volume multiplier	<i>IHPA</i>	= 1.01245

- 2. Apply the back-casting volume multiplier** determined by IHPA for each service category and state and territory to the base year NWAU. This ensures the growth and base year NWAU are more consistent by applying the back-casting multiplier to negate the effect of identified changes between the relevant years. The adjusted NWAU for the base year (incorporating the back-casting multiplier) is used only for growth calculation purposes, not to adjust previous year funding.

2013-14 ABF Acute NWAU	x	2014-15 Acute back-casting multiplier	=	2013-14 ABF Acute NWAU (post multiplier) - <i>updated V0</i>
1,075,318	x	1.01245	=	1,088,706

- 3. Where no back-casting volume multipliers have been provided** by IHPA the Administrator will apply a multiplier of '1' for each relevant service category and state and territory. Where no multiplier has been provided, this indicates that IHPA has determined that any pricing or costing specification changes between years are not 'significant' enough to warrant a back-casting multiplier to be applied to growth calculations.
- 4. Calculate growth funding** as per chapter 8, **incorporating the back-casted price component.** A high-level representation of the growth calculation approach is as follows.

The 2014-15 Acute funding allocation would be calculated as:

$$\$2,087.0m + 45\% \times [(1,145,468 \times \$5,007) - (1,088,706 \times \$4,819)] = \mathbf{\$2,307.0m}$$

- 5. If IHPA releases updated or new back-casting multipliers** during the course of the year, the growth calculations set out above will be redone.

9 Funding guarantee and top-up funding elements

Funding guarantee and top-up funding calculations are conducted separately to growth calculations. However, the complete growth and funding guarantee calculation cannot be undertaken exclusive of each other.

In assessing whether the \$16.4 billion national guarantee and all other guarantees are triggered in a particular year between 2014-15 to 2019-20, all calculated funding components i.e. Public Health, Block and Activity based funding will be aggregated for that year, resulting in the 'calculated national health reform funding' amount.

Clauses 15 and A67 outline that no state or territory will be worse off in the short or long term and that states and territories will receive additional Commonwealth funding for public hospitals, relative to existing payment arrangements (i.e. the former National Healthcare SPP). This means that the Commonwealth will contribute at least \$16.4 billion more to states and territories than what they would have received under the former SPP, with any shortfall against the \$16.4 billion guarantee provided as a State-specific and/or national funding guarantee top-up (clauses A5, A69 and A70).

Table 1 shows the allocation of the \$16.4 billion projected annual growth funding (including the State-specific guarantee amount) up until 2019-20 as per clause A72.

Table 1: Clause A72 representation

(\$m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Projected annual growth funding <i>2nd line of clause A72</i>	\$574	\$1,231	\$1,983	\$3,012	\$4,161	\$5,433	\$16,394
State-specific guarantee (of the \$16.4b) <i>1st line of clause A72</i>	\$575	\$1,225	\$1,500	\$2,000	\$2,000	\$2,200	\$9,500
Remaining projected annual growth funding allocation post State-specific guarantee	(\$1)	\$6	\$483	\$1,012	\$2,161	\$3,233	\$6,894

Percentage of projected growth funding amounts guaranteed <i>3rd line of clause A72</i> [NB: Calculated by State-specific guarantee divided by projected annual growth funding]	100%	100%	76%	66%	48%	40%	58%
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Growth funding percentage	45%	45%	45%	50%	50%	50%
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The following sections outline the different components in relation to funding guarantee and top-up funding calculations. It is important to track and separately identify the different types of top-up funding provided under the *National Health Reform Agreement*.

9.1 Former Specific Purpose Payment guarantee

As per clause A68, if a state or territory's calculated national health reform funding for a particular year is less than the amount it would have received under the former National Healthcare SPP, the Commonwealth will provide top-up funding to the level of the former SPP.

To ensure states and territories receive at least the amount that would have been received under the former SPP, an estimate or projection of the SPP amount for each state and territory for 2014-15 to 2019-20 is required. The Commonwealth Treasury will continue to model the former SPP amount for each state and territory each financial year. The timing of the SPP calculation and provision to the Administrator will need to align with the funding guarantee allocation timeline outlined in chapter 9.5.

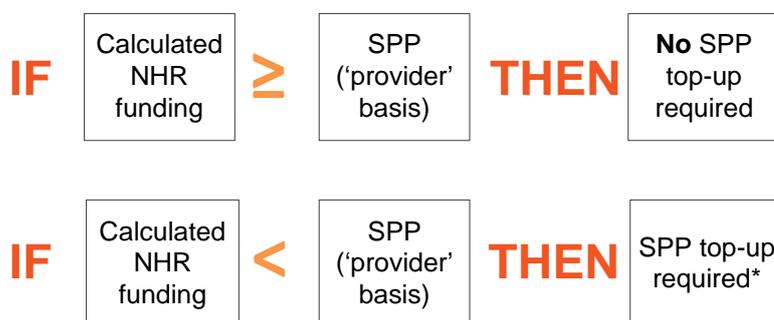
This SPP calculation adjusts for population changes on a residency basis, whereas Commonwealth activity based funding growth calculations reflect the total activity provided by each state/territory, inclusive of 'cross-border' services by the provider state or territory (clause A89). Therefore, the former SPP amount for each state and territory advised by the Commonwealth Treasury will be converted by the Administrator to reflect provider activity accounting for estimated and then actual cross-border services. This is conducted by applying each state and territory's SPP growth factor advised by Treasury to the previous year's updated SPP amount (reflecting provider basis cross-border activity) to determine the current year's SPP amount on a provider basis.

Changes in the SPP may occur for each financial year (for example arising from the Commonwealth Budget, Mid-Year Economic and Financial Outlook and the Financial Budget Outcome) as with any Commonwealth contribution adjustment component. Any change will be advised by Commonwealth Treasury when it occurs, with all stakeholders advised of the change and its subsequent impact.

Calculation:

The calculated national health reform funding allocation (comprising Public Health, Block and Activity based funding) will be compared to the former SPP amount (adjusted for 'provider' activity) for each state and territory to identify if a SPP top-up is triggered and if so, the quantum of the top-up. This is represented in Figures 7 and 8.

Figure 7: SPP funding guarantee top-up calculation

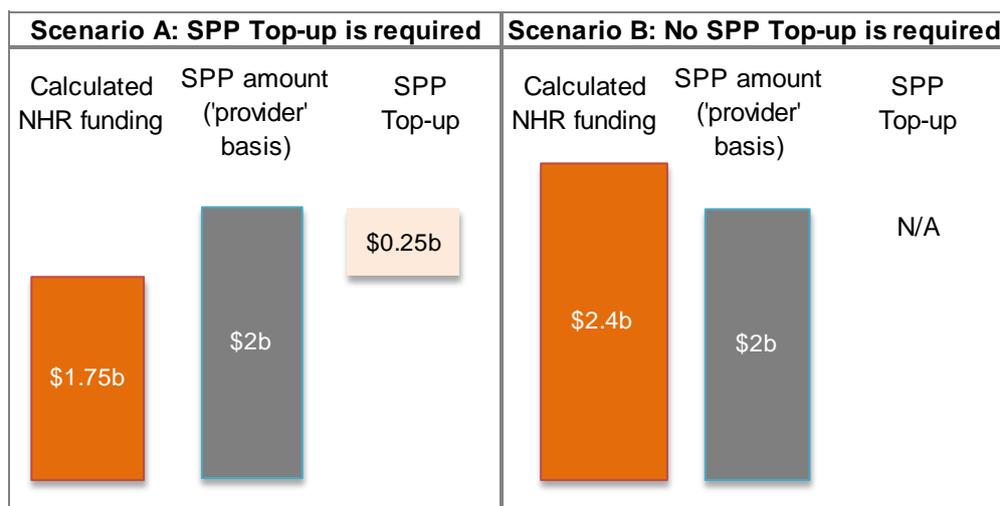


**SPP top-up = SPP amount less calculated national health reform funding*

The resulting national health reform funding to each state and territory will be the greater of the calculated national health reform funding or the SPP amount.

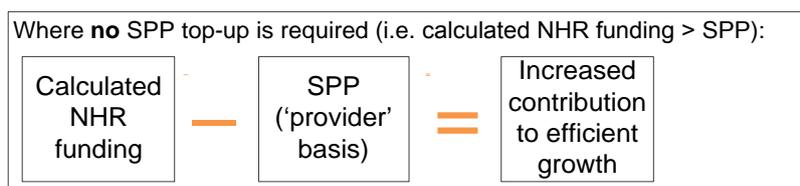
It will be important to identify any SPP top-up as a separate component of funding, so that it does not distort growth calculations for the following years.

Figure 8: SPP funding guarantee top-up scenarios



'Increased contribution to efficient growth funding' (as defined in clause A69) is the amount of national health reform funding paid in excess of what states and territories would have received under the SPP. This calculation of 'increased contribution to efficient growth funding' is crucial for the determination of the State-specific and national funding guarantees. This is illustrated in Figure 9.

Figure 9: Calculation of increased contribution to efficient growth



In Figure 8 above the 'increased contribution to efficient growth funding' would be \$0 for Scenario A due to the requirement for an SPP top-up and \$0.4b for Scenario B as the calculated national health reform funding was greater than the SPP amount.

9.2 State-specific guarantee

As outlined in clause A72, the State-specific guarantee will total \$9.5 billion for all states and territories up until 2019-20. As per clause A78, any top-up funding provided under the State-specific guarantee will count towards the \$16.4 billion national funding guarantee (see chapter 9.3).

The State-specific guarantee will be allocated among states and territories on an equal per capita basis to ensure each state and territory receives a specific amount each financial year above the SPP guarantee amount (clause A73). 'Equal per capita' is discussed in chapter 9.4.

Example 5: State-specific funding guarantee example

2014-15 State-specific guarantee (clause A72) = \$575m

2014-15 ABS projected population = 24,014,556

2014-15 State-specific funding guarantee per capita (clause A73 and see chapter 9.4) = \$575m / 24,014,556 = \$23.94 per capita

	2014-15 population	Per capita amount	State-specific funding guarantee
ACT	387,203	x \$23.94 =	\$9.27m
NSW	7,577,634	x \$23.94 =	\$181.44m
NT	259,180	x \$23.94 =	\$6.21m
QLD	5,105,054	x \$23.94 =	\$122.23m
SA	1,724,262	x \$23.94 =	\$41.29m
TAS	537,679	x \$23.94 =	\$12.87m
VIC	5,871,674	x \$23.94 =	\$140.59m
WA	2,551,870	x \$23.94 =	\$61.10m
Total	24,014,556		\$575.00m

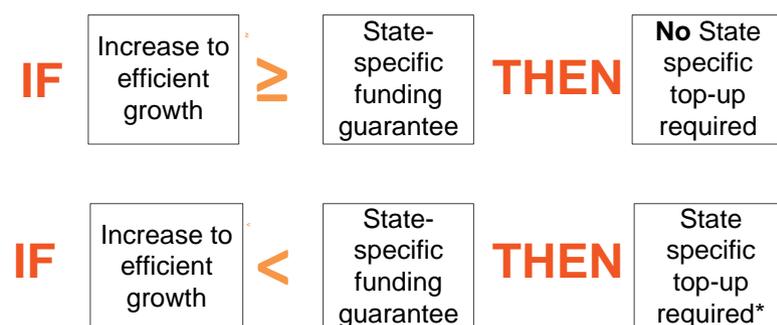
Calculation:

For each state and territory, the following components are compared, to assess whether a State-specific guarantee top-up is triggered and, if so, the quantum of the top-up:

- State-specific guarantee determined on an equal per capita basis, and
- the 'increased contribution to efficient growth funding', as defined in clause A69, as the amount paid reflecting national health reform funding in excess of what states and territories would have received under the former SPP (calculated in chapter 9.1).

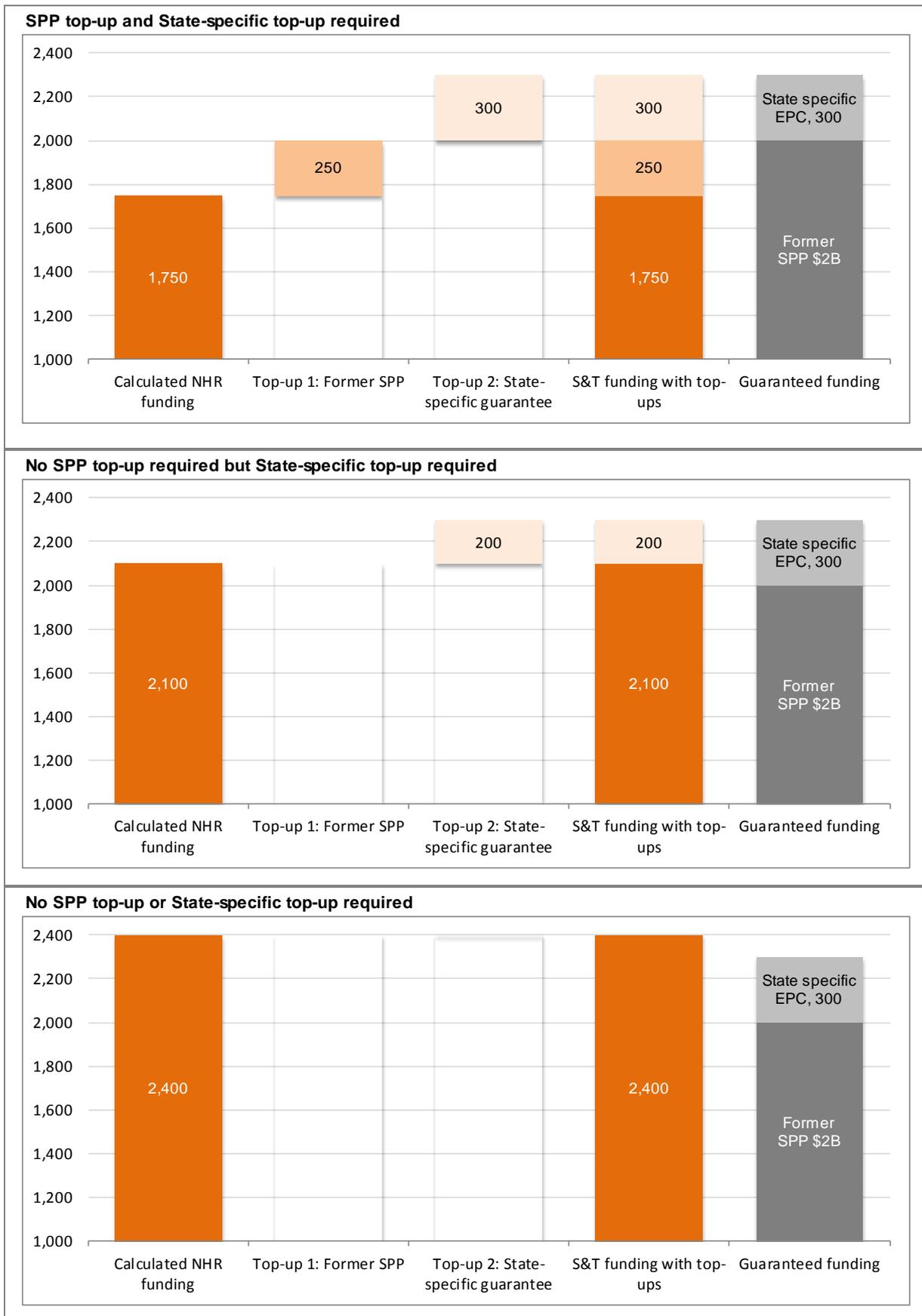
This is illustrated in Figure 10 and in Figure 11, representing three differing scenarios.

Figure 10: Calculation of State-specific funding guarantee



*State-specific top-up = State-specific funding allocation less increased contribution to efficient growth

Figure 11: State-specific funding guarantee top-up scenarios



9.3 National guarantee

Nationally, over the six years to 2019-20, the total minimum funding under the *National Health Reform Agreement* for all states and territories will be the sum of the former SPPs for each state and territory plus \$16.4 billion.

When calculating any top-up funding required against the \$16.4 billion national guarantee, any top-up funding provided against the State-specific guarantee is to be taken into account (clause A78).

Any top-up funding under the national guarantee is to be distributed among states and territories on an equal per capita basis (clause A77). Equal per capita is discussed in chapter 9.4.

Note, the *National Health Reform Agreement* does not set a 'cap' on calculated increases to efficient growth funding – even if that exceeds the \$16.4 billion over the six year period to 2019-20.

Calculation:

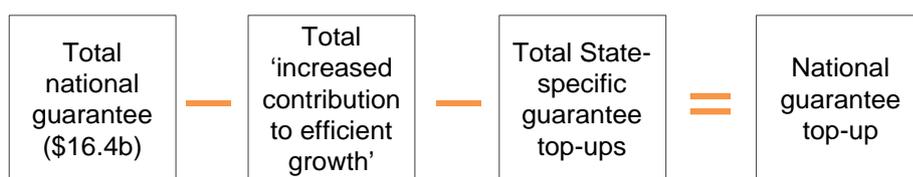
After the 2019-20 annual reconciliation a final calculation will be undertaken to determine if any top-up funding is required against the \$16.4 billion national guarantee. This will incorporate the outcomes of the Heads of Treasuries review outlined in chapter 11, including any adjustments to payment timing.

The final calculation will include any return of funds to the Commonwealth or over-payments as per clause A77, if top-up instalments are higher than the calculations derived from the final wrap-up calculation. This concept aligns to part 5, section 18 of the FRR Act⁴ where if a state or territory has been paid an amount more than it was entitled to receive for a financial year, the amount in excess (overpayment) can be repaid in the following financial year by offsetting it against relevant payments under section 15A [national health reform payments] in the next financial year.

At a national level, the following components are compared to determine whether a national guarantee top-up is triggered (where 'total' refers to the six-year period 2014-15 to 2019-20):

- Total national guarantee (\$16.4 billion), less
- Total 'increased contribution to efficient growth funding', as defined in clause A69, as the amount paid reflecting national health reform funding in excess of what states and territories would have received under the former SPP, less
- Total State-specific guarantee top-ups.

Figure 12: National funding guarantee calculations



Example 6 outlines a worked example of the national funding guarantee and top-up calculation.

⁴ http://www.comlaw.gov.au/Details/C2012C00665/Html/Text#_Toc335396827

Example 6: National funding guarantee example

(\$m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total
(A) National guarantee (timing subject to HoTs review)	0.0	0.0	0.0	0.0	0.0	0.0	16,394.0
(B) Increase to efficient growth	1,188.0	1,543.1	1,714.1	1,595.6	2,882.9	3,462.6	12,386.4
(C) State specific guarantee top-ups	47.5	21.6	23.1	560.3	26.4	4.1	682.9
Total = (A) less (B) less (C)							3,324.6

In this example the national guarantee top-up would be:
 $\$16,394.0m - \$12,386.4m - \$682.9m = \$3,324.6m$

The calculated national guarantee top-up amount (\$3,324.6m) is allocated to states and territories on an equal per capita basis (as per chapter 9.2 worked example).

9.4 'Equal per capita' share basis

Clause A73 states the State-specific guaranteed amount will be *allocated* among states and territories on an equal per capita basis to provide each state and territory with a specific guarantee as set out in clause A72, if required, in addition to the National Healthcare SPP amount.

Clause A77 states that the national guarantee will be *distributed* among states and territories on an equal per capita basis.

The equal per capita calculation will be based on the latest available Australian Bureau of Statistics (ABS) population statistics and projections for the relevant year, measured as at 31 December.

To ensure consistency in the calculations, the population parameters used in the equal per capita basis determination will be those used by Commonwealth Treasury each financial year to inform State-specific and national funding guarantee calculations.

9.5 Timing of funding guarantee payments

Any top-up funding to states and territories based on funding guarantee(s) will be paid via the Pool to state and territory Health Departments in equal monthly payments as outlined in clauses B46 and B52d.

To inform Commonwealth, state, and territory forward estimates, the Administrator will calculate and advise indicative funding guarantee calculations based on estimates for planning purposes. Note these calculated amounts may not be actual payment amounts to be paid by the Commonwealth. Actual payment timeframes for each type of funding guarantee are outlined below.

SPP guarantee

Each state and territory is to indicate its preference to 'opt in' where any SPP top-up payment can be paid prospectively (based on estimates) under the interpretation of clause 15 (where states and territories will be no worse off in the *short term*) or retrospectively as part of the annual reconciliation process as envisaged by clause B61.

The prospective payment arrangement is subject to meeting the following parameters:

- a) any overpayment subsequently identified can be recouped from that state or territory by netting off SPP top-up payments in the remaining months of the current year or by netting SPP top-up payments (if any) in the subsequent year when actual annual activity levels are finalised, and
- b) the state or territory has the necessary legislation in place, or commits to introducing legislative amendments to allow repayments to be made through the Pool where it is not possible to fully effect any recoument through the 'netting' process set out in a) above.

State-specific guarantee

Clause A74 states that any top-up funding required under the State-specific funding guarantee will be paid annually, but retrospectively, after reconciliation to actual annual activity occurs.

As outlined in clause B63, actual activity data from states and territories are required to be provided to the Administrator within at least three months of the end of the period, i.e. September 30 in relation to the annual reconciliation period. It is envisaged the outcome of the annual reconciliation and any top-up funding from funding guarantee(s) will be transacted from the January Commonwealth payment each financial year in six equal monthly payments.

National guarantee

Based on clauses A70 and A75 to A77 the national guarantee is to be paid only after the completion of the reconciliation of the six-year period ending 2019-20, subject to the HoTs review outlined in clause A75.

9.6 Use of top-up funding

As per clause A71, states and territories may use top-up funding for any health service that will assist in ameliorating the growth in demand for hospital services, including chronic disease management programs, preventive health programs, mental health programs, hospital admission avoidance programs, hospital early discharge programs, or other health services as jointly agreed by the Commonwealth and the relevant state or territory.

9.7 Reporting

As per clauses B21 and B26d, any top-up funding payments will be disclosed as part of the Administrator's monthly and annual reports.

10 Dependencies

For the growth, funding guarantee and top-up funding process to be completed successfully and in a timely manner there are external dependencies; these are outlined throughout the document and summarised below for convenience.

Table 2: Growth and funding guarantee dependencies

Entity	Component	Required for	Required by	Document location
Commonwealth Treasury	National Healthcare SPP growth factor and SPP growth factor for each state and territory, including calculated Public Health funding for each state and territory	Public Health funding	<ul style="list-style-type: none"> - Prior to commencement of the year, and - When the SPP alters. 	Chapter 8.1
IHPA	National Efficient Cost Determination	Block funding	<ul style="list-style-type: none"> - Prior to commencement of the year, and - If the National Efficient Cost Determination alters. 	Chapter 8.2
IHPA	National Efficient Price Determination	Activity based funding	<ul style="list-style-type: none"> - Prior to commencement of the year, and - If the National Efficient Price Determination alters. 	Chapters 8.3 to 8.6
States and territories	LHN and aggregate NWAU estimates by service category	Activity based funding	<ul style="list-style-type: none"> - Prior to commencement of the year, and - If the NWAU alters. 	Chapters 8.3 to 8.6
IHPA	Back-casting information for each relevant funding stream and service category	Activity based funding and Block funding	<ul style="list-style-type: none"> - Prior to commencement of the year, and - If the National Efficient Cost and Price Determination(s) alters. 	Chapter 8.9
Commonwealth Treasury	Former SPP amount and SPP growth factor for each state and territory	Funding guarantees	<ul style="list-style-type: none"> - Prior to commencement of the year, and - When the SPP alters. 	Chapter 9
Commonwealth Treasury	Population parameters for determination of equal per capita basis	State-specific and National funding guarantee	<ul style="list-style-type: none"> - Prior to commencement of the relevant year, and - When population parameters alter. 	Chapter 9.2, 9.3 and 9.4

11 *National Health Reform Agreement* review considerations

The national health reform funding arrangements from 2014-15 are a significant change to the way the Commonwealth funding is calculated for hospital activity delivered in states and territories. Throughout the growth period there are review milestones and considerations outlined in the *National Health Reform Agreement*. These are outlined below.

Heads of Treasuries – Top-up Funding

As per clause A75, by July 2017, Heads of Treasuries will review the need for further top-up funding against the national \$16.4 billion funding guarantee. Note, 'by July 2017' is interpreted as meaning that the assessment may be made any time before July 2017.

The projections of national health reform growth funding (based on projected activity) and former SPP funding, both up until 2019-20 will be required in order to make this assessment.

Where Heads of Treasuries agree that top-up funding is likely to be required in order to meet the \$16.4 billion guarantee, it may recommend instalments to be advanced in addition to any top-up funding paid under the State-specific guarantee.

Heads of Treasuries will also consider the need for continued instalments of top-up funding against the national guarantee on an annual basis each year until the end of the guarantee period (clause A76).

Maintenance of Effort

Clauses A80 and A81 outline the maintenance of effort mechanisms for state and territory expenditure and the extent to which Commonwealth has maintained its overall level of health expenditure. Clause A80a outlines the benchmarks for assessing maintenance of effort, with clauses A80b and A80c stating the information that states and territories are to provide Heads of Treasuries that will lead to a report that will be provided to the Standing Council on Federal Financial Relations (SCFFR) for consideration.

As outlined in clause A80d, SCFFR will provide advice to the Commonwealth on:

- i. whether an adjustment should be made to the baseline⁵ against which future growth funding entitlements will be calculated, having regard to any explanation for failure to achieve the benchmarks; and
- ii. a decision by a jurisdiction to constrain general growth in government expenditure would be an acceptable reason for failure to achieve the benchmarks, provided that the slowing in expenditure growth is not specific to the health system and that any slower growth in health expenditure is sustained beyond the end of the transition period.

⁵ 'Baseline' is as per the *National Health Reform Agreement*, with no specific definition provided within the Agreement. For the purposes of this document, it is assumed 'baseline' refers to the 'base' funding and activity each year prior to the calculation and allocation of growth funding for the subsequent year.

National Partnership Agreement on Improving Public Hospital Services

Clause A82 indicates that the review of this NPA and its impact on Commonwealth national health reform funding was to be completed with a decision by the Council of Australian Governments (COAG) by December 2013. This timeline was included to reflect the need for certainty of arrangements given this NPA is due to expire in 2013-14. A COAG decision was not finalised by the identified timeframe.

This NPA was outlined in the *2013-14 Commonwealth Budget Paper 3*⁶ in relation to the current NPAs that support national health reform arrangements (see excerpt 'Table 3' below).

Table 3: NPA on Improving Public Hospital Services in 2013-14 Commonwealth Budget Paper 3

National Partnerships supporting National Health Reform arrangements^(a)					
\$million	2012-13	2013-14	2014-15	2015-16	2016-17
National Partnership payments					
National Health Reform					
Improving Public Hospital Services					
Flexible funding pool for emergency departments, elective surgery and subacute care	25.0	1.1	-	-	-
National elective surgery target					
Capital funding	-	1.2	-	-	-
Facilitation and reward funding	-	51.7	49.5	49.5	49.5
National emergency access target					
Capital funding	50.0	1.9	-	-	-
Facilitation and reward funding	50.0	51.7	50.0	50.0	50.0
New subacute beds guarantee funding	446.5	632.5	-	-	-
Financial assistance for long stay older patients	92.4	78.2	-	-	-
Total	663.9	818.5	99.5	99.5	99.5

(a) Continuity of funding for hospital services is provided through the additional National Health Reform funding of at least \$16.4 billion which commences in 2014-15.

A key feature of the review will be SCFFR being able to make recommendations to COAG, including assessing whether the NPA should be incorporated into the growth funding base, continued or terminated (clause A84b), based on state and territory Treasurer advice to the Commonwealth Treasurer (clause A84a).

Clause A86 states the review will also identify the:

- impact on the level of activity which may have arisen from the funding,
- projected impact on the health system and patient care of any funding discontinuation, and
- baseline activity levels against which future service growth should be measured for the purpose of calculating Commonwealth growth funding, should the NPA be discontinued.

As per clause A87, where the review identifies evidence of increased activity levels attributable to this NPA, the Commonwealth will agree in-principle to making an appropriate baseline adjustment to reflect the share of the ongoing cost of those additional services. The baseline adjustment will have regard to the actual volume of additional services provided in the relevant state and territory, and to the level of Commonwealth operational funding for services provided in the original NPA.

⁶ http://www.budget.gov.au/2013-14/content/bp3/download/bp3_03_Part_2_all.pdf (page 27 of document or page 13 of PDF).

The Administrator will apply the COAG decision once made. In lieu of a COAG decision being made, the Administrator will calculate the Commonwealth funding contribution on the current basis i.e. with no adjustment to growth year funding calculations relating to this NPA. If a COAG decision is made subsequently, the Administrator will update the Commonwealth contribution calculation accordingly.

12 Calculation steps

The following calculation steps are based on the growth, funding guarantee and top-up funding considerations outlined in chapters 8 and 9 and are articulated to demonstrate the overall end-to-end process. The calculation steps should be read in conjunction with the worked example in Appendix A and the process overview in Appendix C.

Base year information

Step 1: Identify base year Commonwealth contribution funding amounts and activity estimates

Prior to the commencement of the growth year, identify all relevant components of the Commonwealth funding model in relation to the base year. The information will be the final figures at the end of that year i.e. at June. For example, if calculating the growth for 2014-15, information relevant to 2013-14 is necessary.

The necessary components will include the Public Health funding amount, Block funding amount for each service category, National Efficient Cost for each service category, Activity based funding amount for each service category, aggregate NWAU by service category, and the National Efficient Price.

Growth calculation – Public Health (chapter 8.1)

Step 2: Informed of SPP growth factor

For calculation of the Public Health growth funding amount, the National Healthcare SPP growth factor and SPP growth factor for each state and territory is necessary. This is calculated by the Commonwealth Treasury, with the Administrator advised of these figures.

Step 3: Calculate Public Health funding

Multiply the base year Public Health funding (in step 1) by the SPP growth factor identified in step 2 for each state and territory to evaluate the growth year Public Health funding amount.

Growth calculation – Block efficient funding (chapter 8.2)

Step 4: Informed of the National Efficient Cost and back-casting multipliers

IHPA will publish the National Efficient Cost Determination for the growth year which includes the total Block funding amounts and relevant back-casting multipliers for each state and territory by service category. This information is required for the Administrator to calculate the Commonwealth Block funding contribution for the growth year.

Step 5: Apply the Block back-casting multipliers to update the base year National Efficient Cost

For each state and territory and service category, apply the back-casting multiplier to the base year National Efficient Cost to determine the updated base year National Efficient Cost.

These updated figures are used only for growth calculation purposes, not to adjust previous year funding.

Step 6: Calculate Block funding

For each state and territory and service category, the updated National Efficient Cost for the base year is subtracted from the National Efficient Cost for the growth year, then multiplied by the Block growth percentage for the relevant year (45 or 50 per cent), and added to the Commonwealth Block funding for the base year.

The Block funding for each service category is aggregated to determine the total Commonwealth Block funding for each state and territory.

Growth calculation – Activity based funding based on estimates (chapters 8.3 and 8.4)

Step 7: Informed of the National Efficient Price and back-casting multipliers

IHPA will publicly release the National Efficient Price Determination for the growth year; this will include relevant back-casting multipliers for each state and territory by service category. This information is required for the Administrator to calculate the Commonwealth Activity based funding contribution for the growth year.

Step 8: Apply the Activity based funding back-casting multipliers to update the base year NWAU

For each state and territory and service category, the Activity based funding back-casting multipliers are applied to the base year NWAU to determine the updated base year NWAU.

These updated figures are used only for growth calculation purposes, not to adjust previous year funding.

Step 9: Calculate Activity based funding based on estimates

For each state and territory and service category, the price adjustment and volume adjustment will be added to the base year amount.

The price and volume adjustments include the Activity based funding growth percentage for the relevant year (45 or 50 per cent), National Efficient Price for the growth and base years (including a back-casted price if relevant), and the growth and updated base year state and territory aggregate NWAU estimates for each service category.

The Activity based funding for each service category is aggregated to determine the total Commonwealth Activity based funding for each state and territory.

Step 10: Calculate the Commonwealth percentage rate of funding

The Commonwealth percentage funding rate for each service category is calculated by dividing step 9 by the growth year's aggregate NWAU for each service category multiplied by the growth year's National Efficient Price.

These percentage rates are only required to allocate the total growth year Activity based funding amount equally to each LHN within the state and territory for each service category.

Step 11: Calculate Activity based funding for each LHN

The Commonwealth activity based funding for each LHN and service category is calculated by multiplying the number of NWAU for each LHN for each service category, with the growth year National Efficient Price, and the Commonwealth percentage rate calculated in step 10 for each service category.

The Activity based funding for each service category is aggregated for each LHN to determine the total Commonwealth activity based funding for each LHN.

Combine growth calculation components

Step 12: Combine all growth calculation components

The Commonwealth national health reform funding allocation will be calculated based on steps 3 (Public Health), 6 (Block funding), and 9 (Activity based funding).

Monthly allocation

Step 13: Allocation of the Commonwealth contribution

Commonwealth contributions will be made monthly into the Pool on the 7th day of each month based on the Commonwealth national health reform funding allocation, until any adjustments occur (if any) during the course of the financial year.

Adjustments - August to December (chapter 8.8)

Step 14: Recalculate and allocate impact of any adjustments

Components of the Commonwealth national health reform funding allocation may be adjusted during the course of the financial year. If and when this occurs, steps 2 to 13 may need to be recalculated by the Administrator to incorporate the relevant change and the impact on growth calculations, depending on the type of adjustment.

At this stage, this step is relevant up until December of each financial year, prior to the incorporation of the reconciliation of actual annual activity (see next section).

The revised total Commonwealth funding stemming from any adjustments will be compared to the Commonwealth funding previously paid during the financial year, with any difference being transacted in equal monthly payments for the remaining months of the financial year.

Growth recalculation – Activity based funding based on annual actuals (chapters 8.3 and 8.7)

Step 15: Recalculate Activity based funding based on annual actuals

The calculation approach outlined in steps 8 and 9 will be reapplied based on actual annual activity of the base year for each service category.

At this point any other relevant Commonwealth funding adjustments may also occur (similar to steps 14 and 25) together with the reconciliation of annual actuals which is envisaged to take effect from the January monthly payments.

Step 16: Recalculate the Commonwealth percentage rate of funding for Activity based funding based on annual actuals

The Commonwealth percentage funding rate for each service category is now recalculated based on the outcomes of step 15 as per the calculation approach of step 10.

Step 17: Recalculate Activity based funding to each LHN based on annual actuals

The Commonwealth Activity based funding for each LHN and service category is recalculated using the Commonwealth percentage rates calculated in step 16 as per the calculation approach outlined in step 11.

The Activity based funding for each service category is aggregated for each LHN to determine the total Commonwealth Activity based funding for each LHN.

This amount will be compared to the Commonwealth funding previously paid to each LHN during the financial year, with any difference being transacted in equal monthly payments for the remaining months of the financial year.

Recombine growth calculation components

Step 18: Recombine all growth calculation components based on annual actuals

The Commonwealth national health reform funding allocation will be recalculated based on steps 3 (Public Health), 6 (Block funding), and 15 (Activity based funding).

The total of the recalculated national health reform funding will be compared to the Commonwealth funding already paid during the financial year, with any difference being transacted from the January monthly Commonwealth payment into the Pool each financial year in six equal monthly payments (depending on the finalisation of actual activity).

Funding guarantee – Former SPP top-up (chapter 9.1)

Step 19: Informed of the former SPP amount

An estimate of what would have been received under the former SPP for each state and territory will be required to ensure that states and territories receive at least this amount each year. This estimate is calculated by the Commonwealth Treasury.

This SPP determination (on a residency basis) will be updated by the Administrator to account for estimated and then actual cross-border services to ensure the SPP amount used in the assessment of funding guarantees is on a provider basis as per the Commonwealth activity based funding calculations.

Step 20: Calculate if SPP guarantee is triggered

The resulting national health reform funding to each state and territory will be the greater of the calculated national health reform funding in step 12 (if based on estimates) or 18 (if based on annual actuals) and the former SPP amount in step 19.

'Increased contribution to efficient growth funding' needs to be calculated, and is the amount paid, reflecting national health reform funding, in excess of what states and territories would have received under the former SPP.

Equal per capita basis (chapter 9.4)

Step 21: Informed of the equal per capita basis for State-specific and national funding guarantees

Top-up funding from the State-specific and national guarantee(s) will be distributed among states and territories based on an equal per capita basis each financial year.

ABS population parameters used in the determination of the equal per capita basis will be advised by Commonwealth Treasury.

Funding guarantee – State-specific top-up (chapter 9.2)

Step 22: Calculate if State-specific guarantee is triggered

For each state and territory, the following components are compared to evaluate if a State-specific guarantee top-up is triggered.

- step 21 - State-specific guarantee determined on an equal per capita basis, and
- step 20 - the 'increased contribution to efficient growth funding' paid in excess of what states and territories would have received under the former SPP.

Funding guarantee – National top-up (chapter 9.3)

Step 23: Calculate if national funding guarantee is triggered

After the 2019-20 annual reconciliation is completed the following components are compared on a national level to evaluate if a national guarantee top-up is required and triggered against the \$16.4 billion national guarantee over the six-year period 2014-15 to 2019-20.

- Total national guarantee (\$16.4 billion), less
- step 20 – total 'increased contribution to efficient growth funding' paid in excess of what states and territories would have received under the former SPP, less
- step 22 – total State-specific guarantee top-ups.

Any top-up funding from the national funding guarantee will be distributed among states and territories based on the equal per capita basis determined in step 21.

At this stage, any return of funds to the Commonwealth will take place for over-payments of instalment advances against the national guarantee (clause A77).

Monthly allocation of top-up funding

Step 24: Allocation of top-up funding

The total of the calculated funding guarantees will be paid into the Pool each financial year in equal monthly payments.

Adjustments - February to June (chapter 8.8)

Step 25: Recalculate and allocate impact of any adjustments

Components of the Commonwealth national health reform funding allocation may be adjusted during the course of the financial year. If and when this occurs, all relevant steps may need to be recalculated by the Administrator to incorporate the relevant change and the impact on growth calculations, depending on the type of adjustment.

At this stage, this step may occur from February (post the incorporation of actual annual activity allocated in January each year) to the end of the financial year (i.e. June).

The total of a recalculated allocation stemming from any adjustments will be compared to the Commonwealth funding already paid during the financial year, with any difference and impact of adjustments being transacted in equal monthly payments for the remaining months of the financial year.

Reporting (chapter 9.7)

Step 26: Reporting each month

Commonwealth national health reform funding and payments, including any top-up funding will be included in the Administrator's monthly and annual reporting.

Throughout the process: Communication with stakeholders

The Administrator will work with the relevant stakeholders throughout the growth and funding guarantee process, with appropriate communication undertaken.

Appendix A: Worked example

This worked example demonstrates the end-to-end growth and funding guarantee calculation process on national level and should be read in conjunction with this paper, in particular chapter 12 (calculation steps) and Appendix C (process overview flowchart).

Appendix B: Growth planning tool

A Microsoft Excel tool is available for use by jurisdictions for planning purposes and to assist in understanding the interaction of the different growth and funding guarantee calculation components. The tool should be used in conjunction with this *Growth and Funding Guarantees* document and is provided on a current policy position basis.

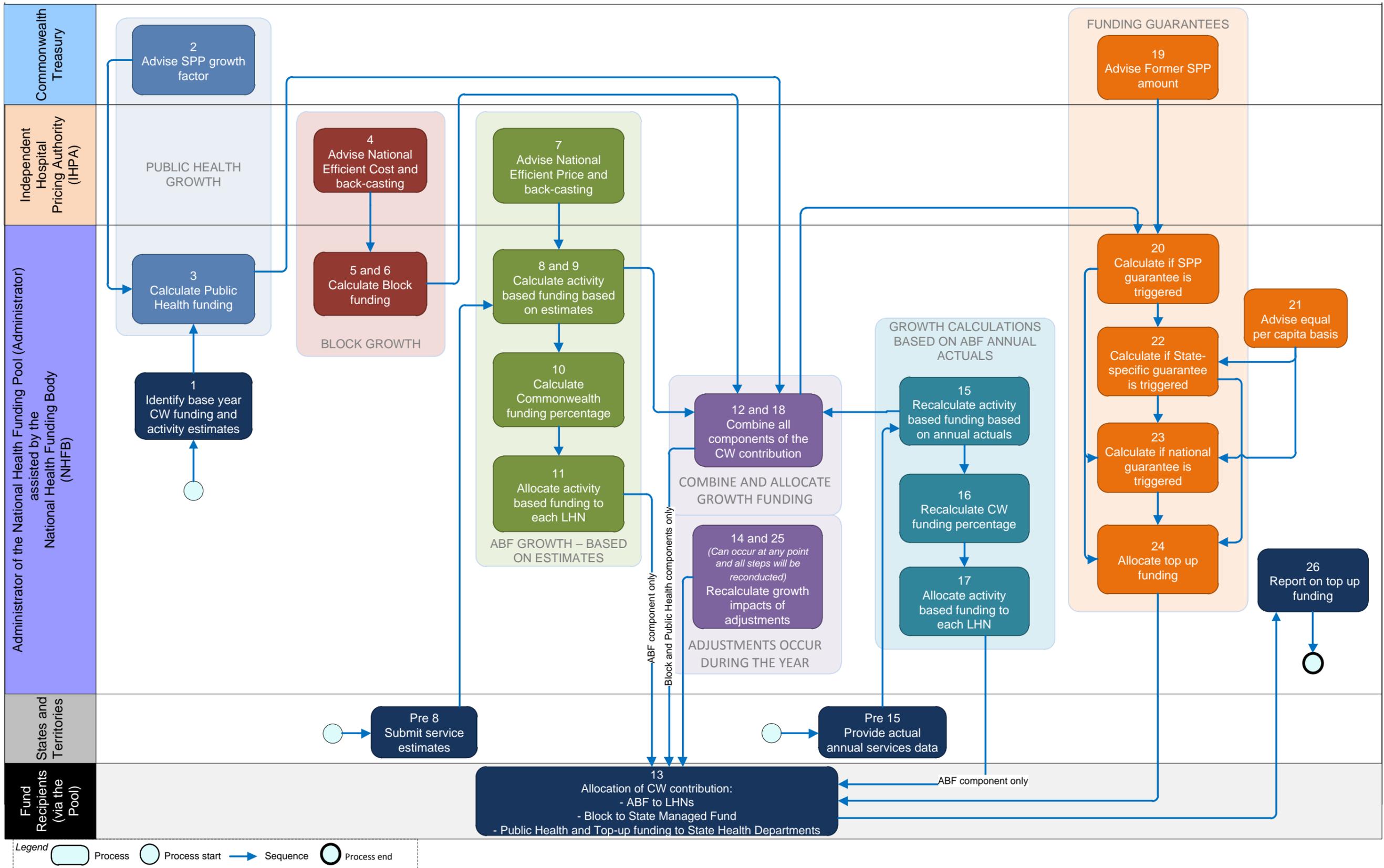
Various inputs in the tool can be entered into the fields highlighted in orange with the growth year outcomes automatically calculated in the fields highlighted in green.

This tool should only be used for planning purposes and is not intended to emulate the Administrator's official calculation and payment advice provided to Ministers. The Administrator's Commonwealth payment advice will be provided via a separate mechanism and model each period.

The tool is available on the www.publichospitalfunding.gov.au website.

Appendix C: Process overview

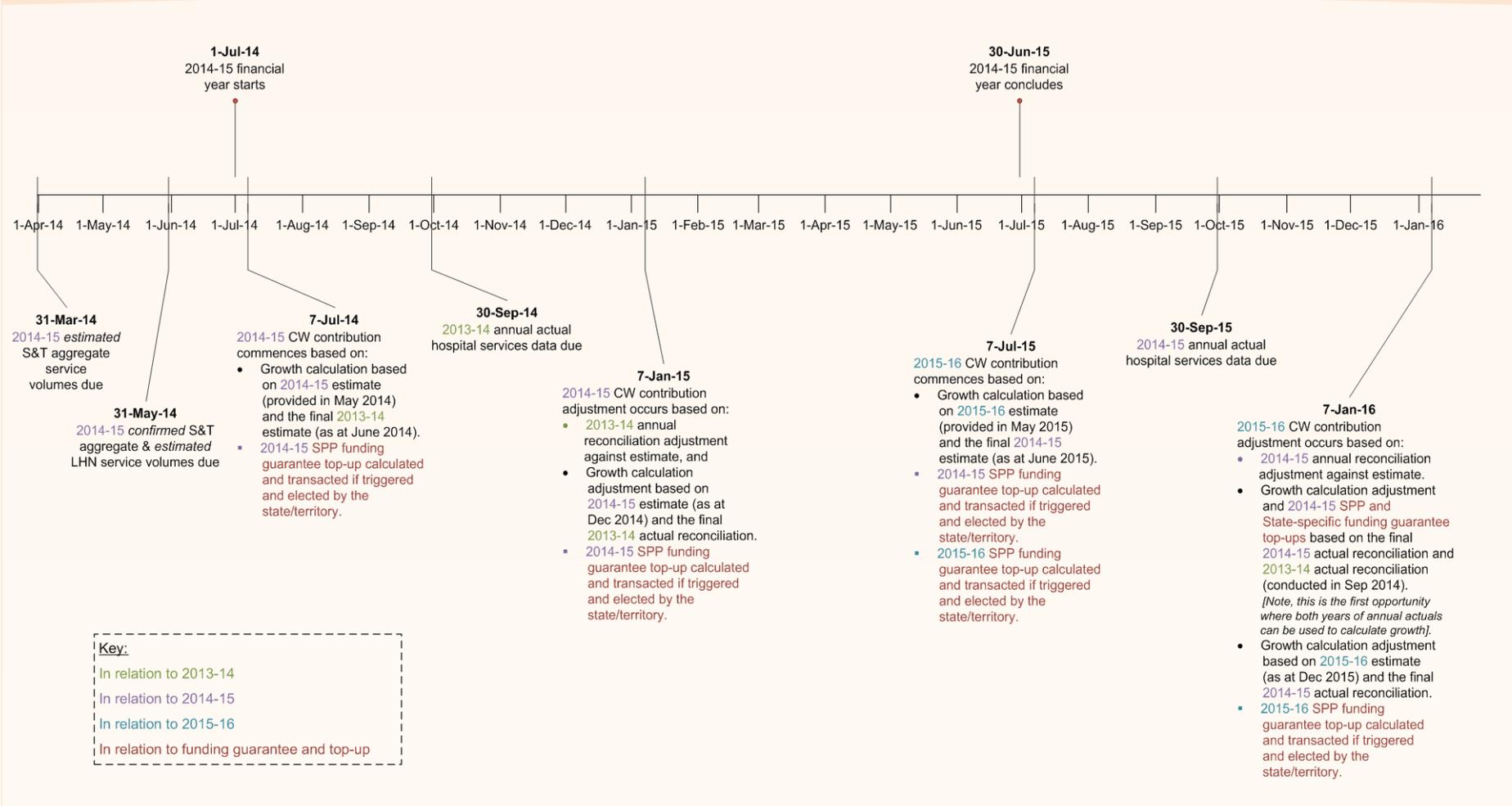
This appendix includes a flowchart overview of the process and should be read in conjunction with chapter 12 (calculation steps) and Appendix A (worked example).



Appendix D: Timeline

The following timeline is an illustration of the growth and funding guarantee calculation milestones. The timeline relates to the 2014-15 financial year as an example; however the milestones are consistent each financial year.

GROWTH, FUNDING GUARANTEE AND TOP-UP FUNDING TIMELINE RELATING TO THE 2014-15 FINANCIAL YEAR



Appendix E: Relevant *National Health Reform Agreement* clauses

Implementation of the Agreement	
12	The Commonwealth and States will implement public hospital governance and financing arrangements as set out by this Agreement in line with the timeframes identified in this Agreement. In recognition of the implementation by the States of these reforms, the Commonwealth will provide at least an additional \$16.4 billion in growth funding between 2014-15 and 2019-20 through meeting 45 per cent of efficient growth between 2014-15 and 2016-17 and 50 per cent of efficient growth from 2017-18 onwards; in the event the additional growth funding is less than \$16.4 billion, the Commonwealth will provide the remainder to States as top-up funding.
15	All States will receive additional Commonwealth funding for public hospitals, relative to the former National Healthcare Specific Purpose Payment (SPP), as a result of this Agreement and: <ul style="list-style-type: none"> a. no State will be worse off in the short or long term, because they will continue to receive at least the amount of funding they would have received under the former National Healthcare SPP and their share of the \$3.4 billion in funding available through the National Partnership Agreement on Improving Public Hospital Services; b. the Commonwealth's ongoing contribution to efficient growth funding from 1 July 2014 into the future will ensure all State governments will be better-off in the long term, relative to existing payment arrangements; and c. as an initial commitment, the Commonwealth guarantees that it will provide at least \$16.4 billion in additional funding over the 2014-15 to 2019-20 period.
Commonwealth Funding	
A3	From 1 July 2014, the Commonwealth will fund 45 per cent of efficient growth of activity based services, increasing to 50 per cent from 1 July 2017. Efficient growth consists of: <ul style="list-style-type: none"> a. the national efficient price for any changes in the volume of services provided (the role of the national efficient price and how it will be determined is set out in Schedule B); and b. the growth in the national efficient price of providing the existing volume of services.
A4	Where services or functions are more appropriately funded through block grants and for teaching, training and research, the Commonwealth will fund 45 per cent of growth in the efficient cost of providing the services or performing the functions from 1 July 2014, increasing to 50 per cent from 1 July 2017. The efficient cost will be determined annually by the IHPA, taking account of changes in utilisation, the scope of services provided and the cost of those services to ensure the Local Hospital Network has the appropriate capacity to deliver the relevant block funded services and functions.
A5	The Commonwealth will provide at least \$16.4 billion in additional funding through these revised funding arrangements between 2014-15 and 2019-20, compared with the funding that would have been provided through the former National Healthcare SPP.
Block funding	
A29	On the basis of this advice, the IHPA will determine which hospital services and functions are eligible for Commonwealth funding on a block grant basis.
A30	Using the IHPA's determination the Administrator of the National Health Funding Pool (the Administrator) will then calculate the Commonwealth's funding contribution for block funded services and functions.

Payments for Services Funded on an Activity Basis	
A34	<p>In 2014-15, 2015-16 and 2016-17, the Commonwealth's funding for each ABF service category will be calculated individually for each State by summing:</p> <p>a. <i>previous year amount</i>: the Commonwealth's percentage funding rate for the relevant State in the previous year multiplied by the volume of weighted services provided in the previous year multiplied by the national efficient price in the previous year;</p> <p>b. <i>price adjustment</i>: the volume of weighted services provided in the previous year multiplied by the change in the national efficient price relative to the previous year multiplied by 45 per cent; and</p> <p>c. <i>volume adjustment</i>: the net change in volume of weighted services to be provided in the relevant State (relative to the volume of weighted services provided in the previous year) multiplied by the national efficient price multiplied by 45 per cent.</p>
A35	The Commonwealth percentage funding rate for each ABF service category in each State will be calculated by dividing the sum of clause A34 by the relevant year's total volume of weighted services multiplied by the national efficient price.
A36	<p>The Administrator will provide the Commonwealth and States with a formal forecast of the Commonwealth's funding contribution for each ABF service category before the start of each financial year. The formal forecast will be provided within 14 calendar days of receipt of both:</p> <p>a. service volume information for all Local Hospital Networks within a State, as provided in Service Agreements; and</p> <p>b. the forecast national efficient price from the IHPA.</p>
A38	For 2017-18 and later years, the Commonwealth's funding for each ABF service category will be calculated as per clause A34 but replacing the 45 per cent rate specified in clauses A34(b) and A34(c) with 50 per cent.
A39	The methodologies set out in clauses A34, A35 and A38 relate to the calculation of preliminary payment entitlements. Final payment entitlements will be made after the reconciliation adjustments specified in clause B59-61 have been completed.
A40	If the IHPA makes any significant changes to the ABF classification systems or costing methodologies, the effect of such changes must be back-cast to the year prior to their implementation for the purpose of the calculations set out in clauses A34, A35 and A38. The IHPA will consider transitional arrangements when developing new ABF classification systems or costing methodologies.
A42	<p>ABF will be implemented through a phased approach:</p> <p>a. the implementation of nationally consistent ABF approaches for acute admitted services, emergency department services and non-admitted patient services (initially using the Tier 2 outpatient clinics list) will commence on 1 July 2012; and</p> <p>b. the implementation of nationally consistent ABF approaches for any remaining non-admitted services, mental health and sub-acute services will commence on 1 July 2013.</p>
Public Health Activities	
A43	Payments for public health activities for 2014-15 will be equal to the previous year's payment indexed by the former National Healthcare SPP growth factor.
A44	Unless otherwise agreed, beyond 2014-15 the Commonwealth's commitment to public health will continue to grow by the former National Healthcare SPP growth factor.
A46	The mechanism for delivering Commonwealth funding for public health activities to States in 2015-16 and future years will be re-considered by the Commonwealth and States in the context of a review of the National Partnership Agreement on Preventive Health, which expires in 2014-15.

Teaching, Training and Research							
A47	Payments for 2014-15, 2015-16 and 2016-17 will consist of the previous year's payment plus 45 per cent of the growth in the efficient cost of providing the relevant function calculated in accordance with clause A4.						
A48	Payments for 2017-18 and later years will consist of the previous year's payment plus 50 per cent of the growth in the efficient cost of providing the relevant function, calculated in accordance with clause A4.						
A49	The IHPA will provide advice to the Standing Council on Health on the feasibility of transitioning funding for teaching, training and research to ABF or other appropriate arrangements reflecting the volumes of activities carried out under these functions by no later than 30 June 2018.						
Block Funded Services							
A50	Payments for 2014-15, 2015-16 and 2016-17 will consist of the previous year's payment plus 45 per cent of the growth in the efficient cost of providing the services, adjusted for the addition or removal of block services as provided in clauses A27-A30 (calculated in accordance with clause A4).						
A51	Payments for 2017-18 and later years will consist of the previous year's payment plus 50 per cent of the growth in the efficient cost of providing the services, adjusted for the addition or removal of block services as provided in clauses A27-A30 (calculated in accordance with clause A4).						
Funding Guarantee							
A67	No State will be worse off in the short or long term, as set out in clause 15.						
	Consistent with this guarantee, if a State's funding entitlement calculated in accordance with clauses A1-A57 for a particular year is less than the amount of funding the State would have received under the former National Healthcare SPP for that year, the Commonwealth will provide top-up funding to ensure that the State receives at least the amount of the funding it would have received under the former National SPP.						
A69	The Commonwealth also guarantees that its increased contribution to efficient growth funding (defined as the amount paid in excess of what the States in aggregate would have received under the former National Healthcare SPP) will be no less than \$16.4 billion between 2014-15 and 2019-20.						
A70	The Commonwealth will provide top-up funding to meet any shortfall against the \$16.4 billion guarantee.						
A71	The States may use top-up funding for any health service that will assist in ameliorating the growth in demand for hospital services, including chronic disease management programs; preventive health programs; mental health programs; hospital admission avoidance programs; hospital early discharge programs; or other health services as jointly agreed by the Commonwealth and the relevant State.						
Calculation of Funding Guarantee							
A72	A proportion of the \$16.4 billion guarantee will be guaranteed on a state-specific basis as outlined in the following table:						
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-
	State-specific guarantee amounts (\$m)	575	1,225	1,500	2,000	2,000	2,200
	Projected annual growth funding amounts (\$m)	574	1,231	1,983	3,012	4,161	5,433
	Percentage of projected growth funding amounts guaranteed	100%	100%	76%	66%	48%	40%

A73	The state-specific guaranteed amount will be allocated among the States on an equal per capita (EPC) basis to provide each State with a specific guarantee (in addition to the amount it would have received under the National Healthcare SPP).
A74	Any top-up funding required under the state-specific guaranteed amount will be paid annually, but retrospectively, after reconciliation to actual activity levels for the relevant year and will be required to be used for the purposes specified in clause A71.
A75	By July 2017, Heads of Treasuries will review the need for further top-up funding against the national \$16.4 billion guarantee. Where Heads of Treasuries agree that top-up funding is likely to be required in order to meet the \$16.4 billion guarantee, it will recommend instalments to be advanced in addition to any top-up funding paid under the state-specific guarantees.
A76	Heads of Treasuries will then consider the need for continued instalments of top-up funding against the national guarantee on an annual basis each year until the end of the guarantee period.
A77	Top-up funding under the national guarantee will be distributed amongst the States on an EPC basis. Any over-payments of instalments advanced against the national guarantee will be repaid to the Commonwealth once final growth funding entitlements are determined after the end of 2019-20, or earlier if mutually agreed between the relevant parties.
A78	Any top-up funding provided under the state-specific guaranteed amounts will count toward the \$16.4 billion national guarantee.
A79	If a State plans for activity lower than the state-specific guarantee and invests potential gap payments elsewhere, the State accepts the risk of additional activity up to the level of the state-specific guarantee. Activity above the state-specific guarantee is funded by the Commonwealth according to the principles of efficient growth funding.
Maintenance of Effort	
A80	<p>The maintenance of effort mechanisms for State expenditure will operate as follows:</p> <ul style="list-style-type: none"> a. the benchmarks for assessing maintenance of effort will: <ul style="list-style-type: none"> i. for 2011-12 and 2012-13, be based on previously budgeted forward estimates of State recurrent health expenditure in place prior to the National Health and Hospitals Network Agreement; and ii. for 2013-14, grow by at least 5.25 per cent in 2013-14 relative to the outcome in 2012-13 for recurrent expenditure. b. States will provide to Heads of Treasuries: <ul style="list-style-type: none"> i. data in respect of the benchmarks in clause A80(a)(i); and ii. within four months of the end of the financial year, report on expenditure undertaken in the financial year against these benchmarks and provide an explanation for any failure to achieve the benchmarks; c. Heads of Treasuries will assess the information provided by the States and provide a report for consideration by the Standing Council on Federal Financial Relations (SCFFR); and d. the SCFFR will provide advice to the Commonwealth on: <ul style="list-style-type: none"> i. whether an adjustment should be made to the baseline against which future growth funding entitlements will be calculated, having regard to any explanation for failure to achieve the benchmarks; and ii. a decision by a jurisdiction to constrain general growth in government expenditure would be an acceptable reason for failure to achieve the benchmarks, provided that the slowing in expenditure growth is not specific to the health system and that any slower growth in health expenditure is sustained beyond the end of the transition period.

A81	Heads of Treasuries will also consider and report to the SCFFR on the extent to which the Commonwealth has maintained its overall level of health expenditure over the same period (2011-12 to 2013-14).
Treatment of National Partnership Funding for Calculation of Growth	
A82	The review of the National Partnership Agreement on Improving Public Hospital Services will be completed with decision by COAG by December 2013. This timing reflects the need for certainty of arrangements for the States given the current expiry of funding by the end of 2013-14.
A83	COAG, through the Heads of Treasuries, has agreed a process for the consideration of National Partnerships, and this will frame the review of the National Partnership Agreement on Improving Public Hospital Services.
A84	Key features of the review process include: <ul style="list-style-type: none"> b. the SCFFR being able to make recommendations to COAG, which may include recommendations on the form and scope of proposed ongoing funding, including assessing whether the National Partnership Agreement on Improving Public Hospital Services should be incorporated into the growth funding base, continued or terminated; i. The SCFFR does not itself have the authority to make funding decisions and the recommendations made by the SCFFR to COAG must be supported by funding decisions made as part of the Commonwealth Budget process.
A85	Criteria considered in framing recommendations will draw on those agreed by COAG, including: <ul style="list-style-type: none"> a. the success of the National Partnership Agreement on Improving Public Hospital Services in achieving its objectives, outcomes and outputs and consideration as to whether ongoing funding is required to maintain the outcomes; b. whether funding, objectives or outcomes are 'ongoing' in nature because they support longstanding services or because the National Partnership Agreement on Improving Public Hospital Services has been used to lift standards that the Commonwealth and States agree should be maintained; and c. in considering the merits of rolling the National Partnership Agreement on Improving Public Hospital Services into the funding base, whether the expiring Agreement falls within the policy objectives of the NHA.
A86	In considering such issues, the review will identify: <ul style="list-style-type: none"> a. the impact on the level of activity (including but not limited to beds, services, and staffing) which may have arisen from the funding; b. the projected impact on the health system and patient care of any discontinuation of funding; and c. the baseline activity levels against which future service growth should be measured for the purpose of calculating Commonwealth growth funding, should the National Partnership funding be discontinued.
A87	Where the review identifies evidence of increased activity levels attributable to the National Partnership Agreement on Improving Public Hospital Services under clauses A86(a) and A86(b), the Commonwealth agrees in principle to making an appropriate baseline adjustment to reflect the share of the ongoing cost of those additional services. The baseline adjustment will have regard to the actual volume of additional services provided in the relevant State, and the level of Commonwealth operational funding for services provided in the original National Partnership Agreement on Improving Public Hospital Services.

Funding Flows	
A89	Commonwealth funding contributions will flow to the provider jurisdiction through the National Health Funding Pool. Steps will be taken to prevent Commonwealth payments made in accordance with these arrangements being subject to equalisation by the Commonwealth Grants Commission to avoid financially disadvantaging one State.
National Health Funding Pool	
B21	There will be complete transparency and line-of-sight of respective contributions into and out of Pool accounts to Local Hospital Networks, discrete State managed funds, or to State health departments in relation to public health funding and any top-up funding, and of the basis on which the contributions are calculated. There will also be complete transparency and line-of-sight of respective contributions out of State managed funds to Local Hospital Networks.
Governance	
B26	Commonwealth legislation will provide for the Administrator to perform the following functions: d. publicly reporting on: v. top-up payments made by the Commonwealth through the National Health Funding Pool to the States;
Payments into the National Health Funding Pool and State Managed Funds	
B46	Commonwealth payments into the pool will be made monthly, calculated as 1/12th of the estimated annual payment. Commonwealth payments will be made into the National Health Funding Pool in accordance with Schedule D of the IGA FFR.
Payments from the National Health Funding Pool and State Managed Funds	
B52	The payment arrangements for Commonwealth funding are as follows: d. public health funding and any top-up funding will flow through Pool accounts to State health departments.
Adjustments to the Commonwealth's Contribution to Local Hospital Networks Funding	
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.
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.
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.
Service Agreements	
D9	Service Agreements will be publicly released by States within fourteen calendar days of finalisation or amendment and will then also be made available through relevant national bodies. States may agree additional matters with Local Hospital Networks (such as the delivery of additional programs).