

████████████████████
Secretary
Department of Health
GPO Box 4057
Melbourne Victoria 3001

7 July 2023

Dear ██████████

2022-23 Commonwealth activity-based funding - Victoria

Thank you for your correspondence dated 12 April 2023 regarding Victoria's revised 2022-23 activity estimates. I note that as part of your response you requested some additional scenario modelling to be completed, including a comparison between existing funding parameters (scenario 1) and an alternative approach to implementing the Commonwealth's Minimum Funding Guarantee for financial year 2021-22 (scenario 2).

It is worth recapping the direction from the Commonwealth Treasurer which outlines the eligibility under which the Commonwealth Minimum Funding Guarantee will be assessed. This includes:

- Where the sum of the final National Health Reform Agreement (NHRA) amount and the Hospital Service Payment (HSP) amount is not more than the Minimum Funding Guarantee amount, the Administrator, having regards to the bilateral agreement between the Commonwealth and the States of the Minimum Funding Guarantee, will then set the State's base amount for the following financial year to be the Minimum Funding Guarantee for that State.

I understand this approach was supported by States and Territories because the activity profile equated to the Minimum Funding Guarantee, ensuring that baseline activity wasn't so low that the 6.5 per cent national funding cap didn't inadvertently constrain State's ability to recover post pandemic. I understand this approach was also supported by the Commonwealth because it ensured there was no duplicate funding whereby States received: 1. the funding guarantee in the base (for activity not delivered) as well as; 2. activity growth funding.

The additional scenario you have requested does not accord with the Commonwealth Treasurer's direction and assumes that Victoria retains the Commonwealth Minimum Funding Guarantee in the funding base and also receives activity growth funding. This is highlighted in the results summarised in Table 1.

TABLE 1 Scenario modelling as requested by Victoria

	2021-22 Backcast Actual (NWAU)	2022-23 Funding Base (\$ million)	2022-23 Forecasted Actual (NWAU)	2022-23 Potential Entitlement (\$ million)
Current Funding	2,243,988 ¹	6,228.9	2,468,820 ²	6,633.8 ⁴
Scenario 1	2,243,988 ¹	6,228.9	2,216,509 ³	6,246.9
Scenario 2	2,062,864	6,228.9	2,216,509 ³	6,633.8 ⁴

¹ Based on the Commonwealth's Minimum Funding Guarantee

² Activity estimates provided by Victoria Health

³ Forecast activity based on an extrapolation of 2022-23 Q2 data submissions

⁴ Based on State-based soft-cap of 6.5 per cent

As you are aware, my term as the Administrator ends today, Friday, 7 July 2023. Should you wish to discuss this further, please contact nhfa.administrator@nhfa.gov.au, or alternatively Mr Shannon White, Chief Executive Officer, National Health Funding Body on (02) 6289 7249 or at shannon.white@nhfb.gov.au.

Yours sincerely,



Michael Lambert
Administrator
National Health Funding Pool