Administrator
National Health
Funding Pool

CALCULATION OF COMMONWEALTH NATIONAL HEALTH REFORM FUNDING 2020-2025

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Approval

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Signature	
Date	13 September 2024

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1 BACKGROUND

In August 2011, the Council of Australian Governments (COAG) agreed to major changes in how public hospitals were to be funded by Commonwealth, State and Territory governments, including the move from block grants to an 'activity-based' funding system (ABF).

These changes included establishing the Administrator of the National Health Funding Pool (the Administrator) and the National Health Funding Body (NHFB) to improve transparency of public hospital funding arrangements.

The *National Health Reform Agreement 2011 (*NHR Agreement) outlines the shared responsibility of the Commonwealth, State and Territory governments to work in partnership to improve health outcomes for all Australians and ensure the sustainability of the Australian health system.

This document sets out the approach and processes used by the Administrator to calculate Commonwealth NHR funding paid to States and Territories (hereafter, the States).

The calculation policy includes funding for ABF, Block and Public Health funding categories as well as the approach to reconciliation activities.

This version of the policy updates for the relevant changes in the *Addendum to the National Health Reform Agreement 2020-2025* (the Addendum) that impact on the calculation of Commonwealth NHR payments. As per the Addendum major changes for items listed below were incorporated into the 2021-22 financial year. These are:

- Implementation of specific funding treatments for Highly Specialised Therapies (HSTs)
- Adjustment for Avoidable Hospital Readmissions
- Adjustments to achieve Private Patient Neutrality

Each of these changes have been and will continue to be the subject of consultation with jurisdictions.

2 LEGISLATIVE AND POLICY FRAMEWORK

National Health Reform Act 2011

Section 238(1) of the *National Health Reform Act* (NHR Act) and associated State NHR legislation requires the Administrator to calculate and advise the Commonwealth Treasurer of the amounts to be paid by the Commonwealth into the Pool under the NHR Agreement for each State. This includes advising on any reconciliation of those amounts based on subsequent actual service delivery.

National Health Reform Agreement 2011

The *National Health Reform Agreement 2011* (NHR Agreement) established Commonwealth National Health Reform funding for public hospitals including the move to 'activity-based' funding wherever practicable (A2).

These changes also included establishing the Administrator and the NHFB to improve transparency of public hospital funding arrangements.

Addendum to the National Health Reform Agreement 2017-18 to 2019-20

The *Addendum to the National Health Reform Agreement 2017-18 to 2019-20* introduced the National Funding Cap from 1 July 2017, stipulating that growth in annual Commonwealth funding for national Public Hospital Services will not exceed 6.5 per cent a year (I10).

This also saw the introduction of pricing and funding adjustments for Sentinel Events and Hospital Acquired Complications (HACs).

Addendum to the National Health Reform Agreement 2020 to 2025

On 29 May 2020, the Commonwealth, States and Territories entered into a new agreement through the *Addendum to the National Health Reform Agreement 2020–21 to 2024–25* (the Addendum). The Addendum maintains a commitment to ensuring equitable access to public hospitals for all Australians.

The Addendum also includes a commitment by all Australian governments to a shared long-term vision for health reform, with reforms aimed to make it easier to provide flexible, high-quality care that meets the needs and preferences of Australians and reduces pressure on hospitals through:

- Improving efficiency and ensuring financial sustainability
- Delivering safe, high-quality care in the right place at the right time, including long-term reforms in
    - Nationally cohesive health technology assessment
    - Paying for value and outcomes
    - Joint planning at the local level.
- Prioritising prevention and helping people manage their health across their lifetime
- Driving best practice and performance using data and research, including long-term reforms in enhanced health data.

The Addendum also introduced a number of new elements that have implications for the calculation of NHR Agreement Commonwealth funding, these being:

- The Administrator will undertake, in consultation with all jurisdictions, a process of data matching to compare MBS data with NHR ABF data at the patient level to identify instances where the Commonwealth may have funded the same health service twice. The Administrator will refer these matters for Commonwealth compliance checking and action in the first instance (A9, A10, A11), with some circumstances resulting in adjustments to Commonwealth NHR funding (A12). In addition, data samples of potential positive matches and negative matches are provided to States for investigation and reporting in order to further improve the data matching business rules. A resubmission window is available to address issues where patients have been misreported as private or public patients.
- Establishing a single Commonwealth Contribution Rate (CCR) in each State across all ABF service categories, commencing 1 July 2020 (A35).
- Implementation of a pricing model for avoidable hospital readmissions by 1 July 2021 (A171).
- New funding arrangements for new, high cost, highly specialised therapies (HSTs) that are recommended for delivery in a public hospital setting by the Medical Services Advisory Committee. The CCR for HSTs will be 50 per cent of the growth in the efficient price (or cost) rather than the 45 per cent rate. HSTs will be exempt from the funding cap for a two-year period from the commencement of service delivery (C11).

- Noting the commitment by all Parties to the principle of financial neutrality between private and public patients as set out in clause A15 of the Addendum, working with the IHACPA to develop an approach to achieve overall payment parity between public and private patients in public hospitals (A44). This approach takes effect from 1 July 2021.

In addition, in recognition of the impact of the COVID-19 outbreak on public hospital activity, the Commonwealth provided a public hospital funding guarantee (separate to the Addendum) for 2019-20 to 2021-22 to ensure no jurisdiction is left worse off in terms of NHR funding payments as a result of the COVID-19 pandemic.

Federal Financial Relations Act 2009

The Minister administering the *Federal Financial Relations Act 2009* (FFR Act), the Commonwealth Treasurer, determines the amount of Commonwealth funding that is to be paid to each State.

Section 17 of the FFR Act allows the Commonwealth Treasurer to make advances to a State of portions of the amount to which, it appears to the Commonwealth Treasurer, the State will be entitled to under section 15A for a financial year (if the total advances paid during a financial year are greater than or less than the amount to which a particular State is entitled under section 15A, relevant adjustments are made after the end of the relevant financial year). That is, the Commonwealth Treasurer does not make a determination under section 15A(1) until after the end of the relevant financial year, but the States receive advance payments throughout the financial year pursuant to section 17 of the FFR Act, based on estimated entitlements.

Against that background, payments by the Commonwealth to a State Pool Account are made in reliance on section 15A (and section 17) of the FFR Act and are supported by the standing appropriation contained in section 22 of the FFR Act.

Intergovernmental Agreement on Federal Financial Relations

The Intergovernmental Agreement on Federal Financial Relations (Intergovernmental Agreement) details arrangements for the funding and delivery of government services. Schedule D provides that all National Specific Purpose Payments (SPPs), including NHR Agreement payments, are paid by the Commonwealth Treasury to each State on the 7th day of each month.

Administrator's Policy Framework

The Administrator's policies make transparent the approach taken to performing the Administrator's functions. This includes the provision of data, data quality and management, calculation of initial payments, reconciliation of final entitlements, funding integrity, and guidance on the operation of the National Health Funding Pool.

THREE-YEAR DATA PLAN

The Administrator's Three-Year Data Plan describes the Administrator's determination of the minimum level of data required from the Commonwealth and States, to calculate the Commonwealth's national health reform funding to public hospital services, conduct reconciliation activities, undertake funding integrity and report publicly on NHR funding and payments. The Administrator's Three-Year Data Plan is developed in close coordination with IHACPA's Three-Year Data Plan.

DATA COMPLIANCE POLICY

The Data Compliance Policy comprises the Administrator's policy on jurisdictional compliance with data provision as required in the Administrator's Three-Year Data Plan. The NHFB, on behalf of the Administrator, publishes a quarterly Data Compliance Report on jurisdictional compliance with the Data Plan and Data Compliance Policy.

DATA GOVERNANCE POLICY

The Data Governance Policy covers both the Administrator and the NHFB and details the information collected, the purpose for the collection, its use, storage, disclosure, security, and disposal, by the Administrator.

CALCULATION OF COMMONWEALTH NATIONAL HEALTH REFORM FUNDING

This document sets out the approach and process used by the Administrator to calculate Commonwealth NHR funding paid to States. The calculation policy includes funding for ABF, Block and Public Health funding categories as well as the approach for reconciliation activities.

BUSINESS RULES FOR DATA MATCHING

The business rules outline the business and data matching rules in relation to clause A9 of the NHR Agreement, where assessment is undertaken to ensure the Commonwealth does not fund activities twice, through ABF and through MBS and/or PBS funding.

NATIONAL HEALTH FUNDING POOL PAYMENTS SYSTEM MANUAL

The Manual covers the procedures for authorised NHFB and States staff to process Pool deposits and payments through the Payments System.

3 ROLES

Role of the Administrator

The Administrator of the National Health Funding Pool (the Pool) is a statutory office holder, independent from Commonwealth and State Governments and is appointed to the position under Commonwealth and State legislation.

The position was established by the NHR Act and relevant legislation of each State. The Administrator is supported by the NHFB, which is also independent of all governments. The key functions of the Administrator, with the support of the NHFB, are to:

- Accurately calculate and advise the Commonwealth Treasurer on Commonwealth funding contributions.
- Undertake best practice financial administration of the Pool, ensuring:
    - The integrity of the payments system
    - Commonwealth and State payments are correct and timely
    - Payments to Local Hospital Networks (LHNs) from the Pool follow government directions
    - Reconciliation between estimated and actual volumes of services and payments every six months
- Provide effective reporting on the monthly and annual funding arrangements to ensure transparency in the operation of the Pool.
- Maintain productive and effective relationships with stakeholders and strategic partners, including all Australian Governments, the IHACPA, the AIHW and the ACSQHC.

Role of the Commonwealth and the States

Under the NHR Agreement, the Commonwealth and States are jointly responsible for:

- funding public hospital services in Australia, using ABF where appropriate and Block funding in other cases
- funding growth in public hospital services and variations in the cost of public hospital services
- establishing and maintaining nationally consistent standards for health care and reporting to the community on the performance of health services
- collecting and providing data to support comparability and transparency and data sharing arrangements to promote better health outcomes.

The NHR Agreement recognises the States as the system managers of the public hospital system. A core element of being the system manager of public hospitals is to ensure services are appropriately funded. Therefore, each State determines the amount they pay for public hospital services and functions, and the mix of those services and functions, and meets the balance of the cost of delivering public hospital services and functions over and above the Commonwealth NHR funding.

In determining the mix of services and functions provided, States work with LHNs to develop Service Agreements (clause E7 of the Addendum) and estimates of activity to be delivered. These Service Agreements align to the estimates provided to the Administrator for funding purposes and are updated throughout the year as needed.

The States are responsible for hospital data quality, integrity and timeliness. To enable the calculation of Commonwealth NHR funding, States collect and provide hospital activity data as specified in the Administrator's Three-Year Data Plan. The data submitted to the Administrator for Reconciliation activities is required to be timely, complete, and accurate, meeting appropriate assurance requirements.

The Commonwealth is also responsible for system management, policy and funding for GP, primary and aged care services. Its role is to promote coordinated, equitable and timely access to GP and primary health care service delivery, work with States on system-wide policy and state-wide planning for GP and primary health care, policy planning, funding, management and delivery of aged care system.

4 FUNDING AND PAYMENTS

Components of National Health Reform Funding

The Administrator's calculation of Commonwealth NHR funding includes the following major components:

- Activity Based Funding (ABF) (See Section 6), which is used to fund the majority of public hospital services based on the number of services provided and the price to be paid for delivery
- Block funding (See Section 7), which is provided to support teaching, training and research undertaken in public hospitals and public hospital services and functions that are more appropriately funded through block grants
- Public Health Funding (See Section 8), which covers amounts relating to national public health, youth health services and essential vaccines (service delivery).

Additionally, adjustments are made to Commonwealth NHR funding (ABF and Block) for:

- Six-month and Annual Reconciliation (See Section 11)
- Funding Cap, if exceeded (See Section 9)
- Safety and Quality adjustments, Data Conditional Payments, and for data matching adjustments in certain specified circumstances (See Section 10.2.1, 10.2.2 and 10.4 respectively)
- Private Patient Neutrality adjustments, (See Section 10.3).

National Health Funding Pool

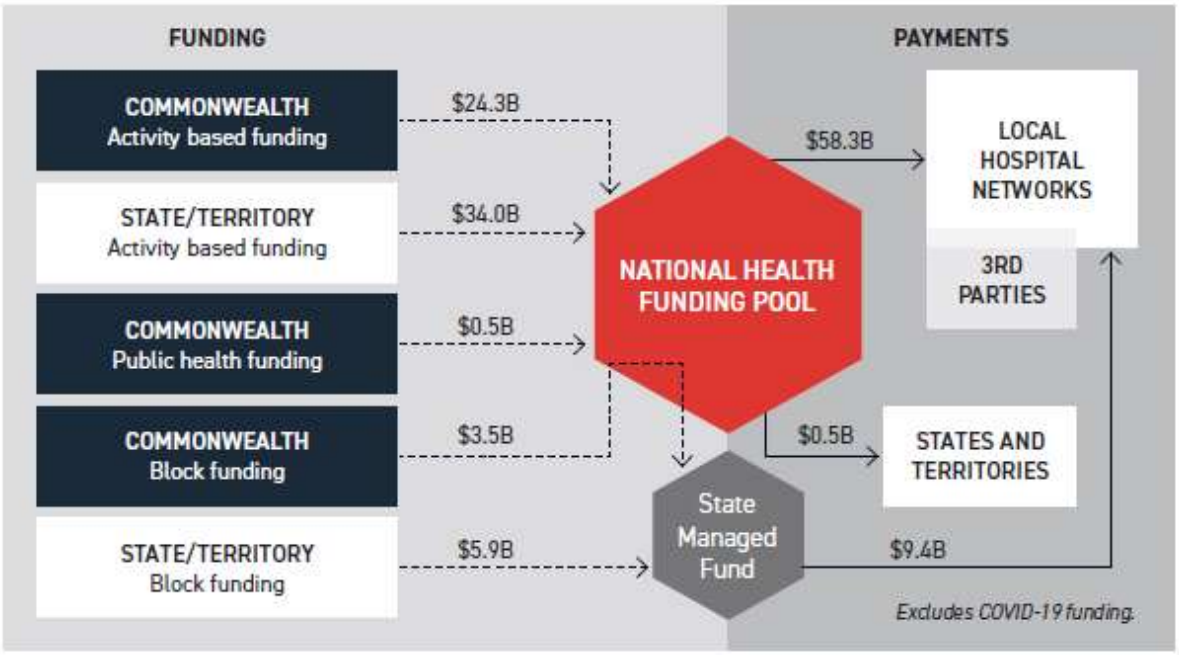
The National Health Funding Pool (the Pool) was established to receive all Commonwealth (ABF, Block and Public Health) and State (ABF only) public hospital funding. The Pool comprises of a Reserve Bank of Australia (RBA) account for each State, with each State also having established a State Managed Fund (SMF) to manage Block funding.

The Pool and SMF provide a line-of-sight mechanism to trace each jurisdiction's contribution to LHNs and third parties. The funding in the Pool is paid to States (including public health, cross border, interest and over deposits).

Figure 1 highlights the source, types and amount of funding and payments that flowed through the Pool and SMFs in 2023-24.

The NHR Agreement also allows for additional streams of funding to be paid through the Pool if agreed by Government, as was done with respect to the NPCR payments in response to COVID-19

FIGURE 1 2023-24 Public Hospital Funding Payment Flows



5 COMMONWEALTH CONTRIBUTION MODEL

Commonwealth funding for ABF, Block and Public Health funding categories is calculated using the Commonwealth Contribution Model (CCM), an accurate, correct, transparent, robust and independently reviewed methodology.

The CCM calculations form the basis of the Administrator's payment advice to the Commonwealth Treasurer. This advice is also provided to Commonwealth and State Health Ministers and State Health Departments.

There are two broad types of funding calculated using the CCM, ABF and Block funding. Under the NHR Agreement, the scope of public hospital services that are funded on an ABF or Block funding basis and are eligible for a Commonwealth funding contribution currently includes:

- All emergency department services provided by a recognised emergency department.
- All admitted and non-admitted services.
- Other outpatient, mental health, sub-acute services and other services that could reasonably be considered a public hospital service.

Public hospitals also receive funding from other sources, including the Commonwealth, States and third parties for the provision of other specific functions and services outside the scope of the NHR Agreement (e.g. pharmaceuticals, primary care, home and community care, dental services, residential aged care and disability services).

Inputs to the CCM

The Administrator's calculation of Commonwealth NHR funding is made up of the base year funding and growth funding. The base year funding for calculating the growth in Commonwealth NHR funding for the following year is the estimated Commonwealth NHR funding determined by the Administrator for the prior year, or the final entitlements determined by the Commonwealth Treasurer.

To calculate growth funding, relevant inputs are required from IHACPA Commonwealth Treasury, and State Health Departments.

Independent Health and Aged Care Pricing Authority

IHACPA determinations of the National Efficient Price (NEP) and National Efficient Cost (NEC) are important inputs for calculating Commonwealth NHR Agreement funding, providing the price for ABF funding (NEP) and the cost for Block funding (NEC).

IHACPA also provides back-casting multipliers for each State by service category to account for any significant changes made to ABF classification systems or patient costing methodologies between the base year and the forecast year. The back-casting requirement is intended to ensure Commonwealth NHR Agreement funding is not impacted, either in a positive or negative way, by changes in the National Pricing Model over consecutive years.

For the purposes of calculating growth funding, the Administrator uses both the relevant financial year NEP and the back-casted base year NEP.

The IHACPA also provides information to allow the Administrator to calculate the back-casted base year NEC to be used in the relevant financial year calculation for Block funded services.

The Administrator's back-casting requirements are further detailed in Section 12.

Commonwealth Treasury

Commonwealth Treasury provides the annual growth factor for Public Health funding, which is the growth factor that was used previously for Commonwealth Health Specific Purpose Payments (pre NHR Agreement).

States

SERVICE CATEGORY ACTIVITY ESTIMATES

States are required to provide the Administrator with estimates of expected activity, expressed as National Weighted Activity Units (NWAU) for ABF funded services. These are used by the Administrator to calculate the formal forecast of Commonwealth NHR Agreement ABF and advise the Commonwealth Treasurer. Both Commonwealth and State payments are made prospectively based on the estimated service activity that is negotiated between the States and their LHNs.

Estimates can be provided both prior to and during the relevant financial year, formally (binding) and informally (non-binding). Binding estimates result in a change to the forecast level of activity and a corresponding adjustment to Commonwealth NHR funding, while non-binding estimates are simply for information and do not trigger a funding adjustment.

FORMAL ACTIVITY ESTIMATES (BINDING)

States must provide, at a minimum, two formal service activity estimates prior to the commencement of the relevant financial year:

- Aggregate State activity by service category, due by 31 March of the preceding financial year; and
- LHN activity by service category, due by 31 May of the preceding financial year.

If required, formal updated estimates of activity can be provided to the Administrator for funding purposes during the relevant financial year.

The Administrator encourages States to provide updated service estimates in November and March of the relevant financial year to assist with the accuracy of Commonwealth and State Budget calculations.

Adjustments advised to the Administrator by the last business day on or before the 15th of a month, take effect in the Commonwealth NHR funding in the following month. If advised later than the 15th of the month, the change takes effect in the second following month. It is expected that States update their LHN Service Agreements within 14 days of formally revising estimated activity.

The use of these estimates for ABF purposes and the need to avoid significant cash flow variations for LHNs reinforces the need for States to have estimates that are as robust as possible and that reflect actual activity to the greatest extent possible.

INFORMAL ACTIVITY ESTIMATES (NON-BINDING)

Following the introduction of the Funding Cap, Commonwealth NHR funding outcomes for States are inter-dependent. To assist jurisdictions with budget certainty, clause 104 allows States to provide non-binding advice of service estimates to the Commonwealth and the Administrator, without the need to vary Service Agreements.

Confidential budget planning advice may be provided by jurisdictions at any time prior to or during the relevant financial year. States are encouraged to provide non-binding estimate advice throughout the relevant financial year, to inform Commonwealth and State Budget calculations and assist States with internal planning processes.

Non-binding advice provided to the Administrator will be shared with the Commonwealth. The advice will not be used in the calculation of Commonwealth NHR funding for the purpose of payments or cash flows to LHNs within the current year.

6 ACTIVITY BASED FUNDING

ABF is a funding method for public hospital services based on the number of weighted services provided to patients and the price to be paid for delivering those services.

The IHACPA's NEP Determination and Pricing Framework, issued prior to the commencement of the relevant financial year, determines the hospital services in scope for Commonwealth NHR Agreement funding. States provide data detailing these in scope hospital services for confirmation of eligibility by the Administrator.

The following service categories are funded through ABF in 2023-24:

- Emergency department services.
- Acute admitted services.
- Admitted mental health services
- Sub-acute and non-acute services
- Non-admitted services

The Commonwealth funds 45 per cent of efficient growth of ABF services delivered (clause A33). Efficient growth is the growth in funding related to the change in the NEP (price adjustment) and the change in the volume of services delivered (volume adjustment) for a given financial year.

Commonwealth NHR Agreement funding is calculated (clause A34 of the Addendum), for all ABF service categories, individually for each State by summing the:

- previous year (i.e. base year) amount;
- price adjustment; and
- volume adjustment.

'Price adjustment' is the change in NEP between the base year and relevant financial year, and 'volume adjustment' is the change in hospital activity between the base year and relevant financial year measured in NWAU.

The ABF calculation includes back-casting of base year figures, a process for ensuring the NEP methodology is applied consistently across financial years (A40). Any changes to the classifications, counting rules or pricing methodology in the relevant financial year are back-cast to apply to the base year figures.

Directly applying updated methodology or classifications to the base year activity data is not always possible, for example, where data reporting requirements have significantly changed

between the base year and funding year. When base year activity data is not available on the same basis as the current year, the Administrator's preferred approach is the use of a shadow data reporting year as the base year. This shadow year enables the collection of appropriate base year activity data and facilitates accurate back-casting of the base year. If a shadow year is not agreed to, conversion factors can be used to estimate the impact of the changes (see Section 12: Back-casting).

Components of the ABF calculation subject to back-casting are identified in Appendix G: Calculation examples.

Commonwealth funding is distributed across all ABF service categories in each State at a single CCR, where the single CCR in each State for all ABF service categories is calculated by dividing the Commonwealth NHR Agreement funding calculated as per clause A34 of the Addendum by the relevant year's total volume of weighted services multiplied by the national efficient price. The requirement for ABF to be calculated at a service category level is outlined in clause A35 of the Addendum, however it is also needed to:

- Reflect any inclusions or exclusions of ABF services and changes in the scope of services between financial years. As NHR funding arrangements continue, more services will transition to ABF services.
- Account for the IHACPA NEP back-casting volume multipliers and back-casted NEP (if relevant), which are developed and determined at a service category level.
- Ensure that ABF is calculated on the most appropriate basis and level of accuracy.
- Ensure that each LHN receives the correct amount of Commonwealth ABF, reflecting its agreed scope, type and mix of ABF services provided.

Calculating ABF

There are three stages in the calculation and determination of ABF:

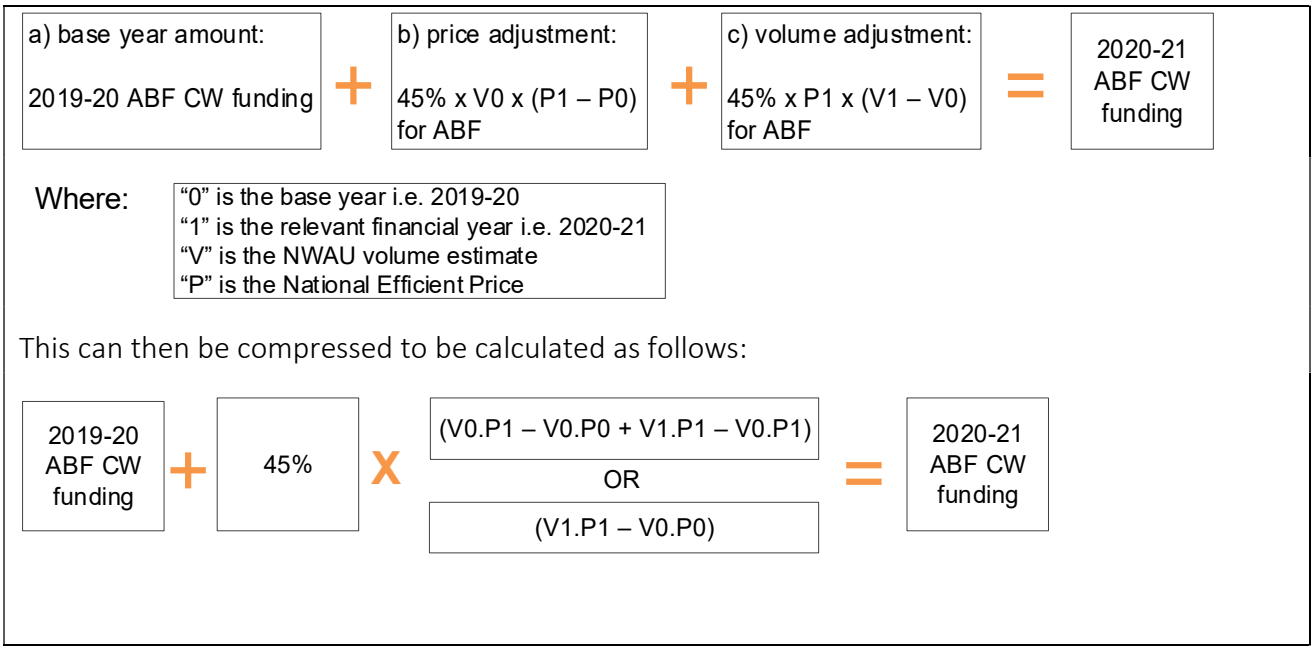
1. Stage 1. Based on estimated activity for both the base year and relevant financial year (see **Appendix G: Calculation example 1**);
2. Stage 2. Based on actual activity for the base year and estimated activity for the relevant financial year (see **Appendix G: Calculation example 2**); and
3. Stage 3. Based on actual activity for both the base and relevant financial years (see **Appendix G: Calculation example 3**).

These milestones are highlighted in the Timeline in **Section 13: Timeline**.

The ABF calculation process is the same for each calculation stage, however the calculation basis may alter in each stage due to the inclusion of annual actual hospital activity data.

The ABF calculation is shown in **Figure 2** below.

FIGURE 2 ABF calculation



For more detailed calculation steps for ABF, see **Appendix A.**

The NEP is the same for all ABF service categories, and the volume (in NWAU) is based on a State aggregation of LHN service category activity for all ABF service categories.

The ABF calculation is then incorporated into the calculation of the Commonwealth Contribution rate (CCR) as per clause A35 of the Addendum.

The CCR is calculated for all ABF funding service categories for each State, by dividing the relevant financial year's calculated ABF allocation (the sum of components a, b, and c in Figure 2) by the relevant financial year's aggregate volume of NWAU for all ABF service categories, multiplied by the relevant financial year's NEP.

This results in a single CCR for each State for all ABF service categories.

TABLE 1 ABF single CCR calculation

Calculation Example				
2020-21 Total ABF Cwlth funding	/	[(2020-21 ABF service volumes) x (2020-21 NEP)]	=	2020-21 CCR for ABF

The Commonwealth NHR funding for ABF for each service category for each State is calculated by multiplying the State's NWAU for the relevant service category by the relevant financial year's NEP, and by the single CCR for that State.

TABLE 2 ABF calculation for each Service Category

Calculation Example						
2020-21 ABF Acute service volume for State	X	2020-21 CCR for ABF	X	2020-21 NEP	=	2020-21 ABF Acute Cwlth funding for State

The Commonwealth NHR funding for ABF for each LHN by service category is determined by multiplying the LHN's NWAU for the relevant service category by the relevant financial year's NEP, and by the single CCR for that State.

TABLE 3 ABF calculation for each LHN and each Service Category

Calculation Example						
2020-21 ABF Acute service volume for LHN	X	2020-21 CCR for ABF	X	2020-21 NEP	=	2020-21 ABF Acute Cwlth funding for LHN

The Commonwealth NHR funding for ABF for each LHN (being the sum of the amounts for each service category) is paid via the NHFP in equal monthly amounts (clauses A132 and A138 of the Addendum).

Commonwealth ABF payment

Commonwealth NHR funding paid during the financial year to States (excluding prior year Reconciliation see below) is subject to the 6.5 per cent state-based Soft Cap (clause A56a, A62 of the Addendum). Final Commonwealth Funding Entitlement is subject to the 6.5 per cent National Funding Cap (clause A77 of the Addendum) and applied when Annual Reconciliation of actual annual hospital activity data is undertaken in the following financial year (see Section 9: Funding Cap).

Clause A111 states that Commonwealth cross-border funding flows to the provider State (where the service occurred). The quantum of services provided for interstate residents is included in each State's LHN NWAU and reflected in the Commonwealth NHR funding for ABF (for both estimates and Annual Reconciliation). This ensures each State's entire ABF service levels (including cross-border services) are included in the ABF calculation.

Growth

The total ABF is 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') is 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.

7 BLOCK FUNDING

Block funding supports teaching, training and research in public hospitals, and public health programs. It is also used for certain public hospital services where Block funding is more appropriate, particularly for smaller rural and regional hospitals. Categories of Block funding in 2023-24 include:

- Teaching, training and research
- Small rural hospitals
- Non-admitted mental health
- Non-admitted Child and Adolescent Mental Health Services (CAMHS)
- Non-admitted home ventilation
- Other non-admitted services
- Other hospital programs
- Highly specialised therapies (HST)

Note that 'small rural hospitals' also includes major city, specialist psychiatric and other standalone hospitals.

The Commonwealth funds 45 per cent of the growth in the efficient cost of providing Block funded services or performing the functions (clause A49 of the Addendum), except for HSTs where the Commonwealth funds 50 per cent. The IHACPA determines which hospital services and functions are eligible for Commonwealth funding on a block basis (clause A54 of the Addendum), the Administrator then calculates the Commonwealth's funding (clause A55 of the Addendum). The IHACPA determines the efficient cost of block funded hospitals using a fixed-plus-variable cost model.

The IHACPA may provide supplementary advice to the Administrator, which could potentially alter the Commonwealth NHR Agreement Block funding to States if the Administrator agrees to base funding changes on that advice.. Any changes to the Commonwealth funding and its subsequent impact are communicated with stakeholders. The exception to this is HSTs, where States and territories are required to submit actual cost data to facilitate the calculation of real HST costs. This will allow the NHFB to incorporate HSTs into the annual reconciliation of the relevant financial year (clause C11 of the Addendum).

Other Mental Health

From 2024-25 onwards, all mental health block funding services will be consolidated and reported under a single service category in the Administrator's payment advice. 'Other Mental Health' will capture mental health funding from the block service categories below:

- Standalone facilities providing mental health facilities
- Non-admitted mental health
- Non-admitted Child and Adolescent Mental Health Services (CAMHS)
- Residential mental health
- Other non-admitted services (amounts advised by States and Territories)

The base funding, NEC amounts and backcast NEC amounts will be combined and the efficient growth calculation applied to the new service category. Calculations for the new service category will be distributed to States and Territories.

Base year Block funding calculations

Under the Agreement, the Administrator calculates the Commonwealth NHR funding for eligible Block services and functions using IHACPA's NEC Determination.

The Block funding amounts contained in the NEC Determination are total figures (i.e. inclusive of both Commonwealth and state/territory components) for each Block funded service category. Therefore, the Administrator is required to determine the Commonwealth NHR Agreement component of this total figure.

The model for calculating Commonwealth NHR Block funding for the relevant financial year uses prior year 'base year' figures plus efficient growth.

The IHACPA provides information to allow the Administrator to back-cast the base year NEC when calculating the efficient growth in funding. Components of the Block funding calculation is subject to back-casting (see Section 12: Back-casting).

Calculating Block funding

Block funding is calculated at a service category level for each State as per the IHACPA NEC Determination and Pricing Framework.

The Commonwealth growth funding percentage rate of 45 per cent is multiplied by the change in the NEC of each Block funding service category for each State. This amount is then added to the base year's Commonwealth NHR funding for the relevant service category to determine the Commonwealth NHR funding for the relevant financial year.

If the NEC Determination is revised, the Block funding amount is recalculated, leading to a change in the overall calculated Commonwealth NHR Agreement funding amount. The last opportunity for the Administrator to incorporate updates to block funding via advice from IHACPA is 15 May of the relevant financial year.

TABLE 4 Commonwealth Block Funding Calculation

Block Funding						
2019-20 Cwlth Block funding (as at June 2020)	+	45%	X	[(2020-21 total NEC of Block) – (2019-20 total NEC of Block as at June 2020)]	=	2020-21 Cwlth Block funding

Note: The 2019-20 total NEC of Block as at June 2020 is a back-casted figure

Since 2017-18, Block funded activities are subject to Safety and Quality adjustments, which are applied at Annual Reconciliation. The Administrator deducts the Commonwealth growth funding associated with Safety and Quality events from the Commonwealth Block funding amount. The funding adjustment for Safety and Quality events is calculated as 45 per cent times the efficient growth in funding for Safety and Quality events in Block funded activities. The calculation of the funding adjustment for Safety and Quality events is outlined in table 5 below.

TABLE 5 Commonwealth Block funding adjustment for Safety and Quality events

Calculate Safety and Quality adjustment for Block funded activities				
Commonwealth Contribution Rate (45%)	x	[Relevant year's NWAU adjustment * (Relevant year's NEP – Back-casted NEP) + Relevant year's NEP * (Relevant year's NWAU adjustment – Previous year's Back-casted NWAU adjustment)]	=	Commonwealth growth funding associated with Safety and Quality events
The NWAU adjustment refers to the total NWAU reduction calculated for Sentinel Events, HACs and Avoidable Hospital Readmissions relating to Block funded activities.				

Adjustments to Commonwealth NHR funding is addressed in Section 10, with safety and quality adjustments covered in section 10.2.1.

For more detailed calculation steps for Block funding, see ***Appendix B****.*

Commonwealth Block Payment

Block funding is paid at an aggregate State level via the Pool to State Health Departments in equal monthly amounts (clause A132 of the Addendum).

Highly Specialised Therapies

As noted in Section 2.4, the Commonwealth will fund contribution for HSTs at 50 per cent of the growth in the efficient price (or cost). Further, Commonwealth funding for HSTs will be exempt from the National Funding Cap (See Section 9.2: National Funding Cap) for a period of two years from the commencement of HST delivery per facility.

HSTs eligible to receive Commonwealth NHR funding are recommended by the Medical Services Advisory Committee (MSAC) for delivery in public hospitals under the HST clause.

The IHACPA determines the costs for delivering HSTs through the NEC Determination based on advice from the States. The NHFB will reconcile the actual number of patients treated and the associated costs, in consultation with the IHACPA and States as part of the annual reconciliation process.

TREATMENT OF HST FUNDING DURING THE FINANCIAL YEAR

During the financial year and prior to the Annual Reconciliation, the Soft Cap (See Section 9.1: State-based Soft Cap) is applied to the total State uncapped funding entitlement (the sum of the State's activity based funding, Block, including HST funding, and Public Health Commonwealth funding entitlements).

The HST block funding for the State will not be exempt from establishing whether the Soft Cap has been exceeded or not. That is, in the event that total State funding entitlement exceeds the Soft Cap, State's activity-based funding will be adjusted down. The amount of the individual State's funding is applied equitably to LHNs through a proportional reduction in the calculated CCR.

This approach to funding during a financial year is in accordance with Clause A62 of the Addendum, which specifies that a State will not be eligible for Commonwealth funding in excess of the Soft Cap until Annual Reconciliation.

TREATMENT OF HST FUNDING AT ANNUAL RECONCILIATION

Pursuant to Clause C11 of the Addendum, the Commonwealth contribution to HST funding, that fits within the two-year exemption from the Funding Cap, will not be taken into account when determining whether total Commonwealth NHR funding exceeds the National Funding Cap at Annual Reconciliation.

There are three parts to implementing the exemption from the Funding Cap:

1. Determining the scope of the exemption
2. Measuring the two-year exemption period
3. Implementing the HST funding exemption at Annual Reconciliation

DETERMING THE SCOPE OF THE HST EXEMPTION PERIOD

Clause C11.c of the Addendum does not make clear whether the exemption applies at the State level for each new HST treatment or at the facility level for each new treatment. Discussion with the States and the Commonwealth indicated that the intention was to apply the exemption at the facility level within each State. While it increases the complexity of the calculations and record keeping applying the exemption, it does have in principle merit:

- Once a new facility is established, it does take time to build up to capacity and for that period a State should not be penalised by the cap applying before capacity is reached, which is within the designated two-year period

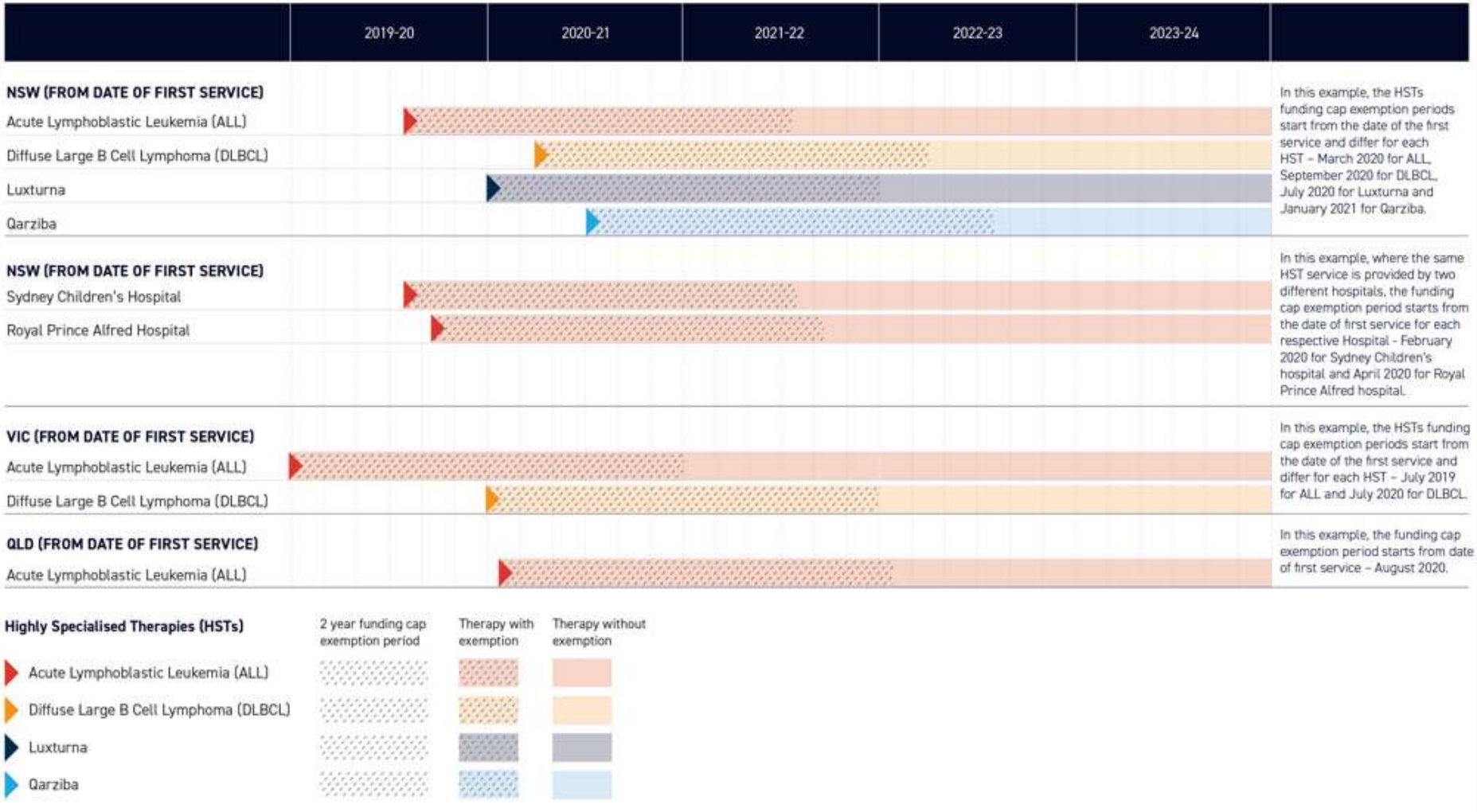
Accordingly, the funding cap exemption will apply for each new facility for an approved HST treatment within each State for a two-year period.

MEASURING THE TWO-YEAR EXEMPTION PERIOD

The exemption implementation approach is to apply the two-year exemption from the date of service commencement for each new facility delivering an approved HST.

For example, if State A delivered their first Kymriah HST on 15 July 2021, the exemption for State A would be applied from 15 July 2021 to 15 July 2023.
An implication of this approach is that if the HST does not commence on the first day of a financial year, then the two-year exemption period will overlap three financial years rather than two financial years. In this case, during the third financial year the Funding Cap exemption will only apply for a fraction of the HST costs for the financial year. Determining the fraction of the HST cost that will be exempt from the Funding Cap at Annual Reconciliation will be determined by apportioning the cost based on the period of time the exemption period falls within a financial year.

FIGURE 3 Illustrated two-year exemption period, by State



IMPLEMENTATION OF THE HST FUNDING EXEMPTION AT ANNUAL RECONCILIATION

As outlined in Clause C11 of the Addendum, the HST exemption to the Funding Cap will be applied at the annual reconciliation. Specifically, the impact of the HST block funding for the State on their activity-based funding will be removed at annual reconciliation. This will only need to be done for States that exceed their Soft Cap and may be entitled to payment of a Redistribution Amount. In the case a State is below their soft cap, the State will be paid their full uncapped entitlement.

The application of the exemption from the Funding Cap will require States to provide information supplementary to Submission A files on patients and activity receiving HST. This will assist with ensuring a State does not inadvertently receive both block and ABF funding for a HST.

During the reconciliation process the exemption will be applied in accordance with a three-step approach.

- Step 1 — Annual reconciliation of HST funding: apply an adjustment in the CCM to convert estimates of block funded HST amounts into actual HST costs. The adjustment will be based on actual HST costs determined and issued by IHACPA.
- Step 2 — Determine the amount of HST Block funding eligible for Funding Cap exemption.
- Step 3 — Remove the HST funding impact on the Funding Cap and State ABF.

Step 1 – Annual Reconciliation of HST Funding

To enable the IHACPA and the NHFB to undertake the reconciliation activities, States are required to submit actual activity and cost data following the completion of the relevant financial year. This includes but is not limited to the following:

- Actual costs incurred with breakdown of fixed / variable costs for each HST;
- The number of patients treated for each HST (actuals)
- List of LHNs and hospitals providing the HST services
- Dates in which the HST services were provided

The actual HST cost data will be used by the IHACPA to determine the actual HST costs for each State. The costs should correspond to the expenses incurred in the relevant financial year for patients treated in that year. If a patient has not completed their final treatment stage by the end of the relevant financial year, then costs incurred up to the end of the financial year should be reported. In this instance, the remaining costs up to the final treatment should be reported in the following financial year and will be reconciled as part of the following financial year's reconciliation.

The NHFB will utilise the actual HST costs to determine the actual HST Block funding entitlement for the relevant financial year.

For example, the estimated 2020-21 Commonwealth Block funding calculation for HST is calculated as follows:

Block Funding						
2019-20 Cwlth Block funding for HST	+	50%	X	[(2020-21 total NEC for HST) – (2019-20 total NEC for HST)]	=	Estimated 2020-21 Cwlth Block funding for HST

Subsequently, the actual 2020-21 HST Commonwealth Block funding will be calculated using the below formula by incorporating the actual 2020-21 total costs for HST:

Block Funding						
2019-20 Cwlth Block funding for HST	+	50%	X	[(2020-21 total actual HST costs) – (2019-20 total NEC for HST)]	=	Actual 2020-21 Cwlth Block funding for HST

Similar to ABF, the Annual Reconciliation adjustment is calculated as the difference between the HST Commonwealth Block Funding based on the estimated NEC allocation and the actual cost incurred for the relevant financial year. Subsequently, subject to the Commonwealth Treasurer's Determination, the adjustment is spread evenly over the relevant adjustment period with any rounding differences made up in the final month of the adjustment period.

Separately, the NHFB will utilise the actual HST activity data to ensure hospital activities relating to HST patients are excluded from the ABF reconciliation. States are required to identify records in the alternative funding source data submissions which relate to HST patients. The corresponding records in the hospital activity file will be assigned an NWAU of zero as part of the NWAU calculations.

Step 2 – HST amount eligible for Funding Cap exemption

Depending on when the HST exemption period ends, only a proportion of the State's actual HST Commonwealth Block funding for the relevant financial year may be eligible for the Funding Cap exemption. The proportion is calculated for each State and each HST based on the number of days exempt in the relevant financial year:

$$HST\ Proportion\ =\ (Exemption\ End\ Date - Start\ day\ of\ financial\ year)/365.25$$

In the event where the exemption period ends after the end of the relevant financial year, the HST proportion applied at Annual Reconciliation will be 100 per cent. On the other hand, if the exemption period has ended prior to the start of the relevant financial year, then the HST proportion applied will be 0 per cent.

This then provides a ratio that is multiplied by the HST NEC amount for each HST and the CCR for all HSTs to determine the HST amount eligible for exemption from the Funding Cap.

$$HST\ amount\ eligible\ for\ exemption\ =\ \sum HST\ NEC\ \times HST\ CCR\ \times\ HST\ Proportion$$

The State's HST CCR for all HSTs is calculated as per below:

$$HST\ CCR\ =\ HST\ Commonwealth\ Block\ funding\ /\ HST\ NEC$$

Step 3 – Removing the impact of the HST funding cap exemption from State ABF

Based on the HST amount eligible for exemption from the Funding Cap we can determine the impact of HST funding on the Funding Cap for the State.

The redistribution amount is calculated based on the approach set out below (see **Section 9: Funding Cap**):

$$Redistribution\ Amount = \frac{x_1}{\sum x_i} \times H_{room}$$

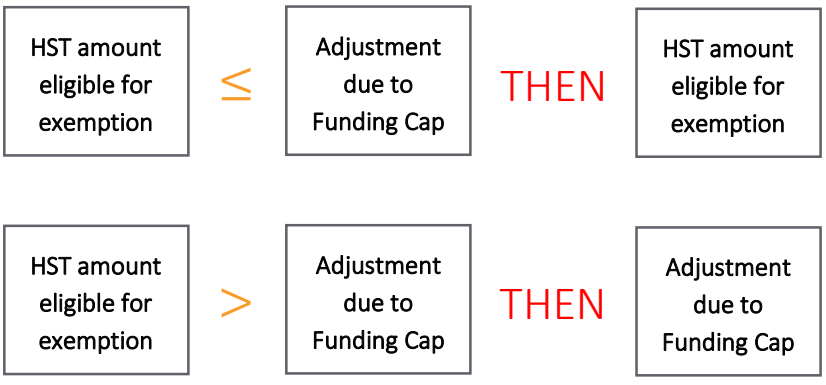
Where:

- x_1 is the amount State 1 is in excess over their soft cap (Individual State's funding excess)
- $\sum x_i$ is the sum of the amounts all States are over their soft caps (the National Funding Excess)
- H_{room} is the headroom available (National funding available for redistribution).

In addition, the total funding adjustment for the State due to the Funding Cap is calculated as follows:

$$Adjustment\ due\ to\ Funding\ Cap = \ Uncapped\ ABF - ABF\ after\ redistribution$$

Therefore, given that the impact of HST funding on the Funding Cap can only be up to the total funding adjustment due to the Funding Cap, the HST Funding Cap impact can be determined as the lower of the HST amount (eligible for exemption from the Funding Cap), and the total funding adjustment due to the Funding Cap. Specifically, the steps to determine the HST Funding Cap Impact is as follows:



Finally, to exclude the impact of HST on the State's ABF entitlement, the calculated HST Impact on the Funding Cap is reversed by adding it back to ABF resulting in a higher ABF entitlement for the State.

$$ABF\ after\ Exemption = \ ABF\ after\ redistribution + HST\ Funding\ Cap\ Impact$$

8 PUBLIC HEALTH FUNDING

States have full discretion over the application of Public Health funding to the outcomes as set out in clause A15 of the Addendum. The Public Health funding amount for each State grows by the former National Healthcare Specific Purpose Payment (SPP) growth factor (clauses A14, A15 of the Addendum), which is advised to the Administrator by the Commonwealth Treasury. The SPP growth factor is made up of:

- five year rolling average of the health price index;
- growth in population estimates weighted for hospital utilisation (nationally); and
- a technology factor (Productivity Commission derived index of technology growth).

Changes in the SPP growth factor may occur for any financial year (for example arising from the Mid-Year Economic and Financial Outlook (MYEFO)) and may lead to an adjustment to the Public Health funding.

If an adjustment occurs during the year, reflecting variations in the above indexation factors, the Commonwealth Treasury advises the Administrator of the updated Public Health amounts, which may lead to a consequential change in the overall calculated Commonwealth NHR funding amount.

Any adjustment to Commonwealth NHR funding is calculated as if the underlying growth factor change related to the entire financial year. The resultant funding adjustment is spread evenly over the remaining months of the financial year (with any remainder from rounding applied to the last month). All stakeholders are advised of the change and its subsequent impact.

Calculating Public Health funding

For each State, the Commonwealth Treasury calculates the Public Health amount for the relevant financial year by multiplying the base year Public Health amount by the SPP growth factor (plus 'one') relating to the relevant financial year.

TABLE 6 Commonwealth Public Health funding calculation

Public Health Funding				
2019-20 Commonwealth Public Health funding	X	[(1) + (2020-21 SPP growth factor)]	=	2020-21 Commonwealth Public Health funding

Commonwealth Public Health Payment

Public Health funding is paid at an aggregate State level via the NHFP to State Health Departments in equal monthly amounts (clause A132 of the Addendum).

9 FUNDING CAP

Overall growth in Commonwealth NHR Agreement funding for national public hospital services is capped (the National Funding Cap) at 6.5 per cent a year (clause A56 of the Addendum).

A Soft Cap is applied to the Commonwealth funding entitlement of each State throughout the year, with any funding remaining under the National Funding Cap subject to proportionate redistribution as part of Annual Reconciliation activities (clauses A56a, A56b of the Addendum).

Final funding outcomes for each State depend upon the interaction of the National Funding Cap and each State's Soft Cap, as summarised in Table 7.

The Administrator applies the National Funding Cap and Soft Cap in calculating and advising the Commonwealth Treasurer in respect of the Commonwealth's contribution to the Pool under the Addendum (A146).

If the growth in Commonwealth funding does not exceed 6.5 per cent at a National level, each State will receive its Uncapped Commonwealth Funding Entitlement (clause A56d of the Addendum). The Uncapped Entitlement is its entitlement to Commonwealth NHR Agreement funding for Public Hospital Services (including ABF, Block and Public Health) in that State under the Agreement, excluding the impact of the National Funding Cap.

TABLE 7 Summary of possible funding outcomes

Scenario	Soft Cap	National Funding Cap	Commonwealth NHR Funding Entitlement	Commonwealth NHR Funding Payable (cash payable to the State)
A	Not Exceeded	Not Exceeded	Full funding of activity	Full entitlement paid
B	Exceeded	Not Exceeded	Full funding of activity upon Annual Reconciliation	Funding up to Soft Cap paid through the financial year Up to the full entitlement paid in following financial year upon Annual Reconciliation
C	Exceeded	Exceeded	Soft Cap entitlement PLUS proportional participation in Redistribution Pool upon Annual Reconciliation	Funding up to Soft Cap paid through the financial year Up to the full entitlement paid in following financial year upon Annual Reconciliation subject to available Redistribution Pool

When the Annual Reconciliation for the relevant financial year is completed, the Commonwealth Funding Entitlements (the Soft Cap and the National Funding Cap) for the following financial year is recalculated. This changes the overall funding entitlement and pro rata payments for the following financial year.

The Soft Cap, the National Funding Cap and Redistribution are calculated at a National or State level and are applied equitably to LHNs through a proportional adjustment in the calculated single CCR. The calculation steps required to allocate the funding to LHNs are described in Section 9.3 Funding allocation when funding cap is exceeded.

State-based Soft Cap

The Soft Cap is calculated as 106.5 per cent of the State's most recent estimated Commonwealth Funding Entitlement for the State for the previous financial year (clause A59a of the Addendum).

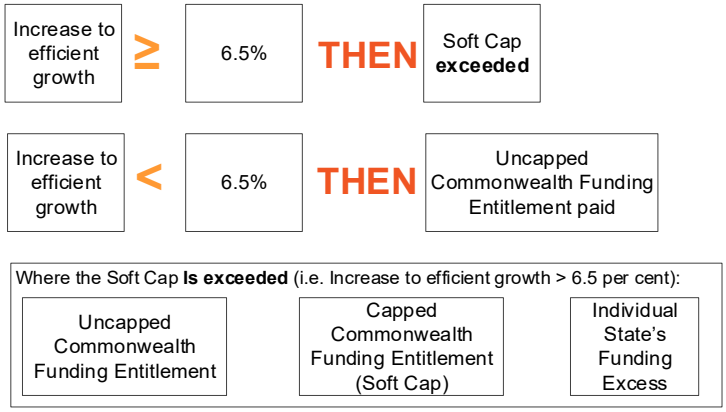
The Soft Cap determines, at an aggregate State level, the maximum Commonwealth NHR Agreement funding payable based on estimated activity (clause A56a of the Addendum) for the relevant financial year.

The Soft Cap is applied by the Administrator to any calculation of Commonwealth NHR Agreement funding during the relevant financial year to reflect amendments to input parameters. This may include updates to NWAU estimates, NEP and NEC determinations (including supplementary determinations) or changes to Public Health amounts, with changes pro-rated across the remaining monthly payments in the relevant financial year.

States will not receive any Commonwealth NHR Agreement funding in excess of the state-based Soft Cap until after Annual Reconciliation, at which time they may be entitled to payment of a Redistribution Amount (clause A62 of the Addendum).

The growth in the Uncapped Commonwealth Funding Entitlement (sum of ABF, Block and Public Health) is then compared to the state-based Soft Cap (i.e. 6.5 per cent) for each State to identify if the Soft Cap is exceeded. The quantum of the State's funding that exceeds the Soft Cap is represented in Figure 3.

FIGURE 4 Application of the Soft Cap to State Commonwealth NHR Funding



For more detailed calculation steps for the Soft Cap, see Appendix C.

In the event that a State exceeds its Soft Cap, the calculation steps required to allocate the funding cap to LHNs are described in Section 9.3 Funding allocation when funding cap is exceeded .

National Funding Cap

The National Funding Cap is applied to Commonwealth NHR funding at the time of Annual Reconciliation. Under clause A77 of the Addendum, if a state does not exceed its Soft Cap it receives the full Uncapped Commonwealth Funding Entitlement (i.e. Scenario A in Table 7).

For more detailed calculation steps for the National Funding Cap, see Appendix D.

If an individual State exceeds the Soft Cap, but the combined funding for all States is less than the National Funding Cap (Scenario B in Table 7), then all States receive their Uncapped Commonwealth Funding Entitlement (A56d). An illustration of this is provided in Table 9.

In the event the National Funding Cap is exceeded (Scenario C in Table 7), the Administrator applies the Redistribution formula outlined in the Addendum (clause A77). The Redistribution formula is shown in Table 8. An illustration of this is provided in Table 10.

TABLE 8 National Funding Cap redistribution formula

National Funding Cap Redistribution				
National funding available for redistribution	X	[(Individual State's funding excess) / (National funding excess)]	=	Redistribution funding for individual State

The allocation of the funding to LHNs resulting from the National Funding Cap being exceeded is described in Section 9.3: Funding allocation when funding cap is exceeded.

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TABLE 9 Application of National Funding Cap (not exceeded) Updated to align with single CCR

$m	2019-20	2020-21 Uncapped	Growth	Exceed Soft Cap?	Soft Cap	Funding Excess	Redistribution Pool	Redistribution Amount	Capped Entitlement
State A	5,227.2	5,587.3	6.9%	Yes	5,567.0	20.3	0.0m	20.3	5,587.3
State B	2,823.4	2,879.9	2.0%	No	3,006.9	0.0	127.1	0.0	2,879.9
State C	1,560.1	1,606.9	3.0%	No	1,661.5	0.0	54.6	0.0	1,606.9
Total	9,610.7	10,074.1	4.8%	-	10,235.4	20.3	181.7	20.3	10,074.1

State A growth is above the Soft Cap with a Funding Excess of $20.3m (i.e. Uncapped Funding Entitlement less Soft Cap for States impacted by Soft Cap).

The growth for States B and C is below the Soft Cap with $181.7m in funding available for redistribution (Redistribution Pool) (i.e. Soft Cap less Uncapped Entitlement for States not impacted by Soft Cap). Since the Redistribution Pool amount is higher than the Funding Excess amount, State A receives the full Uncapped Commonwealth Funding Entitlement of $5,587.3m.

National Funding Cap	$10,235.4 million
National Funding Cap exceeded	No
Total Redistribution amount	$20.3 million

TABLE 10 Application of National Funding Cap (Exceeded)

$m	2019-20	2020-21 Uncapped	Growth	Exceed Soft Cap?	Soft Cap	Funding Excess	Redistribution Pool	Redistribution Amount	Capped Entitlement
State A	5,227.2	5,587.3	6.9%	Yes	5,567.0	20.3	0.0	12.0	5,579.0
State B	4,823.4	5,209.3	8.0%	Yes	5,136.9	72.4	0.0	42.6	5,179.5
State C	1,560.1	1,606.9	3.0%	No	1,661.5	0.0	54.6	0.0	1,606.9
Total	11,610.7	12,403.5	6.8%	-	12,365.4	92.7	54.6	54.6	12,365.4

State A and B growth is above the Soft Cap with a Funding Excess of $92.7 million.

The growth for State C is below the Soft Cap with $54.6 million in funding available for redistribution (Redistribution Pool). Since the Redistribution Pool amount is higher than the Funding Excess amount, State A and B receive a proportion of the Redistribution Pool amount.

National Funding Cap	$12,365.4 million
National Funding Cap exceeded	Yes
Total Redistribution amount	$54.6 million

Funding allocation when funding cap is exceeded

The Funding Cap is applied over the Uncapped Commonwealth Funding Entitlement (the sum of ABF, Block and Public Health Commonwealth Funding Entitlements).

In the event that the Funding Cap is exceeded, any adjustments to funding as a result of the Funding Cap are applied to the Commonwealth NHR Agreement funding contribution for ABF services only (clause A56c of the Addendum). The capped amount of the individual State's funding is applied equitably to LHNs through a proportional redistribution in the calculated CCR.

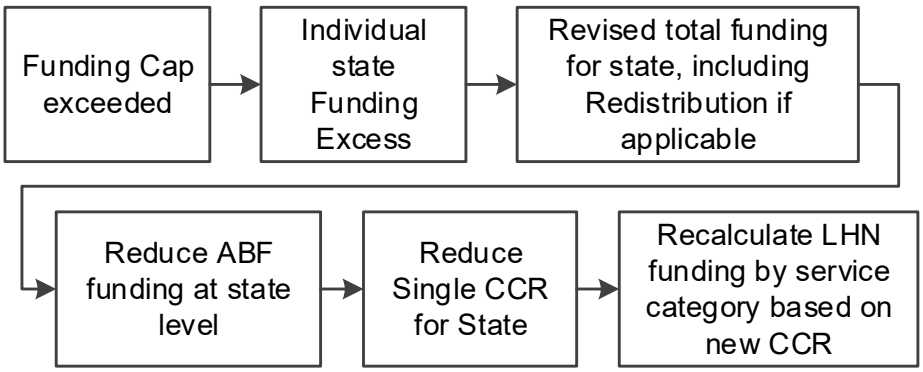
The funding to a State is:

a) Based on estimates, the difference between the Uncapped Commonwealth Funding Entitlement and the Soft Cap (i.e. the Funding Excess); or

b) Based on actuals, the difference between the Uncapped Commonwealth Funding Entitlement and the Commonwealth Funding Entitlement (made up of the Soft Cap and the Redistribution Amount).

The Administrator's calculation process for allocating the funding to LHNs is summarised in Figure 5. This process applies to the reallocation of funds when either the Soft Cap or the National Funding Cap is exceeded, including the redistribution.

FIGURE 5 Summary of calculation process for allocating the funding to LHNs; redrawn to align with single CCR



A State's Funding Excess will be calculated as described in Section 9.1 State-based Soft Cap and Section 9.2 National Funding Cap. These processes generate, where applicable, a capped Commonwealth Funding Entitlement and associated funding redistribution.

The Commonwealth NHR Agreement funding for ABF for each LHN by service category is determined by multiplying the LHN's NWAU by the relevant financial year's NEP, and by the relevant CCR for that State, which is described in Section 6.1 Calculating ABF.

To distribute the funding cap to the LHNs, the CCR is recalculated using the revised funding amounts incorporating a proportional reduction. The recalculated CCR is then multiplied by each LHN's NWAU and NEP to determine the funding allocation for each LHN.

An example of the reallocation of a funding is shown in Table 11.

Any changes to the input parameters require the calculation process to be repeated, resulting in updated advice to the Commonwealth Treasurer and Health Ministers.

For more detailed calculation steps for the:

- Allocation of a Soft Cap funding, see Appendix C.
- Allocation of the National Funding Cap and Redistribution Amount, see Appendix D.

TABLE 11 Allocation of a funding cap to LHNs Updated to align with single CCR

Continuing on from **Table 10**, after the application of the National Funding Cap and Redistribution, State A has a funding adjustment of $8.3m ($5,587.3m - $5,579.0m) or 0.18%.

The $8.3m funding adjustment is allocated to each ABF service category by distributing the reduction in proportion with uncapped service category funding. For Acute admitted, this means a reduction of $4.0m ($8.3m x 48%), with the total state-level funding for Acute admitted being $2,268.0m.

In **Table 30 (Appendix G),** the calculated single CCR for the State was: $4,733.3m / (2,410,200 x $5,320) = 36.9%.

Following the reallocation of the funding to service categories, the recalculated CCR is: $4,725.0m / (2,410,200 x $5,320) = 36.8%. The complete allocation of the $8.3m funding adjustment is described in the tabled below.

Service Category	Uncapped Funding ($m)	Uncapped CCR (%)	Proportion of State's ABF (%)	Funding above Cap($m)	Funding adjustment (%)	Capped Funding ($m)	Capped CCR (%)
Emergency	710.0	36.9	15	1.3	-0.18	708.7	36.8
Acute Admitted	2,272.0	36.9	48	4.0	-0.18	2,268.0	36.8
Admitted Mental Health	331.3	36.9	7	0.6	-0.18	330.7	36.8
Sub-Acute	378.7	36.9	8	0.7	-0.18	378.0	36.8
Non-admitted	1,041.3	36.9	22	1.8	-0.18	1,039.5	36.8
Total	4,733.3	36.9	100	8.4	-0.18	4,725.0	36.8

The funding reduction is proportionally allocated to each LHN for each service category on an NWAU basis. The recalculated service category CCR is then applied to each LHN's relevant NWAU and NEP to determine the funding allocation for each LHN.

The allocation of the Acute admitted amount to LHNs A, B and C is described in the table below.

Acute Admitted	Uncapped Funding ($m)	Acute Admitted NWAU	Capped Funding (NWAU x NEP [$5,320] x CCR [36.8%]) ($m)	Funding adjustment ($m)	Proportion of States Acute NWAU (%)
LHN A	1,136.0	578,448	1,134.0	-2.0	50.0
LHN B	852.0	433,836	850.5	-1.5	37.5
LHN C	284.0	144,612	283.5	-0.5	12.5
Total	2,272.0	1,156,896	2,268.0	-4.0	100.0

10 ADJUSTMENTS TO COMMONWEALTH NHR FUNDING

There are two forms of adjustment undertaken by the Administrator to the Commonwealth NHR funding throughout the year. These can be defined as ex-ante and ex-post adjustments.

Ex-ante adjustments are those which occur prior to or during the funding period (i.e. the relevant financial year), and ex-post are those adjustments that occur once the period has concluded (i.e. adjustments relating to prior financial years).

Ex-ante adjustments

The ex-ante adjustments are listed below and are applied in the following order:

a) Commonwealth Budget and MYEFO (e.g. update to Public Health amounts by Commonwealth Treasury);

b) changes to LHN NWAU estimates (e.g. increase/decrease to activity estimates by States);

c) revisions of the IHACPA NEP and NEC determinations (e.g. issuance of supplementary determinations by IHACPA); and

d) growth recalculation due to Annual Reconciliation of base year actuals.

Ex-ante adjustments are calculated as if the factors giving rise to them related to the entire financial year. The resultant funding adjustment is spread evenly over the remaining months of the financial year (with any remainder from rounding applied to the last month).

Where the change results in a downward adjustment for a particular LHN that cannot be fully applied within the relevant financial year (due to insufficient Commonwealth NHR Agreement funding available), the method of recouping any remaining funds owing is discussed with the relevant State on a case-by-case basis.

Adjustments advised to the NHFB, on behalf of the Administrator, via nhfa.administrator@nhfa.gov.au by the last business day on or before the 15th of a month, take effect in the Commonwealth NHR Agreement funding in the following month. If advised later than the 15th of the month, the change takes effect in the second following month.

The Administrator advises each State of any revised schedule of contributions at least five days prior to the first affected Commonwealth NHR funding payment.

Ex-post adjustments

The ex-post adjustments are listed below:

a) Reconciliation (e.g. reconciliation of actual hospital activity data, Safety and Quality Adjustments, adjustments related to late provision of hospital activity data – Data Conditional Payment); and

b) Adjustments for prior year issues affecting accuracy of the Commonwealth NHR Agreement funding (e.g. omission or correction of hospital activity data)

The adjustments are subject to Funding Cap calculations.

SAFETY AND QUALITY ADJUSTMENTS

As set out in clause A162 of the Addendum, safety and quality reforms have been integrated into the pricing and funding of public hospital services. A Safety and Quality Adjustment applies to services that are:

- Sentinel Events;
- include a Hospital Acquired Complication (HAC) event; or
- from 1 July 2021, include an Avoidable Hospital Readmission.

The Safety and Quality Adjustment is calculated as part of a State's actual NWAU during the Reconciliation process and incorporated into the Commonwealth NHR Agreement funding through the Commonwealth growth calculation (clause A57 of the Addendum).

Sentinel Event Adjustments assigns an NWAU weight of zero (i.e. no funding) to services that result in the occurrence of a Sentinel Event (A165). States apply a digital flag to any episode that includes a Sentinel Event and report this information as part of their data submissions to the IHACPA (clause A166 of the Addendum).

HAC Adjustments assign a reduced NWAU to public hospital services that result in the occurrence of a HAC.

The Avoidable Hospital Readmission Adjustment commenced on 1 July 2021. Similar to the HAC adjustment, public hospital services that result in an avoidable hospital readmission are assigned a reduced risked adjusted NWAU based on the total NWAU of the associated readmission.

For ABF hospitals, Safety and Quality adjustments are applied at an LHN level via the Pool in equal monthly amounts as part of the Six-month and Annual Reconciliation.

For Block funded hospitals, Safety and Quality adjustments are applied at an aggregate State level via the Pool to State Managed Funds (deducted from the Commonwealth funding) in equal monthly amounts as part of the Annual Reconciliation. Safety and Quality Adjustments are subject to back-casting (clause A164), with the base year figures being adjusted for the occurrence of Safety and Quality events. In effect the safety and quality adjustments relate only to changes in the number of quality and safety events, not the level of such events, and the adjustment is only to the Commonwealth share of the efficient growth in funding. To

enable the most accurate Commonwealth NHR Agreement funding calculation, in implementing the Safety and Quality Adjustments, the Administrator will seek the best available base year data from States (actual or proxy) for back-casting.

States also agreed to developing and applying the model for adjusting for safety and quality to State funding at the service provision level and to providing annual reports on the results of implementation this approach (clauses A175 and A176).

DATA CONDITIONAL PAYMENT

The Administrator is responsible for applying the Data Conditional Payment, a temporary adjustment to Commonwealth NHR funding resulting from late submission of the required data for Annual Reconciliation (clauses A155 to A159 of the Addendum).

If a State has not provided the required data within three months of the end of the Reconciliation period (i.e. 30 September) the Administrator advises the Treasurer to defer payment of 10 per cent of the amount payable to the State in November of the relevant financial year, until the required data is provided (clause A156 of the Addendum). The deferred payment is calculated as 10 per cent of the October amount paid to the State including ABF, Block and Public Health funding.

If a State has not provided the required data within four months of the end of the Reconciliation period (i.e. 31 October), the Administrator advises the Treasurer to defer a further 15 per cent of the amount payable to the State in December of the relevant financial year, until the required data is provided (clause A157 of the Addendum). The deferred payment is calculated as 15 per cent of the October amount paid to the State including ABF, Block and Public Health funding.

Following receipt of the required data, the Administrator advises the Treasurer that all withheld funds be paid to the State in the next monthly payment (clause A158 of the Addendum).

Note: Required data is the data requested by the Administrator in the rolling Three-Year Data Plan for the purpose of Annual Reconciliation. The Administrator's assessment process for compliance for the Data Conditional Payment is detailed in the Administrator's Data Compliance Policy.

PRIOR YEAR ADJUSTMENTS

Issues may be identified with actual hospital activity data submitted in prior years for Reconciliation purposes that affect the accuracy of the Commonwealth NHR Agreement

funding to a State. Such issues may require the Administrator to implement an adjustment to funding in prior years and recalculate growth for the following periods.

In making the decision on whether to adjust prior year funding, the Administrator takes into consideration the materiality of the adjustment, the requirement for national consistency in the calculation of the Commonwealth NHR Agreement funding and any other relevant information.

Prior year adjustments are provided and considered in the next year's Commonwealth Treasurer's Determination as a further adjustment to the prior year amounts to be paid to States.

The final Commonwealth Funding Entitlement of a State will not be adjusted unless a jurisdiction (either the Commonwealth or the State) has notified the Administrator of an issue affecting its accuracy within 12 months of the end of the relevant financial year (A78).

Private Patient Neutrality

The Addendum includes clauses A13, A43 and A44 with the intent to achieve overall payment parity between public and private patients in public hospitals. This came into effect from 1 July 2021 and is subject to back-casting.

The IHACPA has developed a definition for payment neutrality and a methodology for determining an adjustment to Commonwealth ABF contribution. This has been incorporated into the 2023-24 NEP Determination by IHACPA.

The adjustment approach is as follows:

TABLE 12 Private patient neutrality adjustment (PPN)

PPN adjustment against Commonwealth ABF contribution
$$\text{ABF Total}_1 = \text{ABF}_0 + 0.45[\text{ABF growth}_1] + \alpha^{**}$$

The PPN adjustment is calculated as follows:

TABLE 13 Calculating the PPN adjustment

PPN adjustment against Commonwealth ABF contribution
$$\alpha = \frac{(\Delta CC^{Pu}+\Delta SC^{Pu})}{\Delta NWAU^{Pu}} - \frac{(\Delta CC^{Pr}+\Delta SC^{Pr}+\Delta PHR^{Pr})}{(\Delta NWAU^{Pr}+\Delta TA_{PPS}+\Delta TA_{ACC})}$$
$$\alpha^{**} = \alpha\left(\Delta NWAU^{Pr} + \Delta TA^{PPS} + \Delta TA^{ACC}\right)$$
ΔCC^{Pu} is the growth in Commonwealth Contribution for Public Patients ($)
ΔSC^{Pu} is the growth in State Contribution for Public Patients ($)
$\Delta NWAU^{Pu}$ is the growth in volume of Public Patients (NWAU)
ΔCC^{Pr} is the growth in Commonwealth Contribution for Private Patients ($)
ΔSC^{Pr} is the growth in State Contribution for Private Patients ($)
ΔPHR^{Pr} is the growth in private patient revenue from health insurers and MBS
$\Delta NWAU^{Pr}$ is the growth in volume of Private Patients (NWAU)
ΔTA_{PPS} is the growth in NWAU for private patient service adjustments
ΔTA_{Acc} is the growth in NWAU for private patient accommodation adjustments

The adjustment is subject to two constraints:

1. The adjustment is to be less than or equal to zero, that is the adjustment can only be zero or negative and act as a discount against ABF
2. There is a floor to the magnitude of the adjustment when private patient GWAU growth is negative such that the adjustment is set at zero.

This floor constraint avoids scenarios where there is a reduction in activity and / or revenue for public and private patients, and if the private patient reduction is not the same as for public patients there is still a PPN funding adjustment. It was deemed that these scenarios did not align with the policy intent.

Further, the growth in NWAUs and GWAUs use back-casting so as to maintain consistency with the pricing framework and the NHRA Addendum.

There are three key drivers that determine the adjustment, these being:

1. growth in private patient GWAU
2. growth in total private patient contributions, including MBS and private health insurance
3. the difference in revenue growth per GWAU growth between private and public patients

All three factors need to be satisfied for there to be a PPN adjustment. The example in the table below demonstrates this key point.

TABLE 14 PPN adjustment example

Jurisdiction	State A	State B
Private GWAU growth	+20,000	-10,000
Private patient revenue growth ($)	+100,000,000	-50,000,000
Revenue growth per GWAU ($): difference between private and public patients	$500	$600
Meets criteria for PPN adjustment	✓	×

The adjustment to Commonwealth funding from 2021-22 onwards will be applied when undertaking Annual Reconciliation of actual annual hospital activity data for the relevant financial year.

Feedback from ongoing engagement with jurisdictions and IHACPA resulted in a refinement for the 2022-23 calculation methodology. The impact of price growth was removed from modelled revenue calculations to align calculations more closely with the adjustment intent of focusing on the growth rates of public and private activity.

Removal of price growth in the modelled calculations is achieved by applying the current year native NEP in place of the backcasted NEP from the previous year. For example, in the 2022-23 draft PPN calculations, the Medicare Benefits Schedule (MBS) and Private Health Insurance (PHI) funding revenue had to be modelled in the absence of data submissions from some states. To remove price growth between the base year (2021-22) and growth year (2022-23) NEP22 was applied to the backcasted private patient NWAU adjustments rather than BCNEP to determine the funding data points for 2021-22.

The updated methodology was implemented with advice from IHACPA and methodically appropriate as the NWAU and NEP reside within the same NEP determination parameters (i.e. NEP22 parameters for the 2022-23 calculations). Removal of price growth in the PPN calculation methodology will continue for 2023-24 calculations.

Other adjustments that may be required

Other adjustments, as allowed for under the Agreement, may be required for events such as emergency responses or pilot projects. These are undertaken by the Administrator, with full disclosure of the issue and the impact on States.

One adjustment that is provided for in the Addendum relates to data matching. Where confirmed data matching is identified whereby the Commonwealth has funded a service both under NHR Agreement funding and through the MBS, the adjustment will be through MBS recovery as part of the Commonwealth compliance program and not adjustment to the NHR funding. However, there are two exceptions to this as set out in the addendum (A12), namely:

- Where a double payment is confirmed but the amount involved is not able to be recovered through the compliance program, the Administrator will work with the relevant State to adjust the NHR funding.
- Where a matched payment is a false positive such as a privately funded hospital service being incorrectly coded as a public hospital service, in which case the Administrator will work with the relevant State to correct the source data and reprocess.

11 RECONCILIATION OF ESTIMATED AND ACTUAL SERVICE VOLUME

Reconciliation of actual activity to estimated service volumes primarily relates to ABF public hospital services (clauses A66 and A74 of the Addendum) and is the process through which the Administrator determines the actual volume of services delivered by LHNs (and thereby States) for Commonwealth NHR funding purposes.

Clauses A63 to A76 of the Addendum set out the requirements relating to the reconciliation of actual hospital activity on a six-month and annual basis each year. The NWAU attributable to the hospital activity data is calculated and reconciled to the Commonwealth NHR funding for the relevant period. Adjustments are made to the Commonwealth's NHR funding to LHNs (and therefore to States) for any difference between the actual and estimated NWAU.

The Reconciliation of services delivered in the base year affects the Commonwealth NHR funding in the relevant financial year, due to the timelines for data provision and funding adjustments in the Agreement (see Section 13 Timeline). It is important that actual activity levels are determined and the correct Commonwealth NHR funding is provided to LHNs (and thereby States) based on the actual volume of services delivered by each LHN, as this forms the basis of the Commonwealth NHR funding growth calculation for the following financial year.

To enable the Administrator to conduct Reconciliation activities in a complete and timely manner, States must provide all relevant data (clause A74 of the Addendum) in the following timeframes as indicated in clauses A63 and A66 of the Addendum:

- six-month data (July to December of the relevant financial year) by 31 March of the relevant financial year; and
- annual data (July to June of the relevant financial year) by 30 September of the following financial year.

With the introduction of Safety and Quality adjustments and HSTs, the Reconciliation adjustments may also impact the allocation of Block Commonwealth NHR funding, in addition to adjustments to the ABF.

National Weighted Activity Unit Calculation

Data on actual patient level services delivered, as provided by States, are used as the basis for the calculation of NWAU.

NWAU are calculated in two broad stages outlined below, within each Reconciliation period, with results communicated to States for each stage.

STAGES

STAGE ONE – NWAU FOR ALL ELIGIBLE SERVICES IN HOSPITAL ACTIVITY DATASETS

NWAU are calculated based on the hospital activity datasets provided by States, after appropriate validations and data preparation steps and before any adjustments are made based on eligibility of hospital services due to data matching exercises with other Commonwealth datasets, based on clauses A9 and A107.

STAGE TWO – NWAU FOR ELIGIBLE SERVICES AFTER DATA MATCHING ACTIVITIES

NWAU are calculated for the hospital services considered eligible for Commonwealth NHR funding as a result of the data matching exercises (to other Commonwealth datasets) necessary to satisfy clauses A9 and A10 of the Addendum. Responsibility for the cost recovery of positively matched activities falls under the remit of Commonwealth compliance officers. However, subject to the results of Commonwealth compliance, matched records may be excluded from the calculation of NWAU (section A12 of the addendum).

The difference between the NWAU figures calculated in Stage 1 and in Stage 2 for each dataset equates to the activity assessed from Commonwealth compliance as true matches and therefore potentially ineligible for Commonwealth NHR funding. Any data matching activities will take place following consultation with jurisdictions. There may also be a requirement for the resubmission of public hospital activity data in relation to potentially miscoded private patients.

PROCESS

SUBMISSION

Hospital activity datasets submitted by the States and the MBS and PBS services datasets submitted by the Commonwealth are to be provided within the specified timeline for each period via the provision mechanisms outlined in the Administrator's Three-Year Data Plan.

The Administrator prompts jurisdictions for the provision of relevant data via correspondence with officials, discussions with jurisdictions and through the Administrator's Jurisdictional Advisory Committee (JAC).

The submission of hospital activity datasets and the MBS and PBS services datasets to the Administrator are required to be accompanied by a Statement of Assurance from a senior health department official. Ideally, this Statement of Assurance should align with the minimum requirements outlined in the guidance document (Attachment of the compliance policy), certifying the completeness and accuracy of the approved data submissions (clause B82 of the Addendum).

VALIDATION

Upon provision the datasets are validated by existing validation processes and specified validation rules. The validation processes include:

1. Data submission receipt and validation by the IHACPA's Secure Data Management System [confidential_data_management_policy_v5.0_-_review_2023.pdf (ihacpa.gov.au)] as per dataset specifications (i.e. format, field sequence and specification etc.).
2. Regrouping of data by IHACPA.
3. IHACPA providing the NHFB the validation report and corresponding Statement of Assurance for each dataset submitted by the State.

IDENTIFY HOSPITALS/PROVIDERS

The data provided by States may cover a wide range of hospitals/providers who receive Commonwealth NHR funding through ABF or Block Funding. To ensure that the Administrator uses data relating only to those hospitals and providers that are subject to Reconciliation, a list of ABF providers is used as per State advice, including within which LHN each hospital and provider sits.

Any alterations to the ABF hospital list are required to be advised to the Administrator as soon as possible for the change to be reflected in the relevant Reconciliation process. This list of ABF hospitals is compared to the list of hospitals in the NEC for the relevant financial year as determined and advised by IHACPA and used in the calculation of Block funding. This comparison is made to ensure that hospitals are not funded under both Block and ABF.

The identification of Block funded providers is also required for the purpose of applying the Safety and Quality adjustment.

IN-SCOPE HOSPITAL SERVICES (DETERMINED BY THE IHACPA)

Clauses A16 to A32 of the Addendum state that IHACPA is responsible for determining the scope of services eligible for Commonwealth NHR funding, which are:

- all admitted programs, including hospital-in-the-home programs and forensic mental health inpatient services
- all emergency department services
- non-admitted services that meet the criteria for inclusion on the General List of In-Scope Public Hospital Services.

In-scope hospital services are specific types of the General List of in-scope public hospital services. For example, all admitted services are eligible for Commonwealth NHR funding, while some non-admitted services such as general practice and primary care, family planning and Commonwealth funded aged care assessment services are ineligible.

This determination is conveyed annually in IHACPA's NEP Determination.

ASSESSMENT OF THE GENERAL LIST OF ELIGIBLE SERVICES (ADVISED BY THE IHACPA)

As per clause A19 of the Addendum, IHACPA defines the 'General List' of hospital services in scope for Commonwealth NHR funding. IHACPA then assesses proposals from States for individual services to be included under that General List. The final General List is forwarded to the Administrator for use in Commonwealth NHR funding purposes.

As directed and advised by IHACPA, the in-scope services identified as belonging to in-scope hospitals are then subject to an assessment of the applicability of services contained in the General List.

The evaluation of each individual service is conducted by IHACPA, with the Administrator and the NHFB advised of a matrix of in-scope services by LHN and Tier 2 clinics (the latter being for non-admitted services) and whether they are considered eligible for Commonwealth NHR funding.

NWAU CALCULATION

In-scope and eligible services data is used to calculate NWAU by running the relevant data elements for these services through the IHACPA NWAU calculators, price weights and reference files. Unique NWAU calculators are used for each activity stream and classification. The NWAU calculators and *National Pricing Model Technical Specification* for each financial year are published on the IHACPA website for transparency of the calculation process.

It is important that the calculation of NWAU for the Administrator's Reconciliation processes is based precisely on the formula developed by the IHACPA to ensure accuracy and transparency of calculations.

States are able to access the NWAU calculators published on the IHACPA's website to calculate consistent NWAU figures.

Given the volume and characteristics of the data, SAS software is necessary as the mechanism for conducting calculations. Access to the IHACPA SAS NWAU calculator codes for each financial year and ABF service category has been granted by the IHACPA to the NHFB to assist in the operation of the Administrator's functions.

The Administrator and the NHFB liaise with the IHACPA to ensure the NWAU calculation approach and basis is consistent between both parties in each Reconciliation period.

The Administrator and NHFB undertake a number of analyses to ensure data are processed correctly. A summary of these checks is outlined below.

- Reasonableness checks on the distribution of the data (by age, Indigenous status, location, classification, service category, etc.).
- Reasonableness of the NWAU outcomes (by State, LHN, Hospital, Service Category).
- Comparing the outcomes to previous years to detect any variations.
- Ensuring the IHACPA NWAU calculator and Technical Specifications, and States' provided information is correctly applied (e.g. hospital ABF listing).

The Safety and Quality Adjustments are applied at this step for ABF data. For Block funded hospitals, the growth funding calculated using the Safety and Quality event NWAU are deducted from the block Commonwealth NHR funding for small rural hospitals.

ADVICE TO JURISDICTIONS

States are advised of the outcomes and associated documentation relating to their jurisdiction each Reconciliation period, including:

- Structured Reconciliation document. This document outlines a high-level summary of the data submission, data preparation and NWAU calculation. Further detail regarding each hospital and LHN is provided via a separate mechanism (detailed below).
- State summary of the NWAU calculation by each ABF hospital and LHN, including the total number of services, number of in-scope services and number of NWAU for each service category.
- Each State's data by each record item including the NWAU (inclusive of loadings), ABF flag, in-scope flag and cross-border flag, where applicable.
- Safety and Quality adjustments.
- Data matching report setting out all identified data matches and the potential private admitted matches which states are required to investigate and report on.

DATA RESUBMISSION (IF REQUIRED)

To ensure Commonwealth NHR funding calculations (including Reconciliation outcomes) are as robust as possible, the Administrator may consider requests from jurisdictions to resubmit data. Resubmissions may be desired to correct errors, anomalies or omissions in the previous data provided or any other relevant circumstance. Outlined below is a high-level protocol for data resubmissions.

1. Flag intention to request resubmission of data with NHFB

As early as possible the relevant State flags its intention to request the Administrator's approval to resubmit data to the NHFB, including the rationale for the resubmission. The Reconciliation and adjustment time frames should be considered by States and the NHFB in this step.

2. NHFB continues to work with the jurisdiction

The NHFB continues to liaise with the State to track the progress and suitability of the data.

3. Formal data resubmission request sent to the Administrator

If data resubmission is desired by the State, a formal request from an appropriate jurisdictional official is to be provided to the Administrator. This request must include which dataset(s) is requested to be resubmitted and the rationale for the resubmission.

4. Administrator considers the resubmission request

Under the Agreement, the Administrator (or the NHFB on behalf of the Administrator) is not obliged to accept data resubmissions. In assessing whether resubmission is appropriate, the Administrator will assess whether accepting the resubmission compromises the timeliness and quality of the Reconciliation process and consequential Commonwealth NHR funding calculations. The Administrator discusses with IHACPA the ability and timelines for data validation. Data cannot be incorporated into Reconciliation activities without this validation process; therefore the ability of IHACPA to validate data resubmissions is essential.

5. Administrator responds to the resubmission request

Based on the assessment in Step 4, the Administrator responds to the relevant jurisdiction. This response could be either:

a) Resubmission is supported

Along with the response, the Administrator provides a timeline for data resubmission. This timeline allows sufficient time for the associated processing, validation and Reconciliation calculations and for these to be included in the Commonwealth NHR funding calculation. This timeline must be met.

b) Resubmission is not supported

The Administrator's response includes the rationale for the resubmission not being supported, and any follow up or remedial action that can be taken.

6. Data are collated and resubmitted (if Step 5a occurs)

The jurisdiction addresses and corrects the issue that instigated the resubmission request and resubmits the relevant data to the Administrator. The jurisdiction develops strategies to mitigate the need for resubmission occurring in future data submissions.

A Statement of Assurance from a senior health department official on the completeness, accuracy and quantum of the approved data submissions must be provided at the time of the resubmission. Ideally, this Statement of Assurance should align with the minimum requirements outlined in the guidance document, attachment of the compliance policy. Addendum).

7. Advise other jurisdictions (if required)

If the resubmission impacts other jurisdictions, for example the Reconciliation adjustment timelines are deferred, the Administrator advises the other jurisdictions accordingly.

Depending on the ability and timelines of the Reconciliation process, the Administrator may elect to offer all jurisdictions the opportunity to resubmit relevant datasets, where it is viewed as necessary. This opportunity is not guaranteed and is at the discretion of the Administrator.

The Administrator may request data re-submission from States to correct for inaccuracies or errors within 12 months of the end of the financial year (clause A78). In this instance, steps 6 and 7 would be followed.

ADVICE TO THE COMMONWEALTH TREASURER

The Administrator provides advice to the Commonwealth Treasurer upon completion of the annual Reconciliation, outlining the basis of the calculated Commonwealth NHR funding. This includes analysis of growth in Commonwealth NHR funding, hospital activity and NWAU across State, LHNs and service categories.

The adjustment of Commonwealth Funding Entitlement of States with reported Safety and Quality adjustments is advised to the Commonwealth Treasurer. The Commonwealth Funding Entitlement of States with reported Safety and Quality adjustments will also be reported following the Six-month Reconciliation.

BILATERAL SHARING OF CROSS-BORDER DATA

Each State receives a cross border dataset with information on patients reported to be residents of that State who received a public hospital service in another State. This data includes the patient level data, by record item, for ABF and Block funded hospitals services. It is provided in the format described in the Submission step. The process for determining a patient's state is outlined in Appendix H.

NWAU CALCULATION GROUPINGS

NWAU are calculated in total for each of the following groupings.

TABLE 15 NWAU calculation groupings

Grouping	Descriptor
Service Category	Hospital activity datasets and IHACPA NWAU calculator codes are constructed separately for each activity stream and classification. As such, NWAU are calculated separately for each ABF service category to ensure calculations are conducted in the most accurate manner. In addition, this level of detail is necessary for the accurate determination of growth funding as per clauses A34, A35 and A38
LHN	Commonwealth ABF contributions are calculated and allocated by an NWAU figure for each LHN (incorporating service category detail); therefore the actual number of NWAU delivered by each LHN is required for Commonwealth payment purposes. This figure is an aggregate of the actual NWAU for each service category for each LHN.
State	The aggregate of actual LHN NWAU in each State is required to calculate the actual percentage of CCR of the NEP for each State

Reconciliation between estimates and actual NWAU

Any adjustments to Commonwealth NHR funding arising from the Reconciliation process are spread equally across payments for a subsequent quarter (clause A67 of the Addendum).

The intended Reconciliation and adjustment timeline under the Agreement is:

- For the Six-month Reconciliation period July to December, adjustments to Commonwealth payments are spread equally over the three months July to September of the following year.
- For the annual period July to June, adjustments to Commonwealth payments are scheduled to be spread equally over the three months April to June of the following year.

The Administrator reserves the right to alter the adjustment timeline where circumstances make it difficult to achieve reconciliation without compromising the quality of the calculations. These timeframes may vary depending on:

- timeliness of data submitted to the IHACPA and the Administrator;
- complexity of Reconciliation;
- timing of the Commonwealth Treasurer's issuance of the Federal Financial Relations (National Health Reform Payments) Determination; or
- other factors.

Jurisdictions are advised accordingly whenever there is a change in the timelines.

Six-month adjustment

The six-month actual hospital activity data is reconciled against the actual funding that was paid in the first half (i.e. July-December) of the relevant financial year. The Administrator will assess whether the difference between actual and estimated funding is sufficient to require a six-month reconciliation or any other relevant factors that support deferring reconciliation until the annual reconciliation. The Administrator will consult with all jurisdictions on this matter. The funding attributable to the relevant six-month NWAU actual is calculated using the method below.

RECONCILED NWAU

For each LHN in a State, the sum of the actual service category payments for each LHN based on estimated NWAU (relating to July to December) is calculated.

For each LHN in a State, the amount that should have been paid for each service category based on the six-month actual NWAU (relating to July to December) is calculated by multiplying by the NEP and the Commonwealth contribution percentage as at December of the relevant financial year.

MODEL

The difference between the Commonwealth contribution to each LHN paid based on estimates and the Commonwealth contribution to each LHN based on actuals is the six-month reconciliation adjustment to be applied, if it is decided to undertake the six months reconciliation adjustment.

If the Reconciliation adjustment identified is a negative amount that would reduce that LHN's Commonwealth NHR funding for the relevant three-month period to below zero, the Reconciliation adjustment cannot be fully effected in the identified (three month) period. In these circumstances, the Administrator has determined that the Reconciliation adjustment period for the impacted LHN is extended until the Reconciliation adjustment can be recovered from future months' payments to that LHN. Any amount of Six-month Reconciliation adjustment yet to be recovered at the time of the Annual Reconciliation is incorporated into the Annual Reconciliation adjustment.

The amount for each LHN identified is spread evenly over the relevant adjustment period with any rounding differences made up in the final month of the adjustment period.

Other adjustments to Commonwealth NHR funding may also be made, as outlined in Section 10 Adjustments to Commonwealth National Health Reform Funding. These may include changes to LHN NWAU estimates, NEC and NEP Determinations and/or other adjustments as allowed for under the Agreement.

Annual adjustment

The annual actual NWAU is reconciled to the annual estimated NWAU for each LHN in every State. The CCR of the NEP is then recalculated using the annual actual NWAU. The following steps enable the calculation of the Annual Reconciliation adjustment.

RECONCILED NWAU

For each LHN in a State, the amount that should have been paid for each service category based on the annual actual NWAU is calculated.

The National Funding Cap is applied to Commonwealth NHR funding based on actual activity. The Administrator determines the final Commonwealth Funding Entitlement for the relevant financial year at this time, inclusive of the Funding Cap, Redistribution and the Safety and Quality adjustment.

MODEL

The Annual Reconciliation adjustment, being the difference between the amounts calculated for each LHN under the Commonwealth Funding Entitlement and what was already paid to the LHN (including any payments made during the six-month reconciliation process) is determined.

As with the six-month process, if the amount identified is a negative amount that would reduce an LHN's Commonwealth NHR funding for the relevant three-month period to below zero, the Reconciliation adjustment cannot be fully effected in the identified (three month) period. In these circumstances, the Administrator has determined that the Reconciliation adjustment period for that LHN is extended until the Reconciliation adjustment can be recovered from future months' payments to the LHN.

The amount for each LHN identified is spread evenly over the relevant adjustment period with any rounding differences made up in the final month of the adjustment period. If an outstanding amount exists at the end of the period, this amount is recovered from another LHN within the State or be repaid by the State. The Administrator seeks advice from the State on the preferred recovery mechanism if this circumstance arises.

In addition, as part of the annual process, an adjustment to HST Block funding will be incorporated following the reconciliation of HST funding. Similar to ABF, the Annual Reconciliation adjustment is calculated as the difference between the HST Commonwealth Block Funding based on the estimated NEC allocation and the actual cost incurred for the relevant financial year. Please see section 7.4 for further details.

Other adjustments to Commonwealth NHR funding may also be made, as outlined under the Agreement. These may include changes to LHN NWAU estimates, NEC and NEP Determinations and/or other adjustments as allowed for under the Agreement. For transparency purposes, adjustments resulting from the Annual Reconciliation calculation are identified separately in the funding model and advised to the Commonwealth Treasurer.

The annual actual NWAU for the reconciled financial year is also used as the base year to recalculate the following financial year's funding entitlement.

12 BACK-CASTING

Back-casting is a requirement under clause A41 to the Addendum, where the effect of any significant changes to classification or costing methodologies determined by the IHACPA must be back-cast to the year prior when the Administrator is calculating Commonwealth growth funding.

The back-casting requirement is intended to ensure that changes between years are correctly accounted for and Commonwealth NHR funding is not impacted by known changes in the national pricing and cost model over consecutive years. This includes changes to, between and within ABF and Block funding streams. The requirement for back-casting is fundamentally due to the Commonwealth contribution being set on the basis of efficient growth in funding rather than as a share of aggregate funding.

Operationally, this means any significant methodology changes for the relevant financial year are applied to the base year data to calculate a new base that is consistent with the relevant financial year calculations, ensuring a more appropriate estimate of growth funding.

ABF back-casting and growth calculations and recalculations are conducted at three stages:

1. Based on estimated activity for both the base year and relevant financial year (year 0 and 1).
2. Based on actual annual activity for the base year (year 0) and estimated activity for the relevant financial year (year 1).
3. Based on actual annual activity for both the base year and relevant financial year (year 0 and 1).

The Administrator's approach to back-casting varies depending on the timing of the calculation (i.e. base year activity being estimates or actuals). The variations in the approach are discussed further in Section 12.1 Back-casting for estimates and 12.2 Back-casting for actuals.

The Administrator works with the IHACPA and jurisdictions to ensure the Commonwealth NHR funding calculation in the growth period is robust and reflective of all developments in costing and pricing methodologies.

Back-casting for estimates

The IHACPA determines a back-casted NEP and back-casting multipliers for each State and service category, where relevant, in its NEP and NEC Determinations. The back-casted NEP is determined by applying the methodological changes in the relevant year's NEP to the prior year's NEP calculations.

The back-casting NWAU multipliers are calculated for each State and service category by comparing the NWAU calculated based on the relevant year's NWAU model with the previous year's NWAU model. For additional details please refer to the IHACPA *National Pricing Model Technical Specifications 2023–24.*

The Administrator uses IHACPA's back-casting multipliers to calculate the Commonwealth NHR funding contribution where the relevant annual reconciliation has not been completed to inform the forward financial year.

Back-casting for actuals

Following the Annual Reconciliation, the back-casting multipliers for each category are replaced in the growth calculation by actual back-casted figures. These are calculated by applying the NWAU calculator of the relevant financial year (e.g. 2020-21 NWAU calculators) to the base year actuals (e.g. 2019-20 annual hospital activity data).

There are two parts in the calculation process once actual annual data are received.

- **Part One** is in relation to Reconciliation activities for that year (e.g. 2019-20).
- **Part Two** is for growth calculations for the subsequent year (e.g. 2020-21).

The NWAU calculation steps are the same for both parts; however the NWAU calculation itself for each part is a separate process. The NWAU calculation in relation to each part is highlighted in **Figure 5** and **Figure 6** below, using 2019-20 and 2020-21 as an example.

FIGURE 6 Part One (2019-20 Reconciliation activities) Redrawn for 2020-21

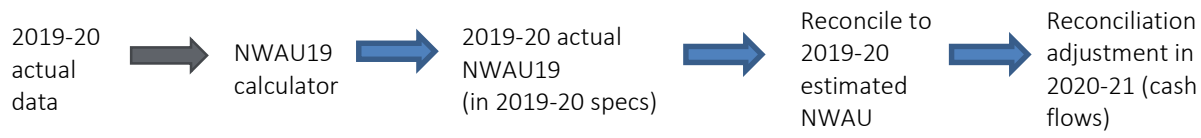
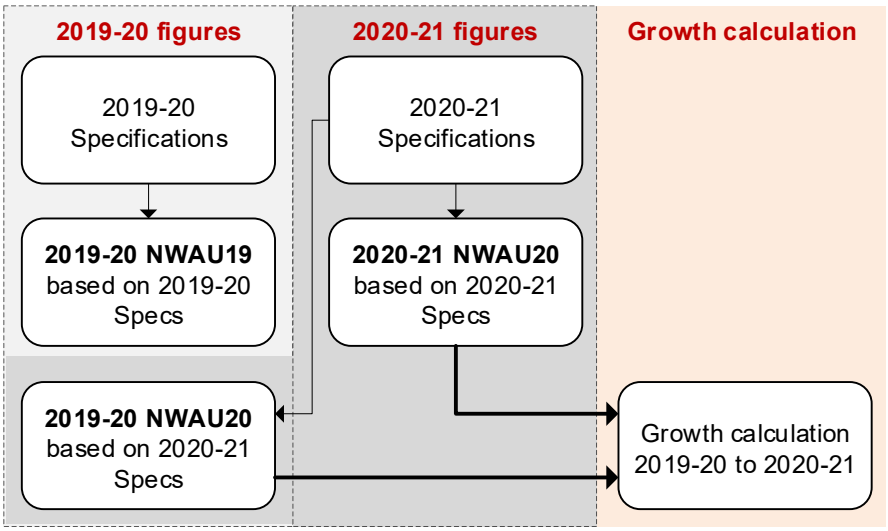


FIGURE 7 Part Two (2020-21 growth calculation process) Redrawn for 2020-21

The actual 2019-20 data are processed through the NWAU20 calculator to determine the 'value' of the 2019-20 activity as if it were delivered in 2020-21. This process ensures any scope changes between 2019-20 and 2020-21 are captured and applied to the complete 2019-20 data.

The back-casting and growth calculation based on annual actual hospital activity is illustrated below

Back-casting and growth calculation for actual hospital activity Redrawn for 2020-21



Significant changes between financial years

Between financial years, there may be significant changes made to ABF classification systems or counting methodology that would affect the NWAU calculation but are not apparent in the base year data. Under clause A41 of the Addendum, if the IHACPA makes significant changes to the ABF classification systems or costing methodologies, the effect of such changes must be applied to the prior year.

TABLE 16 Administrator's approach to back-casting

Scenario	Approach to back-casting	Example
New adjustment introduced in the pricing models	If episodes eligible for the adjustment can be identified in base year data, the change is back-cast by application of the relevant NWAU calculator to the base year data. Alternatively, base year data is collected and reported by States prior to implementation of change (shadow reporting). This data would enable identification of episodes eligible for the adjustment and to apply the relevant NWAU calculator over the base year data. Otherwise, if shadow reporting is not available for the base year, a 'conversion factor' may be applied alongside the base year activity data prior to the application of the relevant NWAU calculator.	Emergency care age adjustment Treatment remoteness adjustment
Change in classification	If base year data can be appropriately reclassified, it is back-cast by applying the new classification and the relevant NWAU calculator over the base year data. Alternatively the base year data is collected and reported by States prior to implementation of change (shadow reporting). This data would enable identification of episodes eligible for the adjustment and to apply the relevant NWAU calculator over the base year data. Otherwise, if shadow reporting is not available, a 'conversion factor' may be applied alongside the base year activity data prior to the application of the relevant NWAU calculator.	New version of AR-DRG Existing Tier 2 clinic split into new clinics Change in clinic definition (e.g. expanded definition of what is in-scope) Change in counting rules (e.g. from individual events to once per month)
Moving services from Block to ABF	If services moved to ABF can be identified in the base year data, the change is back-cast by moving the Commonwealth Block funding to ABF and including the associated activity for the services when back-casting the base year data. Alternatively, the base year data is collected and reported by States prior to implementation of change (shadow reporting). This data would enable the identification of services to be moved from Block to ABF and to apply the relevant NWAU calculator over the base year data. If data is not available or not able to be reliably sourced on a nationally consistent basis, back-cast by setting the Commonwealth Block funding for these services to zero and use a base year NWAU value of zero when calculating Commonwealth ABF growth funding.	Moving small rural hospitals from block to ABF. Block funded services moving from block to ABF

Scenario	Approach to back-casting	Example
Moving services from ABF to Block	If the costs of the services moving to Block can be quantified for the base year, back-cast by moving the Commonwealth ABF amount to Block and calculate the efficient growth as the difference between the relevant year NEC and back-casted NEC for the base year. Set the NWAU for the actual hospital activity data for these services to zero. Alternatively the base year data is collected and reported by States prior to implementation of change (shadow reporting). This data would enable the costs of services to be moved from ABF to Block to be quantified and calculation of Commonwealth Block growth funding. If NEC amounts are not available or cannot be reliably sourced on a nationally consistent basis, back-cast by assuming zero base for Block funding and subtract the total ABF amount associated to these services from ABF.	ABF services moving from ABF to Block

The Administrator uses actual hospital activity or proxy data to implement back-casting. Where no actual or proxy data is available for the base year, the Administrator uses a back-cast figure of zero.

The proxy data may be a 'conversion factor' calculated by the Administrator, provided by the State or the IHACPA.

However, under clause A42, the IHACPA is required to use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes for a two-year period.

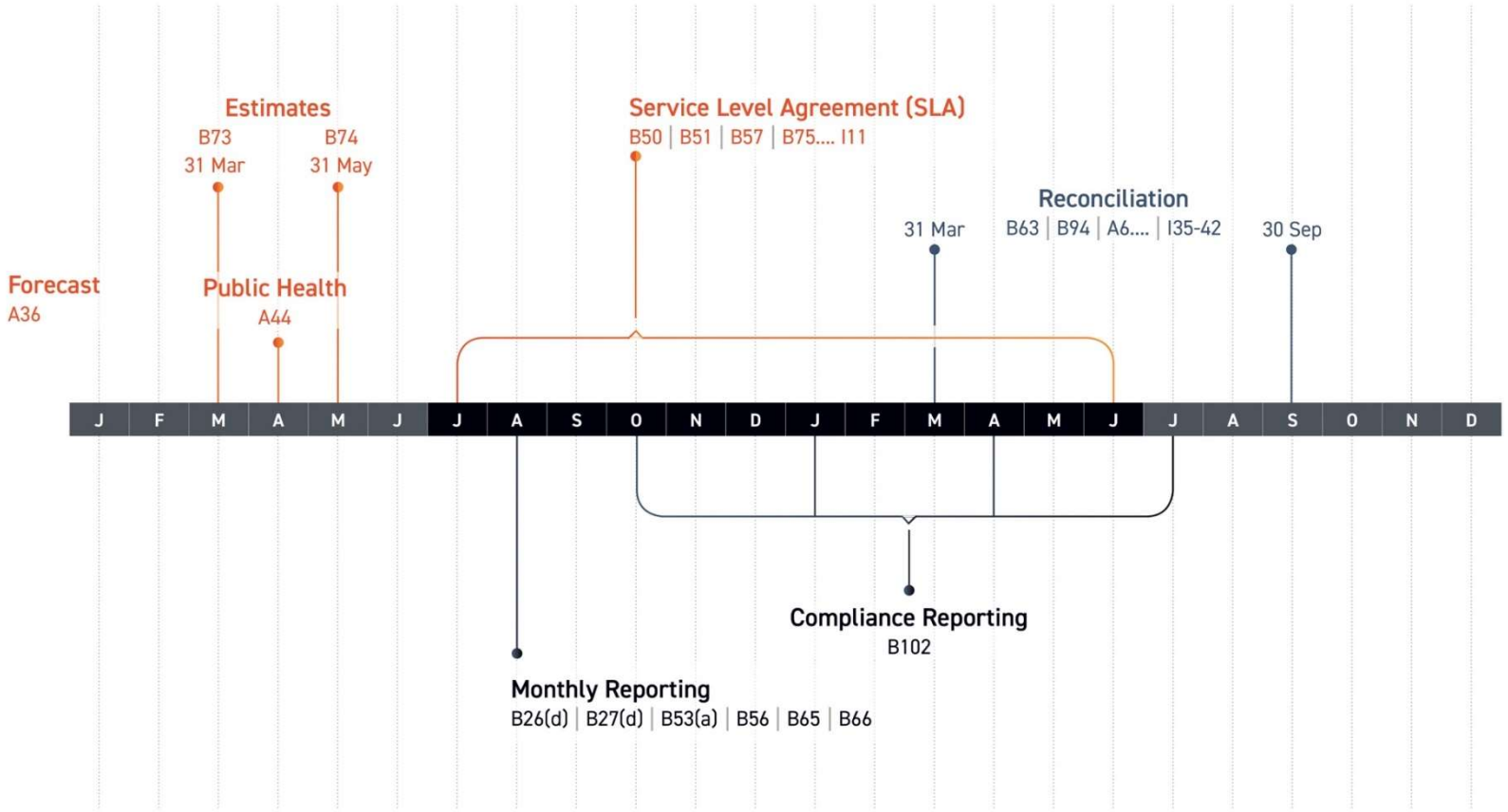
13 TIMELINE

The timeline (see Figure 8) shows each stage of the Administrator's processes, and key data submission points by jurisdictions.

It highlights the iterative nature of the Administrator's calculations and the stages of each growth calculation (i.e. estimates to estimates, actuals to estimates and actuals to actuals).

FIGURE 8 Data cycle

Data Plan
B85
B86
B88
B91
B92 ....
B93 ....
B95
I34



14 REPORTING

The Administrator undertakes a number of reporting mechanisms to enable transparency of the funding for public hospital services, including an annual report and monthly reports.

Section 240 of the Act requires the Administrator to provide monthly reports to the Commonwealth and each State, and to make these publicly available. The monthly reports contain detail for the month and year-to-date funding and payments into and out of the State Pool Accounts and State Managed Funds paid to LHNs, including the NWAU funded. These are described by Commonwealth and States contributions and by service category.

The Administrator also provides payment advice to the Commonwealth Treasurer as needed to facilitate cash payments from the Commonwealth into the NHFP. The purposes for the Administrator's advice to the Commonwealth Treasurer are described in further detail below.

Advice to the Commonwealth Treasurer

The Administrator's advice to the Commonwealth Treasurer is provided for specific purposes, including:

- the Commonwealth Budget, based on initial estimates of hospital activity from States, in April each year;
- Payment Advice for the relevant financial year, based on confirmed estimates of hospital activity from States. The Payment Advice can be updated monthly;
- Input to the Commonwealth's Mid-Year Economic and Fiscal Outlook (MYEFO); and
- the annual Treasurer's Determination of public hospital funding based on Reconciliation of actual hospital activity for the prior year. This advice is issued in the second half of the following financial year.

As part of the Administrator's Payment Advice to the Commonwealth Treasurer, information on Funding Cap entitlements and adjustment is provided. This outlines the States' Uncapped Commonwealth Funding Entitlement and how these are impacted by the National Funding Cap and Soft Cap. In addition advice is provided on the application of the Commonwealth's MFG for the relevant year with the decision on its application a matter for the Commonwealth.

15 EXTERNAL DEPENDENCIES FOR CALCULATIONS

For the successful calculation of Commonwealth Funding Entitlement in a timely manner there are external dependencies; these are outlined throughout the document and summarised below.

TABLE 17 External dependencies on Commonwealth NHR calculations

Entity	Component	Required for	Required by	Document section
Commonwealth Treasury	Public Health funding growth factor for each State	Public Health funding	Prior to commencement of the year and when the Public Health funding growth factor alters	8
IHACPA	NEC Determination	Block funding	Prior to commencement of the year and if the NEC Determination alters.	7
IHACPA	NEP Determination	ABF	Prior to commencement of the year, and if the NEP Determination alters.	6
IHACPA	Back-casting information for each relevant funding stream and service category	ABF and Block funding	Prior to commencement of the year, and if the NEC and NEP Determination(s) alters.	12
States and territories	LHN and aggregate NWAU estimates by service category	ABF and Funding Cap	Prior to commencement of the year, and if the NWAU alters.	5.4 & 6
States and territories	LHN annual actual hospital activity data by service category	ABF	30 September of the following financial year	6, 10.5 & 11
States and territories	Safety and Quality events	Safety and Quality Adjustment	30 September of the following financial year	10.2.1 & 11
Commonwealth Treasurer	Treasurer's Determination	ABF	15 May to enable payment within the following financial year	11

APPENDIX A – METHODOLOGY FOR CALCULATING ABF

TABLE 18 ABF calculation

Step 1 - Calculate base year NWAU incorporating back-casting: service category level					
Base year State Aggregate NWAU	x	Back-casting multiplier (IHACPA %)	=	Base year back-casted NWAU (updated V0)	
Step 2 - Calculate impact of change in NEP					
Base year back-casted NWAU (updated V0)	x	[Relevant financial year NEP (P1) – Back-casted NEP (updated P0)]	=	Price adjustment updated V0*(P1- updated P0)	
Step 3 - Calculate impact of change in NWAU					
Relevant financial year NEP (P1)	x	[Relevant financial year NWAU (V1) – Base year Back-casted NWAU (updated V0)]	=	Volume adjustment P1*(V1- updated V0)	
Step 4 - Calculate Commonwealth funding for efficient growth					
Commonwealth Contribution Rate (45%)	x	[Price adjustment V0*(P1- updated P0) + Volume adjustment P1*(V1- updated V0)]	=	Commonwealth funding for efficient growth	
Step 5 – Calculate total Commonwealth ABF					
Base year Commonwealth ABF contribution	+	Commonwealth funding for efficient growth	=	Total Commonwealth ABF Funding	
Note: Steps 4 and 5 can also be expressed as: Base year Cwlth funding + efficient growth % x (V1 x P1 - updated V0 x updated P0)					
Step 6 - Calculate single CCR for all service categories					
Total Commonwealth ABF Funding	/	[(State aggregate NWAU) x (relevant financial year NEP)]	=	Uncapped Commonwealth Contribution Rate (CCR)	
Step 7 - Calculate Commonwealth ABF for each service category					
Relevant financial year NEP	x	State aggregate NWAU for service category	x	Uncapped CCR	= Commonwealth ABF Funding for service category
Step 8 - Calculate the uncapped funding amount for each service category: [LHN level]					
Relevant financial year NEP	x	LHN service category NWAU	x	Uncapped CCR	= Commonwealth uncapped funding for service category
Step 9 - Aggregate each ABF funded service category for each LHN [LHN level]					
Emergency	Acute admitted	Admitted mental health	Sub-acute	Non-admitted	Total Cwlth ABF at the LHN level

APPENDIX B – METHODOLOGY FOR CALCULATING BLOCK FUNDING

TABLE 19 Block funding calculation

Step 1 - Determine NEC incorporating back-casting							
Base Year NEC ($)	x	Back-casting multiplier (IHACPA %)			=	Base Year NEC incorporating back-casting ($)
Step 1a - Determine NEC incorporating back-casting for Small Rural hospitals							
Base year NEC Cost weight	x	Back-casting multiplier (IHACPA %)	x	Base Year NEC ($)	=	Base Year NEC incorporating back-casting ($)
Step 2 - Determine efficient growth in NEC							
Relevant financial year total NEC ($)	-	Base year NEC incorporating back-casting ($)			=	Efficient growth in NEC ($)
Step 3 - Determine Commonwealth contribution for efficient growth: service category							
Efficient growth in NEC ($)	x	Commonwealth Contribution Rate (45%)			=	Commonwealth contribution for efficient growth ($)
Step 4 - Determine Block funding in relevant financial year: service category							
Commonwealth contribution for efficient growth ($)	+	Base year Commonwealth Block Funding ($) - Adjustment for Safety and Quality			=	Relevant FY Commonwealth Block Funding
Step 4b – Calculate Safety and Quality adjustment for Block funded activities (after annual reconciliation)							
Commonwealth Contribution Rate (45%)	x	[Relevant year's NWAU adjustment * (Relevant year's NEP – Back-casted NEP) + Relevant year's NEP * (Relevant year's NWAU adjustment – Previous year's Back-casted NWAU adjustment)]			=	Adjustment for Safety and Quality
The NWAU adjustment refers to the total NWAU reduction calculated for Sentinel Events, HACs and Avoidable Hospital Readmissions relating to Block funded activities.							
Step 5 - Aggregate Block funded service category: State or Territory level							
Small Rural	+	Teaching, Training & Research	+	Non-admitted mental health	+	Other Block funded service categories	=	Aggregate Commonwealth Block funding

APPENDIX C – SOFT CAP CALCULATION

The Soft Cap calculation steps are summarised below in **Table 20** Each step is then described in terms of the relevant inputs and outputs. **Table 21** then describes the calculation steps required in the event the Soft Cap is exceeded.

TABLE 20 Soft Cap calculation

Step 1 - Calculate the Soft Cap funding amount: State or Territory level				
Base year Commonwealth Funding Entitlement	x	106.5 per cent	=	Soft Cap

Base year Commonwealth Funding Entitlement is the sum of ABF, Block and Public Health funding for the prior year.

If the Uncapped Commonwealth Funding Entitlement is less than the Soft Cap, Step 2 is not required. The Uncapped Commonwealth Funding Entitlement is the sum of ABF, Block and Public Health funding for the relevant financial year.

Step 2 - Calculate the individual State funding excess, when Uncapped Commonwealth Funding Entitlement exceeds the Soft Cap: State or Territory				
Uncapped Commonwealth Funding Entitlement	-	Soft Cap	=	Individual State Funding Excess

Note: If the Soft Cap is exceeded, the Individual State Funding Excess is applied to the ABF funding only.

TABLE 21 Calculation if the Soft Cap is exceeded

Step 1 - Calculate Soft Cap impact on ABF Entitlement: State or Territory level				
Uncapped ABF entitlement	-	Individual State Funding Excess	=	Soft Cap ABF entitlement

Step 2 - Calculate Soft Cap impact on service category funding: service category level				
Soft Cap ABF Entitlement	x	[(Uncapped service category funding) / (Uncapped ABF entitlement)]	=	Soft Cap service category funding

Step 3 - Calculate revised Soft Cap CCR for each service category: service category level				
Soft Cap service category funding	/	[(State service category NWAU) x (Relevant financial year NEP)]	=	Revised Soft Cap CCR

Step 4 - Calculate Soft Cap funding amount for each service category: LHN level						
Relevant financial year NEP	x	LHN service category NWAU	x	Revised Soft Cap CCR	=	Commonwealth Soft Cap LHN funding for service category

Step 5 - Aggregate each Soft Cap ABF funded service category for each LHN: LHN level					
Soft Cap Emergency	Soft Cap Acute admitted	Soft Cap Admitted mental health	Soft Cap Sub-acute	Soft Cap Non-admitted	Total Soft Cap Cwlth ABF at the LHN level

APPENDIX D – NATIONAL FUNDING CAP CALCULATION

The National Funding Cap calculation steps are summarised below in Table 22. Each step is then described in terms of the relevant inputs and outputs. Table 23 describes the calculation steps required in the event the National Funding Cap is exceeded.

TABLE 22 National funding cap calculation

Step 1 – Calculate available funding under the National Funding Cap [national level]				
Combined National base year Commonwealth Funding Entitlement	x	106.5 per cent	=	National Funding Cap (available funding)
Step 2 – Calculate Redistribution Pool: national level				
Soft Cap (guaranteed funding)	-	Uncapped Commonwealth Funding Entitlement	=	Individual State funding available for Redistribution
Step 3 - Calculate individual state Funding Excess before Redistribution, for states exceeding the Soft Cap: State or Territory level				
Uncapped Commonwealth Funding Entitlement	-	Soft Cap (guaranteed funding	=	Individual state Funding Excess
Step 4 - Calculate Redistribution funding for the individual state: State or Territory level				
Redistribution Pool (National funding available for Redistribution)	x	[(Individual state funding excess) / (National Funding Excess)]	=	Redistribution Amount for individual state
Step 5 - Calculate capped Commonwealth Funding Entitlement for individual States				
Soft Cap (guaranteed funding)	+	Redistribution Amount for individual state	=	Capped Cwlth Funding Entitlement
Step 6 - Calculate individual State funding after Redistribution				
Uncapped Commonwealth Funding Entitlement	-	Capped Commonwealth Funding Entitlement	=	Individual state funding after Redistribution

TABLE 23 Calculation if the National Funding Cap is exceeded

Step 1 – Calculate impact of the National Funding Cap (including Redistribution) on ABF Entitlement: State or Territory level				
Uncapped ABF entitlement	-	Individual state funding after Redistribution	=	Capped ABF entitlement
Step 2 – Calculate impact of the National Funding Cap (including Redistribution) on individual service category funding				
Capped ABF Entitlement	x	[(Uncapped service category funding) / (Uncapped ABF entitlement)]	=	Capped service category funding
Step 3 - Calculate the revised capped CCR for each service category				
Capped service category funding	/	[(State service category NWAU) x (Relevant financial year NEP)]	=	Revised Capped CCR

Step 4 - Calculate the National Funding Cap funding amount (including Redistribution) for each service category: LHN level						
Relevant financial year NEP	x	LHN service category NWAU	x	Revised Capped CCR	=	Commonwealth Capped LHN funding for service category

Step 5 - Aggregate each Capped ABF funded service category for each LHN: LHN level					
Capped Emergency	Capped Acute admitted	Capped Admitted mental health	Capped Sub-acute	Capped Non-admitted	Total Capped Cwlth ABF at the LHN level

The total Commonwealth Funding Entitlement (capped ABF, Block and Public Health) forms the base for the following relevant financial year calculation.

APPENDIX E – PRICING FOR SAFETY AND QUALITY

TABLE 24 Base Case Example: No HAC Adjustments

	2016-17	2017-18	2018-19	2019-20	2020-21
Price (NEP)	$5,000	$5,000	$5,000	$5,000	$5,000
Back-casted NEP	$5,000	$5,000	$5,000	$5,000	$5,000
Growth year NWAUs	1,000,000	1,060,000	1,121,000	1,180,000	1,240,000
PQS NWAU deduction			0	0	0
PQS Adjusted NWAUs		1,060,000	1,121,000	1,180,000	1,240,000
Back-casted NWAUs pre-PQS adjustment	1,000,000	1,060,000	1,121,000	1,180,000	
PQS NWAU deduction	0	0	0	0	
PQS adjusted NWAU Base for following year	1,000,000	1,060,000	1,121,000	1,180,000	
NWAU Growth		60,000	61,000	59,000	60,000
Uncapped funding	$2,000,000,000	$2,135,000,000	$2,267,250,000	$2,400,000,000	2,535,000,000
Uncapped funding growth		6.75%	6.44%	5.86%	5.62%
Cap Amount		$2,130,000,000	$2,268,450,000	$2,414,621,250	$2,556,000,000
Cap reduction		$5,000,000	$0	$0	$0
Final Funding	$2,000,000,000	$2,130,000,000	$2,267,250,000	$2,400,000,000	$2,535,000,000
Final Funding Growth		6.50%	6.44%	5.86%	5.62%

TABLE 25 Improvements in Safety & Quality Example

	2016-17	2017-18	2018-19	2019-20	2020-21
Price (NEP)	$5,000	$5,000	$5,000	$5,000	$5,000
Back-casted NEP	$5,000	$5,000	$5,000	$5,000	$5,000
Growth year NWAUs	1,000,000	1,060,000	1,121,000	1,180,000	1,240,000
PQS NWAU deduction		- 9,000	- 8,000	- 7,000	-6,000
PQS Adjusted NWAUs		1,051,000	1,113,000	1,173,000	1,234,000
Back-casted NWAUs pre-PQS adjustment	1,000,000	1,060,000	1,121,000	1,180,000	
PQS NWAU deduction	- 10,000	- 9,000	- 8,000	-7,000	
PQS adjusted NWAU Base for following year	990,000	1,051,000	1,113,000	1,173,000	
NWAU Growth		61,000	62,000	60,000	61,000
Uncapped funding	$2,000,000,000	$2,137,250,000	$2,269,500,000	$2,403,450,000	2,540,700,000
Uncapped funding growth		6.86%	6.55%	5.95%	5.71%
Cap Amount		$2,130,000,000	$2,268,450,000	$2,415,899,250	$2,559,674,250
Cap reduction		$7,250,000	$1,050,000	$0	$0
Final Funding	$2,000,000,000	$2,130,000,000	$2,268,450,000	$2,403,450,000	$2,540,700,000
Final Funding Growth		6.50%	6.50%	5.95%	5.71%

Note: In this example, Safety and Quality measures have improved over time, providing additional funding relative to the base case. The 2016-17 NWAU has been reduced due to Safety and Quality measures for the purposes of calculating the base for 2017-18 activity growth. The 2017-18 total has also reduced due to Safety and Quality measures.

TABLE 26 Improvements in Safety & Quality Example

	2016-17	2017-18	2018-19	2019-20	2020-21
Price (NEP)	$5,000	$5,000	$5,000	$5,000	$5,000
Back-casted NEP	$5,000	$5,000	$5,000	$5,000	$5,000
Growth year NWAUs	1,000,000	1,060,000	1,121,000	1,180,000	1,240,000
PQS NWAU deduction		- 11,000	- 12,000	- 13,000	-14,000
PQS Adjusted NWAUs		1,049,000	1,109,000	1,167,000	1,226,000
Back-casted NWAUs pre-PQS adjustment	1,000,000	1,060,000	1,121,000	1,180,000	
PQS NWAU deduction	- 10,000	- 11,000	- 12,000	-13,000	
PQS adjusted NWAU Base for following year	990,000	1,049,000	1,109,000	1,167,000	
NWAU Growth		59,000	60,000	58,000	59,000
Uncapped funding	$2,000,000,000	$2,132,750,000	$2,265,000,000	$2,395,500,000	$2,528,250,000
Uncapped funding growth		6.64%	6.34%	5.76%	5.54%
Cap Amount		$2,130,000,000	$2,268,450,000	$2,412,225,000	$2,551,207,500
Cap reduction		$2,750,000	$0	$0	$0
Final Funding	$2,000,000,000	$2,130,000,000	$2,265,000,000	$2,395,500,000	$2,528,250,000
Final Funding Growth		6.50%	6.34%	5.76%	5.54%

In this example, safety and quality measures have deteriorated over time, providing less funding relative to the base case. The 2016-17 NWAU has been reduced due to safety and quality measures for the purposes of calculating the base for 2017-18 activity growth. The 2017-18 total has also reduced due to safety and quality measures.

APPENDIX F – RELEVANT NHR AGREEMENT AND ADDENDUM CLAUSES

TABLE 27 Summary of NHR Agreement and Addendum

National Health Reform Agreement (2011) (including amendments under clause I5)	
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 growth funding between 2014-15 and 2019-20 through meeting 45 per cent of efficient growth.
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: 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 IHACPA, 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.
Block funding	
A29	On the basis of this advice, the IHACPA will determine which hospital services and functions are eligible for Commonwealth funding on a block grant basis.
A30	Using the IHACPA'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	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: a) previous year amount: 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; b) price adjustment: 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 c) volume adjustment: 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.
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	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: a) service volume information for all Local Hospital Networks within a State, as provided in Service Agreements; and b) the forecast national efficient price from the IHACPA.
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 IHACPA 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 IHACPA will consider transitional arrangements when developing new ABF classification systems or costing methodologies.
A42	ABF will be implemented through a phased approach: 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 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.
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.
Teaching, Training & 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 IHACPA 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 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.

APPENDIX G – CALCULATION EXAMPLES

The Administrator calculates the Commonwealth NHR ABF entitlement for each State for all service categories on the basis of the latest estimate of the Commonwealth Funding Entitlement for the prior year, plus an amount equal to 45 per cent of the efficient growth.

1. ABF – calculation based on estimates

If NWAU estimates or the NEP Determination are revised, the ABF amount is recalculated, leading to a change in the overall calculated Commonwealth NHR funding amount. The last opportunity to advise the Administrator of an alteration to take effect in the relevant financial year is 15 May.

Example 1 (referred to in Section 6.1 - Calculating ABF) outlines the calculation of the ABF based on estimates for both the base year and relevant financial year, 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 **Section 12: Back-casting**.

TABLE 28 Example 1: ABF – Based on estimated activity for base year and relevant financial year

Information at the commencement of the relevant financial year (estimates):

2019-20 total ABF CW funding (as at June 2020):	$4,566.0 million
V_1, 2020-21 ABF NWAU:	2,400,528 estimate
P_1, 2020-21 NEP:	$5,320
V_0, 2019-20 ABF NWAU:	2,350,836 estimate*
P_0, 2019-20 NEP:	$5,134*

The ABF allocation would be calculated as:
$4,566.0 m + 45% x [(2,400,528 x $5,320) – (2,350,836* x $5,134*)] = **$4,881.7m**

The CCR would be calculated as: $4,881.7m / (2,400,528 x $5,320) = 38.2%

This CCR would then be applied to the aggregate State NWAU for each service category and NEP to determine the funding allocation for each service category.

Similarly the CCR is applied to each LHN's NWAU for each service category and NEP to determine the funding for each LHN. The sum of the service category amounts is the total Commonwealth NHR funding for ABF based on estimated activity.

Note: totals may not equal the sum of components due to rounding

**This figure is subject to back-casting, which is further explained in Chapter 12 – Back-casting.*

2. ABF – calculation based on base year actual annual activity

Commonwealth ABF is directly linked to the level of actual services delivered by public hospitals, subject to the Funding Cap from 2017-18.

As per clause A40, a preliminary amount for growth funding is allocated to States based on estimated data prior to the finalisation of actual hospital activity (Chapter 7.2 Activity Based Funding – based on estimates).

Stage 2 of the NHR funding calculations occurs when the annual actual hospital activity is reconciled for the base year. This leads to an update in the basis of the ABF calculation.

Final ABF calculations are made after the Annual Reconciliation process for both the base and relevant financial year to ensure the Commonwealth meets its agreed contribution to the funding of efficient growth (clause B61). The National Funding Cap and Redistribution Pool are calculated at this time, further outlined in Chapter 8.2 National Funding Cap.

TABLE 29 Example 2: ABF – based on base year actual annual activity

Continuing on from **Table 28**, base year annual actuals are now finalised, confirming the final ABF allocation for the base year and necessitating ABF allocation for the relevant financial year to be recalculated.

The example assumes that the State has not revised its total 2020-21 NWAU estimate (remain the same as in **Table 28**).

Updated information based on annual actuals:

2019-20 total ABF CW funding (at June 2017) =	*$ 4,427.2 million*
V_1, 2020-21 ABF NWAU =	2,400,528 estimate
P_1, 2020-21 NEP =	$ 5,320
V_0, 2019-20 ABF NWAU =	*2,330,522 actual**
P_0, 2019-20 NEP =	$ 5,134*

The ABF funding allocation, determined using the base year annual actuals, would now be calculated as:
$ 4,427.2m + 45% x [(2,400,528x $5,320) – (*2,330,522** x $5,134*)] = **$4,789.9m**
The recalculated CCR is: *$4,789.9m* / (2,500,528 x $5,320) = *37.5%*

This recalculated CCR would then be applied to the aggregate State NWAU for each service category and NEP to determine the funding allocation for each service category.

Similarly the recalculated CCR is applied to each LHN's NWAU for each service category and NEP to determine the funding for each LHN. The sum of the service category amounts is the total Commonwealth NHR funding for ABF based on actual hospital activity for the base year.

Note: totals may not equal the sum of components due to rounding

**This figure is subject to back-casting, which is further explained in Chapter 12 – Back-casting.*

3. ABF – calculation based on actuals

Stage 3 of the NHR funding calculation occurs upon receipt of actual annual hospital activity for the relevant financial year, and Reconciliation of this data (Chapter 10 Reconciliation of actual activity to estimated service volumes).

The calculation of ABF, based on actual annual hospital activity relating to the relevant financial year is shown in **Table 30**, with the Acute admitted service category used in the example. The components that differ from the **Table 28** (estimated activity for the relevant financial year and actual activity for the base year) are highlighted in red and italics. The example does not include the impact of 'back-casting', which is outlined separately in **Section 12: Back-casting**.

TABLE 30 Example 3: ABF – based on relevant financial year actual annual activity

Continuing on from **Table 29**, relevant financial year annual actuals are now finalised, necessitating ABF allocation for the relevant financial year to be recalculated.

Updated information based on annual actuals:

2019-20 total ABF CW funding (at June 2017) =	$ 4,427.2 million
V_1, 2020-21 ABF NWAU =	*2,410,200 actual*
P_1, 2020-21 NEP =	$ 5,320
V_0, 2019-20 ABF NWAU =	2,330,522 actual*
P_0, 2019-20 NEP =	$ 5,134*

The ABF funding allocation, determined using relevant financial year annual actuals, would now be calculated as:
$ 4,427.2m + 45% x [(*2,410,200* x $5,320) – (2,330,522* x $5,134*)] = **$4,733.3m**
The recalculated CCR is: *$4,733.3m* / (*2,410,200* x $5,320) = *36.9%*

This recalculated CCR would then be applied to the aggregate State NWAU for each service category and NEP to determine the funding allocation for each service category.

Similarly the recalculated CCR is applied to each LHN's NWAU for each service category and NEP to determine the funding for each LHN. The sum of the service category amounts is the total Commonwealth NHR funding for ABF based on annual actual hospital activity for the relevant financial year.

The table below shows the final 2019-20 and 2020-21 funding allocations by service category. These amounts are relevant for determining the Funding Cap which is demonstrated in Chapter 8 *Funding Cap*.

Service category	2019-20 Uncapped funding	2020-21 Uncapped funding	2020-21 Uncapped CCR
Acute admitted	$2,080.8m	$2,272.0m	36.9%
Mental Health	$309.9m	$331.3m	36.9%
Subacute	$398.4m	$378.7m	36.9%
Emergency	$708.4m	$710.0m	36.9%
Non-admitted	$929.7m	$1,041.3m	36.9%
Total ABF	$4,427.2m	$4,733.3m	36.9%
Block funding	$700.0m	$749.0m	
Public Health	$100.0m	$105.0m	
Total Commonwealth NHR funding	**$5,227.2m**	**$5,587.3m**	

Note: totals may not equal the sum of components due to rounding

**This figure is subject to back-casting, which is further explained in Chapter 12 – Back-casting.*

APPENDIX H – DETERMINING A PATIENT'S STATE

Table 31 below outlines the 15 postcodes that span more than one state. The process for determining a patient's state, for the purpose of cross-border patient flow calculation, is as follows:

- SA2 code will be used to determine patient state.
- Where the patient's SA2 code is not available or not valid, the patient postcode will be used to determine state.
- Where the patient's postcode and SA2 are not available or not valid, the patient state will be determined by the hospital state with the exception of postcodes that span over more than one state (Table 31) where the patient state will be determined by the state with the largest proportion of that postcode's population.

TABLE 31 Postcodes that span over more than one state with no valid SLA

Postcode	State postcode spans	Determined state	Population proportion of relevant state
0872	NT, SA and WA	NT	80%
2406	NSW and QLD	NSW	84%
2540	ACT and NSW	NSW	99%
2611	ACT and NSW	ACT	100%
2618	ACT and NSW	NSW	76%
2620	ACT and NSW	NSW	98%
3644	NSW and VIC	VIC	80%
3691	NSW and VIC	VIC	100%
3707	NSW and VIC	VIC	96%
4375	NSW and QLD	QLD	100%
4377	NSW and QLD	QLD	100%
4380	NSW and QLD	QLD	100%
4383	NSW and QLD	QLD	71%
4385	NSW and QLD	QLD	93%
4825	NT and QLD	QLD	98%

Acronyms, abbreviations and terms

Term	Meaning
ABF	Activity Based Funding
ACSQHC	Australian Commission on Safety and Quality in Health Care
Administrator	Administrator of the National Health Funding Pool
AIHW	Australian Institute of Health and Welfare
BF	Block Funding
CAMHS	Child and Adolescent Mental Health Services
CCM	Commonwealth Contribution Model
CCR	Commonwealth Contribution Rate
Commonwealth Guarantee	The Commonwealth Minimum Funding Guarantee for 2019-20 to 2021-22
CHC	COAG Health Council
COAG	Council of Australian Governments
Data Plan	Three Year Data Plan
DoH	Commonwealth Department of Health
DRG	Diagnostic Related Group
EDW	Enterprise Data Warehouse
Funding cap	Commonwealth funding cap
GP	General Practitioner
GST	Goods and Services Tax
HAC	Hospital Acquired Complication
HSD	Highly Specialised Drugs (claiming program)
HST	Highly Specialised Therapies
ICU	Intensive Care Unit
IHACPA	Independent Health and Aged Care Pricing Authority
JAC	Jurisdictional Advisory Committee
LHN	Local Hospital Network
MBS	Medical Benefits Schedule
NEC	National Efficient Cost
NEP	National Efficient Price
NHFP or Pool	National Health Funding Pool
NHFB	National Health Funding Body
NHR	National Health Reform
NHR Act	National Health Reform Act 2011
NHR Agreement	National Health Reform Agreement

Term	Meaning
NMDS	National Minimum Data Sets
NPCR	National Partnership on COVID-19 Response
NWAU	National Weighted Activity Unit
PBS	Pharmaceutical Benefits Scheme
Parties	Signatories to the National Health Reform Agreement, being the Commonwealth, States and Territories
PIN	Personal Identification Number
RBA	Reserve Bank of Australia
SMF	State Managed Fund
States	Refers to both States and Territories
The Addendum	Addendum to the National Health Reform Agreement 2020-21 to 2024-25
The Payments System	National Health Funding Pool Payments System
The Pool	National Health Funding Pool