



Administrator
National Health
Funding Pool

Public hospital funding

Annual Report 2020-21 – Maintenance of Effort

MARCH 2023

Document information

Document Name	Maintenance of Effort
Document Filename	2020-21 Public Hospital Funding – Maintenance of Effort
Trim Reference	D22-3765

Change history

Author	Date	Description	Version
Beci Imbriano	Jun 2023	First Draft	0.1
Beci Imbriano	Nov 2022	Feedback incorporated	0.2
Beci Imbriano	Feb 2023	Final Report	0.3

Approval

Title	Administrator of the National Health Funding Pool
Name	Michael Lambert
Signature	
Date	15 March 2023

Contents

- 1 Overview3**
- 2 Outcome4**
- 3 The National Health Funding Pool5**
 - 3.1 Activity Based Funding transacted through the Pool.....6
 - 3.2 Block funding transacted through State Managed Funds6
- 4 Additional Activity Based Funding.....7**
 - 4.1 National Partnership on COVID-19 Response7
 - 4.2 Commonwealth Minimum Funding Guarantee7
- 5 Service agreements8**
- 6 Assessment of Maintenance of Effort9**
 - 6.1 Funding Contribution approach9
 - 6.2 Funding Entitlement approach..... 10
- 7 Next steps11**

1 Overview

The Administrator's Annual Report on Maintenance of Effort

Parties to the *Addendum to the National Health Reform Agreement 2020-2025* (the Addendum) agreed, at a minimum, to maintain levels of funding for public hospital services through the National Health Funding Pool (the Pool) for 2020-21 to 2024-25 at not less than the level of funding for 2018-19, while having regard to new, appropriate models of care that may change the setting in which care is delivered (A102), hereafter referred to as Maintenance of Effort.

The assessment of Maintenance of Effort focuses on in-scope public hospital services under the National Health Reform Agreement (NHR Agreement). Out-of-scope activity is defined as non-hospital services or those public hospital services with a funding source other than the NHR Agreement.

This work has identified some inconsistencies in the level of in-scope and out-of-scope funding transacted through the Pool as well as pricing and activity information published in Local Hospital Network (LHN) Service Agreements.

Given certain data limitations, the assessment of Maintenance of Effort in this report has been based on in-scope Activity Based Funding (ABF) only. Further work will be undertaken to incorporate in-scope Block funding into future iterations of this report.

To provide a meaningful Annual Report on Maintenance of Effort, the Administrator will continue to work with all Parties to the Addendum towards achieving consistency and transparency in the reporting of public hospital funding (A103).

2 Outcome

The Administrator's Annual Report 2020-21 on Maintenance of Effort has been assessed using the following two approaches:

1. **'Funding Contribution'** – based on ABF payments made through the Pool, assess funding contributions in 2020-21 compared to 2018-19.
2. **'Funding Entitlement'** – based on published State prices and reconciled in-scope public hospital services delivered, the State funding entitlement is calculated as total funding (i.e. total in-scope activity multiplied by the State price) less the Commonwealth funding entitlement.

A more detailed explanation of these two approaches is set out in Section 6. The second approach was derived owing to historical inconsistencies across States in relation to ABF payments made through the Pool.

On balance, when comparing 2020-21 funding levels to the 2018-19 baseline:

- The Commonwealth maintained its level of funding in total and in respect to payments to all States
- All States have maintained their levels of funding on the basis of the information and advice provided.

A summary of the results by each State is provided in [Attachment A](#).

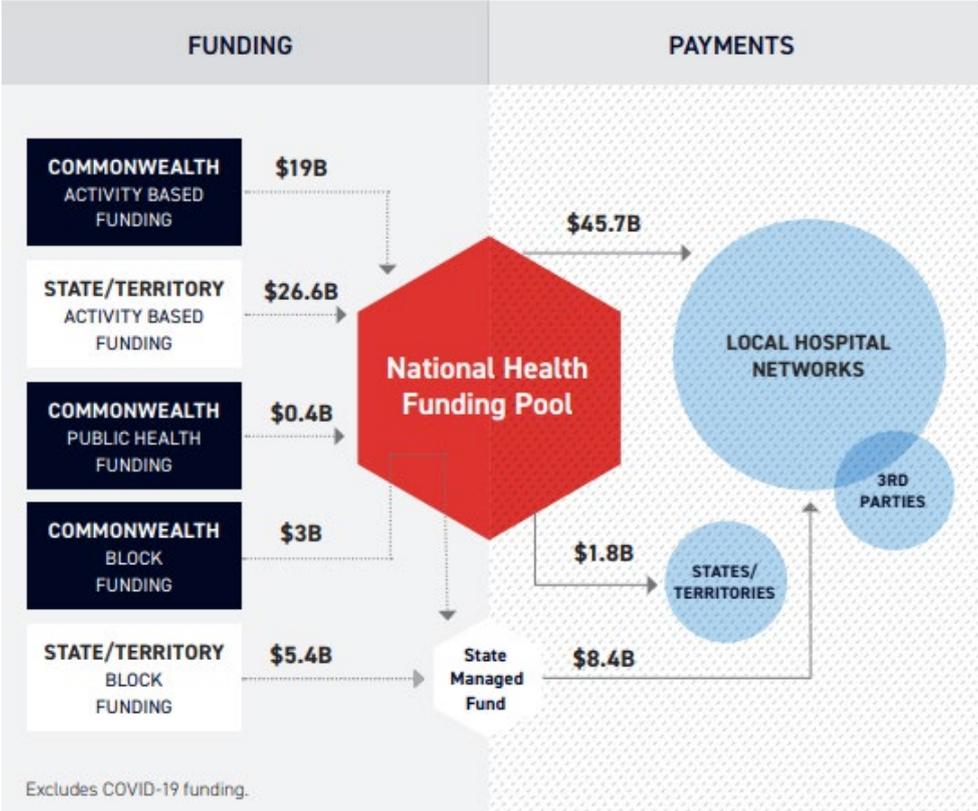
3 The National Health Funding Pool

The Pool was established to receive all Commonwealth (ABF and Block) and State and Territory (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 funding contribution to LHNs and third parties. The balance 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 2020-21.

FIGURE 1: 2020-21 Public hospital funding and payment flows



NHR Agreement funding occurs when the Commonwealth or State pay into a State Pool account or SMF for in-scope activities. NHR Agreement payments occur when the funding is paid out of the State Pool account by the Administrator or is paid out of the SMF by the State.

All in-scope ABF is required to be transacted through the Pool (on a cash basis), to fund public hospital services in accordance with LHN Service Agreements and is reported on www.publichospitalfunding.gov.au.

In addition, out-of-scope funding can be transacted through the Pool but needs to be separately identifiable.

3.1 Activity Based Funding transacted through the Pool

In this context it should be noted that State payments through the Pool do not appear to be undertaken on a consistent basis across States. There are two key issues impacting on consistency of payments through the Pool:

1. Not all in-scope State ABF payments are transacted through the Pool, despite the requirement in the NHR Agreement for this to occur
2. Out-of-scope ABF payments are being transacted through the Pool, which is not an issue in itself, but are not identified as such and hence cannot be distinguished from in-scope ABF payments.

The Addendum requires as a minimum all in-scope State ABF contributions to flow directly through Pool (A139). As highlighted above, out-of-scope funding can be transacted through the Pool but needs to be clearly identified.

The National Health Funding Body (NHFB) has been working with States to review public hospital funding transacted through the Pool in comparison to in-scope activity published in their respective LHN Service Agreements.

In accordance with the Administrator's Three-Year Data Plan and Data Compliance Policy, from 1 July 2022 States are required to identify both in-scope and out-of-scope activity in their LHN Service Agreements. In addition, a new fund account has been established (from 1 July 2022) in the Payments System to identify all payments for out-of-scope activity.

3.2 Block funding transacted through State Managed Funds

Block funding transacted through State Managed Funds has been excluded from the 2020-21 Maintenance of Effort assessment. This is due to the fact that it is not currently possible to clearly delineate between in-scope and out-of-scope State Block funding contributions. However, it is not considered that the current approach of not including Block funding in the assessment will impact on the conclusions of whether or not Maintenance of Effort was achieved. Once this requirement is met, it will be possible to incorporate it into the assessment.

4 Additional Activity Based Funding

Financial assistance to States and Territories for the additional costs incurred in responding to COVID-19.

4.1 National Partnership on COVID-19 Response

The NPCR was agreed to and signed by COAG on Friday, 13 March 2020. The NPCR was subsequently amended and agreed to in April 2020 to include a provision for Private Hospital Financial Viability Payments. A third update to the NPCR was made in April 2021 to support the COVID-19 vaccine rollout. National Cabinet took a decision to extend the NPCR from 30 September to 31 December 2022.

Since March 2020, more than \$14.7 billion in Commonwealth COVID-19 funding has been paid to States:

- \$4.1 billion in Hospital Service Payments (HSP) for COVID-19 related hospital activities
- \$9.2 billion in State Public Health Payments (SPHP) for public health activities associated with addressing the pandemic and controlling the spread of COVID-19
- \$1.4 billion in Private Hospital Financial Viability Payments (FVP) to enable private hospitals to retain capacity and support States in responding to COVID-19.

Noting that reconciled in-scope public hospital services included COVID-19 related activity, and further noting that HSP funding contributions were transacted through the Pool, it has been decided to include HSP under the NPCR as part of the assessment of 2020-21 Maintenance of Effort.

However, it has been decided not to include, Commonwealth and State, SPHP and FVP funding contributions in assessing the 2020-21 Maintenance of Effort as these payments related to the public health response to COVID-19 more broadly (i.e. not directly related to in-scope hospital activities).

4.2 Commonwealth Minimum Funding Guarantee

In recognition of the impact of the COVID-19 outbreak on public hospital activity, the Commonwealth provided a Minimum Funding Guarantee for 2019-20 and 2020-21 to ensure no jurisdiction is left worse off as a result of the COVID-19 pandemic. The Commonwealth subsequently extended the guarantee to include 2021-22.

The 2020-21 Minimum Funding Guarantee is part of Commonwealth NHR funding for the purpose of assessing 2020-21 Maintenance of Effort.

5 Service agreements

Service Agreements support transparency of public hospital funding and services.

Service Agreements between the States and Local Health Networks (LHN) support transparency of public hospital funding and services and are provided to the Administrator (once agreed). Service Agreements are to include, at a minimum (E7):

- a) the number and broad mix of services to be provided by the LHN, to inform the community of the expected outputs from the LHN and allow the Administrator to calculate the Commonwealth's funding contribution
- b) the quality and service standards that apply to services delivered by the LHN, including the Performance and Accountability Framework
- c) the level of funding to be provided to the LHN under the Service Agreement, through ABF and Block funding
- d) the teaching, training and research functions to be undertaken at the LHN level.

In addition, the funding paid on an activity basis to LHNs will be based on the price set by that State as reported in Service Agreements, the State Price (A92). Furthermore, to improve transparency and national comparability, States will provide to the Administrator and the IHACPA (A95):

- a) the price per weighted service they determine
- b) the volume of weighted services as set out by the national ABF classification scheme
- c) any variations to service loadings from the national ABF classification scheme.

It is not clear or consistent across historical LHN Service Agreements whether out-of-scope activity is included or excluded. It is also unclear whether, and to what degree, out-of-scope funding is transacted through the Pool or SMF.

As highlighted, from 1 July 2022, States are now required to identify both in-scope and out-of-scope activity in their LHN Service Agreements.

6 Assessment of Maintenance of Effort

The Administrator's Annual Report 2020-21 on Maintenance of Effort has been assessed against each of the two approaches explained below.

6.1 Funding Contribution approach

The funding contribution approach is calculated on the basis of actual ABF payments made through the Pool and has been applied to assess the funding contributions in 2020-21 compared to 2018-19.

This approach is appropriate for assessing Commonwealth funding levels given that Commonwealth calculations are based on in-scope activities and all payments are transacted through the Pool. However, this approach does not necessarily provide a correct measure of State funding levels for in-scope activities for the following reasons:

- Some States do not transact all ABF contributions for in-scope activity through the Pool

Work has continued over the last four years to support States in identifying circumstances where payments for in-scope activity have not been transacted through the Pool. Western Australia, South Australia, Tasmania and the Northern Territory have improved significantly in this respect and are now making all in-scope payments through the Pool. Queensland and the Australian Capital Territory are working closely with the NHFB to separately identify funding for out-of-scope activity transacted through the Pool. New South Wales have advised that they have not been transacting their full State ABF contributions through the Pool, including in 2020-21. Work is proceeding with New South Wales to identify ABF in-scope payments not passing through the Pool and the reasons for this occurring.

- Some States do transact ABF contributions for out-of-scope activity through the Pool but are not identified as such

There is no impediment to funding contributions for out-of-scope activity being transacted through the Pool but there is a need to identify these payments so these can be distinguished from in-scope activity. As highlighted, from 1 July 2022 a new fund account has been established in the Payments System to support the identification of payments for out-of-scope activity.

It should be highlighted there are multiple funding sources for out-of-scope activity including the States (e.g. budget measures, correctional facilities), Commonwealth (e.g. Department of Veteran Affairs, Medical Benefits Schedule) and other third-party revenue (e.g. Workers Compensation, Motor Vehicle Third Party Personal Claim).

6.2 Funding Entitlement approach

To mitigate some of the issues highlighted in the Funding Contribution approach an alternative approach to calculating funding levels for in-scope activity was derived. The Funding Entitlement approach is based on using published State prices and actual in-scope public hospital services delivered in order to assess the relative funding entitlements of the Commonwealth and States in 2020-21 compared to 2018-19.

The 'Funding Entitlement' approach is based on the following calculations:

- **Step 1** - Calculate the total funding envelope by multiplying actual in-scope activity (i.e. NHR plus HSP NWAU) by the State price
- **Step 2** - Deduct the Commonwealth funding entitlement to derive the equivalent State funding entitlement. The Commonwealth funding entitlement is as advised by the Administrator and determined by the Commonwealth Treasurer. In 2020-21 this includes NHR, HSP and funding guarantee amounts.

This approach is premised on accurate State price information and to the degree that State prices do not fully reflect all State ABF contributions for in-scope activities there will be some variation or errors in the calculation of State funding entitlements. This does not affect the Commonwealth funding entitlement as this is calculated by the Administrator based on the Independent Hospital and Aged Care Pricing Authority's (IHACPA) National Efficient Price (NEP).

The Funding Entitlement approach also focusses on actual services delivered, rather than estimated activity, noting that 2020-21 public hospital services were impacted by COVID-19. In particular, the number of public hospital services delivered in Victoria were lower than expected due to the impact of Wave 2 over the period July to December 2020.

The results for each of the two approaches is provided in [Attachment A](#).

7 Next steps

Whilst the Commonwealth, States and Territories have maintained 2018-19 levels of funding for public hospital services in 2020-21, there is further work to do to achieve improved consistency and transparency through:

- ensuring accuracy and completeness of Service Agreements including State prices as well as clear identification of in-scope and out-of-scope activity (A95 and A92)
- ensuring all State ABF contributions for in-scope activity are being transacted through the Pool (A139)
- identifying funding for out-of-scope activity transacted through the Pool (A139)
- working with the Australian Institute of Health and Welfare (AIHW) and the Commonwealth, States and Territories to improve public hospital expenditure reporting for out-of-scope activity including third party revenue (A103).

Once the above matters have been satisfactorily addressed, reliance will be able to be placed on the Funding Contribution approach. Block funding can also be included in future assessments.



Administrator
National Health
Funding Pool

Attachment A: Annual Report 2020-21

Maintenance of Effort

Maintenance of Effort

- **A102.** Parties agree to, at a minimum for the period of 2020-21 to 2024-25, **maintain 2018-19 levels of funding** for Public Hospital Services **through the National Health Funding Pool**, while having regard to new, appropriate models of care that may change the setting in which care is delivered.
- **A103.** The Administrator and AIHW will **work with all Parties** towards consistency and transparency of reporting to enable the Administrator to provide an annual report on maintenance of effort.

1 New South Wales

NSW	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	2,757,690	\$4,713	\$12,996,992,876	\$5,520,003,975	\$7,476,988,900	\$5,965,002,127	-\$1,511,986,773
2019-20	2,637,444	\$4,925	\$12,989,409,385	\$5,820,939,360	\$7,168,470,025	\$6,369,916,092	-\$798,553,933
2020-21	2,882,442	\$4,727	\$13,625,300,971	\$6,119,379,226	\$7,505,921,745	\$7,181,923,276	-\$323,998,469

¹ Final reconciled NWAUs

² State Efficient Price as published in NSW LHN Service Agreements *State Outcome Budget Schedule: Part 1*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *NSW State Pool Account Statement of Receipts and Payments*

NSW have advised that they do not transact their full State ABF contributions through the Pool, including in 2020-21. Work is proceeding with NSW to identify ABF in-scope payments not passing through the Pool and the reasons for this occurring.

2 Victoria

VIC	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	2,075,011	\$5,012	\$10,399,957,137	\$4,387,938,343	\$6,012,018,794	\$5,395,004,999	-\$617,013,795
2019-20	2,004,185	\$5,134	\$10,289,483,634	\$4,673,040,993	\$5,616,442,641	\$5,723,297,923	\$106,855,282
2020-21	2,040,822	\$5,320	\$10,857,170,859	\$4,844,188,302	\$6,012,982,557	\$5,719,722,915	-\$293,259,642

¹ Final reconciled NWAUs

² The National Efficient Price as published by the Independent Hospital and Aged Care Pricing Authority has been used as Vic State Price not publicly available.

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *Vic State Pool Account Statement of Receipts and Payments*

⁴ Victoria's contribution to COVID-19 Hospital Services Payments in 2020-21 were transacted outside of the Pool and have not been included in the assessment

3 Queensland

Qld	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	1,898,179	\$4,756	\$9,027,739,276	\$4,103,993,497	\$4,923,745,779	\$5,506,218,989	\$582,473,210
2019-20	1,908,098	\$4,847	\$9,248,552,072	\$4,363,492,111	\$4,885,059,962	\$6,280,893,405	\$1,395,833,443
2020-21	2,027,370	\$4,907	\$9,948,302,627	\$4,700,859,686	\$5,247,442,942	\$6,642,019,864	\$1,394,576,922

¹ Final reconciled NWAUs

² State Price as published in Qld LHN Service Agreements *Schedule 4 HHS Finance and Activity Schedule*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *Qld State Pool Account Statement of Receipts and Payments*

4 Western Australia

WA	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	907,509	\$5,940	\$5,390,601,025	\$1,951,703,421	\$3,438,897,603	\$2,751,183,743	-\$687,713,860
2019-20	844,146	\$6,093	\$5,143,384,076	\$1,990,955,355	\$3,152,428,721	\$3,112,949,180	-\$39,479,541
2020-21	970,402	\$6,110	\$5,929,157,320	\$2,198,097,775	\$3,731,059,545	\$3,390,287,377	-\$340,772,163

¹ Final reconciled NWAUs

² State Price as advised to the Administrator

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *WA State Pool Account Statement of Receipts and Payments*

5 South Australia

SA	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	623,233	\$4,503	\$2,806,416,353	\$1,190,215,826	\$1,616,200,526	\$1,969,558,067	\$353,357,541
2019-20	607,713	\$5,134	\$3,119,998,953	\$1,228,340,972	\$1,891,657,980	\$1,859,102,219	-\$32,555,761
2020-21	637,767	\$5,320	\$3,392,919,270	\$1,321,193,117	\$2,071,726,152	\$2,047,265,876	-\$24,460,276

¹ Final reconciled NWAUs

² National Efficient Price as published in SA LHN Service Agreements *Part E: Funding and Commissioned Activity*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *SA State Pool Account Statement of Receipts and Payments*

6 Tasmania

Tas	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	166,486	\$5,012	\$834,426,579	\$359,817,154	\$474,609,425	\$419,587,557	-\$55,021,868
2019-20	157,477	\$5,134	\$808,485,480	\$366,896,855	\$441,588,625	\$460,205,831	\$18,617,206
2020-21	173,243	\$5,320	\$921,650,738	\$391,992,434	\$529,658,304	\$519,902,006	-\$9,756,298

¹ Final reconciled NWAUs

² State Price as derived from Tas LHN Service Agreements *Part D: Funding Allocation and Activity Schedule – Purchased Volumes and Grants*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *Tas State Pool Account Statement of Receipts and Payments*

7 Australian Capital Territory

ACT	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	168,377	\$5,012	\$843,903,670	\$366,379,227	\$477,524,443	\$656,497,994	\$178,973,551
2019-20	167,382	\$5,134	\$859,338,059	\$384,795,990	\$474,542,069	\$796,914,539	\$322,372,470
2020-21	178,264	\$5,320	\$948,364,586	\$406,108,045	\$542,256,542	\$795,491,188	\$253,234,646

¹ Final reconciled NWAUs

² National Efficient Price as published in ACT LHN Service Agreements *Performance, Activity and Funding*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *ACT State Pool Account Statement of Receipts and Payments*

8 Northern Territory

NT	NWAU In-scope activity ¹	State Price ²	Total Funding (Price x NWAU)	Commonwealth Funding entitlement (ABF only) ³	State Funding entitlement (ABF only)	State Funding contribution (through the Pool) ⁴	State Funding (variance)
2018-19	165,276	\$5,012	\$828,361,608	\$255,659,367	\$572,702,241	\$294,319,008	-\$278,383,233
2019-20	172,744	\$5,134	\$886,867,439	\$277,685,879	\$609,181,560	\$560,031,579	-\$49,149,981
2020-21	180,242	\$5,320	\$958,889,355	\$302,414,526	\$656,474,830	\$643,940,979	-\$12,533,851

¹ Final reconciled NWAUs

² State Price as published in NT LHN Service Agreements *Part C: Funding and Activity Schedules*

³ Federal Financial Relations (National Health Reform Payments for 2020-21) Determination 2021

⁴ National Health Funding Pool Annual Report 2020-21 *NT State Pool Account Statement of Receipts and Payments*