

NSW Treasury submission

The Special Commission of Inquiry into Healthcare Funding



Treasury

Special Commission of Inquiry into Healthcare Funding

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Special Commission of Inquiry into Healthcare Funding

1. Introduction

NSW Treasury welcomes the opportunity to make a submission to the Special Commission of Inquiry into Healthcare Funding.

Scope of the submission

- 1.1. On 23 August 2023, the Governor of New South Wales, on advice of the Premier, appointed Richard Beasley SC to conduct a Special Commission of Inquiry into the funding of health services provided in NSW and related matters (the Inquiry).
- 1.2. The Commissioner is to deliver his report to the Governor by 26 March 2025.
- 1.3. The Inquiry has received submissions and heard evidence relating to the Terms of Reference and Issues Paper 3/2024 - Funding Models and The Way NSW Health Funds Health Services in NSW. The Inquiry intends to hold a public hearing between 18 and 22 November 2024, focusing on the issues raised in these two documents.
- 1.4. The Inquiry has requested that NSW Treasury provide relevant evidence on these issues. This submission outlines NSW Treasury's response to the Issues Paper.

2. Response to the Issues Paper

How is the budget baseline set for the Ministry of Health?

- 2.1. The budget baseline for the Ministry of Health (Health) is established through a combination of individual policy decisions and the application of an annual escalation rate.
- 2.2. The escalation process establishes the base funding for a given year prior to any policy decisions.
- 2.3. NSW Treasury's financial database includes information on agency expenses and revenues over ten years. For Health, initial escalation is set at 4.0 per cent. This includes 2.5 per cent for cost growth and 1.5 per cent for service growth. The 2.5 per cent cost component reflects the mid-point of the Reserve Bank of Australia's inflation target range and is applied consistently for all agencies. The 1.5 per cent service growth assumption is unique to Health. This growth considers impacts of population growth, ageing, system efficiency and fiscal affordability.
- 2.4. The actual growth rate for Health in any budget year may be different to 4.0 per cent. Like other agencies, the escalation baseline is reviewed through each budget process and adjusted to reflect changes in inflation and wages policy. For Health, the service growth component is also reviewed and adjusted to address emerging priorities or other decisions of Government.

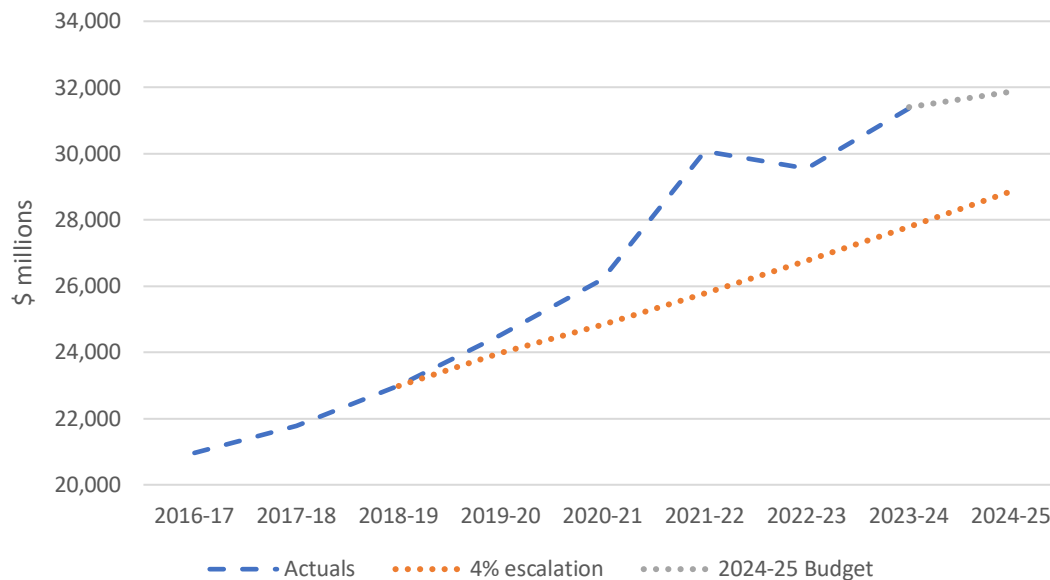
What has the Ministry of Health's actual funding growth been recently?

- 2.5. Chart 1 shows how Health's budget has increased since 2018-19. Between 2018-19 and 2023-24 actual average expenditure growth was 6.0 per cent. This is well above the base escalation rate of 4.0 per cent reflecting the impacts of the COVID-19 pandemic, higher wages growth and various Government policy decisions.

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Chart 1: NSW Ministry of Health expenditure actuals and budget (2018-19 to 2024-25)



Source: NSW Treasury

- 2.6. A key feature of the budget process is that it is dynamic and responds to priorities as they emerge. Both the cost and service components of Health's baseline escalation are adjusted as required through each budget process.

How does the New South Wales budget process work?

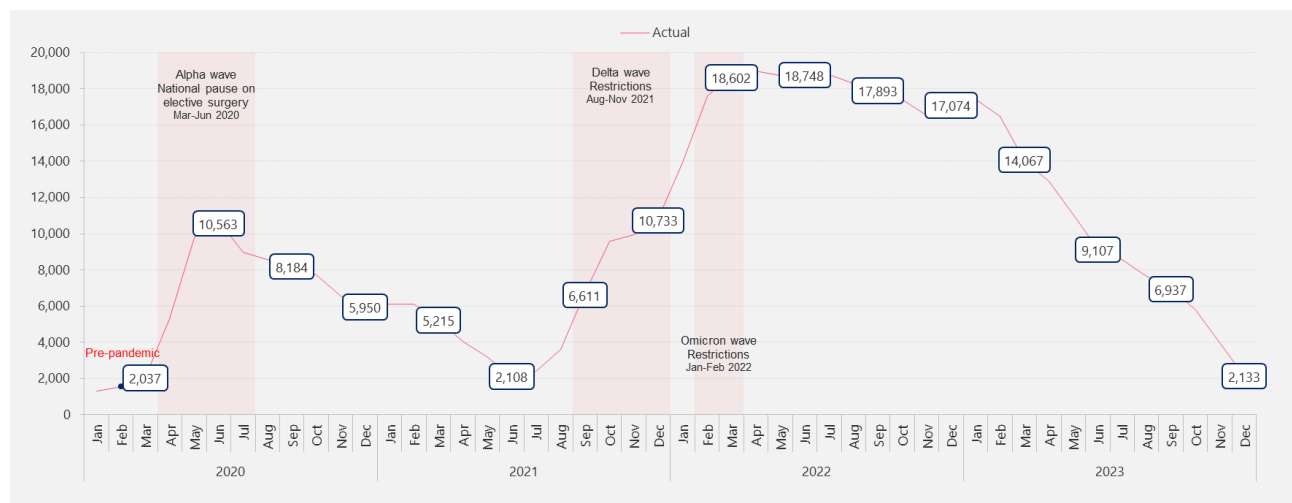
- 2.7. The annual budget process typically involves portfolio Ministers preparing a budget submission around February/March of each year prioritising funding requirements for future years.
- 2.8. In Health's case, the annual budget submission typically begins with an analysis of the expenditure base for the forthcoming budget year. This considers the extent that budgeted expenditure growth is sufficient to respond to service demand in the year ahead. This normally incorporates analysis of current year performance information, expected service demand growth and the scope of new infrastructure becoming operational over the year ahead. This analysis is used to inform new policy proposals included in the budget submission.
- 2.9. Health also prepares advice on proposed technical funding adjustments (e.g. depreciation and accounting changes) that are also assessed through the budget process.
- 2.10. The content of budget submissions may be informed by directions agreed to by the Treasurer/Premier or the Expenditure Review Committee. This could include direction to limit the scope of new policy measures to specific Government priorities, or for policy measures to be supported by offsetting revenue or savings measures.
- 2.11. NSW Treasury assesses the measures submitted by portfolio Ministers and provides advice to Government on each measure. This would typically consider the policy merit, alignment with the Government's priorities and fiscal capacity. Ultimately, decisions on agency budget proposals are a matter for Government to determine.

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What does NSW Treasury consider in assessing Health's budget proposals?

- 2.12. NSW Treasury advice considers performance metrics, and the evidence base provided to support specific policy proposals. Other considerations also include fiscal capacity and alignment with Budget priorities (where set).
- 2.13. For example, the COVID-19 pandemic had a significant impact on planned surgeries and related performance outcomes. These surgeries were temporarily paused at different times to support the pandemic response.
- 2.14. In response, Health sought additional funding to expedite these surgeries. This was supported by NSW Treasury and approved by Government. Chart 2 shows how this measure helped reduce the number of patients waiting longer than clinically recommended for planned surgeries from 18,748 in June 2022 to 2,133 in December 2023.

Chart 2: Planned Surgeries – Patients waiting longer than clinically recommended timeframe

Source: NSW Health

- 2.15. The latest Bureau of Health Information (BHI) quarterly data shows the number of patients who have waited longer than clinically recommended for planned surgery has further reduced to 1,859 in June 2024 – an improvement of 90 per cent (16,889) compared to 18,748 in June 2022 (two years earlier). [SCI.0011.0531.0001]
- 2.16. Planned surgery performance has now returned to pre-pandemic levels following the temporary suspensions that occurred as part of the response to the COVID-19 pandemic.

How are capital projects considered through the budget process?

- 2.17. Capital proposals are included in budget submissions and follow a similar process to other new policy measures. Capital projects are prioritised internally by Health and considered through each local health district's clinical services plan.
- 2.18. Funding for capital expenditure is usually considered by the NSW Government during the budget process. Capital projects included in the budget submission are determined by the Health Minister and informed by advice from Health.

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- 2.19. The NSW Treasury assessment considers the evidence provided in the budget submission. This may include detail on local population growth, existing system capacity and asset quality.
- 2.20. Capital projects with a value of \$10 million and above are then subject to the Infrastructure Investor Assurance Framework. The key components of the independent assurance process are implemented by Infrastructure NSW and include:
- monitoring conducted by Infrastructure NSW.
 - reporting regularly on projects based on inputs provided by delivery agencies. These reports provide an assessment of project development and delivery against time, cost, quality, risks and impediments to project delivery.
 - Gateway, Health Check and Deep Dive Reviews conducted by independent reviewers. These reviews are appraisals of infrastructure projects, that highlight risks and issues, which if not addressed may threaten successful delivery.
- 2.21. All major infrastructure investment decisions taken by the NSW Government are required to be supported by a Final Business Case. As the Gateway Coordination Agency responsible for the assurance of infrastructure projects, Infrastructure NSW independently assures the Final Business Cases for Tier 1 (High Profile High Risk) and Tier 2 projects through a Gate 2 Business Case Gateway Review. Health Infrastructure facilitates the overall business case development for Health's capital projects. This includes a case for change, cost-benefit analysis, financial analysis, commercial analysis and management analysis.

How are operating costs of capital projects considered?

- 2.22. Health's overall budget is adjusted for capital projects at different stages of the development cycle.
- 2.23. When a capital project is approved, Health's capital expenditure budget is updated accordingly. Depreciation impacts are also recognised when a capital project is approved.
- 2.24. Operating expenses for large hospital projects are generally not added to Health's expenditure budget when capital projects are approved. This is for two main reasons:
- a. It is assumed that some of the 1.5 per cent service growth funding in Health's 4.0 escalation will be available to support the operating costs of new builds.
 - b. The specific opening dates for new facilities can be difficult to accurately predict when funding is first approved, particularly for larger projects.
- 2.25. The viability of Health's budget year growth rate is assessed through each annual budget process. Health's portfolio budget submission will typically provide advice on whether the allocated funding growth is sufficient to cover the operating costs of new hospital builds. NSW Treasury provides advice on Health's submission and final funding allocations are decided by Government.
- 2.26. Health's average growth rate of 6.0 per cent between 2018-19 and 2023-24 has included measures to increase funding to support the operating costs of new hospital builds. Other measures have included funding for additional staffing (e.g. nurses,

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paramedics), additional planned surgeries, rural workforce incentives and additional funding for end-of-life care.

What impact do own source revenues have on the Ministry of Health's budget?

- 2.27. NSW Treasury generally considers Health's budget requirements on an expenditure basis. Revenues and appropriations from the consolidated fund are then considered to determine how that level of expenditure will be funded.
- 2.28. For example, when private health insurers stopped paying Health's gazetted single room rate in 2019 Health's expenditure budget was not reduced. Health received an additional appropriation to cover the lost revenue. This led to a deterioration in the State's budget result. In a scenario where Health's general revenues were projected to increase, Health's appropriation requirement would typically reduce, improving the budget result.
- 2.29. In situations where a project or policy measure is fully funded by a third-party, Health's revenues and expenses are adjusted to reflect the relevant impacts.

Is funding for the Ministry of Health adequate?

- 2.30. Health's financial and operational performance suggests that the current level of funding is adequate.
- 2.31. Health has a strong track record of operating within its approved budget. Where in year expenditures have exceeded the original budget, this has typically been approved by Government in advance (e.g. additional funding to support the pandemic response).
- 2.32. NSW Health generally performs well when performance outcomes are compared with other States and Territories (refer to section 2.47 and below for further details).
- 2.33. The health system has undergone a period of significant volatility due to the COVID-19 pandemic. Some costs of the pandemic have been temporary (e.g. addressing the planned surgery backlog), and others are having more of an ongoing impact (e.g. changes in infection control practices).
- 2.34. The New South Wales budgeting framework has supported a dynamic approach to funding for Health. Performance outcomes are considered through the annual budget process and this is used to inform policy priorities (e.g. funding to support additional planned surgeries).
- 2.35. NSW Treasury considers that Health is only now returning to a steady state following the volatility of the COVID-19 pandemic. However, performance outcomes will continue to be monitored closely and considered in future funding decisions. For example, service demand may continue to be impacted by the performance of related service systems outside the control of NSW Health (primary care, aged care, disability services etc).

How is funding for the Ministry of Health expected to change over time?

- 2.36. Funding for Health as a share of NSW Government expenditure has increased over time and is projected to continue to do so.
- 2.37. In the latest 2021-22 NSW Intergenerational report, Health is expected to remain the biggest category of recurrent spending, growing from 29 per cent of total expenses in 2018-19 to 38 per cent by 2060-61 (Chart 3). This growth reflects our ageing population,

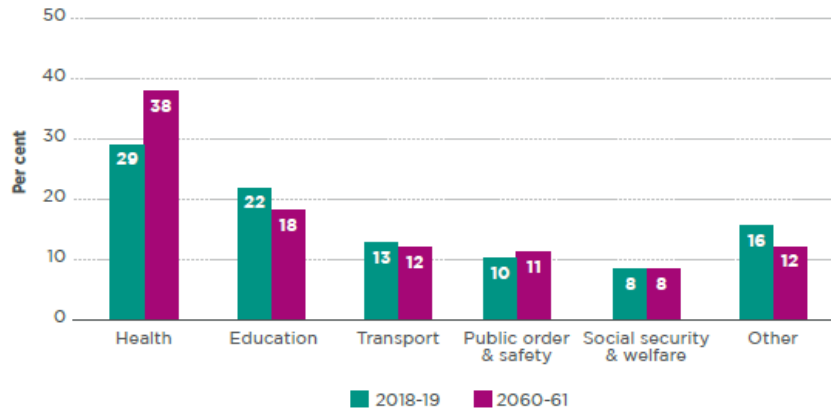
[SCI.0001.0016.0001; Exh A.20]

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the burden from growing rates of chronic health conditions, expenses associated with the rapid medical and technological advances in health care, and expectations for higher quality health care.

Chart 3: Service area share of total recurrent expenses of NSW Government over time



Source: NSW Treasury

2.38. The future adequacy of funding for Health is likely to be impacted by Commonwealth funding arrangements and the effectiveness of interfaces with primary care, aged care, disability and mental health services.

Is Commonwealth funding sufficient?

2.39. The current Commonwealth funding model has several limitations that States and Territories are seeking to address through the next National Health Reform Agreement (NHRA) Addendum. This includes:

- A long-standing objective of the current and previous NHRA is to continue to increase the Commonwealth's contribution rate (CCR) for activity-based funding over time. However, the 2024-25 projections show that the CCR has fallen significantly both nationally and for New South Wales (see Table 1 and Chart 4 that follow). The Commonwealth should commit to rapidly increasing the CCR to 45 per cent reflecting long-held ambitions.
- Providing funding mechanisms for innovative service models that provide care while seeking to avoid hospital admissions (e.g. virtual care).
- Recognising that certain additional funding outside of the NHRA funding model should be reimbursed by the Commonwealth. This includes the full per-day hospital bed cost for patients awaiting placement in aged care or disability services that fall within the Commonwealth's area of responsibility - otherwise these represent a continuing significant cost shift to the States and Territories.
- Expanding the scope of Commonwealth funding to cover State and Territory efforts to address market failure in Commonwealth-led managed service systems (e.g. urgent care centres).

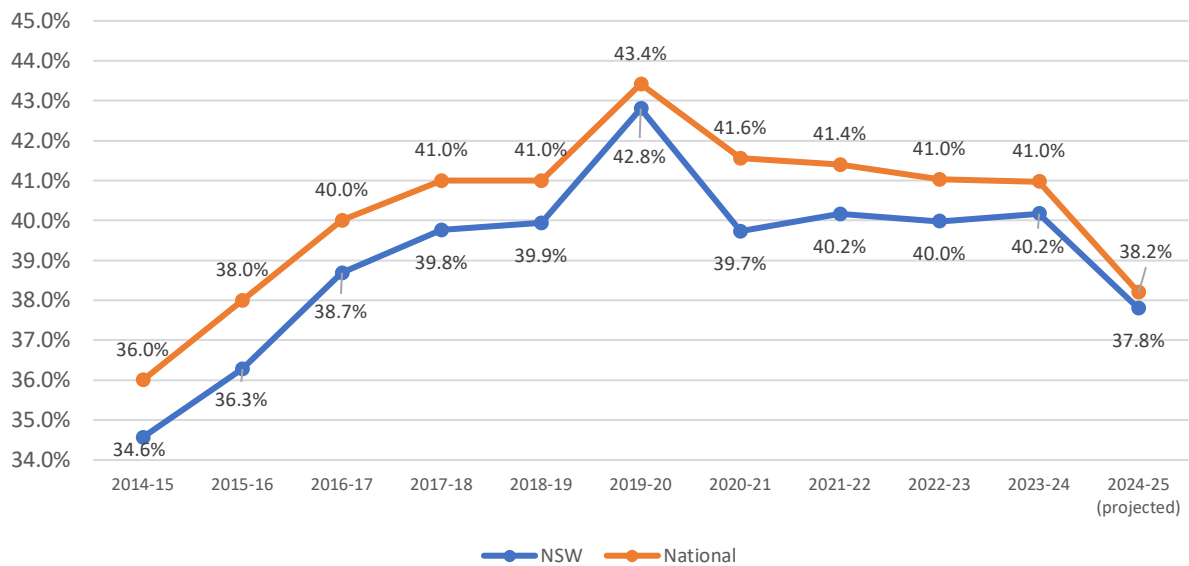
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Table 1: Commonwealth Contribution Rates for NSW and All States and Territories (National) from 2014-15 to 2024-25

CCR	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (projected)
NSW	34.6%	36.3%	38.7%	39.8%	39.9%	42.8%	39.7%	40.2%	40.0%	40.2%	37.8%
National	36.0%	38.0%	40.0%	41.0%	41.0%	43.4%	41.6%	41.4%	41.0%	41.0%	38.2%

Chart 4: Commonwealth Contribution Rate (CCR) over time for Activity Based Funding



Does NSW Treasury use an activity-based funding model?

2.40. NSW Treasury does not utilise an activity-based funding (ABF) model for Health.

2.41. An ABF model is used to partly determine Commonwealth funding and funding allocations between the Ministry of Health and Local Health Districts. This model has been instrumental in providing funding transparency and has supported benchmarking.

2.42. ABF is highly effective in standardising funding for typical procedures in larger hospitals. It is supported by block funding arrangements for smaller rural hospitals with different economies of scale and for health prevention activities.

2.43. NSW Treasury supports efforts to refine the ABF model to ensure it is fit for purpose and continues to adapt to support innovative models of care.

How does funding for NSW Health compare to other jurisdictions?

Expenditure on public hospital services

2.44. The latest Report on Government Services 2024¹ shows that New South Wales spent \$3,464 per capita on public hospital services in 2021-22. This is around the national average of \$3,484. In this period, New South Wales per capita expenditure was slightly higher than Queensland and Victoria (see Table 2).

¹ Australian Government Productivity Commission, [Report on Government Services 2024](#). SCI.0011.0528.0001

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Table 2: Expenditure per capita on public hospital services in 2021-22

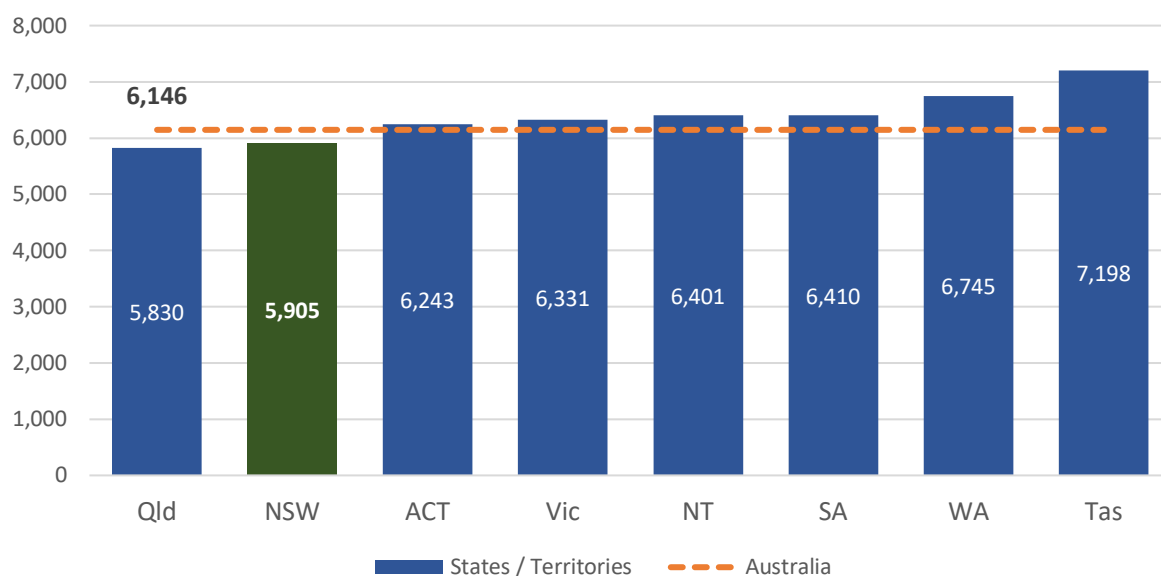
2021-22	SA	Vic	Qld	NSW	Tas	WA	ACT	NT	Aust
Per Capita Recurrent expenditure (\$)	3,107	3,300	3,440	3,464	3,687	3,981	4,141	5,510	3,484

How efficient are NSW public hospitals compared to other jurisdictions?

2.45. The cost to deliver public hospital services in New South Wales has generally been more efficient relative to other jurisdictions. This is supported by the latest data published by the Independent Health and Aged Care Pricing Authority (IHACPA).

2.46. The 2020-21 IHACPA data² for the average cost to deliver health services per unit of activity (NWAU) in New South Wales was \$5,905 (Chart 5). This was below the national average of \$6,146, lower than Victoria (\$6,331) but slightly higher than Queensland (\$5,830).

Chart 5: Average cost per National Weighted Activity Unit (NWAU) in 2020-21



Source: Independent Health and Aged Care Pricing Authority

How does NSW Health's operating performance compare to other jurisdictions?

2.47. NSW Health's operating performance generally compares well with other jurisdictions.

Planned surgery waiting times

2.48. New South Wales public hospitals have generally performed better in undertaking planned surgeries within the clinically recommended time. In 2022-23, New South Wales completed 77.3 per cent of planned surgeries on time. This level of performance is second only to Queensland at 77.7 per cent and is based on the latest data from the latest Australian Institute of Health and Welfare (AIHW).³

SCI.0011.0526.0001, SCI.0011.0529.0001, SCI.0011.0527.0001

² Independent Health and Aged Care Pricing Authority, [Cost per NWAU \(2020-21\)](#).

³ Australian Institute of Health and Welfare, [Health system: Accessibility](#), 2024. SCI.0011.0530.0001

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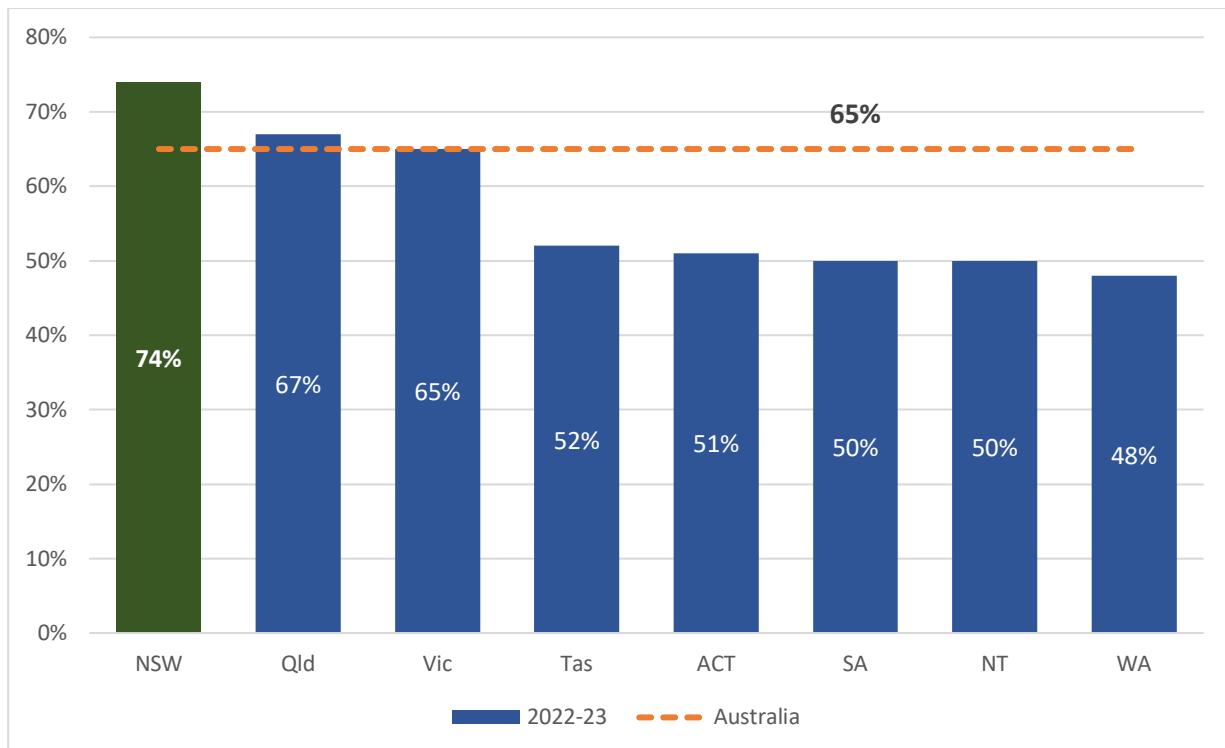
2.49. New South Wales public hospitals further improved their planned surgery on time performance in the periods since 2022-23 as the nationwide health system recovered from COVID-19. This is reflected in the latest June 2024 data where New South Wales performed 87.1 per cent⁴ of planned surgeries on time, ahead of Queensland (82.6 per cent⁵) and Victoria (82.0 per cent⁶).

Emergency Department waiting times

2.50. The Report on Government Services 2024 measures emergency department (ED) waiting times by the proportion of patients seen on time (within the triage category timeframes) and the proportion of patients staying for four hours or less in an ED.

2.51. In the 2022-23 financial year, the proportion of New South Wales ED patients seen on time were highest at 74 per cent relative to other jurisdictions and is well above the national average of 65 per cent.⁷

Chart 6: Emergency department waiting times, Patients seen on time, by jurisdiction (2022-23)



Source: Report on Government Services 2024, the Productivity Commission (Australian Government)

2.52. For the ED length of stay measure, the latest BHI quarterly data reported that proportion of New South Wales patients staying for four hours or less in an emergency department in June 2024 was 54.7 per cent⁸. This result lies between the proportions reported by Queensland (59.1 per cent⁹) and Victoria (52.7 per cent¹⁰) for the same period.

⁴ NSW Bureau of Health Information, [Healthcare Quarterly April to June 2024](#). SCI.0011.0531.0001

⁵ Queensland Health, [Planned surgery performance](#), 2024. SCI.0011.0532.0001

⁶ Victorian Agency for Health Information, [Planned surgery](#), 2024. SCI.0011.0533.0001

⁷ Australian Government Productivity Commission, [Report on Government Services 2024](#). SCI.0011.0528.0001

⁸ NSW Bureau of Health Information, [Healthcare Quarterly April to June 2024](#). SCI.0011.0531.0001

⁹ Queensland Health, [Emergency care performance](#), 2024. SCI.0011.0534.0001

¹⁰ Victorian Agency for Health Information, [Emergency care](#), 2024. SCI.0011.0524.0001

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Patient satisfaction with public health services

2.53. The NSW Bureau of Health Information measures patient satisfaction as part of the Adult Admitted Patient Survey. The latest survey results from 2023 show that 92 per cent of patients in New South Wales hospitals stated the care they received was either very good or good¹¹. This also represents an increase of two percentage points compared to the previous year.

2.54. The Report on Government Services 2024 also provides measures of patient satisfaction¹². Below are some of the survey results provided by patients in New South Wales hospitals in 2022-23.

- The proportion of New South Wales admitted patients who felt they were often or always listened carefully by healthcare professionals was 91.5 per cent for hospital doctors or specialists and 92.5 per cent for hospital nurses.
- The proportion of New South Wales ED patients who felt they were often or always respected by healthcare professionals was 87.1 per cent for hospital doctors or specialists and 89.4 per cent for hospital nurses.

The survey results above were similar to the national average.

¹¹ NSW Bureau of Health Information, [Survey Results – Experiences of adults admitted to hospital in 2023](#). SCI.0011.0525.0001

¹² Australian Government Productivity Commission, [Report on Government Services 2024](#). SCI.0011.0528.0001