



**Australian Government**

**Department of Health  
and Aged Care**

## **COST RECOVERY IMPLEMENTATION STATEMENT**

### **Administration of Private Health Insurance Second-Tier Default Benefits**

**1 July 2023 to 30 June 2024**

# 1 INTRODUCTION

## 1.1 Purpose of the Cost Recovery Implementation Statement

Cost recovery involves government entities charging individuals or non-government organisations some or all of the efficient costs of a regulatory activity. This may include goods, services or regulation, or a combination of them. The Australian Government Charging Framework, which incorporates the Cost Recovery Policy (the CRPs)<sup>1</sup>, sets out the framework under which government entities design, implement and review regulatory charging activities, consistent with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

## 1.2 Description of the regulatory charging activity

This Cost Recovery Implementation Statement (CRIS) provides information on how the Department of Health and Aged Care (the Department) undertakes cost recovery for administration of private health insurance second-tier default benefits eligibility. It also reports financial and non-financial performance information for administration of private health insurance second-tier default benefits and contains financial forecasts for the 2023-24 financial year and three forward years. The Department will maintain the CRIS until the activity or cost recovery for the activity has been discontinued.

# 2 POLICY AND STATUTORY AUTHORITY TO COST RECOVER

## 2.1 Government policy approval to cost recover the regulatory activity

Prior to 1 January 2019, administration of second-tier eligibility was managed by the Second Tier Advisory Committee (STAC), chaired by the Australian Private Hospitals Association (APHA).

The Australian Government [2017-18 Mid-Year Economic and Fiscal Outlook](#) approved reforms for 'Making Private Health Insurance Simpler and More Affordable' – which included approval for the full cost recovery of the assessment of these applications.

The application fee was introduced on 1 January 2019 when the Department commenced administration of second-tier default benefits.

## 2.2 Statutory authority to charge

Statutory authority to charge a fee to process applications for second-tier default benefits eligibility is provided by section 121-8 of the *Private Health Insurance Act 2007*. The amount of the fee is specified in Rule 7B of the *Private Health Insurance (Health Insurance Business) Rules*.

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<sup>1</sup> The Australian Government Charging Framework and the CRP are available on the [Department of Finance website](#).

### **3 COST RECOVERY MODEL**

#### **3.1 Outputs and business processes of the regulatory charging activity**

In line with the package of private health insurance reforms announced by the Minister for Health in October 2017, the Department now cost recovers its administration of the second-tier default benefits eligibility on a cost neutral basis.

Since 1 January 2019, private hospitals have been applying to the Department for second-tier default benefits eligibility. Within 60 days of receiving an application, the Department reviews the application for completeness, assesses it against the criteria in the *Private Health Insurance (Health Insurance Business) Rules* and advises the hospital whether it is eligible for second-tier default benefits.

The Department uses the outcomes of these assessments to maintain and publish a list of all private hospitals and their second-tier eligibility status. This list is used by health insurers to calculate second-tier default benefits in accordance with the *Private Health Insurance (Benefit Requirements) Rules*.

If the Department considers that an application is likely to be unsuccessful, the applicant will be given an opportunity to provide additional information prior to a formal determination.

The Department reviews its business processes annually to ensure optimal efficiency.

#### **3.2 Costs of the regulatory charging activity**

The Department calculates the direct and indirect costs of assessing applications for second-tier default benefits and maintaining a list of private hospitals, including each hospital's second-tier eligibility status. The main cost driver for the activity is staff time required to manage the volume of applications received from private hospitals. The Department assumes that each application will take the same amount of time to assess. Staff from the APS 4 to SES Band 1 levels are involved in the process, with the bulk of the work taking place at the APS 4 and APS 5 levels.

The Department estimates the amount of time required of each staffing level to assess an application, including associated clearances and administrative activities, based on the level of effort required for comparable activities. These time estimates are used to calculate direct costs for the activity, being the total of salaries and associated on-costs. To calculate indirect costs, the Department multiplies these time estimates by its standard rates for training, human resources, and shared services.

Fees are indexed annually consistent with the Government's indexation policy reflecting the cost of providing this service due to increase in staff salaries and other staff overhead costs. There was no second-tier application fee increase in 2022-23. Table 1 shows the estimated cost to the Department of administering one application in 2023-24.

### 3.2.1.1 Table 1: Estimated cost of administering one application in 2023-24

Application processing	Direct Costs	Indirect Costs	Total
Receive and record application	\$19	\$6	\$25
Check and acknowledge application; Invoice Process	\$92	\$25	\$117
Assessment and approvals	\$470	\$114	\$584
Finalise assessment and advise hospital	\$110	\$31	\$141
Publish outcome	\$62	\$18	\$79
<b>Total for Application Processing</b>	<b>\$753</b>	<b>\$194</b>	<b>\$947</b>

Note: Second-tier eligibility application fees are rounded to the nearest \$5.

The Department reviews its administrative processes and estimated volume of applications each year in order to estimate the cost of the regulatory charging activity for the next financial year. In the 2023-24 financial year a review of the second-tier eligibility application-assessment process is being undertaken by the Department. This will include a 'time and motion' study and work level standards to review and verify the tasks and timings in the charging model. The purpose of the review is to assess the department's current methods and procedures relating to the process for cost-setting and administrative efficiencies. The review is expected to be completed by the end of March 2024. Any adjustments to the charging model/pricing arising from this review will be reflected in the prices from 2024-25.

### 3.3 Design of regulatory charges

The Government's policy decision provides authority for the Department to fully cost recover administration of second-tier eligibility by charging a cost recovery fee to private hospitals applying for second-tier default benefits eligibility and applying indexation to the fee annually. The fee reflects the efficient cost of the service provided by the Department, as outlined in section 3.2.

The application fee of \$945 is payable from 1 July 2023. This fee is charged for each application and a separate application is required for each hospital. This application fee does not incur GST. The application fee must be paid in full prior to the Department commencing assessment of an application. The Department will not waive the fee in any circumstances and the fee will only be refunded where a hospital withdraws its application prior to the Department commencing of assessment.

The application fee is published on the [second-tier default benefits page of the Department of Health and Aged Care's website](#) and is listed in the application form and on the same webpage.

## 4 RISK ASSESSMENT

The Department continues to manage cost estimate risks by considering the costs of comparable activities it undertakes and reviewing its processes and cost estimates annually for adjustments as required. The cost of providing this service is calculated at the minimum work level standard (APS 4) to ensure the most efficient cost of providing this service despite staff involvement to the SES Band 1 level required.

## 5 STAKEHOLDER ENGAGEMENT

The Department reviews its processes and costs annually and adjusts the application fee accordingly. Any changes to the fee, other than by annual indexation, will be consulted with the private hospital sector.

The CRIS is updated twice a year:

1. prior to the commencement of the new financial year to advise the fee payable from 1 July; and
2. in second half of the calendar year to report on the actual financial and non-financial results for the previous financial year.

Feedback on the CRIS can be provided to: [phi.hospitals@health.gov.au](mailto:phi.hospitals@health.gov.au)

## 6 FINANCIAL ESTIMATES

The application fee of \$945 is payable from 1 July 2023 and is indexed annually. The financial forecasts in table 2 reflect the estimated revenue and expenses, based on the annual indexation of the fee in the current and forward years.

**Table 2: Forecast financial performance**

Forecast Financial Estimates	2023-24	2024-25	2025-26	2026-27
Fee per Application	\$945	*	*	*
Combined Expenses = X	\$154,302	\$172,882	\$197,746	\$201,504
Combined Revenue = Y	\$154,035	\$172,660	\$198,000	\$202,000
Balance = X - Y	-\$267	-\$222	\$254	\$496
Cumulative Balance	-\$12,678	-\$12,900	-\$12,646	-\$12,150

\*Financial estimates to be updated at next annual update of CRIS and application fee indexation.

The cumulative balance for 2023-24 includes the balance shown at Table 3, below.

## 7 PERFORMANCE

### 7.1 Financial Performance

**Table 1: Actual financial performance**

Actual Financial Performance	2018-19	2019-20	2020-21	2021-22	2022-23
Combined Expenses = X	\$150,738	\$218,226	\$167,701	\$135,984	\$78,287
Combined Revenue = Y	\$148,750	\$209,100	\$167,365	\$136,810	\$76,500
Balance = X - Y	-\$1,988	-\$9,126	-\$336	\$826	-\$1,787
Cumulative Balance	-\$1,988	-\$11,114	-\$11,450	-\$10,624	-\$12,411
Variance explanation	Refer to section 7.2 Non-financial performance				
Balance Management Strategy	The cumulative deficit balance is largely attributable to the 2019-20 financial year. This deficit was funded within the Department of Health and Aged Care.				

## 7.2 Non-financial performance

The following performance measures will be used to monitor the non-financial performance of administering second-tier default benefits eligibility.

**Table 4: Forecast non-financial performance**

Measure	2023-24 forecast	2024-25 forecast	2025-26 forecast	2026-27 forecast
Number of applications	178	211	200	200
Percentage of applications finalised within 60 days	100%	100%	100%	100%
Number of unsuccessful applications	5	1	1	1

The number of unsuccessful applications is an indicator of whether private hospitals understand the assessment criteria for second-tier default benefits eligibility and could indicate a need for clearer communication by the Department. The Department previously forecast at 5 or fewer applications however to date, all applications have been processed within the 60-day timeframe and there have been no unsuccessful applications. As the Department provides applicants opportunity to provide additional information if it considers that an application is likely to be unsuccessful prior to a formal determination, the number has been adjusted to 1.

The following table will be updated after each financial year. This will enable comparison of the actual non-financial performance to the forecast non-financial performance ([Table 4](#)). Any material variances that have financial consequences will be considered in determining the application fee in future years.

**Table 5: Actual non-financial performance**

Measure	Actual 2019-20	Actual 2020-21	Actual 2021-22	Actual 2022-23
Number of applications received	246	187	155	85
Percentage of applications finalised within 60 days	100%	100%	100%	100%
Number of unsuccessful applications	0	0	0	0

Variations in the volume of applications received by the Department impact on total costs and revenue.

Due to the decision of the Australian Commission on Safety and Quality in Health Care (ACSQHC) to “maintain” accreditation for 12 months during the COVID-19 pandemic, the second-tier approval process was aligned to the accreditation expiry date. This resulted in a decrease in second-tier applications as the Department realigned affected hospitals with their accreditation date.

### 7.3 KEY FORWARD DATES AND EVENTS

Event	Date
Annual update of CRIS and application fee indexation	1 July 2024
Update of actual results for 2023-24	30 November 2024

### 7.4 CRIS APPROVAL AND CHANGE REGISTER

Date of CRIS change	CRIS change	Approver	Basis for change
2/09/2018	Certification of the CRIS.	Glenys Beauchamp, Secretary, Department of Health	New regulatory charging activity
20/09/2018	Approval of the CRIS.	The Hon Greg Hunt MP, Minister for Health	New regulatory charging activity
30/04/2019	Annual update of CRIS.	Nick Henderson Assistant Secretary, Department of Health	Annual update and review
10/11/2019	Update of actual results for 2018-19.	David Weiss, First Assistant Secretary, Department of Health	Update actual results and revised forward estimates
25/06/2020	Annual update of CRIS and application fee indexation.	Paul McBride First Assistant Secretary, Department of Health	Annual update and review
26/11/2021	Update of actual results for 2019-20.	Paul McBride First Assistant Secretary, Department of Health	Update actual results
19/05/2021	Annual update of CRIS and application fee indexation.	Paul McBride First Assistant Secretary, Department of Health	Annual update and review
26/11/2021	Update of actual results for 2020-21. Revised forecast volumes and financial forecasts for 2021-22 to 2023-24 financial years.	Travis Haslam A/g First Assistant Secretary, Department of Health	Update actual results and revised forecast volumes
28/06/2022	Annual update of CRIS and application fee indexation.	Travis Haslam A/g First Assistant Secretary, Department of Health	Annual update and review
22/11/2022	Update of actual results for 2021-22.	Travis Haslam A/g First Assistant Secretary, Department of Health	Update actual results

Date of CRIS change	CRIS change	Approver	Basis for change
13/06/2023	Annual update of CRIS and application fee indexation.	Paul McBride First Assistant Secretary, Department of Health	Annual update and review
24/11/2023	Update of actual results for 2022-23.	Elizabeth Quinn A/g First Assistant Secretary, Department of Health and Aged Care	Update actual results