



**Australian Government**

**Department of Health  
and Aged Care**

**COST RECOVERY IMPLEMENTATION STATEMENT**

**Administration of Private Health Insurance Second-tier Benefits**

**1 July 2024 to 30 June 2025**

# 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 Guidelines (the CRGs)<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 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 and 2024-25 financial years 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).

In the [2017-18 Mid-Year Economic and Fiscal Outlook](#), the Australian Government approved full cost recovery for 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 2018](#) (the Business Rules).

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

### 3 COST RECOVERY MODEL

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

Since 1 January 2019, private hospitals have been applying to the department for second-tier default benefits eligibility. Within 60 days of receiving a complete application, the department reviews and assesses it against the criteria in the 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 is used by health insurers to calculate second-tier default benefits in accordance with the *Private Health Insurance (Benefit Requirements) Rules* (the Benefit 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 calculated 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 assumed that each application will take the same amount of time to assess. Staff from the APS 5 to SES Band 1 levels are involved in the process, with the bulk of the work taking place at the APS 5 and APS 6 levels.

The department estimated 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 were used to calculate direct costs for the activity, being the total of salaries and associated on-costs. To calculate indirect costs, the department multiplied 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.

Table 1 shows the estimated cost to the department of administering one application in 2024-25.

### 3.2.1.1 Table 1: Estimated cost of administering one application in 2024-25

Unit cost for 2024-25	Direct Cost	Indirect Cost	Total
Receive and record application	\$26	\$8	\$35
Check and acknowledge application; Invoice Process	\$90	\$26	\$116
Assessment and approvals	\$475	\$107	\$582
Finalise assessment and advise hospital	\$90	\$21	\$111
Publish outcome	\$53	\$14	\$67
Regulatory Process	\$56	\$16	\$72
<b>Total for Application Processing</b>	<b>\$790</b>	<b>\$193</b>	<b>\$983</b>

In 2024 a review of the second-tier eligibility application-assessment process was undertaken by the department. The purpose of the review was to assess the department’s current methods and procedures relating to the process for cost-setting and administrative efficiencies.

A ‘time and motion’ study was carried out to verify the tasks and timings in the charging model along with a review of the work level standards to ensure activity processes are captured at the minimum efficient cost. The charging model has been updated with the outcomes of the review which has resulted in a 2024-25 price increase of \$40 (or 4.2%).

### 3.3 Design of regulatory charges

The Government’s policy decision provides authority for the department to fully cost recover the 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. Table 2 shows the 2024-25 fee and estimated volume.

#### 3.3.1 Table 2: Fee for application and estimated volume of applications 2024-25

Fee	Type	Unit cost	Unit price	Estimated volume	Estimated total cost	Estimated total revenue
Simple Application fee	Fee	\$983	\$985	259	\$254,612	\$255,115

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

The application fee of \$985 is payable from 1 July 2024. 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 assessment.

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

## 4 RISK ASSESSMENT

A Charging Risk Assessment (CRA) for the activity has been undertaken resulting in a 'medium' implementation risk rating. Under the CRA process a medium risk rating is indicated where an increase in total revenue is likely to exceed 20% in the coming financial year, compared with [previous financial years](#). For the second-tier applications the increase in revenue is attributed to the forecast increase in number of applications in the 2024-25 financial year (259) compared with previous years (178 forecast in 2023-24, 85 actuals in 2022-23).

The forecast number of applications in 2024-25 reflects a catch-up period as application numbers for second-tier renewal begin to return to pre-pandemic levels. Hospitals granted an extension of their second-tier eligibility period to ease their administrative burden during the pandemic (reflected in the lower actual application number of 85 in 2022-23) are now re-entering the 3-yearly application cycle for second-tier renewal.

## 5 STAKEHOLDER ENGAGEMENT

The department reviews its processes and costs annually and adjusts the application fee accordingly. Consultation was undertaken with the private health sector on the proposed fee increase with input sought over a 4 week period. The consultation was advertised in the department's weekly email to private health sector stakeholders, seeking feedback from hospitals and those most likely to be affected by any changes. The private health sector is familiar with this form of consultation. Stakeholders were invited to provide feedback to [phi.hospitals@health.gov.au](mailto:phi.hospitals@health.gov.au). No responses were received.

## 6 FINANCIAL PERFORMANCE

### 6.1 Financial Estimates

The application fee of \$985 is payable from 1 July 2024 and is indexed annually. The financial forecasts in table 3 reflect the estimated revenue and expenses, based on the annual indexation of the fee in the forward years.

6.1.1 Table 3: Forecast financial performance

Forecast Financial Estimates	2024-25	2025-26	2026-27	2027-28
Expenses = X	\$ 255,115	\$ 202,000	\$ 206,000	\$ 212,000
Revenue = Y	\$ 254,612	\$ 201,920	\$ 206,363	\$ 211,109
Balance = Y - X	\$ 503	\$ 80	-\$ 363	\$ 891
Cumulative Balance ^	\$ 503	\$ 582	\$ 220	\$ 1,111

^ The cumulative balance for 2024-25 has been reset following the review of the charging model.

## 6.2 Financial Outcomes

### 6.2.1 Table 4: Financial Outcomes for the program

Financial item	2020-21 \$'000	2021-22 \$'000	2022-23 \$'000	2023-24 \$'000
<b>Estimates</b>				
Revenue (X)	\$182,375	\$123,300	\$126,900	\$154,035
Expenses (Y)	\$187,367	\$123,196	\$126,869	\$154,302
Balance (X-Y)	-\$4,992	\$104	\$ 31	-\$267
<b>Actuals</b>				
Revenue (X)	\$167,365	\$136,810	\$76,500	
Expenses (Y)	\$167,701	\$135,984	\$78,287	
Balance (X-Y)	-\$336	\$826	\$1,787	
Cumulative balance	\$11,450	\$10,624	-\$12,411	

*Final figures for 2023-2024 are estimated and may be adjusted following the end of financial year.*

## 7 NON-FINANCIAL PERFORMANCE

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

### 7.1 Forecast non-financial performance

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 5](#)). Any material variances that have financial consequences will be considered in determining the application fee in future years.

#### 7.1.1 Table 5: Forecast non-financial performance

Measure	2023-24	2024-25 forecast	2025-26 forecast	2026-27 forecast	2027-25 forecast
Number of applications	178	259	200	200	200
Percentage of applications finalised within 60 days	100%	100%	100%	100%	100%
Number of unsuccessful applications	5	5	5	5	5

## 7.2 Actual non-financial performance

7.2.1 Table 6: 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.

During the COVID-19 pandemic to alleviate pressure on hospital resources the Australian Commission on Safety and Quality in Health Care (ACSQHC) announced expiring hospital accreditation would be 'maintained' for an additional 12 months. The department also realigned the second-tier approval process to hospitals extended "maintained accreditation" expiry dates. This resulted in a decrease in applications for renewal of second-tier eligibility during the pandemic, with a commensurate forecast increase in applications across future years as accreditation cycles stabilise.

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 aims for this to be maintained at five or fewer applications, to minimise hospitals wasting money on fees for unsuccessful applications.

To date, all applications have been processed within the 60-day timeframe and there have been no unsuccessful applications.

## 8 KEY FORWARD DATES AND EVENTS

Event	Date
Update of actual results for 2023-24	November 2024
Annual update of CRIS and application fee adjustment	1 July 2025

## 9 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 adjustment.	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 adjustment.	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 adjustment.	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 Annual update and review
13/06/2023	Annual update of CRIS and application fee adjustment.	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	Update actual results



Date of CRIS change	CRIS change	Approver	Basis for change
20/06/2024	Annual update of CRIS and application fee adjustment	Elizabeth Quinn A/g First Assistant Secretary Department of Health	Annual update and review