Australian Government

Department of Health,
Disability and Ageing

COST RECOVERY IMPLEMENTATION STATEMENT

Administration of Private Health Insurance Second-tier Benefits

1 July 2026 to 30 June 2027

1 INTRODUCTION

1.1 Purpose of the Cost Recovery Implementation Statement (CRIS)

Charging for regulatory activity involves government entities charging individuals or organisations in the non-government sector some or all of the minimum efficient costs of a specific government activity. The Cost Recovery Policy along with the Australian Government Charging Framework (the Charging Framework) sets out the policy under which government entities design, implement and review charging for regulatory activities. From 1 October 2026, Australian Government Charging Policy 2026 replaces the Australian Government Cost Recovery Policy 2014 and Australian Government Charging Policy 2015. The CRIS is the public document to ensure the transparency and accountability for the level of the charging and to demonstrate that the purpose for charging, as decided by government, is being achieved.

1.2 Description of the regulatory charging activity

This CRIS provides information on how the Department of Health, Disability and Ageing (the department) undertakes cost recovery for the administration of private health insurance second-tier default benefits eligibility. It also reports financial and non-financial performance information for the administration of private health insurance second-tier default benefits and contains financial forecasts for the 2026-27 financial year and three forward years. The department will maintain the CRIS (or equivalent) 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).

3 COST RECOVERY MODEL

3.1 Outputs and business processes of the regulatory charging activity

Since 1 January 2019, private hospitals have made applications 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 would 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 level.

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.

A review of the direct and indirect cost components of the fee is undertaken annually. This involves applying indexation in line with the government's indexation policy, reflecting increases in staff salaries and overheads associated with delivering the service.

Table 1 shows the estimated cost to the department of administering one application in 2026-27.

Table 1 Estimated cost of administering one application in 2026-27

Unit cost for 2026-27	Direct Cost	Indirect Cost	Total
Receive and record application	$28	$9	$37
Check and acknowledge application; Invoice Process	$96	$27	$123
Assessment and approvals	$509	$114	$623
Finalise assessment and advise hospital	$96	$23	$119
Publish outcome	$56	$15	$71
Regulatory Process	$59	$17	$76
Total for Application Processing	**$844**	**$205**	**$1,049**

For 2026-27, the result of the annual review is a price increase of $40 (or 4.0%) to $1,050 in line with indexation.

3.3 Design of regulatory charges

The Australian 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 2026-27 fee and estimated volume.

Table 2 Fee for application and estimated volume of applications 2026-27

Fee	Type	Unit cost	Unit price	Estimated volume	Estimated total cost	Estimated total revenue
Simple Application fee	Fee	$1,049	$1,050	200	$209,874	$210,000

Note: Second-tier eligibility application unit price fees are rounded to the nearest $10.

The application fee of $1,050 is payable from 1 July 2026. 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 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 'low' implementation risk rating. The total revenue is estimated to increase in 2026-27 from 2025-26. This is attributed to the stable number of applications forecasted for 2026-27 (200 applications) compared to 2025-26 (200 applications), but slight increase in application fee.

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. No responses were received.

6 FINANCIAL PERFORMANCE

6.1 Financial Estimates

The application fee of $1,050 is payable from 1 July 2026 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.

Table 3: Forecast financial performance

Financial estimates	2026-27	2027-28	2028-29	2029-30
Total Revenue	$210,000	$216,000	$220,000	$224,000
Total Expenses	$209,874	$215,121	$219,853	$224,910
Balance (revenue-expense)	$126	$879	$147	-$910
Cumulative balance	-$5,714	- $4,835	- $4,688	-$5,598

6.2 Financial Outcomes

Table 4: Financial Outcomes for the program

Financial item	2022-23	2023-24	2024-25	2025-26
Estimates				
Revenue (X)	$126,900	$154,035	$255,115	$202,000
Expenses (Y)	$126,869	$154,302	$254,612	$201,572
Balance (X-Y)	$31	-$267	$503	$428
Actuals				
Revenue (X)	$76,500	$202,365	$179,270	$185,690
Expenses (Y)	$78,287	$205,076	$180,427	$190,373
Balance (X-Y)	-$1,787	-$2,711	-$1,157	-$4,683
Cumulative balance	-$12,411	-$15,122	-$1,157	-$5,840

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

Variations in the volume of applications received by the department impact on total costs and revenue. This is the difference between actual and forecast financial outcomes in Table 4.

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 tables are be updated at the end of each financial year. This will enable comparison of the actual non-financial performance to the forecast non-financial performance (Table 5) to the actual non-financial performance (Table 6) for the previous year. Any material variances that have financial consequences will be considered in determining the application fee in future years.

Table 5: Forecast non-financial performance

Measure	2025-26 forecast	2026-27 forecast	2027-28 forecast	2028-29 forecast	2029-30 forecast
Number of applications	200	200	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

Table 6: Actual non-financial performance

Measure	Actual 2022-23	Actual 2023-24	Actual 2024-25	Actual 2025-26
Number of applications received	85	214	182	184
Percentage of applications finalised within 60 days	100%	100%	100%	100%
Number of unsuccessful applications	0	0	0	0

The number of unsuccessful applications is an indicator of whether private hospitals understand the assessment criteria for second-tier default benefits eligibility. 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
Annual update of CRIS and application fee indexation	1 July 2027
Update of actual results for 2026-27	30 November 2027

9 CRIS APPROVAL AND CHANGE REGISTER

Date of CRIS change	CRIS change	Approver	Basis for change
2/09/2018	Certification of the CRIS.	Secretary, Department of Health, Disability and Ageing	New regulatory charging activity
20/09/2018	Approval of the CRIS.	Minister for Health and Ageing	New regulatory charging activity
30/04/2019	Annual update of CRIS.	Assistant Secretary, Department of Health, Disability and Ageing	Annual update and review
10/11/2019	Update of actual results for 2018-19.	First Assistant Secretary, Department of Health, Disability and Ageing	Update actual results and revised forward estimates
25/06/2020	Annual update of CRIS and application fee adjustment.	First Assistant Secretary, Department of Health, Disability and Ageing	Annual update and review
26/11/2021	Update of actual results for 2019-20.	First Assistant Secretary, Department of Health, Disability and Ageing	Update actual results
19/05/2021	Annual update of CRIS and application fee adjustment.	First Assistant Secretary, Department of Health, Disability and Ageing	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.	A/g First Assistant Secretary, Department of Health, Disability and Ageing	Update actual results and revised forecast volumes
28/06/2022	Annual update of CRIS and application fee adjustment.	A/g First Assistant Secretary, Department of Health, Disability and Ageing	Annual update and review
22/11/2022	Update of actual results for 2021-22.	A/g First Assistant Secretary, Department of Health, Disability and Ageing	Update actual results Annual update and review
13/06/2023	Annual update of CRIS and application fee adjustment.	First Assistant Secretary, Department of Health, Disability and Ageing	Annual update and review
24/11/2023	Update of actual results for 2022-23	A/g First Assistant Secretary, Department of Health, Disability and Ageing	Update actual results

Date of CRIS change	CRIS change	Approver	Basis for change
20/06/2024	Annual update of CRIS and application fee adjustment	A/g First Assistant Secretary Department of Health, Disability and Ageing	Annual update and review
15/11/2024	Update of actual results for 2023-24	First Assistant Secretary, Department of Health	Update actual results
09/06/2025	Annual update of CRIS and application fee adjustment	First Assistant Secretary Department of Health, Disability and Ageing	Annual update and review
10/11/2025	Update of actual results for 2024-25	First Assistant Secretary Department of Health, Disability and Ageing	Annual update and review
9/06/2026	Annual update of CRIS and application fee adjustment	First Assistant Secretary Department of Health, Disability and Ageing	Annual update and review
17/11/2026	Update of actual results for 2025-26	A/g First Assistant Secretary Department of Health, Disability and Ageing	Annual update and review