



Hon Lawrence Springborg MP
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Senator Scott Ryan
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Standing Committee on Finance and Public Administration
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Dear Senator Ryan

Thank you for your letter dated 7 February 2013, in relation to the Inquiry into the implementation of the National Health Reform Agreement.

I very much appreciate the opportunity to provide a submission to this important Inquiry, regarding the recent reductions by the Federal Government of National Health Reform funding for State hospital services.

As a result of the recently announced reductions to National Reform Funding, the Department of Health has provided written notice to each Hospital and Health Service advising an intention to reduce their budgets. At the earliest, this reduction will be effective in the February 2013 budgets. This gives Hospital and Health Services no more than five months to plan for, and implement, these significant budget reductions. The impact of the reduction on each Hospital and Health Service is listed in Table 1 which is enclosed for your information.

By the end of February 2013, most Hospital and Health Services will have finalised planning as to how they will manage the reductions in their budgets. Given the significant efficiency targets already in place within the Service Agreements for 2012-2013, there is limited scope to meet cuts of this magnitude through further improvements in efficiency. By way of illustration, the cuts in 2012-2013 are equivalent to approximately 5,000 hip replacements or more than 2,000 nursing jobs for the remaining months of the financial year.

While it is up to each Hospital and Health Service to determine how it will meet the additional savings targets, a number of Hospital and Health Services have indicated that they will need to close beds, reduce public hospital services and further reduce employee numbers. The reductions will impact significantly on service delivery, including the ability of Hospital and Health Services to achieve targets such as the National Emergency Access Target and National Elective Surgery Target. Even then, there is an extreme risk that Hospital and Health Services will not be able to successfully deliver the required level of savings.

With respect to the methodology behind these cuts, the National Healthcare Specific Purpose Payment (SPP) is subject to annual indexation based on a formula agreed by the Federal Government, States and Territories in 2008. The components of the formula are growth in population estimates weighted for hospital utilisation, the rolling five year average of the Australian Institute of Health and Welfare health price index and a technology factor (Productivity Commission derived index of technology growth – fixed at 1.2%).

I understand that the method used by the Federal Government in applying the adjustment for population growth for 2011-2012 is neither fair nor appropriate. In particular, the calculation of the 2011-2012 indexation factor used a 2011-2012 population estimate based on the 2011 Census and a 2010-2011 population estimate based on the 2006 Census. Using a mix of 2006 and 2011 Census-based data produces population growth estimates that suggest that four States (New South Wales, Victoria, Queensland and South Australia) experienced a fall in population, and that total Australian population growth between 2010-2011 and 2011-2012 was only 7,311 or 0.03%.

I am advised that this is a statistical aberration that results from methodological changes in the 2011 Census. In brief, for the 2011 Census, the Australian Bureau of Statistics (ABS) introduced a new methodology for processing the Post Enumeration Survey, which is used to calculate the net census undercount. Due to this changed methodology, the 2011 Census base estimate is not comparable to unrebased population estimates for previous years (based on the 2006 Census).

I am further advised that the Department of Health has sought advice from the ABS on this issue. The advice received from the Deputy Australian Statistician dated 16 November 2012 stated that:

“... with the release of preliminary rebased estimates on 20 June 2012, the published ERP [Estimated Resident Population] series will not provide the most robust measure of population growth for the intercensal period 2006 to 2011 until historical revisions are available with final rebasing on 20 June 2013. In the interim, the advice that the ABS provided in the feature article was that, for estimates of growth over the intercensal period, until the final rebased ERP estimates are released in June 2013, the comparison should focus on the published components of growth (births, deaths and net migration), rather than the difference between the official preliminary rebased population estimates for these reference periods”...

Level estimates for years prior to 2011 that are consistent with both the preliminary rebased 30 June 2011 level estimate (which is currently the best available level estimate for this date) and the growth reflected in the components can be derived by subtracting the growth components from the 30 June 2011 level estimate.”

I am also advised that in calculating growth in population, the Federal Government did not apply this advice from the ABS. Had the Federal Government applied the methodology advised by the ABS, the population growth would have been approximately 1.4% for Australia, compared to 0.03% based on the flawed methodology used.

In short, the estimate of population growth applied by the Federal Government is based on two incompatible sources, is inconsistent with advice from the ABS, and is simply not credible. This factor has led to a major downward adjustment to funding from the Commonwealth to the States under the national healthcare SPP for 2011-2012 and all subsequent years. For Queensland, these cuts amount to \$382 million over the period 2012-2013 to 2015-2016, including the reduction in the payment for 2011-2012, which is required to be repaid in 2012-2013. Cuts of this magnitude will inevitably impact on health service delivery.

Please accept this letter as Queensland's submission to the Inquiry. I am willing to provide representation at the hearing to contribute to any further discussions.

Yours sincerely

LAWRENCE SPRINGBORG MP
Minister for Health

Table 1: Impact of Reduction in National Healthcare SPP

Hospital and Health Service	Funding Reduction (\$M)
Cairns and Hinterland	6.5
Cape York	0.9
Central Queensland	4.8
Central West	0.6
Children's Health Services	3.4
Darling Downs	6.1
Gold Coast	9.2
Mackay	3.2
Metro North	22.5
Metro South	18.8
Mt Isa	1.4
South West	1.2
Sunshine Coast	7.0
Torres Strait-Northern Peninsula	0.9
Townsville	7.8
West Moreton	4.3
Wide Bay	4.9
Grand Total	103.4