

Senate Committee on Finance and Public Administration

Inquiry into the implementation of the National Health Reform Agreement

Minister for Health, David Davis MP

21 February 2013

Melbourne

Agenda

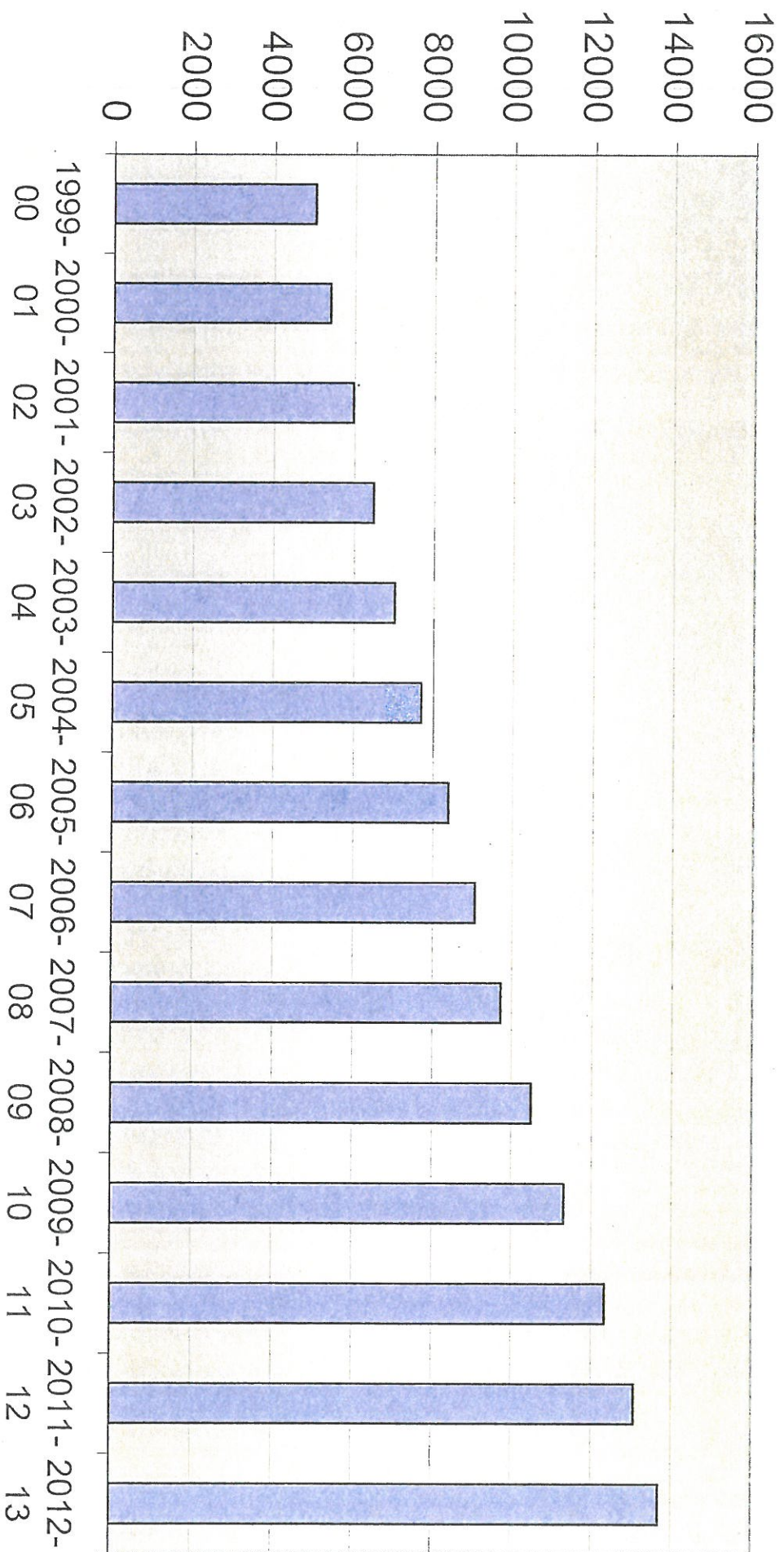
health

- We are honouring our Budget Commitments. The Commonwealth is not honouring theirs.
- The facts.

- State and Commonwealth set budgets
- Victorian hospital budget allocation made, relying in part, on the Commonwealth delivering on their budget commitments

(State budget paper number 3. page 119), (Commonwealth budget paper number 3. page 26, Table 2.4)

Health Output Budget Funding Growth



The following table summarises the Department's total output cost by output group.

Table 2.8: Output summary

| | (\$ million) | | | |
|---|-------------------|--------------------|-------------------|----------------------------------|
| | 2011-12 Budget | 2011-12 Revised | 2012-13 Budget | Variation ^{(a)(b)} % |
| Acute Health Services | 8 956.6 | 8 990.0 | 9 332.3 | 4.2 |
| Ambulance Services ^(c) | 588.5 | 587.6 | 640.3 | 8.8 |
| Mental Health | 1 071.1 | 1 084.1 | 1 140.6 | 6.5 |
| Ageing, Aged and Home Care | 1 112.0 | 1 128.5 | 1 168.1 | 5.0 |
| Primary, Community and Dental Health ^(d) | 400.5 | 403.7 | 396.0 | -1.1 |
| Small Rural Services | 494.3 | 510.6 | 518.6 | 4.9 |
| Public Health ^(e) | 299.9 | 302.4 | 341.3 | 13.8 |
| Drug Services | 143.2 | 146.2 | 146.4 | 2.2 |
| Total | 13 066.1 | 13 153.1 | 13 683.6 | 4.7 |

Source: Department of Health

Notes:

(a) Variation between 2011-12 Budget and 2012-13 Budget.

(b) The movement in the Department of Health's 2012-13 Budget compared with the 2011-12 Budget is primarily due to:

- funding provided for government policy commitments including the full-year effect of initiative funding announced in previous years' budgets;
- output price increases arising from price escalation for anticipated cost increases, and enterprise bargaining agreement outcomes in 2012-13;
- output price increases for depreciation and capital asset charges associated with the approved asset investment program for 2012-13;
- output price decreases arising from government savings announced in both the 2011-12 Budget Update and 2012-13 Budget, including the full year effect of Government savings announced in previous year's budgets;
- increased Commonwealth funding due to the expansion of a number of programs; and
- increases in income from sales of goods and services, particularly for public hospitals.

(c) The movement in the 2012-13 Budget reflects increased funding announced in prior budgets for growth in ambulance services.

(d) The movement in the 2012-13 Budget reflects the impact of government savings announced in the 2011-12 Budget Update and 2012-13 Budget.

(e) The movement in the 2012-13 Budget reflects increased funding under the National Partnership Agreements for Essential Vaccines and Preventative Health.

Amounts available

The following tables detail the amounts available to the Department from Parliamentary authority and income generated through transactions.

Table 2.9 outlines the Department's income from transactions and Table 2.10 summarises the sources of Parliamentary authority available to the Department to fund the provision of outputs, additions to net asset base and payments made on behalf of the State.

HEALTH

In 2012-13, the Commonwealth will provide funding of \$15.5 billion to support state health services.

Under the National Health Reform arrangements, the National Healthcare SPP will be replaced by National Health Reform funding from 1 July 2012.

Table 2.4 provides information on payments to support state health services, including additional investments and reforms under the National Health Reform arrangements.

Table 2.4: Payments to support state health services

| \$million | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| National Healthcare SPP | 12,697.8 | - | - | - | - |
| National Health Reform funding | - | 13,518.2 | 14,383.0 | 15,943.6 | 17,639.2 |
| National Partnership payments | | | | | |
| National Health Reform | 880.6 | 663.9 | 803.2 | 99.5 | 99.5 |
| Health infrastructure | 970.2 | 566.8 | 434.7 | 395.6 | 504.1 |
| Health services | 101.7 | 44.9 | 50.2 | 48.4 | 49.9 |
| Indigenous health | 46.5 | 59.7 | 31.2 | 10.8 | 2.7 |
| Mental health | 9.0 | 71.5 | 100.8 | 121.8 | 125.5 |
| Preventive health | 100.3 | 151.2 | 196.6 | 235.9 | - |
| Other health payments | 597.1 | 383.3 | 469.2 | 429.0 | 308.7 |
| Total | 15,403.2 | 15,459.5 | 16,468.9 | 17,284.6 | 18,729.5 |

National Health Reform Agreement

On 2 August 2011, COAG agreed to the *National Health Reform Agreement*.

This Agreement introduces new arrangements for the financing of public hospital services. The Agreement builds on and complements the policy outcomes, progress measures and outputs outlined in the *National Healthcare Agreement*.

Under the *National Health Reform Agreement*, the majority of the Commonwealth's funding for public hospital services will be provided under activity based funding arrangements with the price determined by the Independent Hospital Pricing Authority. Previously public hospital funding had been provided on a block grant basis under the National Healthcare SPP, leaving States to meet the full costs of any increases over and above the indexation provided under the SPP. From 1 July 2014 the Commonwealth will meet 45 per cent of the efficient growth of public hospital services, increasing to 50 per cent from 2017-18.

The *National Health Reform Agreement* also introduces greater transparency in the expenditure of Commonwealth and State and Territory public hospital funding and accountability for the performance of hospitals and health services through the establishment of a National Health Funding Administrator and the National Health Performance Authority. The Administrator and the Authority will report regularly on

June 2012

health

- On 14 June the Australian Statistician, Brian Pink, wrote to the Commonwealth advising of new population figures for December 2010 and December 2011.
- Based on this advice, the national population grew by 1.4%.
- On 29 June, the Commonwealth Treasurer made a Determination for the Local Government Financial Assistance Grant using the data provided by Mr Pink.



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Ms Glenys Beauchamp
Secretary
Department of Regional Australia, Local Government, Arts and Sport
4 Mort Street
CANBERRA CITY ACT 2601

Attn: Shane Bennett
Assistant Secretary, Regional Economic and Evaluation Branch
Department of Regional Australia, Local Government, Arts and Sport

Dear Ms Beauchamp

LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995

In accordance with Sections 4A, 8 and 10 of the *Local Government (Financial Assistance) Act 1995*, I estimate that the populations of states and territories at 31 December 2010 and 31 December 2011, incorporating data from the 2011 Census of Population and Housing for the first time are as set out below.

| | 31 December 2010 | 31 December 2011 |
|--------------------------------------|---------------------|---------------------|
| New South Wales | 7,176,687 | 7,247,669 |
| Victoria | 5,499,030 | 5,574,455 |
| Queensland | 4,446,516 | 4,513,009 |
| South Australia | 1,633,196 | 1,645,040 |
| Western Australia | 2,319,812 | 2,387,232 |
| Tasmania | 509,742 | 511,718 |
| Northern Territory | 230,529 | 232,365 |
| Australian Capital Territory | 364,216 | 370,729 |
| <i>Sub-total, states, NT and ACT</i> | <i>22,179,728</i> | <i>22,482,217</i> |
| Other territories (a) | 3,047 | 3,123 |
| TOTAL | 22,182,775 | 22,485,340 |

(a) Comprises Jervis Bay Territory, Territory of Christmas Island and Territory of Cocos (Keeling) Islands

Although not required by the relevant Act, I have included separately, the population of the Other Territories, and a sub total for the States, NT and ACT so that these estimates can be reconciled with published estimates of the population of Australia.

The above estimates are preliminary, based on the latest statistics available to me. The estimates for 31 December 2011 were released at 11:30 AM today, 20 June 2012 in the publication *Australian Demographic Statistics, December 2011* (cat. no. 3101.0).

Yours sincerely

Brian Pink
Australian Statistician

14 June 2012

LOCAL GOVERNMENT (FINANCIAL ASSISTANCE) ACT 1995
DETERMINATION OF THE ESTIMATED FACTOR FOR 2012-13

WHEREAS subsection 7(3)(b) of the Act requires the Treasurer to make a written estimate, before the start of each year, of the factor specified in subsection 8(1)(a) of the Act, to be calculated using the formula:

$$\left(\frac{\text{Population of Australia}}{\text{Previous population of Australia}} \right) \times \left(\frac{\text{CPI}}{\text{Previous CPI}} \right)$$

I, WAYNE MAXWELL SWAN, Treasurer of the Commonwealth, under subsection 7(3)(b) of the Act hereby determine that:

1) the unadjusted factor is calculated as follows:

$$\left(\frac{22,482,217^{(a)}}{22,179,728^{(b)}} \right) \times \left(\frac{184.9^{(c)}}{179.5^{(d)}} \right) = 1.0441$$

2) in order to account for the Government's decision to bring forward the first two quarterly payments in 2012-13 to the 2011-12 financial year, (whilst also having regard to the Government's decision to bring forward the first quarter payment from the 2011-12 financial year to the 2010-11 financial year), the unadjusted factor will, in accordance with subsection 8(1)(c) of the Act, be decreased by the following adjustment factor:

$$\left(\frac{2012-13 \text{ unadjusted amount}^{(e)} - 2011-12 \text{ adjustment amount}}{2011 - 12 \text{ final entitlement}} \right) \times \left(\frac{1}{\text{unadjusted factor}} \right)$$

Which equates to:

$$\left(\frac{2,191,852,904 - 1,117,780,000}{2,680,433,742} \right) \times \left(\frac{1}{1.0441} \right) = 0.3838$$

3) the estimated factor for 2012-13 is determined through the multiplication of the unadjusted factor and the adjustment factor as follows:

$$1.0441 \times 0.3838 = 0.4007$$

Dated this

day of June 2012

WAYNE MAXWELL SWAN

- (a) Estimate for 31 December 2011 prepared by the Australian Statistician on 20 June 2012.
- (b) Estimate for 31 December 2010 prepared by the Australian Statistician on 20 June 2012.
- (c) Treasury forecast of the All Groups Consumer Price Index number, weighted average of the 8 capital cities in respect of the March quarter 2013.
- (d) All Groups Consumer Price Index number, weighted average of the 8 capital cities, published on 24 April 2012 by the Australian Statistician in respect of the March quarter 2012.
- (e) This amount represents the 2011-12 unadjusted amount (excluding all bring-forwards) of \$2,099,274,882 multiplied by the unadjusted factor for 2012-13 (estimated to be 1.0441).

- The Commonwealth indicated intention to reduce health funding by \$403 million nationally in 2012-13 and by \$107 million in Victoria. The reduction in funding for Victoria included a "repayment" of \$40 million for 2011-12 - funds already spent delivering health care services.
- This was based on erroneous data which suggested that the national population grew by only 0.03% in 2011. The Commonwealth suggested the population fell by 11,111 in Victoria.
- The Local Government Determination correctly said the population increased by 1.4% and 75,425 in Victoria

(Ref: Commonwealth Treasury Table, October 2012)

Table from Commonwealth Treasury showing its use of population data

POPULATION PARAMETERS

Legend:

| | |
|--|------------------------------------|
| | Requires manual input (hard coded) |
| | Calculation |
| | Actuals data (hard coded) |

Raw population figures
- obtained from ABS

| | NSW | VIC | QLD | WA | SA | TAS | ACT | NT | TOTAL |
|---------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|------------|
| 2009-10 | 7,184,252 | 5,499,792 | 4,472,621 | 2,269,855 | 1,834,775 | 505,377 | 354,988 | 227,985 | 22,149,445 |
| 2010-11 | 7,272,168 | 5,585,566 | 4,548,661 | 2,317,064 | 1,650,377 | 509,292 | 361,914 | 229,874 | 22,474,906 |
| 2011-12 | 7,247,669 | 5,574,455 | 4,513,009 | 2,387,232 | 1,645,040 | 511,718 | 370,729 | 232,365 | 22,482,217 |

Weighted population figures

- obtained from Weighted population calculation sheet
- product of hospital utilisation weightings (from DOHA) and raw population figures (from ABS)

| | |
|---------|------------|
| | TOTAL |
| 2009-10 | 22,255,527 |
| 2010-11 | 22,744,606 |
| 2011-12 | 22,822,727 |



To:
Cc:
Bcc:

Subject: Fw: Commonwealth National Health Reform funding adjustments [SEC=UNCLASSIFIED]

From:
Sent: Thursday, 1 November 2012 10:58 PM
To:

[REDACTED]

Subject: Commonwealth National Health Reform funding adjustments [SEC=UNCLASSIFIED]

Colleagues,

On 20 October 2012, the Treasurer signed a Determination for the final 2011-12 National Healthcare SPP outcome. This determined the 2011-12 National Healthcare SPP to be \$12,548.13 million, \$149.67 million less than National Healthcare SPP advances paid in that financial year.

In addition, the 2012-13 MYEFO update of 22 October 2012 has factored in revisions to indexation parameters (including the AIHW health price index) that have led to a decrease in estimated 2012-13 National Health Reform payments of \$253.81 million.

The following table provides a breakdown of the above:

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|------------------------------------|--------|--------|--------|-------|-------|------|------|------|--------|
| 2011-12 determination (\$ million) | 48.90 | 39.71 | 40.15 | 6.34 | 10.96 | 1.95 | 0.60 | 1.05 | 149.67 |
| 2012-13 MYEFO (\$ million) | 89.86 | 67.09 | 63.28 | 5.95 | 20.01 | 4.15 | 1.24 | 2.21 | 253.81 |
| Total (\$ million) | 138.76 | 106.80 | 103.43 | 12.29 | 30.97 | 6.10 | 1.84 | 3.26 | 403.48 |

I informally canvassed with most jurisdictions a few weeks ago preferences as to how the 2011-12 adjustment should be reflected in payments (ie as between adjustment to NHR funding or to other payments to the States). There was a mix of views, but an overall preference from responses for adjustment through NHR payments. Following subsequent legal advice in relation to the FFR Act (in particular s18 which limits the circumstances in which adjustments can be made for over- or underpayments of grants under the Act) the Commonwealth intends to make the adjustment through

National Health Reform payments. The adjustments in respect of 2012-13 will also be made through NHR payments. However, in order to ease the impact of the changes, the adjustments will be spread evenly across the remainder of the 2012-13 financial year (i.e. over the remaining eight payment periods in this financial year). I have advised the Acting Administrator of the National Funding Pool and the Acting CEO of the National Health Funding Body of the Commonwealth's approach in relation to these payments.

I can also advise that it is our intention to make the top-up payment in respect of GST entitlements for 2011-12 in full in the November payment. Please feel free to discuss.

Regards

Commonwealth-State Relations Division
The Treasury, Langton Crescent, Parkes ACT 2600

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- The reduction in healthcare funding is confirmed in the Treasurer's Healthcare National SPP Determination and the 2012-13 Mid Year Economic and Fiscal Outlook. The reduction in Commonwealth funding to health services totals \$1.6 billion nationally and \$475 million for Victoria over the forward estimates and reduces base funding.

(Ref: 2012-13 MYEFO; Commonwealth Treasurer's Determination, 20 October 2012; Commonwealth Treasury Table, October 2012)

FEDERAL FINANCIAL RELATIONS (NATIONAL SPECIFIC PURPOSE PAYMENTS) DETERMINATION 2011-12

I, WAYNE MAXWELL SWAN, Treasurer, make this Determination under Part 3 of the *Federal Financial Relations Act 2009*.

WAYNE MAXWELL SWAN

Dated: 20 October 2012

PART 1 — PRELIMINARY

Name of Determination

1. This determination may be cited as the *Federal Financial Relations (National Specific Purpose Payments) Determination 2011-12*.

Commencement

2. This determination commences on the day on which this determination is made.

Definitions

3. The following definitions are used throughout this determination:

Act means the *Federal Financial Relations Act 2009*.

PART 2 — NATIONAL SPECIFIC PURPOSE PAYMENTS

National specific purpose payment for healthcare

4. In accordance with subsection 10(3) of the Act¹, the indexation factor applied to the healthcare national specific purpose payment from the previous financial year is the product of:

- a health specific cost index (a five year average of the Australian Institute of Health and Welfare health price index growth rate);
- growth in population estimates weighted for hospital utilisation; and

¹ Subsection 10(3) of the *Federal Financial Relations Act 2009* was repealed on 25 June 2012 due to new arrangements for the National Health Reform. Schedule 2 of the *Federal Financial Relations Amendment (National Health Reform) Act 2012* contains an application provision (item 7) stating that this amendment applies in relation to financial assistance for the financial year starting on 1 July 2012 and each later financial year.

Table 2: National specific purpose payment for schools, 2011-12

| State | National School Specific Purpose Payment |
|------------------------------|--|
| New South Wales | \$1,245,220,720.46 |
| Victoria | \$876,104,515.30 |
| Queensland | \$759,953,054.23 |
| Western Australia | \$378,437,929.70 |
| South Australia | \$280,421,878.59 |
| Tasmania | \$99,856,328.08 |
| Australian Capital Territory | \$56,180,889.48 |
| Northern Territory | \$59,625,143.51 |
| Total | \$3,755,800,459.34 |

National specific purpose payment for skills and workforce development

10. In accordance with subsection 12(4) of the Act, the indexation applied to the skills and workforce development national specific purpose payment from the previous financial year is the sum of:

- 85 per cent Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent); and
- 15 per cent Wage Cost Index 6 (comprising safety net wage adjustment weighted by 40 per cent and all groups CPI weighted by 60 per cent).

11. For the purposes of paragraph 12(2)(c) of the Act, the 2011-12 total amount for the skills and workforce development national specific purpose indexed in accordance with 12(4) of the act is \$1,363,132,006.61.

12. In accordance with subsection 12(5) of the Act, the amounts specified in Table 3 are to be paid, for the 2011-12 financial year, to the States specified in that table for the purpose of expenditure on skills and workforce development.

Table 3: National specific purpose payment for skills and workforce development, 2011-12

| State | National Skills and Workforce Development Specific Purpose Payment |
|------------------------------|--|
| New South Wales | \$447,997,102.67 |
| Victoria | \$337,699,610.05 |
| Queensland | \$267,684,955.79 |
| Western Australia | \$139,627,313.95 |
| South Australia | \$101,425,592.54 |
| Tasmania | \$31,561,146.88 |
| Australian Capital Territory | \$22,994,061.67 |
| Northern Territory | \$14,142,223.06 |
| Total | \$1,363,132,006.61 |

National specific purpose payment for disability services

13. In accordance with subsection 13(4) of the Act, the indexation applied to the disability services national specific purpose payment will be a rolling five year average of nominal Gross Domestic Product year-on-year growth. In recognition that the

23 October 2012

health

- Minister Davis wrote to Minister Plibersek for the first time raising the issue of the funding cuts and the methodological population issue, and notified of his intention to raise the issue at the Standing Council on Health.

- Minister Plibersek responded on 30 October. Her response did not acknowledge the population data error or the impact on patients from the Commonwealth funding cuts.

(Ref: Correspondence Minister Davis to minister Plibersek, 23 October; Minister Plibersek to Minister Davis, 30 October)



Minister for Health

COPY

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The Hon Tanya Plibersek MP
Minister for Health
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Minister ~~Plibersek~~^V

I am writing to you regarding your Government's decision in the 2012-13 Mid-Year Economic and Fiscal Outlook (MYEFO) to unilaterally revise down National Health Reform funding by \$1.6 billion over the forward estimates, including \$436 million from Victoria, and reduce the 2011-12 Victorian Healthcare Special Purpose Payment (SPP) by \$39.7 million.

The Commonwealth Treasurer's revisions will result in a requirement to pay back the Commonwealth \$39.7 million in residual adjustments for 2011-12 and reduce the 2012-13 budget by \$67 million. This adjustment comes nearly half way through the financial year and after the Victorian Government has finalised the budgets of health services and finalised almost all Statement of Priority negotiations with the Boards of each health service.

Such adjustments appear at odds with the objective underpinning the Intergovernmental Agreement signed by all States and the Commonwealth, which states that the "agreed arrangements are designed to provide the States with a secure and growing funding base for the delivery of activities".

You may be unaware but the Commonwealth Treasurer has utilised the ABS revised population data for December 2011 based on the most recent Census but compared it with a December 2010 population figure derived under a previous Census. As you no doubt would understand, comparing across Census methodologies is a basic error. Moreover, in doing so, your Government has inferred a calculation of population growth for the 12 month period to December 2011 of just 0.03 percent.



As you would no doubt agree, for the Commonwealth Treasurer to claim a population growth rate of 0.03 percent fails the most basic test of reasonableness, and is problematical on many fronts.

Indeed, we are now faced with an unprecedented situation of the Commonwealth Treasurer inferring a population growth rate of 0.03 percent while the Australian Statistician has publicly stated that Australia's population grew by 1.5 percent in the 12 month period to December 2011. Furthermore, the published preliminary ABS data to the end of March 2012, shows a national population growth of 1.5 percent and Victorian growth of 1.5 percent.

At the heart of this situation is either gross methodological confusion on the use of the Census figures by the Commonwealth, or this represents a deliberate attempt by the Commonwealth Treasury and Treasurer to undermine the National Health Reform Agreement.

The Commonwealth MYEFO for 2012-13 projects significant reductions to National Health Reform funding for all states and territories for 2012-13 and across the forward estimates. In 2012-13, the total reduction across all states and territories is \$254.2 million, \$67 million from Victorian health services. This equates to 52,870 National Weighted Activity Units nationally in what remains of 2012-13. In addition, Victoria will be required to pay back \$39.7 million.

The cumulative effect of the 2011-12 determination and the 2012-13 MYEFO may well be catastrophic for some local health services budgets. It will have a significant impact on the delivery of hospital services at a point in the year when renegotiating and re-prioritising will be extremely difficult.

In light of the seriousness of the financial clawback, based on flawed methodological claims by the Commonwealth Treasurer, and given the profound implications for health service delivery across all jurisdictions, I am writing to the Chair of the Standing Council of Health to place this matter on the agenda for the upcoming meeting of the Council. It would only be right that my colleagues and I have a discussion with the Council given the unilateral reduction in the health reform payments by the Commonwealth.

Yours sincerely

Hon David Davis MP
Minister for Health

23/10/2012



**The Hon Tanya Plibersek MP
Minister for Health**

The Hon David Davis MP
Minister for Health
Minister for Ageing
Parliament House
MELBOURNE VIC 3002

Dear Minister

I refer to your letter of 23 October 2012 regarding adjustments to National Health Reform (NHR) funding made as part of the Government's Mid-Year Economic and Fiscal Outlook (MYEFO).

Unfortunately, your letter contains a number of misleading assertions. Total health funding for Victoria from the Commonwealth in 2012-13 is \$3.61 billion, and grows every year over the forward estimates to \$4.54 billion – an increase of 26%.

The NHR component of this is expected to increase by over \$715 million nationally in 2012-13 compared to 2011-12, with Victoria receiving an additional \$195 million.

The increases in both the NHR agreement funding and overall health funding to Victoria are in contrast to your government's funding of its own health system – \$616 million in cuts.

Victoria is eligible for up to \$740 million to improve elective surgery and emergency departments. I note that an unprecedented 46,131 Victorians are on elective surgery waiting lists.

I note also that you have failed to submit your Implementation Plan for the National Partnership Agreement on Improving Public Hospital Services – Schedule E. This is delaying the provision of \$111.1 million in recurrent funding for sub-acute beds in Victoria, including the establishment of an additional 82 new beds. Nor have you signed Round 3 Health and Hospital Fund agreements which would fund 11 vitally needed health infrastructure projects in Victoria. This \$100 million in Commonwealth funding has been available since 2011.

There are significant Commonwealth funds available to you should you choose to accept them. Your management of the health system is preventing money flowing to Victorian patients.

On the more detailed questions of the indexation of NHR funding, the Commonwealth rejects your assertion that it has unilaterally revised down the National Healthcare Specific Purpose Payment (and consequently NHR funding) for Victoria.

NHR funding is based on indexation arrangements set out in Schedule D of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR), signed by all states and territories (including Victoria) and the Commonwealth.

The timing of these changes is consistent with past practice and I note that in previous years these adjustments have been applied and have not generated any concerns from the Victorian Government.

Your letter appears to suggest that indexation relates solely to revisions in the Australian Bureau of Statistics' population data. This is not the case. As you should know, the funding formula your Government signed up to is based on three factors – the independent Australian Institute of Health and Welfare (AIHW) calculations of growth rates in the cost of health services; population changes and a technology factor of 1.2 per cent.

As part of the MYEFO, NHR funding was influenced by changes to both population data and the AIHW health price index.

As identified in your letter, following the results of the most recent 2011 Census, population estimates were revised downwards for 2011 and previous years dating back to the last Census. As such, the adjustment made by the Commonwealth to the growth rate in 2011-12 is necessary given overstated population growth in previous years. Your proposal to use a growth rate of around 1.5 per cent in 2011-12 would fail to accurately reflect the overstated growth rates from previous years.

Your letter also fails to acknowledge that the major driver of the change in NHR funding over the period to 2015-16 relates to a reduced growth rate in the AIHW health price index. Growth in this index fell in 2010-11 (the most up-to-date year of data) reflecting moderation in medical inflation rates across the sector. I note that the growth rate for 2010-11 of 0.9 per cent is lower than it has been for a decade.

Over the last five years, Commonwealth funding for public hospital services has significantly increased through the introduction of a generous indexation formula and an increase to base funding of \$500 million per annum. In addition to this significant increase, under the National Health Reform Agreement, the Commonwealth will increase its funding contribution to 50 per cent of the efficient growth in hospital costs. States and Territories are guaranteed additional funding for public hospital services of at least \$16.4 billion between 2014-15 and 2019-20.

As you would appreciate, estimates variations are an inherent component of the Budget process. There have been revisions to both the GST outcome in 11-12 and forecasts across the forward estimates. Victoria's share of this funding is \$57.8 million, to be provided in 2012-13, and \$286 million to 2015-16.

I would hope that you, as Health Minister, would be arguing to use some of this unexpected windfall to repair the damaging cuts your government has inflicted on frontline health services.

Once again, thank you for writing.

Yours sincerely

Tanya Plibersek

30.10.12

1 November 2012

- State Shadow Minister for Health agrees that Canberra is to blame: Question: “What should the Labor party federally be using clearly bodgy ABS figures about population projections in Victoria to cut funding of hundreds of millions dollars to the state health budget”. Response: *“That’s not perhaps the wisest decision that they may make”*.

Gavin Jennings, 1 November 2012, 774 radio

9 November 2012

- At the Standing Council on Health meeting on 9 November: All state health ministers “expressed concern about the reduction in Commonwealth health funding changes”

Standing Council on Health, Communiqué, 9 November 2012



Standing Council on Health

COMMUNIQUÉ
9 November 2012

EXTRACT

Health funding

State Health Ministers noted that the determination relating to the downward revision of the National specific purpose payments for healthcare was not made by the Federal Minister for Health.

State Health Ministers expressed concern about the reduction in Commonwealth health funding changes, which has resulted in:

- Retrospective and future reductions to State funding, which will seriously impact on State budgets that have already been set
- The factual basis of the decision relies on disputed population figures

Concerns were raised about the lack of any consultation with States and Territories prior to the decision.

State Health Ministers urged that the Heads of Treasury convene urgently to discuss the Commonwealth Treasurer's determination and report on the basis of this decision.

The Commonwealth Minister for Health noted that there is already agreement by all Governments on how and when Commonwealth health funding is calculated and that these processes have been used for some time. These are set out in the Intergovernmental Agreement on Federal Financial Relations signed up to by all Governments. Under these agreed arrangements, between 2012-13 and 2015-16, Commonwealth health funding is projected to grow by 29.6% or \$3.931 billion. The relevant clauses are D9 which states 'An adjustment amount (which may be positive or negative) to account for any difference between the estimated and actual outcome for the items listed in Clause D5 for the previous financial year will be acquitted in the first available payment following advice of the final outcome.' and D24 which sets out the components of the NHRA indexation factor.

'The growth factor for the National healthcare SPP will be the product of: (a) a health specific cost index (a five year average of the Australian Institute of Health and Welfare health price index); (b) growth in population estimates weighted for hospital utilisation; and (c) a technology factor (Productivity Commission derived index of technology growth).' As the federal Treasurer has followed the steps already jointly agreed, The Commonwealth Minister did not support a call by state Ministers for the federal Treasurer to re-examine the basis of the calculation.

November 2012 – February 2013

- Independent Administrator confirms cuts.
- Reserve Bank of Australia receipts for Commonwealth payments into funding account for Victorian hospitals show \$15.3m reduction for December and January and February compared with November 2012 payment.



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SWIFT/ONLINE POSTINGS

EXECUTIVE DIRECTOR
FINANCE AND CORPORATE SERVICES
DEPARTMENT OF HEALTH
50 LONSDALE STREET
MELBOURNE VIC 3000

STATE POOL ACCOUNT
DEPARTMENT OF HEALTH
VICTORIA

Total Posts: 1

| Date | Br | Particulars | Debit | Credit |
|------------|----|------------------|--------|------------------|
| 07/11/2012 | 2 | | | \$278,410,660.80 |
| | | Ref: 7/11/2012 * | | |
| | | TOTALS | \$0.00 | \$278,410,660.80 |



RESERVE BANK OF AUSTRALIA

SWIFT/ONLINE POSTINGS

EXECUTIVE DIRECTOR
FINANCE AND CORPORATE SERVICES
DEPARTMENT OF HEALTH
50 LONSDALE STREET
MELBOURNE VIC 3000

STATE POOL ACCOUNT
DEPARTMENT OF HEALTH
VICTORIA

Total Posts: 1

| Date | Br | Particulars | Debit | Credit |
|------------|----|-----------------|--------|------------------|
| 07/12/2012 | 2 | | | \$263,081,512.24 |
| | | Ref 7/12/2012 * | | |
| | | TOTALS | \$0.00 | \$263,081,512.24 |



RESERVE BANK OF AUSTRALIA

TRANSACTION DATA QUERY DETAILS

Start Date: 07/01/2013
End Date: 07/01/2013
Transaction Type: RTGS Receipts Credit

Account Name: STATE POOL ACCOUNT
DEPARTMENT OF HEALTH
VICTORIA

Total Transactions: 1

Particulars

Account : DEPARTMENT OF THE TREASURY

Totals

Debit

Credit

\$263,081,512.24

\$0.00

\$263,081,512.24



RESERVE BANK OF AUSTRALIA

SWIFT/ONLINE POSTINGS

EXECUTIVE DIRECTOR
FINANCE AND CORPORATE SERVICES
DEPARTMENT OF HEALTH
50 LONSDALE STREET
MELBOURNE VIC 3000

STATE POOL ACCOUNT
DEPARTMENT OF HEALTH
VICTORIA

Total Posts: 1

| Date | Br | Particulars | Debit | Credit |
|------------|----|----------------|--------|------------------|
| 07/02/2013 | 2 | | | \$263,081,512.24 |
| | | Ref 7/2/2013 * | | |
| | | TOTALS | \$0.00 | \$263,081,512.24 |

5 December

- Ms Barbara Yeoh, Chair of the Council of Board Chairs, and 18 other Board Chairs of major Victorian Health Services, wrote to the Prime Minister indicating grave concerns amongst hospital administrators about the Commonwealth funding cuts, and urging her to defer the implementation of the cuts until the resolution of the population estimates calculation.

(Ref: Letter from Barabara Yeoh to the Prime Minister, 5 December 2012)

5 December 2012

The Hon Julia Gillard MP
Prime Minister
Parliament House
Canberra ACT 2600

Dear Prime Minister

Reduction in Commonwealth Funding for Victorian Public Health Services

I am writing on behalf of members of Victorian Health Service Council of Board Chairs (Attachment 1) on the Commonwealth's decision to reduce its funding for Victorian Health services by \$106.7 million in 2012/13. This reduction will severely impact on our ability to provide levels of service to the Victorian public.

Of the proposed reduction in funding some \$40 million relates to the prior year 2011/12, with the adjustment for the current two year period to be recovered over the remaining seven months of this financial year, commencing 7 December 2012.

We note the calculation of the population estimates used in the determination of the Commonwealth's funding cuts is in contention between the Commonwealth Government and the State Health Ministers.

This is a matter for the Commonwealth and State Health Ministers to resolve.

The reality of the Commonwealth's decision is that Victorian health services are now confronted with a funding cut of 5.6% over the seven month period commencing December 2012. (Attachment 2).

We are gravely concerned about the detrimental impact this significant seven month funding reduction at such short notice will have on the Victorian community and our staff, given the inadequate time available to consult and plan our response, including the deterioration in emergency performance, cancellation of planned elective surgery and closure of beds or services as we wind back planned expenditure.

The Commonwealth's funding cuts are equivalent to closing some 440 beds or cancelling more than 21,000 elective surgeries in this seven month period, noting that at 30 June 2012 Victoria's elective surgery waiting list stood at 46,131.



Joint winner of the 2010 Australian Business Award for Public Service

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Clayton**
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Moorabbin**
Centre Road
East Bentleigh

**Kingston
Centre**
Warrigal Road
Cheltenham
Tel: 9265 1000

**Dandenong
Hospital**
David Street
Dandenong
Tel: 9554 1000

**Casey
Hospital**
Kangan Drive
Berwick
Tel: 8768 1200

**Community-
based services
across
the South East**

ABN 82 142

We urgently request that you defer the implementation of the announced funding reductions due to commence on 7 December 2012, and following the Commonwealth and State Health Ministers' resolution of the population estimates calculation, any required adjustment to the Commonwealth's funding for the 2 year period 2011-12 to 2012-13 be amortised over the remaining 2 year period 2013-14 to 2014-15.

This would allow for proper consultation and planning of our response to any Commonwealth funding adjustments as agreed between the Commonwealth and the State Health Ministers and mitigate the need for unplanned and disruptive actions over the next seven months to the serious detriment of the Victorian community.

We request your urgent consideration of this important matter.

Yours sincerely

Barbara Yeoh
Chair Council of Board Chairs
Chair Southern Health

Cc The Hon Tanya Plibersek MP
Minister for Health.
Parliament House
Canberra ACT 2600

Enclosed: Attachments



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ATTACHMENT 1

Council of Board Chair Members

Mr Ulf Ericson, Chair, Albury Wodonga Health

Ms Helen Shardey, Chair, Alfred Health

Professor Just Stoelwinder, Chair Ambulance Victoria

Hon Judith Troeth, Chair, Austin Health

Mr Andrew Faull, Chair, Ballarat Health

Dr John Stekelenburg, Chair, Barwon Health

Mr Michael Langdon, Chair, Bendigo Health

Dr Jo Flynn, Chair, Eastern Health

Mr Noel Maughan, Goulbourn Valley Health

Ms Kellie O'Callaghan, Chair, Latrobe Regional Hospital

Mr Robert Doyle, Chair Melbourne Health

Mr Julien O'Connell, Mercy Public Hospitals Inc

Professor Glen Bowes, Chair, Northern Health

Ms Wendy Harris SC, Chair, Peter MacCallum Cancer Institute

Hon Rob Knowles AO, Chair, The Royal Children's Hospital

Ms Jan Boxall, Chair, The Royal Victorian Eye and Ear Hospital

Dr Rhonda Galbally, Chair, The Royal Women's Hospital

Mr Ralph Willis, Chair, Western Health

23 January 2013

health

- LAWRENCE SPRINGBORG, QLD HEALTH MINISTER:
Every Australian Health minister, whether it be Labor, LNP
or Coalition, has been protesting this.

As reported on ABC 7.30 Report, 12 Feb 2013

1 February 2013

health

- Meeting with Minister Plibersek at Melbourne airport to discuss the Commonwealth funding cuts.
- Minister Plibersek refused to review the Commonwealth calculations used as the basis to justify the cuts.
- Minister Plibersek suggested funding already appropriated for dental, Aboriginal ear health, and rural and regional capital projects could serve to replace the \$475 million funding cut to hospital services.

4 February 2013

health

- State opposition leader agrees that Canberra is to blame:
"Decisions have been made in Canberra that affect patients and affect them badly," the former state health minister said.

Daniel Andrews, Treasury Gardens Rally on 3 February 2013, quoted in The Age, 4 February 2013

13 February 2013

health

- Meeting with Minister Plibersek in Canberra specifically to discuss the Commonwealth funding cuts.
- Minister Plibersek refused to review the Federal Treasury calculations again.

13 February 2013

- KPMG verified Victoria's position, and have stated unequivocally that an obsolete ABS data series has been used to calculate population growth resulting in the growth rate being materially understated.

Provided in a letter from KPMG to the Department of Health, 13 February 2013



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www.kpmg.com.au

Mr Pradeep Philip
Secretary
Department of Health
50 Lonsdale Street
Melbourne Vic 3000

13 February 2013

Commercial in Confidence

Dear Secretary

Population Growth Projections

In accordance with our letter of engagement, we have assisted you to prepare a Department of Health slide (see attached) outlining the Australian population data from 2006 to 2011.

Also in accordance with our letter of engagement, you have sought our views on the veracity of certain statements on that slide. Specifically, you have sought our views on the following statements:

- i. "The correct calculation of population growth is to calculate the growth from B1 to B2."
- ii. "The current SPP determination has incorrectly calculated the population growth from A to B2."
- iii. "An obsolete data series has been used as the base to calculate population growth..."

We believe, subject to the limitations stated in the next paragraph, that the above statements are factually correct in the context they have been presented on the slide.

As noted in our letter of engagement, the purpose of our engagement has been to assist you to prepare a chart of population data determined in accordance with both a previous and a more current ABS methodology. KPMG accepts no responsibility for the integrity of either ABS methodology. In assisting you to prepare the chart KPMG has drawn population data from ABS sources. KPMG has not independently verified such data and accepts no responsibility for the accuracy of such information.

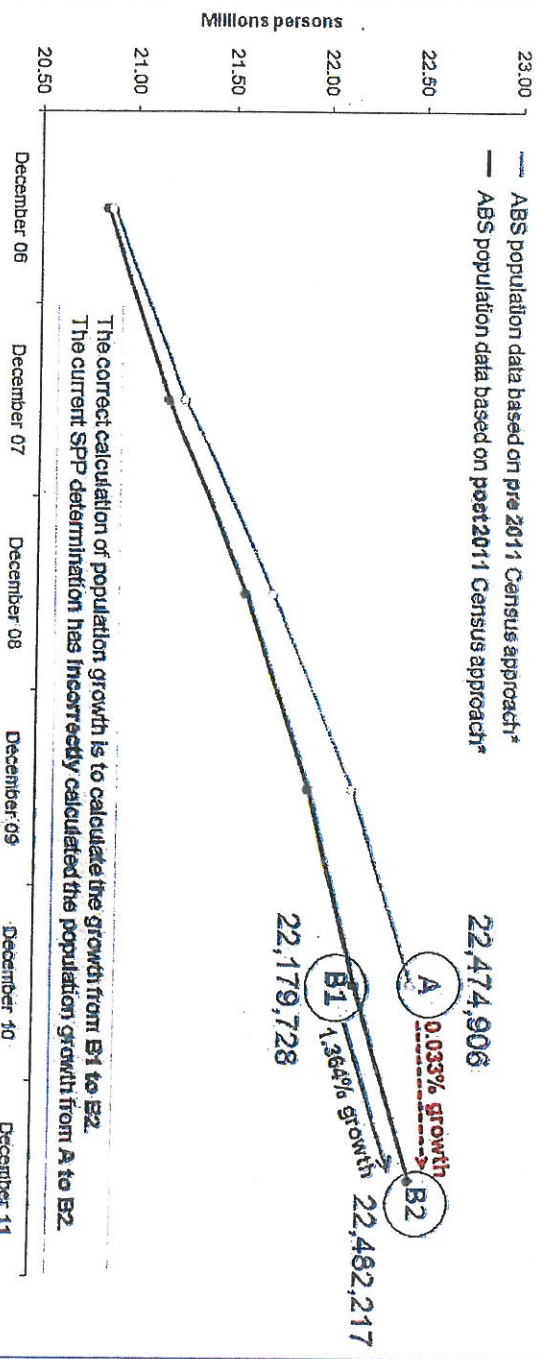
This advice has been provided to you in accordance with our engagement letter dated 12 February 2013, and may not be used for any other purpose or provided to, or referred to in any communications with, any other party without the prior written consent of KPMG.

Yours sincerely

Chris Leptos AM
Partner
chrisleptos@kpmg.com.au

An obsolete ABS data series has been used as the base to calculate population growth, resulting in the growth rate being materially understated

health



Note: All population figures exclude Other Territories

- Sources**
- A - ABS data published 30/9/11 in Commonwealth Government Final Budget Outcome 2010-11 [Link \(Table 32\)](#)
 - B1 - ABS data released on 20/6/12 [Link \(Table 4\)](#)
 - B2 - ABS data published 24/9/12 in Commonwealth Government Final Budget Outcome 2011-12 [Link \(Table 33\)](#)
- * Explanation of the ABS pre and post 2011 Census approach [Link](#)

20 February

- Minister Plibersek reinstates funding of \$107 million that was cut to Victorian Health Services in 2012-13.
- The Commonwealth has still not corrected the error and committed to funding the full \$475 million in Victoria and \$1.6 billion nationally over the forward estimates.