

TREASURY EXECUTIVE MINUTE

Minute No.

18 August 2012

Deputy Prime Minister and Treasurer

**FEDERAL FINANCIAL RELATIONS ACT 2009 – NATIONAL SPECIFIC PURPOSE
PAYMENT DETERMINATION 2011-12**

Timing: To be signed prior to publication of the 2011-12 Final Budget Outcome.

Recommendation/Issue:

- That you sign the attached Federal Financial Relations Act 2009 – National Specific Purpose Payment Determination 2011-12.

Signed/Not Signed

Signature:

...../...../2013

KEY POINTS

- Part 3 of the *Federal Financial Relations Act 2009* (the Act) requires you, through a written Determination, to determine the growth, total amount and the manner in which the amount is to be divided between the States and Territories (the States) for each National Specific Purpose Payment (National SPP).
- The Act stipulates that total funding for each National SPP available to the States will be the total amount of the preceding financial year indexed by the growth factor for the financial year for which the Determination is made.
- The Act requires you to have regard to the Intergovernmental Agreement on Federal Financial Relations (the IGA) when making a Determination.
 - The IGA identifies the manner in which funding under the National SPPs is to be grown and distributed between the States (See Attachment A).
 - The draft Determination of the growth factors and the distribution between the States is consistent with the terms and conditions contained in the IGA.
- The total amount of the draft Determination is \$20.1 billion (\$1.0 billion higher than was provided to the States in 2010-11). Advance payments of \$20.3 billion in respect of the National SPPs have been made throughout the financial year based on estimates of each States' entitlement. Residual adjustments totaling \$149.7 million, to account for the difference in advances and the determined amounts required as a result of this Determination, are detailed in Attachment B. The residual adjustments will be made **at the next available opportunity** following signing of this Determination.
 - These residual adjustments result in an decrease in National SPP payments below what was estimated in the 2012-13 Budget and paid in 2011-12. This is entirely attributable to a decrease in the National Healthcare SPP, due to changes in the underlying growth factor as a result of lower growth in population weighted for hospital utilisation.

- There was no impact on the total funding pool for the National Skills and Workforce Development, Disability and Affordable Housing SPPs as parameters determining the growth factor remain unchanged since the 2012-13 Budget. These National SPPs were only affected by population data updated in accordance with the Australian Statistician's Determination of State population shares as at 31 December 2011. Changes to this parameter have resulted in a redistribution of State allocations only.
- There were no changes to the National Schools SPP. All parameters, including full-time equivalent student enrolments that determine State allocations remain unchanged since the 2012-13 Budget.
- Upon making, this Determination becomes a legislative instrument which is subject to disallowance.
- To accord with section 17 of the *Legislative Instruments Act 2003*, a discussion on consultation with State officials on matters relating to the National SPPs is included in the Explanatory Statement to this Determination.
- The IGA requires States to spend each National SPP in the service sector relevant to the payment. However, States have full budget flexibility to allocate funds within that sector as they see fit to achieve any mutually agreed objectives for that sector. In order to demonstrate compliance with this requirement each State provides a report within six months of the end of a financial year disclosing amounts that have been spent in the relevant sector.
- The Australian Government Solicitor has been consulted in the preparation of this Determination.

Manager
Commonwealth-State Relations Division

Contact Officer:

Ext:

AGREED GROWTH FACTORS OUTLINED IN THE INTEGVERNMENT AGREEMENT ON FEDERAL FINANCIAL RELATIONS

The agreed growth factor for each National SPP is as follows:

Healthcare – 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
- a technology factor (Productivity Commission derived index of technology growth).

Schools (government component) – the product of:

- growth in average government schools recurrent cost; and
- growth in full-time equivalent enrolments in government schools.

Skills and Workforce Development – 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).

Disability Services – a rolling five year average of nominal Gross Domestic Product year-on-year growth. In recognition that the disability services specific purpose payment incorporates funding amounts for the former Disabilities Assistance Package (DAP) which already included a growth rate the DAP component is excluded from this indexation.

Affordable Housing – Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent).

As shown in the table below, total growth for all National SPPs above the 2011-12 determined amounts is \$13.3 billion between 2012-13 and 2015-16.

Changes due to National Health Reform Funding

- From 1 July 2012, the National Healthcare SPP is replaced by National Health Reform funding. The Treasury will continue to calculate estimated amounts for the National Healthcare SPP until 2019-20 to ensure that:
 - For 2012-13 and 2013-14, the Commonwealth will provide National Health Reform funding equivalent to the amount that would otherwise have been payable through the National Healthcare SPP (in accordance with the *National Health Reform Agreement*); and
 - National Health Reform funding provided between 2014-15 and 2019-20 is at least \$16.4 billion more than what would otherwise have been payable through the National Healthcare SPP (also in accordance with the *National Health Reform Agreement*).

RESIDUAL ADJUSTMENTS REQUIRED AS A RESULT OF THIS DETERMINATION

The following residual adjustments are required as a result of this Determination. These adjustments will be made **in the next available payment** following the Determination and will be included as an accrual for the 2011-12 financial year.

Table 1: Residual adjustment for the National Healthcare SPP, 2011-12

State	Payments made in 2011-12	Final outcome for 2011-12	Residual adjustment
New South Wales	\$4,137,770,883.61	\$4,088,870,973.50	-\$48,899,910.11
Victoria	\$3,099,413,744.57	\$3,059,703,898.98	-\$39,709,845.59
Queensland	\$2,545,427,988.56	\$2,505,276,286.59	-\$40,151,701.97
Western Australia	\$1,311,719,774.56	\$1,305,377,723.48	-\$6,342,051.08
South Australia	\$989,052,525.36	\$978,087,805.74	-\$10,964,719.62
Tasmania	\$279,571,245.06	\$277,619,940.12	-\$1,951,304.94
Australian Capital Territory	\$183,591,392.64	\$182,991,296.65	-\$600,095.99
Northern Territory	\$151,255,955.78	\$150,203,654.95	-\$1,052,300.83
Total	\$12,697,803,510.13	\$12,548,131,580.01	-\$149,671,930.13

Table 2: Residual adjustment for the National Schools SPP (government schools), 2011-12

State	Payments made in 2011-12	Final outcome for 2011-12	Residual adjustment
New South Wales	\$1,245,220,720.46	\$1,245,220,720.46	-
Victoria	\$876,104,515.30	\$876,104,515.30	-
Queensland	\$759,953,054.23	\$759,953,054.23	-
Western Australia	\$378,437,929.70	\$378,437,929.70	-
South Australia	\$280,421,878.59	\$280,421,878.59	-
Tasmania	\$99,856,328.08	\$99,856,328.08	-
Australian Capital Territory	\$56,180,889.48	\$56,180,889.48	-
Northern Territory	\$59,625,143.51	\$59,625,143.51	-
Total	\$3,755,800,459.34	\$3,755,800,459.34	-

Table 3: Residual adjustment for the National Skills and Workforce Development SPP, 2011-12

State	Payments made in 2011-12	Final outcome for 2011-12	Residual adjustment
New South Wales	\$448,010,904.74	\$447,997,102.68	-\$13,802.06
Victoria	\$338,044,663.40	\$337,699,610.05	-\$345,053.35
Queensland	\$268,787,373.10	\$267,684,955.79	-\$1,102,417.31
Western Australia	\$138,636,642.89	\$139,627,313.95	\$990,671.06
South Australia	\$101,350,259.33	\$101,425,592.54	\$75,333.21
Tasmania	\$31,415,137.98	\$31,561,146.88	\$146,008.90
Australian Capital Territory	\$22,824,167.54	\$22,994,061.67	\$169,894.13
Northern Territory	\$14,062,857.64	\$14,142,223.06	\$79,365.42
Total	\$1,363,132,006.61	\$1,363,132,006.62	-

Table 4: Residual adjustment for the National Disability SPP, 2011-12

State	Payments made in 2011-12	Final outcome for 2011-12	Residual adjustment
New South Wales	\$396,773,533.61	\$396,761,295.33	-\$12,238.28
Victoria	\$284,736,243.86	\$284,430,285.47	-\$305,958.39
Queensland	\$237,270,274.75	\$236,292,762.66	-\$977,512.09
Western Australia	\$110,260,205.29	\$111,138,632.12	\$878,426.83
South Australia	\$114,063,141.11	\$114,129,938.98	\$66,797.87
Tasmania	\$35,012,161.46	\$35,141,627.38	\$129,465.92
Australian Capital Territory	\$17,990,728.03	\$18,141,372.95	\$150,644.92
Northern Territory	\$12,581,201.46	\$12,651,574.68	\$70,373.22
Total	\$1,208,687,489.58	\$1,208,687,489.58	-

Table 5: Residual adjustment for the National Affordable Housing SPP, 2011-12

State	Payments made in 2011-12	Final outcome for 2011-12	Residual adjustment
New South Wales	\$395,848,806.89	\$395,836,225.21	-\$12,581.68
Victoria	\$288,309,820.21	\$287,995,276.81	-\$314,543.40
Queensland	\$246,129,587.22	\$245,124,646.70	-\$1,004,940.52
Western Australia	\$129,332,919.10	\$130,235,994.08	\$903,074.98
South Australia	\$95,139,894.83	\$95,208,567.01	\$68,672.18
Tasmania	\$32,554,561.87	\$32,687,660.53	\$133,098.66
Australian Capital Territory	\$24,255,746.14	\$24,410,618.07	\$154,871.93
Northern Territory	\$31,031,238.21	\$31,103,586.06	\$72,347.85
Total	\$1,242,602,574.48	\$1,242,602,574.48	-

Table 6: Total Residual Adjustment by State and Territory, 2011-12

State	Schools	Skills	Disability	Housing	Subtotal	Healthcare	Total
New South Wales	-	-\$13,802.06	-\$12,238.28	-\$12,581.68	-\$38,622.02	-\$48,899,910.11	-\$48,938,532.13
Victoria	-	-\$345,053.35	-\$305,958.39	-\$314,543.40	-\$965,555.14	-\$39,709,845.59	-\$40,675,400.73
Queensland	-	-\$1,102,417.31	-\$977,512.09	-\$1,004,940.52	-\$3,084,869.92	-\$40,151,701.97	-\$43,236,571.89
Western Australia	-	\$990,671.06	\$878,426.83	\$903,074.98	\$2,772,172.87	-\$6,342,051.08	-\$3,569,878.21
South Australia	-	\$75,333.21	\$66,797.87	\$68,672.18	\$210,803.26	-\$10,964,719.62	-\$10,753,916.36
Tasmania	-	\$146,008.90	\$129,465.92	\$133,098.66	\$408,573.48	-\$1,951,304.94	-\$1,542,731.46
Australian Capital Territory	-	\$169,894.13	\$150,644.92	\$154,871.93	\$475,410.98	-\$600,095.99	-\$124,685.01
Northern Territory	-	\$79,365.42	\$70,373.22	\$72,347.85	\$222,086.49	-\$1,052,300.83	-\$830,214.34
Total	-	-	-	-	-	-\$149,671,930.13	-\$149,671,930.13