

PART 1: AUSTRALIA'S FEDERAL RELATIONS

The current framework for federal financial relations, introduced on 1 January 2009, provides a strong foundation for COAG to pursue economic and social reforms to underpin growth, prosperity and wellbeing into the future.

Significant progress has been made in implementing the framework, with the institutional arrangements well established, payment arrangements bedded down and performance reporting well underway.

Over 2009-10, fiscal stimulus payments to the States made under the framework, including for the Nation Building and Jobs Plan and the First Home Owners Boost, have supported the recovery of the economy from the global recession.

COAG is working productively on its wide-ranging reform agenda and is achieving real results. The framework has demonstrated that it can respond flexibly to the global recession as well as lay the foundation for improved community wellbeing and a high standard of living for Australians in the future.

The framework has supported and will be adapted to reflect major new reforms, including the *National Health and Hospitals Network* agreed at COAG by all States other than Western Australia on 20 April 2010, and reform to resource taxation announced as part of the Government's stronger, fairer, simpler tax reforms.

OVERVIEW

The current framework for federal financial relations, introduced on 1 January 2009, provides a strong foundation for COAG to pursue economic and social reforms to underpin growth, prosperity and wellbeing into the future.

Significant progress has been made in implementing the framework, with the institutional arrangements well established, payment arrangements bedded down and performance reporting well under way.

To ensure that the framework continues to be effective in driving COAG's ambitious reform agenda, a review of agreements under the framework is being conducted by Heads of Treasuries over the course of 2010, with a report to COAG by the end of the year. The review will consider options to improve the efficiency and effectiveness of the federal financial relations framework, with a focus on improvements that will enhance the delivery of national outcomes as agreed by COAG.

The global recession has had a significant effect on the fiscal positions of the Commonwealth and the States. The delivery of timely economic stimulus through payments to the States under the framework, particularly the Nation Building and Jobs

Plan and the First Home Owners Boost, has prevented a more serious downturn. This has seen payments to the States for specific purposes increase by 28.0 per cent in 2009-10. While GST payments grew more slowly in 2009-10, they are expected to recover over the course of 2010-11. Overall payments to the States have increased by 17.3 per cent in 2009-10.

In addition, the Commonwealth made available a guarantee of State borrowing. Two jurisdictions made explicit use of the guarantee, and it has benefited other States through a significant improvement in the pricing of State bonds relative to Commonwealth bonds, and restored demand for State bonds.

There are signs of recovery in the fiscal positions of both levels of government, and the fiscal stimulus measures are being progressively withdrawn as the economy recovers. The First Home Owners Boost ceased on 31 December 2009 and the majority of the Government's investment under the Nation Building and Jobs Plan will be paid to the States in 2009-10.

Australia's relatively mild downturn, timely and substantial policy stimulus, and increasingly positive outlook, are expected to lead to an improvement in the fiscal indicators of both levels of government over the forward estimates, with the Commonwealth Budget now expected to return to surplus in 2012-13, three years sooner than previously estimated.

The framework is flexible and dynamic, facilitating new reform activity, including the *National Health and Hospitals Network*, and enabling the benefit of the Resource Super Profits Tax to be shared with the States through the establishment of an Infrastructure Fund.

The structure of Australia's federal relations

Australia's federal relations are characterised by three broad features:

- the financial arrangements are influenced by the large expenditure responsibilities of the States relative to their revenue capacities, so that they rely on transfers from the Commonwealth to finance their activities – referred to as vertical fiscal imbalance;
- the States have different capacities to raise revenue and deliver services – referred to as horizontal fiscal imbalance; and
- overlapping roles and responsibilities in areas of government activity which can lead to sectors where regulation or services remain fragmented, with duplication of activities, lack of coordination and blurred accountabilities.

Vertical fiscal imbalance is estimated to increase in 2009-10 owing to an increase in funding provided by the Commonwealth to the States, particularly for stimulus measures.

The level of GST redistribution has been relatively stable at around 8 per cent of the GST pool since July 2000. The objective of horizontal fiscal equalisation is essentially for all States to have the same capacity to provide services at the same standard, while ensuring that interstate transfers are not so large that they would significantly distort economic behaviour and reduce productivity growth.

Roles and responsibilities between the Commonwealth and the States have also been clarified further over the course of the year, with the Commonwealth becoming a majority funder of the Australian hospital system, and taking full responsibility for primary health and aged care under the *National Health and Hospitals Network* reforms.

Box 1.1: The structure of Australia's federal financial relations

Vertical fiscal imbalance

Vertical fiscal imbalance is common to most, if not all, federal systems. It results when a level of government has expenditure functions that are not wholly financed through its own assigned tax bases.

The level of vertical fiscal imbalance can be measured as the revenue transferred from the Commonwealth to the States as a proportion of the State's total revenue. In 2008-09, the Commonwealth transferred approximately \$84.0 billion to the States in the form of general revenue assistance and payments for specific purposes, accounting for around 49.2 per cent of total state revenue.

The level of vertical fiscal imbalance has increased in 2008-09 and 2009-10, owing to the increase in payments to the States, in particular for the Nation Building and Jobs Plan and the First Home Owners Boost.

Commonwealth financial assistance to the States comprises all GST revenue, plus a small amount of other general revenue assistance, and payments for specific purposes. From 2011-12, a portion of the GST (except for Western Australia) will be dedicated to health and hospital services, while the remaining portion of each State's share of the GST pool will continue to be untied general revenue assistance. General revenue assistance is available to the States to spend according to their own budget priorities, and is therefore more akin to state own source revenue.

Horizontal fiscal equalisation

It is usual for individual States within a federation to have different capacities to raise revenue or deliver services. The practice of equalising revenue capacities and/or expenditure capacities between the States in a federation is common. Australia has had various forms of fiscal equalisation since 1901.

Australia's current system of fiscal equalisation is based upon GST revenue sharing relativities assessed by the Commonwealth Grants Commission. The relativities determine how much GST revenue each State receives compared with an equal per capita share. The relativities are assessed in respect of each State's ability to raise revenue from its own sources and also the costs each State would incur in providing the same standard of government services.

Box 1.1: The structure of Australia's federal financial relations (continued)

Horizontal fiscal equalisation does not guarantee that the States will provide a uniform standard of service – its aim is to equalise the capacity of each State to do so, while leaving each State free to determine the standard of service provision. The Commonwealth Grants Commission released its methodology review this year, which included a new approach to the assessment of infrastructure spending and a resulting change in the definition of equalisation. This means that GST revenue is now distributed to ensure that States have the fiscal capacity to deliver the average standard of services and associated infrastructure.

Roles and responsibilities

Federal systems of government can provide the community with significant benefits not available under other systems. In particular, federal systems can have the advantages of more responsive governments, more diversity in service provision, and competition between States to drive innovative approaches and higher levels of efficiency in service delivery.

Federations work best when the roles and responsibilities of each jurisdiction are clear and good public accountability mechanisms allow the community to hold the appropriate level of government to account for the quality and efficiency of the services delivered and outcomes achieved.

The *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement) which commenced on 1 January 2009 has brought greater clarity to the roles and responsibilities of the Commonwealth and the States. On 20 April 2010, COAG, with the exception of Western Australia, built on these reforms by reaching agreement on significant reforms to the health and hospital system – the establishment of the *National Health and Hospitals Network*. These reforms represent a change to roles and responsibilities, with the Commonwealth becoming the majority funder of the Australian hospital system and taking full funding responsibility for primary health and aged care. The changes to the funding arrangements will provide a secure funding base for health and hospitals in the future.

Under the *National Health and Hospitals Network*, Commonwealth funding for public hospitals will be based on the efficient price of public hospital services, determined by an independent pricing authority.

THE FRAMEWORK FOR FEDERAL FINANCIAL RELATIONS

In November 2008, COAG agreed to significant reforms to intergovernmental relations with the signing of the Intergovernmental Agreement and in particular, the introduction of a new framework for federal financial relations from 1 January 2009. The objective of the reforms and the framework is to improve the quality and effectiveness of government services. It seeks to do so by providing clarity about who

is responsible for the delivery of those services, flexibility in the delivery of services and increased accountability to the public, as well as by providing incentives for reform.

The Intergovernmental Agreement on Federal Financial Relations

The Intergovernmental Agreement provides the overarching framework for the Commonwealth's financial relations with the States. It establishes a foundation for the Commonwealth and the States to collaborate on policy development and service delivery, and facilitate the implementation of economic and social reforms in areas of national importance.

All financial relations between the Commonwealth and the States are governed by the provisions of the Intergovernmental Agreement which will be amended to reflect the *National Health and Hospitals Network*.

The Commonwealth's financial relations with the States come under the umbrella of one piece of legislation, the *Federal Financial Relations Act 2009*. This Act will be amended to implement the *National Health and Hospitals Network*.

Funding

The Commonwealth currently provides financial support for the States' service delivery efforts through:

- National Specific Purpose Payments (National SPPs) to be spent in key service delivery sectors;
- three types of National Partnership payments — project payments, facilitation payments and reward payments; and
- general revenue assistance, consisting of GST payments to be used by the States for any purpose, and other general revenue assistance.

All Commonwealth payments to the States are centrally processed by the Commonwealth Treasury and paid directly to each state treasury. State treasuries are responsible for distributing the funding within their jurisdiction.

From 1 July 2011, with the commencement of the *National Health and Hospitals Network*, the Commonwealth will also provide *National Health and Hospitals Network* funding which will be sourced from:

- the current National Healthcare SPP;
- GST payments retained and dedicated to health and hospital services; and

- from 2014-15, a Commonwealth top-up payment.

Payment arrangements will also be modified as part of the *National Health and Hospitals Network* reforms.

Progress in implementing the financial framework

There has been considerable progress in implementing the current financial framework since it commenced on 1 January 2009. This includes:

- implementation of the institutional arrangements required under the Intergovernmental Agreement, including the establishment of committees such as the Ministerial Council for Federal Financial Relations, the Heads of Treasuries Committee for Federal Financial Relations, and the Heads of Treasuries Consultative Forum;
- finalisation of six National Agreements and 16 National Partnerships to implement the \$15.2 billion COAG reform package agreed in November 2008;
- development of National Partnerships to implement the Government's economic stimulus through the Nation Building and Jobs Plan and the First Home Owners Boost;
- centralisation of payment arrangements, with payments to the States (except local government payments) centrally processed by the Commonwealth Treasury and paid direct to each state treasury on a monthly cycle;
- commencement of the *Federal Financial Relations Act 2009* on 1 April 2009, providing the legislative authority for the payments processes; and
- progressive implementation of the performance reporting framework to enhance public accountability.

The increased flexibility of the financial framework is balanced with increased accountability and transparency through enhanced performance reporting. The framework clearly specifies the roles and responsibilities of each level of government, so the appropriate government can be held accountable. At the core of the performance reporting framework are the COAG Reform Council's annual reports on each of the six National Agreements, which are released publicly.

Progress has been made on developing the new national performance reporting framework, including identifying areas where quality and timeliness of performance indicators could be improved and developing a register of National Minimum Data Sets. Further information on performance reporting under the framework is outlined in Part 6: Accountabilities under the federal financial relations framework.

Heads of Treasuries Review

At its 7 December 2009 meeting, COAG noted the considerable progress made in implementing the Intergovernmental Agreement in its first year of operation. COAG also agreed that Heads of Treasuries, in consultation with Senior Officials, would undertake a review of National Agreements, National Partnerships and related Implementation Plans and report through the Ministerial Council for Federal Financial Relations to COAG in respect of:

- clear objectives, outcomes and outputs;
- clearly specified roles and responsibilities, particularly in National Agreements;
- consideration of the appropriate form for implementing a policy proposal, including options to reduce the number of agreements (such as rolling them into National Agreements where appropriate);
- the quantity and quality of performance indicators and benchmarks, including the requirement that performance reporting contributes to public transparency; and
- redesigning agreements that are not consistent with the design principles set out in the Intergovernmental Agreement.

A Terms of Reference for the review has been agreed by the Ministerial Council for Federal Financial Relations. In conducting the review, Heads of Treasuries will focus on the effectiveness of agreements in enabling the achievement of the policy objectives agreed by COAG. Heads of Treasuries will also consult with First Ministers' Departments, Commonwealth and State portfolio agencies, the COAG Reform Council and data collection agencies as appropriate.

Heads of Treasuries will report to COAG by 31 December 2010.

SUPPORTING ECONOMIC RECOVERY

The recession had a significant impact on the Australian economy and on Commonwealth and state fiscal positions. Stimulus payments from the Commonwealth Government prevented a more serious downturn and reinforced growth in the Australian economy as other advanced economies entered recession.

The Commonwealth and the States have acted collaboratively on many fronts, including through the Commonwealth's economic stimulus measures, such as the Nation Building and Jobs Plan, the First Home Owners Boost, and the guarantee of State borrowing.

Economic stimulus packages

In response to the changing global economic environment, the Government introduced the following major stimulus packages aimed at supporting economic growth and helping to ensure that the Australian economy was well placed to withstand the impacts of the global recession:

- the \$10.4 billion Economic Security Strategy announced on 14 October 2008;
- the \$15.2 billion COAG Funding Package announced on 29 November 2008;
- the \$4.7 billion Nation Building Package announced on 12 December 2008; and
- the \$42 billion Nation Building and Jobs Plan announced on 3 February 2009.

As many of the stimulus measures are delivered by the States, the States have had a central role in ensuring the timely delivery of these measures.

Nation Building and Jobs Plan

The States delivered economic stimulus funded by the Commonwealth of around \$10.2 billion in 2009-10 and are expected to deliver a further \$5.0 billion in 2010-11 under the *National Partnership Agreement on the Nation Building and Jobs Plan*. The States are receiving this additional funding for a short-term expansion in programs for which the States are responsible, including funding for:

- provision of new facilities and refurbishment for schools to meet the needs of 21st century students and teachers; and
- construction, repair and maintenance of social housing dwellings.

The Ministerial Council for Federal Financial Relations continues to monitor state capital expenditure in each of the targeted areas to ensure the States at least maintain their planned level of expenditure in these sectors during the period of increased Commonwealth expenditure.

First Home Owners Boost

As part of the Economic Security Strategy, announced on 14 October 2008, the Government introduced the First Home Owners Boost to stimulate housing activity, support the construction industry, and assist first home buyers to enter the housing market. In response to continued economic uncertainty, the Government extended the First Home Owners Boost for an additional six months, with the value of grants halving for the three months to 31 December 2009, when eligibility for the First Home Owners Boost ceased. The First Home Owners Boost has assisted almost 246,000 first home buyers to enter the market and has played an important stimulatory role during a period of economic weakness, supporting jobs in the housing market and residential construction industry.

Temporary Guarantee of State and Territory Borrowing

Like financial markets around the world, state government bond markets were hit hard by the financial turbulence and global recession. This threatened the capacity of State governments to deliver critical infrastructure projects to support jobs as well as boost productivity and improve living standards in the long term.

In response, the Government put in place a voluntary, temporary guarantee over State borrowing.

The Government's announcement of the guarantee led to a sharp improvement in the pricing of State bonds relative to Commonwealth bonds and restored demand for state government bonds. These benefits flowed to all States, regardless of whether they opted to make explicit use of the guarantee.

The guarantee of State borrowing will close to new issuance on 31 December 2010. This transition period will allow States that have utilised the guarantee to create new unguaranteed bond lines across a range of maturities and establish liquidity in the new unguaranteed bond lines.

Existing guaranteed bonds will continue to be covered until they either mature or are bought back and extinguished by the issuer.

PROGRESS OF THE COAG REFORM AGENDA

The COAG reform agenda represents the most significant reform to service delivery by the Commonwealth and State governments, and Australia's federal relations, in decades. The reforms aim to boost productivity, workforce participation and geographic mobility, and to support the wider objectives of better services for the community, addressing social inclusion, closing the gap in Indigenous disadvantage, and environmental sustainability.

As part of the COAG reform package agreed in November 2008, six National Agreements were agreed in the key social policy sectors of healthcare, education, skills and workforce development, disability services, affordable housing and Indigenous reform. Sixteen National Partnership Agreements were also developed in these areas and in respect of business regulation and competition.

Since the current financial framework commenced on 1 January 2009, a significant number of National Partnership Agreements and Implementation Plans have been agreed or are under development in consultation between the Commonwealth and the States to support reforms and delivery on nationally significant projects. There are now around 50 National Partnerships and 100 related Implementation Plans, including National Partnerships developed to implement the Government's response to the

global recession through the Nation Building and Jobs Plan, and the First Home Owners Boost.

MAJOR GOVERNMENT REFORM AND NEW DEVELOPMENTS

National Health Reform

On 20 April 2010, COAG, with the exception of Western Australia, reached agreement on significant reforms to the health and hospital system – the establishment of a *National Health and Hospitals Network*. These reforms are outlined in more detail in Budget Paper No. 2 and related documents.

The Commonwealth and Western Australian Governments have agreed to work together to bring Western Australia into the *National Health and Hospitals Network*.

National Health and Hospitals Network Agreement

The *National Health and Hospitals Network Agreement* combines reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Commonwealth and the States to deliver better health and hospital services. The changes to the funding arrangements will provide a secure funding base for health and hospitals in the future.

Under the *National Health and Hospitals Network*, the Commonwealth will become the majority funder of the Australian public hospital system. The Commonwealth will fund:

- 60 per cent of the efficient price of every public hospital service provided to public patients;
- 60 per cent of recurrent expenditure on research and training functions undertaken in public hospitals;
- 60 per cent of capital expenditure, on a 'user cost of capital' basis where possible; and
- over time, up to 100 per cent of the efficient price of 'primary health care equivalent' outpatient services provided to the public.

The Commonwealth will also take on full policy and funding responsibility for primary health care and aged care (other than in Victoria).

National Health and Hospitals Network funding

The Commonwealth will fund its increased responsibilities through a combination of:

- funding sourced from the current National Healthcare SPP;

- the Commonwealth retaining an agreed amount of GST to be dedicated to health and hospital services; and
- from 2014-15, an additional top-up payment to be paid by the Commonwealth, reflecting its greater responsibility for financing growth in health costs.

From 2011-12 to 2013-14, the amount of GST dedicated to health and hospital services will be the amount required in addition to the funding sourced from the existing National Healthcare SPP in each State to fund 60 per cent of the efficient price of public hospitals, take full funding responsibility for GP and primary health care services undertaken by States, and the net additional cost to the Commonwealth from changes in roles and responsibilities for the Home and Community Care program and related programs. The amount of GST retained by the Commonwealth, and dedicated to health and hospital services, will be fixed in 2014-15, based on 2013-14 costs, and indexed at the rate of overall GST growth.

From 2014-15, an additional Commonwealth top-up payment will be provided, reflecting that hospital costs have been growing at close to 10 per cent per annum and are expected to grow at around 8 per cent per annum over the medium term. This means that hospital costs are expected to outpace growth in GST of around 6 per cent per annum, as well as growth in the existing National Healthcare SPP.

The Commonwealth has guaranteed to pay no less than \$15.6 billion in top-up payments between 2014-15 and 2019-20. If the amount required to fund the Commonwealth's hospital and primary care commitments is less than \$15.6 billion, the residual amount will be paid to the States to fund any health services that will assist in ameliorating the growth in demand for public hospital services.

In addition, the Government will also provide the States with additional funding of \$3.8 billion for a package of reforms and investments in relation to health and hospitals.

These new Commonwealth responsibilities will result in changes to payments to the States for health, set out in Part 2, and changes to the arrangements for GST payments, set out in Part 3.

Funding governance

A new *National Health and Hospitals Network* fund will be established into which Commonwealth funding for the *National Health and Hospitals Network* will be paid. The Commonwealth's 60 per cent funding contribution for efficient hospital services will be determined by an independent pricing authority. This contribution, along with State activity-based funding, will be paid to state-based intergovernmental funding authorities for payment directly to Local Hospital Networks (LHNs). This will provide a clear line of sight of Commonwealth funding to LHNs.

The *National Health and Hospitals Network* fund will also pay a portion of funding to the States for a range of system-wide services including:

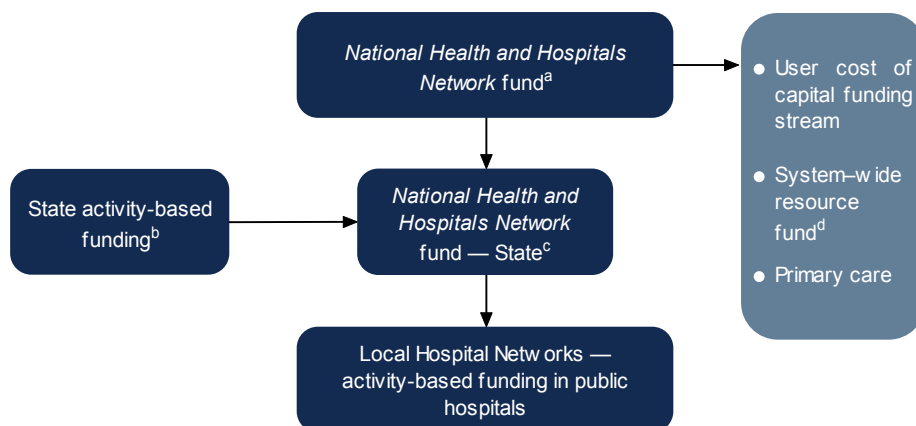
- funding for research and training delivered in public hospitals;
- block funding for agreed functions and services, and community service obligations required to support small regional and rural public hospitals; and
- a funding stream for public hospital capital investment (other than minor capital which will be directly managed by LHNs).

In addition, funding for primary and aged care will continue to be paid to the States to the extent that they continue to provide these services.

The States will fund the residual cost of hospital services, including any costs above the efficient price.

The funding structure for the *National Health and Hospitals Network* is set out in Diagram 1 below.

Diagram 1: Funding structure for the *National Health and Hospitals Network*



- (a) National Health and Hospitals Network funding will be sourced from the National Healthcare SPP, GST dedicated to health and hospitals, and, from 2014-15, a Commonwealth top-up payment.
- (b) Residual funding determined by States.
- (c) Joint intergovernmental authority.
- (d) Made up of research, training and block funding.

Australia's Future Tax System review — Stronger, fairer, simpler tax reform

On 2 May 2010, the Government announced its first steps in a 10-year agenda for tax reform. The Government's long-term tax plan is designed to strengthen the economy and make the tax system fairer and simpler.

A key element of the Government's initial plan is reform to resource taxation and this will require cooperation between the Commonwealth and the States. The Government announced the introduction of a Resource Super Profits Tax (RSPT) from 1 July 2012 to ensure that Australians get a fair share from our valuable non-renewable resources. The RSPT will operate in parallel with State royalty regimes.

The Commonwealth will provide resource entities with a refundable credit for royalties paid to the States. The refundable credit will be available at least up to the amount of royalties imposed at the time of announcement, including scheduled increases and appropriate indexation factors. Refunding royalties will allow the States to continue to collect a stable stream of revenue from royalties, while removing the effects they have on investment and production.

The Government also announced that it would be reinvesting some of the proceeds from the RSPT in an Infrastructure Fund for the States. This will make infrastructure spending a permanent feature of Commonwealth and State budgets. The new Infrastructure Fund will deliver \$700 million to the States in 2012-13 and will grow over time. Investing in major infrastructure will help improve our potential to grow the economy into the future.

The Infrastructure Fund will be distributed to the States in a manner which recognises that resource-rich States face large associated infrastructure demands. Resource-rich States will receive relatively more funding which can be used to support investment in infrastructure, including that necessary for the ongoing development of the resource industry.

The long-term reform of Australia's tax system will require a commitment by governments at all levels in the federation. A number of the recommendations in the Australia's Future Tax System review relate to state taxes. Improving the tax system across the nation will require the States to reform their taxes in the future.

ESTIMATES OF PAYMENTS TO THE STATES

The Commonwealth is committed to the provision of ongoing financial support to the States' service delivery efforts, through two broad categories of payments – payments for specific purposes and general revenue assistance.

The States receive significant financial support from the Commonwealth. In 2010-11, the Commonwealth will provide the States with general revenue assistance of \$48.6 billion including GST revenue, and payments for specific purposes of \$45.5 billion totalling \$94.1 billion, as shown in Table 1.1. This represents a 4.5 per cent decrease in total financial assistance compared with 2009-10.

Table 1.1: Commonwealth payments to the States

\$million	NSW	VIC	QLD	WA(a)	SA	TAS	ACT	NT	Total(b)
2009-10									
Payments for specific purposes	16,625	11,809	11,515	5,521	4,562	1,442	745	1,081	53,301
General revenue assistance	13,463	10,104	8,181	4,409	4,107	1,639	936	2,407	45,246
Total payments to the States	30,088	21,913	19,696	9,931	8,670	3,081	1,681	3,488	98,547
2010-11									
Payments for specific purposes	14,223	10,509	9,278	4,908	3,677	1,136	672	1,042	45,445
General revenue assistance	14,793	11,212	8,906	4,006	4,517	1,761	919	2,524	48,637
Total payments to the States	29,016	21,721	18,183	8,914	8,194	2,898	1,591	3,566	94,082
2011-12									
Payments for specific purposes(c)(d)	17,866	13,216	12,187	4,390	4,618	1,329	1,070	1,351	56,027
General revenue assistance(c)	11,433	9,119	5,520	4,109	3,550	1,491	510	2,411	38,144
Total payments to the States	29,300	22,335	17,707	8,499	8,168	2,820	1,580	3,763	94,172
2012-13									
Payments for specific purposes(c)(d)	18,455	14,376	13,343	4,563	4,616	1,357	1,115	1,197	59,722
General revenue assistance(c)	12,102	9,879	5,408	4,341	3,703	1,581	555	2,521	40,089
Total payments to the States	30,557	24,255	18,751	8,905	8,319	2,938	1,669	3,718	99,811
2013-14									
Payments for specific purposes(c)(d)	19,136	14,505	13,169	4,745	4,464	1,369	1,175	1,323	60,621
General revenue assistance(c)	12,615	10,354	5,713	4,646	3,812	1,612	555	2,556	41,863
Total payments to the States	31,751	24,859	18,882	9,391	8,276	2,981	1,729	3,878	102,483

(a) Payments for specific purposes include the full amount of reform and investment funding allocated to Western Australia under the *National Health and Hospitals Network*, but not GST dedicated to health and hospital services. This funding is dependent on the WA government becoming a signatory to the *National Health and Hospitals Network Agreement*. The Commonwealth and WA governments have agreed to work together to bring WA into the *National Health and Hospitals Network*.

(b) There is no basis on which to estimate State allocations for a number of payments, which are not reflected in State totals.

(c) Payments for specific purposes include GST retained and dedicated to health and hospital services from 2011-12, other than for WA. General revenue assistance from 2011-12 does not include GST dedicated to health and hospital services.

(d) Estimates of GST dedicated to health and hospital services are calculated on the basis of Treasury projections using data from the Australian Institute of Health and Welfare. These estimates are indicative only, with final amounts of GST dedicated to health and hospital services to be determined annually, in consultation with the States, on the basis of actual expenditure.

Payments for specific purposes

In 2010-11, the States will receive \$45.5 billion in payments for specific purposes, a decrease of 14.7 per cent compared with the \$53.3 billion the States will receive in 2009-10. This reflects the withdrawal of the stimulus measures as the economy recovers.

Part 2 of this Budget Paper provides further information on payments for specific purposes to the States.

General revenue assistance

In 2010-11, the States will receive \$48.6 billion in general revenue assistance, including GST payments of \$47.9 billion. This is an increase of 7.5 per cent compared with the \$45.2 billion the States will receive in general revenue assistance in 2009-10.

Part 3 of this Budget Paper provides further information on GST and general revenue assistance to the States.

Total payments to the States

Total payments to the States as a proportion of GDP averaged 6.6 per cent over the period 2000-01 to 2008-09. Over this period, general revenue assistance averaged 3.8 per cent and payments for specific purposes averaged 2.8 per cent as a proportion of GDP.

For 2010-11, total payments to the States as a proportion of GDP are estimated to be 6.7 per cent.

Table 1.2: Total payments to the States

	Previous payments for specific purposes	National Partnership payments	National SPPs(a)	Health and Hospital Network funding (b)(c)(d)	GST	Other general revenue assistance	Total	Growth	Per cent of GDP
\$million									
2000-01	19,207	-	-	-	24,355	3,715	47,277	-	6.7
2001-02	21,458	-	-	-	26,632	4,841	52,931	12.0	7.0
2002-03	21,781	-	-	-	30,479	1,734	53,994	2.0	6.7
2003-04	22,940	-	-	-	33,219	647	56,806	5.2	6.6
2004-05	24,795	-	-	-	35,323	944	61,062	7.5	6.6
2005-06	26,904	-	-	-	37,182	1,039	65,125	6.7	6.5
2006-07	28,549	-	-	-	39,552	-	68,101	4.6	6.2
2007-08	31,994	-	-	-	42,630	-	74,624	9.6	6.3
2008-09	16,874	18,664	6,116	-	41,189	1,162	84,006	12.6	6.7
2009-10	-	28,892	24,409	-	44,529	717	98,547	17.3	7.6
2010-11	-	19,347	26,098	-	47,930	707	94,082	4.5	6.7
2011-12	-	14,419	15,033	26,575	37,497	647	94,172	0.1	6.3
2012-13	-	15,026	16,000	28,695	39,439	650	99,811	6.0	6.4
2013-14	-	12,602	17,060	30,959	41,259	604	102,483	2.7	6.2

(a) From 2011-12, excludes the National Healthcare SPP other than for Western Australia.

(b) Sourced from the National Healthcare SPP and GST dedicated to health and hospital services, other than for WA.

(c) Estimates of GST dedicated to health and hospital services are calculated on the basis of Treasury projections using data from the Australian Institute of Health and Welfare. These estimates are indicative only, with final amounts of GST dedicated to health and hospital services to be determined annually, in consultation with the States, on the basis of actual expenditure.

(d) Funding for public hospital services will be paid through the *National Health and Hospitals Network* fund to Local Hospital Networks via Intergovernmental funding authorities for each State.

Appendix B outlines total payments to the States by GFS function.