

PART 1: AUSTRALIA'S FEDERAL RELATIONS

The financial arrangements between the Commonwealth, States and Territories are a cornerstone of the Australian federation. Within a tight fiscal environment, the Commonwealth is continuing to work in partnership with the States and Territories to implement broad-ranging reforms driven by the overarching goal of enhancing the wellbeing of all Australians.

This is seen in an agenda which currently embraces areas such as healthcare, disabilities, skills, education, Indigenous support in the Northern Territory and the adequacy of Australia's economic and social infrastructure. Funding to reward jurisdictions for regulatory reforms and support for communities affected by natural disasters in recent years are also priorities in this Budget.

The States and Territories receive substantial financial support from the Commonwealth through two broad categories of payments. These payments comprise specific purpose payments targeting key service delivery sectors and areas of nationally significant reform, and general revenue assistance including distribution of the Goods and Services Tax.

In 2012-13, the Commonwealth will provide \$90.4 billion in total payments to the States, representing around 24.0 per cent of total Commonwealth expenditure, with around 80 per cent of this funding currently 'untied'.

In 2012, an independent report will be provided to the Commonwealth examining the current basis for distribution of the Goods and Services Tax to the States and Territories.

OVERVIEW

Commonwealth payments to the States and Territories (the States) are framed by the *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement). In place since 1 January 2009, the Intergovernmental Agreement provides the basis for the Commonwealth to work in partnership with the States to deliver reforms for the benefit of all Australians.

The Government is returning the budget to surplus in 2012-13 and will build growing surpluses over the forward estimates. A return to surplus, ahead of any major advanced economy, sends a strong message to international investors on the Government's commitment to fiscal discipline, and provides a buffer in uncertain global economic times. A return to surplus is also appropriate given domestic economic conditions. The economy is forecast to grow around trend over the next two years, with low unemployment, contained inflation, and record levels of mining investment.

Despite constraints in the current fiscal environment, the Commonwealth will continue to provide substantial funding to the States through both general revenue assistance

and specific purpose payments to assist in the major service delivery sectors, target areas in need of reform, and support delivery of the key social and economic outcomes envisaged under the federal financial relations framework.

Overall, the Commonwealth will provide the States with \$90.4 billion in payments for specific purposes and general revenue assistance in 2012-13. This represents a \$5.8 billion decrease in total financial assistance compared to 2011-12. Total payments to the States as a proportion of Commonwealth expenditure are estimated to be 24.0 per cent in 2012-13.

National Specific Purpose Payments (National SPPs), including National Health Reform equivalent amounts will increase from \$27.9 billion in 2011-12 to \$29.6 billion in 2012-13. This increase, amounting to \$1.8 billion, is provided by the Commonwealth in accordance with the indexation arrangements established under the Intergovernmental Agreement and provides the States with a secure and growing funding base for the delivery of activities across the main service sectors.

General revenue assistance, principally comprising the distribution of the Goods and Services Tax (GST), provides another stable funding base to support the delivery of State services. Notwithstanding that current GST forecasts are below levels projected in last year's Budget, GST is still expected to increase from \$45.6 billion in 2011-12 to \$48.2 billion in 2012-13, an increase of \$2.6 billion.

National Partnership payments are expected to decrease from \$21.6 billion in 2011-12 to \$11.4 billion in 2012-13. This primarily reflects the timing of infrastructure payments, with funding for a number of large infrastructure projects being made available in 2011-12 to assist the States in progressing essential infrastructure projects, thereby supporting future economic growth. Making funding available to the States in 2011-12 increases payments in this year, with a corresponding drop in subsequent years, and results in a more pronounced differential between 2011-12 and 2012-13. Projects affected include the Nation Building Program, the Building Australia Fund and Water for the Future projects. The combined impact of infrastructure payments is over \$5.0 billion.

The reduction in National Partnership payments can also be attributed to the bring-forward of \$1.1 billion in financial assistance grants to support local governments by providing them with additional flexibility and to assist them in responding to the widespread natural disasters and other pressures. Responsibility for the basic community care maintenance and support services component of the *National Partnership on Transitioning Responsibilities for Aged Care and Disability Services* will transition to the Commonwealth for all States excluding Victoria and Western Australia in 2012-13. Given that participating States will no longer be responsible for these payments, this accounts for a \$1.0 billion decrease in payments from 2011-12 to 2012-13.

Expiring National Partnerships account for \$424.3 million, and are attributable to the expiry of completed programs, the majority of which are small-scale agreements and primarily relate to completed infrastructure projects. Part of this funding is attributable to programs that have, or are being, renegotiated, for example Skills Reform and Certain Concessions for Pensioners and Seniors Card Holders. This amount is markedly small in the context of State Government expenditure which is expected to total approximately \$209.0 billion in 2011-12. The remainder of the decrease relates to the winding-down of projects and year-on-year variations of longer-term programs.

In 2008-09, the year in which the federal financial relations framework was introduced, the Commonwealth increased payments to the States by approximately \$7.0 billion over those provided in 2007-08. Since this increase, payments to the States have not fallen below this level and from 2007-08 to 2015-16, total Commonwealth payments are expected to increase at over five per cent per annum on average, after adjusting for the transfer of responsibility for home and community care to the Commonwealth. This growth demonstrates the strong support the Commonwealth is providing for State service delivery and economic and social infrastructure notwithstanding the difficult fiscal environment.

Around 80 per cent of the financial support provided by the Commonwealth to the States is currently 'untied' and therefore can be spent by the States in the manner they choose to support service delivery in key areas of government activity such as health, education and skills, housing, and disabilities. The remaining 20 per cent of funding supports specific projects or reforms that the Commonwealth and States jointly agree should be pursued in the national interests.

The Commonwealth will continue to invest further in healthcare, including reforms under the *National Health Reform Agreement* commencing from 1 July 2012. Following agreement at the Council of Australian Governments (COAG) meeting on 13 April 2012, the Commonwealth will also provide substantial funding to build the skills of Australia's future workforce. This Budget will also see significant developments in education, critical infrastructure and Indigenous support in the Northern Territory. Funding to reward jurisdictions for regulatory reforms and continued provisions for communities affected by natural disasters in recent years will also be provided in this Budget.

In addition, longer term reforms, such as the National Disability Insurance Scheme (NDIS) and schools funding, continue to be progressed through COAG.

MAJOR GOVERNMENT REFORMS AND DEVELOPMENTS

Delivering key outcomes in a tight fiscal environment

Despite Australia's resilience during and in the aftermath of the global financial crisis, Commonwealth revenue is not expected to return to the levels seen before the crisis. Since its pre-crisis level in 2007-08, the tax to GDP ratio fell 3.6 percentage points to

20.1 per cent in 2010-11, the sharpest decline in this ratio since the 1950s. While tax receipts continue to recover from their post-crisis lows, the recovery is weaker than previously expected, and tax receipts remain well below the unsustainable peaks reached in the period leading up to the crisis.

Continued weakness in capital gains receipts, lower than expected company tax collections relating to the 2010-11 income year, and softening retail trade have resulted in a write-down to tax receipts estimates of \$6.1 billion in 2012-13 compared with expectations at the 2011-12 Mid-Year Economic and Fiscal Outlook. Tax receipts are projected to reach 22.9 per cent of GDP in 2015-16. This is around 1 percentage point below the levels reached in the mid-2000s.

GST paid to the States is also forecast to be lower than previous estimates. GST expected to be paid to the States in 2012-13 has been revised down by 5.6 per cent since the 2011-12 Mid-Year Economic and Fiscal Outlook as a result of continued wide-spread caution amongst consumers in the aftermath of the global recession. Further pressures on GST have resulted from households allocating more of their consumption towards goods and services not subject to GST such as education, rent, health and food. Despite these lower forecasts, from 2011-12 onwards, GST is estimated to grow by 5.7 per cent in 2012-13, with average expected growth of around 5.2 per cent over the forward estimates.

Implementing key health reforms

In this Budget, the Commonwealth will continue to invest in healthcare across a range of initiatives aimed at improving the quality of life and wellbeing of all Australians in urban, regional and remote areas of the community.

From 2012-13 and across the forward estimates, States are expected to receive \$67.9 billion in payments to support service delivery, reforms and projects in the healthcare sector.

Major investments include the implementation of the *National Health Reform Agreement*, funding to support mental health, improvements in public dental health, and further funding in regional areas from the Health and Hospitals Fund.

National Health Reform

The reforms under the *National Health Reform Agreement*, as agreed by COAG in August 2011, will commence from 1 July 2012. The new arrangements will deliver major reforms to the funding and delivery of health and hospital services, including for older Australians, by delivering better access to services, improved local accountability and transparency, and a stronger financial basis for the Australian health system through increased Commonwealth funding.

National Health Reform funding

The Commonwealth is committed to providing a strong financial basis for Australia's health system into the future. From 1 July 2012, the Commonwealth will provide National Health Reform funding to meet its increased responsibilities under the *National Health Reform Agreement*. This funding will replace the National Healthcare SPP and will comprise two elements: base funding equivalent to the current National Healthcare SPP; and efficient growth funding to be provided from 1 July 2014.

A national approach to activity based funding (ABF) will make public hospital funding more transparent, and help to drive efficiency in the delivery of hospital services. Through ABF, public hospitals will be funded according to the numbers and types of services they provide. As hospital activity grows and the efficient price changes, the Commonwealth will fund 45 per cent of efficient growth from 1 July 2014, increasing to 50 per cent from 1 July 2017. These arrangements address a fundamental structural problem in hospital funding where the costs of delivering services have been rising faster than the States can raise money to pay for them.

The national efficient price, which will be used in the calculation of efficient growth, will be determined annually by the Independent Hospital Pricing Authority. The Commonwealth has guaranteed that its increased contribution for efficient growth will be at least \$16.4 billion greater than the States would have received from the National Healthcare SPP between 2014-15 and 2019-20. If the amount required to fund the Commonwealth's hospital growth commitments is less than \$16.4 billion based on activity levels, the residual amount will be paid to fund health services that will reduce the growth in demand for hospital services.

National Health Funding Pool

To improve the transparency of public hospital funding, the Commonwealth and the States will each contribute public hospital funding into a single National Health Funding Pool from 1 July 2012. A National Health Funding Pool Administrator will be established by the Commonwealth and the States, and will report on Commonwealth and State funding flowing through the National Health Funding Pool and the services delivered by this funding.

Contributions for ABF services made into the National Health Funding Pool will be disbursed directly to Local Hospital Networks in accordance with levels of hospital activity.

To implement the new funding arrangements by 1 July 2012, the Commonwealth and each State and Territory will pass legislation to establish the Administrator. The Commonwealth's legislation, including amendments to the *Federal Financial Relations Act 2009* to facilitate the new payment arrangements under the *National Health Reform Agreement*, is currently before the Australian Parliament.

Changing roles and responsibilities for aged care and disabilities

Consistent with the *National Health Reform Agreement*, and the *National Partnership on Transitioning Responsibilities for Aged Care and Disability Services*, the Commonwealth will take full policy and funding responsibility for a unified aged care system, and for funding specialist disability services delivered by the States for people aged 65 years and over (50 years and over for Indigenous Australians). As a result of these changes, funding for the Home and Community Care (HACC) program will be paid through Commonwealth Own Purpose Expenses from 1 July 2012 rather than as a payment to the States. The States will be responsible for specialist disability services provided to younger people and for funding services delivered to younger people through Commonwealth aged care programs. These changes do not apply to Victoria and Western Australia, where basic community care services will continue to be jointly funded by the Commonwealth and the States under the HACC program.

Under the new arrangements, the Commonwealth will ensure that changes to roles and responsibilities for the provision of aged care and disability services remain budget neutral for all participating jurisdictions over the period 2011-12 to 2013-14. To achieve this budget neutrality, an adjustment is being made to the National Disability SPP. Estimates for this adjustment are detailed in Part 2 of this Budget Paper.

On 20 April 2012, the Commonwealth also announced a comprehensive, \$3.7 billion *Living Longer. Living Better* package to build a better, fairer, more sustainable and nationally consistent aged care system. This includes the establishment of a national Commonwealth Home Support Program from 1 July 2015, which will bring together under the one program, services currently providing basic home support for older people, including existing HACC services (except in Victoria and Western Australia) and a range of other Commonwealth programs.

Mental health

Investing in programs to assist those affected by mental health issues remains a key priority for the Commonwealth. Up to \$200.0 million will be provided by the Commonwealth from 2011-12 to 2015-16 to fund a new *National Partnership on Supporting National Mental Health Reform*. This National Partnership, agreed by COAG on 13 April 2012, will address service gaps in the mental health system and deliver improved health, social, economic and housing outcomes for people with severe and persistent mental illness.

The Commonwealth will also invest \$228.8 million from 2012-13 to 2015-16 towards the expansion of the Early Psychosis Prevention and Intervention Centre model. Under this program, up to 16 new centres will be established across Australia. The new centres will provide an integrated and comprehensive psychiatric service to help address the needs of young people aged 15-24 with emerging psychotic disorders.

Improvements in public dental health

Dental health is an important part of general health. Dental health varies across the population according to income. For some people, the potentially significant cost of dental treatment limits, or even prevents, access to services.

In this Budget, the Commonwealth will make a significant financial contribution to improve public dental health services, through the provision of \$345.9 million over three years from 2012-13 to 2014-15. This funding will provide treatment for those on public dental waiting lists in the States, including ensuring support for Indigenous Australians. This is part of the Commonwealth's \$515.3 million dental health package, which also includes funding for an expansion of the voluntary dental graduate year program, a new oral health therapist graduate year program, rural and remote relocation grants for dentists, funding for national health promotion activities, and support for the delivery of *pro bono* dental services. Commonwealth funding to the States will be provided through a new National Partnership.

The Government will redirect currently unallocated Commonwealth Dental Health Program funding towards this Budget's dental health package. This funding was intended to replace the Chronic Disease Dental Scheme (CDDS) but has been redirected to boost dental services before the CDDS is closed and any new scheme commences. It still remains Government policy to close the CDDS.

Health and Hospitals Fund round four: 2011 Regional Priority Round

As part of the \$475.0 million 2011 Regional Priority Round of the Health and Hospitals Fund, the Commonwealth will provide funding of \$251.5 million to the States over six years from 2012-13. This forms part of the Commonwealth's \$1.8 billion commitment for a Regional Priority Round under the Health and Hospitals Fund.

Through this initiative, the Commonwealth will continue to work in partnership with the States to expand and modernise key health infrastructure, including hospitals, across Australia to improve health care. This will improve health services across a range of areas including acute care, primary care, e-Health, integrated health facilities, Indigenous health and workforce and training.

Investing in skills and education

Continuing to invest in skills and education will be instrumental in increasing the productive capacity of the nation and supporting sustained economic growth for the future. From 2012-13 to 2015-16, the States are expected to receive \$65.8 billion in payments to support projects and service delivery in the skills and education sectors. This significant contribution will be used to increase productivity in Australia and enhance the nation's future workforce in order to deliver a high-skill, high-wage economy.

The Commonwealth has undertaken a *Review of Funding for Schooling* (the Gonski Review) with the objectives of improving school performance and ensuring equity in

resourcing. COAG discussed the Gonski Review at its meeting on 13 April 2012 and invited the participation of the States in developing advice for COAG on options for funding reform.

Skills reform

To achieve a highly skilled and productive workforce, the Commonwealth, in partnership with the States, will be implementing key reforms to the vocational education and training (VET) sector through a new *National Partnership on Skills Reform*. The Commonwealth has committed funding of \$1.7 billion over five years to achieve higher quality training and increased transparency of information to students, employers and governments, enhanced access to training opportunities, and improved efficiency and responsiveness of the VET system.

States will receive funding under this initiative through payments linked to structural reforms and training outcomes to enable all working-age Australians to develop the skills and qualifications needed to participate effectively in the labour market.

Additionally, at its meeting on 13 April 2012, COAG agreed to a revised *National Agreement for Skills and Workforce Development* which outlines the long-term objectives and targets that underpin skills reform and reaffirms the commitment of all Governments to work in partnership to ensure the skills of Australian workers are developed and utilised in the economy.

The revised National Agreement will contribute to increasing the skill level of the working age population to meet the changing needs of the economy. This will provide all working age Australians with the opportunity to develop skills, ensure that training delivers the skills needed for improved economic participation, and meet the needs of Australian industry.

The revised National Agreement also commits all Governments to reforms aimed at creating an accessible, responsive and equitable national training system that provides all working age Australians with the opportunity to develop the skills needed to participate effectively in the labour market.

Education

In this Budget, the Commonwealth is investing \$29.6 billion in education in 2012-13, an increase of \$312.8 million compared to 2011-12. This includes funding of \$13.9 billion in payments to the States.

As part of this contribution, funding is expected to be provided under a new *National Partnership on Rewards for Great Teachers* to reward quality teachers and school leaders in Australia. This initiative will be implemented through a reward-type payment scheme linked to the National Professional Standards for Teachers, to improve the quality and effectiveness of all teachers by ensuring they have access to constructive performance and development processes, which as a result, contribute to improved

learning outcomes for students. Funding of \$1.1 billion will be provided to both government and non-government schools from 2011-12 to 2018-19 under the National Partnership to be negotiated with the States.

In addition, a new *National Partnership on Empowering Local Schools* has been agreed between the Commonwealth and the States. Through this National Partnership, the Commonwealth will provide funding towards increasing the capacity of both government and non-government schools to make decisions at a local level. This will enable schools to respond better to local school community needs and provide services designed to deliver the best possible education.

The Commonwealth will also provide substantial reward payments to the States in recognition of nationally significant reforms achieved through the Smarter Schools package. Under this package, the Commonwealth will provide inaugural reward payments under the *National Partnership on Improving Teacher Quality* in two instalments totalling up to \$350.0 million over two years from 2011-12 to 2012-13. These payments will be provided to the States as a financial reward for achieving key reforms focused on improving the quality of teachers, principals and school leaders, and rewarding excellence in teaching.

As part of this package, the Commonwealth will also provide up to \$211.5 million in 2011-12 for the second and final reward payment instalment under the *National Partnership on Literacy and Numeracy*. Implementation of this initiative over the last four years has focused on key areas of teaching, leadership and the effective use of student performance information to deliver sustained improvement in literacy and numeracy outcomes for students, particularly those most in need.

Stronger Futures in the Northern Territory

In this Budget, the Australian Government is continuing its commitment to Closing the Gap in the Northern Territory by providing a ten-year, Stronger Futures in the Northern Territory package that will invest around \$3.4 billion to address significant levels of Indigenous disadvantage.

This commitment contributes to building quality education, improving health and wellbeing, supporting children, youth and families in their communities, providing decent housing and keeping communities safe. This commitment also builds upon several measures announced in the *2011-12 Mid-Year Economic and Fiscal Outlook* to help get children to school, tackle alcohol abuse, improve food security and increase job opportunities.

The ten-year funding package, combined with the proposed supporting legislation that is currently before the Australian Parliament, will drive fundamental change over a sustained period. The legislation will repeal the *Northern Territory National Emergency Response Act 2007*. A new National Partnership to support this initiative is currently being negotiated with the Northern Territory Government.

Funding for 2012-13 is reported in this Budget, with future funding to be held in the contingency reserve, and subject to negotiations with the Northern Territory.

The Commonwealth is also continuing to provide funding for a range of other specific Indigenous reforms, including in the areas of healthcare, education, skills and infrastructure. Further details of Indigenous funding provided to the States are provided in Part 2 of this Budget Paper.

Infrastructure

The Commonwealth is continuing to invest in critical infrastructure by contributing a total of \$16.4 billion over four years from 2012-13 in payments to the States to enhance Australia's future productivity and prosperity.

Following the passage of the Minerals Resources Rent Tax (MRRT) legislation, the Commonwealth remains committed to providing \$6.0 billion in regional infrastructure investment under the Regional Infrastructure Fund (RIF) that will spread the benefits of the mining boom into regional Australia. The Commonwealth will ensure that RIF funding to the States will have regard to their share of total mining production over time.

The RIF will be delivered in three streams. Stream 1 will provide funding to support projects committed to in the 2010 election. Stream 2 will provide funding over nine years to support ongoing investment in economic infrastructure. Funding under Stream 3 will be provided through the Regional Development Australia Fund for local projects identified by Regional Development Australia committees. This funding is now reported under the Department of Regional Australia, Local Government, Arts and Sport portfolio.

Investing in national transport infrastructure plays a critical role in uniting the nation by enabling increased accessibility of urban centres to areas of regional and remote Australia. Reflecting this initiative, the Commonwealth is investing \$13.8 billion from 2012-13 to 2015-16 for infrastructure projects through the Nation Building Program and the Building Australia Fund. Continued investment in these initiatives will not only fund road and rail projects but will assist economic and social development at regional and national levels by providing funding to improve the performance of existing land transport infrastructure.

In this Budget, the Commonwealth is making \$3.6 billion available as part of the Investment component of the Nation Building Program to complete the duplication of the Pacific Highway by 2016. This funding represents 50 per cent of the total funding required and is conditional upon the New South Wales Government agreeing to meet the remaining 50 per cent of the costs.

Further, the Commonwealth is providing \$232.1 million in 2015-16 to fund 50 per cent of the Torrens and Goodwood Junctions project in South Australia from the Building

Australia Fund. This project will ease congestion on Adelaide's suburban rail network and on the East-West freight network.

Deregulation reforms to deliver a seamless national economy

The Commonwealth will provide the first instalment of reward payments under the *National Partnership to Deliver a Seamless National Economy* in 2011-12. These payments, totalling up to \$200.0 million, will reward those jurisdictions that have delivered upon the objectives of the reform by reducing the level of unnecessary and inconsistent regulation and delivering agreed COAG deregulation priorities across a wide variety of areas including consumer law, environmental assessments and product safety regulation.

Potential reward payments to be delivered to jurisdictions for achieving these reforms total up to \$450 million and will be distributed in accordance with the National Partnership, with the second instalment to be delivered in 2012-13.

Reducing the impact of regulation to lower costs for business and improve competition and productivity remains a Government priority and was discussed at COAG's meeting on 13 April 2012, and ahead of that, at a meeting with the Business Advisory Forum. COAG agreed to progress six priority areas for major reform to lower costs for business and improve competition and productivity.

Providing continued support to communities affected by natural disasters

In recent years, Australia has witnessed the considerable impact on communities of severe natural disasters. This Budget again reflects the substantial commitment the Commonwealth makes to providing ongoing support to affected communities that have dealt, and continue to deal with, the devastating impact of these disasters.

In 2012-13, the Commonwealth will continue to provide substantial funding to the States under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to support the rebuilding of communities affected by natural disasters.

National Disability Insurance Scheme

The Government has committed \$1.0 billion over four years for the first stage of a National Disability Insurance Scheme (NDIS). This is an historic undertaking which will involve fundamental changes to the way disability care and support is provided in Australia. An NDIS will ensure that Australians with severe and permanent disability have access to the services they need to fulfil their goals for social and economic participation.

From mid-2013, assessments will begin in launch locations to provide an initial 10,000 individuals who suffer significant and permanent disability, with reasonable and necessary care and support. This will be expanded to 20,000 participants from

2014-15. This first stage will test key design features and inform the scale and pace of the expansion to a full scheme.

Governments have been working together to build the foundations for an NDIS, with its development being led by COAG. At its meeting on 13 April 2012, COAG reaffirmed its commitment to an NDIS, recognising the growing need to support the most needy and vulnerable people in the community.

Currently, the States have primary responsibility for funding and delivering disability services. Approximately 70 per cent of disability care and support services are funded by State Governments. To develop a national scheme, it is recognised that the level and share of Commonwealth funding will need to increase.

The Commonwealth Government is committed to working in partnership with the States in designing, funding and implementing the first stage of the scheme. Following this Budget announcement, the Government will commence discussions with the States to determine the launch locations.

REVIEWS RELATING TO COMMONWEALTH-STATE RELATIONS

Several reviews have been completed, or are being implemented, to bolster the reform agenda and strengthen federal financial relations.

Review of the distribution of the GST

On 30 March 2011, the Commonwealth announced a review of the basis on which GST is distributed to the States. The Review, being conducted by the Hon Nick Greiner AC, the Hon John Brumby and Mr Bruce Carter, seeks to ensure that the future basis for GST distribution ensures that Australia is best placed to deal with the long term economic, environmental, demographic and social challenges that are transforming our economy.

The Review will examine whether improvements to the current form of horizontal fiscal equalisation, which determines the distribution of GST revenue to the States, can be identified to improve the efficiency, equity, simplicity and predictability of the current arrangements in light of these challenges.

The Review's interim report was released on 23 April 2012 and outlines the Review Panel's current thinking on proposals, seeking further submissions from the States and other interested parties on the information and concepts outlined in this report.

A second interim report on issues relating to state taxes and mineral royalties is due to be released in mid-2012. The Review's final report will be provided to the Treasurer later in 2012 and will be considered by COAG, with a final decision to be made on the new arrangements before the end of 2013.

Implementation of the Heads of Treasuries review of National Agreements, National Partnerships, and Implementation Plans under the Intergovernmental Agreement

In 2010, Heads of Treasuries, in consultation with Senior Officials, undertook a review of agreements under the federal financial relations framework. The review focused on the consistency of agreements with the Intergovernmental Agreement, and their effectiveness in enabling the achievement of the policy objectives agreed by COAG. The review was endorsed by COAG at its February 2011 meeting.

Implementation of the review occurred primarily in 2011. As part of this, the performance reporting frameworks in each of the six overarching National Agreements that cover the major service sectors have been reviewed to ensure that progress in the respective areas can be appropriately measured and clearly understood. Remaining reviews are expected to be completed in 2012.

Further details on the federal financial relations framework are available online at: www.federalfinancialrelations.gov.au.

Australia's Future Tax System Review and the Tax Forum

In early October 2011, the Commonwealth hosted a Tax Forum to continue the debate started by the release of the Australia's Future Tax System Review, bringing together community, business, union and government representatives, academics and other tax experts, to discuss priorities and directions for further tax reform.

At the Tax Forum, the Treasurer of New South Wales, the Hon Mike Baird, and the then Treasurer of Queensland, the Hon Andrew Fraser, agreed to work with the Council for the Australian Federation to develop a state tax reform plan, for further discussion with the Commonwealth. This work is continuing, with the Treasurer of South Australia, the Hon Jack Snelling, participating following the recent Queensland election.

TOTAL 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, including the distribution of GST.

The States receive significant financial support from the Commonwealth. In 2012-13, the Commonwealth will provide the States with payments totalling \$90.4 billion, comprising payments for specific purposes of \$41.0 billion and general revenue assistance of \$49.4 billion, as shown in Table 1.1. This represents a \$5.8 billion decrease in total financial assistance compared to 2011-12. Total payments to the States as a proportion of Commonwealth expenditure are estimated to be 24.0 per cent in 2012-13.

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As part of this Budget, the Commonwealth will provide substantial support to the States including:

- \$345.9 million to improve dental health outcomes for Australians;
- \$251.5 million allocated for round four of the Health and Hospitals Fund: 2011 Regional Priority Round; and
- \$129.1 million in 2012-13, as part of the Stronger Futures in the Northern Territory package that will total around \$3.4 billion over ten years.

Payments for specific purposes

In 2012-13, the Commonwealth will provide the States with \$41.0 billion in payments for specific purposes, a decrease of \$8.5 billion compared with the \$49.4 billion the States will receive in 2011-12. National SPPs and National Health Reform funding will total \$29.6 billion in 2012-13, representing a \$1.8 billion increase in National SPPs from 2011-12, with the remaining \$11.4 billion to be distributed through National Partnership payments. Payments for specific purposes as a proportion of Commonwealth expenditure are estimated to be 10.9 per cent in 2012-13.

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

General revenue assistance

In 2012-13, the States will receive \$49.4 billion in general revenue assistance, comprising GST payments of \$48.2 billion and \$1.2 billion in other general revenue assistance. This is an increase of \$2.7 billion compared with the \$46.7 billion the States are expected to receive in total general revenue assistance in 2011-12. Payments for general revenue assistance as a proportion of Commonwealth expenditure are estimated to be 13.1 per cent in 2012-13.

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

Table 1.1: Commonwealth payments to the States

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)
2011-12									
Payments for specific purposes	15,117	11,081	10,796	5,028	4,222	1,202	709	1,253	49,442
General revenue assistance	14,155	10,298	8,601	3,495	4,239	1,643	861	2,494	46,714
Total payments to the States	29,272	21,380	19,396	8,523	8,461	2,845	1,570	3,747	96,156
2012-13									
Payments for specific purposes	12,551	9,872	8,394	4,526	3,136	977	598	894	40,989
General revenue assistance	14,845	11,097	9,667	2,873	4,512	1,704	975	2,714	49,381
Total payments to the States	27,396	20,970	18,060	7,399	7,648	2,682	1,573	3,608	90,370
2013-14									
Payments for specific purposes	13,355	11,136	9,029	4,968	2,993	974	687	670	44,379
General revenue assistance	15,866	11,401	11,194	2,173	4,782	1,720	1,027	2,912	52,039
Total payments to the States	29,221	22,537	20,224	7,141	7,776	2,694	1,714	3,582	96,418
2014-15									
Payments for specific purposes	13,178	10,837	8,801	4,659	3,004	954	767	612	44,187
General revenue assistance	16,730	11,836	12,274	1,731	5,104	1,771	1,108	3,123	54,632
Total payments to the States	29,908	22,674	21,075	6,390	8,108	2,725	1,875	3,734	98,819
2015-16									
Payments for specific purposes	13,834	11,365	9,376	4,898	3,453	1,059	779	659	47,273
General revenue assistance	17,502	12,460	12,872	1,913	5,306	1,832	1,159	3,214	57,214
Total payments to the States	31,337	23,825	22,248	6,811	8,759	2,891	1,938	3,873	104,487

(a) Total column may not equal sum of State totals. There is no basis on which to estimate State allocations for a small number of payments, which are not reflected in State totals.

For 2012-13, total payments to the States as a proportion of GDP are estimated to be 5.8 per cent. Payments for specific purposes are estimated to average 2.6 per cent and general revenue assistance is estimated to average 3.2 per cent as a proportion of GDP over this period.

Table 1.2: Total Commonwealth payments to the States as a proportion of GDP

\$million	National SPPs	National Health Reform funding	National Partnership payments (a)	GST entitlement	Other general revenue assistance	Total	Change from previous year	Per cent of GDP
2011-12	27,852	-	21,590	45,600	1,114	96,156	-	6.5
2012-13	16,105	13,518	11,365	48,200	1,181	90,370	-6.0	5.8
2013-14	17,160	14,383	12,836	50,900	1,139	96,418	6.7	5.9
2014-15	18,325	15,944	9,918	53,500	1,132	98,819	2.5	5.8
2015-16	19,561	17,639	10,072	56,075	1,139	104,487	5.7	5.8

(a) Includes financial assistance grants for local government and payments direct to local government.