

PART 3: PAYMENTS FOR SPECIFIC PURPOSES

This part provides information on Commonwealth payments to support specific state services. These payments are the subject of substantial reforms through COAG's new framework for federal financial relations, which commences from 1 January 2009. The Commonwealth has provided a commitment that no State will be worse off as a result of these reforms.

Some elements of the reforms are still being developed in consultation with the States. Accordingly, some reforms to particular payments described in this part may be subject to further change.

The estimates of payments for specific purposes in this Budget Paper reflect the current funding arrangements. As COAG is developing its reform agenda throughout 2008, National Partnership reform proposals and the funding arrangements to support the reform agenda will be considered at the end of 2008.

A NEW FRAMEWORK FOR FEDERAL FINANCIAL RELATIONS

National SPPs

There are currently more than 90 different payments for specific purposes, with many containing prescriptive conditions on how the funding should be spent. Under the new framework for federal financial relations, many of these payments will be bundled into the five or six new national specific purpose payments (SPPs) in the areas of:

- healthcare;
- early childhood development and schools;
- vocational education and training;
- disabilities services; and
- affordable housing.

These new national SPPs will be the primary way that the Commonwealth will support the States' efforts in delivering services in the major sectors.

Instead of receiving several smaller payments which can usually only be spent in a specified program area, the States will have increased flexibility to use Commonwealth funds allocated through one of the new national SPPs.

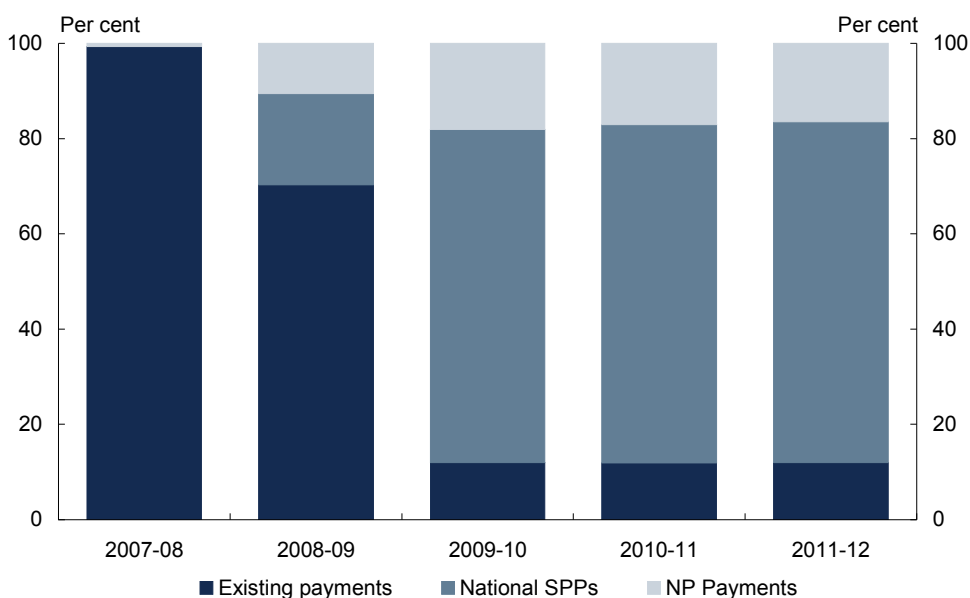
- The States will be required to spend Commonwealth SPP funding in the area of that SPP (for example, within the health sector) but they will have the freedom to

allocate funds within a sector (for example, funding could be spent in areas such as preventative health, Indigenous health or hospitals).

- The States will not be able to redistribute Commonwealth funding from one sector to another (for example, from the healthcare sector to the housing sector), but there will be no conditions on how States allocate their own-source funding across or within sectors.
- The new national SPPs will provide the States with additional budget flexibility for the efficient delivery of better services because they will not be required to match Commonwealth funding contributions.

The new national SPPs are estimated to account for 70.0 per cent of all payments to the States for specific purposes by 2009-10 as shown in Chart 3.1 – there is a part year effect of the rationalisation in 2008-09, because the healthcare arrangements commence from 1 July 2009 and all the other arrangements commence from 1 January 2009.

Chart 3.1: Rationalisation of payments for specific purposes



National Partnership payments

The Commonwealth will provide National Partnership payments to the States to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms.

Some existing payments for specific purposes and election commitments will become National Partnership **project** payments where they support national objectives and provide a financial contribution to the States to deliver specific projects – for example,

the Commonwealth will continue to provide a financial contribution to the States' road and rail projects through AusLink National Partnership payments.

The Government also recognises the need to support the States to undertake priority national reforms. Consequently, when an area emerges as a national priority, National Partnership **facilitation** payments may be used to assist States to lift standards of service delivery and National Partnership **reward** payments will be provided to States which deliver reform progress.

General revenue assistance

The review of payments during the development of the new financial framework identified several payments, which are currently classified as payments for specific purposes, where there are no compelling national objectives associated with the payment. These include payments without conditions, such as payments to Western Australia and the Northern Territory for offshore petroleum royalties and mining royalties respectively.

Consequently, the following payments will be reclassified as general revenue assistance with effect from 1 January 2009: royalty payments (\$351 million in 2008-09); Snowy Hydro Ltd tax compensation (\$23 million in 2008-09); and two payments for ACT municipal services (\$17 million in 2008-09). As the reclassification will take effect from half way through 2008-09, half of the Budget year estimates for these payments are classified in Part 4 as general revenue assistance and the other half remain classified as payments for specific purposes. The full-year effect of the reclassifications applies from 2009-10.

TOTAL PAYMENTS FOR SPECIFIC PURPOSES

Payments to the States for specific purposes constitute a significant proportion of Commonwealth expenditure. In 2008-09, they are estimated to total \$33.1 billion. For the Budget year, total payments to the States for specific purposes will represent 11.3 per cent of total Commonwealth expenditure.

As noted above, several payments which were previously classified as specific purpose payments will now be paid as general revenue assistance from 1 January 2009. This has the effect of reducing the growth rate in payments for 2008-09.

Total payments for specific purposes by functional sector, including new national SPPs and National Partnership payments, are shown in Table 3.1. Note that payments for specific purposes are reduced from 2008-09 as a result of the classification of some payments to general revenue assistance with effect from 1 January 2009.

Table 3.1: Total payments for specific purposes^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2007-08									
Health	3,769	2,735	2,237	1,107	935	276	154	165	11,378
Education	3,321	2,492	2,001	992	777	232	181	127	10,123
Community services	582	414	366	162	165	51	22	30	1,792
Housing	367	256	225	120	91	33	25	40	1,158
Infrastructure	1,110	537	813	422	195	71	6	52	3,206
Environment	99	66	56	91	38	12	3	16	379
Local government(b)	562	418	347	207	137	58	37	25	1,791
Other	560	300	271	841	149	86	40	51	2,299
Total payments for specific purposes	10,370	7,219	6,315	3,942	2,487	819	468	506	32,127
<i>less payments 'through' the States</i>	2,475	1,900	1,473	774	595	190	153	79	7,639
<i>less payments direct 'to' local government</i>	171	115	111	82	33	24	-	12	548
Total payments 'to' States for own-purpose expenses	7,724	5,204	4,731	3,086	1,860	605	315	415	23,940
2008-09									
Health	3,722	2,709	2,160	1,105	919	282	155	158	11,209
Education	3,769	2,771	2,193	1,107	873	257	202	135	11,306
Community services	600	456	409	180	180	56	25	27	1,933
Housing	391	268	315	226	123	35	27	183	1,567
Infrastructure	1,143	417	916	488	305	109	19	95	3,492
Environment	91	48	38	54	23	9	2	15	280
Local government(b)	587	437	364	217	142	60	39	27	1,874
Other	334	209	175	454	150	56	25	74	1,476
Total payments for specific purposes	10,636	7,316	6,571	3,829	2,716	864	493	713	33,137
<i>less payments 'through' the States</i>	2,757	2,063	1,630	847	650	193	167	83	8,389
<i>less payments direct 'to' local government</i>	206	136	161	87	48	22	-	14	674
Total payments 'to' States for own-purpose expenses	7,673	5,117	4,780	2,895	2,017	649	326	617	24,073

(a) Note that payments to Western Australia and the Northern Territory for specific purposes are reduced from 2008-09 as a result of the classification of some royalty payments as general revenue assistance with effect from 1 January 2009.

(b) General revenue assistance components of payments to local government only. Other payments to local government are categorised under the relevant sector.

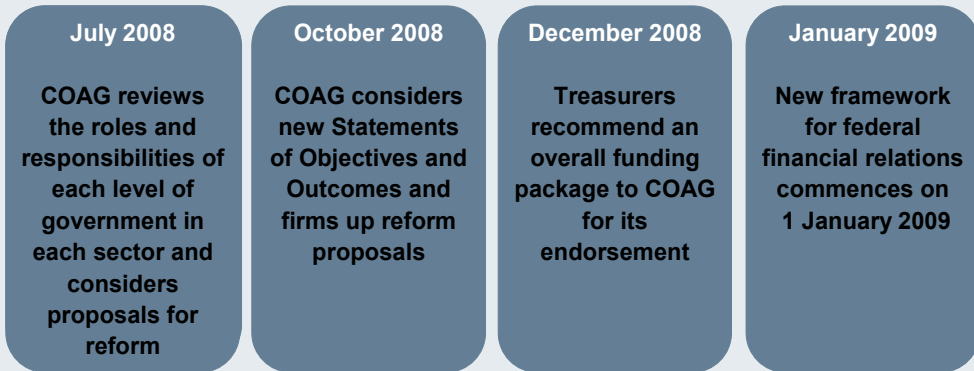
Of the \$33.1 billion provided for specific purposes in 2008-09:

- \$24.1 billion is provided 'to' the States to help fund State government functions;
- \$8.4 billion is paid 'through' the States, where the State governments distribute the payments to other organisations – this includes payments for non-government schools and general revenue assistance for local governments; and
- \$0.7 billion is paid direct to local governments.

Box 3.1: Developing and funding COAG's reform agenda

COAG has agreed on a new framework for federal financial relations, which will provide the foundation for its ambitious reform agenda. The reform agenda will be agreed by the end of 2008 and implemented with the commencement of the new financial framework from 1 January 2009.

The Commonwealth has provided a clear commitment that no State will be worse off overall than they would be under the current arrangements, and that National Partnership reform payments will be in addition to existing payments.



Funding for the new national SPPs and National Partnerships payments for identified reforms will be considered as part of the overall package to be negotiated by Treasurers towards the end 2008.

COAG has also agreed that, where Commonwealth election commitments have legitimate and additional financial implications for the States, consideration of these costs will be included in the work of Treasurers in negotiating the final funding package.

Table 3.2 presents the forward estimates of payments for specific purposes based on the current financial arrangements.

Table 3.2: Total payments for specific purposes, 2007-08 to 2011-12

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
Health(a)	11,378	11,209	11,723	12,356	12,672
Education	10,123	11,306	11,946	12,491	13,377
Community services	1,792	1,933	2,091	2,299	2,519
Housing	1,158	1,567	1,613	1,645	1,252
Infrastructure	3,206	3,492	3,888	3,647	4,275
Environment	379	280	281	198	163
Local government(b)	1,791	1,874	1,949	2,030	2,098
Other	2,299	1,476	491	499	508
Total payments for specific purposes	32,127	33,137	33,982	35,166	36,864
<i>less</i> payments 'through' the States	7,639	8,389	8,943	9,391	7,784
<i>less</i> payments direct 'to' local government	548	674	164	45	46
Total payments 'to' States for own purpose expenses	23,940	24,073	24,875	25,730	29,034

(a) Payments for health in 2007-08 include \$500 million additional funding to enable the States to invest in their hospitals immediately, as announced at the COAG meeting of 26 March 2008.

(b) General revenue assistance components of payments to local government only. Other payments to local government are categorised under the relevant sector.

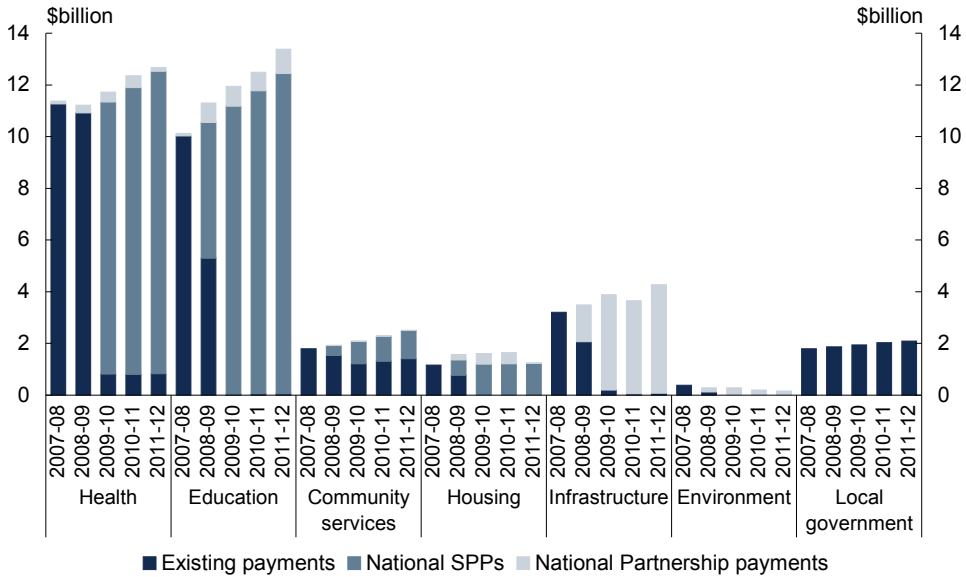
Detailed tables of payments for specific purposes for the period 2007-08 to 2011-12, including state shares of each payment and the transitional arrangements for 2008-09, are provided in Appendix B.

CATEGORIES OF PAYMENTS FOR SPECIFIC PURPOSES

The Commonwealth provides payments to the States for specific purposes in order to pursue important national policy objectives in areas that may be administered by the States. These payments cover most functional areas of state and local government activity – including health, education, community services, housing, infrastructure and environment.

This section outlines payments to the States based on the new financial framework and the current funding arrangements. The amount of funding for the new financial framework will be reviewed by Treasurers later in 2008, prior to the commencement of the new arrangements from 1 January 2009.

Chart 3.2: Composition of payments for specific purposes



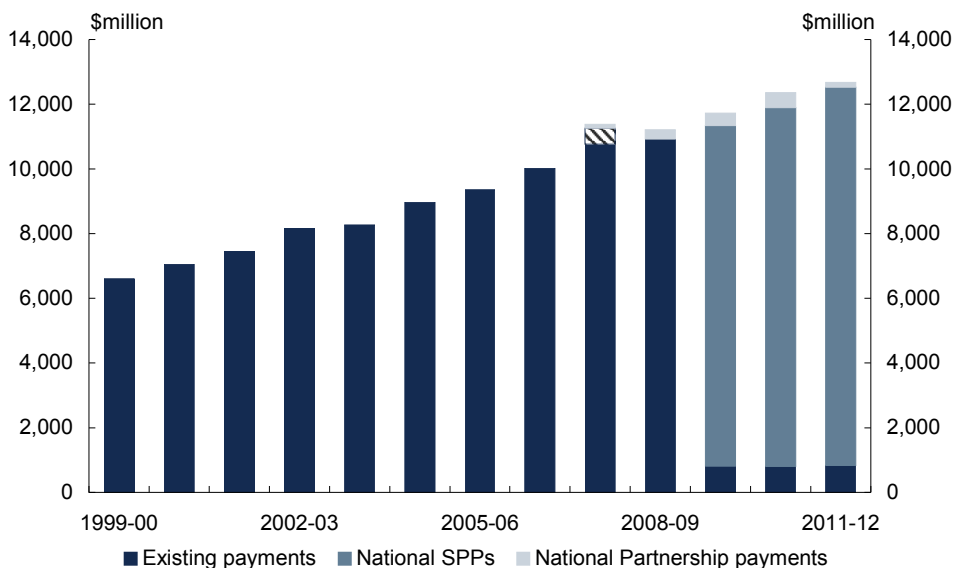
Payments for specific purposes are expected to increase in 2008-09, on average by 5.3 per cent compared with 2007-08 (Chart 3.2).

As noted above, several payments which were previously classified as specific purpose payments will now be paid as general revenue assistance from 1 January 2009. This has the effect of reducing the growth rate in payments for 2008-09.

Health

At its meeting on 26 March 2008, COAG agreed to extend the *Australian Health Care Agreements* by one year, with the Government committing an additional \$1 billion to relieve pressure on public hospitals. Of this, \$500 million is additional funding to be paid in 2007-08 to enable the States to invest in their hospitals immediately (as illustrated in Chart 3.3). The remaining funding represents continuation of the existing indexation arrangements.

Chart 3.3: Payments to support state health services



Note: The hatched area indicates that payments to support state health services in 2007-08 includes \$500 million additional funding to enable the States to invest in their hospitals immediately, as announced at the COAG meeting of 26 March 2008. Health funding in 2007-08 is affected by additional funding associated with the human papillomavirus (HPV) and rotavirus vaccination initiatives for that year.

Source: Final Budget Outcomes and Budget estimates.

From 1 July 2009, the Commonwealth will provide a financial contribution to support state health services under the new national healthcare agreement. This new national SPP will incorporate the following existing payments:

- \$9.7 billion in 2008-09 under the *Australian Health Care Agreements*, which assists with the provision of public hospital services free of charge to eligible persons;
- \$239.9 million in 2008-09 in broad-banded payments and other arrangements under the national public health program, to provide subsidies for health promotion and disease prevention – covering areas such as women’s health, AIDS control, drug strategies and cancer screening;
- \$3.9 million in 2008-09 under the organ and tissue donation program to fund initiatives that will assist with improving the rates of organ and tissue donation in Australia; and
- \$2.6 million in 2008-09 under the youth health services program to develop and implement innovative primary health care services for homeless and at-risk youth.

The following existing payments to the States will continue to be paid from 1 July 2009 as National Partnership payments:

- \$13.7 million to be provided to the Northern Territory in 2008-09 to ensure that the Royal Darwin Hospital can operate as a national critical care and trauma response centre; and
- \$376.4 million over five years to enable aged care assessment teams to conduct holistic assessments of frail aged people and refer them to appropriate residential or community care services.

Election commitments and other policy decisions included in this Budget that will be implemented through National Partnership payments include:

- \$600.0 million over four years from 2007-08 to reduce waiting lists for elective surgery in public hospitals in each State;
- \$290.0 million over three years to establish a Commonwealth Dental Health Program – funding will be provided to the States to supplement existing public services and/or purchase private dental services; and
- \$39.4 million over five years, including \$26.0 million to the States in forward estimates, to encourage qualified nurses to return to the nursing workforce in hospitals and residential aged care.

Further information on these policy decisions is included in Budget Paper No. 2, *Budget Measures 2008-09*.

Table 3.3: Payments to support state health services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National healthcare agreement			10,528.6	11,095.9	11,696.2
Health care grants(a)	9,747.2	9,724.8			
National public health	228.0	239.9			
Organ and tissue donation	3.9	3.9			
Youth health services	2.6	2.6			
National Partnership payments(b)					
Aged care assessment	68.4	71.9	75.2	78.7	82.2
Royal Darwin Hospital - equipped, prepared and ready	13.4	13.7	14.0	14.2	14.5
Helping public patients in hospitals waiting for nursing home places	37.5	37.5	37.5	37.5	37.5
<i>including</i> Election commitments					
Commonwealth Dental Health Program	-	92.0	96.6	101.4	-
Elective surgery waiting list reduction reduction plan	75.0	155.0	150.0	220.0	-
Health infrastructure grants	141.1	40.3	4.4	2.7	1.6
Supporting nurses back into the workforce - incentive payments	-	2.4	5.1	6.0	7.2
Supporting nurses back into the workforce - training payments	0.4	0.8	1.1	1.4	1.6
Existing payments(c)					
Essential vaccines	541.0	263.7	214.8	165.2	165.2
Health program grants	1.2	1.2	1.2	1.3	1.3
Highly specialised drugs(d)	513.4	554.2	589.0	626.3	659.1
Organ transplantation services	1.8	1.9	1.9	1.9	1.9
Organ transplantation services (capital)	0.2	0.2	0.2	0.2	0.2
Repatriation general hospitals	2.0	1.9	1.8	1.7	1.6
Supporting Western Sydney - positron emission tomography scanner at Westmead Hospital	1.2	1.3	1.3	1.3	1.3
Total	11,378.4	11,209.2	11,722.8	12,355.7	12,671.5

(a) Payments for health in 2007-08 include \$500 million additional funding to enable the States to invest in their hospitals immediately, as announced at the COAG meeting of 26 March 2008. Health funding in 2007-08 is affected by additional funding associated with the human papillomavirus (HPV) and rotavirus vaccination initiatives for that year.

(b) Payments will continue to be paid as payments for specific purposes until the commencement of the new framework for financial relations on 1 July 2009.

(c) The treatment of these payments under the new framework for federal financial relations is yet to be decided.

(d) These estimates exclude funding under this program relating to private hospital funding.

Funding for the following health services programs will continue beyond 2008-09, although the treatment under the new framework for federal financial relations is yet to be decided:

- \$1.9 million in 2008-09 for the current costs of certain organ and tissue transplantation-related services that are conducted by the Australian Red Cross Blood Service;

- \$1.9 million in 2008-09 provided under the repatriation general hospitals program for payments of a non-treatment nature (for example, accrued leave credits and income maintenance related to staff transfers) in accordance with agreements reached on integration of repatriation general hospitals into the state public hospital system;
- \$1.2 million in 2008-09 provided as health program grants as an alternative to funding Medicare benefits, with the aim of improving access to approved health services or where the fee for service is inappropriate;
- \$1.3 million contribution in 2008-09 to the purchase and installation of a new positron emission tomography scanner at Westmead Hospital (New South Wales) and towards its running costs;
- \$554.2 million in 2008-09 provided under the highly specialised drugs program to provide access to certain drugs under the Pharmaceutical Benefits Scheme which, because of special need in clinical administration or monitoring, cannot safely be provided through a community pharmacy and must be supplied through state public hospitals to outpatients; and
- \$263.7 million in 2008-09 provided for essential vaccines for immunisation under the bilateral Australian Immunisation Agreements with the States – the decrease in funding for this program in 2008-09 is due to increased expenditure in 2007-08 associated with the human papillomavirus and rotavirus vaccination initiatives.

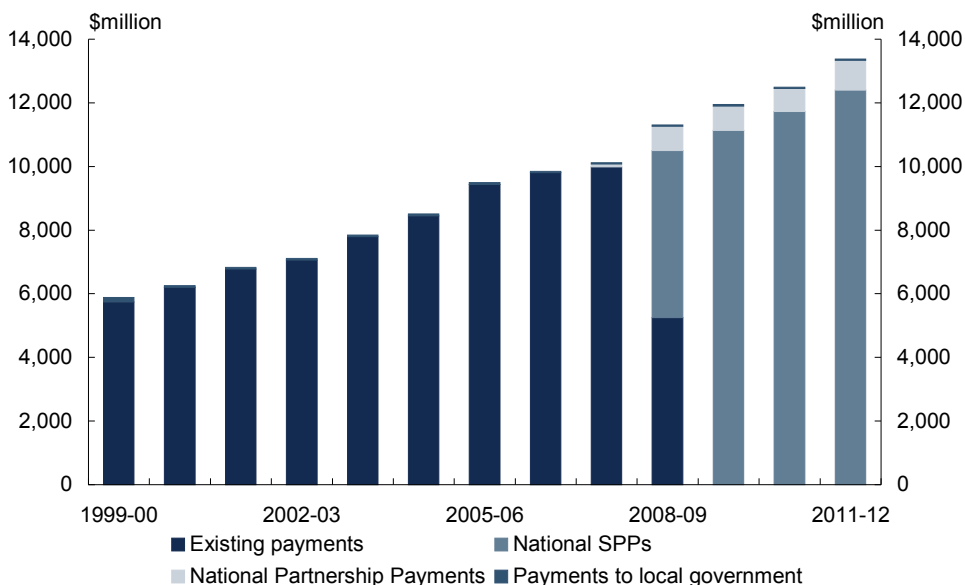
Education

From 1 January 2009, the Commonwealth will provide a financial contribution to support state and non-government early childhood and school services under a new national early childhood development and schools agreement. Consideration is being given to whether early childhood development should be the subject of a separate agreement.

This new national SPP will incorporate the following existing payments:

- \$3.5 billion in 2008-09 to support state education services; and
- \$6.5 billion in 2008-09 to support non-government schools and systems education services.

Chart 3.4: Payments to support state education services



Source: Final Budget Outcomes and Budget estimates.

From 1 January 2009, the Commonwealth will provide a financial contribution to support state vocational education and training services under the new national vocational education and training agreement. This new national SPP will incorporate funding currently provided under the Skilling Australia’s Workforce agreements (\$1.3 billion in 2008-09).

The following existing payments will continue to be paid from 1 July 2009 as National Partnership payments:

- \$51 million in 2008-09 to ensure access to affordable quality child care in programs administered by the States and local government on behalf of the Commonwealth.

Election commitments and other policy decisions included in this Budget that will be implemented through National Partnership payments include:

- \$2.5 billion over ten years to implement the *Trade Training Centres in Schools Program* – the program will provide facilities to enhance vocational education opportunities for students in Years 9 to 12 in every government and non-government secondary school;
- \$1.2 billion over five years to implement the Digital Education Revolution – a National Secondary School Computer Fund will be established to provide grants of up to \$1.0 million to eligible secondary schools to assist them in providing new or upgraded information and communications technology to students in Years 9 to 12;

- \$577.4 million over four years to improve literacy and numeracy outcomes for students in Australian schools in support of the *National Partnership for Literacy and Numeracy*; and
- \$520 million over the four years from 2008-09 to deliver universal access to early learning for all Australian four-year olds – the funding will provide for 15 hours per week, 40 weeks per year of play-based learning and development programs to be delivered by a university qualified early childhood teacher.

Further information on these policy decisions is included in Budget Paper No. 2.

Table 3.4: Payments to support state education services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National early childhood development and schools agreement		4,607.1	9,832.1	10,398.2	11,043.7
Government schools	1,844.8	985.1			
Government schools (capital)	528.5	165.3			
Indigenous education strategic initiatives - government	104.9	55.4			
*Non-government schools	5,306.1	2,913.1			
*Non-government schools (capital)	237.2	93.2			
Targeted programs - government schools and joint	450.2	270.9			
*Targeted programs - non-government schools	228.6	124.2			
National vocational education and training agreement		641.6	1,305.2	1,327.1	1,353.6
Skilling Australia's Workforce	1,246.4	641.6			
National Partnership payments					
Children's services	8.6	8.7	8.9	9.0	9.2
<i>including Election commitments</i>					
Early childhood education and care	-	40.0	80.0	100.0	300.0
National action plan for literacy and numeracy(a)	-	94.2	156.6	159.8	162.5
National secondary schools computer fund(a)	100.0	390.2	277.1	200.0	200.0
Trade training centres in schools	-	233.1	242.9	253.1	263.7
Payments to local government					
Children's services	40.6	42.1	42.8	43.4	44.1
Existing payments					
Australian Technical Colleges(b)	-	-	-	-	-
Relocation of Amberley State School, Queensland	26.8	-	-	-	-
Total	10,122.7	11,305.9	11,945.7	12,490.6	13,376.8
<i>Memorandum item</i>					
Support for government schools	2,998.4	3,455.7	3,596.3	3,718.4	3,885.6
Support for non-government schools	5,801.9	6,476.1	6,912.6	7,292.7	7,784.3

* Items so marked are classified as payments through the States.

(a) Includes funding for government and non-government schools.

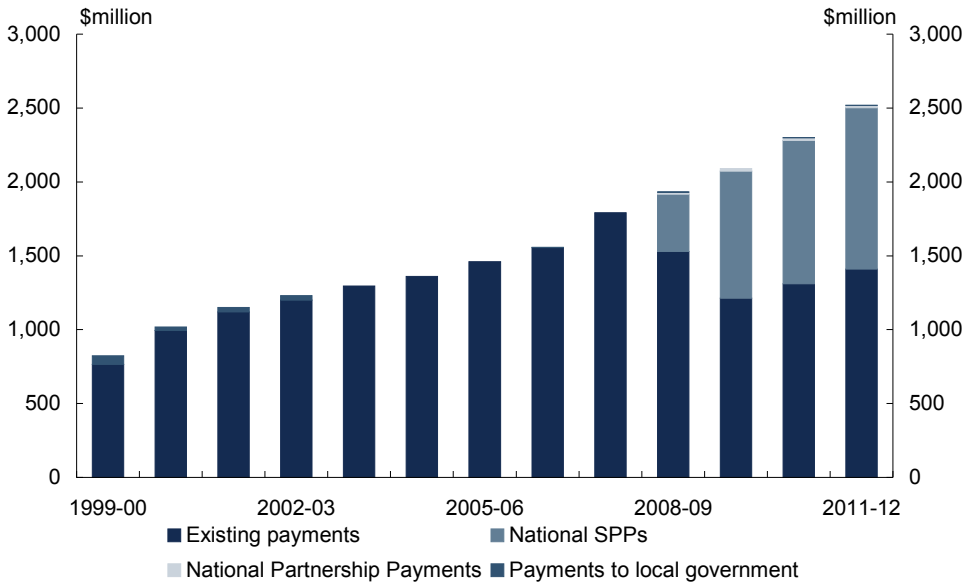
(b) Total expenditure on Australian Technical Colleges is estimated at \$459.2 million over the five years to 2011-12. Most of this funding is classified as Australian Government own-purpose expenses. Payments to the States for this program are included under non government schools programs to 2008-09 and National early childhood development and schools agreement from 2008-09.

Community services

The Government will redirect funding of \$901.2 million over four years from the Disability Assistance Package to the Commonwealth State Territory Disability Agreement. The funds to be transferred in each year are: \$124.5 million in 2008-09; \$154.4 million in 2009-10; \$252.6 million in 2010-11; and \$369.7 million in 2011-12.

From 1 July 2008, the States will be responsible for delivering accommodation support services that were to be delivered by the Commonwealth under the Disability Assistance Package. This is consistent with the States' general responsibilities under the Commonwealth State Territory Disability Agreement for disability accommodation services. These services will assist parent carers, aged 65 or more, to obtain supported accommodation in the community for their adult children with a disability.

Chart 3.5: Payments to support state community services



Source: Final Budget Outcomes and Budget estimates.

From 1 January 2009, the Commonwealth will provide a financial contribution to support state disabilities services under the new national disabilities services agreement. This new national SPP will incorporate the following existing payments:

- \$612.4 million to have been paid to the States in 2008-09, under the terms of the Commonwealth State Territory Disability Agreements, through the disabilities services program to assist in the provision of accommodation support and other services for people with disabilities;
- \$901.2 million over four years redirected from the Disability Assistance Package; and
- \$14.2 million to have been paid to the States in 2008-09, under the young people with disabilities program, for the purpose of reducing the number of younger people with a disability in residential aged care, with priority given to people aged less than 50 years.

The following existing payments will continue to be paid from 1 January 2009 as National Partnership payments:

- \$3.2 million in 2008-09 to support state services to assist humanitarian minors without parents in Australia and the families providing their care through early intervention, counselling and assistance by state welfare agencies.

Election commitments and other policy decisions included in this Budget that will be implemented through National Partnership payments include the following:

- \$100 million in 2007-08, under the Commonwealth State Territory Disability Agreement, to assist the States to provide supported accommodation services for people with a disability; and
- \$50.0 million over the four years from 2008-09 to establish a national reciprocal transport entitlement for state and territory government seniors' card holders.

Further information on these policy decision is included in Budget Paper No. 2.

Table 3.5: Payments to support state community services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National disabilities services agreement		387.8	860.3	970.6	1,091.9
Disabilities services	736.9	373.6			
Young people with disabilities	13.9	14.2			
National Partnership payments					
Unaccompanied humanitarian minors	2.2	3.2	3.3	3.4	3.5
<i>including Election commitments</i>					
National reciprocal transport concessions	-	12.5	12.5	12.5	12.5
Payments to local government(a)					
Disabilities services	1.5	1.6	1.6	1.6	1.7
Existing payments					
Family violence partnership(a)	22.8	17.4	5.5	5.6	5.7
Home and community care(a)	1,014.0	1,103.9	1,189.9	1,287.2	1,385.2
Home and community care services for veterans(b)	-	17.4	17.9	18.5	18.5
National action plan to build on social cohesion, harmony and security	0.5	1.0	-	-	-
Total	1,791.8	1,932.5	2,091.1	2,299.4	2,519.0

(a) The treatment of this payment under the new framework for federal financial relations is yet to be decided.

(b) Prior to 2008-09, payments for home and community care services for veterans under the Veterans' Home Care program were classified as Australian Government own-purpose expenses.

The Commonwealth provides funds to the States under the home and community care program for the provision of appropriate community care services to help frail aged

people, people with a disability and veterans live independently in their homes for as long as possible. Funding for this program will continue beyond 2008-09, although its treatment under the new framework for federal financial relations is yet to be decided.

The Commonwealth provides funds to the States under the family violence partnerships program to assist the States to jointly fund projects designed to reduce and prevent the incidence of family violence in Indigenous communities. Funding for this program will continue beyond 2008-09, although its treatment under the new framework for federal financial relations is yet to be decided.

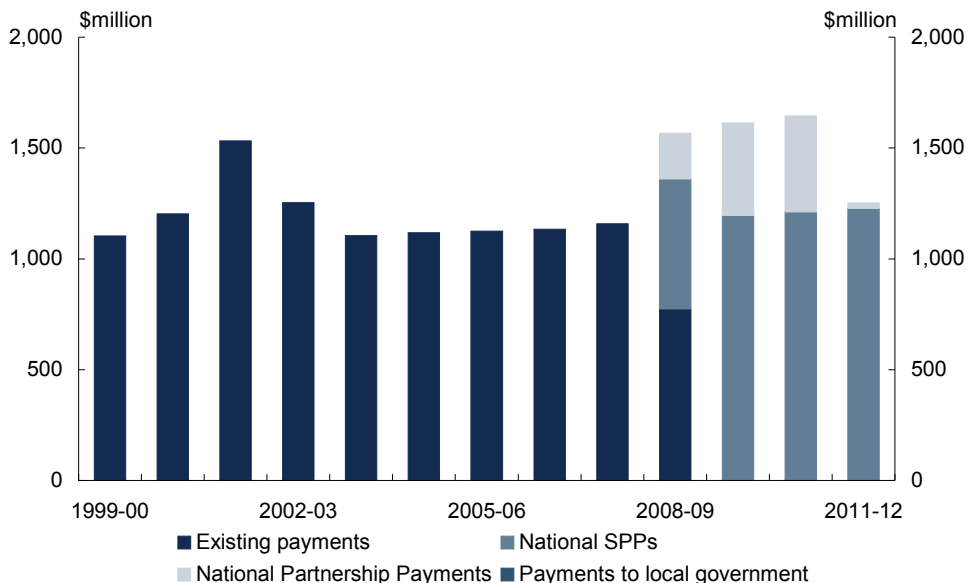
The Commonwealth makes a financial contribution, under the national action plan to build on social cohesion, harmony and security, to projects with the States aimed at further integrating the Muslim community into the broader Australian society. This program was due to lapse from 1 July 2010. As part of the new framework for federal financial relations, the \$482,000 scheduled to be paid in 2009-10 will be brought forward and paid in 2008-09.

Housing

From 1 January 2009, the Commonwealth will provide a financial contribution to support state housing services under the new national affordable housing agreement. This new national SPP will incorporate the following existing payments:

- \$776.5 million in 2008-09 for the provision of public rental housing for low to moderate income households;
- \$189.5 million in 2008-09 to assist people who are homeless and in crisis;
- \$68.5 million in 2008-09 to develop community housing which provides appropriate and affordable rental accommodation for low to moderate income earners;
- \$42.5 million in 2008-09 for the acquisition of accommodation for use under the supported accommodation assistance program; and
- \$97.4 million in 2008-09 to assist Indigenous people on low to moderate incomes to access rental housing.

Chart 3.6: Payments to support state housing services



Source: Final Budget Outcomes and Budget estimates.

The following existing payments will continue to be paid from 1 January 2009 as National Partnership payments:

- \$363.4 million in 2008-09 for housing and infrastructure for Indigenous people in remote areas.

Election commitments and other policy decisions included in this Budget that will be implemented through National Partnership payments include the following:

- \$150.0 million over five years (including \$50.0 million in 2012-13) to deliver up to 600 homes across Australia for families and individuals who are homeless – States will be provided with funding for the construction or purchase of homes or the renovation of existing public housing stock.

Further information on this policy decision is included in Budget Paper No. 2.

Table 3.6: Payments to support state housing services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National affordable housing agreement		587.2	1,193.9	1,209.5	1,225.2
Commonwealth-State Housing Agreement block assistance/ base funding	765.2	388.3			
Community housing	67.5	34.3			
Crisis accommodation assistance	41.8	21.2			
Housing assistance for indigenous people	96.0	48.7			
Supported accommodation assistance	185.8	94.7			
National Partnership payments					
Indigenous housing and infrastructure	-	363.4	392.6	408.5	-
<i>including Election commitments</i>					
Homes for the homeless	-	25.0	25.0	25.0	25.0
Existing payments					
*Additional first home owners scheme	-	2.4	-	-	-
Social housing subsidy program	2.0	2.0	2.0	2.0	2.0
Total	1,158.4	1,567.2	1,613.5	1,645.0	1,252.2

* Items so marked are classified as payments through the States.

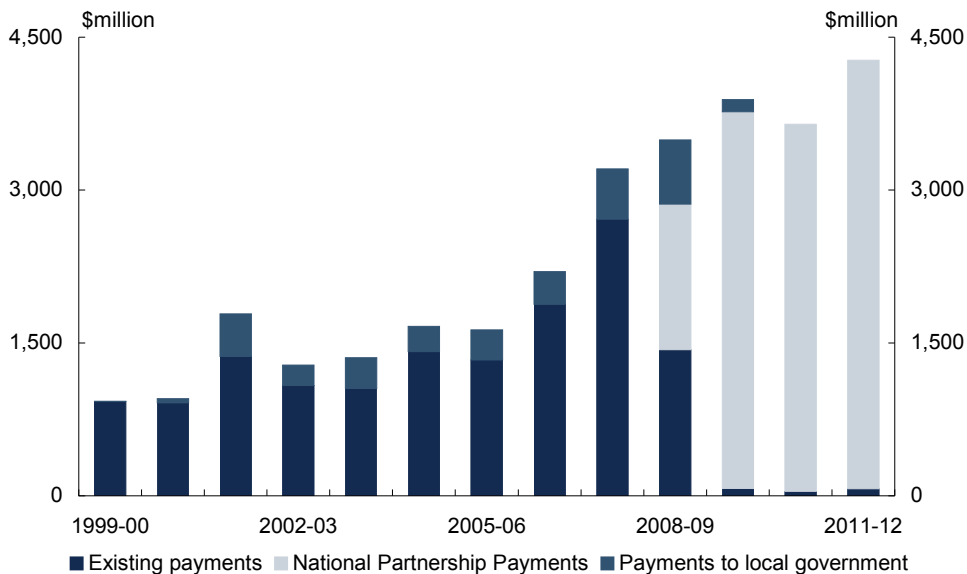
In 2008-09, the Commonwealth will provide \$2 million to New South Wales as part of the social housing subsidy scheme. The program aims to expand housing options for low to moderate income earners by subsidising the recurrent costs of additional rental accommodation. The Australian Capital Territory and Queensland received payments up to 2004-05 and 2000-01 respectively. Funding for this program will continue beyond 2008-09, although its treatment under the new framework for federal financial relations is yet to be decided.

Infrastructure

The following existing payments to support state infrastructure provision will continue to be paid from 1 January 2009 as National Partnership payments.

- \$2.7 billion in 2008-09 under AusLink for the development, construction and maintenance of land transport projects on the national land transport network, some continuing projects off the network, 'black spots' projects and roads in unincorporated areas; and
- \$60.7 million in 2008-09, under the *Interstate Road Transport Act 1985*, equal to total revenue received from the States from registrations made under the federal interstate registration scheme and payments of amounts equal to penalties arising from prosecutions under the Act.

Chart 3.7: Payments to support for state infrastructure



Source: Final Budget Outcomes and Budget estimates.

Election commitments and other policy decisions included in this Budget that will be implemented through National Partnership payments include the following:

- \$23.3 million in 2008-09 to upgrade the Kings Highway between Queanbeyan and Bungendore, New South Wales – the main link to the new Defence Headquarters Joint Operations Command – to improve road safety for local communities and reduce the impact of the new establishment on traffic volumes.

Further information on this policy decision is included in Budget Paper No. 2.

Table 3.7: Payments to support state infrastructure services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National Partnership payments					
AusLink	2,650.7	2,748.4	3,631.2	3,534.9	4,133.7
Interstate road transport	57.5	60.7	64.0	67.5	71.2
<i>including Election commitments</i>					
Kings Highway - upgrade	-	23.3	-	-	-
Payments to local government(b)					
AusLink	491.5	628.6	119.5	-	-
Funding for road projects other than under AusLink	0.7	0.4	-	-	-
Existing payments					
Federation fund projects - NSW/VIC	-	1.0	14.0	-	-
Funding for road projects other than under AusLink(a)	5.4	29.7	59.0	45.0	70.0
Total	3,205.7	3,492.0	3,887.7	3,647.3	4,274.9

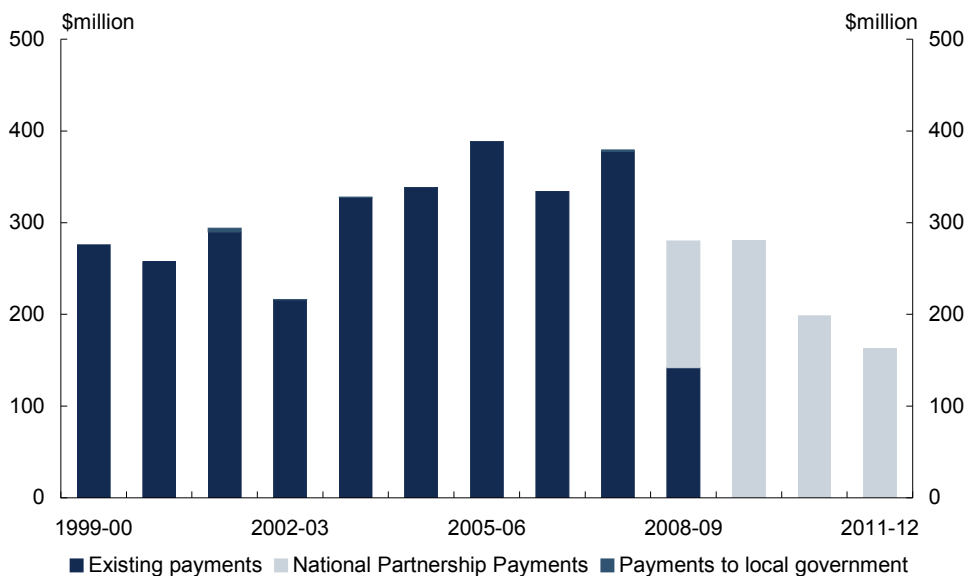
(a) The treatment of these payments under the new framework for federal financial relations is yet to be decided.

Environment

The following existing payments will continue to be paid from 1 January 2009 as National Partnership payments:

- \$387,000 in 2008-09 to fund the exotic disease preparedness program, which supports investigations into the role of wildlife species in the maintenance and spread of emerging animal diseases and incursion of major exotic diseases of animals;
- \$77.0 million in 2008-09 to support water initiatives under Water for our Future, including:
 - \$20 million for the Improving Water Information program, to improve the detail and scope of nationally available water information, which will allow the Bureau of Meteorology to forecast, analyse and publicly report on water resources;
 - \$8.3 million for the Great Artesian Basin sustainability initiative, to assist with the implementation of the Great Artesian Basin management plan; and
 - \$48.5 million for National Water Initiative, to address declining river health of the Murray River system and other over-allocation issues in the Murray-Darling Basin.

Chart 3.8: Payments to support state environmental services



Source: Final Budget Outcomes and Budget estimates.

Policy decisions included in this Budget, to be paid from 1 January 2009 as National Partnership payments, include the new \$2.2 billion Caring for our Country program, which replaces the Natural Heritage Trust and National Landcare, Environmental Stewardship and Working on Country programs. Caring for our Country represents a new, coordinated approach to environment management in Australia. The new program will be built on transparent and consistent national targets to achieve outcomes in areas of national priority.

Under Caring for our Country, regional bodies will continue to receive guaranteed funding of at least 60 per cent of historical average funding to secure their operations. Remaining funding will be provided to relevant organisations, including existing regional bodies, on a competitive basis through a simple ‘one-stop’ shop, with successful proposals being able to demonstrate that their activities will efficiently and effectively contribute to achieving national priority outcomes.

Further information on this policy decision is included in Budget Paper No. 2.

Table 3.8: Payments to support state environmental services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National Partnership payments					
Exotic disease preparedness program	0.4	0.4	0.4	0.4	0.4
Water initiatives					
Great Artesian Basin sustainability initiative	8.1	8.3	14.9	14.9	14.9
Improving water information	10.0	20.0	20.0	20.0	10.0
National water initiative -					
Living Murray	60.8	48.7	67.1	-	-
Renewable remote power generation	27.0	40.0	40.5	25.0	-
<i>including Election commitments</i>					
Caring for our Country(a)	-	159.0	138.0	138.0	138.0
Payments to local government					
Blackburn Lake Sanctuary	1.8	-	-	-	-
Existing payments					
Eradication of red imported fire ant	7.0	3.3	-	-	-
National landcare program	26.8	-	-	-	-
Natural Heritage Trust of Australia -					
Bushcare	44.7	-	-	-	-
Coastcare	16.9	-	-	-	-
Landcare	34.3	-	-	-	-
Rivercare	35.4	-	-	-	-
National action plan for salinity and water quality	91.7	-	-	-	-
*Photovoltaic rebate program	12.8	-	-	-	-
Plant disease and eradication	0.7	0.4	-	-	-
Tasmanian water infrastructure	1.1	-	-	-	-
Total	379.5	280.1	280.8	198.3	163.3

* Items so marked are classified as payments through the States.

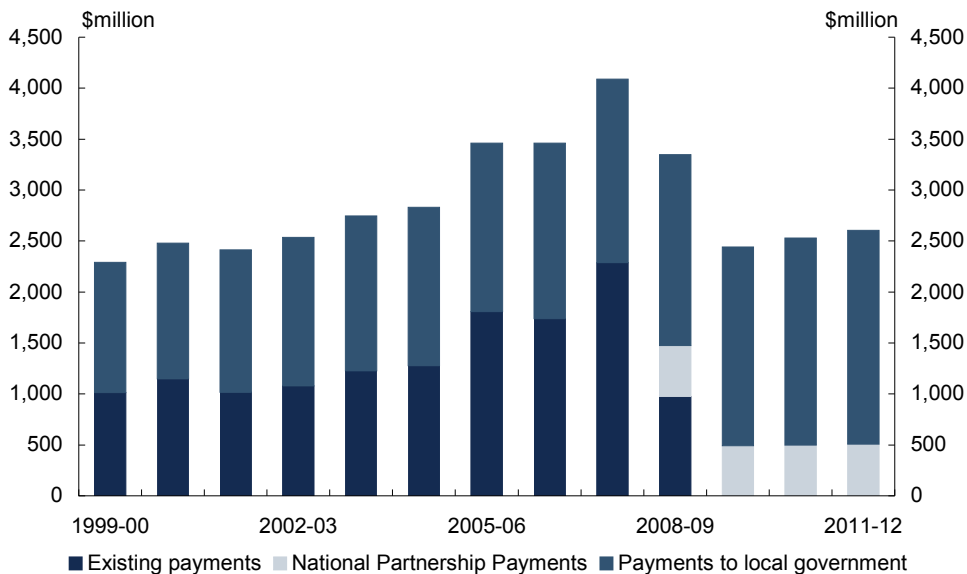
(a) The payment profile reflects continuation of 60 per cent of average historical funding under the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality.

Other services

From time to time, the Commonwealth has also made various payments to the States to support other services, including payments in respect of:

- agriculture, forestry and fishing;
- public order and safety;
- fuel and energy; and
- recreation and culture.

Chart 3.9: Payments to support other state services



Source: Final Budget Outcomes and Budget estimates.

The following existing payments will continue to be paid from 1 January 2009 as National Partnership payments:

- \$206.0 million in 2008-09 to compensate the States for the extra costs resulting from the liberalisation of access to the Commonwealth’s Pensioner Concession Card in 1993, in which the States agreed to provide a core set of concessions to all cardholders;
- \$159.4 million in 2008-09, to the States’ legal aid commissions for the provision of legal assistance in Commonwealth matters; and
- \$5 million in 2008-09 to assist bushfire mitigation in the construction, maintenance and signage of fire trail networks to assist local communities better prepare for bushfires.

The Government will no longer provide payments to the States and the Northern Territory arising from the transfer of companies regulation to the Commonwealth in 1991. These payments are no longer relevant, given the broader reform to the financial framework of the Commonwealth-State relations. This measure will provide savings of \$746.6 million over four years and delivers on the Government’s commitment to responsible economic management.

Table 3.9: Payments to support other state services

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National Partnership payments					
*Bushfire mitigation program	5.0	5.0	5.0	5.0	5.0
Extension of fringe benefits	206.0	219.7	226.9	234.5	239.7
Legal aid(a)	41.0	159.4	163.7	168.1	171.3
<i>including Election commitments</i>					
Albert Hall, Canberra - restoration assistance grant	-	-	0.5	-	-
Payments to local government					
Bert Hinkler Hall of Aviation	1.5	-	-	-	-
*Financial assistance grants					
General purpose assistance	1,230.7	1,288.0	1,340.0	1,395.6	1,453.3
Untied local roads grants	547.1	571.5	594.6	619.3	644.9
Supplementary funding to SA councils for local roads	13.6	14.2	14.8	15.4	-
Local community sporting infrastructure	5.0	-	-	-	-
Regulation Reduction Incentive Fund	0.4	-	-	-	-
Strengthening Tasmania	4.8	1.5	-	-	-
Existing payments					
ACT national capital influences(b)	24.0	12.2	-	-	-
Agriculture - Advancing Australia - FarmBis	8.1	-	-	-	-
Assistance for water and sewerage(b)	9.6	4.9	-	-	-
CrimTrac Police Reference System	2.5	4.7	-	-	-
Compensation - companies regulation	173.9	-	-	-	-
Compensation - Snowy Hydro Ltd(b)	36.3	23.3	-	-	-
*Natural Disaster Mitigation Program	27.7	34.6	-	-	-
Equine influenza emergency response	97.2	-	-	-	-
Film and literature classifications(c)	0.8	0.9	0.9	0.9	0.9
Improving policing in very remote areas	11.2	26.3	0.4	-	-
Regional assistance	0.3	-	-	-	-
Royalties(b)	732.0	351.4	-	-	-
Standard Business Reporting Program	3.2	7.1	3.0	-	-
Sydney Cricket Ground - new grandstand	15.0	10.0	-	-	-
Tasmanian forests package	19.0	-	-	-	-
Total	3,215.9	2,734.8	2,349.8	2,438.8	2,515.0

* Items so marked are classified as payments through the States.

(a) Prior to 2008-09, payments to New South Wales, Victoria and Queensland were classified as Commonwealth own-purpose expenses.

(b) Reclassified to general revenue assistance from 1 January 2009.

(c) The treatment of this payment under the new framework for federal financial relations is yet to be decided.

Contingent payments

Contingent payments arise where the Commonwealth has committed to provide compensation when an event occurs or otherwise guarantees the States' financial

position. Payments to the States will only arise in the event that the relevant event occurs.

The following existing payments will continue to be paid from 1 January 2009, if a contingency arises, as National Partnership payments:

- \$523.8 million in 2008-09 for exceptional circumstances interest rate subsidies by the States aimed at facilitating the delivery of exceptional circumstances support to farmers in a region or an industry that is experiencing a severe downturn due to a rare and severe climatic or other event; and
- \$89.5 million in 2008-09, under the Natural Disaster Relief and Recovery Arrangements, to partially reimburse the States for their expenditure on relief assistance following an eligible natural disaster.

Table 3.10: Contingent payments to the States

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
National Partnership payments					
Exceptional circumstances assistance	783.4	523.8	-	-	-
Hepatitis C settlement fund	1.6	1.4	1.4	1.4	1.4
Native title	-	-	-	-	-
Natural disaster relief	89.5	89.5	89.5	89.5	89.5
Total	874.5	614.8	90.9	90.9	90.9

For more than a decade, the Commonwealth has offered to enter into bilateral agreements with the States to contribute to the costs of paying compensation that may arise for the extinguishment of native title. To date, no agreement has been concluded and no payments have been made. However, financial assistance to the States remains a possibility.

The Commonwealth hepatitis C litigation scheme provides a contribution to the settlement costs of those who have been infected with hepatitis C via blood transfusions which occurred between 1985 and the early 1990s. Due to the nature of the program, payments are made on an ad hoc basis, with the States providing regular updates and estimates of current settlement matters and negotiations for settlement. In 2008-09, the Commonwealth is expected to provide \$1.4 million to the States under current payment arrangements.

Local government

The Commonwealth provides a financial contribution to local governments to enhance their capacity to provide services to the community. Funding is paid through the States to be passed on to local government, as well as directly to local government. In 2008-09, total payments to local government will total \$2.5 billion, as shown in Table 3.11.

Table 3.11: Payments to support local government (accrual basis)

\$million	Estimates		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
*Financial assistance grants					
General purpose assistance	1,230.7	1,288.0	1,340.0	1,395.6	1,453.3
Untied local roads grants	547.1	571.5	594.6	619.3	644.9
Supplementary funding to SA councils for local roads	13.6	14.2	14.8	15.4	-
Payments for specific purposes					
AusLink	491.5	628.6	119.5	-	-
Blackburn Lake Sanctuary	1.8	-	-	-	-
Bert Hinkler Hall of Aviation	1.5	-	-	-	-
Children's services	40.6	42.1	42.8	43.4	44.1
Disability services	1.5	1.6	1.6	1.6	1.7
Funding for road projects other than under AusLink	0.7	0.4	-	-	-
Local community sporting infrastructure	5.0	-	-	-	-
Regulation Reduction Incentive Fund	0.4	-	-	-	-
Strengthening Tasmania	4.8	1.5	-	-	-
Total	2,339.1	2,547.8	2,113.3	2,075.4	2,144.0

* Financial assistance grants are classified as payments through the States.

The Commonwealth has provided general purpose assistance to local governments since 1974-75. This funding is untied and can be spent according to each local government's own priorities. From 1988-89, the ACT has also been included in these grants, reflecting its combined responsibility for both state and local government functions. General purpose assistance is the larger of the two components of the financial assistance grants for local government and is distributed between the States on a per capita basis.

In 1991-92, payments made to local government for roads became untied funding and added to the financial assistance grants. Although the untied local roads grants are no longer required to be spent on roads, they are distributed between the States using fixed state splits, based on the interstate road shares which were calculated before the funding became untied.

State grants commissions determine the intra-state distribution of the financial assistance grants between local governments.

The financial assistance grants are increased annually based on an escalation factor which the Treasurer determines with reference to population growth and the consumer price index. In 2008-09, the grants will total \$1.9 billion, with an estimated escalation factor of 4.5 per cent.

Since 2004-05, the Commonwealth has agreed to provide South Australia with supplementary funding to address its apparent disadvantage under the current distribution of the untied local roads grants. South Australia will receive \$14.2 million for this purpose in 2008-09.

The Commonwealth also makes payments direct to local governments to help fund local roads and infrastructure, disability services, child care and other services administered by local governments. In 2008-09, these payments will total \$674.1 million.

The treatment of local government payments under the new framework for federal financial relations is yet to be decided.

Distribution of financial assistance grants

State shares of financial assistance grants for 2007-08 and 2008-09 are shown in Table 3.12 on a cash basis. The cash totals vary from the accrual totals shown in Table 3.1 due to adjustments for any overpayment or underpayment from the previous year. These adjustments arise because the Treasurer determines the escalation factors in the June prior to the end of each financial year, and the adjustment in the following financial year ensures that local governments receive their correct entitlement using a final escalation factor.

Table 3.12: Financial assistance grants to local government (cash basis)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2007-08									
General purpose assistance	399	304	244	122	93	29	20	13	1,223
Untied local road funding	157	112	102	83	30	29	17	13	543
Total(a)	557	415	346	205	123	58	37	25	1,766
2008-09									
General purpose assistance	425	322	259	131	98	30	21	13	1,299
Untied local road funding	167	119	108	88	32	31	18	14	577
Total(b)	592	441	367	219	129	61	39	27	1,876

(a) The 2007-08 estimate takes into account an underpayment of \$2.4 million in 2006-07. The Treasurer will determine the final 2007-08 escalation factor in June 2008. The 2007-08 escalation factor is currently estimated to be 1.0533.

(b) The 2008-09 escalation factor is currently estimated to be 1.0447. Financial assistance grants in 2008-09 will be paid on the basis of the escalation factor that the Treasurer will estimate in June 2008. The Treasurer will determine the final escalation factor for 2008-09 in June 2009. The 2008-09 estimate includes the estimated adjustment for the difference between the 2007-08 escalation factor estimated in June 2007 (used to calculate payments in 2007-08) and the final factor for 2007-08 (to be determined in June 2008). Using current estimates, this adjustment will be an increase of \$16.5 million.