

PART 1: AUSTRALIA'S FEDERAL RELATIONS

On 29 November 2008, COAG agreed to the most significant reform of Australia's federal relations in decades.

The new framework for federal financial relations commenced on 1 January 2009 and involves significant rationalisation of the number of payments made to the States, while increasing the overall quantum of payments. The framework provides clearer specification of the roles and responsibilities of each level of government so that the appropriate government is accountable to the community. It also provides incentives for reform through National Partnership reform payments, and more transparent reporting of outcomes to drive better service delivery and reform.

The COAG financial framework reforms provide a strong foundation for the far-reaching economic and social reforms which are necessary to boost productivity and workforce participation. The framework is also facilitating the delivery of economic stimulus through a short-term expansion in state government service delivery programs – particularly in the areas of school and community infrastructure and housing.

OVERVIEW

The weight of the global financial crisis is bearing down on the Australian economy. The global recession and the unwinding of the commodity boom has resulted in substantial downward revisions to Commonwealth revenues, including GST revenues which are provided to the States. Most States have also seen large falls in revenues from their own taxes. The reduction in revenues, at a time when all governments are trying to deliver productivity-enhancing infrastructure and necessary public services to stimulate the economy, has resulted in a significant shift in the public sector fiscal position.

The Commonwealth has acted to support economic growth and jobs through the Economic Security Strategy, the Nation Building and Jobs Plan and Jobs, and Training and Youth Transitions. These packages deliver stimulatory measures including the First Home Owners Boost, increased investment in schools, housing, community infrastructure and roads, and assistance for young people to access education and training places.

The new framework has been critical in enabling all Australian Governments to work together to tackle the global recession and respond to these economic challenges with immediate and concerted action. The States have been important partners in implementing the Nation Building and Jobs Plan and the Compact with young Australians to increase young people's engagement with education and training pathways. In addition, the Commonwealth guarantee of state and territory borrowing

will ensure that the States have the capacity to raise debt to undertake their infrastructure projects.

The Nation Building and Jobs Plan and the Commonwealth guarantee complement the longer term reforms agreed by COAG on 29 November 2008. The COAG reforms introduce a new era of cooperative federal financial relations that provide a solid foundation for far-reaching economic and social reforms. Central to the COAG reforms is a substantial financial package targeted at driving longer term reforms and improving key government services, including in the areas of health, education and housing.

As a result of the deteriorating economic environment, GST payments to the States have been revised down significantly since the 2008-09 Budget. Owing to the reduction in GST revenue going to New South Wales, South Australia, Tasmania and the Northern Territory, the Commonwealth will provide these States with \$286 million in budget balancing assistance in 2008-09 – the first time since 2003-04 that this assistance has been paid.

Although GST payments to the States will fall in 2008-09, total payments to the States in 2009-10 are estimated to be \$6.9 billion higher, largely owing to the Commonwealth's significant investment in longer term reforms through the COAG package and the Nation Building and Jobs Plan.

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 has increased over the last year, owing to the reduction in state revenues combined with expanded investment and service delivery. The Commonwealth is assisting the States' finances by increasing payments to the States and guaranteeing their borrowing.

The level of horizontal fiscal equalisation has been relatively stable at 8-9 per cent of the GST pool since July 2000. The objective of horizontal fiscal equalisation is

essentially for the smaller States to have the same capacity to provide services at the same standard as the larger States, while ensuring that interstate transfers are not so large that they would significantly distort economic behaviour and reduce productivity growth.

In the past, blurred roles and responsibilities between all levels of government have been an impediment to progressing national reforms that are necessary to build the productive capacity of the economy. Many of the short-term and longer term challenges facing the economy are issues that can only be addressed through effective cooperation between both levels of government. The new framework for federal financial relations is enhancing public accountability for service delivery by clarifying roles and responsibilities between levels of government, improving reporting on performance and instilling more collaborative working arrangements.

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 2007-08, the Commonwealth transferred approximately \$74.5 billion to the States in the form of GST revenue and payments for specific purposes, accounting for around 46.2 per cent of total state revenue.

It is likely that this proportion will increase as a result of the fall in states' own-source revenue. The increase in Commonwealth funding to the States through the Nation Building and Jobs Plan and the Nation Building Package will increase the gap between the funding the States receive from the Commonwealth and their own-source revenue.

Commonwealth financial assistance to the States comprises all GST revenue, plus a small amount of other general revenue assistance, and payments for specific purposes. 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. Taking this into account, the level of vertical fiscal imbalance is broadly in line with other comparable federations.

It was always envisaged when the Constitution was being drafted that the Commonwealth would raise more revenue than it would need to perform its core functions. Consequently, explicit provisions were included to allow the Commonwealth to transfer surplus revenue in the form of general revenue assistance to the States.

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 GST revenue sharing relativities provide that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide a uniform standard of service.

Horizontal fiscal equalisation generally provides the necessary budget support to the smaller States so that they have the capacity to provide services at a comparable standard to the larger States, while ensuring that interstate transfers are not so large that they would significantly distort economic behaviour and reduce productivity growth.

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.

In Australia over the past few decades, the proliferation of small payments to the States, and the increasing Commonwealth prescription accompanying these payments, have been a source of increasingly blurred roles and responsibilities, duplication and overlap, high administration costs and cost-shifting.

The new federal financial framework brings greater clarity to the roles and responsibilities of the Commonwealth and the States. A reinvigorated and cooperative COAG is advancing this modern federalism agenda.

Through COAG, the Commonwealth and the States have committed to enhance public accountability through simpler, standardised and more transparent public performance reporting.

THE NEW FRAMEWORK FOR FEDERAL FINANCIAL RELATIONS

COAG has implemented a new framework for federal financial relations, with the key priorities being to modernise payments for specific purposes and drive economic and social reforms. The COAG agenda is an important step in the Government's long-term plans to:

- deliver better services for all Australians, wherever they live;
- address social inclusion, including in respect of homelessness and Indigenous disadvantage;
- develop human capital;
- increase labour force participation;
- build national productivity;
- reduce costly waste and duplication in service delivery;
- create more effective markets for resources;
- increase our international competitiveness; and
- move towards a seamless national economy.

The *Intergovernmental Agreement on Federal Financial Relations*

On 29 November 2008, COAG affirmed its commitment to cooperative working arrangements by agreeing to an historic new *Intergovernmental Agreement on Federal Financial Relations* (the Intergovernmental Agreement) which provides the overarching framework for the Commonwealth's financial relations with the States. The new framework represents the most significant reform to Australia's federal financial relations in decades.

The new framework has not only established the foundation to deliver on long-term reform objectives, but has also allowed the Commonwealth and the States to work together to meet the immediate challenges of the global financial crisis.

The Intergovernmental Agreement, which commenced on 1 January 2009, establishes a robust 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 policy and financial relations between the Commonwealth and the States are now governed under the provisions of the Intergovernmental Agreement.

The main objective of the Intergovernmental Agreement is to improve the wellbeing of Australians through:

- collaborative working arrangements, including clearly defined roles and responsibilities and fair, sustainable financial arrangements, to facilitate a focus by the parties on long-term policy development and enhancing government service delivery;
- enhanced public accountability through simpler, standardised and more transparent performance reporting by all jurisdictions, and a focus on the achievement of outcomes, efficient service delivery and timely public reporting;
- reduced administration and compliance overheads;
- stronger incentives to implement economic and social reforms;
- the on-going provision of GST payments to the States, equivalent to the revenue received from the GST; and
- the equalisation of fiscal capacities between the States.

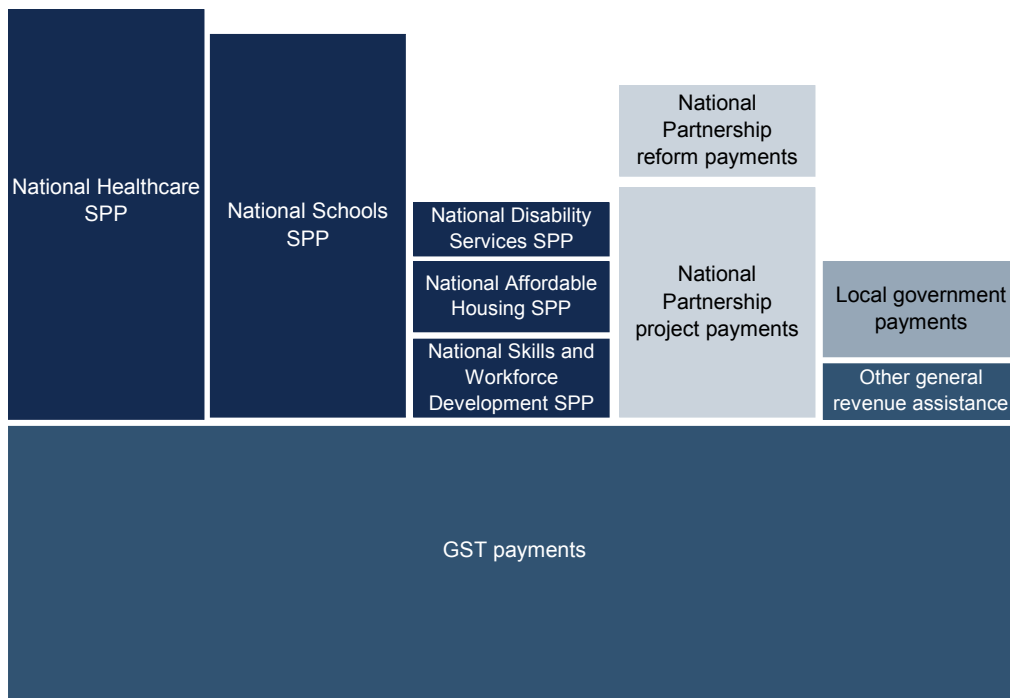
Funding

In agreeing to the new framework for federal financial relations, the Commonwealth committed to the provision of on-going financial support for the States' service delivery efforts through:

- general revenue assistance, including the on-going provision of GST payments to be used by the States for any purpose;
- National SPPs to be spent in key service delivery sectors; and
- National Partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally-significant reforms.

The framework rationalises the number of payments made to the States, centralises payment arrangements and provides greater funding certainty and flexibility for the States. The new payment structure is shown schematically in Chart 1.1.

Chart 1.1: Schematic of payments to the States in the new financial framework



Rationalisation

Under the new framework, the number of payments for specific purposes made by the Commonwealth has been reduced, without reducing the overall quantum of payments. Previously, each payment for a specific purpose had its own negotiating, administrative and monitoring processes. Under the new framework, the States continue to receive GST revenue, but the specific purpose payments have been rationalised into five new National SPPs:

- National Healthcare SPP;
- National Schools SPP;
- National Skills and Workforce Development SPP;
- National Disability Services SPP; and
- National Affordable Housing SPP.

The National SPPs are associated with six National Agreements, including the *National Indigenous Reform Agreement*, which contain the mutually-agreed objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities, that guide the Commonwealth and the States in the delivery of services across the sectors

of healthcare, education, skills and workforce development, disability services and affordable housing, and Indigenous reforms.

Greater flexibility

The new federal financial framework gives the States greater flexibility to direct resources to areas where they will produce the best results in each State. In the Intergovernmental Agreement, the Commonwealth has committed to move away from prescriptions on service delivery in the form of financial or other input controls which inhibit state service delivery and priority setting. Rather than dictating how things should be done, the new framework focuses on the achievement of mutually-agreed outcomes, providing the States with increased flexibility in the way they deliver services to the Australian people.

Under the new framework, the States are required to spend each National SPP in the relevant sector – for example, the States are required to spend the National Healthcare SPP in the healthcare sector – but they have budget flexibility to allocate funds within that sector in a way that ensures they achieve the mutually-agreed objectives for that sector.

While the States now have increased budget flexibility, they are also subject to greater accountability to the public through new reporting arrangements. In addition, roles and responsibilities have been clarified, and the performance of each jurisdiction will be independently assessed by the COAG Reform Council, reporting to the Prime Minister as Chair of COAG.

Opportunities to drive reforms

A central element of the new framework is National Partnership payments, which are a mechanism to drive reforms or improve service delivery standards through incentive payments. National Partnership payments are provided to the States to:

- support the delivery of specified outputs or **projects**;
- **facilitate** reforms; or
- **reward** those jurisdictions that deliver on nationally-significant reforms.

Each National Partnership payment is supported by a National Partnership Agreement which defines the mutually-agreed objectives, outputs and performance benchmarks.

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

The Government also recognises the need to support States to undertake priority reforms. Consequently, in areas that are a national priority – for example,

implementing the seamless national economy – National Partnership **facilitation** payments are being used to assist States to lift standards of service delivery or acknowledge their commitment to implement reforms.

National Partnership **reward** payments are provided to those States which deliver reform progress. The reward payments are structured in a way that encourages achievement of ambitious performance benchmarks detailed in a National Partnership agreement. To provide transparency and enhance accountability in the performance assessment process the achievement of these benchmarks will be assessed by the independent COAG Reform Council.

Payments to the States for National Partnerships will be channelled through the COAG Reform Fund.

Clearer roles and responsibilities

In the past, blurred roles and responsibilities between levels of government, as well as duplication and overlap, have been costly aspects of Australia's federal system, especially where they have undermined accountability through cost-shifting.

The new federal financial framework provides for clearer specification of roles and responsibilities for each jurisdiction. Clearly specified roles and responsibilities are important in enabling the community to understand which government is responsible for particular outcomes – and are therefore crucial for improving public accountability.

Improved public accountability

Improved accountability is a key objective of the new framework for federal financial relations. Commonwealth and state governments have committed to improving service delivery, by ensuring that the appropriate government is accountable to the community – not just for its expenditure in delivering services, but more importantly, for the quality and efficiency of the services it delivers and the outcomes it achieves.

While the States now have greatly improved budget flexibility in respect of the National SPPs, they are also subject to improved public performance reporting against clearly specified performance indicators and benchmarks.

Each of the six National Agreements establishes what the Commonwealth and States expect to achieve from their joint involvement, the role of each jurisdiction and the responsibilities for which they undertake to be accountable, and performance indicators and benchmarks which will inform the Australian public on progress towards achieving the outputs, outcomes and objectives.

The performance of the Commonwealth and the States in achieving mutually-agreed outcomes and performance benchmarks specified in National Agreements will be

monitored and assessed by the COAG Reform Council, which will report publicly on an annual basis. The performance reporting framework is outlined in greater detail in Part 6.

In addition, to assist the COAG Reform Council in its role, the Productivity Commission has been tasked by COAG to report every two to three years on the economic impacts and benefits of COAG's agreed reform agenda.

The new performance reporting framework, which commenced on 1 January 2009, reinforces the accountability of state governments to their own communities for their service delivery.

Centralised payment arrangements

A key feature of the new framework is centralised payment arrangements which will simplify payments to the States, aid transparency and improve the States' budget processes.

Previously, payments to the States were provided by Commonwealth portfolio departments to the relevant state agencies, and each payment had its own administrative arrangements. Under the new arrangements, all payments are centrally processed by the Commonwealth Treasury and paid directly to each state treasury. State treasuries will be responsible for distributing the funding within their jurisdiction.

For the first time in decades, the complexity of the Commonwealth's financial relations with the States will come under the umbrella of one piece of legislation, the *Federal Financial Relations Act 2009*. This will greatly improve public transparency of these payments and the ability of the Parliament to scrutinise the payment arrangements.

RESPONDING TO SHORT-TERM ECONOMIC CHALLENGES

The global financial crisis is having a significant impact on the Australian economy and on Commonwealth and state fiscal positions. The crisis has driven most major advanced economies into recession, and the key emerging economies of China and India are expected to slow markedly. The global commodity boom, which has provided a significant stimulus to the Australian economy and incomes over recent years, is unwinding.

The crisis has been a test of the responsiveness and flexibility of the new framework for federal financial relations. The framework has provided the foundation for greater cooperation between the Commonwealth and the States, and this has been crucial in delivering the key projects needed to assist in sustaining the Australian economy in the short-term.

The Commonwealth and the States have acted collaboratively on many fronts, including through the Commonwealth's announcement of economy-supporting interventions, such as the First Home Owners Boost, the Nation Building and Jobs Plan, education and training measures and the guarantee of state and territory borrowing.

Box 1.2: Jobs, Training and Youth Transitions

In response to economic forecasts suggesting the Australian economy will contract and unemployment, especially youth unemployment, will rise, the Commonwealth and the States have agreed to a series of education and training measures. On 30 April 2009, COAG agreed to immediate, concerted action to increase young people's engagement with education and training pathways including: a Compact with Young Australians; a National Youth Participation Requirement to make participation in education, training or employment compulsory for all young people until they reach age 17; and to bring forward COAG's 90 per cent Year 12 or equivalent attainment rate target from 2020 to 2015.

The Compact with Young Australians will ensure that every young person is able to access an education or training place, including that young people:

- aged 15-19 years will have an entitlement to an education or training place for any government-subsidised qualification, subject to admission requirements and course availability; and
- aged 20-24 years will have an entitlement to an education or training place for any government-subsidised qualification which would result in the individual attaining a higher qualification, subject to admission requirements and course availability.

Box 1.3: 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 continuing economic uncertainty, in this Budget the Government has announced that it will extend the First Home Owners Boost for an additional six months. It will continue in its current form for three months with the value of the grants halving for the three months to 31 December 2009.

For eligible first home buyers entering into contracts until 30 September 2009, the First Home Owners Boost will continue to provide an additional \$7,000 for the purchase of established homes or an additional \$14,000 for the purchase of new homes.

For eligible first home buyers entering into contracts between 1 October 2009 and 31 December 2009 (inclusive), the First Home Owners Boost will provide an additional \$3,500 for the purchase of established homes or an additional \$7,000 for the purchase of new homes.

When combined with the First Home Owners Scheme, the First Home Owners Boost extension means that:

- first home buyers who enter into contracts on or before 30 September 2009 will receive \$14,000 for established homes or \$21,000 for new homes; and
- first home buyers who enter into contracts between 1 October 2009 and 31 December 2009 (inclusive) will receive \$10,500 for established homes or \$14,000 for new homes.

Some States also provide additional assistance for first home buyers.

Economic stimulus packages

In response to the changing global economic environment, the Government has announced the following major stimulus packages aimed at boosting economic growth and helping to ensure that the Australian economy is better placed to withstand the impacts of the global economic 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.

Where infrastructure and public capital works projects can be implemented quickly, they are likely to prove effective in boosting demand in the short-term and adding to the productive capacity of the economy over the longer term. As many of the infrastructure projects are delivered by the States, the States have a central role in ensuring the timely delivery of key infrastructure measures.

The new federal financial framework is being used to deliver the Nation Building and Jobs Plan through the new *National Partnership Agreement on the Nation Building and Jobs Plan*. The National Partnership enlists the assistance of the States to deliver the economic stimulus through short-term expansion in programs for which the States are responsible, including funding for the:

- 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.

For the Nation Building and Jobs Plan to have the desired impact on the economy, it is essential the additional stimulus flows quickly into aggregate demand. This requires state capital expenditure in each of the targeted areas to be maintained, so that the capital investment under the plan is additional to such effort. New governance arrangements have been implemented to ensure timely delivery and the desired economic stimulus effect. Under the *National Partnership Agreement on the Nation Building and Jobs Plan*:

- the Ministerial Council for Federal Financial Relations has established expenditure and output benchmarks for each of the sectors to receive additional Commonwealth funding; and
- a coordination oversight group within the Department of the Prime Minister and Cabinet, chaired by the Coordinator-General, has been established to support and monitor the implementation of key infrastructure and stimulus measures.

The expenditure benchmarks allow assessment of whether the States have at least maintained their existing and planned level of expenditure during the period of increased Commonwealth expenditure.

The coordination oversight group reports to COAG on the progress of implementation. In consultation with other agencies, the oversight group may recommend interventions to prevent and address delays in the projects, and cost overruns. The States have established similar arrangements in their respective jurisdictions to ensure a coordinated project management approach is taken to the investment commitments.

The arrangements enable timely, regular advice to governments on whether the projects are meeting delivery timetables and objectives, and on strategies and interventions to prevent delays.

State borrowing

An important feature of the Australian response to the global financial crisis is the continued delivery of capacity-enhancing infrastructure projects, including by State governments. Such projects can provide employment opportunities in the short-term, while providing capacity-building support for the economy.

Deteriorating financial market conditions have reduced the States' ability to access debt markets and raise funds needed to finance these important infrastructure projects. In light of this, and the potential implications if the States were unable to access the debt markets, the Commonwealth has responded by guaranteeing state borrowing. This will ensure that the States have the capacity to raise debt and allow them to continue to roll out critical national infrastructure, and support local employment.

THE COAG REFORM AGENDA

The reforms to the framework for federal financial relations provide a robust foundation for collaboration on policy development and service delivery, and facilitate the implementation of economic and social reform in areas of national importance.

Through COAG, the Commonwealth and the States are implementing an ambitious reform agenda, focusing on the areas of health and ageing, education, skills and workforce development, housing, disability services, climate change and water, infrastructure, business regulation and competition, and Indigenous reform.

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

COAG funding

Central to the reforms is a funding package that will provide an additional \$7.1 billion through new National SPP funding to the States, and an additional \$8.1 billion through new National Partnership payments. Under the new framework the number of payments for specific purposes made by the Commonwealth has been reduced, while

increasing the overall quantum of payments. The package includes five new National SPPs with total additional funding over the five years from 2008-09 of:

- \$4,779 million in a National Healthcare SPP;
- \$1,048 million in a National Schools SPP;
- \$37 million in a National Skills and Workforce Development SPP;
- \$408 million in a National Disability Services SPP; and
- \$46 million in a National Affordable Housing SPP.

The package also includes the first of the National Partnership payments in respect of healthcare, the productivity agenda, skills and workforce development, affordable housing, Indigenous reform, and business regulation and competition.

COAG's policy objectives

COAG's reform agenda for the key social policy sectors is set out in six National Agreements which contain the mutually-agreed objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across healthcare, education, skills and workforce development, disability services and affordable housing, and Indigenous reform. Each of the National Agreements has a commitment to addressing social inclusion, including responding to Indigenous disadvantage.

National Healthcare Agreement

The *National Healthcare Agreement* affirms the commitment of the Commonwealth and the States to:

- ensuring that there is a focus of health policy on the prevention of disease and injury and the maintenance of health, not simply the treatment of illness;
- meeting the primary healthcare needs of all Australians efficiently through timely and quality care;
- ensuring people with complex care needs can access comprehensive, integrated and coordinated services;
- providing timely and appropriate high-quality hospital and hospital-related care to all Australians;
- meeting the needs of older Australians through high-quality, affordable health and aged care services that are appropriate to their needs, as well as enabling choice and seamless, timely transition within and across the different sectors;

- ensuring all Australians experience best-practice care that is suited to their needs and circumstances;
- achieving health outcomes for Indigenous Australians which are comparable to the broader population and those living in rural and remote areas; and
- a sustainable health system that can respond and adapt to future needs.

National Education Agreement

The *National Education Agreement* affirms the commitment of the Commonwealth and the States to the objective that all Australian school students acquire the knowledge and skills to participate effectively in employment and society.

The agreement recognises that ensuring all young people have the best possible start in life is vital to the wellbeing of families, communities and the nation. High-quality schooling, supported by strong community engagement, is central to Australia's future prosperity.

The agreement will contribute to shared outcomes, including:

- ensuring that all children are engaged in and benefiting from schooling, with a goal of lifting the Year 12 attainment rate to 90 per cent by 2015; and
- ensuring children meet basic literacy and numeracy standards and continuing to improve overall literacy and numeracy achievements.

National Agreement for Skills and Workforce Development

The *National Agreement for Skills and Workforce Development* aims to provide Australians with the opportunity to develop the skills and qualifications needed to participate in, and contribute to, the labour market.

Central to achieving this objective is a shared commitment to a national training system that is responsive to local needs, and delivers high-quality and nationally-consistent training outcomes. This will help to ensure that the skills provided by the national training system are responsive to changing labour market demand.

The reforms needed to achieve the objectives and outcomes in the agreement include reforming training products and services to meet a more demand and client-driven system and driving further competition in training arrangements.

National Disability Agreement

The *National Disability Agreement* commits the Commonwealth and the States to strive, through the provision of disability support services, to help people with disability and

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their carers achieve an enhanced quality of life and participate as valued members of the community.

To meet these objectives, governments have agreed to reform their services, including to:

- improve the provision of the services and opportunities to enhance the capacity of people with disability;
- ensure that services are person-centred and provide timely access to the necessary support needs;
- identify, plan and respond to the development and support needs of people with disability at an early stage and at key life transition points; and
- support the role of carers and families, including through strengthening their informal support networks.

National Affordable Housing Agreement

Through the *National Affordable Housing Agreement* the Commonwealth and the States have committed to the aspirational objective that all Australians have access to affordable, safe and sustainable housing which will assist them to participate in the labour force and more broadly in the community.

The Commonwealth and the States have also committed to reform directions that will enhance housing programs and services, including by improving the:

- integration of homelessness services and other mainstream services, such as employment services;
- operational efficiency of public housing and the employment outcomes of public housing tenants; and
- efficiency in the supply of housing through planning reforms.

National Indigenous Reform Agreement

The *National Indigenous Reform Agreement* sets out the objectives, outcomes and outputs needed to close the gap in Indigenous disadvantage. COAG has agreed to 'closing the gap' goals, including to:

- close the current life expectancy gap within a generation;
- halve the gap in mortality rates between Indigenous and non-Indigenous children under five within a decade;

- halve the gap in reading, writing and numeracy achievement between Indigenous and non-Indigenous Australians within a decade;
- halve the gap in employment outcomes and opportunities between Indigenous and non-Indigenous Australians within a decade;
- in the year before formal schooling, provide all children in remote communities with access to early childhood education within five years; and
- at least halve the gap for Indigenous students in Year 12, or equivalent, completion rates by 2020.

ESTIMATES OF PAYMENTS TO THE STATES

The Commonwealth is committed to the provision of on-going 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 2009-10, the Commonwealth will provide the States with general revenue assistance, including all GST revenue, of \$41.8 billion and payments for specific purposes of \$50.1 billion, totalling \$91.9 billion, as shown in Table 1.1. This represents an 8.0 per cent increase in total financial assistance compared with 2008-09.

Table 1.1: Commonwealth payments to the States

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008-09									
Payments for specific purposes	13,759	9,371	9,293	4,090	3,316	965	546	719	42,060
General revenue assistance	12,235	9,452	7,973	4,719	3,821	1,627	871	2,347	43,046
Total payments to the States	25,995	18,823	17,267	8,809	7,137	2,592	1,418	3,066	85,106
2009-10									
Payments for specific purposes	15,763	11,390	10,636	5,181	4,159	1,275	727	945	50,076
General revenue assistance	12,394	9,356	7,599	4,048	3,792	1,526	874	2,236	41,824
Total payments to the States	28,157	20,746	18,235	9,229	7,951	2,801	1,601	3,181	91,900
2010-11									
Payments for specific purposes	14,184	10,406	9,175	4,503	3,558	1,039	690	945	44,499
General revenue assistance	13,677	10,021	7,691	3,896	4,085	1,609	935	2,444	44,356
Total payments to the States	27,861	20,427	16,866	8,398	7,642	2,648	1,624	3,389	88,855
2011-12									
Payments for specific purposes	13,224	9,840	8,693	4,270	3,281	952	618	861	41,740
General revenue assistance	14,858	10,749	7,971	3,832	4,407	1,708	986	2,670	47,180
Total payments to the States	28,082	20,589	16,664	8,102	7,688	2,660	1,604	3,531	88,920
2012-13									
Payments for specific purposes	13,480	10,719	9,099	4,648	3,271	1,005	614	730	43,565
General revenue assistance	15,916	11,444	8,368	4,005	4,692	1,802	1,028	2,878	50,132
Total payments to the States	29,396	22,163	17,467	8,652	7,963	2,806	1,642	3,608	93,697

Payments for specific purposes

In 2009-10, the States will receive \$50.1 billion in payments for specific purposes, an increase of 19.1 per cent compared with the \$42.1 billion the States will receive in 2008-09.

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

General revenue assistance

In 2009-10, the States will receive \$41.8 billion in general revenue assistance, including GST payments of \$41.3 billion. This is a decrease of 2.8 per cent compared with the \$43.0 billion the States will receive in 2008-09.

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

Total payments to the States

Total payments to the States as a proportion of GDP averaged 6.8 per cent over the period 1999-00 to 2007-08. Over this period, general revenue assistance averaged 4.0 per cent and payments for specific purposes averaged 2.8 per cent as a proportion of GDP.

For 2009-10, total payments to the States as a proportion of GDP are estimated to be 7.8 per cent. General revenue assistance is estimated to be 3.6 per cent and payments for specific purposes 4.2 per cent of GDP.

Table 1.2: Total payments to the States

\$million	Previous payments for specific purposes	National SPPs	National Partnership payments	GST	Other general revenue assistance	Total	Growth	Per cent of GDP
2000-01	19,207	-	-	24,355	3,715	47,277	-	6.9
2001-02	21,458	-	-	26,632	4,841	52,931	12.0	7.2
2002-03	21,781	-	-	30,479	1,734	53,994	2.0	6.9
2003-04	22,940	-	-	33,219	647	56,806	5.2	6.8
2004-05	24,795	-	-	35,323	944	61,062	7.5	6.8
2005-06	26,904	-	-	37,182	1,039	65,125	6.7	6.7
2006-07	28,549	-	-	39,552	-	68,101	4.6	6.5
2007-08	31,994	-	-	42,630	-	74,624	9.6	6.6
2008-09	22,124	6,155	13,781	41,189	1,857	85,106	14.0	7.1
2009-10	1,441	24,392	24,243	41,330	494	91,900	8.0	7.8
2010-11	2,018	26,008	16,472	43,580	776	88,855	3.3	7.2
2011-12	2,091	27,802	11,846	46,460	720	88,920	0.1	6.8
2012-13	2,181	29,714	11,670	49,410	722	93,697	5.4	6.8