

ANSWERS TO QUESTIONS ON NOTICE

TREASURY PORTFOLIO

15 December 2010

Question no: 4

Topic: Dedicated GST

Hansard Page: E11

Senator asked:

**Senator CORMANN**—I am interested in what drives the variations, because you want to get to a certain percentage of overall health and hospital funding—in simple terms, when it is 60 per cent and there are various other bits and pieces. Is it that the more a state government currently invests in health and hospitals as a proportion of overall health and hospital funding in their state, the more GST they will have to hand over through his legislation?

**Ms Vroombout**—Proportion of GST in each state that is dedicated to health and hospital matters is driven by two things: one is the health costs in that state; and the other is the share of GST that they receive.

**Senator CORMANN**—I am sure there are different drivers. If Queensland, for example, spends more on health and hospitals as a proportion of overall health and hospitals funding in Queensland, is that one of the reasons?

**Ms Vroombout**—That is one of the reasons.

**Senator CORMANN**—That is one of the reasons why Queensland has to hand over more of their GST revenue to the Commonwealth—yes?

**Ms Vroombout**—That is one of the reasons, yes.

**Senator CORMANN**—Can you give us a breakdown of to what extent the different reasons contribute to the variations in share, because the states are currently spending more as a proportion of overall spending in their health; and to the extent that it is as a result of other variables?

**Ms Vroombout**—I do not have those numbers with me—

**Senator CORMANN**—No, but can you take it on notice?

**Ms Vroombout**—and we would have to go away and see if we can actually calculate that. As I said, the other key driver is the share of GST that each state gets. Through the Grants Commission processes, they all have different relativities.

**Senator CORMANN**—Sure. I am just interested in seeing the detail of that.

**Answer:**

The Commonwealth will dedicate the share of the GST required to fund the new arrangements specified in the NHHN Agreement so that they are budget neutral for both the Commonwealth and state and territory governments over the period 2011-12 to 2013-14 (the forward estimates period at the time of the NHHN Agreement). The share of GST dedicated depends on how much a state or territory spends on a per capita basis on health items that will be transferred to the Commonwealth and the share of GST each state or territory receives.

A state or territory that has a greater per capita spend on healthcare than average will have a lower proportion of that expenditure funded by the Commonwealth through the Healthcare

SPP (particularly in the context of the distribution of the Healthcare SPP moving to an equal per capita basis). This will result in a greater amount of GST dedicated when the Commonwealth increases its funding commitment as set out in the NHHN Agreement.

This is illustrated in the table below which shows the proportion of hospital and primary health care expenditure that was funded by the Commonwealth through the Healthcare SPP for the 2007-08 year (this is the most recent year for which there is actual expenditure data).

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
32%	35%	29%	27%	31%	30%	19%	22%	31%

(Source: Australian Institute of Health and Welfare)

The proportion of the GST revenue that will be dedicated to healthcare will also vary due to the effect of the existing horizontal fiscal equalisation (HFE) arrangements. For example, states that have sizable own source revenues are net contributors under HFE processes and, therefore, have a smaller GST pool from which to dedicate funds for healthcare. As a result, these states are likely to have a larger proportion of GST revenue dedicated to healthcare than other states and territories.

The table below shows the estimated GST relativities in 2010-11.

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
0.95	0.94	0.91	0.68	1.28	1.62	1.15	5.07

(Source: 2010-11 Mid-year Economic and Fiscal Outlook)

Together these factors result in, on average, 31 per cent of GST being dedicated to healthcare, but with significant variations between the states and territories.

The table below shows dedicated GST for 2011-12 as published in the 2010-11 MYEFO.

NSW	Vic	Qld	WA*	SA	Tas	ACT**	NT	Average
30%	25%	40%	60%	26%	20%	50%	14%	31%

\* The WA estimates was not published in the 2010-11 MYEFO on account of the state not being a signatory to the NHHN Agreement.

\*\* The higher levels of dedicated GST in the ACT reflect, in part, the significant numbers of NSW residents who are treated in ACT hospitals. The Commonwealth and affected States are currently considering the appropriate GST dedication arrangements for these cross-border patients.

Once the effect of HFE is taken into account, the proportion of total state revenue (undedicated GST and own-source revenue) dedicated to healthcare becomes more similar across the states and territories.

The table below shows Treasury's estimates of dedicated GST as a proportion of undedicated GST and own-source revenue in each state and territory in 2013-14.

NSW	Vic	Qld	WA	SA	Tas	ACT*	NT	Average
15%	13%	20%	17%	16%	16%	29%	15%	16%

(Source: Treasury estimates)

\* The higher levels of dedicated GST in the ACT reflect, in part, the significant numbers of NSW residents who are treated in ACT hospitals. The Commonwealth and affected States are currently considering the appropriate GST dedication arrangements for these cross-border patients.