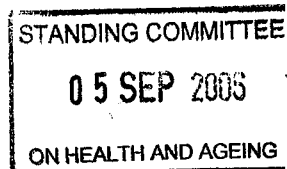


**Australian Government****Department of Health and Ageing****SECRETARY**

The Hon Alex Somlyay MP  
Chair  
House of Representatives Standing Committee on Health and Ageing  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Mr Somlyay

I am writing in response to your letter of 15 August 2006, asking for information on the relative public hospital funding by States and Territories.

The Commonwealth Grants Commission (CGC) publishes data that can be used to compare relative recurrent health expenditure across States and Territories. The most recent data are published in the Report of State Revenue Sharing Relativities 2006 Update, and its working papers.

For each State and Territory, the CGC estimates the cost of providing the Australian average level of services. This 'standardised expenditure' adjusts for the CGC's assessment of the impact of cost and demand factors beyond States' policy control.

In the inpatient services category, for example, the CGC adjusts for State differences in administrative scale, input costs and the sociodemographic composition of and dispersion of the State's population. The differences between assessed expenditure and actual expenditure can be used as an indicator of under or over funding relative to the CGC's assessment of the cost of providing the average level of services. High or low expenditure could result from higher or lower efficiency (relative to other States and Territories) or the provision of more or less than the average level of services in accordance with State policies and budget priorities. Differences may also be due to problems with data on actual expenditures or data used in CGC assessments.

The assessed level of expenditure per person to provide the average level of services and the actual level of expenditure in 2004-05 for inpatient services is shown below (Table 1). Assessment results are also provided for the non-inpatient and community health services category (Table 2) as some of these services are provided in hospitals or may be substitutable for hospital based services. Australian Government payments to States under the Australian Health Care Agreements (AHCA) and other specific purpose funding agreements are included in the actual data.

Table 1: In-patient services, assessment results, 2004-2005 – (\$ per capita)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Avg.
Actual \$ per capita	858.45	912.56	645.24	797.04	1031.64	639.34	735.71	1233.86	834.04
Assessed \$ per capita	839.83	797.09	838.58	815.06	906.93	863.09	653.88	1320.87	834.04
Ratio of actual to assessed	1.02	1.14	0.77	0.98	1.14	0.74	1.13	0.93	1.00

Table 2: Non-Inpatient and Community Health Services, assessment results, 2004-2005 (\$ per capita)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Avg.
Actual \$ per capita	415.09	342.59	384.02	514.96	510.31	794.20	528.75	810.02	423.19
Assessed \$ per capita	415.09	393.80	434.56	450.52	409.44	456.23	394.41	1004.94	423.19
Ratio of actual to assessed	1.00	0.87	0.88	1.14	1.25	1.74	1.34	0.81	1.00

Source: Report on State Sharing Relativities 2006 Update. Working Papers 2000-2001 to 2004-05.

The CGC makes similar assessments across all recurrent budget expenditure and revenue categories. These assessments ultimately determine the State by State distribution of the pool of GST revenue. In this process, the bulk of funds paid to each State and Territory under the Australian Health Care Agreements (AHCAs) are also redistributed to match the CGCs assessment of each State and Territory's need for general revenue assistance.

I trust this information has been of assistance.

Yours sincerely



Jane Halton  
Secretary

4 September 2006