

9.2 FEDERAL FINANCIAL RELATIONS

The Structure of Australia's Federal Financial Relations

The Australian federal system is characterised by significant vertical fiscal imbalance (VFI). The level of VFI in Australia has been exacerbated by a trend since Federation toward greater centralisation politically and financially, as a result of High Court interpretations of the Constitution. At the same time, as revenue raising capabilities decreased, funding responsibilities have increased.

It is for this reason States¹ are dependent on the Commonwealth's financial assistance. Commonwealth financial assistance provides the ACT with approximately 40 per cent of its revenue. Due to horizontal fiscal imbalance, whereby each State has a different capacity to raise revenues and deliver services, the level of federal funding a State requires varies.

Australia addresses this imbalance through the application of Horizontal Fiscal Equalisation (HFE) principles to the distribution of the Goods and Services Tax (GST) revenues to the States and a series of Commonwealth transfers in the form of direct grants.

The Framework for Federal Financial Relations

The current framework for federal financial relations is underpinned by the 2008 *Intergovernmental Agreement on Federal Financial Relations* (IGA-FFR), which came into effect on 1 January 2009.

The IGA-FFR consists of a core agreement and a series of schedules that can be modified by unanimous agreement of the Standing Council on Federal Financial Relations (SCFFR).

Details of the framework are outlined in the schedules covering institutional arrangements; taxation reform; public accountability and performance reporting; payment arrangements; funding mechanisms; and policy and reform objectives. Detailed information on the IGA-FFR and the federal financial relations framework can be found at www.federalfinancialrelations.gov.au. More detail on the decision making bodies is outlined later in the Chapter.

Horizontal Fiscal Equalisation – Review of GST Distribution

The Commonwealth Government commissioned a Review of the distribution of GST revenue to the States in March 2011.

The Terms of Reference (ToR) ask the Panel to consider whether the distribution of the GST and the current form of HFE will ensure that Australia is best placed to respond to a range of structural challenges and public confidence in the financial relationships within the Australian Federation is maintained.

The Review is considering a number of elements of the current distribution arrangements that, according to the Commonwealth, could be improved, such as the incentive for reform, the need for more certainty and predictability and the potential for greater simplicity.

The Commonwealth Government issued supplementary ToR on 17 November 2011 requesting the Panel to examine how the current system could be changed to ensure that HFE does not provide a disincentive to State tax reform.

1. The word 'State(s)' refers to the State(s) and Territory(ies) unless otherwise indicated.

The ACT has provided two submissions to the review which are publicly available on the GST Distribution Review secretariat's website: www.gstdistributionreview.gov.au.

The ACT will continue to be engaged in further consultations to facilitate the national interest as well as ensuring an equitable outcome for the ACT in the recommendations of the final report.

Horizontal Fiscal Equalisation – Commonwealth Grants Commission Update

Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2012 Update

Each year the CGC advises the Commonwealth Government on the appropriate per capita relativities for distributing the GST pool among the States. The distribution is made in line with the principles of horizontal fiscal equalisation and is designed to provide all States with the fiscal capacity to provide an average level of public service and associated infrastructure at the same standard to their population.

The CGC undertakes a detailed assessment of each State's capacity to raise revenues and the cost of providing services and infrastructure. State capacities are compared to the Australian average in order to determine whether a jurisdiction needs more, or less, than its population share of GST.

The assessments that underpin this annual process take into account the differences that exist between State economies such as natural resource endowments, population characteristics and remoteness.

In an update, the latest three year data (2008-09 to 2010-11 for the 2012 Update) are included in the assessments to capture the most recent impacts on the States. The assessment methods adopted in the 2010 Review have been retained and will not change until the next Review, which is likely to be finalised in either 2015 or 2016².

Outcome of the 2012 Update Report

The 2012 Update Report (the Report) was released on 24 February 2012. The CGC's Report recommended an increase in the ACT's GST relativity from **1.11647** (2011 Update) to **1.19757** (Revised 2012 Update).

These were agreed to by the SCFFR on 4 April 2012, and will be used to distribute the 2012-13 GST pool.

A comparison of the 2011 Update and *revised* 2012 Update relativities, along with the redistribution are provided in Table 9.2.1.

Victoria, Queensland, South Australia, the ACT and the Northern Territory all received increased relativities in the 2012 Update compared to the 2011 Update, and therefore received increased shares of the GST pool. The other three States received lower relativities.

In per capita terms, the ACT gained the second most GST funding after the NT.

2. The date for the next Review is still to be agreed between jurisdictions.

**Table 9.2.1
Comparison of GST Relativities and impact on 2012-13 GST funding**

	2011 Update	2012 Update (revised)	Change in Relativity	Impact of Change (\$m)	Impact of Change (\$pc)
NSW	0.95776	0.95312	-0.00464	-77.2	-10.40
Vic	0.90476	0.92106	0.01630	188.3	32.75
Qld	0.92861	0.98477	0.05616	538.7	114.74
WA	0.71729	0.55105	-0.16624	-821.3	-338.28
SA	1.27070	1.28472	0.01402	46.9	27.92
Tas	1.59942	1.58088	-0.01854	-20.5	-39.76
ACT	1.11647	1.19757	0.08110	62.8	167.62
NT	5.35708	5.52818	0.17110	82.5	351.39

Source – CGC Report on GST Revenue Sharing Relativities 2012 Update and ACT Treasury calculations.

A relativity above one indicates that a State requires more than the Australian average per capita share of GST revenue to deliver services at Australian average levels. For the ACT, a relativity of 1.19757 indicates that it requires 19.8 per cent above the Australian average per capita amount of GST funding to deliver an average level of service.

The major reasons for the increase in the ACT's 2012 Update relativity were the:

- mining boom, which increased royalties significantly and led to a redistribution of GST funding to States with below average mining production;
- increase in the ACT's population growth relative to other States, increasing its requirement for new infrastructure - the Territory's population growth in 2010-11 was the second highest of any jurisdiction; and
- increased burden on the ACT government to supply community health services largely as a result of below average Commonwealth and private community health services provision, which includes general practitioner supply.
- This was partly offset by the ACT's strong property sector, which outperformed the Australian average in terms of the value of conveyance transactions, which led to a redistribution of GST funding away from the Territory.

CGC's Assessment of the ACT's Fiscal Capacity — Determining the ACT's Relativity and Reasons for its Above Equal per capita Share

The ACT's fiscal capacity is determined by the sum of its assessed needs, that is the:

- amount the ACT needs to spend to provide an average level of service – negative for the Territory as it has a below average proportion of the population that is Indigenous and socially disadvantaged, and not remotely located;
- amount of expenditure on new infrastructure incurred by a State if it followed average policies – negative primarily because the ACT's population, which is deemed by the CGC to be socially advantaged, is assessed to require less infrastructure than those from low socio-economic and Indigenous backgrounds;

- amount required to allow the ACT to achieve the average per capita net financial worth at the end of each financial year – positive as the ACT had above average population growth and hence is deemed to be able to run down its net financial worth by less than average;
- amount the ACT could raise from its tax base at Australian average tax rates (revenue needs) – positive for the ACT given its narrow tax base, lack of natural mineral wealth and the inability to tax the Commonwealth; and
- ACT's relative receipt of Commonwealth payments – positive impact as the Territory receives a below average share of Commonwealth payments.

The following table (9.2.2), based on Table 6 of the CGC's 2012 Update Report, shows the impact of the components contributing to the ACT's assessed GST funding of \$972.6 million and how this equates to a figure of \$149.7 million above an equal per capita share.

Table 9.2.2
ACT Assessed GST Funding and Above Equal Per Capita funding 2012-13⁵

	\$pc	\$m
Equal per capita share (1.62%)	2,208.3	822.9
Expense requirement	-200.7	-74.8
Investment ¹	-65.3	-24.3
Net lending ²	+1.8	+0.7
Revenue	+461.4	+171.9
Commonwealth payments ³	+205.4	+76.5
Assessed GST (1.94%)⁴	2,610.2	972.6
Total difference from EPC distribution⁵	401.9	149.7⁵

Note: Table may not add due to rounding.

1. The investment assessment provides each State with the capacity to acquire the average level of physical infrastructure.
2. The net lending assessment provides each State with the capacity to acquire the average level of income from their net financial assets.
3. Includes the impact on the revenue side only. The impact on the expense side is incorporated in the expense requirement line.
4. GST = equal per capita share plus sum of needs.
5. Based on a preliminary relativity of 1.18058; which was adjusted to 1.19757 and the EPC share subsequently increased to \$163.7m.

Specific factors positively influencing the ACT's fiscal capacity, and which annually leads to the ACT receiving an above equal per capita amount of GST funding, include a:

- below average capacity to raise revenue:
 - mining – the absence of a mining industry in the ACT means it lacks a major revenue source available to other resource rich jurisdictions;
 - land tax – reduced revenue raising capacity stems from the lower than average value of taxable land in the Territory; and
 - motor taxes – low revenue raising capacity is associated with low heavy vehicle ownership, reflective of a low level of manufacturing and the absence of mining.
- near average requirement for expenses³:

3. These, however, are offset by below average requirements due to the relatively higher socio-economic status of the ACT population and relatively low number of Indigenous people.

- several features are likely to bring about higher service costs, such as:
 - : the relatively small population, leading to diseconomies of a small scale;
 - : Canberra’s status as a regional centre within southeast New South Wales, which inevitably leads to the provision of services to non-ACT residents; and
 - : the role and status of Canberra as the national capital and the unavoidable imposts this places on the Territory, as well as the legacies inherited from the Commonwealth at self-government.
- lower per capita share of Commonwealth payments:
 - of those Specific Purpose Payments (SPPs) included in the CGC’s assessments, the ACT received less than an average per capita amount over the three year assessment period:
 - : from 2010-11, the new IGA-FFR requires an equal per capita distribution of the National SPPs to be phased in, which will reduce the ACT’s per capita relativity because the Territory currently receives a below population share of the SPP pool and is ‘topped-up’ accordingly, and the size of the SPP pool from which the ‘top up’ occurs is shrinking.

Further information on the CGC 2012 Update Report can be found at www.cgc.gov.au.

Federal Funding to the States

As per Schedule D of the IGA-FFR, Commonwealth funding to the States is comprised of three categories of payments:

- General Revenue Assistance;
- National Specific Purpose Payments (SPPs); and
- National Partnership Payments (NPPs).

General Revenue Assistance

General revenue assistance covers a broad range of payments, including GST payments, which are provided to the States without conditions, to spend according to their own budget priorities. General revenue assistance to the ACT consists of GST revenues and payments in respect of ACT municipal services.

GST Revenues

GST revenues are very important to the ACT’s Budget. As outlined in Table 9.2.3 below, GST Grants to the ACT represent over half of the Commonwealth Grant funding and over one fifth of total ACT revenue.

Table 9.2.3
GST Revenue Relative to Other Revenue Sources

	2012-13	2013-14	2014-15	2015-16
GST Revenue as a percentage of Grants Revenue	59.80%	58.04%	56.81%	57.68%
GST Revenues as a percentage of Total Revenue	23.74%	23.32%	23.12%	23.20%

The States are estimated to receive GST payments of \$46 billion in 2011-12. This represents an increase of 0.33 per cent over 2010-11. GST revenues are expected to continue to grow over the coming years, with the States estimated to receive around \$48.2 billion in 2012-13 (a 4.7 per cent increase on 2011-12).

Municipal Services Payments

Under the 1999 funding framework, the ACT received two SPPs to compensate for the extra costs arising from its role as the nation's capital:

- Assistance for Water and Sewerage Services – for the higher maintenance and operational costs arising from the excess length of water and sewerage mains due to the dispersed nature of urban development in the ACT in its open space setting; and
- National Capital Influences – compensating for a number of factors, such as 'rating disability' due to the number of national institutions in the ACT that cannot be taxed.

Under the current framework, these payments have been combined to form one payment, ACT Municipal Services, and classified as general revenue assistance.

General Revenue Assistance to the ACT

2011-12 Estimated Outcome

The Territory will receive \$872.7 million in 2011-12, comprising \$836.6 million in GST revenue and \$36.1 million in Municipal Services payments. This represents a decrease of \$43.4 million compared to the 2011-12 Budget estimates of \$916.1 million.

The decrease is the result of a \$2.3 billion downward revision in the 2011-12 GST Pool.

2012-13 Budget Year

The Territory expects to receive \$975 million in 2012-13, comprising \$938.1 million in GST revenue and \$36.8 million in Municipal Services. This represents an increase of \$102.2 million over the 2011-12 estimated outcome. The gain reflects:

- an increase of \$2.2 billion in the GST revenue pool between 2011-12 and 2012-13; and
- the CGC's 2012 Update Report recommendation to increase the ACT's GST relativity from 1.11647 in 2011-12 to 1.19757 in 2012-13.

Forward Years

Estimates across the forward years remain subject to growth in the GST revenue pool and future GST relativities, as recommended annually by the CGC.

GST Revenue Grants to the ACT

The Commonwealth, in the 2012-13 Federal Budget, now estimates a reduction in the GST pool of \$13.6 billion over the period 2011-12 to 2014-15 from the 2011-12 Federal Budget. In effect, this reflects cautious consumer behaviour via flat retail sales and increased saving and proportionally more expenditure weighted towards an increase in the price of goods and services not subject to GST (as opposed to an increase in volume) on goods and services not subject to GST (such as health and education).

This decline in GST take is a national issue that all States and Territories are facing.

The overall movement throughout the year including the recent Federal Budget deliberations on the ACT estimates since the 2011-12 Budget release is illustrated in Table 9.2.4 below.

Table 9.2.4
Reconciliation of GST Revenue Grants to the ACT

GST Grants to the ACT		2011-12	2012-13	2013-14	2014-15	2015-16	Total
		\$m	\$m	\$m	\$m	\$m	\$m
2011-12 ACT Budget	3 May 2011	879.9	932.0	987.1	1,045.2	-	3,844.2
	<i>Variation (1)</i>	-13.4	-4.7	-7.2	-17.2		-42.5
2011-12 Federal Budget	10 May 2011	866.5	927.3	979.9	1,028.0	-	3,801.7
	<i>Variation (2)</i>	1.2	-7.2	-6.7	-7.1		-19.8
2011-12 MYEFO	November 2011*	867.7	920.1	973.2	1,020.9	-	3,781.9
<i>Accumulated Variation (1+2)</i>		-12.2	-11.9	-13.9	-24.3	-	-62.3
ACT Budget Review	14 February 2012	867.7	920.1	973.2	1,020.9	-	3,781.9
	<i>Variation (3)</i>	0.0	66.5	70.4	73.9	-	210.7
CGC 2012 Update Report	24 February 2012	867.7	986.6	1,043.6	1,094.8	-	3,992.6
	<i>Variation (4)</i>	-31.1	-48.5	-49.9	-47.3	-	-176.7
2012-13 Federal Budget	8 May 2012	836.6	938.1	993.7	1,047.5	1,101.0	4,916.9
2012-13 ACT Budget		836.6	938.1	993.7	1,047.5	1,101.0	4,916.9
<i>Accumulated variation from 2011-12 Budget to 2012-13 Budget**</i>		-43.3	6.1	6.6	2.3	-	-28.3

Note: Table may not add due to rounding.

*includes the underpayment of GST revenue in 2009-10

** does not include the addition of 2015-16

Parameter Variations:

1. 2011-12 Federal Budget: Revised GST revenue pool estimates.
2. 2011-12 Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO): Revised GST revenue pool and population estimates.
3. Commonwealth Grants Commission 2012 Update Report: Revised GST relativities.
4. 2012-13 Federal Budget: Revised GST revenue pool estimates.

The Territory's GST revenue has three key drivers: the size of the national GST pool, the Territory's relativity, and relative population growth.

As noted above, the impact on the GST pool reduction in the recently announced Federal Budget results in a \$176.7 million reduction in revenues (2011-12 to 2014-15) since the 2011-12 Budget Review. This effectively almost negates the gain in GST funding from an increased relative share of the pool announced at the 2012 meeting of the Standing Council on Federal Financial Relations.

National Specific Purpose Payments

SPPs are paid to the States under five broad categories:

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

The funding received through these National SPPs provides the ACT with the capacity to fund the policy objectives contained in the National Agreements.

The ACT is required to spend the funding it receives under each National SPP in the service sector relevant to the SPP. For example, the National Schools SPP must be expended in the education sector – but the ACT has full budget flexibility to allocate funds within that sector as it sees fit to achieve any mutually agreed objectives for that sector.

To demonstrate compliance with this condition, the ACT Treasurer is required to prepare an annual report to the SCFFR, detailing the Territory's respective share of each National SPP and gross expenditure in the area covered by the SPP.

From 1 July 2012, the National Healthcare SPP will be replaced by National Health Reform (NHR) funding which will be subject to the terms and conditions agreed in the NHR Agreement.

The base funding for each National SPP is set out in Schedule D of the IGA-FFR including a detailed explanation of the underlying growth factors for each.

For further details, see:

http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx

Distribution of National SPPs

By 2014-15, National SPPs will be distributed to States based on their population shares. These shares will have transitioned from the current funding shares to an equal per capita (EPC) distribution (as per Schedule D of the IGA-FFR). The distribution of the SPPs on an EPC basis is aimed at ensuring that all Australians, regardless of their location, receive the same share of Commonwealth funding support for State service delivery.

One exception will be the funding shares for the government schools component of the National Schools SPP. These will be determined by a State's proportion of full-time equivalent student enrolments in government schools. The non-government component will be distributed according to the *Schools Assistance Act 2008*.

For further information on the transitional arrangements see:

http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx

2011-12 Estimated Outcome for SPP Funding for the ACT

The ACT expects to receive \$446.2 million (or 1.60 per cent) of the pool, compared to a population share of 1.62 per cent in National SPPs in 2011-12.

SPP Funding for the 2012-13 Budget Year

The ACT expects to receive \$485.2 million (or 1.64 per cent) of the pool, compared to a population share of 1.62 per cent in 2012-13. This represents an increase of \$39 million over 2011-12.

National Partnership Payments

The Commonwealth provides National Partnership (NP) payments to the States to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements

Participation in the agreements is voluntary, and over the past twelve months the ACT has negotiated and, in most cases, signed the National Partnership Agreements (NPAs) contained in Table 9.2.5.

**Table 9.2.5
Participation in National Partnership Agreements by the ACT in Last 12 Months**

National Partnership Agreement on:	Objective:
<i>DISABILITY AND COMMUNITY</i>	
Certain Concessions for Pensioners and Senior Card Holders – Extension	To assist in providing concessions in relation to council land and water rates, utilities including energy and sewerage, motor vehicle registration and public transport.
<i>EDUCATION</i>	
Empowering Local Schools	To support schools to better respond to the needs of students and the school community thereby assisting students to achieve their best educational outcomes.
More Support for Students with Disabilities	To ensure that Australian schools and teachers are better able to support students with disabilities.
Trade Training Centres	To increase the proportion of students achieving Year 12 or equivalent qualifications.
Helping our Kids Understand Finances – Professional Learning and MoneySmart Schools PA	To improve financial literacy in Australian schools.
Rewards for Great Teachers PA	To recognise quality teachers in Australia through a teacher reward payment scheme linked to the National Professional Standards for Teachers.
Rewards for School Improvement NP	To facilitate the adoption of the National School Improvement Framework and enable reward payments to be made to schools showing the most improvement.
Skills Reform NP	To support long term reform of the vocational education and training sector.
National Solar Schools Program NP	To ensure that Australian schools are better placed to respond to climate change.

National Partnership Agreement on:	Objective:
<i>ENVIRONMENT</i>	
Exotic Disease Preparedness – Veterinary Practitioners Program PA	To increase veterinary practitioner consideration of emergency animal diseases as part of their differential diagnosis of disease events, and awareness of the reporting arrangements and legal obligations to report suspect emergency animal diseases.
National Disaster Resilience – Extension	To strengthen community resilience to natural disasters through the Natural Disaster Resilience Program.
<i>HEALTH</i>	
Financial Assistance for Long Stay Older Patients	To develop a nationally consistent and integrated aged care system that provides improved access to appropriate care to meet the needs of older Australians and their families.
BreastScreen Australia Radiography Workforce Initiatives PA	To increase the provision, recruitment and/or retention activities for both trainee and experienced radiographers.
Public Dental Waiting List Program NP	To assist the States to provide treatment for those on public dental waiting lists, including ensuring support for the Indigenous population.
Expanding the Early Psychosis Prevention and Intervention Centre Model NP	To explore how the model could be used to reform early psychosis management within the Australian mental health system.
National Bowel Cancer Screening Participant Follow Up PA	To reduce the morbidity and mortality associated with bowel cancer.
Supporting National Mental Health Reform NP	To deliver improved health, social, economic and housing outcomes for people with severe and persistent mental illness by addressing service gaps and preventing ongoing cycling through state mental health systems.
Capital Region Cancer Care Centre Implementation Plan (IP)	Stage 1 of the Capital Region Cancer Care centre on the grounds of The Canberra Hospital and the acquisition of accommodation facilities for cancer patients and their carers.
<i>INFRASTRUCTURE</i>	
Liveable Cities NP	To help improve the planning and design of capital cities and major regional centres that are experiencing population growth pressures and housing and transport affordability cost pressures.
Managed Motorways NP	To reduce congestion and improve traffic demand management and the overall efficiency of the transport network in major cities through smart infrastructure technologies.
Regional and Local Community Infrastructure NP	To build and modernise community infrastructure.
Centenary of Canberra – A Gift to the National Capital PA	Redevelopment of Constitution Avenue, including a dedicated cycle lane and shared commuter paths and for the development of the National Arboretum Canberra.
Heavy Vehicle Regulatory Reform Establishment Costs PA	To assist with implementing the national transport reforms for heavy vehicles, rail and maritime safety.

National Partnership Agreement on:	Objective:
<i>SKILLS AND WORKFORCE</i>	
Joint Group Training PA	To improve commencements and completions in Australian Apprenticeships through group training arrangements.
Training Places for Single and Teenage Parents	To improve job readiness of single and teenage parents in receipt of Parenting Payment by adding capacity and responsiveness of State and Territory training systems to cater for single and teenage parents.
<i>OTHER</i>	
Centenary of Canberra – Joint National Program	To fund activities including cultural, sporting and civic awareness events and to engage communities across Australia to celebrate the centenary of the role of Canberra as the nation’s capital.
Agreements under Development at Time of Budget Printing for Signature in 2011-12	
Investing in Focus Schools	To provide funding for a cluster of government schools in the ACT to accelerate implementation of local level actions in the Aboriginal and Torres Strait Islander Education Action Plan 2010-2014.
Health and Hospital Fund 2010 Regional Priority	To improve critical care outreach and training in the ACT and South East NSW.
Human Quarantine Services	To provide funding to protect the Australian public, through human quarantine activities, from serious communicable diseases, particularly exotic, new and re-emerging infectious diseases.
Industry and Indigenous Skills Centre	To assist industry and/or Indigenous community organisations to purchase, construct, fit out or refurbish capital infrastructure intended for the delivery of vocational education and training
Manuka Oval Lighting Upgrade NP	To provide for the installation of lighting to meet high-definition broadcast standards, giving Canberra an appropriate facility to host AFL matches and elite and international cricket matches.
Regional Infrastructure Fund – Regional Infrastructure Plans	To support Regional Infrastructure Plans.
OzFoodNet	To enable evidence-based intervention to protect public health, support trade and market access, improve security and help meet Australia’s obligations under the International Health Regulations.

All NPs currently delivering funding to the ACT are detailed in Table 9.2.8.

NPPs are expected to decrease from 2011-12 to 2012-13. This primarily reflects the timing of payments, with funding for a number of NPs being made available in 2011-12 to assist the ACT in the delivery of essential services. The Commonwealth’s early payment in 2011-12 increases revenues in this year resulting in a corresponding drop in subsequent years.

Responsibility for funding of basic community care services for people aged 65 years and over will transition to the Commonwealth from the ACT in 2012-13. Given that the ACT will no longer be responsible for these payments, this also accounts for some of the decrease in payments from 2011-12 to 2012-13.

National Disability Insurance Scheme

At the 13 April 2012 COAG meeting, all States along with the Commonwealth reaffirmed their commitment to a NDIS. In its 2012-13 Budget, the Commonwealth committed \$1 billion over four years to implementing the first stage of the Scheme.

Further work will be undertaken by the Select Council on Disability Reform on funding, governance and the scope of eligibility and support as requested by COAG.

Health and Aged Care Reform

In August 2011, the Commonwealth and all States signed the National Health Reform Agreement. The Agreement funds 50 per cent of efficient growth of public hospitals, and is scaled up over time starting at 45 per cent in 2014-15 and moving to 50 per cent in 2017-18.

The 2012-13 Federal Budget foreshadows funding for dental health services for a public dental waiting list 'blitz' which will replace unallocated Commonwealth Dental Program Funding through a new NP.

In addition, the *Supporting National Mental Health Reform National Partnership* was agreed by COAG on 13 April 2012 which will result in funding from 2011-12 to 2015-16.

Skills and Workforce Development

At the COAG meeting of 13 April 2012, a set of reforms to the national training system was agreed as part of the *Building Australia's Future Workforce* package.

States and the Commonwealth will be implementing key reforms to the vocational education and training sector through the *National Partnership on Skills Reform*. It is expected that implementation plans for the skills reform will be negotiated before the end of the 2011-12 financial year.

Education

COAG's education reform agenda is supported by several NPs. The *National Partnership on Empowering Local Schools* is providing funding towards increasing the capacity of both government and non-government schools to make decisions at the local level.

In addition, the Commonwealth has begun negotiations with the States on a *National Partnership on Rewards for Great Teachers* which will look to reward quality teachers and school leaders.

Elements of the *Improving Teacher Quality National Partnership* will be continued through the *Empowering Local Schools* (agreed), *Reward for Great Teachers* (under development) and *Reward for School Improvement* (to be developed) National Partnerships.

The Commonwealth has also released the *Review of Funding for Schooling* (the Gonski Review). COAG discussed the Gonski Review at its meeting of 13 April 2012 and invited the participation of the States in developing advice for COAG on options for funding reform.

Expiring National Partnership Agreements

The States wrote to the Commonwealth on 26 September 2011 regarding the future of 28 agreements under the IGA-FFR. Expiring NPs extended to 2015-16 in the Federal Budget include: *Certain Concessions for Pensioners and Seniors Card Holders, Essential Vaccines, Healthy Kids Checks, Heavy Vehicle Safety and Productivity, National Bowel Cancer Screening (Participant Follow-up Function), Natural Disaster Resilience, and OzFoodNet.*

Large elements of the *Hospital and Health Workforce Reform* National Partnership are now funded under the *Improving Public Hospital Services* National Partnership. Funding for the *Aged Care Assessment Program* forms part of the broader health and aged care reform packages.

As part of National Health Reform, under the *Financial Assistance for Long Stay Older Patients National Partnership*, the Commonwealth has agreed to continue to provide time limited funding to compensate for the pressure on public hospitals created by unmet demand for aged care through the second, three year Long Stay Older Patients measure (covering the years 2011-12 to 2013-14).

The Federal Government is still considering the *Literacy and Numeracy National Partnership* (part of the Smarter Schools package) funding for 2011-12 which is reward funding for achievement against agreed performance targets.

Agreements to be signed in 2011-12 still under development.

The 2012-13 Federal Budget announced a number of new NPs to be agreed prior to 30 June 2012. At the time of printing, details of these arrangements were still being negotiated; a list is provided under the relevant heading in Table 9.2.5.

Financial Assistance Grants to Local Government

Financial assistance grants to local governments are outside the federal funding framework and are paid to State governments for on-passing to local governments through the State Grant Commissions. Financial assistance grants to local government are untied and can be spent according to local government priorities.

As the ACT Government has responsibility for both State and municipal functions, the financial assistance grants are paid direct to the Territory to be spent according to its budget priorities, at approximately two per cent of the financial assistance grants pool.

The ACT will receive \$57.2 million in 2011-12, decreasing to \$23.6 million in 2012-13. The decrease is due to the Commonwealth's decision 2012-13 Budget decision to bring forward the first two quarterly instalments of the 2012-13 allocation to 2011-12 to allow greater flexibility to local governments dealing with natural disasters and other pressures.

Table 9.2.6
General Purpose Payments to the ACT Other than GST

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	\$m	\$m	\$m	\$m	\$m	\$m
2011-12 MYEFO						
ACT Municipal Services	36.1	36.8	37.5	38.2	38.2	186.8
FAGs to Local Govt ¹	33.9	47.2	49.0	51.0	52.5	233.6
2012-13 Federal Budget						
ACT Municipal Services	36.1	36.8	37.5	38.2	38.9	187.6
FAGs to Local Govt ¹	57.2	23.6	49.0	51.0	53.1	234.0
Total Variation	23.3	-23.6	0.0	0.1	1.3	1.0

Note:

1. Financial Assistance Grants for Local Government – first half payment for 2012-13 will be paid in 2011-12.

Total Commonwealth funding to the ACT

Revenue transfers from the Commonwealth Government provide a major source of revenue for the Territory, and will comprise 40 per cent of the ACT's General Government Sector revenues in 2012-13. Table 9.2.7 summarises the expected level of Commonwealth Government funding to the ACT across the Budget and Forward Estimates.

**Table 9.2.7
Commonwealth Government Funding to the ACT**

	2011-12 Est. Out. \$m	2012-13 Budget \$m	Variation		2013-14 Estimate \$m	2014-15 Estimate \$m	2015-16 Estimate \$m
			\$m	%			
General Revenue Assistance							
GST Revenue	836.6	938.1	101.5	12.1	993.7	1,047.5	1,101.0
ACT Municipal Services	36.1	36.8	0.7	1.9	37.5	38.2	38.9
Total General Revenue Assistance	872.7	975.0	102.2	11.7	1,031.2	1,085.7	1,140.0
National Specific Purpose Payments							
Health	183.6	203.5	19.9	10.8	233.8	268.4	305.8
Education and Early Childhood - Government	56.2	60.1	3.9	6.9	64.0	68.9	74.7
Education and Early Childhood - Non Government	141.9	155.0	13.1	9.2	167.8	181.4	196.1
Skills and Workforce Development	22.8	23.0	0.2	0.9	23.2	23.5	24.0
Disability Services	17.4	20.3	2.9	16.7	22.4	23.8	25.1
Affordable Housing	24.3	23.3	-1.0	-4.1	22.3	21.4	21.8
Total National Specific Purpose Payments	446.2	485.2	39.0	8.7	533.7	587.4	647.6
National Partnership Payments:							
Health	48.0	31.2	-16.8	-35.0	24.1	13.3	7.3
Housing	5.2	2.7	-2.5	-48.1	0.0	0.0	0.0
Community Services	25.0	4.5	-20.5	-82.0	4.4	3.2	3.3
Education and Early Childhood	34.1	26.5	-7.6	-22.3	9.5	14.2	24.0
Vocational Education and Training	1.2	0.8	-0.4	-33.3	0.6	0.5	0.0
Infrastructure	57.5	5.5	-52.0	-90.4	52.4	82.3	27.5
Environmental Services	21.6	1.6	-20.0	-92.6	0.3	0.2	0.1
Other	13.0	12.1	-0.9	-6.9	6.8	5.9	6.0
Total National Partnership Payments	205.6	84.9	-120.7	-58.7	98.1	119.7	68.1
Financial Assistance Grants to Local Government	57.2	23.6	-33.6	-58.7	49.0	51.0	53.1
Total Commonwealth Grants	1,581.7	1,568.7	-13.0	-0.8	1,712.0	1,843.8	1,908.8

Note: Table may not add due to rounding.

Details of each individual funding grant are outlined in Table 9.2.8 at the end of this chapter.

Intergovernmental Forums

Council of Australian Governments (COAG)

The Council of Australian Governments is the peak intergovernmental forum in Australia, whose role is to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments. It comprises the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association. Further information on COAG can be found at www.coag.gov.au.

COAG Reform Council

The COAG Reform Council (CRC) is responsible for reporting to COAG on jurisdictions' performance against National Agreement outcomes and performance benchmarks, and assessing whether predetermined performance benchmarks have been achieved before reward payments are made under National Partnerships. Further information on the CRC can be found at www.coagreformcouncil.gov.au.

Standing Council on Federal Financial Relations

The SCFFR was formally launched by the Prime Minister in January 2012, replacing the Ministerial Council for Federal Financial Relations under the new COAG system. It has responsibility for the general oversight of the operation of the IGA-FFR on behalf of COAG.

A number of major intergovernmental initiatives under the umbrella of the roles and responsibilities of SCFFR are outlined below:

- developing options for competition reform;
- housing supply and affordability;
- National Disability Insurance Scheme;
- National Injury Insurance Scheme;
- horizontal fiscal equalisation: Review of the Distribution of GST and the Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2012 Update; and
- GST Administration Sub-Committee activities.

Horizontal Fiscal Equalisation is discussed earlier in the Chapter.

Future Competition and Regulatory Reform

Following the Business Advisory Forum, held 13 April 2012, COAG agreed to progress six priority areas for major reform to lower costs for businesses and improve competition and productivity, namely:

- addressing duplicative and cumbersome environment regulation;
- streamlining the process for approvals of major projects;
- rationalising carbon reduction and energy efficiency schemes;
- delivering energy market reforms to reduce costs;
- improving assessment processes for low risk, low impact developments; and

- best-practice approaches to regulation.

The policy and timetable for these reforms will be undertaken by a cross-jurisdictional Taskforce. The Taskforce has also been asked by COAG to provide advice on the merit of the existing work on future regulation and competition reform in the context of a focused productivity enhancing reform agenda.

Housing Supply and Affordability

The Select Council on Housing and Homelessness now has responsibility of all housing matters (with the exception of the development assessment reform), as agreed by COAG. The Housing Supply and Affordability Reform (HSAR) Report, which aims to increase housing supply, was agreed to by the SCFFR and findings have been referred to COAG for consideration out of session. The Report is expected to be released in 2012.

National Injury Insurance Scheme

In November 2011, the Commonwealth Government appointed the National Injury Insurance Scheme Advisory Group. The SCFFR will consider the development of the Scheme.

Australian Loan Council

The Australian Loan Council was established under the *Financial Agreement Act 1927 (C'wealth)* to manage the call on national savings by the Australian public sector as a whole. Each year, the Commonwealth and States nominate their proposed borrowings for the coming financial year for all general government and public trading entities in their jurisdiction. The estimated Loan Council Allocations measure each jurisdiction's call on financial markets.

The Loan Council met on 4 April 2012 to determine the appropriateness of each jurisdiction's Loan Council Allocations for 2012-13. All jurisdictions except for South Australia expect to have borrowings in 2012-13 totalling around \$38.7 billion. The ACT's Loan Council Nomination for 2012-13 is \$547 million, with a tolerance limit of +/- \$95 million.

The Budget-time estimate has been revised to \$1,007 million, and now exceeds the upper LCA nomination tolerance limit by \$365 million. The variance largely reflects increased payments for employees and an increase in ACTEW Corporation's capitalisation of Water Security Major Projects.

A positive Loan Council Allocation represents a net borrowing position. The two per cent (of non-financial public sector cash receipts from operating activities) tolerance limit is designed to accommodate changes to the Loan Council Allocation resulting from changes in policy.

Details of Commonwealth Grants to the Territory

Table 9.2.8
Details of Commonwealth Government Grants

2011-12 Budget \$'000	FUNDING CATEGORIES	2011-12 Est. Outcome \$'000	2012-13 Budget \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000	2015-16 Estimate \$'000
General Revenue Assistance						
879,900	GST Revenue	836,590	938,130	993,660	1,047,480	1,101,040
36,216	ACT Municipal Services	36,110	36,832	37,495	38,208	38,934
916,116	Total General Revenue Assistance	872,700	974,962	1,031,155	1,085,688	1,139,974
Health Services						
185,291	National Healthcare SPP	183,591	203,526	233,824	268,374	305,804
740	Health Services NPP	1,196	548	638	575	585
0	Mental Health (Reform Program) NPP	310	620	620	620	620
644	Elective Surgery Waiting List Reduction Program NPP	1,310	0	0	0	0
980	Hospital and Health Workforce Reform NPP	980	1,320	0	0	0
14,928	Health and Hospital Fund Projects NPP (Integrated Cancer Centre)	12,330	10,935	0	0	0
1,248	Preventative Health NPP	1,528	2,563	3,108	3,938	0
230	Indigenous Early Childhood Development NPP (Health Component)	230	240	250	0	0
5,233	Essential Vaccines NPP	7,712	2,568	4,897	4,829	4,580
13,405	National Health Reforms NPP	15,674	9,664	12,166	1,483	1,483
	National Health Reforms NPP (Capital)	6,714	1,669	0	0	0
42	Hepatitis C Settlement Fund	0	0	0	0	0
0	Commonwealth Dental Health Program	0	1,102	2,471	1,904	0
37,450	<i>Total Health Services NPPs</i>	47,984	31,229	24,150	13,349	7,268
222,741	Total Health Services	231,575	234,755	257,974	281,723	313,072
Housing						
24,191	National Affordable Housing SPP	24,256	23,313	22,349	21,382	21,838
4,200	First Home Owners Boost NPP	1,481	325	-3	0	0
2,401	Homelessness NPP	2,401	2,401	0	0	0
1,365	Nation Building and Jobs Plan NPP - Investment in Social Housing	1,365	0	0	0	0
7,966	<i>Total Housing NPPs</i>	5,247	2,726	-3	0	0
32,157	Total Housing	29,503	26,039	22,346	21,382	21,838
Community Services						
18,156	National Disability Services SPP	17,437	20,269	22,448	23,810	25,110
20,497	Transitioning Responsibilities for Aged Care and Disability Services NPP	20,405	787	794	792	806
157	Home and Community Care Services for Veterans NPP	322	149	142	142	142
948	Aged Care Assessment NPP	1,029	95	0	0	0
1,115	Indigenous Early Childhood Development NPP (Family Centres)	1,115	1,110	1,110	0	0
1,784	National Reciprocal Transport Concessions NPP (formerly Concessions for Pensioners)	190	199	199	199	199
0	Certain Concessions for Pensioners and Senior Card Holders NPP	1,799	1,911	1,981	2,062	2,149
30	National Quality Agenda for Early Childhood Education and Care NPP	157	227	212	0	0
24,531	<i>Total Community Services NPPs</i>	25,017	4,478	4,438	3,195	3,296
42,687	Total Community Services	42,454	24,747	26,886	27,005	28,406

2011-12 Budget \$'000	FUNDING CATEGORIES	2011-12 Est. Outcome \$'000	2012-13 Budget \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000	2015-16 Estimate \$'000
	Education & Early Childhood					
56,090	National Schools SPP - Government Schools Component	56,181	60,053	64,041	68,943	74,748
139,934	National Schools SPP - Non-Government Schools Component	141,934	154,996	167,790	181,411	196,063
<i>196,024</i>	<i>Total National Schools SPP</i>	<i>198,115</i>	<i>215,049</i>	<i>231,831</i>	<i>250,354</i>	<i>270,811</i>
2,189	Digital Education Revolution NPP - Government Schools	2,189	2,189	0	0	0
1,615	Digital Education Revolution NPP - Non-Government Schools	1,615	1,615	0	0	0
750	Smarter Schools - Low Socio-Economic Status School Communities NPP	750	728	446	340	0
3,861	Smarter Schools - Improving Teacher Quality NPP	4,210	3,448	0	0	0
2,125	Smarter Schools - Literacy and Numeracy NPP	2,328	0	0	0	0
3,564	Early Childhood Education - Universal Access NPP	3,564	7,080	0	0	0
8,528	Productivity Places Program NPP	8,528	0	0	0	0
3,077	Nation Building and Jobs Plan NPP - Building the Education Revolution - Non-Government Schools	3,077	0	0	0	0
2,620	Trade Training Centres Schools NPP - Government Schools	628	1,536	1,210	2,442	3,707
2,136	Trade Training Centres Schools NPP - Non-Government Schools	0	1,864	1,148	2,326	3,332
744	National Solar Schools Plan NPP - Government Schools	812	1,530	0	0	0
312	National Solar Schools Plan NPP - Non-Government Schools	104	108	0	0	0
1,466	Youth Attainment and Transitions NPP	1,466	662	1,135	0	0
0	Empowering Local Schools NPP - Government Schools	1,316	0	0	0	3,514
0	Empowering Local Schools NPP - Non-Government Schools	712	0	0	0	1,863
0	Money Smart Schools NPP	74	74	0	0	0
0	Support for Students with Disability NPP - Government Schools	1,079	1,079	537	0	0
0	Support for Students with Disability NPP - Non-Government Schools	280	280	140	0	0
0	Reward for School Improvement NPP - Government Schools	134	134	121	375	675
0	Reward for School Improvement NPP - Non-Government Schools	0	0	0	175	425
0	Reward for Great Teachers NPP - Government Schools	713	177	440	1,370	2,740
0	Reward for Great Teachers NPP - Non-Government Schools	171	0	287	865	1,730
0	Training Places for Single and Teen Parents NPP	62	186	248	248	0
0	VET Training (Building Australia's Future Workforce - Skills Reform) NPP	0	3,820	3,820	6,044	6,051
0	Commonwealth / State and Territory Joint Group Training Program NPP	293	0	0	0	0
<i>32,987</i>	<i>Total Education & Early Childhood NPPs</i>	<i>34,105</i>	<i>26,510</i>	<i>9,532</i>	<i>14,185</i>	<i>24,037</i>
229,011	Total Education & Early Childhood	232,220	241,559	241,363	264,539	294,848

2011-12 Budget \$'000	FUNDING CATEGORIES	2011-12 Est. Outcome \$'000	2012-13 Budget \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000	2015-16 Estimate \$'000
Vocational Education & Training						
22,753	National Skills and Workforce Development SPP	22,824	23,026	23,250	23,508	24,020
740	TAFE Fee Waivers for Childcare Qualifications NPP	1,169	847	577	536	0
740	<i>Total Vocational Education & Training NPPs</i>	1,169	847	577	536	0
23,493	Total Vocational Education & Training	23,993	23,873	23,827	24,044	24,020
Infrastructure						
8,501	Nation Building Program NPP (Roads)	479	484	469	0	0
16,154	Off Network Projects NPP (Roads)	4,421	0	0	0	0
380	Interstate Road Transport NPP	424	463	506	553	604
0	Roads to Recovery NPP	6,073	3,427	0	5,600	5,600
0	Heavy Vehicle Safety NPP	43	162	488	326	327
0	Black Spots Projects NPP	966	966	966	975	975
0	Centenary of Canberra Gift - Constitution Avenue Redevelopment NPP	32,000	0	0	10,000	0
0	Building Australia Fund Roads - Majura Parkway NPP	9,500	0	50,000	64,500	20,000
0	Manuka Oval Lighting NPP	2,500	0	0	0	0
0	Sustainable Australia - Managed Motorways NPP	0	0	0	324	0
0	Regional and Local Community Infrastructure Program NPP	1,086	0	0	0	0
25,035	<i>Total Infrastructure NPPs</i>	57,492	5,502	52,429	82,278	27,506
25,035	Total Infrastructure	57,492	5,502	52,429	82,278	27,506
Environmental Services						
1,359	Caring for Our Country NPP	1,359	1,359	0	0	0
37	Exotic Disease Preparedness NPP	10	0	0	0	0
187	Water for the future NPP - States	187	251	259	201	70
5,000	Centenary of Canberra Gift - The National Arboretum NPP	20,000	0	0	0	0
6,583	<i>Total Environmental Services NPPs</i>	21,556	1,610	259	201	70
6,583	Total Environmental Services	21,556	1,610	259	201	70
Other Services						
4,359	Legal Aid NPP	4,355	4,420	4,486	4,576	4,663
3,220	A Seamless National Economy NPP	3,220	4,026	0	0	0
0	Local Government Reform Fund NPP	295	33	0	0	0
0	Centenary of Canberra - Joint National Program NPP	2,600	2,040	991	0	0
0	Sustainable Australia - Liveable Cities NPP	250	250	0	0	0
0	Natural Disaster Resilience Program NPP	1,285	1,305	1,305	1,305	1,305
0	National Transport Regulators - Transition Assistance NPP	1,000	0	0	0	0
7,579	<i>Total Other Services NPPs</i>	13,005	12,074	6,782	5,881	5,968
44,977	Financial Assistance Grants - Local Government	57,209	23,597	49,017	51,038	53,099
44,977	<i>Total Other Services - Other</i>	57,209	23,597	49,017	51,038	53,099
52,556	Total Other Services	70,214	35,671	55,799	56,919	59,067
1,550,379	Total Commonwealth Government Funding	1,581,707	1,568,718	1,712,038	1,843,779	1,908,801