

CHAPTER 7

FEDERAL FINANCIAL RELATIONS

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7.1 FEDERAL FINANCIAL RELATIONS

The ACT is an independent member of the Federation but with unique circumstances as a City/State in a National Capital setting and as a major regional centre.

In that context this chapter outlines developments in the ACT's financial relations with the Commonwealth, States and the Northern Territory that occurred in 2014-15, and the likely flow-on effects into 2015-16.

A key development in 2014-15 was the Commonwealth Grants Commission release of its *Report on GST Sharing Relativities: 2015 Review*. This report has set the scene for the distribution of GST revenue between the States and Territories for the next five financial years. Further discussion and information on the impact of the report for the ACT are included in this chapter.

Also in 2014-15 a review of the relationship between the levels of Government in Australia commenced in earnest. This review has the potential for significant changes, foreshadowed in early work underpinning a promised 2016 White Paper on Reform of the Federation and a promised 2016 White Paper on the Reform of Australia's Tax System.

Any reallocation of roles and responsibilities and tax reforms proposed in the White Paper process would have financial implications for all parties. Further discussion on progress is also included in this chapter.

Sources of Federal Funding

The sources of federal funding are General Revenue Assistance, inclusive of GST, Financial Assistance Grants, National Specific Purpose Payments (SPPs) and National Partnership Payments (NPPs).

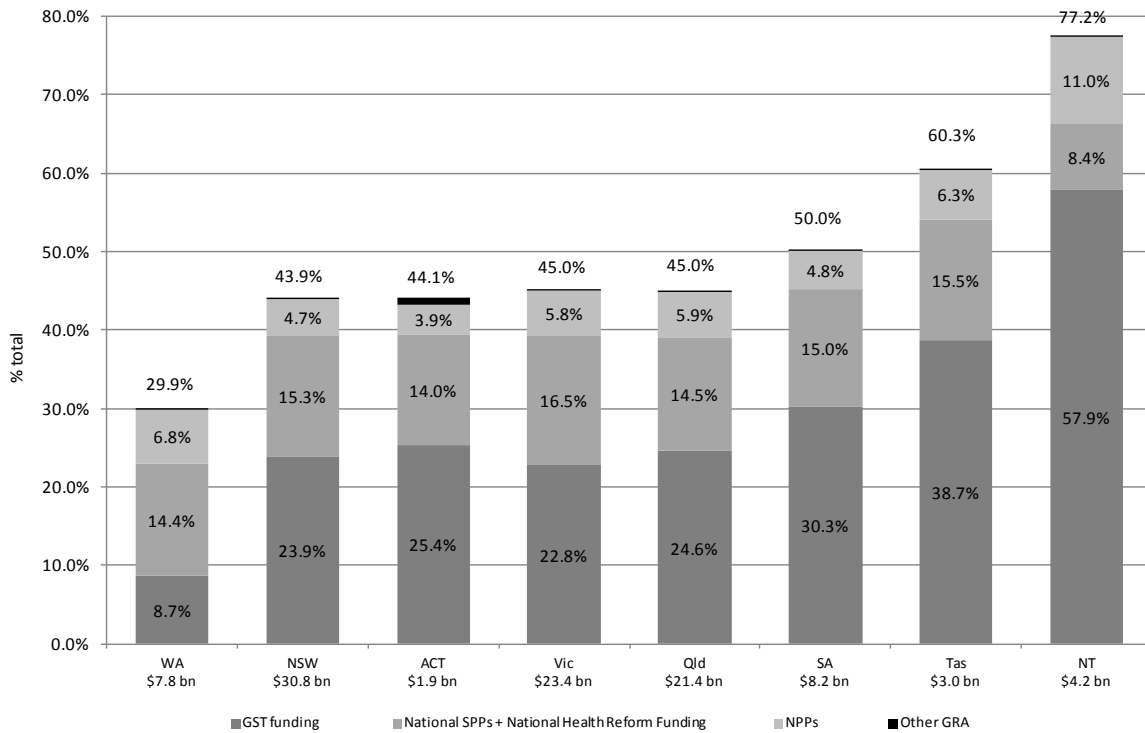
Figure 7.1.1 below illustrates the sources of Commonwealth revenue payments to the States¹ for 2014-15. On average, the States received 44.7 per cent of their funding from the Commonwealth.

The ACT received approximately 44 per cent of its funding from the Commonwealth in 2014-15.

An understanding of the aggregate transfer to jurisdictions is particularly important when comparing respective shares of any one individual stream of transfers such as the GST redistribution. The ACT is less dependent on Commonwealth funding than most other States. The ACT's relatively high GST allocation is offset by relatively lower SPP and NPP funding compared with other States.

¹ The word 'States' refers to the States and Territories unless otherwise indicated.

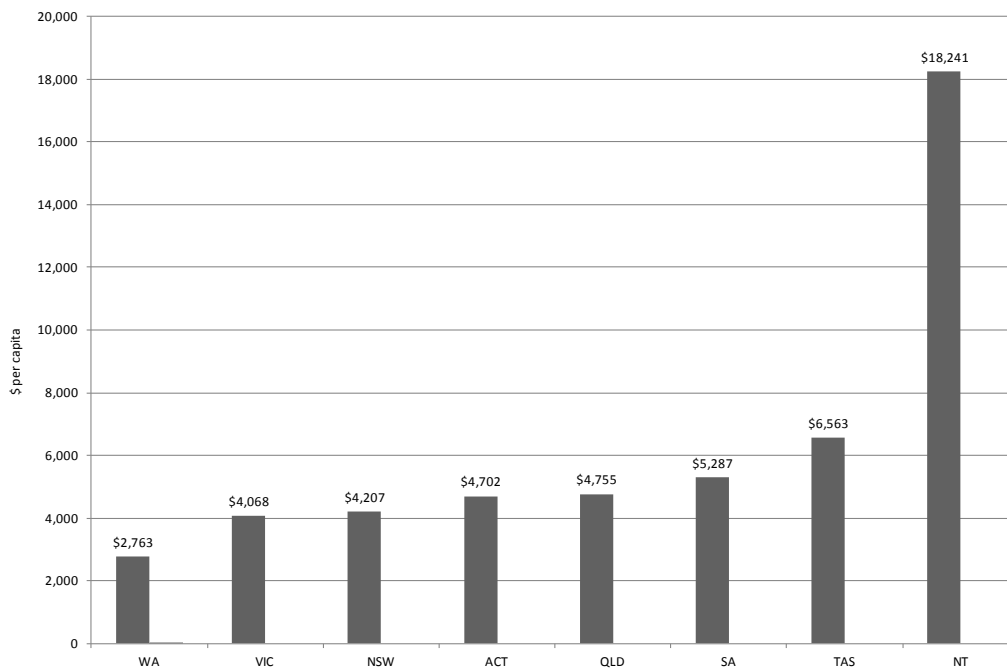
Figure 7.1.1
State-Territory Revenue Profile from the Commonwealth in 2014-15



Sources: 2014-15 Commonwealth Mid-Year Economic and Fiscal Outlook; 2014-15 State Mid-Year Budget Review Papers.

In 2015-16 the ACT will receive the third lowest amount of combined SPP and NPP funding from the Commonwealth on an actual per capita basis. The ACT will receive the fourth lowest total of Commonwealth grants per capita in 2015-16, as illustrated in Figure 7.1.2.

Figure 7.1.2
Commonwealth Payments to the States on an actual per capita basis in 2015-16



Source: 2015-16 Commonwealth Budget, Budget Paper No.3.

The 2015-16 Commonwealth Budget shows that the ACT will receive the following estimated receipts from the Commonwealth Government:

- General Revenue Assistance, comprising:
 - Goods and Services Tax (GST) of \$1,032.4 million, representing a decrease of \$73.0 million over 2014-15; and
 - ACT Municipal Services payments of \$38.5 million, representing an increase of \$0.5 million over 2014-15;
- SPPs of \$659.0 million, representing an increase of \$33.2 million over 2014-15;
- NPPs of \$130.6 million²; representing a decrease of \$33.6 million over 2014-15; and
- Other Commonwealth Payments comprising:
 - Financial Assistance Grants³ – Local Government grants of \$48.6 million, representing a decrease of \$0.3 million over 2014-15.

The figures above reflect the 2015-16 Commonwealth Budget estimated 2014-15 outcome and 2015-16. Each type of grant is discussed in more detail in the following sections.

General Revenue Assistance

General Revenue Assistance transfers from the Commonwealth Government represent a major source of untied funding in support of the delivery of state type services in the ACT. It is estimated they will comprise approximately 40 per cent of the ACT's General Government Sector revenues in 2015-16. Table 7.1.1 below summarises the expected level of GRA funding to the ACT across the Budget and forward estimates.

**Table 7.1.1
Commonwealth Government General Revenue Assistance funding to the ACT**

	2014-15 Est. Out. \$m	2015-16 Budget \$m	Variation		2016-17 Estimate \$m	2017-18 Estimate \$m	2018-19 Estimate \$m
			\$m	%			
General Revenue Assistance							
GST Revenue	1,105.4	1,032.4	-73.0	-6.6	1,103.3	1,167.8	1,235.0
ACT Municipal Services	38.0	38.5	0.5	1.4	39.1	39.8	40.4
Total General Revenue Assistance	1,143.4	1,070.9	-72.5	-6.3	1,142.4	1,207.6	1,275.4

Note: Table may not add due to rounding.

Source: The 2015-16 Commonwealth Budget; Chief Minister, Treasury and Economic Development Directorate calculations.

² This figure includes the additional funding commitment of \$167,000 for the BreastScreen Australia Programme received after the 2015-16 Commonwealth Budget and the ACT Treasury estimated for funding to be received through the Asset Recycling Initiative.

³ The 2014-15 estimate for Financial Assistance Grants includes \$0.209 million for an underpayment in 2013-14 due to adjustments related to the funding parameters.

GST Revenues

GST payments to the ACT in any year reflect: the total national GST pool; the ACT's GST relativity⁴; and the Australian Bureau of Statistics' estimates of the ACT and national populations.

The GST is distributed to the States as 'untied' payments and consistent with the principle of Horizontal Fiscal Equalisation (HFE)⁵.

In relation to the forward estimates, the GST revenue receipts to the ACT are based on:

- the 2015-16 Commonwealth Budget forward estimates of the GST pool:
 - the Commonwealth projections included two measures that are expected to increase the GST pool:
 - a three year extension to the GST compliance program from 2016-17, increasing the estimated GST pool by \$1.8 billion over three years; and
 - a proposal to extend the application of GST to include digital products and services imported by consumers from 2017-18, increasing total pool estimates by \$350 million over two years;
- the Commonwealth's forward estimate of the ACT's population as a percentage of the national total; and
- the 2015-16 GST relativity for the ACT held constant across the forward years.

It should be noted that the ACT Government's approach to estimating GST relativities for the forward estimates differs from that of the Commonwealth Government.

This arises as the Commonwealth Grants Commission (CGC) only recommends GST relativities for the Budget year based on its assessment of state revenues and expenses under average policy settings, taking into account economic, demographic and geographic circumstances. It does not project relativities because its relativities are based on actual outcomes in past years.

In its Budget Papers, the Commonwealth produces technical projections of GST relativities beyond the Budget year for the purposes of publishing state breakdowns of the GST entitlement.

Given that state fiscal capacities will inevitably change over time and accordingly that the CGC's future recommended relativities will differ from the Commonwealth's projected technical relativities, the ACT has consistently adopted the practice of holding the current relativity constant over the forward years.

The overall movement in GST grants to the ACT throughout the year since the 2014-15 Budget release is illustrated in Table 7.1.2 below. In 2015-16, it is estimated that the ACT will receive \$1,032.4 million in GST. This is \$97.2 million greater than if the GST were distributed based on an equal per capita share across jurisdictions.

⁴ A per capita weight assessed by the Commonwealth Grants Commission for use by Commonwealth Treasury in calculating the share of the GST revenue a State requires to achieve horizontal fiscal equalisation.

⁵ A distribution of GST revenue to State governments such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

**Table 7.1.2
Reconciliation of GST Revenue Grants to the ACT**

GST Grants to the ACT		2014-15	2015-16	2016-17	2017-18	2018-19	Total
		\$m	\$m	\$m	\$m	\$m	\$m
2014-15 ACT Budget	3 June 2014	1,098.6	1,168.0	1,239.7	1,310.5	0	4,816.8
	<i>Variation (1)</i>	<i>7.1</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0</i>	<i>7.1</i>
Final Budget Outcome	November 2014*	1,105.7	1,168.0	1,239.7	1,310.5	0	4,823.9
	<i>Variation (2)</i>	<i>-1.3</i>	<i>1.8</i>	<i>-3.6</i>	<i>-6.9</i>	<i>0</i>	<i>-10.0</i>
Federal MYEFO 2014-15 ACT Budget Review 2014-15	December 2014*	1,104.4	1,169.8	1,236.2	1,303.6	0	4,813.9
	<i>Variation (3)</i>	<i>1.0</i>	<i>-137.4</i>	<i>-132.9</i>	<i>-135.8</i>	<i>0</i>	<i>-405.1</i>
2015-16 Federal Budget	12 May 2015*	1,105.4	1,032.4	1,103.3	1,167.8	1,235.0**	4,408.8**
2015-16 ACT Budget	2 June 2015*	1,105.4	1,032.4	1,103.3	1,167.8	1,235.0	5,643.8

Notes: Table may not add due to rounding.

* Includes the underpayment of GST revenue in 2013-14 paid in 2014-15.

** Total does not include 2018-19.

Parameter Variations:

1. The 2013-14 Final Budget Outcome – Balancing adjustment of \$7.1 million for payment under in 2013-14 to be paid in 2014-15.
2. The 2014-15 Commonwealth Mid-Year Economic and Fiscal Outlook: Revised GST revenue pool and population estimates.
3. The 2015-16 Commonwealth Budget: Revised GST revenue pool and population estimates. Commonwealth Grants Commission 2015 Review Report: Revised GST relativities.

ACT Municipal Services

The Commonwealth provides GRA to the ACT to assist meeting the additional local government type municipal costs which arise from Canberra’s role as the National Capital, and to compensate the ACT for additional costs resulting from the National Capital planning influences on the provision of water and sewerage services.

This funding is additional to the Financial Assistance Grants to Local Government, which support normal municipal functions in the Territory (Financial Assistance Grants are discussed later in this chapter).

The level of funding is based upon the findings of the Commonwealth Grants Commission at the time of self-government and is indexed annually by a growth factor comprised of indicators for wage growth and inflation. Downward revisions to wage growth in the 2015-16 Commonwealth Budget have reduced the growth of ACT Municipal Services payments over the Budget and forward estimates period.

National Specific Purpose Payments (SPPs)

In accordance with the *Intergovernmental Agreement on Federal Financial Relations* (IGA-FFR), which took effect on 1 July 2009, SPPs transitioned from an historical to a population share distribution between States (equal per student in the case of the National Schools SPP) over the five year period from 2009-10 to 2013-14.

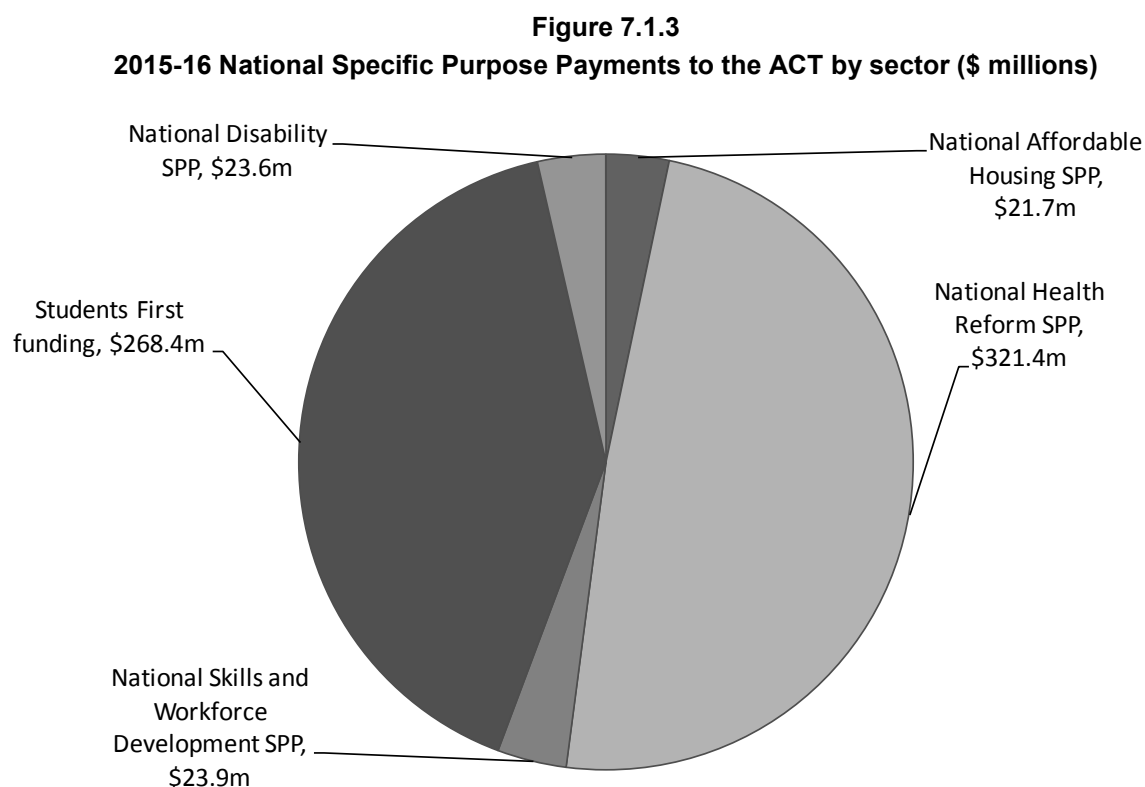
There were originally five SPPs under which the Commonwealth made payments to the States:

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

Major national reforms in recent years saw the replacement of the National Healthcare SPP with National Health Reform (NHR) funding from July 2012, and of the National Schools SPP with National Education Reform (now known as Students First) funding from January 2014. These reforms replaced block funding models with funding based on individual demand.

In the 2014-15 Commonwealth Budget, the Commonwealth Government unilaterally decided to return to a block funding approach for health and education specific purpose funding, from 2017-18, with indexation based on population growth and Consumer Price Index (CPI). This results in significantly reduced funding to the States and Territories for these services compared with what would have been paid both under the reform models and under the previous SPP indexation arrangements.

The relative distribution of these SPPs across sectors is illustrated in Figure 7.1.3.



Source: Commonwealth Budget 2015-16 Paper No.3.

The Commonwealth's SPP funding to the ACT is detailed in Table 7.1.3 below.

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 Affordable Housing funding must be expended in the housing 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.

**Table 7.1.3
Commonwealth National Specific Purpose Payments to the ACT**

	2014-15	2015-16	Variation		2016-17	2017-18	2018-19
	Est. Out. \$m	Budget \$m	\$m	%	Estimate \$m	Estimate \$m	Estimate \$m
National Health Reform funding/ Public Hospitals funding	304.6	321.4	16.8	5.5	343.9	296.1	308.4
Students First funding	253.4	268.4	15.0	5.9	285.7	298.6	313.5
National Skills and Workforce Development SPP	23.5	23.9	0.3	1.3	24.2	24.6	25.0
National Disability SPP	22.9	23.6	0.8	3.4	24.5	25.4	26.4
National Affordable Housing SPP	21.4	21.7	0.3	1.3	22.0	22.4	22.7
Total National Specific Purpose Payments	625.9	659.0	33.2	5.3	700.3	667.1	695.9

Note: Table may not add due to rounding.

Source: 2015-16 Commonwealth Budget, Budget Paper No.3.

Distribution of National SPPs

Details of the changes made to funding arrangements under the National SPPs in each sector are set out below.

Health Funding

In the 2015-16 Commonwealth Budget, the Commonwealth Government confirmed changes to funding arrangements announced in the 2014-15 Commonwealth Budget.

Funding arrangements under the National Health Reform Agreement (NHRA) came into operation for all States from July 2014, linking funding directly to the level of services delivered in public hospitals in each State. From 2014-15 to 2016-17, the Commonwealth was to maintain its previous percentage of base funding and fund 45 per cent of volume growth, both at the National Efficient Price (determined annually by an independent authority).

At the time of its 2014-15 Budget, the Commonwealth Government unilaterally moved away from the guarantee of minimum payments, as agreed under the NHRA, which significantly reduced payments the ACT had expected to receive under this agreement. Refer to Budget Outlook (Chapter 2.1) for more information on the reduction in Commonwealth Government health funding.

The 2014-15 Commonwealth Budget also changes indexation arrangements. Specifically, from 1 July 2017, the Commonwealth will index its contribution for public hospitals funding by the Consumer Price Index (CPI) and population growth. This change withdrew the previous Commonwealth commitment under the NHRA to fund 50 per cent of efficient growth from 2017-18 and introduced a cap on the Commonwealth contribution. The effect of this change is that funding will no longer be determined by the actual level of services delivered by public hospitals. Instead, allocation of Public Hospital funding for 2017-18 and beyond will be capped and distributed on an equal per capita basis. The Commonwealth is forecasting growth in Public Hospitals SPP funding from 2017-18 at only 4.15 per cent, considerably lower than the historic growth in Commonwealth funding of around 11 per cent.

A further result of this change is that, from 2017-18, the ACT will not receive direct payments from the Commonwealth for services provided to NSW residents, and will be required to seek reimbursement of the full cost of those services from the NSW Government.

The Commonwealth has renamed Health SPP funding as Public Hospitals funding from 2017-18 onwards in recognition of the decision to cease the funding arrangements under the National Health Reform Agreement.

Schools Funding

The Students First SPP involves a needs-based funding model called the Schooling Resource Standard (SRS). This arrangement was initially for six years; however, the Commonwealth Government, in its 2014-15 Budget, unilaterally reduced the term of agreements on the new funding model previously reached with States and Territories from six years to four years.

From the 2018 school year onwards, total recurrent funding will be indexed by CPI, with an allowance for changes in enrolments.

These changes have been maintained in the 2015-16 Commonwealth Budget.

Disability Funding

Under the current bilateral agreement, the National Disability SPP is progressively being paid to the National Disability Insurance Scheme (NDIS) as ACT clients transition to the NDIS. The NDIS establishes a national scheme which provides lifetime care and support for eligible people who have significant and permanent disabilities. Trial implementations are being run in most States prior to the transition phase.

The ACT plans to have all eligible participants engaged with the Scheme by the end of the trial period at 30 June 2016.

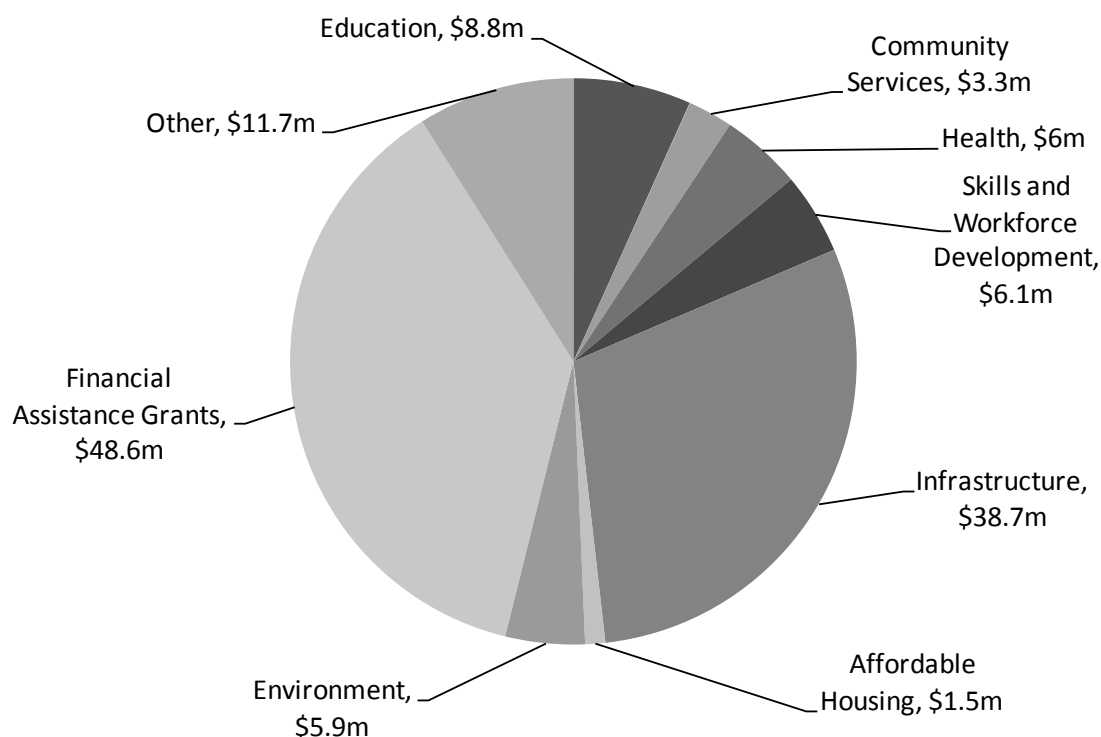
As States and Territories transition participants to the NDIS, funding will move from the National Disability SPP to NDIS. This will require repayment of Disability SPP monies by the States and Territories to the National Disability Insurance Agency on behalf of the Commonwealth Government. States will be able to draw on Medicare Levy surcharge funds paid into the DisabilityCare Australia Fund to help meet their NDIS contributions, in line with the rate at which participants are signed up to NDIS as per the terms of the DisabilityCare Australia Fund Agreement.

National Partnership Payments

Within the context of the IGA-FFR, the Commonwealth provides NPPs to the States, in addition to GRA and SPPs, 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.

The distribution of these payments for the ACT across sectors is shown in Figure 7.1.4 below.

Figure 7.1.4
2015-16 Major NP payments to the ACT by sector (\$ millions)⁶



Source: Commonwealth Budget 2015-16 Paper No.3.

⁶ Contingent Payments to the ACT in the 2015-16 Commonwealth Budget are excluded. This funding is for the National Partnership Agreement on Hepatitis C Settlement Fund. The ACT has no eligible clients under this agreement.

The distribution of NPPs across sectors reflects both major areas of State service delivery, such as Health and Education, and the significant role played by the Commonwealth in funding State infrastructure, such as hospitals, roads and rail.

All NPPs currently delivering funding to the ACT are summarised by sector in Table 7.1.4 below.

**Table 7.1.4
Commonwealth National Partnership Payments to the ACT**

	2014-15	2015-16	Variation		2016-17	2017-18	2018-19
	Est. Out.	Budget			Estimate	Estimate	Estimate
	\$m	\$m	\$m	%	\$m	\$m	\$m
Health ¹	12.9	6.0	-6.9	-53.2	3.0	2.6	2.5
Education	13.8	8.8	-5.0	-36.0	8.4	6.1	0.0
Skills and Workforce Development	6.4	6.1	-0.4	-5.7	8.3	0.0	0.0
Community Services	5.8	3.3	-2.4	-42.0	15.1	47.1	19.8
Affordable Housing	1.5	1.5	0.0	-0.5	1.5	0.0	0.0
Infrastructure ²	58.3	38.7	-19.6	-33.6	32.1	22.7	23.2
Environment	6.4	5.9	-0.5	-7.6	28.9	30.3	18.0
Financial Assistance Grants ³	48.9	48.6	-0.3	-0.7	48.5	50.6	52.7
Other ⁴	10.3	11.7	1.4	13.4	11.9	11.9	11.4
Total NP Payments	164.2	130.6	-33.6	-20.5	157.7	171.3	127.6

Notes: Table may not add due to rounding.

1. This figure includes the additional funding commitment of \$167,000 in 2015-16 and \$43,000 in 2016-17 for the BreastScreen Australia Program received after the 2015-16 Commonwealth Budget.
2. These figures include the ACT Treasury estimates of funding to be received through the Asset Recycling Initiative. These will be updated as assets are sold or as otherwise required under reporting arrangements with the Commonwealth Government.
3. The 2014-15 estimate for Financial Assistance Grants includes \$0.209 million for an underpayment in 2013-14 due to adjustments related to the funding parameters.
4. The Other category includes three NPPs namely Developing demand-driver Infrastructure for the tourism industry; Legal Assistance Services; and Provision of Fire Fighting Services. The detailed amounts are listed in Table 7.1.6.

Source: 2015-16 Commonwealth Budget

Expiring National Partnership Payments

In the 2015-16 Commonwealth Budget, the Commonwealth allowed four NPPs to expire. The total value of these four expired agreements to the ACT was approximately \$1.6 million in 2014-15. The expiring agreements are:

- Joint Group Training (\$0.2 million);
- Assistance for Students with Disabilities (\$1.0 million);
- TAFE Fee Waivers for childcare qualifications (\$0.1 million); and
- Indigenous Teenage Sexual and Reproductive Health (\$0.3 million).

Some NPPs that were due to expire in 2014-15 with an approximate annual value of \$10.7 million have been extended or replaced with new NPPs:

- Homelessness – continued (\$1.5 million);
- Universal Access to Early Childhood Education – continued (\$7.0 million);
- National Quality Agenda for Early Childhood Education and Care – continued (\$0.3 million); and

- Treating more Public Dental Patients (\$1.9 million) – this has been replaced with Adult Public Dental Services (\$2.4 million).

The Commonwealth Treasurer has acknowledged, in the Council on Federal Financial Relations (CFFR), the need to improve the current process for dealing with expiring agreements to give States earlier notification of the Commonwealth's intentions. He has undertaken to provide notification through the Commonwealth's Mid-Year Economic and Fiscal Outlook (MYEFO) statement on an annual basis. This will enable States and Territories to manage the impacts of expiring agreements in their Budget processes.

New National Partnership Agreements

The NPA on Asset Recycling Initiative (the ARI) commenced on 1 July 2014 and will expire on 30 June 2019. States and Territories have a two year window to reach agreement with the Commonwealth to sell assets and invest the proceeds in productive infrastructure. Infrastructure investment must commence on or before 30 June 2019. The Commonwealth announced a total funding pool of \$5 billion for this initiative and has offered a total incentive payment of 15 per cent of the asset's final sale proceeds to be paid to States in two instalments upon completing key milestones.

The ACT Government signed the first agreement under the ARI on 19 February 2015, agreeing to sell assets initially estimated at nearly \$400 million (using the valuation method agreed with the Commonwealth for the purpose of commencement of the Initiative), including ACTTAB for \$105.5 million. The Commonwealth has agreed to provide around \$60 million in incentive payments to the ACT.

The 2015-16 Commonwealth Budget announced the commencement of the NPA on Adult Public Dental Services worth \$2.4 million to the ACT in 2015-16. The agreement is only for 12 months as the Commonwealth will consider further funding as part of the White Paper on Reform of the Federation.

The movements in NPPs, including existing National Partnerships, are fully reflected in Table 7.1.6 below – Total Commonwealth Funding to the ACT.

Negotiations on the new NPA, as well as the NPAs that have been announced for extension or replacement, are still in progress between the ACT and the Commonwealth.

Other Commonwealth Payments

This component of Commonwealth funding to the ACT reflects a variety of grants outside the IGA framework, with the largest being Financial Assistance Grants (FAGs) to Local Government.

Financial Assistance Grants to Local Government

Financial Assistance Grants (FAGs) to local government are paid to State governments for on-passing to local governments through the State Grants Commissions. FAGs 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 FAGs are paid directly to the Territory to be spent according to its budget priorities, at approximately two per cent of the FAGs pool.

FAGs payments are made up of two components, general purpose funding and identified local road funding:

- the **general purpose** component is divided amongst the States on an equal per capita basis; and
- the **identified local roads** funding shares were agreed at the 1990 Special Premiers conference and are based on historical road lengths from 1991-92. The ACT's share is 3.2 per cent.

The ACT's FAGs funding is shown in Table 7.1.5 below.

**Table 7.1.5
Commonwealth Government Financial Assistance Grants Funding to the ACT**

	2014-15	2015-16	Variation		2016-17	2017-18	2018-19
	Est. Out.	Budget	\$m	%	Estimate	Estimate	Estimate
	\$m	\$m			\$m	\$m	\$m
Financial Assistance Grants ¹	48.9	48.6	-0.3	-0.7	48.5	50.6	52.7

Notes: Table may not add due to rounding.

1. The 2014-15 estimate for Financial Assistance Grants includes \$0.209 million for an underpayment in 2013-14 due to adjustments related to the funding parameters.

Source: 2015-16 Commonwealth Budget and 2013-14 Final Determination for Financial Assistance Grants for Local Government.

In its 2014-15 Budget, the Commonwealth took a decision to pause the indexation of FAGs for three years from 2014-15 to 2016-17. This meant a reduction in payments to the ACT across these years compared with previous estimates. The pause has been maintained in the 2015-16 Commonwealth Budget.

FAGs are expected to decrease over 2014-15 by \$0.3 million. This is due to a reduction in the ACT's population growth, resulting in a lower share of payments to the ACT. The 2014-15 estimate also includes a balancing adjustment of \$0.2 million that was paid in 2014-15 for underpayment in 2013-14.

Total Commonwealth Funding to the ACT

All estimated and expected revenue transfers from the Commonwealth Government to the ACT over the Budget period are detailed in Table 7.1.6.

**Table 7.1.6
Total Commonwealth Funding to the ACT**

2014-15 Budget	FUNDING CATEGORIES	2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
	General Revenue Assistance					
37,983	ACT Municipal Services	37,983	38,515	39,131	39,757	40,393
1,098,600	GST Revenue	1,105,409	1,032,368	1,103,268	1,167,795	1,234,980
1,136,583	Total General Revenue Assistance	1,143,392	1,070,883	1,142,399	1,207,552	1,275,373
271,080	Health Services					
	National Health Reform Payments	304,617	321,427	343,889	0	0
	Public Hospitals Funding	0	0	0	296,132	308,381
	Health Services NPPs					
0	Adult Public Dental Services	0	2,365	nfp	nfp	nfp
3,704	Essential Vaccines	3,532	2,346	2,413	2,457	2,494
50	Health and Hospital Fund Capital – National Cancer System	0	50	0	0	0
0	Health and Hospital Fund Capital – Regional Priority Round	234	0	0	0	0
167	Health Services – BreastScreen ¹ Australia – Expansion of Program	167	356	263	0	0
5,000	Health Services – Canberra Hospital Dedicated Paediatric Emergency Care	5,000	0	0	0	0
213	Health Services – National Perinatal Depression Initiative	224	nfp	nfp	0	0
33	Health Services – Vaccine Preventable Diseases Surveillance	33	34	35	0	0
0	National Elective Surgery Target Component - Reward Funding	670	0	0	0	0
262	Indigenous Early Childhood Development - Antenatal and Reproductive Health	262	0	0	0	0
620	Supporting National Mental Health Reform	620	620	0	0	0
102	National Bowel Cancer Screening Programme - Participant Follow-Up Function	102	118	151	184	0
137	OzFoodNet	137	139	141	nfp	nfp

2014-15 Budget	FUNDING CATEGORIES	2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
1,904	Treating More Public Dental Patients	1,904	0	0	0	0
12,192	Total Health Services NPPs	12,885	6,028	3,003	2,641	2,494
283,272	Total Health Services	317,502	327,455	346,892	298,773	310,875
	Housing					
21,522	National Affordable Housing SPP	21,421	21,704	22,029	22,357	22,690
	Housing NPPs					
0	First Home Owners Boost	7	0	0	0	0
1,520	Homelessness	1,520	1,520	1,520	0	0
	Total Housing NPPs	1,527	1,520	1,520	0	0
23,042	Total Housing	22,948	23,224	23,549	22,357	22,690
	Community Services					
23,046	National Disability SPP	22,863	23,640	24,451	25,384	26,416
	Community Services NPPs					
0	Payments from the DisabilityCare Australia Fund	0	1,417	12,490	43,817	15,715
3,700	Assisting Preparation towards the trial of the National Disability Insurance Scheme	3,700	0	0	0	0
1,318	Pay Equity for Social and Community Services	2,076	1,932	2,603	3,311	4,077
5,018	Total Community Services NPPs	5,776	3,349	15,093	47,128	19,792
28,064	Total Community Services	28,639	26,989	39,544	72,512	46,208
	Education and Early Childhood National Schools SPPs and National Education Reform Agreement (Students First) Funding					
73,410	National Education Reform - (Students First) - Government	78,033	82,355	88,008	94,027	99,657
174,268	National Education Reform - (Students First) - Non-Government	175,388	186,049	197,669	204,603	213,793
247,678	Total National Schools SPPs and National Education Reform Agreement (Students First) Funding	253,421	268,404	285,677	298,630	313,450
	Education and Early Childhood NPPs					
240	Independent Public Schools Initiative	260	260	260	0	0
996	More Support for Students with Disability – Government Schools	802	0	0	0	0
0	More Support for Students with Disability – Non Government Schools	194	0	0	0	0

2014-15 Budget	FUNDING CATEGORIES	2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
212	National Quality Agenda for Early Childhood Education and Care	318	0	0	0	nfp
0	National School Chaplaincy Programme	966	966	966	966	0
0	Schools Security - Government schools	0	0	0	0	0
0	Schools Security - Non Government schools	35	3	0	0	0
3,919	Trade Training Centres in Schools – Government Schools	2,984	725	0	0	0
826	Trade Training Centres in Schools – Non Government Schools	1,158	0	0	0	0
3,728	Universal Access to Early Childhood Education	7,039	6,849	7,150	5,089	0
9,921	Total Education and Early Childhood NPPs	13,756	8,803	8,376	6,055	0
257,599	Total Education and Early Childhood	267,177	277,207	294,053	304,685	313,450
	Skills and Workforce Development					
23,655	National Skills and Workforce Development SPP	23,544	23,858	24,230	24,606	24,986
	Skills and Workforce Development NPPs					
6,046	Building Australia's Future Workforce – Skills Reform	6,046	6,050	8,276	0	0
0	Joint Group Training Program	234	0	0	0	0
79	TAFE Fee Waivers for Childcare Qualifications NPP	137	0	0	0	0
6,125	Total Skills and Workforce Development NPPs	6,417	6,050	8,276	0	0
29,780	Total Skills and Workforce Development	29,961	29,908	32,506	24,606	24,986
	Infrastructure Infrastructure Investment Programme					
966	Black Spot Projects ²	796	966	966	966	966
989	Bridges Renewal Programme	0	982	1,308	1,470	1,144
790	Heavy Vehicle Safety and Productivity	0	1,043	1,056	817	654
1,405	Investment – Road Component ²	568	874	566	566	566
5,600	Roads to Recovery ²	5,600	5,600	5,600	5,600	5,600
	Infrastructure Growth Package – Asset Recycling Fund					
0	Asset Recycling Initiative ³	7,810	3,550	20,630	12,910	13,900
837	New Investments	0	10,411	1,610	0	0
	Other Projects					
48,100	Building Australia Fund – Road Component	41,180	6,920	0	0	0

2014-15 Budget	FUNDING CATEGORIES	2014-15 Est. Outcome \$'000	2015-16 Budget \$'000	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
10,000	Centenary of Canberra 2013 – A Gift to the National Capital ⁴	2,000	8,000	0	0	0
385	Interstate Road Transport	355	355	355	355	355
69,072	Total Infrastructure	58,309	38,701	32,091	22,684	23,185
	Environmental Services					
0	Bushfire Mitigation	305	300	299	0	0
327	Implementing Water Reform in the Murray Darling Basin	327	327	327	327	327
4,451	Sustainable Rural Water Use and Infrastructure Programme	4,451	3,320	27,000	30,000	17,671
1,958	Natural Disaster Resilience	1,305	1,958	1,305	NFP	NFP
6,736	Total Environmental Services	6,388	5,905	28,931	30,327	17,998
	Other Commonwealth					
0	Developing Demand-Driver Infrastructure for the Tourism Industry	799	775	775	775	0
48,638	Financial Assistance Grants – Local Government ⁵	48,882	48,562	48,541	50,567	52,697
4,553	Legal Assistance Services	4,553	5,788	5,813	5,619	5,721
4,941	Provision of Fire Fighting Services	4,941	5,114	5,293	5,478	5,670
58,132	Total Other Commonwealth	59,175	60,239	60,422	62,439	64,088
1,892,280	Total Commonwealth Government Grant Funding	1,933,491	1,860,511	2,000,387	2,045,935	2,098,853

Notes: NFP indicates 'not for publication' in the 2015-16 Commonwealth Budget as negotiations are yet to be finalised.

1. This figure includes the additional funding commitment of \$167,000 in 2015-16 and \$43,000 in 2016-17 for the BreastScreen Australia Program received after the 2015-16 Commonwealth Budget.
2. Additional funding for these programs is included in the infrastructure growth package – Asset Recycling Fund – New Investments.
3. These figures include ACT Treasury estimates of funding to be received through the Asset Recycling Initiative. These will be updated as assets are sold or as otherwise required under reporting arrangements with the Commonwealth Government.
4. Funding for the redevelopment of Constitution Avenue.
5. The 2014-15 estimate for Financial Assistance Grants includes \$0.209 million for an underpayment in 2013-14 due to adjustments related to the funding parameters.

Source: The 2015-16 Commonwealth Budget; the 2013-14 Final Determination for Financial Assistance Grants for Local Government; and Chief Minister, Treasury and Economic Development Directorate calculations.

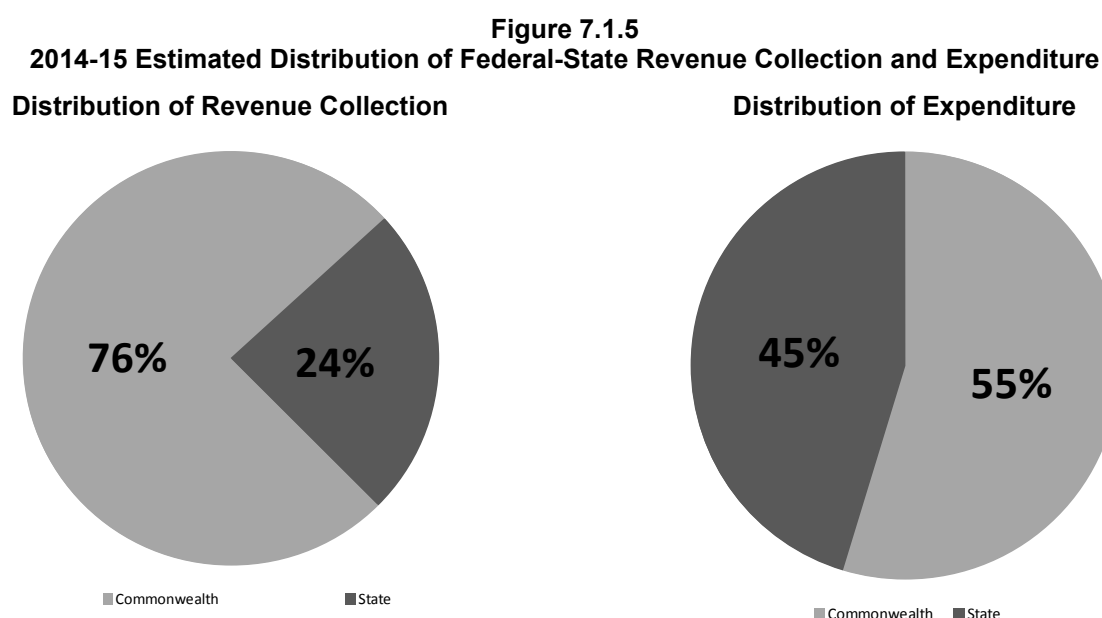
Developments in Federal Financial Relations Framework in the Context of the ACT

The Australian federal financial relations system is characterised by two distinct features – a high degree of Vertical Fiscal Imbalance (VFI) offset by the transfer of revenue under a Horizontal Fiscal Equalisation (HFE) system:

- VFI reflects a disparity between the revenue generation ability of the Commonwealth Government in excess of its own spending requirements and the obligations of the States and Territories in providing public services but with limited ability to raise their own revenue. VFI arises principally on account of Constitutional limitations on States' revenue raising powers.
- Horizontal fiscal imbalance arises because State and Territory governments have different abilities to raise funds from their tax bases and because their respective costs of providing public services differ. This imbalance is addressed by a HFE policy overseen by the CGC.

To put the concept of VFI into perspective, the Commonwealth Government currently collects around 76 per cent of combined Commonwealth and State Government tax revenue (14 per cent of Commonwealth revenue being from the GST) but is responsible for approximately 55 per cent of total government spending. In contrast, the States collect around 24 per cent of combined tax revenue, but are responsible for around 45 per cent of total government spending.

Figure 7.1.5 below depicts the distribution of Commonwealth-State spending and revenue collection (including the GST).



Note: Capital expenditure is not included.

Source: ABS, Government Financial Estimates 2014-15 (5501.0.55.001) and Chief Minister, Treasury and Economic Development Directorate calculations.

Report on GST Revenue Sharing Relativities – 2015 Review

For equity and efficiency reasons, the Commonwealth Government distributes a portion of its revenues to the States and Territories, recognising that the States have differing capacities to raise revenues and deliver services. Australia's HFE system engenders stability and confidence in the States' and Territories' fiscal situations; HFE principles are designed to ensure State and Territory governments receive funding in proportion to their relative needs and revenue raising capacities.

The Task

The IGA-FFR sets out the requirement that the Commonwealth and the States and Territories agree that GST revenue should be distributed to the States and Territories to equalise their fiscal capacities.

In terms of reference from the Commonwealth Treasurer on 21 June 2013, the CGC was asked to review the methods which should be used to distribute the GST from 2015-16 to achieve this outcome:

- the CGC was asked to recommend how the GST should be distributed in accordance with the 'principle of Horizontal Fiscal Equalisation' (HFE) and to consider a number of priority issues, including some nominated recommendations of the GST Distribution Review⁷; and
- the terms of reference also provided guidance on the treatment of Commonwealth payments and direction as to how some payments should be treated.

The definition of the 'principle of HFE' adopted by all parties for this review remained unchanged from previous reviews:

- State and Territory governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

Supplementary terms of reference were issued by the Commonwealth Treasurer on 19 December 2014, requiring the CGC to:

- apply a 50 per cent discount to Commonwealth payments under the Infrastructure Growth Program;
- exclude all Commonwealth payments under the Asset Recycling Initiative from equalisation; and
- exclude States' drawdowns from the DisabilityCare Australia Fund during transition to the NDIS from equalisation.

⁷ The Australian Government, *GST Distribution Review, Final Report*, October 2012.

The CGC also received a separate letter from the Commonwealth Treasurer on 23 December 2014 requesting advice on a possible approach that would mitigate the negative effects of large and volatile revenues and ensure that States' and Territories' shares of GST in the year are appropriate for their fiscal circumstances in that year.

Recommendations

Table 7.1.7 shows the per capita relativities recommended for use in distributing the GST revenue among the States in 2015-16. It also shows State and Territory shares of the GST revenue implied by the 2015-16 recommendations and an illustrative total GST revenue distribution; it compares these with the results for the 2014-15 year.

Table 7.1.7
Results – relativities, shares and GST distribution 2014-15 and 2015-16

	Relativities		Shares		GST distribution	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Australian Capital Territory	1.23600	1.10012	2.0	1.8	1 097	1 040
New South Wales	0.97500	0.94737	31.2	30.3	16 774	17 311
Victoria	0.88282	0.89254	22.0	22.3	11 828	12 755
Queensland	1.07876	1.12753	21.8	22.8	11 704	13 046
Western Australia	0.37627	0.29999	4.2	3.4	2 248	1 935
South Australia	1.28803	1.35883	9.2	9.7	4 955	5 525
Tasmania	1.63485	1.81906	3.6	3.9	1 914	2 236
Northern Territory	5.66061	5.57053	5.9	5.9	3 189	3 351
Total	1.00000	1.00000	100.0	100.0	53 710	57 200

Note: Table may not add due to rounding.

Source: CGC calculation.

The new assessment increases the share of GST most notably for Tasmania, as well as South Australia and Queensland. The ACT has suffered the second biggest decrease in share, after Western Australia.

Overall Commentary

The CGC's Report highlights the fact that States' and Territories' assessed fiscal capacities continue to reflect divergent trends in their economies and other key influences on their circumstances:

- particularly significant in recent years is the strong population and economic growth arising from mining development in Western Australia, the large impact of natural disaster costs on Queensland, and the ongoing high fiscal disadvantages experienced by the Northern Territory and Tasmania; and
- other emerging influences have been the property market recovery in New South Wales and the relatively high growth in Commonwealth payments to Victoria, each of which reduce their assessed GST shares.

The Main Changes

This methodology review broadly retained the assessment principles and approaches used in previous reviews, but also introduced a number of changes in specific areas in response to matters raised in the terms of reference, changing data sources, suggestions made by States and Territories, and the CGC's analysis of key issues, namely:

- a more comprehensive assessment of State and Territory housing and public transport infrastructure and services;
- the adoption of new data sources and methods in health and schools;
- responses to new funding arrangements for disability services and aged care; and
- a revised assessment structure for mining revenues.

The CGC also reviewed the impact of the methods on budget volatility and concluded that existing methods, applied consistently to all assessments, provide the most reliable, practical and appropriate outcome consistent with achieving HFE over a run of years (albeit with a lag since reliable data is only available on an historical basis).

The CGC retained the three year averaging approach adopted in the 2010 Review which it considers balances competing considerations of practicality, data reliability, contemporaneity and policy neutrality, and which provides for some readily predictable smoothing of payment flows over time.

Implications for the ACT

As discussed above, from the perspective of the ACT's 2015-16 budget, the report's recommendations translate into a loss of \$129 million or \$325 per capita to the ACT compared with the GST estimates released in the ACT Budget Review in February 2015. This per capita loss to the ACT is the largest of any jurisdiction, as illustrated by Table 7.1.8.

Table 7.1.8
Per capita change in GST distribution due to change in relativity in 2015-16

\$ per capita	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2015-16	-67	22	114	-182	166	436	-325	-223

Source: CGC calculation.

The reasons for the loss involve a multitude of factors, both at the technical level and at the broader intergovernmental level. For example, at a technical level:

- changes in data relating to payroll tax - revision of previous years' Australian Bureau of Statistics data on compensation of employees which increased the ACT's assessed revenue raising capacity, reducing its GST entitlement by approximately \$35 million;
- changes in methods of assessment causing a reduction of approximately \$93 million, including:
 - adoption of a more comprehensive assessment of public transport expenses, for which the ACT has below the Australian average needs, resulting in a loss of \$33 million;
 - a reduced estimate of the impact on State and Territory expenses of below the Australian average provision of health services by the private sector, resulting in a loss of \$31 million;
 - recognition of the impact of city size and urban population growth on the need for urban transport infrastructure, resulting in a loss of \$27 million; and
- equalisation of 50 per cent of the infrastructure payments provided by the Commonwealth for the Majura Parkway project, a reduction of approximately \$10 million in 2015-16.

Other factors were also relevant:

- ACT's GST relativity has been very stable over recent years, sustained by population growth above the national average. This is now changing, with the ACT population growth slipping below the national average;
 - the higher a State or Territory's growth rate above the national average, the more GST it is deemed to require per capita, including the need to provide more infrastructure to service the increased population; and
- terms of reference driven by the earlier GST Distribution Review:
 - this translated into a restricted 2015 review process – 18 months rather than five years, premised on the need for a quick response; with assessments likely to have favoured the ACT, such as administrative scale, not included due to the short timeframe.

The 2015 Review outcome represents a return to the ACT's long run average share of the GST pool.

Importantly, while the ACT has experienced the single biggest redistribution away from it of any jurisdiction in per capita terms, HFE still delivers approximately \$98⁸ million to the ACT above what would be delivered if the GST were allocated on a population share basis.

⁸ CGC calculation based on the 2014-15 MYEFO GST pool and population estimates.

Table 7.1.9 below, from the CGC Report, illustrates the impact of the components contributing to the ACT's assessed GST funding of \$1,040 million and how this results in a figure of \$98 million above an equal per capita share.

**Table 7.1.9
ACT Assessed GST Funding and Above Equal Per Capita funding in 2015-16**

	\$ per capita	\$m
Equal per capita share (1.65 per cent)	2,370	942
Expense requirement	-482	-192
Investment ¹	-128	-51
Net lending ²	-1	0
Revenue	731	291
Commonwealth payments ³	127	51
Assessed GST (1.82 per cent)⁴	2,617	1,040
Total difference from equal per capita distribution	248	98

Notes: Table may not add due to rounding.

1. The investment assessment provides each State and Territory with the capacity to acquire the average level of new physical infrastructure. It is the equivalent to 'net acquisition of non-financial assets' that appears in the ABS Government Finance Statistics State operating statement.
2. The net lending assessment provides each State and Territory with the capacity to acquire the average level of income from their net financial assets, i.e. the outcome of an operating budget calculated as expenses and expenditures on non-financial assets, change in inventories, etc less State own source revenues and revenues received from the Australian Government.
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.

All eight ACT submissions and other dealings with the CGC can be located on the CGC's public website:

https://cgc.gov.au/index.php?option=com_content&view=article&id=219&Itemid=271.

A White Paper on Reform of the Federation

On 28 June 2014, the Commonwealth Government released the terms of reference for a White Paper on Reform of the Federation. The White Paper will seek to clarify roles and responsibilities to ensure that, as far as possible, the States and Territories are sovereign in their own sphere. The objective will be to:

- reduce and end, as far as possible, the waste, duplication and second guessing between different levels of Government;
 - achieve a more efficient and effective federation and, in so doing, improve national productivity;
 - make interacting with government simpler for citizens; and
 - ensure the federal system:
 - is better understood and valued by Australians (and the case for reform supported);
 - has clearer allocation of roles and responsibilities, enhances governments' autonomy, flexibility and political accountability; and
 - supports Australia's economic growth and international competitiveness.

The review has commenced with:

- the release of a series of Issues Papers – Overview; Health; Education; Housing; and Federal Financial Relations for consultation; and
- stakeholder roundtable consultation sessions in each State and Territory.

These phases will be followed by:

- a Green Paper due in the second half of 2015 which will outline for each sector options for reallocating roles and responsibilities in order to deliver better outcomes; and
- the White Paper by early 2016.

A White Paper on the Reform of Australia's Tax System

In the lead up to the 2013 Commonwealth Election, the Commonwealth Government also promised to deliver a White Paper on Tax Reform in its first term in Government, with the aim of taking any recommended changes to the next Commonwealth Election (likely to be held late in 2016).

At its most basic level, tax reform is the process of changing the bases and/or rates of taxation to maximise economic efficiency and equity.

The Commonwealth Treasurer released the Tax Discussion Paper (*Re:Think*) on 30 March 2015, and is seeking submissions on the issues raised in the discussion paper by 1 June 2015.

COAG Oversight

The members of COAG have agreed to work closely together on the Commonwealth White Papers on Taxation and Reform of the Federation, acknowledging the need to reduce duplication between governments.

All parties acknowledge the need for the White Papers to be considered together, as the roles and responsibilities of governments and tax policy are closely linked.

ACT Government response

The ACT Government and officials are working with the Commonwealth, States and the Northern Territory in providing suitable input to the preparation of both White Papers.

In the context of the Federation Paper, the key policy issues under consideration include:

- devolution of policy development and service delivery to the level of government closest to the ultimate clients (also known as the subsidiarity principle);
- the development of a sustainable revenue base able to meet the needs of a changing and ageing local population;
- a reduction in the degree of vertical fiscal imbalance between the Commonwealth and States and Territories;

- greater empowerment of States and Territories through improved tax bases and tax sovereignty; and
- close alignment of devolution options with funding and revenue raising arrangements, so that these matters may be considered together to facilitate a robust future financial architecture for the Federation.

In the context of the Tax Paper, there is a clear recognition among all governments of the need for comprehensive tax reform. Without it, government debt levels as a proportion of Gross Domestic Product will continue to rise to unsustainable levels, thereby placing all Australian governments at risk of not being able to meet the key needs of their respective communities.

It does however, need to be done in an appropriate manner:

- this means increasing those taxes that have the least effect on investment and employment, and at the same time reducing reliance on taxes that distort incentives to work, invest and transact business; and
- it also means addressing those factors which increase the complexity of the tax system and the cost of compliance.

The ACT Government is leading the way in tax reform, having commenced its Tax Reform agenda in 2012-13, and is continuing that process again in this Budget.

More information:

- Information about the White Paper on Reform of the Federation is available at <https://federation.dpmc.gov.au/>.
- Information on the White Paper on Reform of Australia's Tax System is available at <http://bettertax.gov.au/>.