

7.2 FEDERAL FINANCIAL RELATIONS

The Structure of Australia's Federal Financial Relations

Australia's federal relations are characterised by an inequality between the revenue raising capacities and expenditure responsibilities of the Commonwealth and State and Territory (collectively known as the States) Governments. The Commonwealth Government collects the majority of the nation's taxation revenue, while the States are constitutionally responsible for the delivery of fundamental government services, such as health and education. This disparity is known as vertical fiscal imbalance and means the States are inherently reliant on fiscal transfers from the Commonwealth Government in order to deliver services.

Commonwealth financial assistance provides the ACT with 39 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. For the Northern Territory, for example, this can be as much as 80 per cent of its total revenues.

Australia addresses the horizontal fiscal imbalance between the States 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. Under the principles of HFE, each State receives a level of funding whereby the capacity of all States to provide essential services is equalised.

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.

Intergovernmental Agreement on Federal Financial Relations

The intention of the IGA-FFR is to provide a robust foundation, by way of the federal financial relations framework, for collaboration between the Commonwealth and States on policy development and service delivery, and to facilitate the implementation of economic and social reform in areas of national importance.

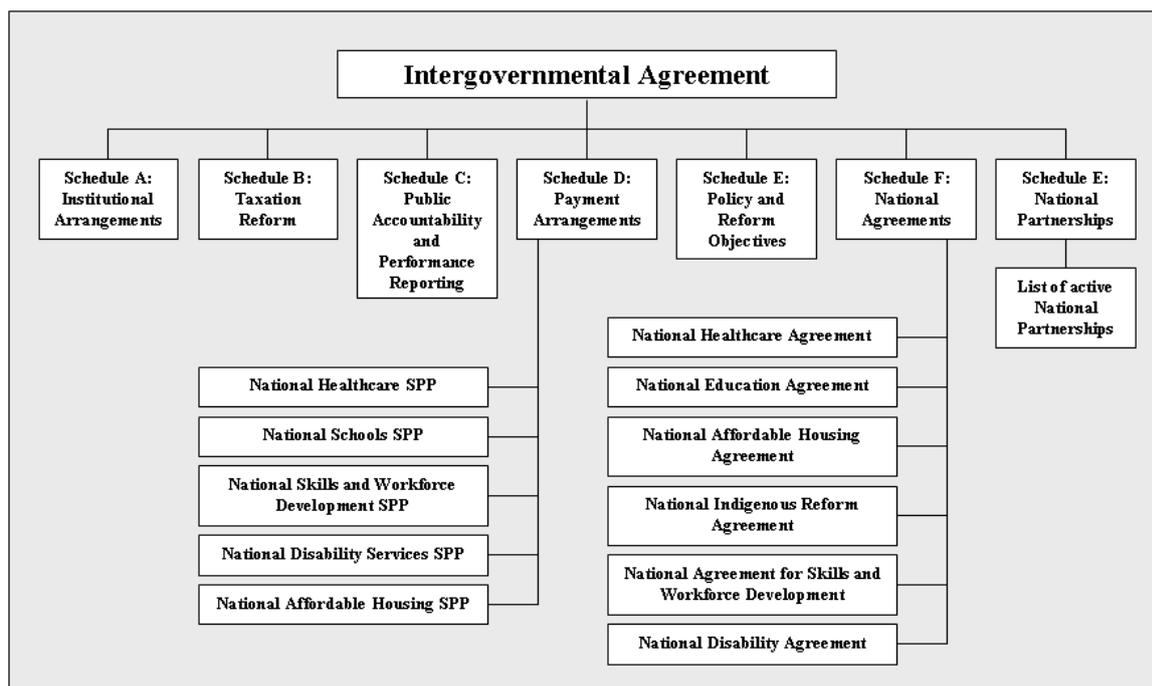
The IGA-FFR consists of a core agreement and a series of schedules that can be modified by unanimous agreement of the Ministerial Council for Federal Financial Relations (MCFFR).

The core agreement is founded on the mutual commitment by the Commonwealth and States to share the responsibility of funding key service areas as well as improving the efficiency and effectiveness of service delivery. Importantly, it maintains the provision of GST revenue to the States, to be available for any purpose.

Details of the framework are outlined in the schedules, covering institutional arrangements; taxation reform; public accountability and performance reporting; payment arrangements and funding mechanisms; and policy and reform objectives.

Detailed information on the IGA-FFR and the federal financial relations framework (as outlined in Figure 7.2.1 below) can be found at www.federalfinancialrelations.gov.au.

**Figure 7.2.1
Structure of Intergovernmental Framework**



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. State Treasurers may also attend by invitation.

COAG last met on 13 February 2011 with its primary focus being national health reform, but also to discuss a broad ranging reform agenda, including regulatory and competition reform; infrastructure planning; vocational education and training; and ministerial council reform.

At its meeting, COAG adopted a ‘streamlined agenda built around five themes of strategic importance that lie at the intersection of jurisdictional responsibilities’ that will shape its future directions:

- long term strategy for economic and social participation – addressing social and economic issues, such as skills development, education and early childhood development;
- a national economy driven by our competitive advantages – the microeconomic reform agenda, further regulatory and competition reforms and infrastructure investment;
- a sustainable and liveable Australia – addressing issues such as housing supply and affordability, sustainable population, climate change and energy efficiency measures;
- a better health service and a more sustainable health system for Australia; and
- closing the gap on Indigenous Australians.

This agenda will be pursued through the new COAG Council System, whereby standing councils will replace the existing ministerial councils from 1 July 2011. 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:

- the Steering Committee for the Review of Government Services Provision is responsible for collating and preparing National Agreement performance data for the CRC.

The CRC also reports on the performance of jurisdictions under the Agreement on Murray-Darling Basin Reform; the aggregate pace of activity in progressing COAG's agreed reform agenda; and the consistency of capital city strategic planning systems with the new national criteria.

Further information on the CRC can be found at www.coagreformcouncil.gov.au.

Ministerial Council for Federal Financial Relations

The Ministerial Council for Federal Financial Relations has responsibility for the general oversight of the operation of the IGA-FFR on behalf of COAG, including:

- ensuring to the fullest extent possible that the National Agreements (NAs) and National Partnerships (NPs) are aligned with the design principles (Schedule E of the IGA-FFR);
- development and oversight of the National Performance Reporting System (Schedule C of the IGA-FFR);
- overseeing the operation of the GST;
- considering the Commonwealth Grants Commission's (CGC) recommended GST revenue sharing relativities¹; and
- reviewing the funding adequacy and related outcomes of the National Specific Purpose Payments (SPPs) at least every five years.

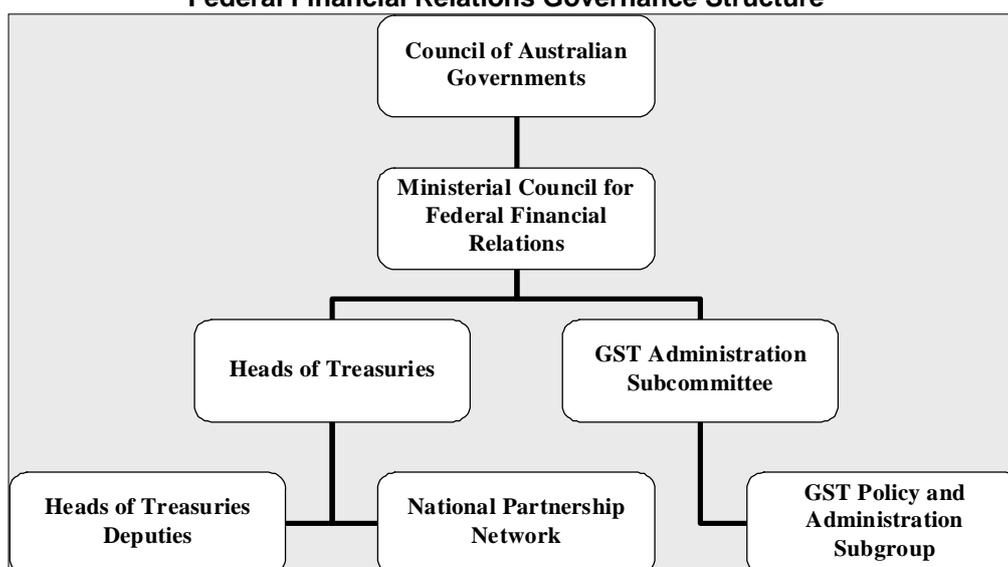
In general terms, the MCFFR is required to report to COAG on all of these matters annually and under the new COAG Council System, the MCFFR will transition to the Standing Committee on Federal Financial Relations from 1 July 2011.

¹ A relativity is a numerical expression of a State's disability relative to the Australian average and when combined with the State's estimated resident population is used to determine its share of the GST pool. The relativity indicates whether a State will receive an above or below equal per capita share of the GST pool.

Supporting the MCFFR to fulfil these diverse roles is a number of intergovernmental forums led by Heads of Treasuries (HoTs) (see Figure 7.2.2):

- HoTs Deputies, which, amongst a range of responsibilities, oversees the responsibilities assigned to the MCFFR by COAG, including integrity and performance reporting issues; and
- National Partnership Network (NPN), comprising Commonwealth and State Treasury officers, to assist the HoTs Deputies to facilitate the early exchange of information on NPs and Implementation Plans (IPs), particularly by ensuring that they comply with the design principles set out in the IGA-FFR, and to identify emerging systemic issues.

**Figure 7.2.2
Federal Financial Relations Governance Structure**



Developments in COAG / MCFFR issues

A number of major intergovernmental initiatives under the umbrella of the roles and responsibilities of COAG and MCFFR are underway, including:

- implementation of the HoTs Review of National Agreements, National Partnerships and Implementation Plans;
- expiring National Partnership Agreements;
- Health Reform Implementation;
- Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2011 Update;
- Horizontal Fiscal Equalisation – Future Review of GST distribution;
- National Specific Purpose Payments indexation arrangements;
- Future competition and regulatory reform;
- Tax Forum; and
- Report from the GST Administration Sub-Committee.

These issues are discussed later under the heading *COAG / MCFFR Initiatives in Progress*.

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; and
- National Partnership payments.

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

The States are estimated to receive GST payments of \$46.2 billion in 2010-11. This represents an increase of 4.9 per cent over 2009-10. GST revenues are expected to continue to grow over the coming years, with the States estimated to receive around \$49.2 billion in 2011-12 (a 6.5 per cent increase on 2010-11).

Each State's share of the GST pool is based on providing it with the capacity to deliver an average level of service and associated infrastructure, assuming they operate at an average level of efficiency and make an average revenue raising effort.

The CGC annually recommends each State's share of the GST revenue pool. Details of the CGC's latest report are detailed later in the chapter under *Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2011 Update*.

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 its 'rating disability' because of the large number of national institutions within the Territory that cannot be taxed.

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

General Revenue Assistance to the ACT

2010-11 Estimated Outcome

The Territory will receive \$881.2 million in 2010-11, comprising \$845.6 million in GST revenue and \$35.6 million in Municipal Services payments. This represents a decrease of \$33.5 million compared to the 2010-11 Budget estimate of \$914.7 million.

The decrease is the result of:

- a \$1.5 billion downward revision in the 2010-11 GST Pool;
- the recovery of \$487.3 million in GST overpaid to the States in 2009-10; and
- partly offset by an improvement in the ACT's population share.

2011-12 Budget Year

The Territory expects to receive \$916.1 million in 2011-12, comprising \$879.9 million in GST revenue and \$36.2 million in Municipal Services. This represents an increase of \$34.9 million over the 2010-11 estimated outcome. The gain reflects:

- an increase of \$3 billion in the GST revenue pool between 2010-11 and 2011-12; and
- partly offset by the CGC's 2011 Update Report recommendation to decrease the ACT's GST relativity from 1.15295 in 2010-11 to 1.11647 in 2011-12.

Forward Years

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

GST Revenue Grants to the ACT – Estimation Process

There are a number of difficulties surrounding the forecasting of GST revenue grants to the ACT due to volatility in the underlying parameters. In particular, the size of the GST revenue pool, which is driven to a large extent by the state of the national economy, and the GST relativities, which are updated annually by the CGC.

The Commonwealth Treasury is the primary source of GST revenue pool estimates. However, the Commonwealth generally updates its pool estimates only twice per year – at the Federal Budget in May and the Mid Year Economic and Fiscal Outlook (MYEFO) in November.

In 2010-11 the Commonwealth had reason to provide additional updates through the release of the Economic Statement and the Pre-Election Economic and Fiscal Outlook in July 2010.

In the current economic circumstances, where the national economy continues to fluctuate, the Commonwealth's estimates can therefore quickly become outdated. Consequently, many States are now undertaking their own GST estimation processes for budgetary purposes.

The ACT has adopted alternative GST pool estimates for the purposes of the 2011-12 Budget, as there is strong evidence to suggest GST revenue collections in 2010-11 have not grown as strongly as anticipated by the Commonwealth in its most recent estimate published in the 2010-11 MYEFO in November 2010.

The CGC recalculates the States' GST relativities on an annual basis primarily based on each State's latest revenue and expenditure data. The relativities reflect each State's economic and social circumstances, relative to each of the other States.

The ability of a State to accurately predict its relative position in a future year is limited. In addition, the CGC reviews its underlying methodologies every five or six years, the most recent review released in February 2010, resulted in some significant changes to the ways States' needs are assessed. Consequently, for modelling purposes, the ACT holds the relativity constant across the forward years.

The third variable used to determine States' relative shares of the GST revenue pool is the Australian Bureau of Statistics' (ABS) estimations of the Australian population. These estimates can be subject to significant revisions following the national census every five years, the next being in August 2011.

Table 7.2.1 illustrates the adjustments made to GST revenue grant estimates since the 2010-11 Budget.

Table 7.2.1
Reconciliation of GST Revenue Grants to the ACT

GST Revenue Grants to the ACT		2010-11	2011-12	2012-13	2013-14	2014-15
		\$m	\$m	\$m	\$m	\$m
2010-11 ACT Budget	May 10	879.3	935.7	993.9	1,051.7	
	<i>Variation (1)</i>	4.2	7.0	6.0	4.6	
2010-11 Federal Budget	May 10	883.5	942.7	999.9	1,056.3	
	<i>Variation (2)</i>	-16.8	-10.3	-12.5	-12.7	
2010 Economic Statement (C'wealth)	July 10	866.7	932.4	987.4	1,043.6	
	<i>Variation (3)</i>	-4.6	-2.2	-2.0	-2.2	
2010 Commonwealth PEFO	July 10	862.1	930.2	985.4	1,041.4	
	<i>Variation (4)</i>	-2.7	-6.3	-6.6	-4.9	
2010-11 Commonwealth MYEFO	November 10	859.4	923.9	978.8	1,036.6	
	Accumulated variation (1 + 2 + 3 + 4)	-19.9	-11.8	-15.1	-15.2	
	% change	-2.3	-1.3	-1.5	-1.4	
2010-11 ACT Budget Review	February 11	859.4	923.9	978.8	1,036.6	1,036.6
	<i>Variation (5)</i>	0.0	-29.8	-31.6	-33.5	25.5
CGC 2011 Update Report	March 11	859.4	894.1	947.2	1,003.1	1,062.1
	<i>Variation (6)</i>	-13.8	-14.2	-15.2	-16.0	-16.9
2011-12 ACT Budget	May 11	845.6	879.9	932.0	987.1	1,045.2
	Accumulated variation from 2010-11 Budget to 2011-12 Budget	-33.7	-55.8	-61.9	-64.6	8.6
	% change	-3.8	-6.0	-6.2	-6.1	0.8

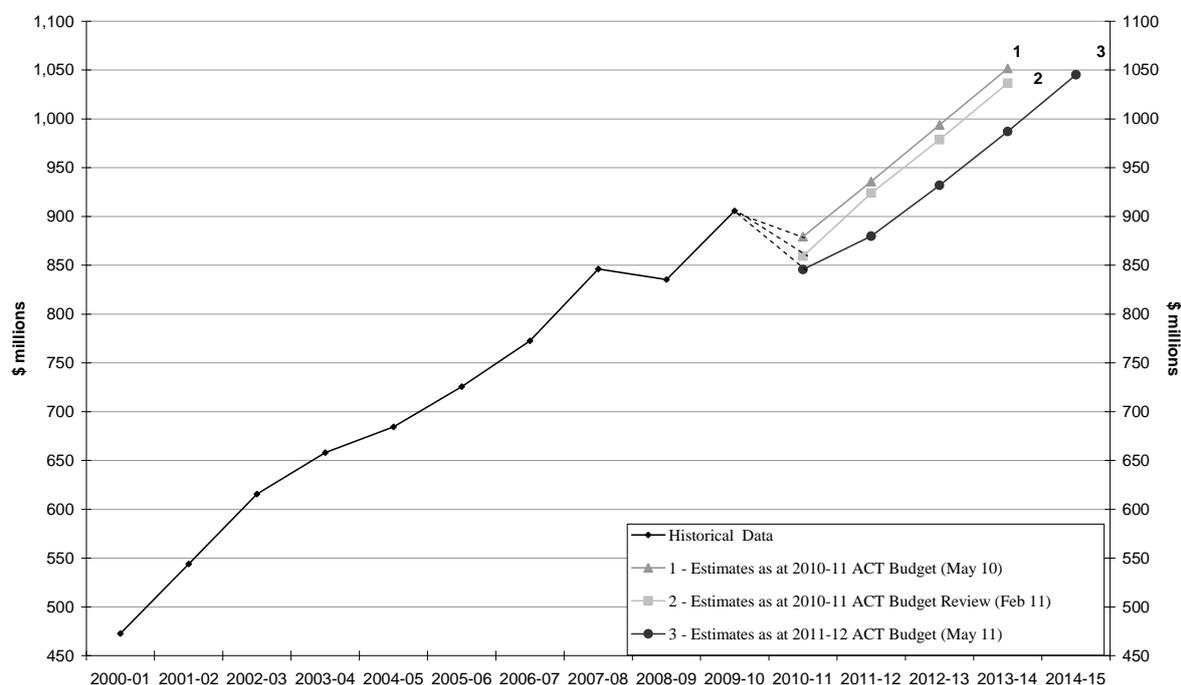
Note: Table may not add due to rounding.

Parameter Variations:

1. 2010-11 Federal Budget: Revised GST revenue pool estimates.
2. Commonwealth Government's 2010 Economic Statement: Revised GST revenue pool estimates.
3. 2010 Commonwealth Pre-Election and Fiscal Outlook (PEFO): Revised GST revenue pool estimates.
4. 2010-11 Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO): Revised GST revenue pool and population estimates.
5. Commonwealth Grants Commission 2011 Update Report: Revised GST relativities.
6. ACT Treasury modelling: Revised GST revenue pool estimates.

These variations are illustrated in Figure 7.2.3.

**Figure 7.2.3
GST Revenue grants to the ACT estimates over time**



National Specific Purpose Payments

Specific Purpose Payments (SPP) 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 MCFRR, detailing the Territory's respective share of each National SPP and gross expenditure in the area covered by the SPP.

Distribution of National SPPs

National SPPs are distributed to States based on their population shares. By 2014-15 these shares will have transitioned from the current funding shares to an equal per capita (EPC) distribution. 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*.

National SPP funding to the ACT

2010-11 Estimated Outcome

The Territory expects to receive \$412.1 million (or 1.58 per cent) of the pool, compared to a population share of 1.60 per cent) in National SPPs in 2010-11.

2011-12 Budget Year

The ACT expects to receive \$446.5 million (or 1.60 per cent) of the pool, compared to a population share of 1.60 per cent) in 2011-12. This represents an additional \$34.4 million over 2010-11.

Forward Years

The reforms to health funding agreed by COAG in February 2011 will see the amount of the National Healthcare SPP provided directly to a national funding pool. This will not affect the level of the SPP, but the way it is provided to the ACT health system.

National Partnership Payments

The Commonwealth provides 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. NPs come under Schedule G of the IGA-FFR.

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 7.2.2.

Table 7.2.2
Participation in National Partnership Agreements by the ACT in Last 12 Months

National Partnership Agreement on:	Objective:
Commonwealth Dental Health Program NPP (ACT not yet signed)	To provide funding to reduce public dental waiting lists.
National Quality Agenda for Early Childhood Education and Care NPP	To deliver a unified national system for early childhood education.
Schools Security Program NPP	To assist schools to fund self managed small security upgrade projects to enhance physical/electronic security of school facilities.
Pre-Apprenticeships Training NPP	To assist working aged Australians to develop skills and qualifications to enable them to become effective participants in the labour market.
Infrastructure Employment Projects – Local Government	To support and create jobs and increase skills through innovative projects that build community infrastructure and increase social capital in local communities across the country.
Off Network Projects – Local Government	To provide funds to local governments for road, rail and intermodal projects not on the National Network.
Off Network Projects – States	To provide funds to States and Territories for road, rail and intermodal projects not on the National Network.
Regional and Local Community Infrastructure	To improve the capacity, resilience and infrastructure in communities and build capacity and resilience of local governments.
Local Government Reform Fund	To improve the asset and financial management capabilities of councils around Australia, as well as to encourage greater collaboration between councils and to provide for nationally consistent data to enable the performance of councils to be measured.
National Disaster Resilience Program	To support and create Australian communities that are resilient to national disasters.
The National Health Reform Agreement – Improving Public Hospital Services	To drive major improvements in public hospital service delivery and better health outcomes for Australians.
Water for the Future – States (ACT not yet signed)	To recognise parties’ mutual interests to secure water supplies and to assist with climate change adaption through efficient use of and management of water resources.

A depository of all NPAs, including State specific IPs, is maintained on the MCFFR website (www.federalfinancialrelations.gov.au). All NPs currently delivering funding to the ACT are detailed in table 7.2.6.

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 \$32.4 million in 2010-11, rising to \$45 million in 2011-12. The 2010-11 payment is significantly lower than 2011-12 due to the Commonwealth bringing forward State’s first quarter payments for 2010-11 into 2009-10.

Total Commonwealth funding to the ACT

Revenue transfers from the Commonwealth Government provide a vital source of revenue for the Territory, and will comprise 39 per cent of the ACT's General Government Sector revenues in 2011-12. Table 7.2.3 summarises the expected level of Commonwealth Government funding to the ACT across the Budget and Forward Estimates.

**Table 7.2.3
Commonwealth Government Funding to the ACT**

	2010-11 Est. Out. \$m	2011-12 Budget \$m	Variation		2012-13 Estimate \$m	2013-14 Estimate \$m	2014-15 Estimate \$m
			\$m	%			
General Revenue Assistance							
GST Revenue	845.6	879.9	34.3	3.9	932.0	987.1	1,045.2
ACT Municipal Services	35.6	36.2	0.6	1.7	36.9	37.5	38.1
Total General Revenue Assistance	881.2	916.1	34.9	5.6	968.9	1,024.6	1,083.3
National Specific Purpose Payments							
Health	166.4	185.3	18.9	10.2	205.5	227.4	254.6
Education and Early Childhood – Government	52.3	56.1	3.8	6.8	60.2	64.8	69.7
Education and Early Childhood - Non Government	129.9	139.9	10.0	7.1	151.1	163.5	170.1
Skills and Workforce Development	22.6	22.8	0.2	0.9	22.9	22.9	23.1
Disability Services	15.7	18.2	2.5	13.7	18.8	20.0	21.4
Affordable Housing	25.2	24.2	-1.0	-4.1	23.2	22.1	21.0
Total National Specific Purpose Payments	412.1	446.5	34.4	7.7	481.7	520.7	559.9
National Partnership Payments:							
Health	47.0	37.5	-9.5	-25.3	20.7	17.5	13.1
Housing	33.3	8.0	-25.3	-316.3	4.4	0.0	0.0
Community Services	21.3	24.5	3.2	13.1	4.0	4.2	3.0
Education and Early Childhood	112.5	33.0	-79.5	-240.9	29.7	18.9	7.8
Vocational Education and Training	1.3	0.7	-0.6	-85.7	0.8	0.8	0.8
Infrastructure	27.1	25.0	-3.0	-12.0	1.8	1.8	0.0
Environmental Services	1.7	6.6	4.9	74.2	6.6	5.3	5.2
Other	5.1	7.6	0.5	32.9	8.5	4.5	4.6
Total National Partnership Payments	250.2	142.9	-107.3	-75.1	76.5	53.4	34.5
Financial Assistance Grants to Local Government	32.4	45.0	12.6	28.0	46.8	48.7	50.6
Total Commonwealth Grants	1,575.0	1,550.4	-24.6	-1.6	1,573.8	1,646.9	1,728.1

Note: Table may not add due to rounding.

Details of each individual funding grant are outlined in table 7.2.6 at the end of this chapter.

COAG / MCFFR Initiatives in Progress

Implementation of the Heads of Treasuries review of National Agreements, National Partnerships and Implementation Plans

In December 2009 COAG tasked HoTs, in consultation with Senior Officials from First Ministers' Departments, to undertake a review of NAs, NPs and IPs and report back, through the MCFFR, by 31 December 2010.

The review was asked to identify options to improve efficiency and effectiveness of the federal financial relations framework, with a focus on improvements that will enhance the delivery of national outcomes as agreed by COAG. More specifically, the review considered NAs, NPs and IPs in terms of whether they:

- have clear objectives, outcomes and outputs;
- clearly specify roles and responsibilities, particularly NAs;
- constitute the appropriate form for implementing a policy proposal;
- have the appropriate quantity and quality of performance indicators and benchmarks, including whether they meet the requirement that performance reporting contributes to public transparency; and
- are consistent with the IGA-FFR to the extent that they are aligned with the design principles set out in the attached schedules.

Following agreement by HoTs and endorsement by the MCFFR, the HoTs Review was noted by COAG on 13 February 2011.

A key conclusion of the review is that the aspiration and principles of the IGA-FFR provide a strong foundation for pursuing the COAG reform agenda. The consistent implementation of these principles will sharpen the focus on outcomes, improve responsiveness and enhance public accountability. The review provided the basis for addressing the challenges that remain in implementing the new framework to ensure that it remains sustainable and mutually beneficial.

COAG agreed that a Senior Officials Steering Committee, including representatives from Commonwealth and State First Ministers' Departments and State Treasuries, will be responsible for overseeing implementation of the HoTs recommendations, while also addressing the performance reporting issues of current arrangements identified in reports of the CRC.

Report on New and Expiring National Partnership Agreements

The Report of the Review of NAs, NPs and IPs under the IGA by HoTs in December 2010 recommended that HoTs provide an annual report to COAG, through the MCFFR, focused on a number of strategic issues including treatment of expiring agreements.

The first report to COAG was agreed at the recent MCFFR meeting in April 2011. State Treasuries will play a key role in providing advice through the MCFFR on the merits or otherwise of renegotiating an expiring NP to ensure a high degree of certainty in regards to State forward estimates and budgeting.

Although there are no NPs due for expiry in 2010-11 or 2011-12, from an ACT perspective, NPs to the ACT are expected to decline by \$107.3 million during this period, resulting mainly from reductions in Education and Early Childhood payments, Housing payments and Health payments.

Health Reform Implementation

In February 2011 COAG agreed on a new set of National Health Reforms, to replace those agreed in April 2010, and signed a Heads of Agreement on National Health Reform and a revised NPA on Improving Public Hospital Services. COAG committed to signing a full National Health Reform Agreement by 1 July 2011.

Under the new reforms the Commonwealth will continue to pay the States base funding under the National Healthcare Agreement and from 1 July 2014 will contribute 45 per cent of the efficient growth funding for hospitals, increasing to 50 per cent from 1 July 2017. This growth funding is guaranteed to be no less than \$16.4 billion between 2014-15 and 2019-20.

From 1 July 2012 all hospital funding, both Commonwealth and State contributions, will be paid into a single national pool administered by an independent national funding body, with public hospitals to be funded according to the level of activity.

Before the new National Agreement can be considered by COAG however, a number of outstanding implementation issues need to be settled. Primary responsibility for finance related implementation issues lies with Treasuries and is under consideration through the HoTs Deputies.

Further information is available at www.yourhealth.gov.au.

Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2011 Update

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

In advising the Commonwealth, 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 (2007-08 to 2009-10 for the 2011 Update) are included in the assessments to capture the most recent impacts of 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 2011 Update Report on GST Revenue Sharing Relativities

The 2011 Update Report was publicly released on 25 February 2011. The Report's recommended State relativities were agreed to by the MCFFR on 7 April 2011. These relativities will be used to distribute the 2011-12 GST pool.

A comparison of the 2010 Review and 2011 Update relativities, along with the redistribution, in both millions of dollars and dollars per capita terms are provided in the Table 7.2.4.

It shows that New South Wales, Queensland, Western Australia and the Northern Territory all received increased relativities in the 2011 Update compared to the 2010 Review, and therefore received increased shares of the GST pool. The other four States all received lower relativities.

In per capita terms, the ACT lost more GST funding than any other State, with the loss slightly above Victoria.

Table 7.2.4
Comparison of GST Relativities and impact on 2011-12 GST funding

	2010 Review	2011 Update	Change in Relativity	Impact of Change (\$m)	Impact of Change (\$pc)
NSW	0.95205	0.95776	0.00571	78.5	10.78
Vic	0.93995	0.90476	-0.03519	-417.1	-74.50
Qld	0.91322	0.92861	0.01539	141.7	30.99
WA	0.68298	0.71729	0.03431	164.4	70.68
SA	1.28497	1.27070	-0.01427	-51.7	-31.31
Tas	1.62091	1.59942	-0.02149	-23.8	-46.71
ACT	1.15295	1.11647	-0.03648	-28.0	-77.58
NT	5.07383	5.35708	0.28325	136.0	584.56

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 1.11647 indicates that it requires 11.6 per cent above the Australian average per capita amount of GST funding to deliver an average level of service. In 2011-12 half of all States (that is, the less populous jurisdictions) will require more than an Australian average per capita amount and have a relativity above one.

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

The changes in the relativities in the 2011 Update were driven by five primary influences for States as a whole (in order of their contribution to the redistribution):

- interstate wages;
- stamp duty on conveyances;
- Commonwealth payments;
- mining revenue; and
- Indigenous costs.

The largest driver of the changed redistribution in the 2011 Update was the interstate wages assessment. The incorporation of the latest private sector wages³ data negatively affected those States with below average growth in wages, particularly NSW and Victoria, as it reduced their relative cost of providing services. For States with above average growth, it had the effect of increasing their relativities, particularly for Western Australia, the ACT and the Northern Territory.

The mining States of Queensland and Western Australia exhibited mixed economic characteristics. Over the period 2006-07 to 2009-10, the growth in mining royalties reduced their relativities, but this was more than offset by increased wages; increased Indigenous costs; and depressed property markets which resulted in below average growth in stamp duty on conveyances. The value of property transfers fell by 18 per cent for Queensland and 10 per cent for Western Australia compared to growth of 1 per cent for Australia as a whole. In contrast, the property market in Victoria and the ACT was very strong. Between 2006-07 and 2009-10, value of transfers grew by 29 per cent in Victoria and by 24 per cent in the ACT, which was a main determinant for their relativities declining.

An increase in average State spending on Indigenous people combined with the ACT's and Victoria's below average Indigenous population proportions also negatively affected their relativities.

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;
- the 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;
- the amount required to allow the ACT to achieve the average per capita net financial worth at the end of each financial year – *negative* as the ACT has had below average population growth and hence is deemed to be able to run down its net financial worth by more than average;

³ Interstate differences in wages paid to comparable private sector employees were used as the policy neutral measure of State differences in public sector wage costs.

- the 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 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.

Table 7.2.5
ACT’s Assessed GST Funding 2011-12

	\$pc	\$m
Equal per capita share	2,183.3	800.0
<i>Effect of assessed</i>		
Expenses	-272.4	-99.8
Investment ^(a)	-138.5	-50.7
Net lending ^(b)	-14.6	-5.4
Revenue	+470.0	+172.2
Commonwealth payments	+213.6	+78.3
Assessed GST ^(c)	2,440.1	894.1

Note: Table may not add due to rounding.

These figures including the \$894.1 million in GST funding, are based on the CGC’s 2011 Update Report. The latest 2011-12 GST funding estimate in these Budget papers is \$879.9 million.

^(a) The investment assessment provides each State with the capacity to acquire the average level of physical infrastructure.

^(b) The net lending assessment provides each State with the capacity to acquire the average level of income from their net financial assets.

^(c) GST = equal per capita share plus sum of needs.

State relativities are intended to capture the difference from the Australian average based solely on differences in economic and social circumstances and not policy.

Specific factors *positively* influencing the ACT’s fiscal capacity, and which led to the ACT receiving an above equal per capita amount of GST funding, totalling \$94.1 million in 2011-12 (at the time of the CGC’s 2011 Update Report), 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 expenses ⁴:
 - several features are likely to bring about higher service costs, such as:
 - : the relatively small population, leading to diseconomies of a small scale;

⁴ 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.

- : 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 impacts 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 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 and the 2011 Update Report can be found at www.cgc.gov.au.

Horizontal Fiscal Equalisation – Review of GST Distribution

In March 2011 the Commonwealth Government commissioned a review of the distribution of revenue from the GST to the States. The Review will consider a number of elements of the current distribution arrangements that, according to the Commonwealth Government, could be improved, such as the incentive for reform, the need for more certainty and predictability and the potential for greater simplicity.

The Review will be advised by a Heads of Treasuries' Advisory Committee comprising representatives from all States, and will seek submissions from the public. It will be supported by a secretariat within the Commonwealth Treasury, with representation from States Treasuries, as well as other agencies.

The Review will provide an interim report to the Commonwealth Treasurer by February 2012 and a final report by September 2012 to be considered by COAG. It is expected that the Commonwealth Government will then request the CGC to update its methodology to reflect any agreed recommendations which could not come into effect until 2013-14 at the earliest.

ACT Treasury will participate in the review to ensure that the ACT's views and circumstances are captured.

National Specific Purpose Payments – Calculations of Estimates and Payments

At the November 2008 COAG meeting, the Commonwealth and the States agreed a funding package which, among other things, provided for National SPPs in the areas of schools, healthcare, disability services, skills and workforce development and housing.

On 25 March 2009, the MCFFR discussed the specific application of the National SPP growth factors and agreed to give further consideration to this issue which was subsequently discussed at the MCFFR on 7 April 2011 and agreed that:

- all National SPPs will be indexed using the latest available growth factor data with growth factor data and payment amounts updated throughout the payment year. The Treasurer's determination and any subsequent residual adjustment will then be calculated based on the latest available growth factor data available at 30 June of the payment year. No further residual adjustments will be made to capture any ongoing revisions to growth factor data;
- a five-year simple average of the latest available total health price index growth rate released by the Australian Institute of Health and Welfare will be used as the growth factor for estimating and paying the Healthcare SPP; and
- the Disability Assistance Package component of the Disabilities Services SPP will be distributed in accordance with the formula specified in the *IGA-FFR* for 2011-12 and thereafter.

Future Competition and Regulatory Reform

The COAG communiqué of 13 February 2011 welcomed the release of the independent report by the CRC on the progress of the NPA to deliver a Seamless National Economy, and its finding that good progress has been made in 21 of 27 deregulation priorities and six of eight competition reforms, with seven regulatory reforms and one competition reform completed.

Since the report was finalised, a further six regulatory reforms have been completed or reached the implementation stage. Around half of the regulatory reforms are now complete.

Recognising the good progress being made in implementing the Seamless National Economy reforms, COAG agreed to bring forward its final completion date from June 2013 to December 2012.

Given the high priority all governments attach to boosting productivity and the competitiveness of the economy, COAG asked relevant ministers and officials for options to be developed for a further wave of regulatory and competition reforms. COAG will consider the options later in 2011.

The MCFFR has been asked to develop options by the end of 2011 for a future competition reform agenda for COAG's consideration, with a mid-year progress report to COAG.

COAG had already agreed in August 2010 to establish the Business Regulation and Competition Working Group (BRCWG) headed by the Parliamentary Secretary to the Treasurer, the Hon David Bradbury MP to develop options for COAG on a future regulatory reform agenda.

It will be important that the work of the MCFFR and the BRCWG in developing options for competition and regulatory reforms come together in advice to COAG.

Tax Forum

On 20 March 2011, the Deputy Prime Minister announced the tax forum will be held at Parliament House in Canberra on 4-5 October 2011 to debate the broad sweep of topics in the Australia's Future Tax System review, with sessions to discuss personal tax, transfer payments, business tax, State taxes, environmental and social taxes and system governance.

It is expected that the forum will comprise about 150 representatives of community and business groups, unions and governments, as well as academics and tax professionals.

Following the forum, there will be a debate on tax reform in the Australian Parliament, so that all Members of Parliament and Senators have a chance to express their views on tax reform. Participants and the general public will be able to make submissions and comments on a dedicated website, prior to the Tax Forum.

The ACT will participate in the forum to ensure that the ACT's views and circumstances can be captured in these discussions.

Report from the GST Administration Sub-Committee

The Australian Taxation Office (ATO) collects the GST revenue on behalf of the States and, under the IGA-FFR, is accountable by way of a performance agreement with the Commonwealth and the States. The administration of the GST is overseen, on behalf of the MCFFR, by the GST Administration Subcommittee (GSTAS), whose role is to:

- monitor the performance of the ATO in the administration of the GST;
- assess policy proposals for the modification of the GST rate and base;
- make recommendations to the MCFFR on the need for legislation that might significantly affect the GST base; and
- request the ATO to produce draft Public Rulings in specified areas.

GSTAS is supported by the GST Policy and Administration Subgroup.

Throughout the past year, GSTAS considered a number of policy matters that affected the GST base, such as the arrangements for exempting taxes, fees and charges from the GST; the GST-free sale of recreational boats for export; the implementation of reforms to the GST financial supply provisions and margin scheme; GST administrative reforms; the uniform penalty regime and the implementation of the Government's response to the Board of Taxation report on GST cross-border transactions. GSTAS also monitored taxation litigation that affected the GST base on issues such as the GST treatment of residential premises and appropriations.

The GST Administration Performance Agreement Triennial Review was also completed and was signed and endorsed by the MCFFR in April 2011.

Other Intergovernmental Forums

Council for the Australian Federation

The Council for the Australian Federation (CAF) was established by State Premiers and Territory Chief Ministers in October 2006 to support and enhance collaborative federalism by providing an intergovernmental forum for State and Territory leaders to work together.

In 2010 the Council reviewed its operations and refreshed its objective. The Council's objectives are to:

- work towards common understanding of State positions in relation to policy issues involving the Commonwealth Government; and
- take a leadership role on key national policy issues that are not addressed by the Commonwealth Government.

CAF is endeavouring to play a leadership role on climate change and is focussed on opportunities to partner with business and the international community on issues relating to adaptation, rising sea levels, agriculture, economic adjustment and low carbon technologies.

Further information about CAF can be found at www.caf.gov.au.

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 (LCA) measure each jurisdiction's call on financial markets.

The Loan Council met on 7 April 2011 to determine the appropriateness of each jurisdiction's LCA for 2011-12. All jurisdictions expect to have borrowings in 2011-12 totalling \$46.6 billion. The ACT's LCA for 2011-12 is \$279 million, with a tolerance limit of +/- \$93million. A positive LCA 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 LCA resulting from changes in policy.

The Loan Council also oversees the Commonwealth Government's voluntary guarantee over State Government borrowing to ensure the States proceed with nation building infrastructure investment. This guarantee closed to new issuance of guaranteed liabilities on 31 December 2010.

Details of Commonwealth Grants to the Territory

Table 7.2.6
Details of Commonwealth Government Grants

2010-11 Budget \$'000	FUNDING CATEGORIES	2010-11 Est.Outcome \$'000	2011-12 Budget \$'000	2012-13 Estimate \$'000	2013-14 Estimate \$'000	2014-15 Estimate \$'000
General Revenue Assistance						
879,300	GST Revenue	845,600	879,900	932,000	987,100	1,045,200
35,437	ACT Municipal Services	35,576	36,216	36,868	37,495	38,095
914,737	Total General Revenue Assistance	881,176	916,116	968,868	1,024,595	1,083,295
Health Services						
166,044	National Healthcare SPP	166,424	185,291	205,509	227,355	254,636
904	Health Services NPP	815	740	257	0	0
3,289	Elective Surgery Waiting List Reduction Program NPP	3,582	644	0	0	0
0	Hospital and Health Workforce Reform NPP	0	980	1,320	0	0
13,400	Health and Hospital Fund Projects NPP (Integrated Cancer Centre)	14,724	14,928	0	0	0
137	Preventative Health NPP	177	1,248	2,277	3,108	3,937
199	Indigenous Early Childhood Development NPP	200	230	240	250	0
4,941	Essential Vaccines NPP	4,930	5,233	5,348	0	0
21,405	National Health Reforms NPP	22,542	13,405	11,280	14,128	9,200
0	Hepatitis C Settlement Fund	42	42	0	0	0
44,275	<i>Total Health Services NPPs</i>	47,012	37,450	20,722	17,486	13,137
210,319	Total Health Services	213,436	222,741	226,231	244,841	267,773
Housing						
25,132	National Affordable Housing SPP	25,159	24,191	23,161	22,060	20,964
816	First Home Owners Boost NPP	8,488	4,200	2,000	0	0
2,336	Homelessness NPP	2,336	2,401	2,401	0	0
0	Social Housing NPP	0	0	0	0	0
20,655	Nation Building and Jobs Plan NPP - Investment in Social Housing	22,459	1,365	0	0	0
23,807	<i>Total Housing NPPs</i>	33,283	7,966	4,401	0	0
48,939	Total Housing	58,442	32,157	27,562	22,060	20,964
Community Services						
15,538	National Disability Services SPP	15,679	18,156	18,768	20,000	21,356
15,718	Home and Community Care NPP	15,897	0	0	0	0
0	Transitioning Responsibilities for Aged Care and Disability Services NPP	0	20,497	786	793	793
258	Home and Community Care Services for Veterans NPP	257	157	149	142	135
881	Aged Care Assessment NPP	882	948	0	0	0
1,874	Indigenous Early Childhood Development NPP	2,491	1,115	1,110	1,110	0
179	National Reciprocal Transport Concessions NPP (formerly Concessions for Pensioners NPP)	1,725	1,784	1,839	1,903	1,903
1,676	Certain Concessions for Pensioners and Senior Card Holders NPP	0	0	0	0	0
0	National Quality Agenda for Early Childhood Education and Care NPP	0	30	157	227	212
20,586	<i>Total Community Services NPPs</i>	21,252	24,531	4,041	4,175	3,043
36,124	Total Community Services	36,931	42,687	22,809	24,175	24,399

2010-11		2010-11	2011-12	2012-13	2013-14	2014-15
Budget	FUNDING CATEGORIES	Est.Outcome	Budget	Estimate	Estimate	Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
	Education & Early Childhood					
51,721	National Schools SPP - Government Schools Component	52,347	56,090	60,246	64,811	69,668
138,329	National Schools SPP - Non-Government Schools Component	129,925	139,934	151,081	163,546	170,056
<i>190,050</i>	<i>Total National Schools SPP</i>	<i>182,272</i>	<i>196,024</i>	<i>211,327</i>	<i>228,357</i>	<i>239,724</i>
1,095	Digital Education Revolution NPP - Government Schools	1,095	2,189	2,189	2,189	0
807	Digital Education Revolution NPP - Non-Government Schools	807	1,615	1,615	1,615	0
410	Smarter Schools - Low Socio-Economic Status School Communities NPP	410	750	728	446	446
608	Smarter Schools - Improving Teacher Quality NPP	608	3,861	3,128	0	0
0	Smarter Schools - Literacy and Numeracy NPP	2,125	2,125	0	0	0
1,164	Early Childhood Education - Universal Access NPP	1,164	3,564	7,080	7,318	7,318
7,331	Productivity Places Program NPP	7,331	8,528	8,528	0	0
58,823	Nation Building and Jobs Plan NPP - Building the Education Revolution - Government Schools	58,560	0	0	0	0
33,269	Nation Building and Jobs Plan NPP - Building the Education Revolution - Non-Government Schools	32,721	3,077	0	0	0
1,659	Trade Training Centres Schools NPP – Government Schools	3,694	2,620	2,964	2,844	0
870	Trade Training Centres Schools NPP – Non-Government Schools	1,848	2,136	1,976	2,319	0
362	National Solar Schools Plan NPP – Government Schools	940	744	572	721	0
200	National Solar Schools Plan NPP – Non-Government Schools	270	312	239	302	0
427	Youth Attainment and Transitions NPP	662	1,466	662	1,135	0
0	Schools Security Program - Non Government Schools NPP	281	0	0	0	0
<i>107,025</i>	<i>Total Education & Early Childhood NPPs</i>	<i>112,516</i>	<i>32,987</i>	<i>29,681</i>	<i>18,889</i>	<i>7,764</i>
297,075	Total Education & Early Childhood	294,788	229,011	241,008	247,246	247,488
	Vocational Education & Training					
22,575	National Skills and Workforce Development SPP	22,635	22,753	22,853	22,926	23,047
661	TAFE Fee Waivers for Childcare Qualifications NPP	1,006	740	757	781	781
0	Better TAFE Facilities NPP	0	0	0	0	0
0	Pre-Apprenticeships Training NPP	275	0	0	0	0
<i>661</i>	<i>Total Vocational Education & Training NPPs</i>	<i>1,281</i>	<i>740</i>	<i>757</i>	<i>781</i>	<i>781</i>
23,236	Total Vocational Education & Training	23,916	23,493	23,610	23,707	23,828
	Infrastructure					
22,636	Nation Building Program NPP	11,561	8,501	966	966	0
0	Off Network Projects NPP	15,167	16,154	470	470	0
297	Interstate Road Transport NPP	365	380	395	411	0
<i>22,933</i>	<i>Total Infrastructure NPPs</i>	<i>27,093</i>	<i>25,035</i>	<i>1,831</i>	<i>1,847</i>	<i>0</i>
22,933	Total Infrastructure	27,093	25,035	1,831	1,847	0

2010-11		2010-11	2011-12	2012-13	2013-14	2014-15
Budget	FUNDING CATEGORIES	Est.Outcome	Budget	Estimate	Estimate	Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
	Environmental Services					
1,359	Caring for Our Country NPP	1,359	1,359	1,359	0	0
36	Exotic Disease Preparedness NPP	36	37	38	38	0
0	Water for the future NPP - States	338	187	251	259	201
0	The National Arboretum NPP	0	5,000	5,000	5,000	5,000
<i>1,395</i>	<i>Total Environmental Services NPPs</i>	<i>1,733</i>	<i>6,583</i>	<i>6,648</i>	<i>5,297</i>	<i>5,201</i>
1,395	Total Environmental Services	1,733	6,583	6,648	5,297	5,201
	Other Services					
4,246	Legal Aid NPP	4,291	4,359	4,425	4,487	4,559
0	Standard Business Reporting Program NPP	809	0	0	0	0
0	A Seamless National Economy NPP	0	3,220	4,026	0	0
0	Albert Hall Restoration NPP	0	0	0	0	0
0	Film and Literature Classification NPP	0	0	0	0	0
<i>4,246</i>	<i>Total Other Services NPPs</i>	<i>5,100</i>	<i>7,579</i>	<i>8,451</i>	<i>4,487</i>	<i>4,559</i>
42,284	Financial Assistance Grants - Local Government	32,384	44,977	46,831	48,687	50,586
<i>42,284</i>	<i>Total Other Services - Other</i>	<i>32,384</i>	<i>44,977</i>	<i>46,831</i>	<i>48,687</i>	<i>50,586</i>
46,530	Total Other Services	37,484	52,556	55,282	53,174	55,145
1,601,288	Total Commonwealth Government Funding	1,574,999	1,550,379	1,573,849	1,646,942	1,728,093

