

# CHAPTER 7

## FEDERAL FINANCIAL RELATIONS

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## 7.1 FEDERAL FINANCIAL RELATIONS

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This chapter outlines developments in the ACT's financial relations with the Commonwealth, States and the Northern Territory that occurred in 2013-14 and the likely flow-on effects into 2014-15.

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. The ACT received approximately 42 per cent of its funding from the Commonwealth in 2013-14.

However, major changes to Commonwealth funding arrangements for Health services in the 2014-15 Commonwealth Budget will result in substantial reductions in funding to the ACT from 2014-15 onwards, compared with estimates in the 2013-14 ACT Budget. A description of the impact of these funding reductions is included below.

### ***Sources of Federal Funding***

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 States<sup>1</sup> for 2013-14. On average, the States received 44.2 per cent of their funding from the Commonwealth.

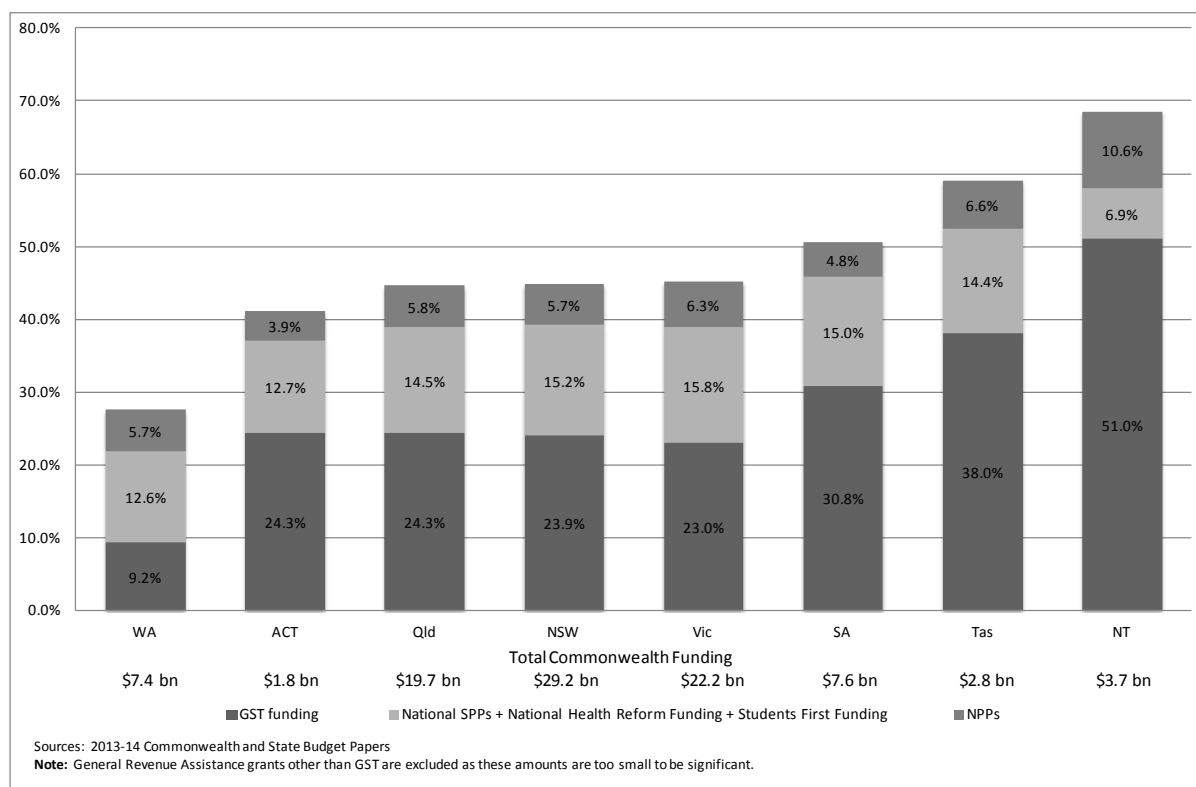
The ACT is less dependent on Commonwealth funding than most other States. The ACT's relatively high GST allocation is offset by relatively lower SPP and NPP funding compared with other States.

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.

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<sup>1</sup> The word 'States' refers to the States and Territories unless otherwise indicated.

**Figure 7.1.1**  
**State-Territory Revenue Profile from the Commonwealth 2013-14**



For 2014-15, the ACT will receive the following receipts from the Commonwealth Government:

- General Revenue Assistance, comprising:
  - GST of \$1,098.6 million; representing an increase of \$65.7 million over 2013-14; and
  - ACT Municipal Services payments of \$38.0 million; representing an increase of \$0.7 million over 2013-14;
- National Specific Purpose Payments of \$587.0 million; representing an increase of \$14.1 million over 2013-14; and
- National Partnership Payments of \$169.1 million; representing a decrease of \$2.2 million over 2013-14.

Each of these streams of funding and the movements between the estimated 2013-14 outcome and budget year 2014-15 are discussed below in more detail.

The amount for National Specific Purpose Payments represents a decrease of \$46.4 million compared with the 2013-14 ACT Budget estimate for 2014-15.

### *General Revenue Assistance (GRA)*

GRA transfers from the Commonwealth Government provide a major source of revenue for the Territory, and will comprise 43 per cent of the ACT's General Government Sector revenues in 2014-15. 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

	2013-14	2014-15	Variation		2015-16	2016-17	2017-18
	Est. Out. \$m	Budget \$m	\$m	%	Estimate \$m	Estimate \$m	Estimate \$m
<b>General Revenue Assistance</b>							
GST Revenue	1,032.9	1,098.6	65.7	6.4	1,168.0	1,239.7	1,310.5
ACT Municipal Services	37.3	38.0	0.7	1.9	38.6	39.3	40.0
<b>Total General Revenue Assistance</b>	<b>1,070.2</b>	<b>1,136.6</b>	<b>66.4</b>	<b>6.2</b>	<b>1,206.6</b>	<b>1,279.0</b>	<b>1,350.5</b>

Note: Table may not add due to rounding.

### GST Revenues

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

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

For forward estimates, the GST revenue receipts to the ACT are based on the 2014-15 Commonwealth Budget estimates of the GST pool and of the ACT's population as a percentage of the national total.

It should be noted that the ACT Government's approach to estimating relativities differs from that of the Commonwealth Government. Commonwealth GST relativity projections use the assessment year data to estimate how relativities will behave in the out years, and adjust for known changes in the distribution of SPPs. This approach does not take account of the States' forward estimates of their budgetary positions, nor of trends in underlying cost drivers which could affect future relativities.

The Commonwealth's projections of the ACT's GST relativities as shown in the 2014-15 Commonwealth Budget fall over the forward estimates and, if realised, would result in a reduction in GST revenue to the ACT. These projections differ significantly from those issued by the Commonwealth in the 2013-14 Mid Year Economic and Fiscal Outlook (MYEFO), which showed the ACT's GST relativity rising substantially in 2014-15 and then remaining at about that level over the rest of the forward estimates.

The ACT Government view is that it is not possible to make realistic assumptions that can reliably model relativities due to the myriad of factors that interact in their determination. For this reason the ACT has maintained its policy of holding the most recent GST relativity constant across the budget out years.

The overall movement in GST grants to the ACT throughout the year since the 2013-14 Budget release is illustrated in Table 7.1.2 below.

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

GST Grants to the ACT		2013-14	2014-15	2015-16	2016-17	2017-18	Total
		\$m	\$m	\$m	\$m	\$m	\$m
<b>2013-14 ACT Budget</b>	<b>4 June 2013</b>	<b>1,021.8</b>	<b>1,078.9</b>	<b>1,144.6</b>	<b>1,208.5</b>	<b>-</b>	<b>4,453.7</b>
	<i>Variation (1)</i>	<i>3.9</i>	<i>10.9</i>	<i>14.8</i>	<i>20.8</i>		<i>50.5</i>
<b>2013-14 PEFO</b>	<b>13 August 2013</b>	<b>1,025.7</b>	<b>1,089.8</b>	<b>1,159.4</b>	<b>1,229.3</b>	<b>-</b>	<b>4,504.2</b>
	<i>Variation (2)</i>	<i>1.1</i>	<i>-12.2</i>	<i>-14.4</i>	<i>-14.9</i>		<i>-40.3</i>
<b>2013-14 MYEFO</b>	<b>17 December 2013*</b>	<b>1,026.8</b>	<b>1,077.6</b>	<b>1,145.0</b>	<b>1,214.4</b>	<b>-</b>	<b>4,463.9</b>
	<i>Accumulated Variation (1+2)</i>	<i>5.0</i>	<i>-1.3</i>	<i>0.4</i>	<i>6.0</i>		<i>10.2</i>
<b>ACT Budget Review</b>	<b>February 2014*</b>	<b>1,026.8</b>	<b>1,077.6</b>	<b>1,145.0</b>	<b>1,214.4</b>		<b>4,463.9</b>
	<i>Variation (3)</i>	<i>0.0</i>	<i>12.7</i>	<i>13.6</i>	<i>14.6</i>	<i>-</i>	<i>40.9</i>
<b>CGC 2014 Update Report</b>	<b>March 2014*</b>	<b>1,026.8</b>	<b>1,090.3</b>	<b>1,158.6</b>	<b>1,229.1</b>	<b>-</b>	<b>4,504.8</b>
	<i>Variation (4)</i>	<i>6.1</i>	<i>8.3</i>	<i>9.4</i>	<i>10.7</i>	<i>-</i>	<i>34.4</i>
<b>2014-15 Federal Budget</b>	<b>13 May 2014*</b>	<b>1,032.9</b>	<b>1,098.6</b>	<b>1,168.0</b>	<b>1,239.7</b>	<b>1,310.5</b>	<b>5,849.7</b>
<b>2014-15 ACT Budget</b>		<b>1,032.9</b>	<b>1,098.6</b>	<b>1,168.0</b>	<b>1,239.7</b>	<b>1,310.5</b>	<b>5,849.7</b>
Accumulated variation from 2013-14 Budget to 2014-15 Budget**		<i>11.1</i>	<i>19.7</i>	<i>23.4</i>	<i>31.2</i>		<i>85.5</i>

**Note:** Table may not add due to rounding.

\* includes the underpayment of GST revenue in 2012-13

\*\* Total does not include 2017-18

**Parameter Variations:**

1. 2013-14 Commonwealth Pre-Election Fiscal Outlook: Revised GST revenue pool and population estimates.
2. 2013-14 Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO): Revised GST revenue pool and population estimates.
3. Commonwealth Grants Commission 2014 Update Report: Revised GST relativities.
4. 2014-15 Commonwealth Budget: Revised GST revenue pool and population estimates.

## ACT Municipal Services

The Commonwealth provides GRA to the ACT to meet the additional municipal costs arising from Canberra's role as the national capital and 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).

### *National Specific Purpose Payments*

On 29 November 2008, the Council of Australian Governments (COAG) reached agreement in the establishment of the Intergovernmental Agreement on Federal Financial Relations (IGA-FFR). The agreement, which took effect on 1 July 2009, includes a framework for how the Commonwealth provides funding to the States.

Under the IGA-FFR it was agreed that National Specific Purpose Payments (SPPs) would be distributed on an equal per capita (EPC) share (in the case of the National Schools SPP this was an equal per student (EPS) distribution based on actual government school enrolments). A transitional period was undertaken over the five year period from 2009-10 to phase in an EPC/EPS distribution by the 2014-15 fiscal year.

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.

All SPPs were to be distributed on an EPC/EPS basis by 1 July 2014.

The IGA-FFR also sets out the base funding arrangement for the National SPPs which is detailed in Box 7.1.1. The national base funding for each National SPP is a pool of Commonwealth funding that is indexed annually against growth factors to allow for increased costs to States providing services funded by the SPPs.

**Box 7.1.1**  
**National SPP Base Funding**

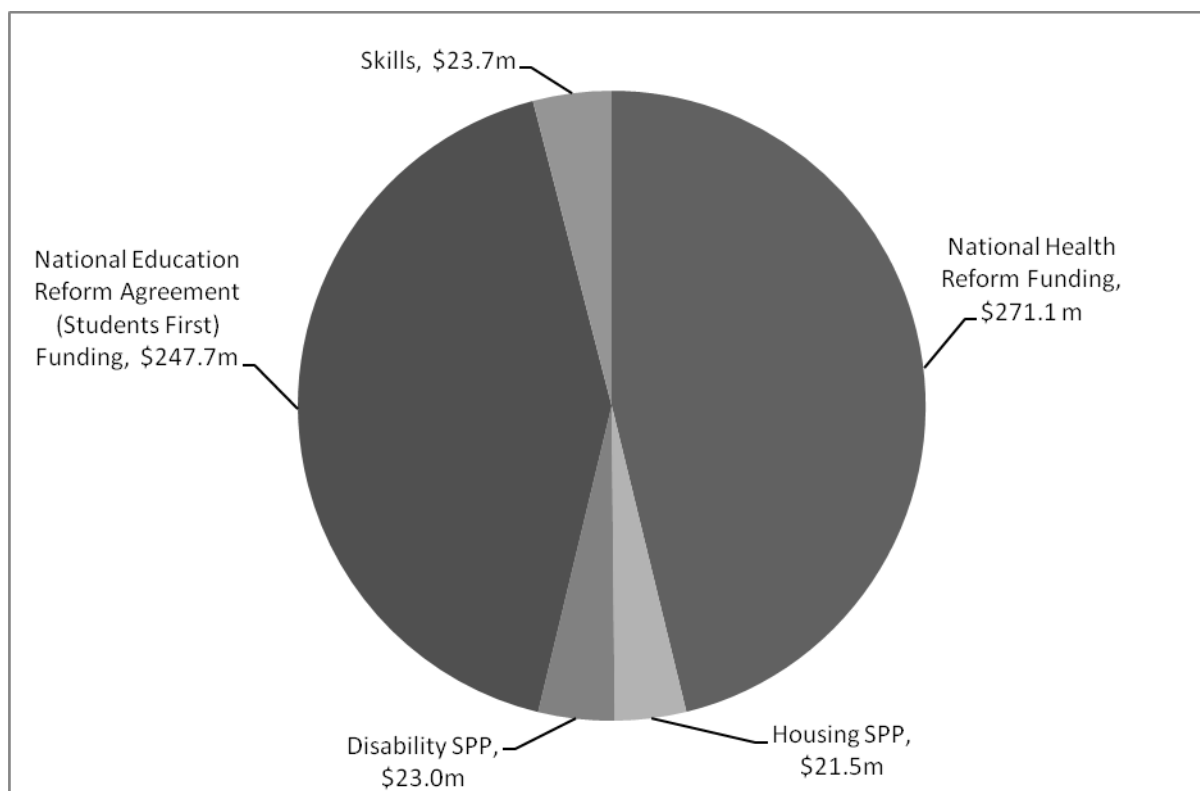
National base funding, 2009-10:	
National SPP	Commonwealth financial contribution
Healthcare	\$11,224,185,000
Schools (government schools component)	\$3,286,594,000
Skills and workforce development	\$1,317,877,000
Disability	\$903,686,000
Affordable housing	\$1,202,590,000
National SPP growth factors:	
The growth factor for the <b>National Healthcare SPP</b> will be the product of:	
(a)	A health specific cost index (a five year average of the Australian Institute of Health and Welfare health price index);
(b)	Growth in population estimates weighted for hospital utilisation; and
(c)	A technology factor (Productivity Commission derived index of technology growth).
The growth factor for the government schools component of the <b>National Schools SPP</b> will be the product of:	
(a)	Growth in average government schools recurrent cost; and
(b)	Growth in full-time equivalent enrolments in government schools.
The growth factor for the non-government schools component of the <b>National Schools SPP</b> will be determined in accordance with the <i>Schools Assistance Act 2008</i> .	
The growth factor for the <b>National Skills and Workforce Development SPP</b> will be the sum of:	
(a)	85 per cent Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent); and
(b)	15 per cent Wage Cost Index 6 (comprising safety net wage adjustment weighted by 40 per cent and all groups CPI weighted by 60 per cent).
The growth factor for the <b>National Disability SPP</b> will be a rolling five year average of nominal GDP year-on-year growth.	
The growth factor for the <b>National Affordable Housing SPP</b> will be Wage Cost Index 1 (comprising safety net wage adjustment weighted by 75 per cent and all groups CPI weighted by 25 per cent).	

Major national reforms in recent years have seen 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. In the 2014-15 Commonwealth Budget, the Commonwealth Government unilaterally introduced further changes to the quantum, distribution and indexation of health and education specific purpose funding which significantly reduces funding to the States and Territories for these services.

The relative distribution of these SPPs across sectors is illustrated in the Figure 7.1.2 below.



**Figure 7.1.2**  
**2014-15 National Specific Purpose Payments to the ACT by sector (\$ millions)**



Source: Commonwealth Budget 2014-15 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**

	2013-14	2014-15	Variation		2015-16	2016-17	2017-18
	Est. Out. \$m	Budget \$m	\$m	%	Estimate \$m	Estimate \$m	Estimate \$m
National Health Reform - SPP	271.9	271.1	-0.9	-0.3	298.4	328.2	311.1
National Schools SPP	110.7	-	-110.7	-100	-	-	-
National Education Reform Agreement funding	122.2	247.7	125.4	102.6	261.7	277.1	300.1
<b>Sub-total Education</b>	<b>233.0</b>	<b>247.7</b>	<b>14.7</b>	<b>6.3</b>	<b>261.7</b>	<b>277.1</b>	<b>300.1</b>
National Skills and Workforce Development SPP	23.4	23.7	0.3	1.1	24.1	24.5	25.0
National Disability SPP	22.0	23.0	1.1	4.8	24.0	25.0	26.0
National Affordable Housing SPP	22.5	21.5	-1.0	-4.3	21.9	22.3	22.7
<b>Total National Specific Purpose Payments</b>	<b>572.8</b>	<b>587.0</b>	<b>14.2</b>	<b>2.5</b>	<b>630.1</b>	<b>677.0</b>	<b>684.8</b>

Note: Table may not add due to rounding.

## Distribution of National SPPs

Since the introduction of the IGA-FFR there have been a number of changes to the National SPPs that have resulted in changes to the funding arrangements originally set out under this agreement.

### Health Funding

New funding arrangements under the National Health Reform Agreement (NHRA) came into operation for all States from July 2012. For 2012-13 and 2013-14, these arrangements included the continued provision of funding by the Commonwealth to the level which would have applied under the previous National Healthcare SPP. From 1 July 2014 the NHR funding is directly linked to the level of services delivered in public hospitals in each State. From 2014-15 to 2016-17, the Commonwealth will maintain its previous percentage of base funding and fund 45 per cent of volume growth, both at the national efficient price (which is determined annually by an independent authority).

In the 2014-15 Commonwealth Budget, however, the Commonwealth announced a number of major unilateral changes to the provisions of the NHRA which will significantly reduce the payments the ACT had expected to receive under the agreement.

The first major impact results from the abolition of the growth and 'no worse off' guarantees formerly provided under the NHRA. This change results in NHRA payments to the ACT falling between 2013-14 and 2014-15, compared with the expected increase of around \$40 million that the ACT could have expected if the guarantees had been honoured. Over four years, the ACT's expected NHRA payments from the Commonwealth have been reduced by around \$240 million through the removal of the guarantees. Further details of this impact are set out in Chapter 2.1 Budget Outlook.

The second major change is that from 1 July 2017 the Commonwealth will index its contribution for public hospitals funding by the Consumer Price Index and population growth. This change jettisons the previous Commonwealth commitment to fund 50 per cent of efficient growth from 2017-18 and introduces 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 EPC basis.

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.

### National Education Reform Agreement (NERA)

On 1 January 2014 the National Schools SPP was replaced by the National Education Reform Agreement (NERA, also known as Students First). With the introduction of the NERA, a new funding arrangement was introduced under which Commonwealth funding is distributed to the States on a needs-based funding model for schools, called the Schooling Resource Standard (SRS).

The bilateral agreement between the ACT and Commonwealth governments under NERA provided for the indexation of current levels of funding by 3 per cent for the ACT contribution and 4.7 per cent for the Commonwealth contribution, with additional contributions from both governments, over a six-year period of transition to the full SRS funding model.

However, the Commonwealth Government announced changes to the NERA arrangements in its 2014-15 Commonwealth Budget. These changes are a unilateral alteration of agreements previously reached with States and Territories, effectively reducing the term of the agreements (as agreed) from six years to four years, and a new Commonwealth policy to fundamentally rewrite the *Australian Education Act 2013*, upon which the reform was framed.

From the 2018 school year onwards, total recurrent funding will be indexed by the Consumer Price Index, with an allowance for changes in enrolments. From 2018 the Commonwealth will provide equal per student base funding with an even proportion of existing loadings for disadvantaged students. Formal negotiations on these arrangements are expected to take place between the Commonwealth and the States and Territories. Although the Commonwealth has provided additional funding to maintain the real level of Commonwealth payments beyond the 2017 school year, the distribution of this funding, and the changes in indexation, may lead to reduced growth in Schools SPP funding for the ACT past the budget out years.

#### National Disability Insurance Scheme (NDIS)

The National Disability SPP will be replaced by the National Disability Insurance Scheme (NDIS) over a transition period. The NDIS establishes a national scheme which provides lifetime care and support for eligible people who have significant and permanent disabilities.

The implementation of this scheme involves three phases:

- a launch phase;
- a transition phase; and
- a full implementation phase.

The NDIS is currently in its launch phase with some States launching the program in July 2013. The ACT is expected to enter the launch phase in July 2014 and have full coverage by July 2016.

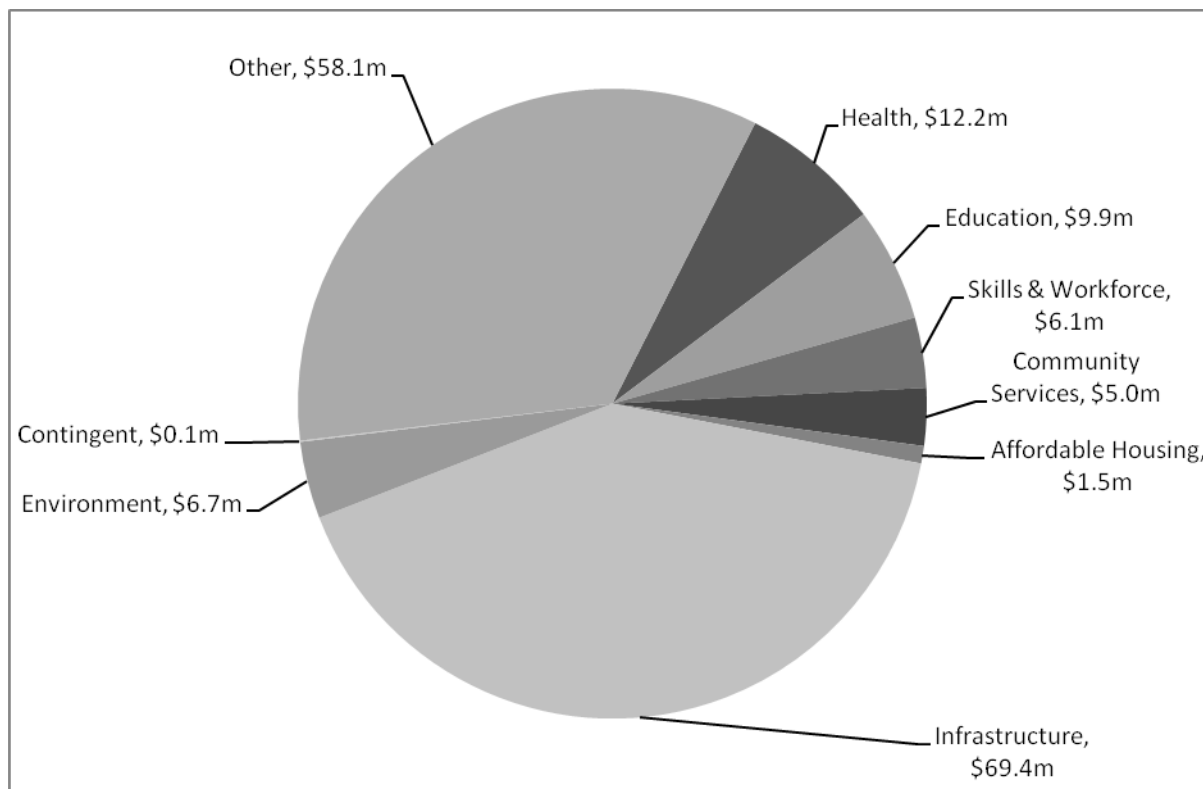
The 2014-15 Commonwealth Budget did not indicate any change to the arrangements currently proposed for implementation of NDIS, but these may be affected through future decisions of the Commonwealth Government following the recently completed review of the capabilities of the National Disability Insurance Agency.

### National Partnership Payments

Within the context of the IGA-FFR, the Commonwealth provides NP payments 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 7.1.3 below.

**Figure 7.1.3**  
**2014-15 Major NP payments to the ACT by sector (\$ millions)**



Source: Commonwealth Budget 2014-15 Paper No.3.

The distribution of NP payments 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. However, the ACT receives considerably less for infrastructure in proportion to its population than do other States.

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

**Table 7.1.4  
Commonwealth NP Payments to the ACT**

	2013-14	2014-15	Variation		2015-16	2016-17	2017-18
	Est. Out. \$m	Budget \$m	\$m	%	Estimate \$m	Estimate \$m	Estimate \$m
Health	27.2	12.2	-15.0	-55.2	8.1	9.4	10.3
Education	14.8	9.9	-4.9	-33.2	3.6	0.2	-
Skills and Workforce Development	5.7	6.1	0.4	7.3	6.1	8.3	-
Community Services	10.3	5.0	-5.3	-51.4	1.9	2.6	3.3
Affordable Housing	5.5	1.5	-4.0	-72.3	-	-	-
Infrastructure	65.1	69.4	4.2	6.5	36.9	15.6	10.3
Environment	3.2	6.7	3.5	109.1	5.0	28.6	30.3
Contingent Payments	0.1	0.1	-	-	0.1	-	-
Other	39.3	58.1	18.8	47.9	58.4	58.7	61.0
<b>Total NP Payments</b>	<b>171.3</b>	<b>169.1</b>	<b>-2.2</b>	<b>-1.3</b>	<b>120.0</b>	<b>123.4</b>	<b>115.2</b>

Note: Table may not add due to rounding.

### Cuts in National Partnership Payments

In the 2014-15 Commonwealth Budget the Commonwealth allowed a number of National Partnership Agreements (NPAs) to expire, and terminated three other agreements in advance of their agreed expiry dates. Many of these agreements supported an increased level of service delivery, and States collectively through their Treasurers had sought their incorporation into ongoing Specific Purpose Payments or continuation for a further fixed period. The total value of the expired and terminated agreements to the ACT was \$23 million in 2013-14.

Three NPAs were terminated early by the Commonwealth:

- Training Places for Single and Teen Parents – terminated 1 year early, from July 2014 (funding of \$0.2 million in 2013-14);
- Certain Concessions for Pensioners and Seniors Card Holders – terminated 2 years early, from July 2014 (funding of \$1.6 million in 2013-14); and
- Preventive Health – terminated 1 year early, from July 2014 (funding of \$0.9 million in 2013-14).

In addition, reward funding under the Improving Public Hospital Services NPA was terminated early, from 1 July 2015 (potential funding of up to \$1.5 million in 2015-16). Funding for the sub-acute beds component of the NPA, for which States had sought incorporation into the National Health Reform Funding base, was not renewed.

The Commonwealth also deferred by one year, to 2015-16, the introduction of the Adult Public Dental Services NPA, with funding of \$3.3 million for the ACT in the first year of this measure.

### National Partnership Rationalisation

As a result of national reforms, particularly in Education, and through rationalisation measures by the Commonwealth, an overall reduction in the number of NPs and associated NP payments will occur over the out-years.

On 13 December 2013, COAG agreed to rationalise 31 funding agreements to four and reduce their reporting burden. It was agreed that, if successful, this approach would be applied to more agreements in the 2014-15 financial year. As part of this process a draft NP on Specified Projects has been developed which consolidates 13 separate funding agreements with a value of less than \$60 million each. Experience with this NP, which takes effect from 1 July 2014, will inform the development of three other portfolio-based consolidated agreements in health, education and early childhood.

As the rationalisation of NPs will not affect the funding arrangements for existing agreements, this process will not impact Commonwealth funding received by the ACT.

### Effect of National Education Reform Agreement on NPPs

With the introduction of NERA three NPPs were redirected towards the Commonwealth's needs-based funding model for schools. The three NPPs were the Smarter Schools NPP, the Empowering Local Schools NPP and the Rewards for Great Teachers NPP. These NPPs ceased in December 2013 and were rolled up into NERA when the new funding arrangement commenced on 1 January 2014. No change to these arrangements was made in the 2014-15 Commonwealth Budget.

### Expiring National Partnership Agreements

The Commonwealth Government has acknowledged deficiencies in the current process for dealing with expiring agreements, and work is currently being undertaken through Heads of Treasuries on a process which would allow for earlier decisions and advice to allow State governments to make appropriate provisions relating to these agreements in their Budgets.

In total, approximately \$6.5 million of NPs that expired in 2013-14 have been extended or replaced with new NPs. These generally involve one-year extensions pending reviews to be carried out by the Commonwealth.

## New National Partnership Agreements

The 2014-15 Commonwealth Budget also included a number of new National Partnerships which are expected to involve additional funding for the ACT, including:

- Independent Public Schools (\$0.7 million over 2013-14 to 2016-17);
- Infrastructure Growth Package (new infrastructure investment of \$12.5 million over 2014-15 to 2017-18);
- Asset Recycling Initiative (a total of \$5 billion to be distributed to the States upon selling of State owned assets and using the proceeds to invest in infrastructure); and
- Bushfire Mitigation (a total of \$5 million annually from 2014-15 to 2016-17 to be distributed amongst the States).

Negotiations on most of these NPs are still in progress between the ACT and the Commonwealth.

The Infrastructure Growth and Asset Recycling initiatives recognise the crucial role of infrastructure in driving national productivity and competitiveness. The National Partnership Agreement on Asset Recycling will commence on 1 July 2014 and expire on 30 June 2019. States and Territories will have a two year window to reach an agreement with the Commonwealth to sell assets and invest the proceeds in productive infrastructure. Infrastructure investment must commence prior to 20 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 will enter negotiations with the Commonwealth Government in 2014-15 to pursue opportunities to participate in the Asset Recycling initiative and has made provision in this Budget for revenue from potential asset sales over the forward years.

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

### *Financial Assistance Grants to Local Government*

Financial assistance grants (FAGs) to local governments are outside the federal funding framework and 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 financial assistance grants are paid directly to the Territory to be spent according to its budget priorities, at approximately two per cent of the financial assistance grants pool.

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**

	2013-14	2014-15	Variation		2015-16	2016-17	2017-18
	Est. Out.	Budget	\$m	%	Estimate	Estimate	Estimate
	\$m	\$m			\$m	\$m	\$m
Financial Assistance Grants	24.5	48.6	24.1	98.4	48.6	48.6	50.7

The ACT will receive \$24.5 million in 2013-14, increasing to \$48.6 million in 2014-15. The increase is due to the Commonwealth's 2013-14 Budget decision to bring forward the first two quarterly instalments of the expected 2013-14 grants to 2012-13, amounting to \$24.8 million for the ACT. The bringing forward of these instalments meant the ACT received a half year's funding in 2013-14 as opposed to a full year in 2014-15.

The Commonwealth has taken a decision to pause the indexation of FAGs for three years from 2014-15 to 2016-17. This means a reduction of \$12.3 million in payments to the ACT across these years compared with previous estimates.

### 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 below.

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

2013-14		2013-14	2014-15	2015-16	2016-17	2017-18
Budget	FUNDING CATEGORIES	Est.Outcome	Budget	Estimate	Estimate	Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
<b>General Revenue Assistance</b>						
1,021,800	GST Revenue	1,032,900	1,098,600	1,168,000	1,239,700	1,310,500
37,495	ACT Municipal Services	37,311	37,983	38,629	39,324	40,032
<b>1,059,295</b>	<b>Total General Revenue Assistance</b>	<b>1,070,211</b>	<b>1,136,583</b>	<b>1,206,629</b>	<b>1,279,024</b>	<b>1,350,532</b>
<b>Health Services</b>						
279,536	National Health Reform Payments	271,938	271,080	298,420	328,153	311,064
<b>Health Services NPPs</b>						
0	Public Hospital System - Additional Funding	4,261	0	0	0	0
673	Improving Public Hospital Services – National Elective Surgery	673	0	0	0	0



<b>2013-14</b>		<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Budget</b>	<b>FUNDING CATEGORIES</b>	<b>Est.Outcome</b>	<b>Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
810	Improving Public Hospital Services – National Emergency Access	0	0	0	0	0
9,900	Improving Public Hospital Services – Sub-acute Beds Capital	9,900	0	0	0	0
0	Financial Assistance Long Stay Older Patients & Additional Places	3,207	0	0	0	0
4,000	Health and Hospital Fund Capital – National Cancer System	4,450	50	0	0	0
444	Health and Hospital Fund Capital – Regional Priority Round	467	0	0	0	0
0	Adult Public Dental Services	0	0	3,298	4,864	6,430
2,471	Treating More Public Dental Patients	2,471	1,904	0	0	0
582	Health Services – BreastScreen Australia, Expansion of Programme	521	167	189	220	0
0	Health Services – Canberra Hospital Dedicated Paediatric Emergency Care	0	5,000	0	0	0
83	Specified Projects – National Bowel Cancer Screening	100	102	118	151	184
281	Health Services – National Perinatal Depression Initiative	287	213	213	213	0
134	Specified Projects – OzFoodNet	134	137	139	141	0
33	Health Services – Vaccine Preventable Diseases Surveillance	33	33	34	35	0
620	Mental Health (Supporting National Mental Health Reform)	310	620	620	0	0
250	Indigenous Early Childhood Development (Health Component)	250	262	0	0	0
106	Essential Vaccines	127	3,704	3,446	3,750	3,667
<b>20,387</b>	<b>Total Health Services NPPs</b>	<b>27,191</b>	<b>12,192</b>	<b>8,057</b>	<b>9,374</b>	<b>10,281</b>
<b>299,923</b>	<b>Total Health Services</b>	<b>299,129</b>	<b>283,272</b>	<b>306,477</b>	<b>337,527</b>	<b>321,345</b>
<b>Housing</b>						
22,611	National Affordable Housing SPP	22,490	21,522	21,890	22,284	22,684

2013-14 Budget	FUNDING CATEGORIES	2013-14 Est.Outcome	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Housing NPPs</b>						
0	Homelessness Recurrent	1,480	1,520	0	0	0
0	Homelessness Capital	4,000	0	0	0	0
<b>0</b>	<b>Total Housing NPPs</b>	<b>5,480</b>	<b>1,520</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>22,611</b>	<b>Total Housing</b>	<b>27,970</b>	<b>23,042</b>	<b>21,890</b>	<b>22,284</b>	<b>22,684</b>
<b>Community Services</b>						
24,166	National Disability Services SPP	21,982	23,046	23,983	24,953	26,048
<b>Community Services NPPs</b>						
141	Home and Community Care Services for Veterans	141	0	0	0	0
764	Pay Equity for Social and Community Services Sector	1,038	1,318	1,932	2,603	3,311
1,107	Indigenous Early Childhood Development (Family Centres)	1,107	0	0	0	0
1,376	Certain Concessions for Pensioners and Senior Card Holders	1,482	0	0	0	0
170	National Reciprocal Transport Concessions	127	0	0	0	0
6,424	Assisting Preparation for the trial of the NDIS	6,424	3,700	0	0	0
<b>9,982</b>	<b>Total Community Services NPPs</b>	<b>10,319</b>	<b>5,018</b>	<b>1,932</b>	<b>2,603</b>	<b>3,311</b>
<b>34,148</b>	<b>Total Community Services</b>	<b>32,301</b>	<b>28,064</b>	<b>25,915</b>	<b>27,556</b>	<b>29,359</b>
<b>Education &amp; Early Childhood</b>						
<b>National Schools SPPs and National Education Reform Agreement (Students First) Funding</b>						
32,225	National Schools SPP – Government Schools Component	31,668	0	0	0	0
81,069	National Schools SPP – Non-Government Schools Component	79,072	0	0	0	0
35,704	National Education Reform – (Students First) – Government	36,168	73,410	76,129	79,493	95,785
82,425	National Education Reform – (Students First) – Non-Government	86,077	174,268	185,589	197,631	204,287

2013-14 Budget	FUNDING CATEGORIES	2013-14 Est.Outcome	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
<b>231,423</b>	<b>Total National Schools SPPs and National Education Reform Agreement (Students First) Funding</b>	<b>232,985</b>	<b>247,678</b>	<b>261,718</b>	<b>277,124</b>	<b>300,072</b>
	<b>Education and Early Childhood NPPs</b>					
1,072	Support for Students with Disability – Government Schools	1,405	996	0	0	0
334	Support for Students with Disability – Non Government Schools	0	0	0	0	0
279	Smarter Schools – Low Socio-Economic Status School Communities <sup>1</sup>	223	0	0	0	0
3,128	Smarter Schools – Improving Teacher Quality	3,128	0	0	0	0
587	Literacy and Numeracy – Government	587	0	0	0	0
291	Literacy and Numeracy – Non-Government	291	0	0	0	0
6,444	Early Childhood Education – Universal Access	6,444	3,728	0	0	0
4,027	Trade Training Centres Schools – Government Schools	1,520	3,919	3,401	0	0
498	Trade Training Centres Schools – Non-Government Schools	529	826	0	0	0
382	National Solar Schools Plan	382	0	0	0	0
91	Money Smart Schools	0	0	0	0	0
212	National Quality Agenda for Early Childhood Education and Care	212	212	0	0	0
0	Independent Public Schools Initiative	120	240	240	240	0
<b>17,345</b>	<b>Total Education &amp; Early Childhood NPPs</b>	<b>14,841</b>	<b>9,921</b>	<b>3,641</b>	<b>240</b>	<b>0</b>
<b>248,768</b>	<b>Total Education &amp; Early Childhood</b>	<b>247,826</b>	<b>257,599</b>	<b>265,359</b>	<b>277,364</b>	<b>300,072</b>
	<b>Skills and Workforce Development</b>					
23,533	National Skills and Workforce Development SPP	23,400	23,655	24,067	24,514	24,965
	<b>Skills &amp; Workforce Development NPPs</b>					
3,820	Building Australia's Future Workforce – Skills Reform	3,820	6,046	6,050	8,276	0

2013-14 Budget	FUNDING CATEGORIES	2013-14 Est.Outcome	2014-15 Budget	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
248	Building Australia's Future Workforce – Training Places for Single and Teen Parents	248	0	0	0	0
0	Commonwealth/State and Territory Joint Group Training Program	293	0	0	0	0
0	Industry and Indigenous Skills Centres	55	0	0	0	0
490	TAFE Fee Waivers for Childcare Qualifications NPP	481	79	0	0	0
331	Youth Attainment and Transitions – Maximising Engagement	331	0	0	0	0
804	Youth Attainment and Transitions – Year 12 attainment	478	0	0	0	0
<b>5,693</b>	<b>Total Skills &amp; Workforce Development NPPs</b>	<b>5,706</b>	<b>6,125</b>	<b>6,050</b>	<b>8,276</b>	<b>0</b>
<b>29,226</b>	<b>Total Skills and Workforce Development</b>	<b>29,106</b>	<b>29,780</b>	<b>30,117</b>	<b>32,790</b>	<b>24,965</b>
<b>Infrastructure</b>						
442	Investment in Roads including Asset Recycling Funds	337	1,405	13,114	2,187	1,117
0	Off Network Projects – Roads	0	300	0	0	0
404	Interstate Road Transport NPP	385	385	385	385	385
0	Roads to Recovery including Asset Recycling Fund amounts	27	5,600	11,200	5,600	5,600
4,887	Heavy Vehicle Safety	368	790	660	660	660
876	Black Spots Projects including Asset Recycling Fund amounts	772	966	2,577	2,576	966
0	Centenary of Canberra 2013 – A Gift to the National Capital – Constitution Avenue Redevelopment component	0	10,000	0	0	0
50,000	Building Australia Fund Roads – Majura Parkway construction	62,990	48,100	0	0	0
0	Bridges Renewal	0	989	989	989	989
0	Infrastructure Growth Package (IGP) – New Investments	0	837	7,977	3,229	549
157	Sustainable Australia – Liveable Cities/ Communities	250	0	0	0	0
<b>56,766</b>	<b>Total Infrastructure</b>	<b>65,129</b>	<b>69,372</b>	<b>36,902</b>	<b>15,626</b>	<b>10,266</b>
<b>Environmental Services</b>						
10	Exotic Disease Preparedness NPP	0	0	0	0	0

<b>2013-14</b>		<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Budget</b>	<b>FUNDING CATEGORIES</b>	<b>Est.Outcome</b>	<b>Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
259	Water for the Future – Sustainable Rural Water Use and Infrastructure Programme	2,349	4,451	3,320	27,000	30,000
221	Implementing Water Reform in the Murray Darling Basin	221	327	327	327	327
133	National Insurance Affordability Initiative	0	0	0	0	0
1,305	Natural Disaster Resilience	652	1,958	1,305	1,305	0
<b>1,928</b>	<b>Total Environmental Services</b>	<b>3,222</b>	<b>6,736</b>	<b>4,952</b>	<b>28,632</b>	<b>30,327</b>
<b>Other Commonwealth</b>						
4,468	Legal Assistance Services	4,468	4,553	4,633	4,716	4,791
2,416	Deliver a Seamless National Economy	537	0	0	0	0
991	Centenary of Canberra 2013 – Joint National Program	991	0	0	0	0
4,000	ACT Emergency Services	4,000	0	0	0	0
4,774	Provision of Fire Fighting Services	4,774	4,941	5,114	5,293	5,478
24,225	Financial Assistance Grants – Local Government	24,536	48,638	48,643	48,645	50,742
<b>40,874</b>	<b>Total Other Commonwealth</b>	<b>39,306</b>	<b>58,132</b>	<b>58,390</b>	<b>58,654</b>	<b>61,011</b>
<b>1,793,539</b>	<b>Total Commonwealth Government Grant Funding</b>	<b>1,814,200</b>	<b>1,892,580</b>	<b>1,956,631</b>	<b>2,079,457</b>	<b>2,150,561</b>

**Note:**

1. The NPP for Smarter Schools – Low Socio-economic Status School Communities ceased on 31 December 2013 and has been rolled up into NER (Students First) Funding.

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

### *Vertical Fiscal Imbalance and Horizontal Fiscal Equalisation*

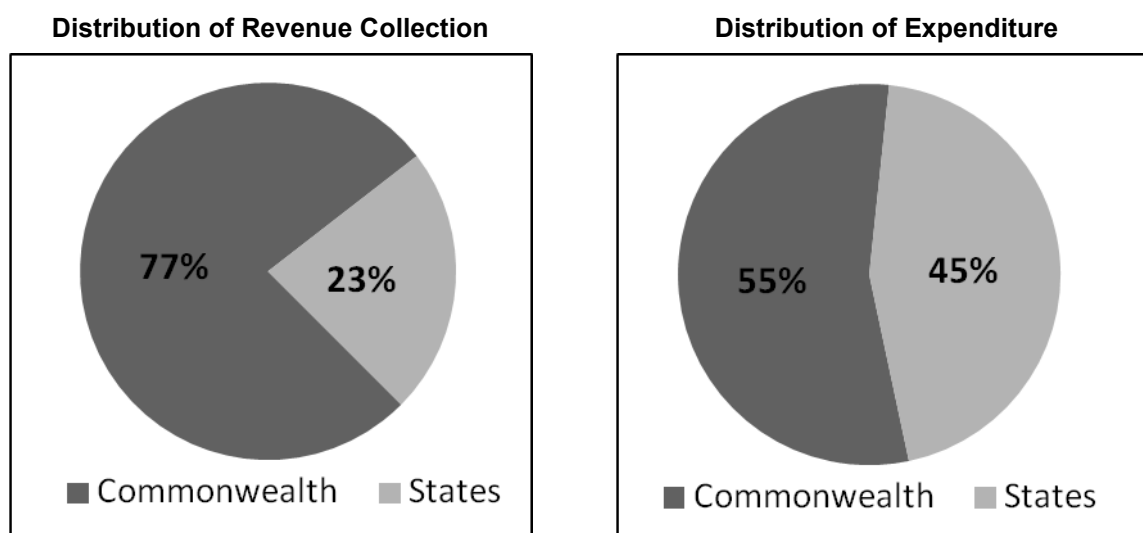
The Australian federal financial relations system is characterised by two distinct features, a high degree of vertical fiscal imbalance (VFI) offset by the transfer of revenue under a Horizontal Fiscal Equalisation (HFE) system.

Australia experiences a relatively high degree of VFI, partly on account of Constitutional limitations on States' revenue raising powers. The Commonwealth Government has access to a relatively large tax base while having relatively low service delivery responsibilities. In contrast, the States have significant service provision responsibilities but only a relatively small revenue base.

To put the concept of VFI into perspective, presently, the Australian Government collects around 77 per cent of combined Commonwealth and State Government tax revenue (12.8 per cent of Commonwealth revenue being from the GST) but is responsible for only about 55 per cent of total government spending. In contrast, the States collect around 23 per cent of combined tax revenue, but are responsible for around 45 per cent of total government spending.

Figure 7.1.4 below depicts the distribution of Commonwealth-State spending and revenue collection (including the GST).

**Figure 7.1.4**  
**2013-14 Estimated Distribution of Federal-State Revenue Collection and Expenditure**



**Source:** ABS, Government Financial Estimates 2013-14 (5501.0.55.001) and Chief Minister and Treasury Directorate calculations.  
**Note:** Capital expenditure is not included.

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

## Report on GST Revenue Sharing Relativities – 2014 Update

The Commonwealth Grants Commission (CGC) advises the Commonwealth Government each year on the distribution of the GST pool among the States.

The latest assessments in the *Report on GST Revenue Sharing Relativities – 2014 Update* were calculated on the basis of the latest three years (2010-11 to 2012-13) of socio-economic and demographic data and led to an increase in the ACT's GST relativity from 1.22083 (2013 Update) to 1.23600 (2014 Update). The relativities will be used to distribute the 2014-15 GST pool.

Table 7.1.7 below illustrates the jurisdictional relativities, implied shares of GST revenue and GST impacts. The updated assessment increases the shares most notably for the NT but also for the ACT, TAS, QLD, SA and NSW. It reduces the shares most notably for WA, but also for VIC.

Importantly, HFE presently delivers \$212 million to the ACT above what would be delivered if the GST were allocated on a population share basis.

**Table 7.1.7**  
**Comparison of GST Relativities and Impact on 2014-15 GST Funding**

	2013 Update	2014 Update	2013-14 share of GST %	2014-15 share of GST %	Change 2013-14 to 2014-15 \$m	Change 2013-14 to 2014-15 %pc	Above / below EPC share \$m
NSW	0.96576	0.97500	31.0	31.2	145	19	-351
Vic	0.90398	0.88282	22.5	22.0	-286	-49	-1,484
Qld	1.05624	1.07876	21.4	21.9	234	49	887
WA	0.44581	0.37627	4.9	4.2	-411	-156	-3,647
SA	1.26167	1.28803	9.1	9.2	97	57	1,105
Tas	1.61454	1.63485	3.6	3.6	22	43	735
ACT	1.22083	1.23600	2.0	2.1	13	32	212
NT	5.31414	5.66061	5.5	5.9	187	765	2,543

**Source:** CGC Report on GST Revenue Sharing Relativities 2014 Update and Chief Minister and Treasury Directorate calculations. Note that these figures were calculated using the 2013-14 MYEFO GST Pool Estimate.

The main factors increasing the ACT's GST relativity in the 2014 Update were a decrease in stamp duty conveyances as a result of below average growth in property turnover, and an increased redistribution from Western Australia resulting from increased iron ore production. Offsetting these increases was a fall in the proportion of population identified as disadvantaged in the 2011 Census data, an increase in the share of Commonwealth payments received by the ACT and wage levels growing more slowly than the national average.

Table 7.1.8 below shows the impact of the components contributing to the ACT's assessed GST funding of \$1,090 million<sup>2</sup> and how this results in a figure of \$212 million above an EPC share.

<sup>2</sup> Based on Commonwealth 2013-14 Mid-Year Economic and Fiscal Outlook using a GST pool of \$52.7 billion for 2014-15.

Table 7.1.8

**ACT Assessed GST Funding and Above Equal Per Capita funding 2014-15**

	\$pc	\$m
<b>Equal per capita share (1.67%)</b>	<b>2,223</b>	<b>878</b>
Expense requirement	-298	-118
Investment <sup>1</sup>	-15	-6
Net lending <sup>2</sup>	16	6
Revenue	673	266
Commonwealth payments <sup>3</sup>	159	63
<b>Assessed GST (2.03%)<sup>4</sup></b>	<b>2,759</b>	<b>1,090</b>
<b>Total difference from EPC distribution</b>	<b>536</b>	<b>212</b>

**Notes:** Table may not add due to rounding.

1. The investment assessment provides each State 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 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.