

## Chapter 2: GST Revenue Provision and Commonwealth Payments to the States in 2000-01

This chapter provides details of payments to be made to the States and local government in 2000-01 and subsequent years. It also discusses the composition of payments and the impact of horizontal fiscal equalisation. A discussion of payments made to the States in 1999-2000 and earlier years is contained in Chapter 3.

### **COMPOSITION OF PAYMENTS TO THE STATE/LOCAL SECTOR**

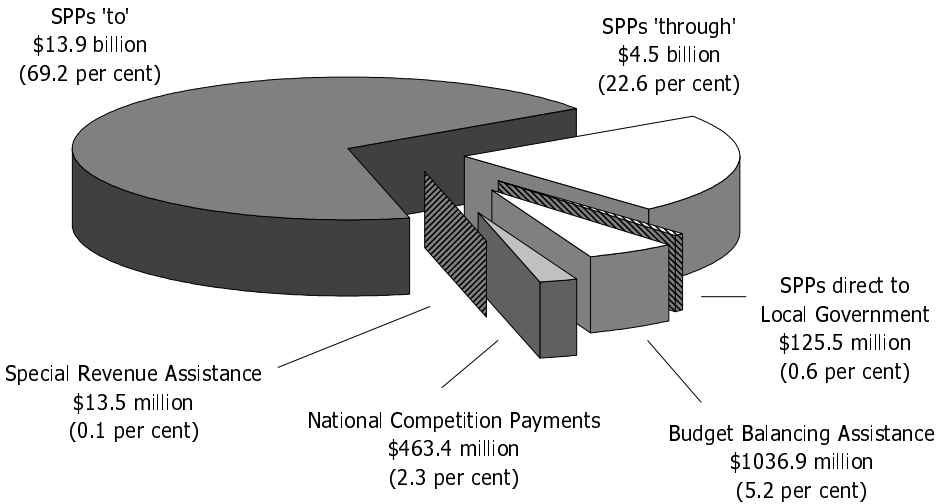
In addition to the provision of GST revenues, Commonwealth payments to the State/local sector in 2000-01 will comprise:

- general revenue assistance comprising:
  - Budget Balancing Assistance (BBA) provided by way of grants;
  - National Competition Payments (NCPs); and
  - Special Revenue Assistance (SRA);
- Specific Purpose Payments (SPPs) comprising:
  - SPPs ‘to’ the States;
  - SPPs ‘through’ the States; and
  - SPPs direct to local government.

The Commonwealth will also be providing additional BBA in the form of one year interest free loans.

It is estimated that the States will receive around \$24.1 billion in GST revenues in 2000-01, which can be applied without restriction in meeting their expenditure priorities. Commonwealth payments to the State/local sector in 2000-01 are estimated to be \$20.0 billion, of which SPPs account for the majority. Chart 1 illustrates the composition of the Commonwealth payments to the State/local sector in 2000-01. Table 2 summarises estimated GST revenue provision and other Commonwealth payments to each State.

**Chart 1: Composition of Commonwealth Payments to the State/Local Sector in 2000-01 (estimated) \$20.0 billion**



**Table 2: Total Commonwealth Payments to the State/Local Sector and GST Revenue<sup>(a)</sup>, 2000-01 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
(1) General revenue assistance (1.1) + (1.2) + (1.3)	464.3	366.0	341.2	133.1	110.8	36.9	39.9	21.5	1513.8
(1.1) Budget Balancing Assistance Grants	307.8	250.9	254.9	87.3	74.7	25.6	18.9	16.8	1036.9
(1.2) National Competition Payments	156.5	115.1	86.4	45.8	36.1	11.3	7.5	4.7	463.4
(1.3) Special Revenue Assistance	0.0	0.0	0.0	0.0	0.0	0.0	13.5	0.0	13.5
(2) Total Specific Purpose Payments (2.1) + (2.2) + (2.3) (b)	6085.1	4319.8	3411.6	1990.0	1486.7	495.8	322.3	344.8	18456.2
(2.1) Specific Purpose Payments 'to' the States	4568.8	3119.3	2571.9	1513.0	1150.5	381.2	225.9	272.0	13802.6
(2.2) Specific Purpose Payments 'through' the States(c)	1482.0	1153.6	822.3	463.6	328.3	110.1	96.3	72.1	4528.2
(2.3) Specific Purpose Payments direct to local government	34.3	46.9	17.4	13.5	7.9	4.5	0.2	0.7	125.5
(3) Commonwealth payments to the State/local sector (1) + (2)	6549.4	4685.9	3752.8	2123.1	1597.5	532.7	362.3	366.4	19970.0
(4) Provision of GST revenue to the States(d)	7180.3	5027.3	4604.1	2337.8	2247.7	971.9	470.6	1212.7	24052.6
(5) GST revenue and Commonwealth payments (3)+(4)	13729.7	9713.1	8357.0	4460.9	3845.3	1504.6	832.9	1579.1	44022.6

(a) This table does not include Revenue Replacement Payments made in 2000-01 that relate to Safety Net Arrangement collections in 1999-2000.

(b) This total and that for SPPs 'to' does not include the 2000-01 \$74.8 million FBT transitional grant for public hospitals since indicative estimates of the distribution to each State are not currently available.

(c) Payments 'through' are payments that are made to the States to be passed on to local government, other bodies and individuals.

(d) Includes GST growth dividend. See Table 4.

## REVENUE COLLECTED BY THE COMMONWEALTH ON BEHALF OF THE STATES

The Commonwealth collects a range of taxes on behalf of the States. These comprise revenues collected under the Section 90 'safety net' arrangements (following the 5 August 1997 High Court Decision on Business Franchise Fees in the case of *Ha and Lim v. New South Wales*), and mirror taxes at Commonwealth places (following the 14 November 1996 High Court Decision in the *Allders* case). Under the Intergovernmental Agreement the 'safety net' arrangements will cease from 1 July 2000.

Table 3 provides estimates of the taxes to be collected on an agency basis by the Commonwealth for the States between 1999-2000 and 2003-04. The final safety net payment for 2000-01 reflects payment of safety net revenue collected in 2000-01 that is related to 1999-2000.

**Table 3: Revenue Collected by the Commonwealth on Behalf of the States, 1999-2000 to 2003-04 (estimated)**

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
'Safety Net' surcharge collections(a)	6975.9	363.3	na	na	na
Mirror taxes	171.0	169.0	174.0	181.0	190.0
Total	7146.9	532.3	174.0	181.0	190.0

(a) These collections less administration costs are paid to the States as revenue replacement payments. See Chapter 3 for details.

## PROVISION OF GST REVENUE TO THE STATES IN 2000-01

As discussed in Chapter 1, the terms of the Intergovernmental Agreement provide for the States to receive all revenue raised by the GST from 1 July 2000. GST revenues are to be distributed amongst the States on the basis of horizontal fiscal equalisation principles (discussed later in the chapter).

Table 4 shows the estimated provision of GST revenue to the States. This distribution is in accordance with the GST relativities recommended in the Commonwealth Grants Commission's *Report on General Revenue Grant Relativities 2000 Update* and the Intergovernmental Agreement.

- The per capita relativities are applied to the States' populations (as at 31 December of each year) in order to arrive at a weighted population share for each State. A States' share of the GST revenue is equal to its weighted population share of the combined GST revenue and unquarantined Health Care Grants (HCGs), less the unquarantined HCGs it receives.

The estimates of GST revenue have varied since the March Ministerial Council meeting, in line with parameter updates and other revisions. The final amount of GST revenue for 2000-01 will be determined by the Commissioner of Taxation in accordance with Appendix B of the Intergovernmental Agreement.

**Table 4: Distribution of GST Revenue in 2000-01 (estimated)**

	Projected Population as at 31 December 2000 ( <sup>'000</sup> ) (a)	Per capita Relativities (b)	Weighted Populations (1) *(2) ( <sup>'000</sup> ) (c)	Share of Weighted Population (%) (d)	GST Revenue/HCGs Pool Distributed According to (4) (\$m) (e) (f)	Unquarantined Health Care Grants (\$m)	Distribution of GST Revenue (5) less (6) (\$m)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	6518.8	0.90913	5926.5	30.7	9262.0	2081.7	7180.3
VIC	4794.4	0.87049	4173.5	21.6	6523.4	1496.1	5027.3
QLD	3596.5	1.01830	3662.3	19.0	5721.3	1117.2	4604.1
WA	1906.3	0.98365	1875.2	9.7	2929.7	591.9	2337.8
SA	1503.1	1.18258	1777.5	9.2	2775.6	527.9	2247.7
TAS	469.2	1.51091	708.9	3.7	1106.3	134.4	971.9
ACT	314.3	1.11289	349.8	1.8	546.3	75.7	470.6
NT	197.3	4.16385	821.3	4.3	1280.0	67.3	1212.7
Total	19299.8	na	19294.9	100.0	30,144.6	6092.1	24052.6

- (a) The projected population as at 31 December 2000 has been prepared by the ABS on the basis of assumptions agreed to by Treasury. These projections are subject to revision.
- (b) The per capita relativities adopted at the March 2000 Ministerial Council meeting.
- (c) Total weighted population differs from the total population in column 1 as the per capita relativities are calculated by the CGC using population numbers for the period 1994-95 to 1998-99 and are then rounded. It is the total population shown in column 1 that is used in determining an index factor for the GST/HCG pool. Note also that population numbers are projections.
- (d) For ease of presentation, weighted population shares rounded to one decimal place are shown.
- (e) Includes per capita distribution of an agreed \$97 million estimated GST growth dividend in recognition of the higher tax revenues that will flow to governments because of the positive impact of tax reform on economic activity. The estimates were agreed between the Commonwealth and the States as follows (allowing for rounding): New South Wales \$32.8 million, Victoria \$24.1 million, Queensland \$18.1 million, Western Australia \$9.6 million, South Australia \$7.6 million, Tasmania \$2.4 million, Australian Capital Territory \$1.6 million and Northern Territory \$1.0 million (see the GMA methodology paper).
- (f) Estimated unquarantined HCGs. These numbers have been updated to reflect the Commonwealth's announced intention to index the payments using Wage Cost Index No. 1.

## GENERAL REVENUE ASSISTANCE

In 2000-01, general revenue assistance will take the form of Budget Balancing Assistance (BBA) grants, National Competition Payments (NCPs) and Special Revenue Assistance (SRA). As with GST revenue, general revenue assistance is 'untied', that is, it is not required to be spent by the States in a specified area.

The level of general revenue assistance to the States in 2000-01 is estimated to be \$1,513.8 million.

- **BBA grants** are paid to the States by the Commonwealth in accordance with the Intergovernmental Agreement to ensure that their budgets are no worse off as a result of taxation reform until such time as GST revenue exceeds the funding that would have been received had taxation reform not taken place.
- **NCPs** are provided in accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*. A State's receipt of NCPs is conditional on compliance with the obligations of the *Agreement*.
- **SRA** in 2000-01 will comprise payments to the Australian Capital Territory for transitional allowances and special fiscal needs.

Table 5 sets out estimated general revenue assistance by type of payment and State for the period 2000-01 to 2003-04.

**Table 5: General Revenue Assistance to the States, 2000-01 to 2003-04 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
Budget Balancing Assistance Grants									
<b>2000-01</b>	<b>307.8</b>	<b>250.9</b>	<b>254.9</b>	<b>87.3</b>	<b>74.7</b>	<b>25.6</b>	<b>18.9</b>	<b>16.8</b>	<b>1036.9</b>
2001-02	1432.7	792.6	41.3	274.2	311.0	125.3	43.6	91.6	3112.3
2002-03	807.8	400.9	0.0	111.7	163.2	68.0	21.6	59.6	1632.7
2003-04	593.5	269.5	0.0	11.1	98.9	33.9	2.4	34.4	1043.7
National Competition Payments									
<b>2000-01</b>	<b>156.5</b>	<b>115.1</b>	<b>86.4</b>	<b>45.8</b>	<b>36.1</b>	<b>11.3</b>	<b>7.5</b>	<b>4.7</b>	<b>463.4</b>
2001-02	241.6	177.7	134.0	71.1	55.4	17.2	11.6	7.4	716.0
2002-03	247.3	181.9	138.1	73.2	56.4	17.4	11.9	7.6	733.9
2003-04	253.2	186.0	142.4	75.4	57.5	17.7	12.2	7.9	752.2
Special Revenue Assistance									
<b>2000-01</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13.5</b>	<b>0</b>	<b>13.5</b>
2001-02	0	0	0	0	0	0	13.8	0	13.8
2002-03	0	0	0	0	0	0	14.2	0	14.2
2003-04	0	0	0	0	0	0	14.5	0	14.5
Total general revenue assistance									
<b>2000-01</b>	<b>464.3</b>	<b>366.0</b>	<b>341.2</b>	<b>133.1</b>	<b>110.8</b>	<b>36.9</b>	<b>39.9</b>	<b>21.5</b>	<b>1513.8</b>
2001-02	1674.3	970.3	175.3	345.2	366.4	142.5	69.0	99.0	3842.1
2002-03	1055.1	582.8	138.1	184.9	219.6	85.4	47.7	67.2	2380.8
2003-04	846.7	455.5	142.4	86.6	156.3	51.6	29.1	42.3	1810.4

## Budget Balancing Assistance

### *The Guaranteed Minimum Amount*

Under the Intergovernmental Agreement, the Commonwealth has guaranteed that in each of the transitional years following the introduction of the GST, each State's budgetary position will be no worse off than had the reforms in the Agreement not been implemented. To meet this commitment the Commonwealth will provide transitional assistance by way of BBA. BBA will take the form of both one year interest free loans and grants to the States in 2000-01 and quarterly grants in subsequent years. BBA generally represents the difference between the guaranteed minimum amount (GMA) calculated for each jurisdiction and that jurisdiction's share of GST revenues.

The GMA calculates the amount of funding each State would have had available to it under the previous arrangements. The GMAs have been calculated according to the terms of the Intergovernmental Agreement and the *Methodology for Estimation of Components of the Guaranteed Minimum Amount* paper (GMA methodology paper).

Table 6 shows the latest estimates of the GMAs, GST revenue and BBA, which have been updated since they were discussed at the March Ministerial Council. The



estimates may be further revised to account for parameter or estimate changes between the Budget and the payment of BBA to the States on 4 July 2000. The final GMAs, and hence the final amount of BBA for each State in 2000-01, will be determined by the Treasurer by 10 June 2001.

**Table 6: Guaranteed Minimum Amount Components, GST Revenue Provision and Budget Balancing Assistance 2000-01 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
<b>Guaranteed minimum amount:</b>									
<b>State revenues forgone</b>									
Financial assistance grants	5214.3	3638.7	3421.6	1607.3	1789.4	817.9	373.7	1129.1	17992.1
Revenue replacement payments	2179.6	1459.1	1323.9	915.1	568.9	193.7	96.8	123.6	6860.7
Accommodation taxes	72.4	0.0	0.0	0.0	0.0	0.0	0.0	7.0	79.4
<b>plus Reduced revenues</b>									
Gambling taxes	470.0	358.2	168.1	55.3	67.0	17.7	16.4	10.4	1163.1
<b>plus Interest costs</b>									
Interest costs	3.3	7.5	11.7	2.3	4.0	2.2	1.2	3.0	35.2
<b>plus Additional expenditures</b>									
First Home Owners Scheme	218.5	194.0	137.1	119.5	54.1	14.8	16.5	7.7	762.2
GST administration costs	273.7	201.3	151.0	80.1	63.1	19.7	13.2	8.3	810.5
<b>plus Other items</b>									
WST payments	38.0	5.0	18.0	19.0	12.7	13.0	4.0	3.0	112.7
<b>minus Reduced expenditures</b>									
Off-road diesel subsidies	118.1	45.4	160.5	155.3	31.7	2.4	0.0	3.3	516.7
Savings from Tax Reform	147.3	100.4	83.6	50.1	36.4	12.2	8.5	12.5	451.0
<b>minus Growth dividend</b>									
Remaining State taxes	42.2	27.2	14.3	8.5	6.8	1.7	1.3	0.9	103.0
<b>Total guaranteed minimum amount (1)</b>	<b>8162.4</b>	<b>5690.8</b>	<b>4973.1</b>	<b>2584.7</b>	<b>2484.3</b>	<b>1062.7</b>	<b>511.9</b>	<b>1275.3</b>	<b>26745.1</b>
<b>GST revenue provision (2)</b>	<b>7180.3</b>	<b>5027.3</b>	<b>4604.1</b>	<b>2337.8</b>	<b>2247.7</b>	<b>971.9</b>	<b>470.6</b>	<b>1212.7</b>	<b>24052.6</b>
<b>Budget Balancing Assistance (1) - (2)</b>	<b>982.1</b>	<b>663.5</b>	<b>369.0</b>	<b>246.9</b>	<b>236.5</b>	<b>90.8</b>	<b>41.3</b>	<b>62.6</b>	<b>2692.6</b>
- Loan	674.3	412.6	114.1	159.6	161.8	65.1	22.4	45.7	1655.6
- Grant	307.8	250.9	254.9	87.3	74.7	25.6	18.9	16.8	1036.9

### ***Notional Financial Assistance Grants and the GMA***

A significant component of the GMA for each State is its notional Financial Assistance Grants (FAGs), or FAGs forgone. To facilitate the calculation of FAGs forgone, the Commonwealth Grants Commission (CGC) was directed in its *Report on General Revenue Grant Relativities 2000 Update* terms of reference to prepare a set of per capita relativities for calculating the distribution of a combined pool of FAGs and HCGs that would have resulted from a continuation of the Commonwealth-State financial arrangements that applied in 1999-2000. FAGs forgone are indexed using an estimated 2000-01 CPI adjusted to remove the estimated impact of indirect tax reform and in accordance with projections of the population as at 31 December each year.

Table 7 contains the relativities on which actual FAGs payments for the period 1995-96 to 1999-2000 are based, along with the FAGs forgone relativities for 2000-01.

**Table 7: Commonwealth Grants Commission FAGs Relativities, 1995-2000**

	1995 Update	1996 Update(a)	1997 Update	1998 Update(b)	1999 Report	2000 Update(c)
NSW	0.8743	0.87472	0.87819	0.87765	0.89948	0.89642
VIC	0.8506	0.87577	0.87835	0.88042	0.86184	0.85780
QLD	1.0435	1.04176	1.03737	1.02186	1.00687	1.01079
WA	1.0521	1.01409	0.99589	0.98252	0.94793	0.92399
SA	1.2047	1.18772	1.19100	1.22194	1.20680	1.23481
TAS	1.5437	1.54644	1.54974	1.55086	1.60905	1.62565
ACT	0.8916	0.88883	0.88435	0.95145	1.10270	1.14522
NT	5.0332	4.87829	4.89353	4.81869	4.84429	4.85767

- (a) The 1996 Update relativities as amended by the CGC's subsequent alternative calculation of 29 May 1996 relating to the treatment of Section 130 payments to Western Australia by deduction.
- (b) The 1998 Update 'equalisation' relativities.
- (c) The 2000 Update FAGs relativities are applied to the FAGs forgone pool in the GMA calculation.

### ***Budget Balancing Assistance Grants***

Only the grants component of the BBA is considered to be a part of general revenue assistance, as the interest free loans made to the States in 2000-01 are to be paid back to the Commonwealth in 2001-02.

- Under the terms of the original Intergovernmental Agreement it was proposed that BBA in 2000-01 would be comprised wholly of one year interest free loans. The grant component of the BBA in 2000-01 was introduced to finance the estimated net additional cost to the States arising from the changes to *A New Tax System* announced by the Prime Minister on 28 May 1999.
- As indicated in Table 6, the grants component of BBA is estimated to be over \$1.0 billion with the loans component estimated at over \$1.6 billion, bringing the total BBA for 2000-01 to just under \$2.7 billion.

From 2001-02, BBA will consist entirely of grants. Hence, all BBA will be classified as general revenue assistance from 2001-02 onwards.

Table 8 shows the estimated BBA from 2000-01 to 2003-04. The grants component of BBA is expected to peak in 2001-02 at \$3.1 billion (mainly reflecting the extra grants required in that year to facilitate the repayment of the loans made in 2000-01) before declining in subsequent years as the States' financial position continues to improve under the new arrangements.

**Table 8: Guaranteed Minimum Amount, GST Revenue Provision, Budget Balancing Assistance  
2000-01 to 2003-04 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
<b>2000-01</b>									
(1) Guaranteed minimum amount	<b>8162.4</b>	<b>5690.8</b>	<b>4973.1</b>	<b>2584.7</b>	<b>2484.3</b>	<b>1062.7</b>	<b>511.9</b>	<b>1275.3</b>	<b>26745.1</b>
(2) GST revenue provision	<b>7180.3</b>	<b>5027.3</b>	<b>4604.1</b>	<b>2337.8</b>	<b>2247.7</b>	<b>971.9</b>	<b>470.6</b>	<b>1212.7</b>	<b>24052.6</b>
(3) Budget Balancing Assistance (1)-(2)	<b>982.1</b>	<b>663.5</b>	<b>369.0</b>	<b>246.9</b>	<b>236.5</b>	<b>90.8</b>	<b>41.3</b>	<b>62.6</b>	<b>2692.6</b>
- <i>Loan</i>	<b>674.3</b>	<b>412.6</b>	<b>114.1</b>	<b>159.6</b>	<b>161.8</b>	<b>65.1</b>	<b>22.4</b>	<b>45.7</b>	<b>1655.6</b>
- <i>Grant</i>	<b>307.8</b>	<b>250.9</b>	<b>254.9</b>	<b>87.3</b>	<b>74.7</b>	<b>25.6</b>	<b>18.9</b>	<b>16.8</b>	<b>1036.9</b>
<b>2001-02</b>									
(1) Guaranteed minimum amount	10026.8	6791.5	5307.3	2949.6	2858.8	1194.6	601.7	1411.1	31141.5
(2) GST revenue provision	8594.1	5998.9	5266.0	2675.5	2547.8	1069.2	558.1	1319.5	28029.2
(3) Budget Balancing Assistance (1)-(2)	1432.7	792.6	41.3	274.2	311.0	125.3	43.6	91.6	3112.3
<b>2002-03</b>									
(1) Guaranteed minimum amount	9671.1	6580.4	5437.2	2878.8	2834.4	1180.9	610.2	1454.9	30647.8
(2) GST revenue provision	8863.3	6179.5	5505.4	2767.1	2671.2	1112.9	588.5	1395.3	29083.3
(3) Budget Balancing Assistance (1)-(2)(a)	807.8	400.9	0.0	111.7	163.2	68.0	21.6	59.6	1632.7
<b>2003-04</b>									
(1) Guaranteed minimum amount	9913.4	6773.2	5641.7	2908.7	2927.3	1214.1	629.4	1546.6	31554.4
(2) GST revenue provision	9319.8	6503.7	5868.2	2897.5	2828.5	1180.2	627.0	1512.2	30737.2
(3) Budget Balancing Assistance (1)-(2)(a)	593.5	269.5	0.0	11.1	98.9	33.9	2.4	34.4	1043.7

(a) A State receiving more GST revenue than its GMA from 2002-03 is entitled to retain the excess.

## National Competition Payments

At the April 1995 Council of Australian Governments meeting, the Commonwealth and the States concluded the *Agreement to Implement the National Competition Policy and Related Reforms*. Under the Agreement the States are eligible for three tranches of ongoing NCPs. The NCPs commenced in July 1997 at an annual level of \$200 million, and were scheduled to increase in July 1999 to \$400 million and in July 2001 to \$600 million, in 1994-95 prices. The Agreement specifies that the NCPs be paid quarterly and be distributed to the States on an equal per capita basis.

Each State's NCPs are subject to the State making satisfactory progress with the implementation of specified reform conditions in the Agreement. Prior to the scheduled payment of NCPs in 2000-01, the National Competition Council (NCC) will assess whether each State has met these conditions and provide a report for consideration by the Commonwealth.

Subject to satisfactory progress in the areas to be reviewed by the NCC, the Commonwealth will provide the States with NCPs estimated to total \$463.4 million in 2000-01. This represents an increase of some 5.4 per cent on the 1999-2000 payment (based on an estimated CPI unadjusted for the estimated impact of indirect tax reform). Table 9 shows the allocation of NCPs in 1999-2000 and 2000-01.

**Table 9: National Competition Payments, 1999-2000 and 2000-01 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
1999-00	148.6	109.2	81.5	43.2	34.5	10.8	7.2	4.5	439.5
<b>2000-01</b>	<b>156.5</b>	<b>115.1</b>	<b>86.4</b>	<b>45.8</b>	<b>36.1</b>	<b>11.3</b>	<b>7.5</b>	<b>4.7</b>	<b>463.4</b>

## Special Revenue Assistance

In 2000-01 SRA will comprise funding to the Australian Capital Territory in the form of transitional allowances and special fiscal needs. The level of these payments reflects the recommendations of the CGC in its *Report on General Revenue Grant Relativities 2000 Update*.

Transitional allowances are designed to assist with the Australian Capital Territory's transition to 'State-like' funding from the generous levels of Commonwealth funding that existed before self-government. In 2000-01, transitional allowances will amount to \$9.5 million, an increase of \$0.2 million. This amount recognises that the Australian Capital Territory continues to have limited policy control over the provision of police services by the Australian Federal Police. The increase reflects an expected increase in the CPI adjusted to remove the estimated impact of indirect tax reform.

Special fiscal needs are payments to the Australian Capital Territory in recognition that certain functions (for example, the Family Court) are not directly funded by the Commonwealth, in contrast to the funding arrangements in other States. In 2000-01, special fiscal needs will amount to \$4.0 million, an increase of \$0.1 million from 1999-2000. As with transitional allowances, the increase is due to an expected increase in the CPI adjusted to remove the impact of indirect tax reform.

## **GENERAL PURPOSE ASSISTANCE TO LOCAL GOVERNMENT**

General purpose assistance to local government has been provided by the Commonwealth since 1974-75. Under current arrangements, the Commonwealth provides general purpose assistance to local government in the form of local government financial assistance grants and local government untied road funding. This assistance is paid to the States as an SPP on the condition that the funds are passed on to local government.

General purpose assistance is provided to local government authorities under the *Local Government (Financial Assistance) Act 1995* (the Act). Under the Act, the Treasurer is responsible for determining the annual increase in Commonwealth general purpose assistance paid to local government. The Act currently provides for general purpose assistance to be increased each year by an escalation factor that reflects the underlying movement in general revenue assistance provided to the States. The escalation factor reflects the percentage increase in the States' FAGs pool in the current year, which in turn reflects indexation for population growth and the CPI.

The Commonwealth will provide a payment of \$1,264.5 million in local government general purpose assistance in 1999-2000. These payments have been based upon the estimated escalation factor of 1.0295 per cent and take into account an overpayment of \$5.0 million in 1998-99. In June 2000, the Treasurer will determine the 1999-2000 final escalation factor on the basis of the actual FAGs payments made to the States in 1999-2000.

General purpose assistance to local government is estimated to be \$1,323.9 million in 2000-01 (after allowing for an estimated underpayment of \$1.7 million in 1999-2000). In 2000-01, general purpose assistance to local government will utilise an escalation factor based on estimates of population growth and CPI increases excluding the estimated impact of the indirect tax reform measures in *The New Tax System*. This is consistent with the decision that the ongoing CPI estimate (excluding the estimated impact of indirect tax reform) will be used for indexation purposes for most Commonwealth expenses, including SPPs. Since government agencies, including local governments, are able to claim input tax credits they effectively will not pay GST on their purchases and there is no need to increase funding by the GST factor in the CPI to maintain buying power. CPI measures price rises to consumers (who cannot claim input credits) but not the price rise for those who can. Local government's real price rise should be discounted by the GST effect. Nonetheless, they will still get additional savings from the removal of embedded sales taxes. The final escalation factor for 2000-01, to be determined by the Treasurer in June 2001, is presently estimated to be 1.04.

Table 10 sets out the payments of general purpose assistance to local government in 1999-2000 and 2000-01.

As in the past, the interstate distribution of local government FAGs for 2000-01 will be on an equal per capita basis, using the State populations at 31 December in the previous financial year. Untied local government road funding is to be distributed between the States on the basis of the criteria established under the *Australian Land Transport Development Act 1988*. In both cases, State Grants Commissions determine the intrastate distribution of these payments to local governments on the basis of fiscal equalisation.



**Table 10: General Purpose Assistance for Local Government, 1999-2000 and 2000-01 (estimated)**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
<b>1999-00</b>									
Financial assistance grants	296.3	217.9	161.6	85.9	69.2	21.9	14.3	8.8	875.9
Identified road grants	112.8	80.1	72.8	59.4	21.4	20.6	12.5	9.1	388.7
Total general purpose assistance(a)	409.1	298.0	234.5	145.3	90.6	42.5	26.7	17.9	1264.5
<b>2000-01</b>									
<b>Financial assistance grants</b>	<b>309.9</b>	<b>228.0</b>	<b>170.0</b>	<b>90.2</b>	<b>72.0</b>	<b>22.7</b>	<b>14.9</b>	<b>9.3</b>	<b>917.0</b>
<b>Identified road grants</b>	<b>118.1</b>	<b>83.9</b>	<b>76.2</b>	<b>62.2</b>	<b>22.4</b>	<b>21.6</b>	<b>13.0</b>	<b>9.5</b>	<b>406.9</b>
<b>Total general purpose assistance(a)</b>	<b>427.9</b>	<b>311.9</b>	<b>246.3</b>	<b>152.5</b>	<b>94.3</b>	<b>44.2</b>	<b>28.0</b>	<b>18.8</b>	<b>1323.9</b>

(a) Total general purpose assistance is the actual cash payment that the State receives on behalf of local government. It is equal to the estimated entitlement for a given year adjusted for an over or under payment from the previous year.

## SPECIFIC PURPOSE PAYMENTS

### Nature and Purpose

SPPs are payments for policy purposes that relate to particular functional activities (for example, health and education). SPPs are made under Section 96 of the Constitution, which states that the Parliament may grant financial assistance to any State on such terms as it sees fit.

SPPs can be classified into three groups:

- SPPs paid **'to'** the States — payments direct to State governments, representing around 75 per cent of total SPPs;
- SPPs **'through'** the States — payments to State governments to be passed on to local government, other bodies and individuals, representing around 24 per cent of total SPPs. The main payments in this category relate to non-government schools and local government general purpose assistance; and
- SPPs made **direct** to local government, representing around 1 per cent of total SPPs. The main payments in this category relate to child care programmes administered by local governments on behalf of the Commonwealth and funding for aged and disabled persons' homes and hostels.

Indexation arrangements and the distribution of SPPs among States vary for each SPP. In most cases SPPs are subject to conditions reflecting Commonwealth policy objectives or national policy objectives agreed to between the Commonwealth and the States. It is because of the conditions attached to SPPs that they are sometimes called 'tied grants'. Such conditions may include:

- general policy requirements on States (for example, that the States provide free public hospital treatment to Medicare patients as a condition of receiving health care grants);
- a requirement that a payment be expended for a specific purpose (for example, housing assistance for homeless people);
- meeting broad Commonwealth-State agreements covering principles and programme delivery mechanisms (for example, the Commonwealth-State Housing Agreement); and
- conditions of joint expenditure programmes including project approval, matching funding arrangements and performance information.

SPPs also include some payments that are not subject to conditions. These typically relate to revenue sharing arrangements or compensation (either for the transfer of responsibilities or for other Commonwealth action). For example, compensation

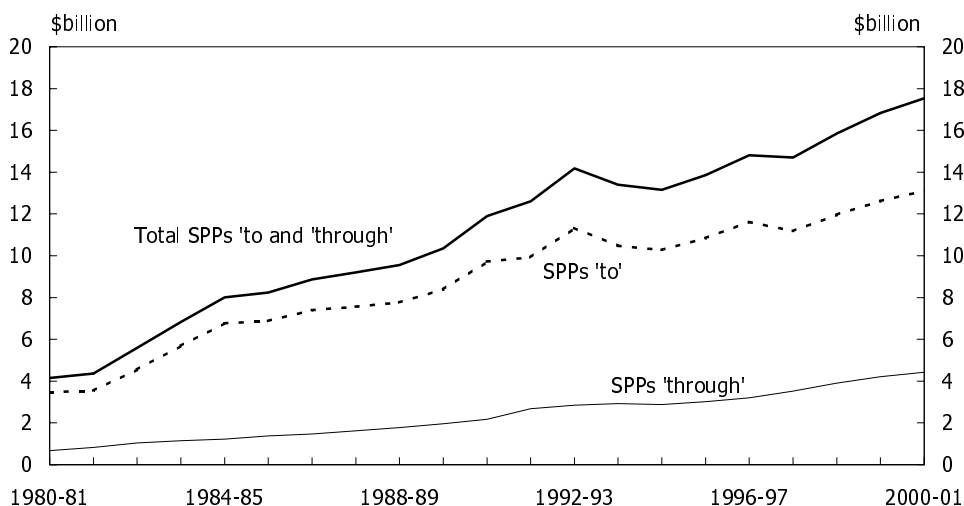
payments are made to the States for revenue forgone as a result of the national system of companies and securities regulation.

SPPs are estimated to total around \$18.5 billion in 2000-01. This is an increase of \$627.4 million or 3.5 per cent on 1999-2000 (after removing the \$0.6 million cost of the Gun Buyback Scheme in 1999-2000 and the \$81.8 million and \$64.0 million cost of the Natural Disaster Relief Programme in 1999-2000 and 2000-01 respectively). SPPs 'to' the States are expected to increase by around \$435.9 million in 2000-01 or 3.3 per cent after abstracting from SPPs associated with the Gun Buyback Scheme and Natural Disaster Relief.

SPPs are reviewed every year in the Budget context. Measures in the 2000-01 Budget have increased SPPs to the States by \$86.6 million in 2000-01 and by \$274.7 million over the forward estimates period.

Chart 2 shows the trend in the level of SPPs from 1980-81 to 2000-01. This chart contains adjustments for a number of classification changes and large one-off factors so as to allow comparisons on a consistent basis.

**Chart 2: Specific Purpose Payments, 1980-81 to 2000-01<sup>(a)</sup>**



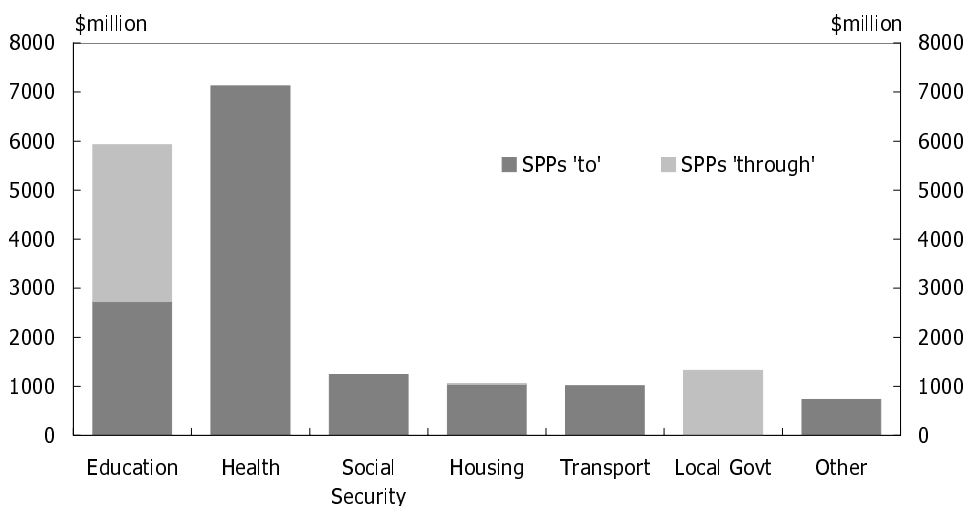
(a) Incorporates the reclassification of funding under higher education from SPPs through the States to grants to the multi-jurisdictional sector. Chart 2 also contains adjustments for reclassifications such as: payments to the States under the *Vocational Education and Training Funding Act 1992*; the transfer in 1989-90 of nominated housing advances into Commonwealth-State Housing Agreement grants; and significant changes in the structure of Commonwealth hospital funding (such as the 1988 decision to combine States' Medicare compensation grants (introduced in 1984) and identified health grants into a single new SPP). Adjustments have been made to the level of general purpose payments to account for Commonwealth policy decisions that transferred some taxing powers to the States.

The Commonwealth will continue to provide SPPs to the States and has no intention of cutting aggregate SPPs as part of the reform process set out in the Intergovernmental

Agreement, consistent with the objective of the State Governments being financially better off under the new arrangements.

Chart 3 illustrates the composition of major SPPs ('to' and 'through' the States) in 2000-01. More detailed information on SPPs including estimated State splits for 1999-2000 and 2000-01 and data on repayments of advances, advances and interest payments are contained in Appendix B.

**Chart 3: Composition of Estimated Specific Purpose Payments 'To' and 'Through' the States, 2000-01**



## HORIZONTAL FISCAL EQUALISATION

The distribution of GST revenue to the States is to be on the basis of horizontal fiscal equalisation (HFE) principles which are embodied in the per capita relativities recommended by the Commonwealth Grants Commission (CGC)<sup>1</sup>. The objective of HFE is to improve equity for all Australian residents.

In its assessments, the CGC uses a complex methodology that takes account of differences in the per capita capacities of the States to raise revenue and differences in the per capita amounts required to be spent by the States in providing an average

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1 The Commonwealth's transitional guarantee to the States provides for some departure from pure HFE principles in the distribution of GST revenues in 2000-01 and 2001-02. For these years, any State receiving more GST revenue than its GMA will be required to return the surplus to the general GST pool for distribution amongst the rest of the States in deficit. Current estimates suggest that no State will receive more GST revenue than its GMA in these years.

standard of government services. A State's actual per capita expenditure or revenue generally differs from the average of all States for two reasons:

- influences that are beyond a State's control affect the cost at which it can provide services and its capacity for raising revenue; and
- a State's policies, practices and operating efficiency differ from those of other States.

HFE requires that only those factors beyond a State's control be taken into account in determining a State's relative needs and hence the distribution of FAGs and GST revenue. The CGC's recommendations seek to ensure that each State has the capacity to provide the average standard of State-type public services if it makes the same effort to raise revenue as the States on average and operates at an average level of efficiency.

Since 1990-91, the CGC's assessments have been based on data for the five financial years preceding the year in which the assessment is made. Accordingly, the assessment period for the per capita relativities to be applied in 2000-01 spans the years 1994-95 to 1998-99.

By international standards, the extent of HFE in Australia is pronounced and the methodology is complex. The complexity of the CGC's processes has arisen in response to the requirements of the States and the Commonwealth over time for a comprehensive and rigorous approach to HFE. For its part, the CGC has sought to maximise the transparency of its methodology and to provide the opportunity for input and comment by the States and the Commonwealth.

Further information on HFE is provided in the CGC's *Report on General Revenue Grant Relativities 2000 Update*.

## Commonwealth Grants Commission

The CGC is an independent statutory authority established by the *Commonwealth Grants Commission Act 1973*. It makes recommendations concerning the distribution of FAGs and GST revenue to the States in response to terms of reference provided to it each year by the Commonwealth Government.

The Commonwealth's practice is to consult with the States concerning the CGC's terms of reference with a view to reinforcing the CGC's position as an independent arbiter in relation to HFE. The terms of reference define the general approach to be followed by the CGC as well as any specific conditions or limitations on the extent to which fiscal equalisation is to apply.

The CGC produces both annual updates and five-yearly reviews. Updates essentially revise the data upon which the CGC's assessments are based. The longer term reviews encompass changes to the CGC's methodology. The results of the next review are scheduled to be released in early 2004.

## Effects of Horizontal Fiscal Equalisation

The CGC's *Report on General Revenue Grant Relativities 2000 Update* takes into account for the first time the reforms to Commonwealth-State financial relations in the form of GST relativities. In general, the GST relativities differ from the FAGs relativities due to:

- a larger GST revenue pool compared with the FAGs pool;
- the removal of revenue replacement payments for alcohol, petroleum and tobacco products and the reduction of State gambling taxes; and
- the funding and administration of a First Home Owners Scheme by the States.

These differences mean that GST relativities and FAGs relativities are not comparable.

Table 11 shows the per capita relativities to be used in distributing the combined pool of GST revenue grants and HCGs in 2000-01.

**Table 11: Commonwealth Grants Commission GST Relativities 2000 Update**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2000-01	0.90913	0.87049	1.01830	0.98365	1.18258	1.51091	1.11289	4.16385

The distribution of the pool of GST revenue and HCGs in accordance with the CGC's relativities means that New South Wales, Victoria and Western Australia receive less than an equal per capita share of the pool, and the other States (particularly the Northern Territory and Tasmania) receive more. This reflects the CGC's assessment

that the 'donor' States have greater relative revenue capacities and/or less significant expenditure disabilities than the other States.

Table 12 shows the pool of GST revenue grants and HCGs received by each State under HFE relative to the amount that they would receive on the basis of an equal per capita distribution. The table shows that in 2000-01, around \$1,933 million (or just over 6.4 per cent) of the GST revenue grants/HCGs pool is to be redistributed among the States as a result of the application of the CGC's relativities, compared with an equal per capita distribution.

**Table 12: Impact of Horizontal Fiscal Equalisation on the Distribution of the Pool of GST Revenues and Health Care Grants in 2000-01<sup>(a)</sup>**

	Distribution Using CGC Relativities		Distribution on an Equal Per Capita Basis(b)		Difference in Distribution
	(1) \$m	Per cent	(2) \$m	Per cent	(1)-(2) (3) \$m
NSW	9229.2	30.7	10149	33.8	-920
VIC	6499.3	21.6	7464	24.8	-965
QLD	5703.3	19.0	5599	18.6	104
WA	2920.1	9.7	2968	9.9	-48
SA	2768.0	9.2	2340	7.8	428
TAS	1104.0	3.7	730	2.4	373
ACT	544.7	1.8	489	1.6	55
NT	1279.0	4.3	307	1.0	972
<b>Total</b>	<b>30048</b>		<b>30048</b>		<b>0</b>

(a) The pool consists of \$23,955.6 million in GST revenue (excluding the GST growth dividend of \$97 million) and \$6,092.1 million in HCGs (see Table 4 in this chapter).

(b) Based on ABS population projections — see Table 1 in Preface.

The estimated State distribution of the GST pool on a per capita basis for 2000-01 is shown in Chart 4. New South Wales and Victoria receive less than the average per capita payments while Western Australia receives just below the average. The Northern Territory receives almost five times the national average and Tasmania, South Australia and the Australian Capital Territory also benefit from above average per capita payments. Queensland receives just above the average level of per capita payments.

**Chart 4: Per Capita Payment of GST under Horizontal Fiscal Equalisation 2000-01 (estimated)**

