6.2 DEVELOPMENTS IN COMMONWEALTH-STATE FINANCIAL RELATIONS

Introduction

This chapter outlines developments in the ACT's financial relations with the Commonwealth, States and the Northern Territory that occurred in 2000-01. The likely flow-on effects into 2001-02 and possible developments in the out years have also been identified, building on the outlook foreshadowed in the 2001-02 ACT Budget consultation process.

The environment of Commonwealth-State financial relations changed dramatically in 2000-01 with the introduction of the Goods and Services Tax (GST). Ongoing implementation will continue into 2001-02, with all of the GST revenue passed to the States and Territories [1]

These new arrangements are conditional on the States further extending the abolition of own source taxes, such as Financial Institutions Duty (FID) and stamp duty on listed marketable securities (from 1 July 2001) while undertaking additional expenditure responsibilities such as the First Home Owners Scheme.

The principles and methods underpinning the ACT's share of the GST revenue are also highlighted in this chapter.

Overview

Overall, the ACT's immediate and longer-term outlook for increases in Commonwealth assistance, continues to be favourable. The projections for 2001-02 foreshadowed in the 2001-02 ACT Budget consultation process were subsequently confirmed at the second meeting of the Ministerial Council for Commonwealth-State Financial Relations, now more commonly referred to as the Treasurers' Conference.

Commonwealth funding accounts for approximately 46.7% of the ACT's General Government Sector revenues. This stream of funding is unlikely to deteriorate given the continued adoption of the Commonwealth Grants Commission's (the Commission) 1999 Review methodology for the next two years, with the ACT expected to receive above an equal per capita share of GST revenues. This positive outlook can be expected to continue while the ACT's economic growth remains generally in line with the national rate.

Importantly, on current modelling, the ACT also stands to benefit much earlier from the implementation of tax reform than most other jurisdictions. This enhances the prospects of future governments' capacity to deliver public services in the Territory, removing other taxes, or investing more heavily in the unfunded superannuation liability or in the Territory's assets.

(1) The term 'States' refers to the States and Territories unless otherwise indicated.

Of some concern for the ACT's future financial stability, however, is the criticism by the larger States that was directed at the ACT, both in the lead up to, and during, the 2001 Treasurers' Conference. The criticism was levelled at the increased gains the Territory achieved through the application of fiscal equalisation principles used to distribute the GST collections among the States.

Major Developments in 2000-01

The 2000-01 financial year was another successful year for Commonwealth-ACT financial relations, with the Territory achieving increased grant funding from the Commonwealth with projected major flow-on effects expected for the outyears. The gains arose from:

- an increase in the ACT's share of the 2001-02 GST pool arising from the recommendations of the Commission in its Report on State Revenue Sharing relativities 2001 update;
- the Commonwealth meeting its commitment that no State's financial position would be worse off as a result of the changes arising from National Tax Reform with the introduction of the GST as stipulated in the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA); and
- the Commonwealth meeting its commitment that Specific Purpose Payment (SPP) funding aggregates would be maintained at pre-GST levels, again, as required by the IGA.

These factors translate into a gross increase in total Commonwealth funding to the ACT of approximately **+$92.9m or 10.8%** from 2000-01 to 2001-02. However, when the effects of other tax reform measures are taken into account, such as the abolition of a number of State taxes, the net increase in total Commonwealth funding is approximately **+$55.5 million or 7.7%** in nominal terms.

These outcomes and the reasons behind the increases are discussed in more detail throughout this chapter. Also included is a commentary and statement of defence concerning the application of the principles of fiscal equalisation and the ACT's share of funding.

Commonwealth Funding to the ACT - 2000-01 to 2004-05

Table 6.2.1 summarises the expected level of Commonwealth funding to the ACT in 2000-01, 2001-02 and the forward years arising from the outcome of the 2001 Treasurers' Conference.

A detailed description and explanation of variances, together with an examination of the concepts and arrangements underpinning **Table 6.2.1** for each of the components, is described in the paragraphs following the table.

Table 6.2.1
Commonwealth Funding to the ACT, including the GST

	Payment	2000-01 Est. Out. $m	2001-02 Budget $m	Var $m	Var %	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
	Financial Assistance Grants [2]	*-369.8*	*-401.3*	*31.5*	*8.5*	*-416.2*	*-425.0*	*-430.1*
	GST Revenue Grants	506.1	555.3	49.2	9.7	578.3	605.7	630.1
	Sub Total [3]	506.1	555.3	49.2	9.7	578.3	605.7	630.1
Plus	**Budget Balancing Assistance** [4]	8.9	28.8	19.9	223.6	26.7	8.1	0.0
Equals	**Guaranteed Minimum Amount** [5]	**515.0**	**584.1**	**69.1**	**13.4**	**605.0**	**613.9**	**630.1**
Plus	**Transitional Allowances:**							
	Police [6]	9.5	0.0	-9.5	-100.0	0.0	0.0	0.0
	Net Transitional Allowances	9.5	0.0	-9.5	-100.0	0.0	0.0	0.0
Plus	**Special Fiscal Needs:**							
	Family law matters	0.2	0.2	0.0	0.0	0.2	0.2	0.2
	Corporate affairs compensation	3.8	3.9	0.1	2.6	3.9	3.9	3.9
	Police [6]	0.0	10.1	10.1	n/a	10.1	10.1	10.1
	Net Special Fiscal Needs	4.0	14.2	10.2	255.0	14.2	14.2	14.2
Plus	**National Competition Payments**	7.5	11.5	4.0	53.3	11.9	12.2	12.5
	Total General Revenue Assistance	**536.0**	**609.8**	**73.8**	**13.8**	**631.1**	**640.3**	**656.7**
Plus	**Specific Purpose Payments:**							
	Health (includes HCGs)	92.6	97.9	5.3	5.7	103.4	105.0	105.1
	Social Security and Welfare	17.3	19.3	2.0	11.5	20.0	20.7	21.4
	Education	95.4	98.8	3.4	3.6	102.4	105.9	109.7
	Public Order and Safety	3.0	3.1	0.0	1.1	3.1	3.1	3.2
	Housing	25.0	24.8	-0.2	-0.8	24.6	18.7	18.7
	Local Govt	48.5	49.7	1.2	2.5	50.9	52.2	53.4
	Other	18.0	28.7	10.7	59.4	18.3	16.5	14.6
	Total Specific Purpose Payments	**299.8**	**322.2**	**22.5**	**7.5**	**322.7**	**322.1**	**325.7**
Plus	**Other Commonwealth Payments**							
	Vocational Education and Training	18.7	15.8	-3.0	-16.0	17.1	17.1	17.1
	Other	7.0	6.7	-0.4	-5.4	6.5	6.3	6.3
	Total Other Commonwealth Payments	**25.8**	**22.4**	**-3.4**	**-13.1**	**23.6**	**23.4**	**23.4**
	Total Gross Commonwealth Funding	**861.6**	**954.4**	**92.9**	**10.8**	**977.5**	**985.7**	**1005.8**
less	State Budget Impacts	145.3	182.7	37.4	25.7	188.9	188.8	193.5
	Total Net Commonwealth Funding	**716.3**	**771.7**	**55.5**	**7.7**	**788.6**	**796.9**	**812.3**

Note: Totals may not add due to rounding.

(2) Although FAGs were replaced by GST Revenue Grants on 1July 2000, notional estimates of FAGs forgone are included to reflect the funding that the ACT would be expected to receive if tax reform had not been implemented.
(3) The sub total estimate relates to GST Revenue Grants only.
(4) Additional payments made by the Commonwealth to the ACT to allow the Territory to be no worse off due to the effects of national tax reform.
(5) The GMA represents the ACT's pre tax reform financial position. In 2004-05, as the Territory's GST revenues ($630.1m) are higher than its GMA, the Territory received the GST revenues and its GMA is no longer relevant.
(6) The status of police assistance has changed from a transitional allowance to a special fiscal need reflecting the fact that these police costs are now considered to be a permanent part of the ACT's cost structure. As such, transitional allowances for policing have been transferred to the special fiscal needs component.

Financial Assistance Grants (FAGs)

The major change in Commonwealth funding to the States arising from the reform of the taxation system is that FAGs were replaced by GST Revenue Grants as the major component of Commonwealth grants from 1 July 2000.

However, a notional FAGs distribution will continue to be derived as part of the calculation of the Guaranteed Minimum Amount (GMA) which is designed to ensure that the ACT's financial position will be no worse than it would have been had the arrangements for tax reform not been implemented. The derivation of the ACT's GMA is outlined in general terms in the discussion of the ACT's Budget Balancing Assistance.

The Commission is required to recommend annual FAGs relativities[7] to determine what the distribution of FAGs would have been to each State had the taxation reforms not taken place. To achieve this, from the 2000 Update onwards, the FAGs relativities calculated by the Commission are required to reflect pre-GST arrangements.

Once derived, the FAGs relativities are applied to a notional FAGs pool estimated annually by the Commonwealth Treasury using revised population and CPI parameters.

The Commission's 2001 Update Report, which was subsequently endorsed at the 2001 Treasurers' Conference, recommended an increase in the ACT's FAGs relativity from **1.14522 in 2000-01** to **1.19118 in 2001-02** (ie 14.5% and 19.1% above an equal per capita share of funding respectively). This resulted in a notional increase in FAGs between 2000-01 and 2001-02 of $31.5m or 8.5%.

GST Revenue Grants

In accordance with the IGA, GST revenues are divided amongst the States in line with Horizontal Fiscal Equalisation (HFE) principles. That is, the GST revenue will continue to be distributed using the Commission's recommendations of per capita relativities which ensure that each State is able to provide an average level of government services to its residents.

The GST relativities used to distribute GST revenue grants are required to take account of the new arrangements flowing from tax reform. For the first and second year of the reform process, the Commission has reflected, in its calculation of the 2000 and 2001 Update relativities, the changed arrangements highlighted in **Table 6.2.2**.

(7) A relativity is a numerical expression of a State or Territory's disability relative to the Australian average and indicates whether a State will receive above or below an equal per capita share of either the GST or notional FAGs funding pools.

Table 6.2.2
State Taxes and Expenditures Affected by the IGA - 2000-01 and 2001-02

Revenues Forgone by the States	***Additional Costs incurred by the States***
• Financial Assistance Grants	• Interest Costs
• Revenue Replacement Payments	
• Accommodation Taxes (Bed Taxes)	***Additional Expenditures of the States***
• WST Payments by GBEs	• First Home Owners Scheme
	• GST Administration Costs
State taxes abolished from 1 July 2001	
• Financial Institutions Duty	***Reduced Revenues to the States***
• Stamp Duty on Marketable Securities – listed shares	• Gambling Taxes
Reduced expenditures by the States	***Increased Revenues to the States***
• Off-Road Diesel Subsidies	• Growth Dividend
• Savings from Indirect Tax Reform	

The Commonwealth Treasury provided revenue and cost estimates for the above components to the Commission based on a set of principles agreed by Heads of Treasuries (HoTs). The details underpinning the principles are provided at the end of the chapter.

The Commission's 2001 Update recommended that the ACT's GST relativity increase from **1.11289 in 2000-01** to **1.14778 in 2001-02** which provides for an above per capita distribution to the Territory. When applied to the GST funding pool, the ACT is expected to receive GST revenue totalling **$555.3m in 2001-02** or some **$49.2m or 9.7% above 2000-01**.

The reasons for the increases in both the 2001-02 GST relativity and 2001-02 FAGs relativity are discussed in more detail under the *Summary of the Commission's Report on State Revenue Sharing Relativities 2001 Update* section of this chapter.

Guaranteed Minimum Amount/Budget Balancing Assistance

HoTs agreed to a set of estimates which reflect each State's financial position in the absence of the reforms to the taxation system being implemented. This notional pre tax reform position is called the Guaranteed Minimum Amount (GMA) and equates to the amount of funding that each State must receive from the Commonwealth to restore its previous financial position if required.

The calculation of the GMA incorporates the revenues forgone, including FAGs and the State taxes earmarked for abolition, plus the additional costs that are imposed on States such as the administration of the GST and the First Home Owners Scheme.

The derivation of the ACT's GMAs for 2000-01 and 2001-02 is outlined in **Table 6.2.3**.

Table 6.2.3
Calculation of the ACT's Guaranteed Minimum Amounts - 2000-01 and 2001-02

	2000-01 $m	2001-02 $m	Var $m	Var %
State Revenue Forgone				
- Financial Assistance Grants	369.8	401.3	31.5	8.5
- Revenue Replacement Payments	95.0	104.8	9.8	10.3
- Financial Institutions Duty	0.0	17.4	17.4	n/a
- Marketable Securities Duty	0.0	21.6	21.6	n/a
- Marketable Securities Duty needs	0.0	-4.2	-4.2	n/a
***plus* Reduced Revenues**				
- Gambling Taxes	17.8	19.8	2.0	11.2
***plus* Interest Costs**				
- Interest Costs	1.2	0.4	-0.8	-66.7
***plus* Additional Expenditures**				
- First Home Owners' Scheme	21.0	21.4	0.4	1.9
- GST Administration Costs	16.1	8.3	-7.8	-48.4
***plus* Other Items**				
- WST Payments	4.0	4.0	0.0	0.0
***minus* Reduced Expenditures**				
- Savings from Indirect Tax Reform	8.5	9.0	0.5	5.9
***minus* Growth Dividend**				
- Remaining State Taxes	1.3	1.8	0.5	38.5
ACT's Guaranteed Minimum Amount	**515.0**	**584.1**	**69.1**	**13.4**

Because the ACT's entitlement to GST revenue in 2001-02 falls short of the Territory's GMA, as it did in 2000-01, the Commonwealth will provide 'top up' funding to the Territory to allow its financial position to reach this guaranteed amount. This top up amount is known as Budget Balancing Assistance (BBA).

Originally it was expected that BBA would be provided to the States in 2000-01 in the form of an interest free loan and a grant. However, following the $2.25b increase in the size of the 2000-01 GST pool outlined in the Commonwealth's November 2000 Mid-Year Economic and Fiscal Outlook (MYEFO), the 2000-01 loan component is no longer required.

The ACT's BBA entitlement for 2001-02 is **$28.8m** which represents an increase over 2000-01 of **$19.9m** as illustrated below in **Table 6.2.4.**

Table 6.2.4
Calculation of the ACT's Budget Balancing Assistance for 2000-01 and 2001-02

		2000-01 $m	2001-02 $m	Var $m	Var %
	ACT's Guaranteed Minimum Amount	515.0	584.1	69.1	13.4
Minus	GST Revenue	506.1	555.3	49.2	9.7
	Total ACT Budget Balancing Assistance	**8.9**	**28.8**	**19.9**	**223.6**

The variation between the two years arises primarily from the increased top up funding required by the States due to the abolition of FID and stamp duty on marketable securities from 1 July 2001 coupled with an increase in the ACT's notional FAGs.

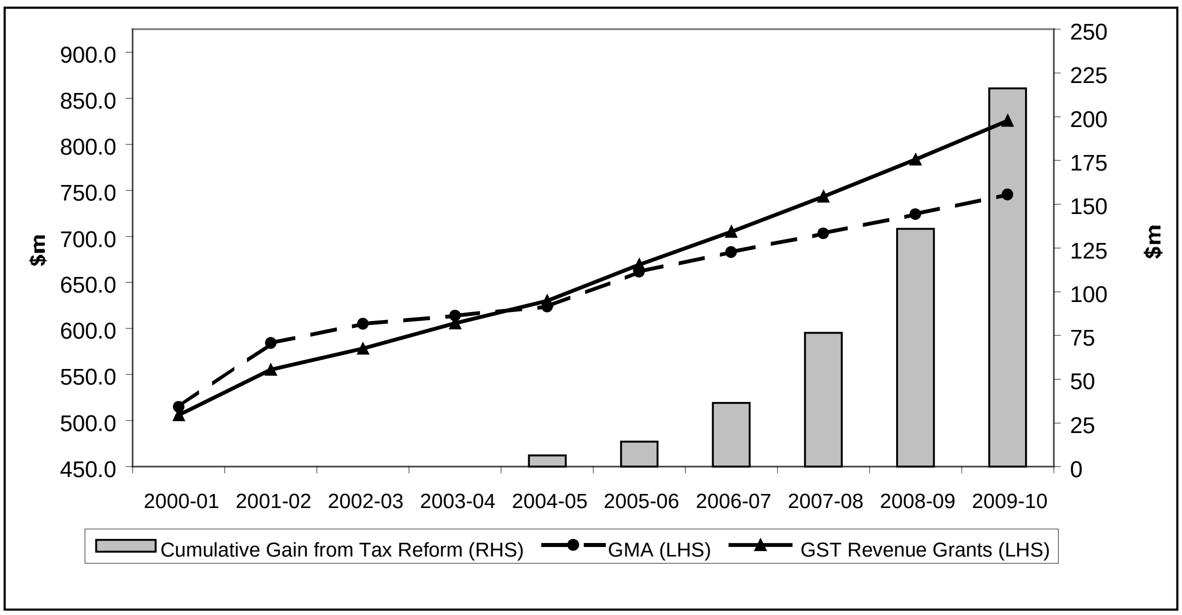
From 2002-03, any State which receives more than it would have received under the pre tax reform arrangements will retain that funding. The ACT is one of the States to benefit earliest from the new tax arrangements and, on current estimates, will be better off by approximately **$6.4m** in 2004-05 (the first year that the ACT gains from the new arrangements).

The ACT benefits from the new taxation arrangements sooner than many other jurisdictions because of a number of factors. One is that the ACT is assessed by the Commission as having a higher than average revenue raising capacity (a lower requirement for financial assistance) in the majority of the State taxes due to be abolished or wound back and once these State taxes are removed the ACT's share of financial assistance increases.

Another factor is that the ACT's severity and breadth of taxation for the majority of the forgone taxes is below the national average. In other words, the ACT has not relied as heavily as most other States on revenue raised from these taxes and will thus not be affected financially to the same degree when these taxes are abolished.

The following chart highlights the impact of tax reform on the ACT's finances.

Figure 6.2.1
Estimated Impact of Tax Reform on the ACT



The above chart illustrates that between 2000-01 to 2003-04, the ACT's GST revenues are lower than its GMA (left hand scale). During this period the Commonwealth has undertaken to make up the difference thereby ensuring that the ACT is not financially disadvantaged.

By 2004-05, however, the ACT's GST revenue grants are higher than its GMA, with the difference being the financial gains to the Territory. The graph shows the favourable gap growing significantly between 2004-05 to 2009-10. The bar chart (right hand scale), shows the cumulative magnitude of the gains. By 2009-10, the accumulated gains to the ACT are estimated to total approximately $216.3m. This surplus arises because the GST represents a growing source of revenue to the Territory.

The following table shows the estimated yearly and total impact of tax reform on the ACT from 2000-01 to 2009-10. The estimates are, however, broadly indicative and subject to further revision.

Table 6.2.5
Estimated Impact of Tax Reform on the ACT

	$m
2000-01	0.0
2001-02	0.0
2002-03	0.0
2003-04	0.0
2004-05	6.4
2005-06	7.8
2006-07	22.2
2007-08	40.1
2008-09	59.4
2009-10	80.3
TOTAL	**216.3**

These above figures are derived from the funding estimates endorsed at the Treasurers' Conference which are predicated on the *National Tax Reform – State by State Impact Tables* (Version 26) prepared by the SA Treasury on behalf of all States using an agreed methodology.

Essentially, the SA modelling forecasts the impact of tax reform on each of the States from 2000-01 to 2009-10 based on:

- agreed estimates of the revenues forgone and additional expenditures faced by States due to tax reform, indexed into the outyears;
- the GST revenue pools for 2000-01 to 2003-04 as published in the Commonwealth's 2000-01 MYEFO and Federal Budget which are then indexed by an annual growth rate of 6.0% as outlined in the original *A New Tax System (ANTS)* package; and
- each State's financial needs, as recommended in the Commission's 2001 Update, extrapolated into the outyears by indexing the 2001 Update needs by the growth in the GST and/or FAGs funding pools.

Special Fiscal Needs

In its 2001 Update Report, the Commission also recommended funding to the ACT for special fiscal needs, which the Commonwealth provides in addition to the GST revenue pool. This funding takes account of differences in financial arrangements between the Commonwealth and the ACT and the Commonwealth and the States for a number of services including the family law matters and corporate affairs compensation.

The Commission also accepted the ACT's argument that under the new policing services agreement, signed on 15 March 2000 between the ACT and the Commonwealth, it has no policy influence over the terms and conditions of employment of the Australian Federal Police.

These additional costs now form a permanent part of the ACT's cost structure and are not of a transitional nature. As such, the compensation for these additional outlays is now 'locked in' for the Territory.

Special fiscal needs will rise by **$10.2m** in 2001-02 mainly reflecting the change in the status of the police assistance (this is partially offset by a reduction in transitional allowance).

National Competition Payments

The Commonwealth is expected to provide National Competition Policy Payments to the States in 2001-02, as specified in the *Agreement to Implement the National Competition Policy and Related Reforms*. These payments are to be paid in three tranches, with the first tranche payments commencing in July 1997. The tranche payments to the States are $200m per annum from 1997-98 (first tranche), $400m per annum from 1999-2000 (second tranche) and $600m per annum from 2001-02 to 2005-06 (third tranche). The expected funding is escalated annually to account for inflation and distributed amongst the States on a population share basis.

In 2001-02 the Commonwealth is expected to pay the ACT $11.5m, however, each jurisdiction's final receipt of its per capita share of Competition Payments will be determined once the National Competition Council has released its assessment of progress under the Agreement.

Specific Purpose Payments (SPPs)

Negotiations for a number of SPP agreements were progressed in 2000-01, however, while no major negotiations were concluded, a number of smaller programs were finalised.

Other SPP developments during the course of the year include:

- a further examination of the Commonwealth-ACT funding responsibilities under the Home and Community Care Program;
- early consideration of the next Commonwealth-State Disability Agreement due for re-negotiation with the Commonwealth in 2002;
- finalisation of the Federal Government's 'Roads to Recovery Program' with the ACT's total allocation for the life of the four-year Program set at $20m;
- progression of negotiations regarding Government Primary and Secondary schools funding under the *Financial Assistance under States Grants (Primary and Secondary Assistance) Act 2000* for the January 2001calendar year; and
- finalisation of the Natural Disaster Risk Management Studies program 2001-02 under the auspices of the Natural Disaster Relief Arrangements.

Moreover, State Treasuries, in conjunction with the Federal Treasury and Department of Finance and Administrations, made some notable progress regarding the future reform of tied grant funding arrangements between the Commonwealth and the States. The push for reform is on two fronts, seeking the Commonwealth to:

- improve the quality and timeliness of SPP data; and
- reform SPP conditions and restrictions.

In keeping with the reform agenda, HoTs agreed at their meeting on 25 February 2000 to:

- develop an SPP database to enhance SPP data – a necessary first step in better SPP management;
- identify 'best practice' principles and guidelines for effective SPP agreements; and
- promote the use of outcome measures rather than input controls, through a pilot project based on a particular SPP.

Each of these reforms are now considered in more detail.

Concerning the SPP database, the first run was compiled by the Commonwealth and distributed to the States in February 2001. The database is currently under examination by the States.

Importantly, the database served as the basis for the States' monitoring of the Commonwealth's commitment to maintaining SPP funding aggregates at pre-GST levels as stipulated in the IGA.

The ACT Government has endorsed the adoption of the "best practice" principles and guidelines for all negotiations with the Commonwealth.

Finally, HoTs also agreed that a specific project team will be established to examine the existing Supported Accommodation Assistance Program agreement to determine the extent to which it conforms to the SPP best practice guidelines, develop alternative outcome measures, and suggest how the reporting requirements of the agreement could be restated using agreed outcome measures. The project will also seek to identify any costs or risks associated with the outcomes approach.

Other Commonwealth Funding

Other Commonwealth funding usually takes the form of a direct payment for services from the Commonwealth to the ACT Government agency delivering the service.

A major development in 2000-01, with funding implications for 2001-02 and the outyears, was the renegotiation of the Vocational Education and Training (VET) - Australian National Training Authority (ANTA) Agreement.

The ACT has agreed, 'in principle', to signing the new ANTA Agreement for the calendar year beginning January 2001. The ACT is set to receive an extra $320,000 in the first year, $400,000 in the second and $480,000 in the third year on top of the existing Commonwealth funding of about $13 million annually.

Total Commonwealth Funding

As demonstrated in **Table 6.2.1**, total gross Commonwealth funding to the ACT is expected to increase by $92.9m between 2000-01 to 2001-02, a rise of 10.8%. This comprises a rise in General Revenue Assistance (GRA) of $73.8m and an increase in SPPs and other Commonwealth payments of $19.1m.

However, to obtain the net rise in Commonwealth funding to the ACT, the changes to the Territory's revenue and expenditure responsibilities arising from tax reform must be taken into account. **Table 6.2.6** demonstrates the effect of State Budget Impacts on the ACT's GRA.

Table 6.2.6
Estimated Impact of Tax Reform on the ACT Budget

		2000-01 Est. Out. $m	2001-02 Budget $m	Var $m	Var %	2002-03 Estimate $m	2003-04 Estimate $m	2004-05 Estimate $m
	Total General Revenue Assistance	**536.0**	**609.8**	**73.8**	**13.8**	**631.1**	**640.3**	**656.7**
Minus	**State Budget Impacts (SBIs)**	145.3	182.7	37.4	25.7	188.9	188.8	193.5
		390.8	**427.1**	**36.3**	**9.3**	**442.2**	**451.5**	**463.2**

Note: Totals may not add due to rounding.

State Budget Impacts (SBIs)

SBIs provide an estimate of the net impact on the ACT of changes to the Territory's sources of revenue and expenditure responsibilities.

SBIs allow for comparisons to be made between the years affected by tax reform as they place estimates on like terms. As seen in **Table 6.2.1**, the gross increase in GRA between 2000-01 and 2001-02, once discounted by the SBIs, results in a net gain in the ACT's GRA of **$36.3m**.

Once this net increase in GRA is added to the $19.1m rise in SPPs and other Commonwealth funding, the real increase in total Commonwealth funding to the ACT amounts to **$55.5m**.

The components that make up the SBIs for each year are provided in the following table.

Table 6.2.7
Calculation of the ACT's State Budget Impacts

	2000-01 $m	2001-02 $m	Var $m	Var %	2002-03 $m	2003-04 $m	2004-05 $m
Revenue Replacement Payments	95.0	104.8	9.8	10.3	109.0	113.2	117.7
Financial Institutions Duty	0.0	17.4	17.4	n/a	19.5	20.0	20.5
Marketable Securities Duty	0.0	21.6	21.6	n/a	24.2	24.8	25.4
Marketable Securities Duty – Needs	0.0	-4.2	-4.2	n/a	-4.4	-4.7	-4.9
Reduced Gambling Revenues	17.8	19.8	2.0	11.2	20.2	20.5	20.9
Interest Costs	1.2	0.4	-0.8	-66.7	0.5	0.0	0.0
Loan Repayment	0.0	0.0	0.0	n/a	0.0	0.0	0.0
FHOS Payments	21.0	21.4	0.4	1.9	21.8	22.3	22.7
GST Administration Costs	16.1	8.3	-7.8	-48.4	6.0	5.9	5.8
WST Payments	4.0	4.0	0.0	0.0	4.0	0.0	0.0
Off Road Diesel Subsidies	0.0	0.0	0.0	n/a	0.0	0.0	0.0
Savings from Tax Reform	-8.5	-9.0	-0.5	5.9	-9.5	-10.1	-10.7
Growth Dividend (State taxes)	-1.3	-1.8	-0.5	38.5	-2.4	-3.1	-3.9
TOTAL State Budget Impacts	**145.3**	**182.7**	**37.4**	**25.7**	**188.9**	**188.8**	**193.5**

Although the SBIs generally increase in magnitude from year to year, these increases are more than offset by the growth in GST revenue grants. In the future, however, the SBIs can be expected to increase if the Treasurers' Conference agrees to the abolition of a number of States taxes required to be reviewed by 2005.

Summary of the Commonwealth Grants Commission's Report on State Revenue Sharing Relativities 2001 Update

As already indicated, the estimates of the FAGs and GST incorporated in Table 6.2.1 are based on the Commission's *Report on State Revenue Sharing Relativities 2001 Update* which recommends how the estimated 2001-02 GST pool should be distributed between the States.

Table 6.2.8 below provides a comparison of the 2000 and 2001 Update GST and FAGs relativities for all States.

Table 6.2.8
Comparison of States' Relativities: 2000 and 2001 Updates

	2000-01 GST Relativities	2001-02 GST Relativities	Movement (Percentage Points)	2000-01 FAGs Relativities	2001-02 FAGs Relativities	Movement (Percentage Points)
NSW	0.90913	0.92186	+1.27	0.89642	0.88490	-1.15
VIC	0.87049	0.87625	+0.58	0.85780	0.84657	-1.12
QLD	1.01830	1.00470	-1.36	1.01079	1.02151	+1.07
WA	0.98365	0.96275	-2.09	0.92399	0.90765	-1.63
SA	1.18258	1.18043	-0.21	1.23481	1.27464	+3.98
TAS	1.51091	1.50109	-0.98	1.62565	1.68714	+6.15
ACT	**1.11289**	**1.14778**	**+3.49**	**1.14522**	**1.19118**	**+4.60**
NT	4.16385	4.02230	-14.16	4.85767	4.93450	+7.68

The latest relativities calculated by the Commission were positive for the ACT's share of GST revenues as they reflected the fact that the Territory's relative revenue raising capacity had declined, particularly in payroll tax and land revenue.

The ACT's costs of service provision also increased relative to the other States, largely as the Territory assumes greater responsibility for State-like levels of debt, which was negligible at the time of self-government. This also increased the ACT's share, but was partially offset by changes to the superannuation assessment.

The ACT particularly welcomed two additional changes adopted by the Commission in response to arguments put forward by the ACT Department of Treasury, namely the:

- acceptance of changes to the national parks and wildlife assessment urbanisation factor, which resulted in a gain in funding of nearly $5m; and
- provision of special fiscal needs totalling some $10.1m in 2001-02 to compensate the ACT for policing costs.

2001 Treasurers' Conference - Ministerial Council for Commonwealth-State Financial Relations Outcome

The second meeting of Treasurers took place in Canberra on 30 March 2001.

The Council, which comprises the Commonwealth Treasurer (Chair) and the Treasurers of the States, replaces the annual Premiers' Conference as the forum for the discussion of matters relating to Commonwealth-State financial relations.

At the meeting, Commonwealth and State Treasurers agreed on the level of expected revenue payments to the States in 2000-01 and 2001-02 and discussed a range of GST administration issues. In this context, the most important outcome from the meeting was the Council's decision to approve the estimates contained in the *Statement of Estimated Payments* (SOEP) which are reflected in **Table 6.2.1**. These payments fulfil the Commonwealth's guarantee that the financial position of each individual State will be no worse off as a result of tax reform.

Furthermore, Treasurers also agreed that the distribution of GST revenues amongst the States will be in accordance with the final recommendations of the Commission contained in the *Report on State Revenue Sharing Relativities 2001 Updat*e.

The SOEP also confirmed that the Commonwealth delivered on the SPP funding guarantee provided in the IGA. Under Clause 5(v) of the IGA, the Commonwealth is required to:

- continue to provide SPPs to the States; and
- not reduce aggregate SPPs as part of the ongoing process of tax reform.

To ensure that the Commonwealth complied with these commitments, clause 42(vi) of the IGA directed the Council to monitor future Commonwealth policy regarding SPPs.

HoTs also agreed that the WA Treasury, on behalf of all States, would prepare a compliance report for the Council's consideration. This was subsequently endorsed by the Council, as it indicated that the Commonwealth would meet its SPP commitment in 2000-01 and 2001-02.

Additionally, the Council considered a range of other topics including:

- a progress report by the GST Administration Sub-Committee including the accountability and performance arrangements to be established between the Australian Taxation Office, which collects all GST revenue on behalf of the States, and the jurisdictions themselves, with the expectation that an Interim Performance Agreement for the 2001-02 financial year will be signed in May 2001;
- a report that noted that all States have implemented the First Home Owners Scheme (FHOS) in accordance with the agreed criteria in the IGA;
- noting that the Commonwealth will be providing funding for an additional $7,000 grant to first home owners contracting to buy or build new homes between 9 March and 31 December 2001; and
- endorsing the target date of 1 July 2001 and the detailed arrangements for implementing the National Tax Equivalent Regime (NTER) for income tax for State government business enterprises. The NTER will largely replace the current State tax equivalent regimes and promote competitive neutrality and economic efficiency in respect of State business enterprises. The ATO will administer the NTER in return for the NTER administration costs being paid for by the States.

2001 Australian Loan Council Meeting

The Loan Council met on 30 March 2001 following the Treasurers' Conference. The role of the Council is to determine the appropriateness of each jurisdiction's Loan Council Allocation (LCA), its sustainability and consistency with national economic policy.

Jurisdictions nominated their respective LCAs according to the recently amended methodology which was revised to follow guidelines set out in the new Accrual Uniform Presentation Framework. This revised framework has arisen due to the recent shift by governments from a cash based reporting system, to the more widely adopted accrual based reporting system and by the Australian Bureau of Statistics' implementation of an accrual based system for the purpose of Government Finance Statistics (GFS) reporting.

The agreed framework establishes a means by which Commonwealth and State Governments can publish uniform budgetary and fiscal information for external requirements. Despite the change to the accrual-reporting framework, the Loan Council's focus will remain on cash measures. A Government's cash position will determine the extent to which it must call on financial markets in a given year to meet its budget obligations.

All members agreed to the proposed 2001-2002 LCAs nominated by the Commonwealth and the States, in a report from HoTs to the Council on the basis that the aggregate of LCA nominations were consistent with current macroeconomic policy objectives.

Included in the report, was the ACT's LCA at -$201m with a tolerance limit of +/- $47m as shown in **Table 6.2.9**. This implies, on a GFS basis, that the ACT is a net lender, or in other words, the ACT contributes surplus funds to the financial markets rather than relying on those markets as a source of additional funds.

Table 6.2.9
Loan Council Allocations – 2000-01 Estimates and 2001-02 Nominations ($m)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C/wlth	Agg
Nominated 2001-02 LCAs										
General government sector cash deficit(+)/surplus(-)	-1,456	-167	-642	396	31	-66	-152	57	-4,738	
PNFC sector cash deficit(+)/surplus(-)	302	-12	644	90	-18	14	-20	-13	1,936	
Non-financial public sector cash deficit(+)/surplus(-) (b)	-1,147	-201	2	486	13	-52	-172	44	-2,802	
minus Net cash flows from investments in financial assets for policy purposes (c)	22	73	0	15	-1	0	19	16	8,873	
plus Memorandum items (d)	320	252	-112	-92	-114	20	-10	0	-898	
Loan Council Allocation	**-849**	**-22**	**110**	**379**	**-103**	**-32**	**-201**	**28**	**-12,573**	**-13,263**
2001-02 Tolerance limit	823	484	438	296	172	51	47	42	4,144	
Latest estimates 2000-01 LCAs										
General government sector cash deficit(+)/surplus(-)	-1,278	-1,015	-206	440	16	-65	-87	95	-4,329	
PNFC sector cash deficit(+)/surplus(-)	1,149	178	533	670	-1,223	-37	-10	42	1,654	
Non-financial public sector cash deficit(+)/surplus(-)	-104	-831	328	1,109	-1,233	-103	-97	136	-2,676	
minus Net cash flows from investments in financial assets for policy purposes	-83	85	-128	1,499	33	-9	25	19	6,535	
plus Memorandum items	-251	319	-52	107	-19	16	-9	0	-904	
Loan Council Allocation	**-272**	**-597**	**404**	**-283**	**-1,285**	**-78**	**-131**	**117**	**-10,114**	**-12,239**
2000-01 Budget time estimate	-82	-242	273	628	-122	-56	-98	39	-8,513	-8,173
2000-01 Nomination	-329	166	254	345	-53	-43	-96	9	-6,910	-6,657
1999-2000 LCA outcome	**-3,314**	**-1,855**	**463**	**404**	**-364**	**-163**	**-244**	**73**	**-21,487**	**-26,487**

Figures have been rounded. Discrepancies between totals and sums of components reflect rounding.

a) LCA nominations for 2001-02 reflect current best estimates of non-financial public sector deficits/surpluses. Nominations have been provided on the basis of policies announced up to and included in jurisdictions' mid year reports. Nominations are based on preliminary estimates of general government finances provided by jurisdictions for purposes of their mid year reports, and projected bottom lines for each jurisdiction's PNFC sector. Updated LCA estimates will be provided through publication by each jurisdiction of its budget time LCA as part of its budget documentation. The 2 per cent (of total non-financial public sector revenue in each jurisdiction) tolerance limits around each jurisdiction's 2001-02 LCA are designed, inter alia, to accommodate changes to the LCA resulting from changes in policy.

b) The sum of the surpluses of the General Government and PNFC sectors may not directly equal the non-financial public sector surplus due to intersectoral transfers.

c) This comprises net lending by governments with the aim of achieving government policy, as well as net equity sales and net lending to other sectors or jurisdictions. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash deficit. However, the cash flow from investments in financial assets for policy purposes has implications for government's call on financial markets.

d) Memorandum items are used to adjust the non-financial public sector deficit/surplus to include in LCAs certain transactions - such as operating leases - that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the non-financial public sector deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities. Where relevant, memorandum items include an amount for gross new borrowings of government home finance schemes. Overfunding and underfunding of emerging superannuation liabilities is also included as a memorandum item, as are interest earnings on employer superannuation balances.

State Funding Arrangements

Horizontal Fiscal Equalisation

The ACT is concerned by some of the comments in the press originating from certain jurisdictions concerning the Commission and the application of fiscal equalisation.

The larger jurisdictions' issue with the Commission's methodology is well understood. The Commission has again examined the recent criticism levied at its processes in a discussion paper on State policies and disabilities and has come to the conclusion that there is no substance to their arguments.

The outcome of the 2001 Update should not have been overly contentious as it is based primarily on the assessment methods adopted in the 1999 Review and predominantly reflects an update of the financial and socio-demographic data underpinning the assessments.

Importantly, all States had an opportunity to comment on new budget developments and the Commission's proposed methods for responding to the terms of reference for calculating the 2001 relativities.

The rationale for the Territory's above per capita relativities include:

- on the <u>revenue</u> side, the fact that the ACT's revenue raising capacity is constrained by:
  - its inability to raise revenues from substantial resource wealth such as minerals, petroleum and mining;
  - its inability to levy payroll tax on a large proportion of its business activity, including its predominant employer, the Commonwealth; and
  - the lack of large corporations which are generally centred in Sydney and Melbourne which provides those States with a locational advantage including the wealth base accumulated in real property of CBD offices; and
- on the <u>expenditure</u> side, the ACT faces above average costs of service provision due to:
  - its diseconomies of scale;
  - consumption of cross border services, predominantly by NSW residents, worth some $26m per annum;
  - Canberra's status as the national capital, which costs approximately $12m per annum;
  - very high regulatory and planning costs (high cost of maintaining designated land, leasehold system, and complying with the National Capital Plan); and
  - a relatively young population which increases service provision costs for schools and VET education, and policing.

The specific findings of the 2001 Update relativities recommended by the Commission for the ACT can be strongly defended on the basis that since 1994-95:

- on the expenditure side, the ACT's relative cost of service provision has increased, largely because of the ACT assuming greater responsibility for State-like levels of debt, which was negligible at the time of self-government; and
- on the revenue side, the ACT's relative revenue raising capacity has decreased, largely because of below average growth in wages for those companies assessed to be above the Australian average payroll tax threshold, and relatively low growth in land revenues as the value of commercial and industrial land growth was slower than the Australian average.

Net Contribution to the Federation

The ACT rejects the suggestion that it is a drain on the resources of the Federation. Compared to all the other States, the ACT is in fact the largest contributor to the Federation in per capita terms.

The citizens of the ACT contribute much more in taxation than they receive by way of tax redistributions and transfer payments from the Commonwealth.

The WA Treasury has developed a longstanding paper titled *Fiscal Subsidies within the Australian Federation* which clearly documents the net fiscal subsidies contributed by the States to Australia. The latest available information is for 1998-99.

The net fiscal subsidy is calculated as actual revenue contributions from the States to the Commonwealth, ***less*** actual outlays from the Commonwealth to the States, ***plus*** an allocation of the Commonwealth deficit between the States as it represents an impost on future taxpayers.

As can be seen from the **Table 6.2.10** the ACT is the highest net financial subsidiser of the Federation in per capita terms. Its per capita contribution to revenues is very high, and the outlays received from the Commonwealth are relatively low.

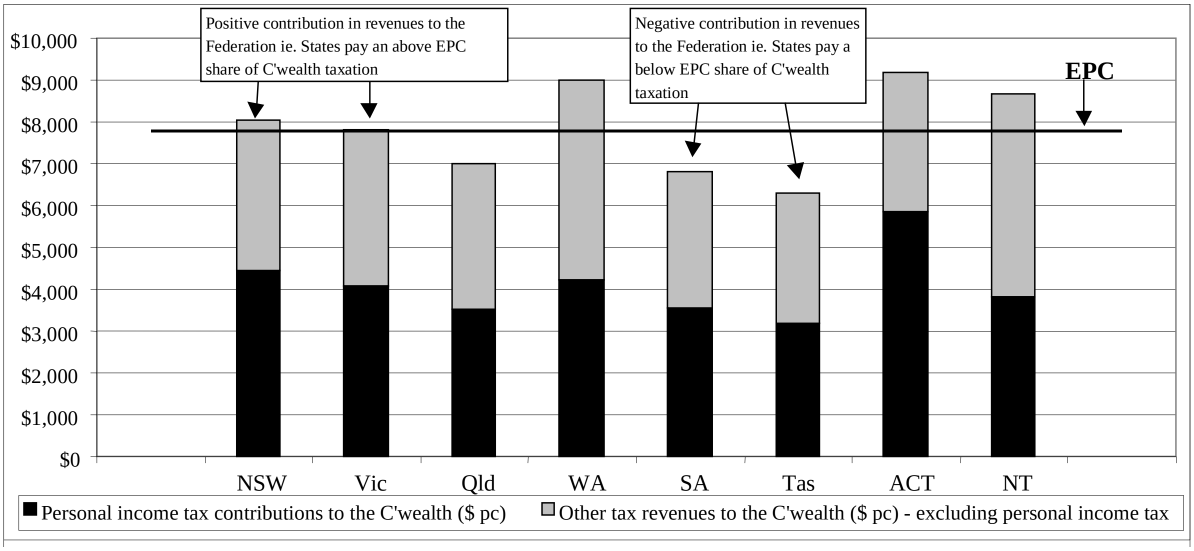
Table 6.2.10
Components of the Net Fiscal Subsidy, 1998-99

	Revenues to the C'wlth $pc	C'wlth Outlays $pc	C'wlth Deficit $pc	Fiscal Subsidy or Deficit $pc	Revenues to the C'wlth $mc	C'wlth Outlays $m	C'wlth Deficit $m	Fiscal Subsidy or Deficit $m
NSW	8 052.29	7 348.61	-293.84	410	51 299	48 816	-1 872	2 612
Vic	7 818.61	7 166.68	-285.92	366	36 615	33 562	-1 339	1 714
Qld	6 995.54	7 349.72	-274.10	-628	24 373	25 607	-955	-2 188
WA	9 004.59	7 390.94	-312.65	1 301	16 618	13 640	-577	2 401
SA	6 815.76	8 144.81	-285.95	-1 615	10 154	12 134	-426	-2 406
Tas	6 288.75	8 995.75	-292.99	-3 000	2 962	4 237	-138	-1 413
ACT	**9 197.03**	**7 423.02**	**-317.25**	**1 460**	**2 841**	**2 293**	**-98**	**451**
NT	8 666.19	14 339.17	-438.79	-6 117	1 659	2 745	-84	-1 171

To enhance the understanding of the analysis, each of the above components is considered in turn, with the exception of the deficit, given that its impact is minimal.

The following **Figure 6.2.2** highlights the per capita revenues contributed by the States to the Commonwealth and compares this with an equal per capita (EPC) contribution.

Figure 6.2.2
Per Capita Revenue Contributions to the Federation, 1998-99

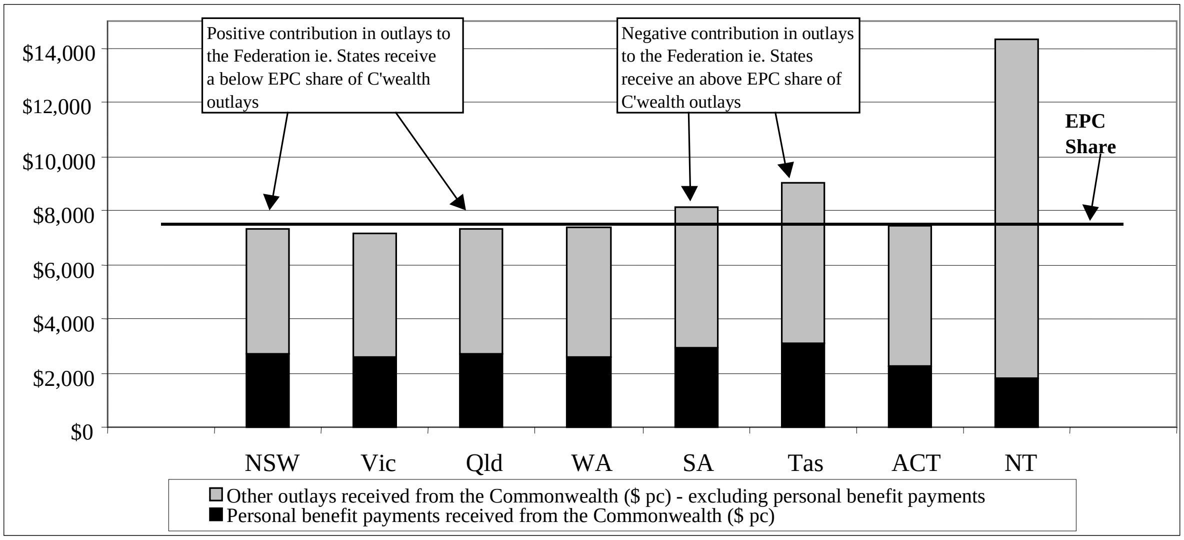


It shows that NSW, Victoria, WA, ACT and the NT all make a positive contribution to the Federation. That is, they provide a greater than equal per capita share of taxation revenues to the Commonwealth.

The ACT's contribution is the highest in per capita terms, reflecting its very high per capita personal income tax contribution which stems from the Territory's relatively high average weekly earnings and high numbers of PAYE tax payers.

Figure 6.2.3 highlights the per capita outlays received by the States from the Commonwealth and compares this with an EPC contribution.

Figure 6.2.3
Per Capita Outlay Contributions to the Federation, 1998-99

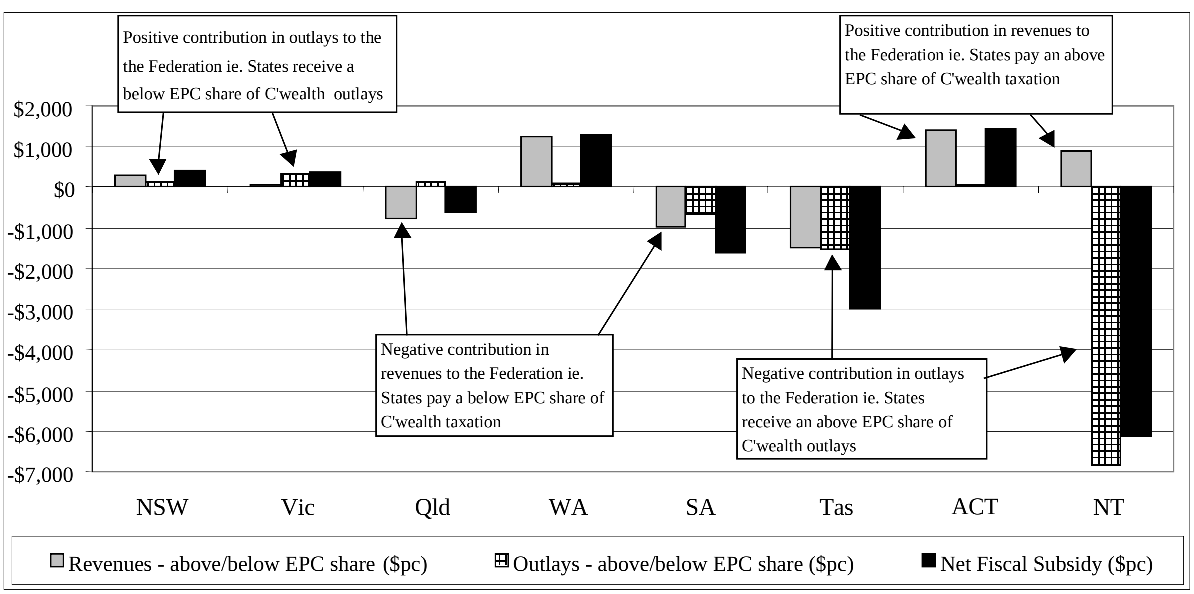


It shows that NSW, Victoria, Queensland, WA and the ACT all make a positive contribution to the Federation. That is, they receive less than an EPC share of Commonwealth outlays.

The ACT again makes a contribution to the Federation, although this contribution is less than on the revenue side. This, in part, stems from the second lowest per capita payment of personal benefit payments.

Figure 6.2.4 brings together each of the components to derive the net fiscal subsidy calculation. The deficit contribution is not split out given that its effect is marginal. It is, however, included in the total.

Figure 6.2.4
Summary of Per Capita Contributions to the Federation, 1998-99



A positive per capita contribution to the Federation is reflected by a bar being greater than zero, whereas a negative per capita contribution is shown by the bar being below zero.

For the ACT, the graph shows that there is a large revenue contribution and a small outlays contribution. Although this is, like for all States, partially offset by a small deficit contribution (not shown separately), the sum of these components results in the highest per capita net fiscal subsidy.

The pattern for the other donor States is similar, that is, the per capita outlays received by NSW, Victoria and WA are less than the revenues provided to the Federation.

Queensland, SA, Tasmania and the NT are beneficiaries from the Federation, making negative financial contributions (outlays received from the Commonwealth are greater than the revenues contributed).

Interestingly, if the 2001-02 GST pool was to be distributed according to the proportion of personal income tax contributions made to the Commonwealth (a major driver of the ACT's large subsidisation of the Federation), the ACT would receive 2.4% of the pool, as opposed to the recommended 2.0% stemming from a distribution based on the Grants Commission's 2001 Update relativities.

Table 6.2.11 provides a comparison of four alternative per capita distributions of the 2001-02 GST pool:

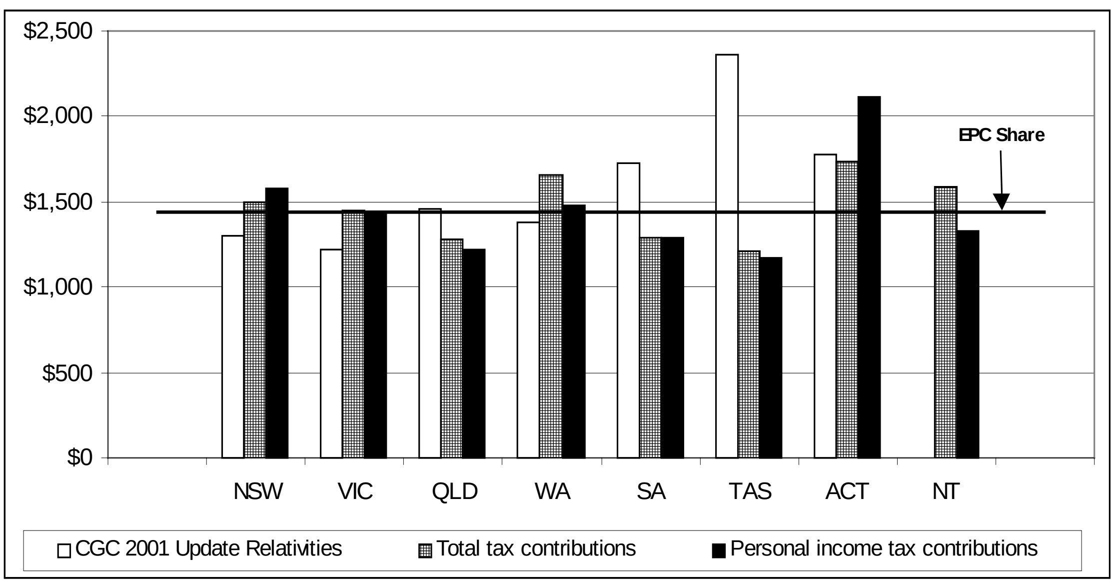
- an equal per capita share – based on each person receiving an equal share of the GST pool;
- CGC 2001 Update relativities – based on each person receiving a share of the GST pool distributed according to the relativities;
- total tax contributions – based on each person receiving a share of the GST pool distributed according to the proportion of total tax and non-tax revenue each State has contributed to the Commonwealth's revenues (based on the data contained in the WA Fiscal subsidies report for 1998-99); and
- personal income tax proportions - based on each person receiving a share of the GST pool distributed according to the proportion of personal income tax each State has contributed to the Commonwealth's revenues (based on the data contained in the WA Fiscal subsidies report for 1998-99).

Table 6.2.11
Alternative Distributions of the 2001-02 GST Pool

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	$ pc	$ pc	$ pc	$ pc	$ pc	$ pc	$ pc	$ pc
Equal per capita share	1,438.63	1,438.63	1,438.63	1,438.63	1,438.63	1,438.63	**1,438.63**	1,438.63
Percentage share of pool	33.7%	24.9%	18.8%	9.9%	7.7%	2.4%	**1.6%**	1.0%
CGC 2001 Update Relativities	1,295.90	1,224.37	1,453.67	1,378.90	1,723.43	2,359.27	**1,772.28**	6,782.79
Percentage share of pool	30.3%	21.2%	19.0%	9.5%	9.3%	4.0%	**2.0%**	4.8%
Total tax contributions	1,495.27	1,443.65	1,275.26	1,652.22	1,290.59	1,206.95	**1,734.55**	1,583.97
Percentage share of pool	35.0%	25.0%	16.6%	11.3%	6.9%	2.0%	**1.9%**	1.1%
Personal income tax contributions	1,576.88	1,432.79	1,224.46	1,473.68	1,287.59	1,171.07	**2,112.59**	1,330.95
Percentage share of pool	36.9%	24.8%	16.0%	10.1%	6.9%	2.0%	**2.4%**	1.0%

The following **Figure 6.2.6** graphically illustrates the alternative per capita distributions outlined in the previous table.

Figure 6.2.6
Alternative Distributions of the 2001-02 GST Pool



Detailed Description and Estimates of the Components of the ACT's Guaranteed Minimum Amount

Due to the importance of the calculations and estimates underpinning the components of the GMA, already foreshadowed in **Table 6.2.3** of this chapter, a detailed methodological description agreed by HoTs is set out below in the interests of accountability and transparency during the transitional phase-in of the GST and the new tax reform process.

ACT Revenue Forgone

Financial Assistance Grants (FAGs) - ceased being paid to States and Territories from 1 July 2000. The CGC continues to calculate FAGs relativities which are applied to a notional FAGs pool (estimated by Commonwealth Treasury to reflect growth in the CPI and State populations) to determine State-by-State ex-ante and ex-post estimates of FAGs forgone.

Business Franchise Fee - Revenue Replacement Payments(RRPs) - the revenues forgone under this category are the ACT's RRPs in respect of petrol, tobacco and alcohol. Estimates will be provided by Commonwealth Treasury on the following RRP components.

- *Petrol* - the Commonwealth will provide ex-ante estimates of the ACT's level of revenue forgone for petrol in 2001-02 by indexing the 2000-01 final estimate by the annual growth in total petroleum consumption and adjusted CPI growth. Ex-post estimates will reflect the actual level of revenue forgone, observed growth in petrol consumption in the year, adjusted CPI outcomes and the actual safety net amounts paid to the ACT by the Commonwealth in 2000-01.
- *Tobacco* – the Commonwealth will provide ex-ante estimates for 2001-02 by indexing the 2000-01 final estimate by the Commonwealth's indexation factors that reflect declines in volume and prices growth determined by CPI indexation for tobacco excise. The ex-ante estimates will be subject to an ex-post adjustment reflecting changes to the CPI outcomes.
- *Alcohol* – the Commonwealth will provide ex-ante estimates of the ACT's 2001-02 level of revenue forgone for alcohol by indexing the 2000-01 final estimate by the Commonwealth's forecasts of nominal household final consumption of alcohol. The ex-ante estimates will be subject to an ex-post adjustment that reflects the observed growth in nominal household consumption of alcohol.

PLUS

State Taxes to Be Abolished

- *Financial Institutions Duty (FID)* – the Commonwealth and the States have agreed to cease collecting FID on 1 July 2001. The following estimates for FID have been agreed between the Commonwealth and the States and will remain unchanged for ex-ante and final calculations of the GMA:

  - ACT estimate for 2000-01 is $0.0m;

  - ACT estimate for 2001-02 is $17.4m;

  - ACT estimate for 2002-03 is $19.5m; and

  - ACT estimate for 2003-04 is $20.0m.

- *Stamp Duty on the Transfer of Listed Marketable Securities* – in accordance with the IGA, the Commonwealth and States have agreed to cease collecting stamp duty on the transfer of listed marketable securities on 1 July 2001. Ex-ante estimates of the revenue forgone have been provided by the States and prepared on the basis that all such duty has been abolished. However, the cessation of this stamp duty applies only to marketable securities quoted on the Australian Stock Exchange or some other recognised exchange. Therefore, ex-post estimates of revenue forgone will include amounts that represent the CGC's calculation of 'needs' contained in a State's share of GST revenue associated with the retention of stamp duty on unquoted marketable securities after 1 July 2001.

PLUS
Reduced Revenues

- *Gambling Tax Arrangements* - the IGA requires the ACT to adjust its gambling tax arrangements to take account of the application of the GST to gambling operators. Therefore, the reductions in gambling revenues and the impact on the ACT's budget are included in the GMA. Estimates are to be provided by the States and are subject to change. Ex ante estimates will be based on the ACT's estimate of the full amount of GST revenue to be raised from gambling activity. The final determination of the GMA will be based on the actual relief from the impact of the GST provided by the ACT to gambling operators.

PLUS
Interest Costs of Cash Flow Shortfall

- *Interest Costs on Cash Flow Shortfall* - the interest cost incurred by the ACT due to the tax reforms is included in the determination of the GMA. This cost arises from the change in cash flows due to the replacement of weekly payments of FAGs, revenue replacement payments and State and Territory taxes with monthly payments of GST revenue grants and BBA grants. This cost is only included in the calculation of the GMA for the initial three-year period 2000-01 to 2002-03. The Commonwealth will not compensate the ACT and other States for this cost after the third year. The following ex ante estimates of the interest costs have been agreed between the Commonwealth and the ACT and will remain unchanged for final calculations of the GMA:

  - ACT estimate for 2000-01 is $1.2m;
  - ACT estimate for 2001-02 is $0.4m;
  - ACT estimate for 2002-03 is $0.5m; and
  - ACT estimate for 2003-04 is $0.0m.

PLUS
Additional Expenditures

- *GST Administration Costs* - a requirement of the IGA is that States will be responsible for the administration costs of the GST payable to the Australian Tax Office. Therefore, the additional outlays required by the ACT are included in the determination of the GMA. The ex-ante estimates of GST administration costs will be distributed amongst States and Territories on an equal per capita basis according to ABS population estimates. Ex-post estimates and final payments will reflect the actual amounts paid to the Commonwealth for the administration of the GST.
- *First Home Owners Scheme (FHOS) Costs* – States and Territories are required to fund the FHOS to offset the impact of the GST on the price of new homes. The additional outlays required are also included in the determination of the GMA. The Commonwealth will provide ex-ante estimates of the annual cost of this scheme based on a lump sum payment of $7,000 per eligible homebuyer. The number of eligible homebuyers will be estimated by using the most recent ABS data on the number of first homeowners in the ACT. This estimate will be projected forward by the Commonwealth's estimates of civilian non-farm wage and salary employment. The final determination of FHOS amounts for the determination of the GMA will be based on the actual payments made by the ACT under its scheme in accordance with the IGA.

PLUS
Wholesale Sales Tax (WST) Tax Equivalent Regimes (TER) Payments

- Wholesale Sales Tax (WST) Tax Equivalent Regime (TER) Payments - estimates are to be included in the calculation of the GMA to recognise the revenue forgone by the ACT in relation to the abolition of WST TERs on government owned business operations. Estimates for these revenues forgone have been agreed between the States and Commonwealth and will remain unchanged for ex ante and final GMA calculations:

  - ACT estimate for 2000-01 is $4.0m;
  - ACT estimate for 2001-02 is $4.0m;
  - ACT estimate for 2002-03 is $4.0m; and
  - ACT estimate for 2003-04 is $0.0m.

MINUS

Reduced Expenditures

- *Reduced Costs to Government from Indirect Tax Reform* - the benefits accruing to the ACT from the reduction in embedded taxes on government purchases are to be included in the determination of the GMA. The Commonwealth's PRISMOD model has been used to identify the impact of the indirect tax changes on government final consumption expenditure (GFCE) and government gross fixed capital expenditure (GFKE). The Commonwealth has provided the ACT's ex-ante estimates of reduced costs by estimating the ACT's share of the 'gross expenditure on goods and services' and 'expenditure on new fixed assets components' of GFCE and GFKE respectively. The estimates below have been agreed between the ACT and the Commonwealth and will remain unchanged for ex-ante estimates:

  - ACT estimate for 2000-01 is $8.5m;

  - ACT estimate for 2001-02 is $9.0m;

  - ACT estimate for 2002-03 is $9.5m; and

  - ACT estimate for 2003-04 is $10.1m.

State Rebates for Off-Road Diesel - on 1 July 2000, the ACT will terminate its off-road diesel rebate scheme, and the Commonwealth will amend the Diesel Fuel Rebate scheme to provide rebates for qualified road users. The savings to the ACT are to be included in the GMA. The Commonwealth will provide ex-ante estimates on the level of expenditure forgone determined by the per capita cost to the ACT of its off road diesel subsidies paid in 1999-2000. This amount will be indexed each year in line with the estimates of the ACT's revenue forgone in relation to revenue replacement payments of petrol and then multiplied by the estimated population of the ACT in the relevant year. An ex-post estimate will reflect the ACT's actual forgone RRPs for petrol and ABS population determinations.

MINUS

Growth Dividend

- *Growth Dividend – Remaining State Taxes* - the growth dividend attributable to remaining State taxes is included in the calculation of the GMA to recognise the higher tax revenues that will flow to the ACT because of the positive impact of tax reform on the Territory's economy. The Commonwealth has provided estimates of the growth dividend attributable to the ACT's remaining State taxes, with the ACT's share determined on the basis of the Territory's estimated share of remaining State tax revenues as agreed with the Commonwealth. These estimates will remain unchanged for the ex-ante and final calculations of the GMA:

  - ACT estimate for 2000-01 is $1.3m;

  - ACT estimate for 2001-02 is $1.8m;

  - ACT estimate for 2002-03 is $2.4m; and

  - ACT estimate for 2003-04 is $3.1m.

PLUS

Adjustments

- *Adjustments* - from 2001-02, adjustments will be made to the ACT's GMA to account for the net difference between preliminary estimates and outcomes of final estimates for items that were taken into account for the ACT's GMA in the previous year.

EQUALS

The ACT's Guaranteed Amount