

## **CHAPTER 7**

### **FEDERAL FINANCIAL RELATIONS**

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## 7.1 FEDERAL FINANCIAL RELATIONS

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

In that context this chapter outlines developments in the ACT's financial relations with the Commonwealth, States and the Northern Territory that occurred in 2015-16 and the likely flow-on effects into 2016-17 and outyears.

A key feature of these developments in 2015-16 will see the ACT receiving an increased share of the Goods and Services Tax (GST) pool in 2016-17 (\$159.2 million greater than if the GST were distributed based on a population share).

### Characteristics of Federal Financial Relations

Within the Federation structure, federal financial relations is governed by the *Intergovernmental Agreement on Federal Financial Relations* (IGA-FFR), which operates indefinitely from 1 July 2009 unless the Parties by unanimous agreement in writing revoke it.

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

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

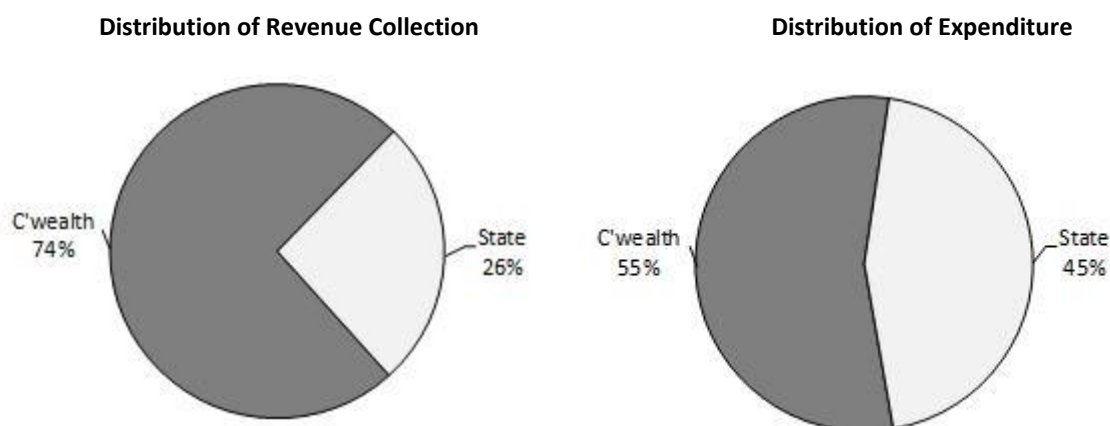
To put the concept of VFI into perspective, presently, the Commonwealth Government collects around 74 per cent of combined Commonwealth and State<sup>1</sup> Government tax revenue (14 per cent of Commonwealth revenue being from the GST) but is responsible for only approximately 55 per cent of total government spending. In contrast, the States collect around 26 per cent of combined tax revenue, but are responsible for around 45 per cent of total government spending.

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

Figure 7.1.1 below depicts the distribution of Commonwealth-State spending and revenue collection (including the GST).

**Figure 7.1.1: 2014-15 Estimated Distribution of Commonwealth-State Revenue Collection and Expenditure**



**Sources:** ABS, Government Financial Statistics 2014-15 (5512.0) and CMTEDD calculations.

**Note:** Capital expenditure is not included.

## Developments in Federal Financial Relations in 2015-16

In the lead up to the 2013 Federal Election, the Commonwealth Government undertook to deliver a White Paper on the Reform of the Federation and a White Paper on the Reform of Australia's Tax System.

The members of the Council of Australian Governments (COAG) had agreed to work closely together on the Commonwealth White Papers, acknowledging the need to reduce duplication between governments.

An important development in 2015-16 was the Commonwealth Government's subsequent decision not to proceed with the development of these White Papers.

At a meeting of COAG on 1 April 2016 it was agreed the work being done on improving federal financial relations and the transparency of government spending, including broader opportunities for national and State tax reform now be progressed by the Commonwealth and the State Treasurers via the Council on Federal Financial Relations (CFFR). A progress report on this work has been requested by COAG for consideration in the latter part of 2016.

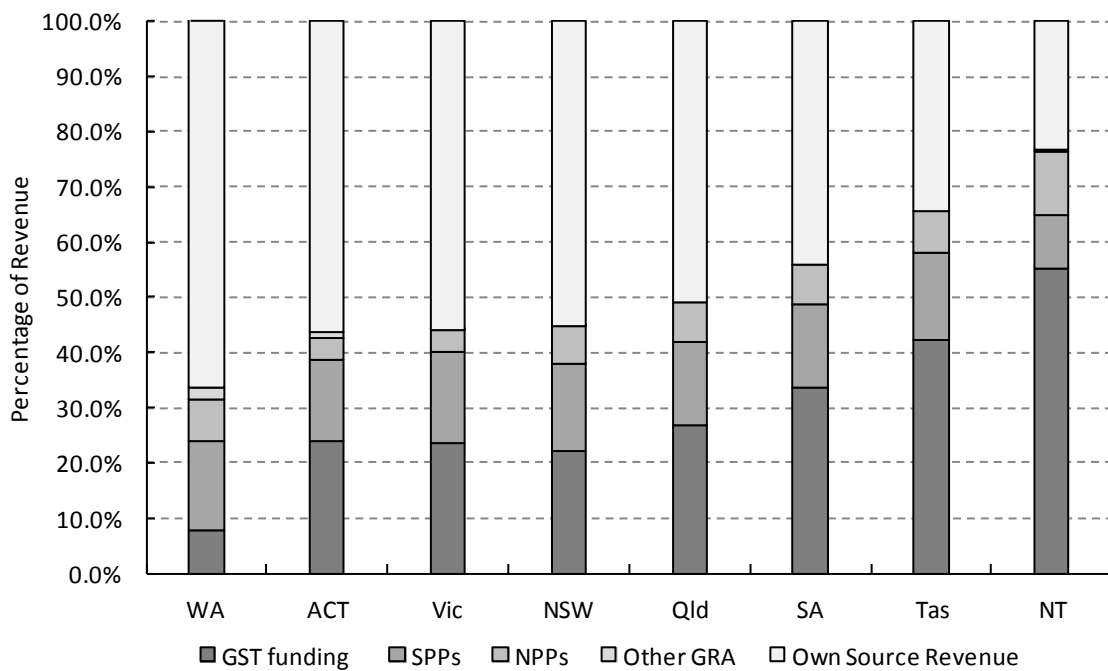
This timeframe is also dependent on the results of the 2016 Federal Election. The implication of a possible change of government is not canvassed further in this chapter.

## Sources of Federal Funding

The types of federal funding within the above framework are General Revenue Assistance (GRA); Financial Assistance Grants to Local Government (Financial Assistance Grants); National Specific Purpose Payments (SPPs); and National Partnership Payments (NPPs).

Figure 7.1.2 and Table 7.1.1 below illustrate the sources of State revenues. On average, States are estimated to receive 46.2 per cent of their funding from the Commonwealth in 2016-17<sup>2</sup>, with an average of 53.8 per cent coming from their own sources.

**Figure 7.1.2: State Revenue Profile from the Commonwealth, 2016-17**



**Sources:** CMTEDD calculation based on 2016-17 Commonwealth and Victorian Budgets; 2015-16 State Mid-Year Budget Review Papers.

<sup>2</sup> CMTEDD calculation based on 2016-17 Commonwealth Budget, 2016-17 Victorian Budget and 2015-16 State Mid-Year Budget Statements.

**Table 7.1.1: State Revenue Profile from the Commonwealth, 2016-17**

	WA	ACT	Vic	NSW	Qld	SA	Tas	NT
<b>Total Commonwealth funding (\$b)</b>	<b>8.6</b>	<b>2.1</b>	<b>25.9</b>	<b>35.5</b>	<b>26.1</b>	<b>10.2</b>	<b>3.6</b>	<b>4.5</b>
GST funding (%)	7.8	24.1	23.6	22.2	26.7	33.6	42.3	55.2
SPPs (%)	16.1	14.4	16.5	15.6	15.2	15.2	15.6	9.6
NPPs (%)	7.6	4.2	3.9	6.9	7.0	7.1	7.7	11.7
Other GRA (%)	2.2	0.8	0.0	0.1	0.0	0.0	0.0	0.1
<b>Total Commonwealth funding (%)</b>	<b>33.4</b>	<b>43.6</b>	<b>44.0</b>	<b>44.7</b>	<b>48.9</b>	<b>56.0</b>	<b>65.7</b>	<b>76.6</b>
<b>Own Source Revenue (%)<sup>1</sup></b>	<b>66.6</b>	<b>56.4</b>	<b>56.0</b>	<b>55.3</b>	<b>51.1</b>	<b>44.0</b>	<b>34.3</b>	<b>23.4</b>

**Sources:** CMTEDD calculation based on 2016-17 Commonwealth and Victorian Budgets; 2015-16 State Mid-Year Budget Review Papers.

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

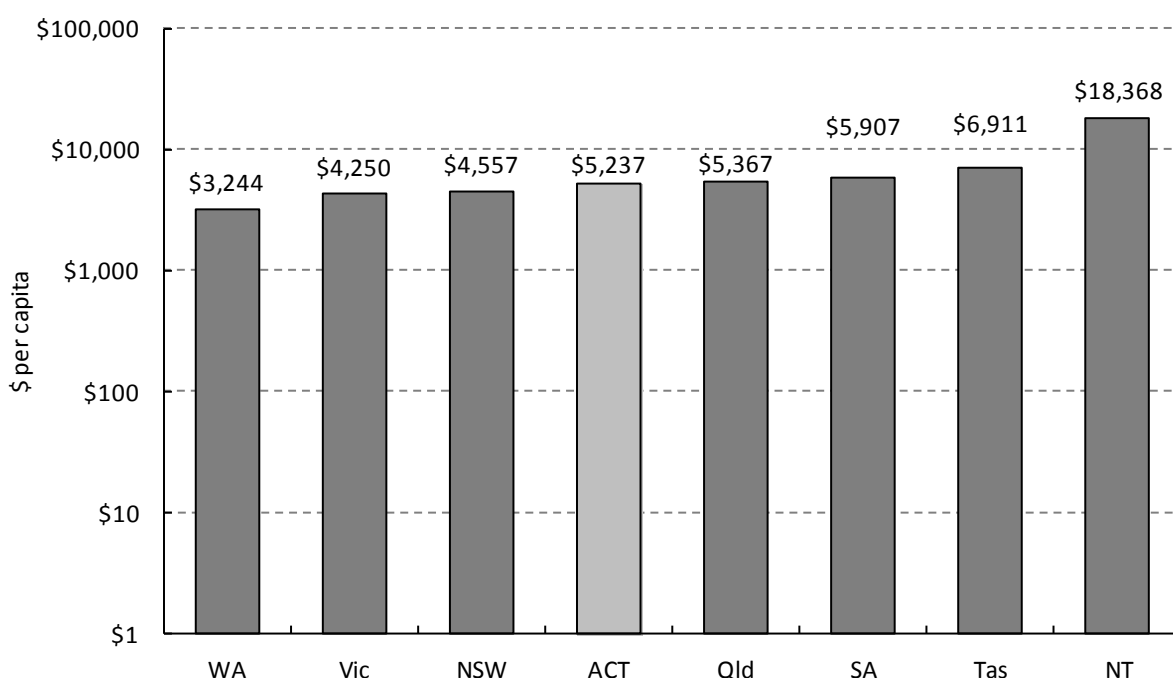
1. ACT Own Source Revenue is inclusive of local government revenue comprising general rates and the City Centre Marketing and Improvements Levy.

The ACT is expected to receive approximately 43.6 per cent of its funding from the Commonwealth in 2016-17. This would make the ACT the second least reliant on Commonwealth revenue of all jurisdictions. However, the ACT's own source revenue includes general rates, which are used to support both State and local government type expenses. General rates constitute about 9.5 per cent of the ACT's total revenue in 2016-17<sup>3</sup>:

- GST funding represents a higher proportion of the ACT's total revenue than for three other States, while the SPP and NPP funding it receives represents a lower proportion than for most other States.
- The ACT's high share of GST is driven mainly by its low revenue raising capacity, due to its inability to apply taxes, such as payroll tax, to the Commonwealth, as well as its lack of mineral resources and relatively low land values compared with the large States. On the other hand, its low share of NPPs is largely driven by a low share of infrastructure funding, which is typically lower for the smaller States.
- Taken together, the ACT ranks in the middle of States in terms of the per capita amount of total Commonwealth funding it receives (see Figure 7.1.3 below).

<sup>3</sup> It is not possible to identify how much of the general rates revenue is used for State type expenses and how much for local government type expenses.

**Figure 7.1.3: Commonwealth Funding Per Capita, 2016-17**



Source: CMTEDD calculation based on the 2016-17 Commonwealth Budget.

## Total Commonwealth Funding to the ACT

The ACT will receive the following estimated payments from the Commonwealth Government in 2016-17:

- GRA, comprising:
  - GST of \$1,154.4 million; representing an increase of \$105.4 million over 2015-16; and
  - ACT Municipal Services payments of \$39.1 million; representing an increase of \$0.6 million over 2015-16;
- SPPs of \$691.1 million; representing an increase of \$32.1 million over 2015-16;
- NPPs of \$134.8 million; representing an increase of \$49.0 million over 2015-16; and
- Other Commonwealth Payments comprising:
  - Financial Assistance Grants of \$48.6 million; representing an increase of \$24.3 million over 2015-16. The significant difference in Financial Assistance Grants funding from 2015-16 to 2016-17 is due to a decision to bring forward half of the 2015-16 Financial Assistance Grants payments into 2014-15 to serve as an economic stimulus for local government.

The amounts above reflect the 2016-17 Commonwealth Budget estimated 2015-16 outcome and the 2016-17 ACT Budget estimates. Each of the payments is discussed in more detail in the following sections.

## General Revenue Assistance (GRA)

GRA transfers from the Commonwealth Government represent a major source of untied funding in support of the delivery of state type services in the ACT. It is estimated they will comprise approximately 25 per cent of the ACT's General Government Sector revenues in 2016-17. Table 7.1.2 below summarises the expected level of GRA funding to the ACT across the Budget and forward estimates.

**Table 7.1.2: Commonwealth Government General Revenue Assistance Funding to the ACT**

	2015-16	2016-17	Variance		2017-18	2018-19	2019-20
	Est. Out. \$m	Budget \$m	\$m	%	Estimate \$m	Estimate \$m	Estimate \$m
GST Revenue	1,049.0*	1,154.4	105.4	10.0	1,215.7	1,279.1	1,334.5
ACT Municipal Services	38.5	39.1	0.6	1.6	39.6	40.2	40.9
<b>Total General Revenue Assistance</b>	<b>1,087.5</b>	<b>1,193.5</b>	<b>106</b>	<b>9.7</b>	<b>1,255.3</b>	<b>1,319.3</b>	<b>1,375.4</b>

Source: 2016-17 Commonwealth Budget.

Note: Numbers may not add due to rounding.

\*Balancing adjustment of \$7.2 million for under-payment in 2014-15 paid in 2015-16.

## GST Revenues

GST payments to the ACT represent the bulk of GRA to the ACT and in any year reflect: the total national GST pool; the ACT's GST relativity<sup>4</sup>; and the Australian Bureau of Statistics' estimates of the ACT and national populations.

The GST is distributed to the States as 'untied' payments and consistent with the principle of HFE<sup>5</sup>. A full description of the determination of the ACT's 2016-17 GST relativity of 1.15648 is provided later in this chapter including an illustration of the history of the ACT's relativity over time.

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

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



For forward estimates purposes, the GST revenue receipts to the ACT are based on:

- the 2016-17 Commonwealth Budget forward estimates of the GST pool:
  - the Commonwealth projections include two new measures that are expected to increase the GST pool:
    - : The application of GST to low value imported goods, expected to raise an additional \$270 million in GST payments to the States between 2017-18 and 2019-20.
    - : An increase in the tobacco excise, effective from 1 July 2017, expected to increase GST payments to the States by \$445 million between 2017-18 and 2019-20. This occurs because GST is applied to the excise inclusive price.
- the Commonwealth's forward estimates of the ACT population as a percentage of the national total; and
- the 2016-17 GST relativity for the ACT held constant across the forward estimates.

In the 2016-17 Commonwealth Budget, Commonwealth Treasury for the first time has adopted the same measure used by the ACT for projecting GST relativities in the forward estimates. The 2016-17 Commonwealth Budget holds each State's relativity in the budget year constant across the outyears<sup>6</sup>. As a result, the ACT GST estimates for the outyears published in the 2016-17 ACT Budget align with the 2016-17 Commonwealth Budget GST estimates.

The overall movement in GST grants to the ACT throughout the year since the 2015-16 Budget release is illustrated in Table 7.1.3 below:

- It reflects parameter variations arising from the impact of the:
  - 2014-15 Final Budget Outcome;
  - Commonwealth's Mid-Year Economic and Fiscal Outlook (MYEFO) revisions;
  - release of the CGC's new relativities; and
  - subsequent 2016-17 Commonwealth Budget release.

In 2016-17, the ACT is estimated to receive \$1,154.4 million in GST. This is \$159.2 million greater than if the GST were distributed based on an equal per capita share across jurisdictions.

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<sup>6</sup> Previously the Commonwealth produced technical projections of GST relativities beyond the Budget year. This approach was limited to applying each State's fiscal needs from the last two years of the most recent Grants Commission report, with adjustment for changes in the distribution of National SPPs. It did not take account of the States' forward estimates of their budgetary positions, nor of trends in underlying cost drivers which could affect future relativities.

**Table 7.1.3: Reconciliation of GST Revenue Grants to the ACT**

		2015-16	2016-17	2017-18	2018-19	2019-20	Total*
		\$m	\$m	\$m	\$m	\$m	\$m
<b>2015-16 ACT Budget</b>	Jun-15	1,032.4	1,103.3	1,167.8	1,235.0		4,538.4
<b>2014-15 Final</b>	<i>Variation</i>	7.2	0.0	0.0	0.0		7.2
<b>Commonwealth Budget Outcome</b>	Nov-15	1,039.6 <sup>^</sup>	1,103.3	1,167.8	1,235.0		4,545.6
<b>2015-16 ACT Budget Review</b>	Dec-15	1,039.6 <sup>^</sup>	1,103.3	1,167.8	1,235.0		4,545.6
<b>2015-16 Commonwealth MYEFO</b>	<i>Variation</i>	3.9	-3.4	-13.6	-26.7		-39.8
	Dec-15	1,043.5 <sup>^</sup>	1,099.9	1,154.2	1,208.3		4,505.9
<b>2016 Update Report</b>	<i>Variation</i>	0.0	55.2	57.9	60.6		173.6
	Apr-16	1,043.5 <sup>^</sup>	1,155.1	1,212.1	1,268.8		4,679.5
<b>2016-17 Commonwealth Budget</b>	<i>Variation</i>	5.5	-0.7	3.7	10.2	N/A	18.7*
	May-16	1,049.0 <sup>^</sup>	1,154.4	1,215.7	1,279.1	1,334.5	6,032.7
<b>2016-17 ACT Budget</b>	Jun-16	1,049.0 <sup>^</sup>	1,154.4	1,215.7	1,279.1	1,334.5	6,032.7
<b>Total Variation since 2015-16 ACT Budget</b>		16.6	51.1	47.9	44.1	N/A	159.8*

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

<sup>^</sup> Includes a balancing adjustment of \$7.2 million for under payment in 2014-15 to be paid in 2015-16.

\* Total does not include 2019-20.

**Parameter Variations:**

1. The 2014-15 Final Budget Outcome – Balancing adjustment of \$7.2 million for under payment in 2014-15 to be paid in 2015-16.
2. The 2015-16 Commonwealth Mid-Year Economic and Fiscal Outlook: Revised GST revenue pool and population estimates.
3. The Commonwealth Grants Commission 2016 Update Report: Revised GST relativities.
4. The 2016-17 Commonwealth Budget: Revised GST revenue pool and population estimates.

## ACT Municipal Services

The Commonwealth also provides GRA to the ACT to assist in meeting the additional local government type municipal costs which arise from Canberra's role as the National Capital. This general revenue assistance also compensates the ACT for additional costs resulting from the National Capital planning influences on the provision of water and sewerage services.

This level of funding arises from recommendations by the CGC at the time the ACT was granted self-government. It is indexed annually by a growth factor comprised of indicators for wage growth and inflation. Downward revisions to wage growth and Consumer Price Index in the 2016-17 Commonwealth Budget have marginally reduced the growth of ACT Municipal Services payments from 2017-18 onwards.

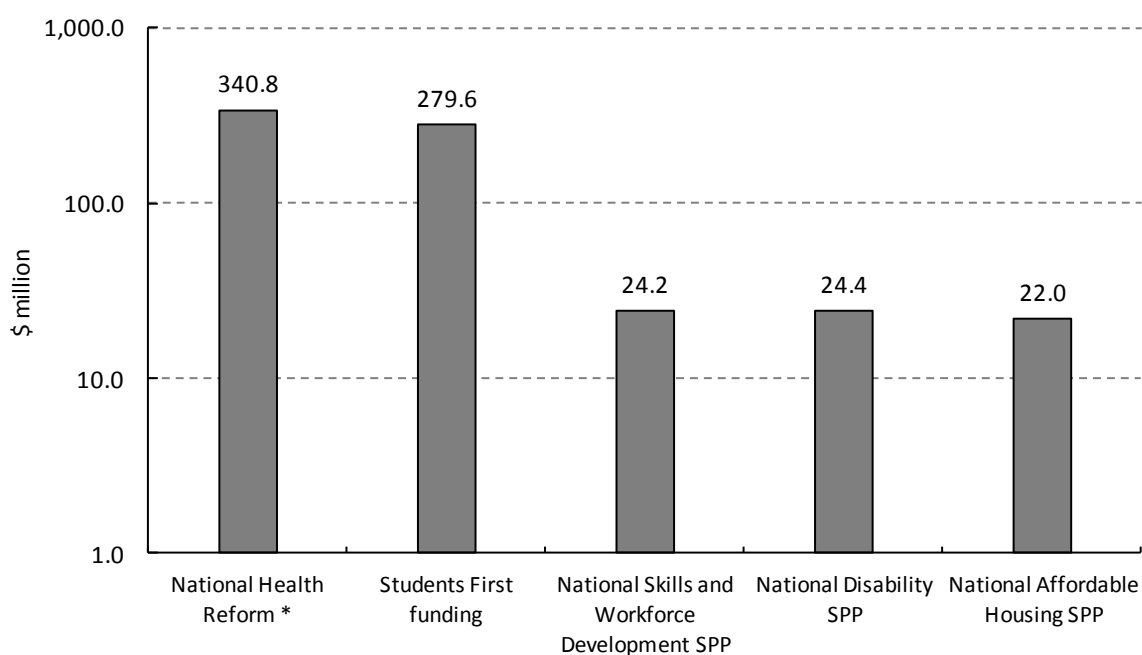
## National Specific Purpose Payments (SPPs)

Commonwealth grants for specific purposes to the ACT are projected to be \$2,904.1 million across the 2016-17 Budget and forward estimates to 2019-20.

The Commonwealth provides these grants as contributions towards the sectors of healthcare, education, skills and development, disability and housing.

The relative distribution of these SPPs across sectors is illustrated in Figure 7.1.4.

**Figure 7.1.4: 2016-17 National Specific Purpose Payments to the ACT**



**Source:** 2016-17 Commonwealth Budget Paper No. 3.

**Note:**

\* Public Hospital funding has been revised down for 2017-18 onwards from what is published in the 2016-17 Commonwealth Budget given the more current information on likely growth and activity levels available to the ACT Government.

The Commonwealth's SPP funding to the ACT is detailed in Table 7.1.4 below.

The ACT is required to spend the funding it receives under each National SPP in the service sector relevant to the SPP. For example, the National Affordable Housing funding must be expended in the housing sector – but the ACT has flexibility to allocate funds within that sector to achieve any mutually agreed objectives.

**Table 7.1.4: Commonwealth National Specific Purpose Payments to the ACT**

	2015-16	2016-17	Variation		2017-18	2018-19	2019-20
	Est. Out.	Budget			Estimate	Estimate	Estimate
	\$m	\$m	\$m	%	\$m	\$m	\$m
<b>National Health Reform<sup>1</sup></b>	324.7	340.8	16.1	5.0	358.6	377.2	396.8
<b>Students First funding</b>	264.9	279.6	14.7	5.6	294.1	313.1	330.7
<b>National Skills and Workforce Development SPP</b>	23.9	24.2	0.3	1.2	24.5	24.9	25.2
<b>National Disability SPP</b>	23.7	24.4	0.7	3.1	0.0	0.0	0.0
<b>National Affordable Housing SPP</b>	21.8	22.0	0.3	1.2	22.3	22.6	22.9
<b>Total National Specific Purpose Payments</b>	<b>658.9</b>	<b>691.1</b>	<b>32.1</b>	<b>4.9</b>	<b>699.6</b>	<b>737.8</b>	<b>775.6</b>

**Source:** 2016-17 Commonwealth Budget, Budget Paper No. 3.

**Note:** Numbers may not add due to rounding. Variation calculations based on \$'000.

1. Public Hospital funding has been revised down for 2017-18 onwards from what is published in the 2016-17 Commonwealth Budget given the more current information on likely growth and activity levels available to the ACT Government.

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

## Health Funding

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

At the time of the 2014-15 Budget, the Commonwealth Government unilaterally took the decision that from 1 July 2017 its contribution for public hospitals funding would be indexed by the Consumer Price Index (CPI) and population growth. This change withdrew the previous Commonwealth commitment under the NHRA to fund 50 per cent of efficient growth from 2017-18 and introduced a cap on the Commonwealth contribution.

The 2014-15 Commonwealth Budget changes also included a move away from the guarantee of minimum payments, as agreed under the NHRA, which significantly reduced payments the ACT had expected to receive under this agreement.

In 2016-17 the Commonwealth agreed with States and Territories to adopt interim funding arrangements for public hospitals, ahead of consideration of longer-term arrangements. Key features of this interim agreement include:

- extending activity based funding for public hospitals for three years from 2017-18 onwards;
- a guarantee that the Commonwealth will provide additional funding, if required, to ensure the Territory receives no less than it would have if the Commonwealth contribution was indexed at the rate of CPI and national population for each year; and

- the capping of annual growth in Commonwealth funding at 6.5 per cent nationally per annum (above which level States would be funding all extra costs); and funding adjustments based on performance against quality and safety indicators.

The 2016-17 Commonwealth Budget estimates that the ACT will receive \$1.1 billion for hospital services and public health over the three years from 2016-17 to 2018-19. This represents an additional \$151.4 million over the Commonwealth 2015-16 MYEFO.

The increase partly relates to cross border flows of approximately \$126 million over the two years from 2017-18 to 2018-19 that the ACT will now receive directly from the Commonwealth under the new Agreement, rather than needing to seek full reimbursement of such costs bilaterally.

The balance of \$25.4 million from 2016-17 to 2018-19 reflects the Commonwealth estimation of projected funding growth of approximately 7 per cent per annum based on a 10 year historical calculation of annual increases.

The ACT Health estimates, based on more recent activity forecasts suggest that an annual growth level of 5.2 per cent over the 2016-17 Budget and forward estimates is more likely. The impact over this four year period only provides an additional \$14.5 million under the interim arrangement of: -\$2.1 million in 2016-17; \$0.6 million in 2017-18; \$5.2 million in 2018-19; and \$10.8 million in 2019-20. This has been reflected in the 2016-17 ACT Budget.

## Education

The ACT Government entered into a Bilateral Agreement with the Commonwealth for schools funding on 4 August 2013, the National Education Reform Agreement. The Commonwealth legislated its needs-based funding model called the School Resourcing Standard (SRS) through the *Australian Education Act 2013*. The Bilateral Agreement covers a six year period; however, the Commonwealth Government, in its 2014-15 Budget, identified its intentions to reduce the term of the agreement on the new funding model reached with the ACT (and all other States) from six years to four years. From the 2018 school year onwards, total recurrent funding was to be indexed by the CPI.

The 2016-17 Commonwealth Budget announced an additional \$1.2 billion by the replacement of CPI with indexation of 3.560 per cent per annum from 2018 to 2020. While the additional funding the Commonwealth estimates the ACT would receive due to these revised indexation parameters is approximately \$1 million per year from 2018 to 2020, the State allocations from the 2018 school year onwards are indicative only. Final allocations are subject to formal negotiations with States and the non-government schools sector. Conditions of this funding are likely to include all school systems committing to more explicit teaching of maths and reading, better standards for teachers and more emphasis on science, technology, engineering and mathematics subjects.

## Disability Funding

The National Disability Insurance Scheme (NDIS) provides lifetime care and support for eligible people who have significant and permanent disabilities.

The ACT commenced as one of a number of trial sites for the National Disability Insurance Scheme (NDIS) around the country in July 2014. Under our transition to the NDIS, all eligible participants are to have access to the scheme by 1 July 2016, and to be fully transitioned by 30 September 2016.

During the transition phase of the NDIS, the Commonwealth continues to pay the National Disability SPP to States. However, as participants move into the NDIS, States are required to repay the funding they receive from the National Disability SPP to the National Disability Insurance Agency (NDIA). Once States are fully transitioned to the NDIS, the Commonwealth ceases National Disability SPP payments to States as its funding for disability services is now paid directly to the NDIA.

Accordingly, the 2016-17 Commonwealth Budget announced the discontinuation of the National Disability SPP payments to the ACT from 2017-18, and its replacement with NDIS funds.

The implementation of the NDIS represents a significant financial investment by the Commonwealth and States in improving the independence, quality of life, and outcomes for persons with disability. In recognition of this increased investment, the 2016-17 ACT Budget provides an additional \$22.3 million between 2016-17 and 2018-19 to meet the ACT's contribution to the NDIA. Funding changes for 2019-20 and future years will be included in future budgets, once there is certainty about the funding flows under full scheme arrangements.

To assist States in meeting additional costs associated with the transition to the NDIS, the Commonwealth established the DisabilityCare Australia Fund (DCAF). DCAF is funded from the Medicare Levy surcharge and States have access to this fund in line with the rate at which participants are signed up to the NDIS.

The 2016-17 Commonwealth Budget included a revised profile for DCAF funding, which brings forward \$28 million in funding from 2017-18 to 2016-17 for the ACT as shown in Table 7.1.5 below. However, the revised profile included in the 2016-17 Commonwealth Budget depends on significant NDIS governance changes to which the States, including the ACT, have not agreed as the proposed changes would require the ACT to take on greater risks around the cost of the scheme with limited benefits. This re-profiling has therefore not been reflected in the 2016-17 ACT Budget.

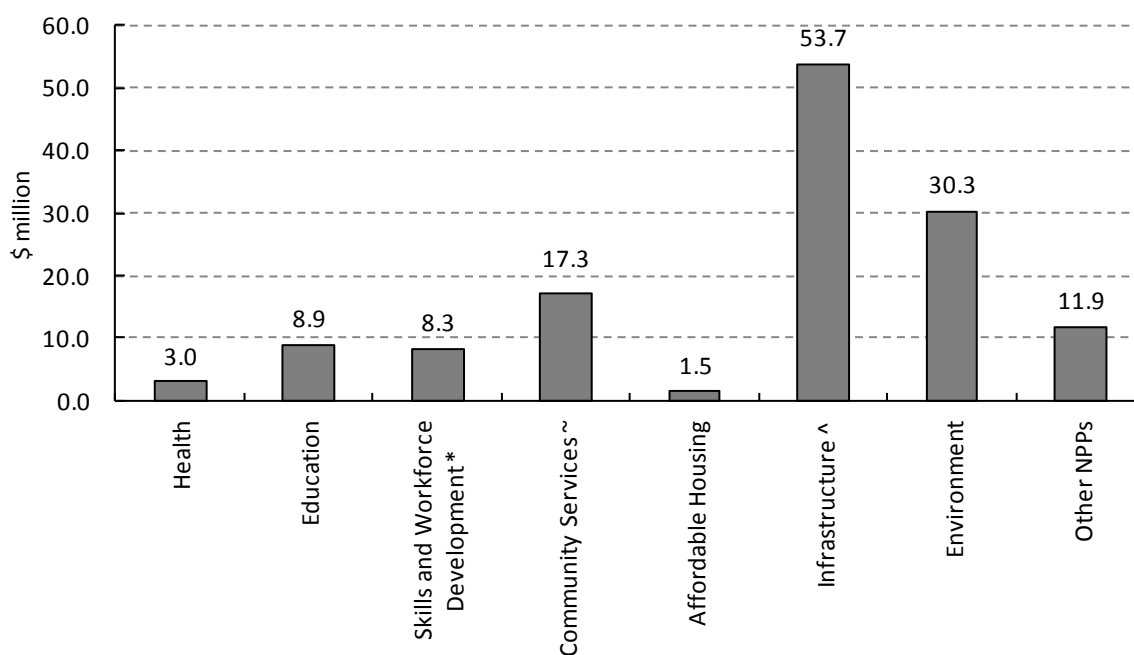
**Table 7.1.5: Disability Care Australia Fund – ACT Element**

	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	2018-19 \$'000
<b>2015-16 Commonwealth Budget</b>	1,417	12,490	43,817	15,715
<b>2016-17 Commonwealth Budget</b>	1,417	41,122	15,184	15,715
<b>Difference</b>	<b>0</b>	<b>28,632</b>	<b>-28,633</b>	<b>0</b>

## National Partnership Payments (NPPs)

Within the context of the IGA-FFR, the Commonwealth provides NPPs to the States, in addition to GRA and SPPs, to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements. The distribution of these payments for the ACT in 2016-17 across sectors is shown in Figure 7.1.5.

**Figure 7.1.5: 2016-17 National Partnership Payments to the ACT**



**Source:** 2016-17 Commonwealth Budget, Budget Paper No. 3.

**Notes:**

\* TAFE Fee Waivers was incorrect in the 2016-17 Commonwealth Budget as -\$290,000 but should have been \$10,000 for 2015-16.

~ DisabilityCare Australia Fund receipts for 2016-17 onwards has been revised to reflect different timing of payments as the ACT is unlikely to agree to different governance arrangements.

^ For the Asset Recycling Initiative, ACT Treasury estimates have been used which will be updated as assets are sold or as otherwise required under reporting arrangement with the Commonwealth Government.

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

National Partnership Agreements (NPAs) currently delivering NPP funding to the ACT across Budget and forward estimates are summarised by sector in Table 7.1.6 below.

**Table 7.1.6: Commonwealth National Partnership Payments to the ACT**

	2015-16 Est. Out. \$m	2016-17 Budget \$m	Variation		2017-18 Estimate \$m	2018-19 Estimate \$m	2019-20 Estimate \$m
			\$m	%			
Health	6.6	3.0	-3.6	-54.5	2.8	2.6	2.7
Education	9.2	8.9	-0.2	-2.6	6.6	0.0	0.0
Skills and Workforce Development <sup>1</sup>	6.1	8.3	2.2	36.6	0.0	0.0	0.0
Community Services <sup>2</sup>	5.5	17.3	11.7	211.8	47.1	19.8	21.2
Affordable Housing	1.5	1.5	0.0	0.0	0.0	0.0	0.0
Infrastructure <sup>3</sup>	40.6	53.7	13.1	32.2	38.8	18.2	30.1
Environment	4.6	30.3	25.6	553.2	30.3	18.0	0.3
Other NPPs	11.7	11.9	0.2	1.8	11.9	11.4	11.7
<b>Total National Partnership Payments</b>	<b>85.8</b>	<b>134.8</b>	<b>49.0</b>	<b>57.1</b>	<b>137.5</b>	<b>70.0</b>	<b>65.9</b>

**Source:** 2016-17 Commonwealth Budget, Budget Paper No. 3.

**Note:** Numbers may not add due to rounding. Variation calculations based on \$'000.

1. TAFE Fee Waiver was incorrect in the 2016-17 Commonwealth Budget as \$290,000 but should have been \$10,000 for 2015-16.
2. DisabilityCare Australia Fund receipts for 2016-17 onwards have been revised to reflect different timing of payments as the ACT is unlikely to agree to different governance arrangements.
3. For the Asset Recycling Initiative, ACT Treasury estimates have been used. These estimates will be updated as assets are sold under the Agreement or as otherwise required under reporting arrangements with the Commonwealth Government.

## Expiring National Partnership Payments

In the 2016-17 Commonwealth Budget, the Commonwealth allowed one NPA to expire.

- NPA on National Mental Health Reform (\$620,000 to the ACT in 2015-16). The Commonwealth Government has announced that the funding under this agreement is being reallocated to the Primary Health Network as part of a move towards delivering coordinated care packages to those accessing mental health services.

Three NPAs that were due to expire in 2015-16 have been extended or replaced with new agreements:

- NPA on Specified Projects (OzFoodNet) (\$139,000 to the ACT in 2015-16) – Funding was extended to 2019-20 with the ACT estimated to receive \$141,000 in 2016-17 and \$576,000 over four years.
- NPA on Adult Public Dental Services (\$2.4 million to the ACT in 2015-16) – This agreement will be replaced by the NPA on Child and Adult Public Dental Scheme. The new agreement is worth \$1.7 billion nationally between 2016-17 and 2019-20; however, State allocations are yet to be determined.



- NPA on Pay Equity for the Social and Community Services Sector (\$4 million in 2015-16) – The Commonwealth Government is in the process of developing a replacement agreement to take effect from 1 July 2016 when the existing agreement expires. The 2016-17 Commonwealth Budget includes \$2.6 million in 2016-17 and \$14.1 million between 2016-17 and 2019-20 for the ACT under this agreement.

The States continue to pursue improvements to the current process for dealing with expiring agreements. These improvements would see earlier notification of the Commonwealth's intentions.

## **New National Partnership Payments**

The 2016-17 Commonwealth Budget confirmed four new agreements, which have recently been agreed with the States and Territories (these include some payments to be made before the end of 2015-16):

- Project Agreement (PA) for the Implementation of National Outcome Standards for Perpetrator Interventions (\$46,000 to the ACT in 2016-17);
- PA for the National Register of Foreign Ownership of Land Titles (\$800,000 to the ACT split evenly between 2015-16 and 2016-17)<sup>7</sup>;
- PA for Managing Established Pest Animals and Weeds (\$21,000 in 2016-17)<sup>8</sup>; and
- PA for the National Health and Hospitals Network – Specialist Disability Services for over 65's (\$2.1 million in 2016-17).

The 2016-17 Commonwealth Budget also announced new funding arrangements under the NPA on the Asset Recycling Initiative (ARI). The ARI commenced on 1 July 2014 and will expire on 30 June 2019. The agreement offered a two year window, which expires on 30 June 2016, for States to reach an agreement with the Commonwealth to sell assets and invest the proceeds in productive infrastructure. Infrastructure investment must commence prior to 30 June 2019. The Commonwealth announced a total funding pool of \$5 billion for this initiative and has offered a total incentive payment of 15 per cent of the asset's final sale proceeds to be paid to States in two instalments upon completing key milestones.

The ACT Government signed the first agreement under the ARI on 19 February 2015, agreeing to sell assets initially estimated at nearly \$400 million (using the valuation method agreed with the Commonwealth for the purpose of commencement of ARI), including ACTTAB for \$105.5 million. The Commonwealth Government provided advice to the ACT following the release of the 2016-17 Commonwealth Budget that the ACT is estimated to receive around \$67 million under the agreement. This is approximately \$8 million more than previously estimated due to the inclusion of additional public housing assets in the agreed assets to be sold by the ACT Government.

<sup>7</sup> Commonwealth Budget does not include State allocations, as the agreement had not been signed before the cut-off for inclusion in 2016-17 ACT Budget. The ACT expects to receive \$800,000 spread over two years, with the first allocation paid prior to the end of the 2015-16 financial year.

<sup>8</sup> The Commonwealth Budget also includes funding in 2017-18 and 2018-19 of \$21,000 annually which are not included in the PA.

## Other Commonwealth Payments

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

### Financial Assistance Grants to Local Government

Financial Assistance Grants are paid to State Governments for on-passing to local governments through the State Grants Commissions. Financial Assistance Grants to local government are untied and can be spent according to local government priorities.

As the ACT Government has responsibility for both State and municipal functions, the Financial Assistance Grants are paid directly to the Territory to be spent according to its budget priorities, at approximately two per cent of the Financial Assistance Grants pool.

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

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

The Commonwealth Government announced on 29 June 2015 that the first two quarterly instalments of Financial Assistance Grants payments from 2015-16 were to be brought forward into 2014-15. The Commonwealth took this decision to smooth the funding provided to local councils over the next two years following the announcement of an increase in funding for the Roads to Recovery programme of \$1.1 billion between 2015-16 and 2016-17.

The change resulted in \$24.3 million in Financial Assistance Grants payments to the ACT being brought forward from 2015-16 into 2014-15.

The ACT's Financial Assistance Grants funding is shown in Table 7.1.7 below.

**Table 7.1.7: Commonwealth Government Financial Assistance Grants Funding to the ACT**

	2015-16 Est. Out. \$m	2016-17 Budget \$m	Variation		2017-18 Estimate \$m	2018-19 Estimate \$m	2019-20 Estimate \$m
			\$m	%			
<b>Financial Assistance Grants<sup>1</sup></b>	24.3	48.6	24.3	100.0	50.5	52.5	54.5

**Sources:** 2016-17 Commonwealth Budget and the 2014-15 Final Determination for Financial Assistance Grants for Local Government.

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

1. The first two quarterly instalments for Financial Assistance Grants in 2015-16 were brought forward and paid to the States in 2014-15. For the ACT, this meant that \$24.3 million was paid in 2014-15 instead of 2015-16.

## Total Commonwealth Funding to the ACT

All estimated and expected revenue transfers from the Commonwealth Government to the ACT over the Budget period are detailed in Table 7.1.8.

**Table 7.1.8: Total Commonwealth Funding to the ACT**

2015-16 Budget	FUNDING CATEGORIES	2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
<b>General Revenue Assistance</b>						
38,515	ACT Municipal Services	38,500	39,100	39,600	40,200	40,900
1,032,368	GST Revenue <sup>1</sup>	1,049,000	1,154,400	1,215,700	1,279,100	1,334,500
<b>1,070,883</b>	<b>Total General Revenue Assistance</b>	<b>1,087,500</b>	<b>1,193,500</b>	<b>1,255,300</b>	<b>1,319,300</b>	<b>1,375,400</b>
<b>Health Services</b>						
321,427	National Health Reform Funding – Hospital Services <sup>2</sup>	318,889	334,734	352,140	370,451	389,715
0	National Health Reform Funding – Public Health <sup>2</sup>	5,798	6,096	6,413	6,746	7,097
<b>321,427</b>	<b>Total Health Services SPP</b>	<b>324,687</b>	<b>340,830</b>	<b>358,553</b>	<b>377,198</b>	<b>396,812</b>
<b>Health Services NPPs</b>						
2,365	Adult Public Dental Services	2,365	0	0	0	0
0	Child and Adult Public Dental Scheme <sup>7</sup>	0	0	0	0	0
2,346	Essential Vaccines	2,947	2,402	2,413	2,449	2,472
50	Health and Hospitals Fund Capital – National Cancer System	0	0	0	0	0
356	Health Services – BreastScreen Australia – Expansion of Program	356	263	0	0	0
34	Health Services – Vaccine Preventable Diseases Surveillance	34	35	36	37	38
118	National Bowel Cancer Screening Programme – Participant Follow-Up Function	118	151	184	0	0
139	OzFoodNet	139	141	143	145	147
620	Supporting National Mental Health Reform	620	0	0	0	0
<b>6,028</b>	<b>Total Health Services NPPs</b>	<b>6,579</b>	<b>2,992</b>	<b>2,776</b>	<b>2,631</b>	<b>2,657</b>
<b>327,455</b>	<b>Total Health Services</b>	<b>331,266</b>	<b>343,822</b>	<b>361,329</b>	<b>379,829</b>	<b>399,469</b>
<b>Housing</b>						
21,704	National Affordable Housing SPP	21,762	22,027	22,314	22,598	22,903
<b>Housing NPPs</b>						
1,520	Homelessness	1,520	1,520	0	0	0
<b>1,520</b>	<b>Total Housing NPPs</b>	<b>1,520</b>	<b>1,520</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>23,224</b>	<b>Total Housing</b>	<b>23,282</b>	<b>23,547</b>	<b>22,314</b>	<b>22,598</b>	<b>22,903</b>

2015-16 Budget \$'000	FUNDING CATEGORIES	2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
	<b>Community Services</b>					
23,640	National Disability SPP	23,668	24,394	0	0	0
	<b>Community Services NPPs</b>					
0	National Health and Hospitals Network – Specialist Disability Services for over 65's	0	2,112	0	0	0
0	National Outcome Standards for Perpetrator Interventions	107	46	0	0	0
1,932	Pay Equity for Social and Community Services	4,008	2,603	3,311	4,077	4,908
1,417	Payments from the DisabilityCare Australia Fund <sup>3</sup>	1,417	12,490	43,817	15,715	16,265
<b>3,349</b>	<b>Total Community Services NPPs</b>	<b>5,532</b>	<b>17,251</b>	<b>47,128</b>	<b>19,792</b>	<b>21,173</b>
<b>26,989</b>	<b>Total Community Services</b>	<b>29,200</b>	<b>41,645</b>	<b>47,128</b>	<b>19,792</b>	<b>21,173</b>
	<b>Education and Early Childhood National Schools SPPs and National Education Reform Agreement (Students First) Funding</b>					
82,355	National Education Reform – (Students First) – Government	82,531	86,673	95,261	104,778	112,315
186,049	National Education Reform – (Students First) – Non-Government <sup>4</sup>	182,371	192,936	198,876	208,324	218,394
<b>268,404</b>	<b>Total National Schools SPPs and National Education Reform Agreement (Students First) Funding</b>	<b>264,902</b>	<b>279,609</b>	<b>294,137</b>	<b>313,102</b>	<b>330,709</b>
	<b>Education and Early Childhood NPPs</b>					
260	Independent Public Schools Initiative	260	260	0	0	0
0	MoneySmart Teaching	0	0	0	0	0
0	National Quality Agenda for Early Childhood Education and Care	321	489	459	0	0
966	National School Chaplaincy Programme	966	966	966	0	0
0	Online Safety Programs – Government Schools	11	23	34	0	0
0	Online Safety Programs – Non-Government Schools <sup>4</sup>	6	12	18	0	0
0	Schools Security – Government schools	0	0	0	0	0
3	Schools Security – Non Government schools <sup>4</sup>	13	13	12	0	0

2015-16 Budget	FUNDING CATEGORIES	2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
725	Trade Training Centres in Schools – Government Schools	725	0	0	0	0
0	Trade Training Centres in Schools – Non Government Schools <sup>4</sup>	0	0	0	0	0
6,849	Universal Access to Early Childhood Education	6,849	7,150	5,089	0	0
<b>8,803</b>	<b>Total Education and Early Childhood NPPs</b>	<b>9,151</b>	<b>8,913</b>	<b>6,578</b>	<b>0</b>	<b>0</b>
<b>277,207</b>	<b>Total Education and Early Childhood</b>	<b>274,053</b>	<b>288,522</b>	<b>300,715</b>	<b>313,102</b>	<b>330,709</b>
	<b>Skills and Workforce Development</b>					
23,858	National Skills and Workforce Development SPP	23,922	24,217	24,547	24,874	25,222
	<b>Skills and Workforce Development NPPs</b>					
6,050	Building Australia's Future Workforce – Skills Reform	6,050	8,276	0	0	0
0	TAFE Fee Waivers for Childcare Qualifications NPP <sup>5</sup>	10	0	0	0	0
<b>6,050</b>	<b>Total Skills and Workforce Development NPPs</b>	<b>6,060</b>	<b>8,276</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>29,908</b>	<b>Total Skills and Workforce Development</b>	<b>29,982</b>	<b>32,493</b>	<b>24,547</b>	<b>24,874</b>	<b>25,222</b>
	<b>Infrastructure Investment Programme</b>					
966	Black Spot Projects	0	1,619	966	966	979
982	Bridges Renewal Programme	936	708	1,339	959	978
1,043	Heavy Vehicle Safety and Productivity	469	614	787	657	652
874	Investment – Road Component/ IIP-Roads	616	6,300	6,611	3,020	20,709
5,600	Roads to Recovery	8,973	12,931	11,200	4,004	6,400
	<b>Infrastructure Growth Package – Asset Recycling Fund</b>					
3,550	Asset Recycling Initiative <sup>6</sup>	3,930	29,540	17,540	8,240	0
10,411	New Investments	10,411	1,610	0	0	0
	<b>Other Projects</b>					
6,920	Building Australia Fund – Road Component	6,920	0	0	0	0
8,000	Centenary of Canberra 2013 – A Gift to the National Capital	8,000	0	0	0	0
355	Interstate Road Transport	355	355	355	355	355
<b>38,701</b>	<b>Total Infrastructure</b>	<b>40,610</b>	<b>53,677</b>	<b>38,798</b>	<b>18,201</b>	<b>30,073</b>

2015-16 Budget \$'000	FUNDING CATEGORIES	2015-16 Est. Outcome \$'000	2016-17 Budget \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000	2019-20 Estimate \$'000
	<b>Environmental Services</b>					
	<b>Environmental Services NPPs</b>					
300	Bushfire Mitigation	300	299	0	0	0
327	Implementing Water Reform in the Murray Darling Basin	327	327	327	327	327
3,320	Sustainable Rural Water Use and Infrastructure Programme	3,320	27,000	30,000	17,671	0
1,958	Natural Disaster Resilience	653	2,610	NFP	NFP	NFP
0	Established Pest and Weed Management	32	21	21	21	0
0	Development of business cases for constraints measures <sup>7</sup>	0	0	0	0	0
0	Water Infrastructure Development Fund – feasibility studies component <sup>7</sup>	0	0	0	0	0
0	Water Infrastructure Development Fund – capital component <sup>7</sup>	0	0	0	0	0
0	Assistance for pest animal and weed management in drought affected areas <sup>7</sup>	0	0	0	0	0
<b>5,905</b>	<b>Total Environmental Services</b>	<b>4,632</b>	<b>30,257</b>	<b>30,348</b>	<b>18,019</b>	<b>327</b>
	<b>Other</b>					
	<b>Other NPPs</b>					
775	Developing Demand-Driver Infrastructure for the Tourism Industry	775	775	775	0	0
5,788	Legal Assistance Services	5,787	5,813	5,618	5,721	5,818
5,114	Provision of Fire Fighting Services	5,114	5,293	5,478	5,670	5,868
0	National Register of Foreign Ownership of Land Titles <sup>7</sup>	0	0	0	0	0
<b>11,677</b>	<b>Total Other NPPs</b>	<b>11,676</b>	<b>11,881</b>	<b>11,871</b>	<b>11,391</b>	<b>11,686</b>
	<b>Other Payments</b>					
48,562	Financial Assistance Grants – Local Government	24,283	48,611	50,530	52,452	54,527
<b>60,239</b>	<b>Total Other Commonwealth</b>	<b>35,959</b>	<b>60,492</b>	<b>62,401</b>	<b>63,843</b>	<b>66,213</b>
<b>1,860,511</b>	<b>Total Commonwealth Government Funding</b>	<b>1,856,484</b>	<b>2,067,955</b>	<b>2,142,880</b>	<b>2,179,558</b>	<b>2,271,489</b>

**Source:** The 2016-17 Commonwealth Budget; the 2014-15 Final Determination for Financial Assistance Grants for Local Government; and Chief Minister, Treasury and Economic Development Directorate calculations.

**Notes:** NFP indicates 'not for publication' in the 2016-17 Commonwealth Budget as negotiations are yet to be finalised.

1. GST revenue includes the balancing adjustment of \$7.2 million, paid in 2015-16 to correct the underpayment in 2014-15 from the Commonwealth.
2. The National Health Reform funding has been revised down for 2017-18 onwards from what is published in the 2016-17 Commonwealth Budget given the more current information on likely growth and activity levels available to the ACT Government.

3. DisabilityCare Australia Fund for 2016-17 onwards has been revised to reflect different timing of payments as the ACT is unlikely to agree to different governance arrangements.
4. Non-Government Schools funding has not been grossed-up for GST that will be passed through to them.
5. TAFE Fee Waivers for 2015-16 was incorrectly published as -\$290,000 in the 2016-17 Commonwealth Budget but should have been \$10,000.
6. For the Asset Recycling Initiative, ACT Treasury estimates have been used which will be updated as assets are sold or as otherwise required under reporting arrangements with the Commonwealth Government.
7. Where all zeros appear for 2015-16 as well as for the 2016-17 Budget and forward estimates, this is due to agreements for which State allocations are not yet determined or not certain.

## Drivers of ACT GST Estimates

### Report on GST Revenue Sharing Relativities – 2016 Update, Commonwealth Grants Commission (CGC)

For equity and efficiency reasons, the Commonwealth Government distributes a portion of its revenues to the States, recognising that the States have differing capacities to raise revenues and deliver services. Australia's HFE system is designed to engender stability and confidence in the States' fiscal situations by ensuring State Governments receive funding in proportion to their relative needs and revenue raising capacities.

The CGC recommends how the revenues raised from the GST should be distributed to the States to achieve HFE. The latest assessments in the *Report on GST Revenue Sharing Relativities – 2016 Update* (2016 Update) were calculated on the basis of the latest three years (2012-13 to 2014-15) of socio-economic and demographic data and led to an increase in the ACT's GST relativity from 1.10012 (2015 Review) to 1.15648 (2016 Update). The relativities were subsequently adopted by the Commonwealth Treasurer on 7 April 2016 and used to distribute the 2016-17 GST pool.

#### 2016 Recommendations

Table 7.1.9 shows the per capita relativities recommended for use in distributing the GST revenue among the States in 2016-17. It also shows State shares of the GST revenue implied by the 2016-17 recommendations and an illustrative total GST revenue distribution. It compares these with the results for the 2015-16 year.

**Table 7.1.9: Results – relativities, shares and GST distribution in 2015-16 and 2016-17**

	Relativities		Shares		GST distribution	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
			%	%	\$m	\$m
New South Wales	0.94737	0.90464	30.4	29.0	17,401	17,598
Victoria	0.89254	0.90967	22.4	22.9	12,807	13,881
Queensland	1.12753	1.17109	22.7	23.6	13,024	14,348
Western Australia	0.29999	0.30330	3.3	3.4	1,890	2,037
South Australia	1.35883	1.41695	9.7	10.1	5,556	6,110
Tasmania	1.81906	1.77693	3.9	3.8	2,249	2,299
<b>Australian Capital Territory</b>	<b>1.10012</b>	<b>1.15648</b>	<b>1.8</b>	<b>1.9</b>	<b>1,036</b>	<b>1,155</b>
Northern Territory	5.57053	5.28450	5.7	5.4	3,286	3,291
Total	1.00000	1.00000	100.0	100.0	57,250	60,720

Source: CGC calculation.

Note: ACT GST entitlement for 2016-17 varies from the estimate in Table 7.1.1 above as the estimate in Table 7.1.9 is a CGC estimate based on estimates for the 2016-17 GST pool and estimates for State Estimated Resident Population at 31 December 2016 [2015-16 Commonwealth Mid-Year Economic and Fiscal Outlook].

In per capita terms the States of Victoria, Queensland, Western Australia, South Australia and the ACT received an increase in their relative share of the pool at the expense of New South Wales, Tasmania and the Northern Territory.



## ***Overall Commentary***

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

- The major causes of change in State fiscal capacities were a reduction in the mining States' capacities to raise revenues from mining royalties, an increase in the capacity of States to raise revenues from property sales and changes in Commonwealth payments to the States.
- The slowdown in population growth in the mining States also played a significant role as did natural disaster relief expenses, and shifts in the relative taxable payroll and wage cost pressures across jurisdictions.

## ***Implications for the ACT***

The ACT has maintained the fourth highest assessed fiscal capacity of all jurisdictions while at the same time having its relativity increased. The five main reasons for the change in relativity for the ACT are<sup>9</sup>:

- *Data revision on Taxable payrolls* – Downward revisions in ABS data used to measure the payroll tax base has reduced the ACT's revenue raising capacity and increased our GST share. These data revisions increased the ACT's GST share by \$36 million.
- *Change in Taxable payrolls* – The ACT's taxable private sector payrolls declined leading to a reduction in its revenue raising capacity. This increased the ACT's GST share by a further \$25 million.
- *Property sales* – The increase in property sales in the ACT was low relative to other jurisdictions which resulted in the ACT's relative capacity to raise revenue from conveyance duty decreasing. This increased GST to the ACT by \$28 million.
- *Mining production* – A fall in the value of mining production reduced the revenue raising capacity of the major mining States which shifted \$17 million in GST away from the ACT.
- *Wage costs* – The ACT's relative wage costs decreased, reducing our GST share by \$11 million.

The Report's recommendations translated into a gain of \$55 million or \$138 per capita compared with the GST estimates released in the 2015-16 ACT Budget Review. This per capita gain to the ACT is the second largest of any jurisdiction, as illustrated by Table 7.1.10.

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<sup>9</sup> These changes relate to the assessment years in the 2016 Update i.e. 2012-13, 2013-14 and 2014-15. They do not necessarily reflect conditions in the current Budget or forward estimates years.

**Table 7.1.10: Per capita change in GST distribution due to change in relativity in 2016-17**

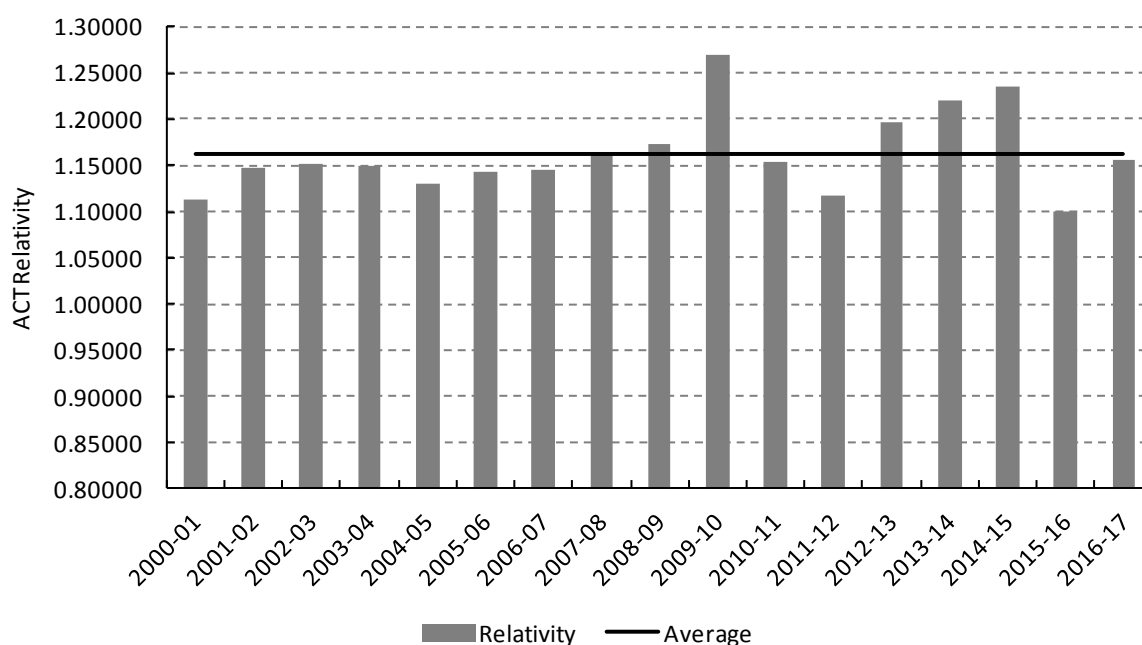
\$ per capita	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2016-17	-109.4	40.7	106.3	7.5	142.2	-110.3	137.8	-731.5

**Source:** CMTEDD calculation based on Table 4, Report on GST Revenue Sharing Relativities – 2016 Update, Commonwealth Grants Commission and 31 December 2016 Estimated Resident Population [2015-16 Mid-Year Economic and Fiscal Outlook, Commonwealth Government].

This contrasts with the agreed ACT relativity for 2015-16 which saw the ACT incurring a loss of approximately \$129 million, or \$325 per capita compared with the ACT’s 2014-15 Budget Review estimate, the largest of any jurisdiction.

Despite the increase in the ACT’s GST relativity in 2016-17, it remains slightly below the historical average of 1.16266 as illustrated by Figure 7.1.6.

**Figure 7.1.6: ACT Historic GST Revenue Sharing Relativities, 2000-01 to 2016-17**



### Major Issues arising in the 2016 Update

In the *Report on GST Revenue Sharing Relativities 2015 Review* the CGC deferred its review of the Wage Costs assessment until new ABS data became available. The review was subsequently undertaken as part of the *2016 Update*. The CGC was to consider whether the assessment was to continue, which risked a potential loss in GST of \$84 million to the ACT.

The CGC released three discussion papers on the Wage Costs assessment review, which were addressed by the ACT in several submissions. The recommendations made in the Report overall were favourable to the ACT and the CGC agreed to continue the assessment. While some elements of the revised approach reduced the amount redistributed to the ACT in 2016-17, the Wage Costs assessment will still distribute \$76 million, or \$191 per capita, above an equal per capita share in GST to the ACT in 2016-17.

Another important change was the reclassification of the Majura Parkway as a National Network Road based on arguments presented by the ACT. As a result, the CGC has now excluded 50 per cent of any Commonwealth funding for the Parkway from equalisation.

