

6.2 INTERGOVERNMENTAL FINANCES

Overview

- Following the introduction of the Goods and Services Tax (GST) in 2000, and the abolition of a number of State taxes, the States and Territories (hereafter referred to as “the States”) have become increasingly reliant on Commonwealth Government funding to provide essential services. Approximately 42 per cent of the ACT’s revenue will be transferred from the Commonwealth Government in 2008-09.
- GST revenue grants are expected to be \$907.4 million in 2008-09, an increase of \$64.7 million from the 2007-08 estimated outcome.
- Specific Purpose Payment (SPP) funding of \$481.9 million is currently forecast for 2008-09, an increase of \$32.8 million over the 2007-08 estimated outcome. However, proposed reforms to the SPP financial framework, due to take effect from 1 January 2009, will have a significant effect on how SPP funding is delivered to the States in the future.
- The ACT’s GST relativity has been revised upwards from 16.3 per cent above an equal per capita share of the GST pool in 2007-08 to 17.2 per cent in 2008-09 following the release of the Commonwealth Grants Commission’s (CGC) Report on State Revenue Sharing Relativities 2008 Update (2008 Update Report) in March 2008.
- The Council of Australian Governments (COAG) is progressing a number of key reforms, which are being driven across the span of Commonwealth-State relations.

Commonwealth-State Financial Relations

In Australia, Commonwealth-State financial relations are characterised by a mismatch between the revenue-raising capacities and the expenditure responsibilities of the Commonwealth and State Governments. While the Commonwealth Government collects the majority of taxation revenues, the States are constitutionally responsible for the delivery of fundamental government services, such as health and education, and thus shoulder the burden of expenditure. This disparity is known as vertical fiscal imbalance (VFI) and means the States are inherently reliant on fiscal transfers from the Commonwealth Government.

The extent of VFI in Australia has increased since the introduction of the GST under the A New Tax System (ANTS) reforms in 1999 and the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), which required the States to abolish a number of own source revenues in return for the transfer of the GST.

As part of this process, the ACT will abolish lease duty from 1 July 2009 and duty on non-quotable marketable securities from 1 July 2010. This will fulfil the Territory’s commitments under the IGA.

COAG is currently progressing a number of key reforms and these are described in detail throughout the chapter below.

Commonwealth Government Funding to the ACT

Revenue transfers from the Commonwealth Government are a vital source of revenue for all States, and will account for approximately 42 per cent of the ACT's General Government Sector revenues in 2008-09.

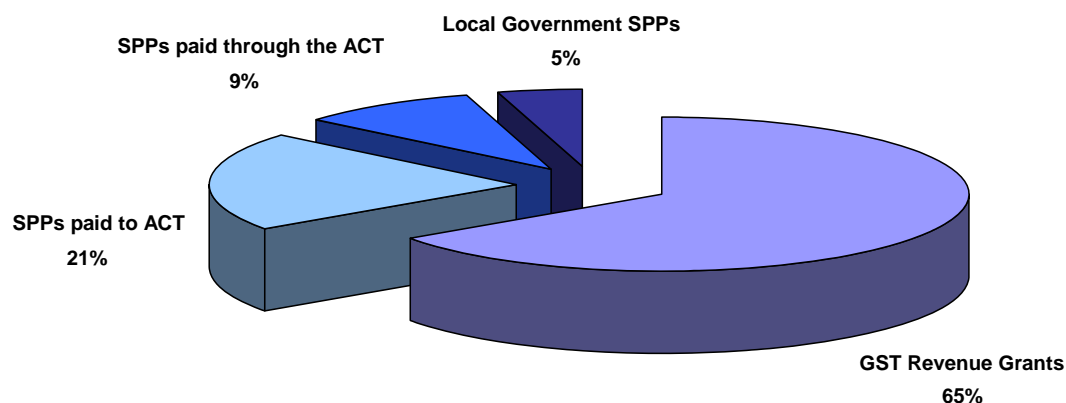
Table 6.2.1 below summarises the expected level of Commonwealth Government funding to the ACT across the Budget and Forward Estimates.

Table 6.2.1
Commonwealth Government Funding to the ACT

Payment	2007-08 Est. Out. \$m	2008-09 Budget \$m	Var \$m	Var %	2009-10 Estimate \$m	2010-11 Estimate \$m	2011-12 Estimate \$m
GST Revenue Grants	842.7	907.4	64.7	7.7	951.9	997.5	1,045.3
Specific Purpose Payments:							
Health (inc Health Care Grants)	144.6	153.3	8.7	6.0	158.9	165.1	171.4
Social Security and Welfare	28.8	30.8	2.0	6.9	31.2	32.2	33.4
Public Order and Safety	3.9	4.0	0.1	2.6	4.1	4.2	4.3
Education	157.3	176.6	19.3	12.3	182.7	195.1	200.0
Vocational Education and Training	23.1	23.6	0.5	2.2	24.1	24.6	25.2
Housing	19.2	19.6	0.4	2.1	19.5	19.7	20.1
Local Government	61.1	62.8	1.7	2.8	65.0	67.0	69.1
Other	11.0	11.2	0.2	1.8	11.4	11.6	11.8
Total Specific Purpose Payments	449.1	481.9	32.9	7.3	496.9	519.5	535.3
Other Commonwealth Govt. Payments	17.4	4.6	-12.8	-73.6	0.9	0.9	0.9
Total Commonwealth Government Funding	1,309.2	1,393.9	84.7	6.5	1,449.7	1,517.9	1,581.4

The relative proportions of Commonwealth Government funding received by the ACT are shown in Figure 6.2.1

Figure 6.2.1
2008-09 Commonwealth Government Funding to the ACT



Notes:

- (a) SPPs paid to the States - paid to a State Government for the provision of government services.
- (b) SPPs paid through the States - paid to a State Government for on-passing to third parties such as non-government schools.
- (c) Local government SPPs - paid to a State Government for local government functions.

General Revenue Assistance to the ACT

Since the cessation of National Competition Policy payments at the end of 2005-06, General Revenue Assistance to the States, that is untied funding, consists solely of GST revenue payments.

Under the ANTS reforms of 1999 it was agreed that all of the revenue generated from the GST would be transferred to the States, to be spent according to their own priorities. In establishing these arrangements, the Commonwealth Government guaranteed that no State would be financially worse off when compared with the previous arrangements. To that end, the Commonwealth Government provided transitional assistance to any State whose GST entitlement fell below the amount receivable had the national tax reforms not taken place - known as the Guaranteed Minimum Amount (GMA).

These transitional arrangements are due to expire on 30 June 2009 (having been extended from 30 June 2006). However, no State has required additional assistance since 2004-05, that is, since that year their GST entitlements have exceeded their GMAs, and there is no foreseeable need for further assistance across the budget period.

2007-08 Estimated Outcome

The Territory will receive \$842.7 million in GST in 2007-08, an increase of \$20.1 million, compared to the 2007-08 Budget Estimate of \$822.6 million. This increase in funding reflects:

- an increase in the 2007-08 GST revenue pool estimate of \$380 million as a result of stronger underlying consumption; and
- a significant increase in the ACT's share of the Australian population, following the release of the 2006 Population Census outcome, which has flow-on effects to the ACT's share of the GST revenue pool.

2008-09 Budget Year

GST revenue grants to the ACT in 2008-09 are estimated at \$907.4 million, reflecting an increase of \$64.7 million over the 2007-08 estimated outcome of \$842.7 million. The increase primarily reflects:

- an increase of \$3,040 million over the 2007-08 GST revenue pool to \$45,270 million;
- an increase in the ACT's share of the Australian population; and
- the CGC's 2008 Update Report recommendation to increase the ACT's GST relativity from 1.16293 in 2007-08 to 1.17205 in 2008-09.

Forward Estimates of Commonwealth Funding

There is a degree of unpredictability with regards to calculating forward year estimates for Commonwealth Government funding. Uncertainty in the GST estimation process arises from two factors, namely, the difficulty involved in predicting the size of future GST collections due to economic circumstances, and the fact that the CGC recalculates the States' GST relativities each year based on the latest available statistical information.

As the GST is a federally collected tax driven by macroeconomic conditions, the Commonwealth Government is considered best placed to estimate the GST revenue pool, and as such, the ACT adopts the Commonwealth Government's GST revenue estimates for budgetary purposes. The Territory's relative share of the GST revenue pool is determined according to the CGC's latest recommended GST relativities and the Australian Bureau of Statistics' population estimates. Based on ongoing advice from these three sources, the ACT regularly updates its estimates to reflect variations. Since the 2007-08 Budget, the ACT has updated its GST revenue grant estimates three times following advice from the Commonwealth Government. A summary of these updates is provided in Table 6.2.2 below.

Table 6.2.2
Reconciliation of GST Revenue Grants to the ACT

GST Revenue Grants to the ACT		2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
2007-08 ACT Budget	Jun 07	822.6	864.3	902.3	942.6
	Variation	13.0	0.0	0.0	0.0
	(1)				
2007-08 GST Payment Profile	Jun 07	835.6	864.3	902.3	942.6
	Variation	7.1	36.3	44.2	51.1
	(2)				
2007-08 Commonwealth MYEFO	Oct 07	842.7	900.6	946.5	993.7
	Accumulated variation (1 + 2)	20.1	36.3	44.2	51.1
	% change	2.4	4.2	4.9	5.4
2007-08 ACT Mid-Year Review ^(a)	Feb 08	842.7	900.6	946.5	993.7
	Variation	0.0	6.8	5.4	3.8
	(3)				
2008 Update	Mar 08	842.7	907.4	951.9	997.5
	Accumulated variation (3)	0.0	6.8	5.4	3.8
	% change	0.0	0.8	0.6	0.4
2008-09 ACT Budget	May 08	842.7	907.4	951.9	997.5
Change from 2007-08 Budget to 2008-09 Budget		20.1	43.1	49.6	54.9

Notes:

(a) The impact of variations 1 and 2 was reflected in the ACT's 2007-08 Mid-Year Review, released in February 2008.

Parameter variation:

- (1) **2007-08 GST Payment Profile:** Upward revision to the ACT's relative share of 2007-08 Australian population following the release of the 2006 Population Census outcome.
- (2) **2007-08 Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO):** Revised GST revenue pool and population estimates.
- (3) **2008 Update:** Release of 2008-09 GST relativities.

Specific Purpose Payments

SPPs are provided to the States under Section 96 of the Constitution for recurrent and capital expenditure purposes. SPPs are tied to specific programs and have been used as a means by which the Commonwealth Government can inject its own policy objectives into activities that are the constitutional responsibility of the States. SPPs represent approximately 42 per cent of all federal transfers to the States.

However, in light of the cooperative federalism model adopted by the newly elected Commonwealth Government, significant reforms are proposed for the way SPP funding will be delivered to the States from 2008-09.

In December 2007, COAG tasked the Commonwealth and State Treasurers with developing a new framework for all Commonwealth-State payments (with the exception of the GST), under which there would be a greater focus on outputs and outcomes (rather than inputs) and which would be underpinned by a commitment from the Commonwealth Government to provide incentive payments to drive reforms.

Further, the Commonwealth Government made a commitment that no State would be financially worse off as a result of these reforms.

The objectives of the new financial framework include:

- increased flexibility for the States to allocate resources to the areas where they will produce the best overall outcomes for the community;
- collaborative working arrangements, including clearly defined roles and responsibilities and fair and sustainable financial arrangements to facilitate a long-term policy focus and reduce blame shifting;
- the provision of incentive payments for reforms in areas of joint responsibility;
- increased accountability to the community, by all levels of government; and
- reduced administration and compliance overheads.

These objectives will be achieved by:

- a significant rationalisation of SPPs – the current 90 plus SPPs will be broadbanded to five or six categories covering health, education, disability services and housing, without a reduction in total funding:
 - there will be four categories of funding under the new framework: GST revenue payments; other general revenue assistance; SPPs; and National Partnership Payments (NPPs), to cover specific projects and reform linked incentive payments.
- mutually agreed roles and responsibilities, and objectives and outcomes for each SPP. SPP agreements will be ongoing, rather than for a fixed period, and will be subject to regular review to ensure the adequacy of funding and related outcomes;
- simpler, standardised and more transparent performance reporting, with a new focus on the achievement of outcomes, value for money and the timely provision of publicly available performance information:
 - SPPs will no longer be tied to the delivery of specific programs, instead States will be required to meet specified outcomes; and
- an active monitoring role by COAG, including the development of a new intergovernmental agreement for Commonwealth-State financial arrangements.

These reforms are expected to be finalised and signed off by COAG in December 2008, ready to take effect from 1 January 2009. There will be a number of significant implications for the Territory in terms of the budget presentation of these reforms, however, to date they are not sufficiently progressed to be incorporated into the 2008-09 Budget. This document has been presented on a no-change basis for the forward years.

2007-08 Estimated Outcome

The Territory expects to receive \$466.5 million in SPPs and other Commonwealth Government payments in 2007-08. This is a slight increase on the original Budget Estimate of \$462.3 million.

2008-09 Budget Year

At present, SPPs and other Commonwealth Government payments to the ACT in 2008-09 are estimated at \$486.5 million. This represents an increase of \$20 million over the 2007-08 estimated outcome. In general, this increase reflects an increase in funding for health and non-government education.

Forward years

Commonwealth Government estimates, where available, are used for SPP funding projections across the forward years. Where advice has not been provided, latest year estimates have been extrapolated for user population and indexation arrangements.

In terms of individual SPP Agreements, the most notable development going forward will be the re-negotiation of the Australian Health Care Agreement, the largest of all SPPs, which is due to expire on 30 June 2008. COAG has directed that the new agreement be signed by December 2008, for implementation by 1 July 2009. In the meantime the current agreement will be rolled over, subject to appropriate indexation.

Local Government Funding Arrangements

In response to the 2003 House of Representatives Standing Committee on Economics, Finance and Public Administration's inquiry into Local Government and Cost Shifting¹, the former Commonwealth Government directed the Productivity Commission to undertake a research study examining local government revenue raising capacity and to assess the impact of local government taxes on individuals, organisations and businesses.

The Productivity Commission released its final report in April 2008. Its key findings concluded that local governments operate without major impediments to revenue raising activities and all local governments have the capacity to increase their revenue raising efforts. Nonetheless, there is considerable variation, in per capita terms, in the revenues raised and the grants received across local governments.

Consequently, there is no compelling reason, nor any known intention, for the Commonwealth Government to take action with regards to local government funding. Furthermore, local government funding has been quarantined from the new funding framework, thus there are currently no identified budgetary developments for the ACT.

Commonwealth Grants Commission Report on State Revenue Sharing Relativities 2008 Update

The CGC annually advises the Commonwealth Government on the appropriate per capita relativities for distributing the GST revenue and Health Care Grants (collectively known as the GST pool) among the States. The distribution is made in accordance with the principles of horizontal fiscal equalisation (HFE) and is designed to provide all States with the same fiscal capacity to provide services to their populations.

¹ The Hawker Report – *Rates and Taxes: a fair share for responsible local government*.

Under HFE, State governments receive funding from the GST pool such that, if each State made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each State would have the capacity to provide services at the same standard. In applying the principles of HFE to its assessment of States' per capita relativities, the CGC examines all State government services and revenues to determine each jurisdiction's relative cost of service provision and revenue raising capacity.

Since 1988, the methods used to calculate relativities have been reviewed every five to six years, with the next review due to report in 2010. Between major reviews, the relativities are updated annually so that they reflect the latest circumstances of the States.

Outcome of Report on State Revenue Sharing Relativities 2008 Update

The 2008 Update Report was publicly released on 4 March 2008.

The relativities were agreed by the Ministerial Council for Commonwealth-State Financial Relations on 14 March 2008, and will be used to distribute the 2008-09 GST pool.

A comparison of the 2007 Update and 2008 Update relativities, as illustrated in Table 6.2.3 below, shows that New South Wales, Victoria, South Australia, the ACT and the Northern Territory all received increased relativities. The other States received reduced relativities. In particular, the relativity of Queensland has now moved below an equal per capita share (relativity less than one) due to continued growth in its ability to raise revenue. This follows Western Australia's move 'below one' last year.

**Table 6.2.3
Comparison of GST Relativities**

	2007 Update	2008 Update	Change in GST funding ^(a)	
			\$m	\$ per capita ^(b)
New South Wales	0.89079	0.91060	341.5	49
Victoria	0.90096	0.92540	316.9	60
Queensland	1.00607	0.96508	-409.3	-97
Western Australia	0.94747	0.88288	-326.7	-154
South Australia	1.20791	1.20856	5.8	4
Tasmania	1.54465	1.52994	-16.2	-33
Australian Capital Territory	1.16293	1.17205	8.2	24
Northern Territory	4.36824	4.51835	79.8	369

Notes:

(a) Relativity impact only, excludes the effects of population and GST revenue growth.

(b) Based on 2007-08 populations reported in the Commonwealth Treasurer's Statement of Estimated Payments, March 2008.

A relativity above one indicates that a State requires more than the Australian average per capita amount of the GST pool to deliver services at Australian average levels. A relativity less than one indicates that a State requires less than the Australian average per capita amount to deliver the same standard of service. For the ACT, a relativity of 1.17205 indicates that it is entitled to 17.2 per cent above an equal per capita share of the GST pool. As of 2008-09, only half of all States (that is, the four smaller jurisdictions) will require more than an Australian average per capita amount, that is, a relativity above one.

The changes to the relativities between the 2007 and 2008 Updates have been heavily influenced by movements in the relative revenue raising capacities of the States. The strong growth of the West Australian and Queensland economies, fuelled in the main by the mining sector in the case of Western Australia, and mining and population growth in Queensland, is the primary driver of the changes. As such, there has been a continued strengthening in the relative capacity of these two States to raise revenue from their own sources, which has led to a redistribution of the pool away from them to other States, namely New South Wales and Victoria.

Drivers of change to the ACT's relativity

The ACT's relativity has been revised upwards from 1.16293 (2007 Update) to 1.17205 (2008 Update). Table 6.2.4 below provides a summary of the major drivers of the change.

Table 6.2.4
Major drivers of the ACT's relativity change

Category	Change \$m	Reason for change
Inpatient Services	-4.3	Australian Institute of Health and Welfare data shows a decline in the use of inpatient services in major cities, and given the ACT is highly urbanised, this has resulted in a decline in GST funding.
Stamp Duty on Conveyances	+4.8	Data for 2001-02 to 2005-06 were revised downwards, which reduced the ACT's relative capacity to raise revenue.
Superannuation	+5.5	The ACT is assessed as having a cost advantage as it does not have any liabilities pre self-government. Compositional changes resulting in less weight for past unfunded liabilities reduced the ACT's assessed cost advantage.
Non-Inpatient and Community Health Services	+9.5	Use of services by people with low income declined nationally, and given they represent a below average proportion of the ACT population, this redistributed funding to the ACT.

Reasons for the ACT's above equal per capita share - CGC's assessment of the ACT's fiscal capacity

Fiscal capacity is a measure of the difference between what a State could raise from its tax base at Australian average tax rates, plus its relative receipt of SPP funding, and what a State would need to spend to provide average levels of services to its residents. The fiscal capacity measure is intended to show the difference from the Australian average based solely on State circumstances and not policy. These different circumstances include the size and scope of State economies, resource endowments, physical geography and population characteristics.

The ACT is assessed as having the fourth lowest fiscal capacity of all States, that is, the fourth highest relativity in the 2008 Update.

Table 6.2.5
Comparison of the ACT's fiscal capacity with the Australian average,
2002-03 to 2006-07

	Australian Average \$ per capita	ACT \$ per capita	Difference ^(a) \$ per capita	Ratio ^(b)
Assessed revenue	2,371	2,008	-363	0.85
Assessed expenses ^(c)	5,124	5,073	-50	0.99
SPP receipts	412	352	-60	0.86
Fiscal capacity ^(d)	-2,341	-2,713	-372	0.86

Notes:

- (a) The ACT minus the Australian average.
- (b) Ratio of the ACT divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by the ACT.
- (c) Assessed expenses are net of user charges.
- (d) Fiscal capacity = Assessed revenue + SPP income – Assessed expenses.

Factors influencing the Territory's fiscal capacity include:

- below average capacity to raise revenue:
 - Payroll tax - due to the dominance of the public service within the ACT labour market, the ACT has significantly higher per capita payrolls than the Australian average but below average per capita payroll collections, due to the inability to tax the Commonwealth Government; per capita private sector wages being below the national average; and a small employment base in mining, agriculture, manufacturing and wholesale trade.
 - Mining - the absence of a mining industry in the ACT means it lacks a major revenue source available to other resource rich jurisdictions, such as Western Australia.
 - Land tax - reduced revenue raising capacity stems from the lower than average value of commercial and industrial land in the Territory and the below average proportion of private renters, which limits the collection of land tax from non-principal residential land owners.
- near average requirement for expenses:
 - Over the five year assessment period from 2002-03 to 2006-07, the ACT was assessed as having below average proportions of its population in sub-groups normally associated with higher costs of service delivery, that is, low income earners, pensioner and concession card holders, Indigenous persons, persons living in remote regions and those aged 65 years or older.
 - A number of characteristics of the Territory and its population suggest that the use and cost of many services in the ACT are likely to be below the Australian average. These characteristics include the Territory's higher socio-economic status and compact geographical nature, that is, the lack of rural and remote areas. Conversely, several features are likely to bring about higher service costs, such as the Territory's relatively small population, leading to diseconomies of a small scale, and its status as a regional centre within southeast New South Wales, which inevitably leads to the provision of services to non-ACT residents.

- slightly lower per capita share of SPPs:
 - Of those SPPs included in the CGC's assessments, the ACT received slightly less than an average per capita amount over the five year assessment period. In particular, the Territory received lower shares of SPP grants for Government School Education, Home and Community Care, Disability Services, Roads and Indigenous purposes.

Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, which encompasses all State Treasurers and is chaired by the Commonwealth Treasurer, met twice in 2007-08 on 14 January 2008 in Brisbane and again on 14 March 2008 in Canberra. The Council is expected to meet prior to each of the three remaining COAG meetings in 2008.

January 2008 meeting

The Treasurers met in conjunction with Health Ministers to discuss reducing elective surgery waiting lists, reforming SPPs and developing improved reporting systems for the funding of Indigenous initiatives.

COAG Elective Surgery Waiting List Reduction Plan

Treasurers and Health Ministers agreed on the first steps of a joint four year plan to reduce elective surgery waiting lists. An immediate \$150 million was announced by COAG in December 2007, the States agreed to conduct an additional 25,000 procedures in 2008. The ACT will receive \$2.5 million for a further 250 procedures.

Reform of Specific Purpose Payments

Treasurers agreed to in-principle reforms of SPPs, including rationalising the number of SPPs to reduce their number by at least three-quarters, while maintaining their aggregate value. These reforms are intended to minimise wastage, avoid duplication and yield greater administrative efficiencies so as to free up resources for front line services.

Treasurers also reaffirmed their commitment to focus on outcome and output measures, rather than input controls, under future SPP arrangements and gave in-principle support to the Commonwealth Government providing incentive payments to drive economic reform.

Funding of Service to Indigenous People

Treasurers noted the importance of measuring the cost-effectiveness of Indigenous programs as a means of informing better policy making in Indigenous affairs, and agreed that all jurisdictions would jointly work to develop a national framework for reporting expenditure on Indigenous services.

March 2008 meeting

The Ministerial Council discussed the Commonwealth-State reform agenda, including the new framework for SPPs. A number of standing items were also covered, including general

revenue assistance to the States, the distribution of the 2008-09 GST revenue pool, as recommended by the CGC, and the Australian Taxation Office's (ATO) administration of the GST on behalf of the States.

Reform of Specific Purpose Payments

The Council finalised its report to COAG (for its March 2008 meeting) on the proposed new framework for financial relations between the Commonwealth and the States. The report contains 14 separate recommendations and sets out the objectives and proposed way forward for SPP reform, as detailed under the Specific Purpose Payments heading earlier in the chapter.

2010 Review of State Revenue Sharing Relativities

The Council noted the progress made by the CGC in improving its data sources and in simplifying the methodology to be used to calculate the 2010-11 GST relativities under its 2010 Methodological Review.

Over the next twelve months the major focus for the Review will be the Commonwealth Grants Commissioners' tour of the States to observe States' relative difficulties in delivering government services first hand.

GST Administration Issues

The ATO collects the GST revenue on behalf of the States and, under the IGA, is accountable to the States by way of a performance agreement. The ATO's administration of the GST is overseen by the GST Administration Sub-Committee (GSTAS), whose role is to:

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

In 2007-08, GSTAS conducted the second triennial review of the GST Administration Performance Agreement, which resulted in some notable changes to the performance indicators and the budget attribution methodology. At the Ministerial Council meeting, State Treasurers endorsed the updates and signed the 2008 GST Administration Performance Agreement, together with the Australian Taxation Commissioner.

The Ministerial Council also discussed GST administration costs and related issues, and agreed to the ATO's GST administration budget of \$631.2 million for 2008-09, consistent with the requirement of the IGA that the States compensate the Commonwealth Government for the costs of administering the GST.

Any change to the GST base requires the unanimous approval of the Ministerial Council. Throughout 2007-08 GSTAS considered a number of proposals that affected the GST base and made recommendations to the Ministerial Council. The proposals covered issues such as

the GST threshold and eligibility criteria for small businesses, the GST treatment of medical products and GST concessions for international organisations situated in Australia.

A number of matters were also raised directly with Treasurers, including the availability of simplified accounting methods for GST, and the thresholds for registration turnover and the provision of invoices.

147th Australian Loan Council Meeting

The Australian Loan Council was established under the *Financial Agreement Act 1927* to manage the call on national savings by the Australian public sector as a whole. The Loan Council consists of a Commonwealth representative (usually the Commonwealth Treasurer) as chair and a representative of each of the States (a role usually delegated to State Treasurers).

The Australian Loan Council met on 14 March 2008, immediately following the Ministerial Council meeting, to determine the appropriateness of each jurisdiction's Loan Council Allocation (LCA) for 2008-09. In effect, the Loan Council allocates, by mutual agreement, an annual target for total net financing by each jurisdiction. Each State's LCA represents its potential call on the financial markets over the forthcoming year. LCAs are calculated on the basis of a Government's cash position, and the resulting call on financial markets in any given year required to meet its budgetary obligations.

The ACT's LCA nomination for 2008-09 is -\$244 million with a tolerance limit of +/- \$75 million. A negative allocation represents a net lending position, with cash being contributed to the financial market or an increase in investment.

Consistent with COAG's focus on infrastructure, an expanded role has been suggested for the Loan Council in terms of considering infrastructure projects and the associated financing arrangements. The objective of the Loan Council process would be to ensure that:

- the most appropriate economic and social infrastructure projects are progressed within prevailing macroeconomic constraints;
- the macroeconomic consequences of infrastructure spending are understood; and
- the aggregate fiscal capacity of governments is effectively applied to deliver priority infrastructure programs, whilst ensuring that the financing of projects best utilises the available financing sources.

The Heads of Treasuries have been tasked with developing this proposal further and will report back to the Loan Council in the second half of 2008.

Council of Australian Governments (COAG)

COAG comprises the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association.

COAG's role is to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments. In the past twelve months COAG met in Melbourne on 20 December 2007 and in Adelaide on 26 March 2008. The Commonwealth and State Treasurers were invited to attend both meetings.

Under the new model of Commonwealth-State cooperation, COAG has identified seven key areas for reform and agreed to the following action thus far:

1. *Health and Ageing* - to improve health outcomes for all Australians and the sustainability of the Australian health system:
 - an initial \$150 million in 2008 to reduce elective surgery waiting list by 25,000;
 - an additional \$500 million of federal funding of public hospitals in 2008-09;
 - a new health care agreement to be signed in December 2008, with new funding arrangements to commence from July 2009; and
 - the introduction of a national registration and accreditation system for health professionals in a step towards addressing health skill shortages;
2. *The Productivity Agenda*, including education, skills, training and early childhood - to deliver significant improvements in human capital outcomes:
 - COAG has endorsed a comprehensive set of aspirations, outcomes, progress measures and future policy directions in the key areas of early childhood, schooling and skills and workforce development to guide education systems;
3. *Climate Change and Water* - to ensure an effective national response to climate change through a single National Emissions Trading Scheme; a nationally consistent set of climate change measures; a cooperative approach to long-term adaptation to climate change; and sustainable water use across Australia:
 - in-principle agreement has been reached with regards to a Memorandum of Understanding on Murray-Darling Basin Reform;
4. *Infrastructure* - to identify and remove blockages to productive investment in infrastructure across Australia:
 - the priorities for Infrastructure Australia over the next twelve months have been identified as: the development of best practice guidelines for Public Private Partnerships by October 2008; the completion of the National Infrastructure Audit by the end of 2008; and the development of an Infrastructure Priority List by March 2009;

5. *Business Regulation and Competition* - to accelerate the regulation reduction agenda to reduce the regulatory burden on business and deliver significant improvements in Australia's competition, productivity and international competitiveness:
 - COAG has endorsed a reform agenda for reducing the cost of regulation and enhancing productivity and workforce mobility in areas of shared Commonwealth and State responsibility;
6. *Housing* - to improve housing affordability for home buyers and ease rental stress, particularly for low to moderate income households, and to halve the number of homeless people turned away from shelters within five years:
 - COAG has agreed to implement five key housing initiatives to facilitate improved housing supply and the distribution of \$150 million across the States to deliver new homes for homeless people; and
7. *Indigenous Reform* - to close the gap on indigenous disadvantage, namely, life expectancy, infant mortality, and literacy and numeracy skills:
 - COAG has agreed to a number of recommended actions across health, education, affordable housing and water supply, that will begin to improve the lives of indigenous Australians.

A working group has been established under each of these themes and is chaired by a Commonwealth Government Minister, with senior officials from all jurisdictions contributing. To drive these reforms, COAG will meet four times in 2008.

As detailed earlier in the chapter, on the recommendation of Treasurers, COAG has also agreed to reforms to the Commonwealth-State financial framework, which will see a rationalisation of SPPs and the introduction of NPPs to drive reforms. Treasurers are to present COAG with a new Intergovernmental Agreement on Commonwealth-State financial arrangements at its meeting in December 2008.

In addition, the role of the COAG Reform Council (CRC)² has been expanded, when requested by COAG, the CRC will report on the publication of nationally comparable performance information for all jurisdictions in relation to individual national SPPs and the independent assessment of predetermined performance benchmarks under the NPPs.

In relation to the implementation of the Commonwealth Government's election commitments, COAG has acknowledged that the Commonwealth Government will be fully responsible for these commitments, particularly in terms of funding. This follows advice from State Treasurers that a number of the election commitments, particularly computers in secondary schools, will have significant ongoing costs for the States.

² The COAG Reform Council is an independent body established to monitor progress in the implementation of national reforms and to assess the costs and benefits of these reforms.

Council for the Australian Federation

The Council for the Australian Federation (CAF) was established by State Premiers and Chief Ministers in 2006 as a means of working together to improve the way that States deliver the many key services that affect Australians' daily lives.

CAF met for the fourth time on 21 February 2008 in Adelaide. The Council discussed key issues relating to the new cooperative Commonwealth-State environment and agreed to principles for urban water planning and the continuing reduction of cross-jurisdictional anomalies. Further, in light of the high level of road fatalities, CAF committed to improve vehicle safety standards.

Professor Ross Garnaut briefed CAF on the interim findings of his review into climate change, which was jointly commissioned by CAF and the then Opposition Leader, Mr Kevin Rudd. CAF committed to working with the Commonwealth Government to respond to Professor Garnaut's findings, which include a design for an emissions trading scheme and the level of emission reductions Australia should pursue.