

## **CHAPTER 8: COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS**

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- ◆ Commonwealth-State financial relations are being modernised following the election of a new Commonwealth Government in November 2007.
- ◆ The tax review announced by the Commonwealth presents an opportunity to reconfigure the interaction between the Commonwealth and state tax systems.
- ◆ States will have greater funding certainty and greater flexibility in the use of Commonwealth funds.
- ◆ The States and the Commonwealth are developing wide-ranging reforms to improve productivity and the efficiency of markets.
- ◆ Commonwealth grants will account for 42.3 per cent of total NSW revenue in 2008-09. GST revenue grants are the largest single source of total revenue, accounting for 27.2 per cent in 2008-09.
- ◆ Economic activity in New South Wales is estimated to generate \$15 billion in GST revenue in 2008-09, compared to the \$13 billion in GST revenue grants received. This is a cross subsidy from New South Wales to the other jurisdictions of \$2 billion, or \$291 per capita.

### **8.1 INTRODUCTION**

Financial grants from the Commonwealth Government are an important source of revenue to the States and Territories (the States). Commonwealth grants are expected to account for 42.3 per cent of total NSW revenue in 2008-09.

The major factor behind the need for these grants is vertical fiscal imbalance (VFI), or the mismatch between the revenue-raising capacities and spending responsibilities of the States and the Commonwealth. In Australia, the States have limited revenue-raising capacity but large spending responsibilities and the Commonwealth collects much more revenue than it needs for its own purposes.

Another feature of Australia's intergovernmental financial arrangements is the extent to which horizontal fiscal equalisation (HFE) is used to distribute Commonwealth grants to the States. HFE attempts to ensure that all States have the fiscal capacity to supply services of an average standard to their citizens, provided they make average efforts to raise their own revenue and operate at average levels of efficiency.

VFI and HFE inevitably produce conflict between levels of government and confuse community perceptions of governmental accountability.

Commonwealth-State financial relations are being modernised following the election of a new Commonwealth Government in November 2007.

The focus of the new arrangements is to:

- ◆ rationalise the number of specific purpose payments without reducing funding to each State
- ◆ improve the States' flexibility in the use of Commonwealth funds
- ◆ clarify the roles and responsibilities of the Commonwealth and States
- ◆ move to an outcomes-based accountability framework and
- ◆ promote wide-ranging reforms, that can be supported by new National Partnership payments, to improve productivity and the efficiency of markets.

The Prime Minister announced on 21 April 2008 that the Commonwealth would consider 'root-and-branch' reform of the Australian taxation system. He indicated the review would be a top-down approach encompassing Commonwealth and State taxes. A review of this nature could address the persistent problems of the states' revenue base including vertical fiscal imbalance and the States' narrow tax bases.

New South Wales welcomes a broad inquiry into the interaction between Commonwealth and state tax systems. New South Wales will participate in any substantial review of the total Australian tax system.

## **8.2 NEW COAG REFORM AGENDA**

The Council of Australian Governments (COAG) met on 20 December 2007 and 26 March 2008 to agree on an ambitious, new national reform program which includes the competition, regulation and human capital reforms previously agreed under the National Reform Agenda (NRA). COAG also agreed to fundamental changes to Commonwealth-State financial arrangements to ensure more efficient delivery of core government services, improve public accountability and sharpen the financial incentives for reform.

The new COAG reform agenda seeks to enhance Australia's productivity, workforce participation and geographical mobility, and to support wider objectives of more efficient service delivery.

The COAG reform agenda is underpinned by a common commitment to clear reform objectives and outcomes. It seeks to provide greater clarity around roles and responsibilities of governments, and to strengthen governance and funding arrangements. Commonwealth-State Working Groups, chaired by the relevant Commonwealth Minister, have been established to deliver reforms in seven national priority reform areas.

New South Wales is highly supportive of COAG's reform agenda.

At its meeting in March 2008, COAG agreed to focus on developing a broader micro-economic reform agenda. This will include further work to progress the reforms previously agreed under the National Reform Agenda (NRA). These covered energy, transport, infrastructure, government regulation and human capital.

COAG also agreed to a new expanded role for the COAG Reform Council (CRC). In particular, when requested by COAG, the CRC will report to the Prime Minister on:

- ◆ the publication of nationally comparable performance information for all jurisdictions in relation to individual national SPPs
- ◆ the independent assessment of predetermined milestones and performance benchmarks under the proposed National Partnership (NP) incentive payments and
- ◆ monitoring of the aggregate pace of activity in progressing COAG's agreed reform agenda.

The CRC's new responsibilities will enhance accountability for outcomes under the COAG reform agenda and promote change as part of the Commonwealth-state financial arrangements.

## **COAG WORKING GROUPS**

The Agenda includes seven national priority reform areas:

- ◆ health and ageing
- ◆ productivity agenda – education, skills, training and early childhood
- ◆ climate change and water
- ◆ infrastructure

- ◆ business regulation and competition
- ◆ housing and
- ◆ indigenous reform.

The *Health and Ageing Working Group* mandate extends across the full range of preventative, primary, acute and aged care in both the public and private sectors.

The *Productivity Agenda Working Group* aims to deliver significant improvements in human capital outcomes for all Australians through reforms in the areas of education, skills, training and early childhood development.

The *Climate Change and Water Working Group* is focussed on ensuring sustainable water use across Australia and an effective national climate change policy response. This will encompass: a single national Emissions Trading Scheme (ETS) incorporating State schemes; a nationally-consistent set of measures to support the ETS; and a national cooperative approach to a long-term climate change policy response.

The *Infrastructure Working Group* will focus on better coordination of infrastructure planning and investment across the nation, and identifying and removing blockages to productive investment in infrastructure.

The *Business Regulation and Competition Working Group* is accelerating and broadening the regulation reduction agenda. This includes delivery of the previously agreed COAG regulatory hot spots agenda, and delivering on the existing competition work stream, for example previously agreed transport pricing reforms.

The *Housing Working Group* is focussed on improving housing affordability for home buyers and easing rental stress, particularly for low to moderate income households.

The *Indigenous Reform Working Group* is aimed at closing the gap on indigenous disadvantage in a partnership between all levels of government and with Indigenous communities.

## FUNDING THE COAG REFORM AGENDA

Significant Commonwealth funding will be required to undertake the COAG reforms. The nature of reforms under the COAG Agenda involves significant up-front expenditure, although the full benefits may take many years to be realised. New South Wales, like the other States and Territories, has limited fiscal capacity to meet the costs of the proposed reforms.

### Funding the Commonwealth's Election Commitments

To date, the COAG Working Groups have primarily focussed on developing detailed implementation plans for the major Commonwealth election commitments, such as the *Digital Education Revolution* and the *National Rental Affordability Scheme*. At its March 2008 meeting, COAG:

. . . acknowledged that the Commonwealth should be responsible for its election commitments . . . Commonwealth election commitments have legitimate and additional financial implications for the States and Territories. Consideration of these costs will be included as an addition to the work of Treasurers in the final determination of the new generation SPPs at year's end.<sup>1</sup>

This acknowledgment recognises that the Commonwealth election commitments and the policy objectives and programs underpinning them reflect the Commonwealth's priorities and preferences for service delivery. Whilst some of these election commitments relate to NSW broad policy objectives, they do not necessarily reflect the core commitments and priorities of the NSW State Plan.

The NSW Budget therefore has been prepared on the basis that the Commonwealth fully pays for all "legitimate and additional" State costs in implementing the Commonwealth Government's election commitments.

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<sup>1</sup> COAG Meeting, Melbourne, 26 March 2008, Communique, page 4.

### **8.3 SPECIFIC PURPOSE PAYMENTS REFORM**

Specific purpose grants are payments from the Commonwealth to the states contingent on the states' compliance with certain conditions. Unlike general purpose grants, specific purpose grants cannot be spent as the state chooses, but must be spent on the purposes for which the grants were provided.

As currently provided, SPPs often include 'input controls' stipulating a certain level or rate of annual increase of funding to be provided by the State. Non-financial conditions also can be applied. Such input controls can restrict States' budgetary flexibility and discourage innovation.

The focus of SPP reforms is to replace the current input controls with outcomes-based public accountability.

The objectives of the revised funding arrangements are:

- ◆ increased flexibility for resources to be allocated to areas where they will produce the best overall outcomes for the community
- ◆ genuinely 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
- ◆ increased incentives for wide-ranging reforms in areas of joint responsibility
- ◆ increased accountability to the community and
- ◆ reduced administration and compliance overheads.

Consistent with these objectives, the key elements of the reforms to SPPs are:

- ◆ rationalising the number of SPPs from around 90 to five or six
- ◆ moving away from restrictive input controls to greater emphasis on achieving specified outcomes
- ◆ determining base level funding and negotiating appropriate growth factors and
- ◆ introducing National Partnership agreements for the delivery of specific outcomes or outputs and to provide incentives or rewards for undertaking reforms.

## **Rationalising the number of SPPs**

Many of the existing SPPs will be combined into a small number of new national SPP agreements. These will cover broad issues such as health, early childhood, schooling, vocational education and training, housing and disability. Other current SPPs will be cashed out, terminated, or transferred to Commonwealth own purpose expenses.

Reducing the number of SPPs into a small number of broader delivery areas will allow better linkages between similar areas and will provide greater flexibility in funding arrangements.

## **Emphasis on outcomes**

Each new SPP will have a mutually agreed statement of objectives and outcomes. These statements will take into account the funding provided by both levels of government in the relevant shared funding sector.

Each new national SPP will contain simpler, standardised and more transparent publicly-available performance measures and reporting, with a focus on achieving outcomes and value for money.

## **Funding**

Commonwealth and State Treasurers will negotiate base funding levels and growth factors for SPPs through the Ministerial Council for Commonwealth-State Financial Relations.

The Commonwealth has guaranteed that rationalisation of the number of SPPs will occur “without a reduction in total Commonwealth funding for these activities”.<sup>2</sup>

In establishing the revised SPP arrangements, it will be important to ensure that base level funding and growth factors adequately reflect the true cost of providing goods and services. This will contrast with the current situation where actual costs can exceed SPP funding allocations, leaving States to make up the difference. Such a situation has occurred in the area of public hospitals. Over the period from 1995-96 to 2005-06, the Commonwealth share of total funding to public hospitals nationally has fallen from 45.2 per cent to 41.4 per cent.<sup>3</sup>

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<sup>2</sup> *COAG Meeting, Melbourne, 26 March 2008, Communique, page 3.*

<sup>3</sup> *Australian Institute of Health and Welfare, Health Expenditure Australia 2005-06, Health and Welfare Expenditure Series Number 30, October 2007, p. 55.*

Under the new arrangements, SPPs will be ongoing, rather than set for a limited period of time, with funding arrangements to be reviewed every four to five years.

Commonwealth and State Treasurers will have an ongoing role in monitoring outcomes to identify issues that might trigger an earlier consideration of funding adequacy and related outcomes.

### **National Partnership Agreements**

A separate category of National Partnership (NP) Agreements will be created. Under these agreements, payments from the Commonwealth will be available for a limited period of time to support the delivery of specified outputs or projects, facilitate the implementation of national reforms, or reward the delivery of national reforms. Some pre-existing SPPs will be converted to NPs, if they meet these conditions. For example, given its focus on specific outputs, the current Auslink SPP will be converted to a NP.

Performance benchmarks for reform-based NPs will be independently assessed by the COAG Reform Council, with funding dependent upon achieving benchmarks.

### **Proposed timelines**

Revised Commonwealth-State funding arrangements are due to commence from 1 January 2009. SPPs that expire before that date will be rolled over until the new arrangements commence.

Preliminary statements of objectives and outcomes for new national SPP agreements and performance indicators are expected to be presented to the 3 July 2008 COAG meeting. At that meeting, Treasurers will also present their proposal for a new performance reporting framework.

At the 2 October 2008 COAG meeting, Treasurers are due to present their funding framework proposal and principles for the COAG Intergovernmental Agreement. Working Groups will present statements of objectives and outcomes for each new SPP and broader reform proposals which could be supported by National Partnerships incentive payments will also be considered.

It is expected that the new Intergovernmental Agreement on Commonwealth-State financial arrangements will be signed at the 18 December 2008 meeting of COAG.

## 8.4 COMMONWEALTH GRANTS

The remainder of this chapter details Commonwealth payments to New South Wales in 2008-09 and over the forward estimates period.

Table 8.1 summarises those payments based on the existing broad categorisation of general purpose and special purpose grants.

**Table 8.1: Commonwealth grants to New South Wales**

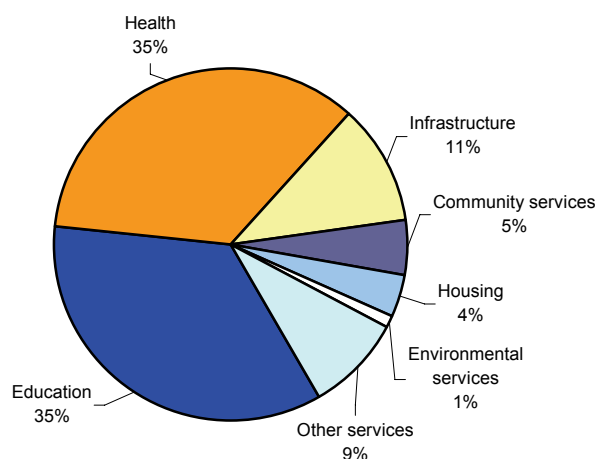
	2006-07	2007-08		2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Budget</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
General purpose grants	10,938	11,926	12,060	13,020	13,972	14,738	15,547
Specific purpose payments	6,815	6,854	7,540	7,249	7,875	8,195	8,346
<b>Total Commonwealth grants</b>	<b>17,753</b>	<b>18,780</b>	<b>19,600</b>	<b>20,269</b>	<b>21,847</b>	<b>22,933</b>	<b>23,893</b>

### 2008-09 SPECIFIC PURPOSE PAYMENTS

In 2008-09, New South Wales expects to receive \$7.2 billion in SPPs, over a third of Commonwealth grants to New South Wales. This figure includes only those grants paid to the NSW Government. Some Commonwealth payments are paid directly to local government or passed on through the State Government to other bodies, such as independent schools.

Chart 8.1 shows the allocation of all SPPs paid to New South Wales across various functional areas.

**Chart 8.1: Composition of all SPPs to NSW, 2008-09**



Source: Commonwealth 2008-09 Budget Paper No. 3, Australia's Federal Relations, Appendix B, Tables B.2-B.8

As discussed in section 8.3, the revised Commonwealth-State financial arrangements will lead to significant changes to the structure and flexibility of SPPs in the future.

## **NATIONAL COMPETITION PAYMENTS**

In 1994, COAG agreed that the Commonwealth would share a proportion of the revenue it gained from National Competition Policy (NCP) with the States through competition payments. Payments were conditional on States making progress against NCP commitments, as assessed by the National Competition Council. The Commonwealth Government abolished national competition payments from 2005-06.

In 2005, the National Water Commission (NWC), which had assumed responsibility for assessing progress on State obligations under the National Water Initiative, recommended that the Commonwealth suspend some \$43.2 million in payments to the States for perceived lack of progress with water reform commitments.

On 13 September 2007, these suspensions were lifted following a recommendation by the NWC that States had made satisfactory progress in implementing water reform commitments. The suspended payments were paid in 2007-08. New South Wales' share was \$26.3 million.

These are the final payments under the National Competition Policy arrangements. However, as noted above, under the new framework for Commonwealth-State financial relations, the Commonwealth envisages National Partnership payments to facilitate or reward State efforts in undertaking reforms of national importance.

## **GST REVENUE GRANTS**

GST revenue grants are the largest single source of revenue in New South Wales, accounting for 27.2 per cent in 2008-09. They are provided under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* agreed in June 1999 between the Commonwealth and the States.

GST revenue grants are allocated among the States on the recommendation of the Commonwealth Grants Commission (CGC) according to the principle of HFE. HFE is currently defined by the Commission as:

State governments should receive funding from the pool of Goods and Services Tax revenue and health care grants such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.<sup>4</sup>

To implement HFE, the Commission assesses “both the economic and social conditions in the States as they affect relative costs States incur in providing services and the relative capacity of States to raise their own revenue.”<sup>5</sup>

The CGC’s assessments and resulting State relativities are updated annually based on the latest available five years of data. The CGC’s underlying methodology is reviewed every five or six years: the last review reported in February 2004, the next is due to report in February 2010. The distribution of GST revenue has significant implications for States’ abilities to fund services.

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<sup>4</sup> Commonwealth Grants Commission, Report on State Revenue Sharing Relativities 2008 Update, p. 25.

<sup>5</sup> CGC, 2008 Update, p. 2. *The CGC’s cost and revenue assessments are combined into a single measure for each State: the relativity. The base for the relativity is one. A relativity above one means a State is assessed as having a below average capacity to raise revenue and/or faces above average costs to provide services, and therefore requires more than average per capita amounts from the GST pool to provide services at an Australian average standard. A relativity below one indicates the opposite.*

## CGC 2008 Update

Estimated GST revenue grants to New South Wales of \$13 billion in 2008-09 are \$1 billion higher than in 2007-08. This increase predominantly reflects growth in the total GST pool available for distribution (up \$2.6 billion), as well as an increase in New South Wales' relativity, offset by a slight decline in New South Wales' relative population share.

New South Wales gained \$342 million from the change in relativities following the CGC's 2008 Update (see Table 8.2).

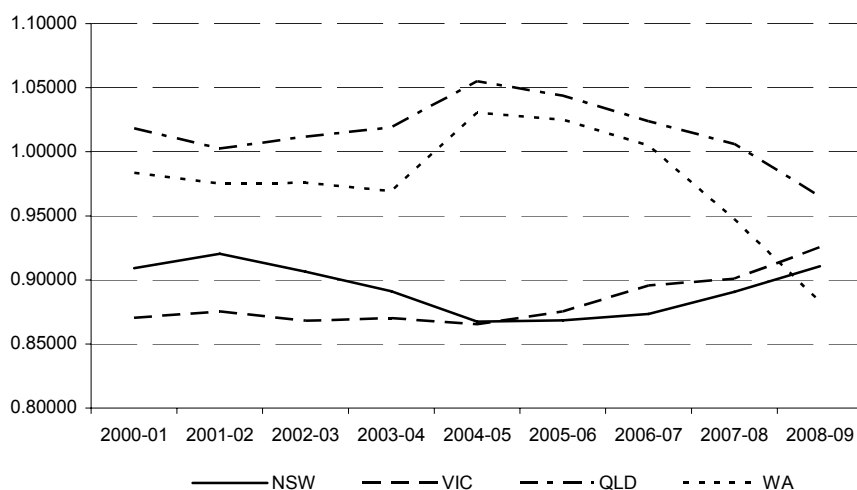
**Table 8.2: Effect of 2008 Update relativity changes in 2008-09**

	<i>NSW</i>	<i>VIC</i>	<i>QLD</i>	<i>WA</i>	<i>SA</i>	<i>TAS</i>	<i>ACT</i>	<i>NT</i>
Effect on 2008-09 GST revenue grants, \$m	342	317	(409)	(327)	6	(16)	8	80
% of each State's GST grants	2.6	3.1	(4.7)	(8.3)	0.1	(0.9)	0.9	3.3

Source: CGC, 2008 Update, p. 4.

Chart 8.2 shows the movements in the larger States' relativities used for distributing the GST pool since 2000-01. Among the larger States, New South Wales's and Victoria's relativities have increased since the middle of the decade as the decline in their relative fiscal capacities has become progressively reflected in the five year rolling average data. By contrast, Queensland's and Western Australia's relativities have fallen, reflecting the increased fiscal capacity which has accompanied the resources boom. Western Australia returned to being a donor State in 2007-08, while Queensland will become a donor State for the first time in 2008-09.

**Chart 8.2: Relativities used for distributing the GST pool<sup>(a)</sup>**



(a) Relativities calculated based on a five year moving average of annual assessments.

Major changes in the Commission's assessment for New South Wales in the 2008 Update are listed in Table 8.3.

**Table 8.3: Major factors affecting NSW relativity – 2008 Update**

<i>Factor</i>	<i>\$ million</i>
Stamp duty on conveyances	180.8
Inpatient and non-inpatient services	90.3
Payroll taxation	53.4
Mining revenue	42.6
Roads	(125.4)

Source: CGC, 2008 Update, p.7.

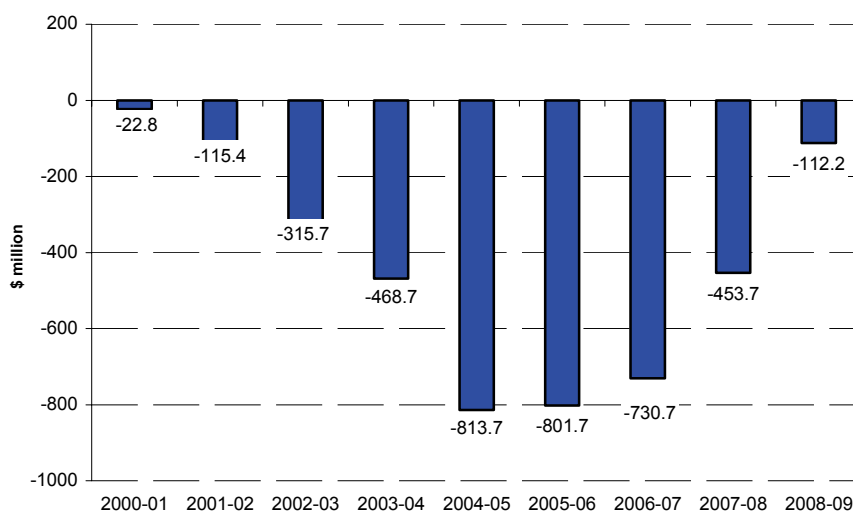
Replacing 2001-02 revenue data with 2006-07 data as part of the CGC's five year rolling average process had the major impact on the distribution of GST revenue grants. For New South Wales, this mainly reflects relatively reduced capacity to raise transfer duty, payroll tax and mining revenues, which increased GST allocation to New South Wales by around \$275 million.

Changes in expense assessments had a much smaller impact overall than revenue assessments. However, changes in demographic characteristics seen in the 2006 Census data, did have an important impact on expense assessments. For example, New South Wales' share of people with a low income increased between the 2001 and 2006 Censuses. This led to an increase in assessed expenses in areas like health and homeless and general welfare. Overall, this increased the GST allocation to New South Wales by around \$135 million.

In addition, changes to the assessment of roads expenses reduced New South Wales' GST allocation by around \$125 million. These included changed methods for estimating rural road length and treatment of national highways spending.

Despite the gain in 2008-09, New South Wales continues to experience an annual loss from changes in the relativities since the introduction of the GST. Chart 8.3 shows that the State's cumulative annual relativity loss is \$112 million over the period 2000-01 to 2008-09. Over the same period, New South Wales has lost a total of over \$3.8 billion due to changes in relativities.

**Chart 8.3: NSW cumulative annual loss from changing relativities**



## GST revenue shortfall

Despite the improvement in the State's relativity since 2005-06, over the period since 2000-01 New South Wales has received less in GST revenue than was estimated when the GST was introduced. Over the same period, all other States have received more in funding from the introduction of the GST than was originally estimated.

Table 8.4 shows the difference between the initial estimates of GST-related grants to be paid to the States and the actual payments made (or estimated to be made for 2007-08 and 2008-09).

**Table 8.4: Difference between Initial GST-related Grants Estimates and Outcomes<sup>(a)</sup>**

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m
2000-01	103	79	148	3	63	24	6	3
2001-02	356	191	350	80	144	68	28	23
2002-03	8	12	383	75	113	98	10	60
2003-04	(177)	188	685	249	219	180	29	134
2004-05	(403)	422	1,050	523	261	174	11	86
2005-06	(586)	465	1,002	509	247	164	13	38
2006-07	(384)	1,008	946	458	251	167	23	52
2007-08	225	1,344	960	274	388	190	54	73
2008-09	647	1,856	587	(37)	400	163	61	82
<b>TOTAL</b>	<b>(211)</b>	<b>5,564</b>	<b>6,111</b>	<b>2,134</b>	<b>2,085</b>	<b>1,228</b>	<b>235</b>	<b>551</b>

(a) Defined as the difference between the initial estimates for State GST-related grants (GST revenue grants and BBA) and the actual outcomes and latest estimates from Commonwealth 2008-09 Budget Paper No.3, Australia's Federal Relations, Appendix B, Table B.1, p. 93.

Since the introduction of the GST, New South Wales has received \$211 million less in GST-related grants than was initially estimated. Over the same period, other States have received \$18 billion more in GST-related grants than was estimated. On a per capita basis (using estimated 2008-09 population), this represents a \$30 loss per person in New South Wales, compared to a weighted average gain of \$1,235 in the other States.

GST revenue grants above initial estimates in the last two years have reduced the large cumulative losses New South Wales recorded through the middle of the decade. However, since the introduction of the GST New South Wales remains well behind the other States in a comparison of outcomes and initial expectations.

## The guaranteed minimum amount and actual GST revenue

Another way to look at the impact the GST has had on State financial positions is to compare the amount States have received in GST revenue grants with the amount States would have received had the GST not been introduced.

In this comparison New South Wales also has fared worst of all the States.

The guaranteed minimum amount (GMA) measures the states' fiscal positions had the GST not been introduced. Broadly, it measures the revenues States gave up from other Commonwealth grants and State taxes that were abolished, as well as the additional spending (i.e. GST administration costs and First Home Owner Grants) that States had to take on, when the GST was introduced.

Table 8.5 shows the amounts by which GST revenue grants exceeded GMAs for all States between 2000-01 and 2008-09.

**Table 8.5: Difference between guaranteed minimum amounts and GST revenue grants<sup>(a)</sup>**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total	Total exc NSW
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2000-01	...	...	...	...	...	...	...	...	...	...
2001-02	...	...	...	...	...	...	...	...	...	...
2002-03	...	...	76	...	...	...	...	10	86	86
2003-04	...	127	504	157	99	70	39	112	1,106	1,106
2004-05	209	296	769	250	175	106	56	141	2,001	1,793
2005-06	56	173	605	224	175	102	54	133	1,521	1,465
2006-07	127	445	699	322	207	108	65	123	2,095	1,968
2007-08	705	832	927	450	310	128	100	142	3,593	2,888
2008-09	1,094	1,080	1,040	530	361	131	114	127	4,476	3,382
<b>TOTAL</b>	<b>2,191</b>	<b>2,953</b>	<b>4,620</b>	<b>1,933</b>	<b>1,327</b>	<b>645</b>	<b>428</b>	<b>788</b>	<b>14,878</b>	<b>12,688</b>
\$ per capita	313	554	1,071	887	825	1,290	1,231	3,563	692	875

(a) GST estimates for 2007-08 and 2008-09 from Commonwealth 2008-09 Budget Paper No.3, Table B.1, p. 93.

Since the introduction of the GST, New South Wales is estimated to have received \$2.2 billion in GST revenue above its estimated GMA. In per capita terms, New South Wales' per capita gain is \$313 over the period 2000-01 to 2008-09, compared to a weighted average gain of \$875 for the other States.

## GST cross subsidies

The current system for distributing GST revenue between States gives rise to a large cross subsidy from New South Wales to the other States (except for Victoria, Western Australia and Queensland). This cross subsidy is evident when GST grants to the States are compared to an equal per capita distribution, or to the amount of GST generated in each State.

Table 8.6 shows the average per capita GST revenue grant for the donor States – New South Wales, Victoria, Western Australia and Queensland – in 2008-09 will be \$1,913. In comparison, the remaining States' average per capita grant will be 81 per cent higher, at \$3,455. The average per capita GST revenue grant for New South Wales in 2008-09 is estimated at \$1,868.

**Table 8.6: GST revenue grants per capita, 2008-09<sup>(a)</sup>**

<i>State/Territory</i>	<i>GST Revenue Grants (\$ per capita)</i>
New South Wales	1,868
Victoria	1,924
Queensland	2,027
Western Australia	1,809
South Australia	2,591
Tasmania	3,483
Australian Capital Territory	2,630
Northern Territory	10,976
<b>Average, 4 donor States</b>	<b>1,913</b>
<b>Average, 4 recipient States</b>	<b>3,455</b>
<b>AUSTRALIAN AVERAGE</b>	<b>2,105</b>

*(a) Based on GST estimates for 2008-09 from Commonwealth 2008-09 Budget Paper No.3, Table B.1, p. 93.*

In 2008-09, the four donor States will subsidise the four recipient States by \$3.6 billion compared with an equal per capita basis. Of this, New South Wales will donate \$1.6 billion, or \$237 per capita, to the recipient States. These cross subsidies are shown in Table 8.7.

**Table 8.7: GST cross subsidies – equal per capita benchmark, 2008-09**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Equal per capita GST grant, \$b	14.7	11.2	9.1	4.6	3.4	1.1	0.7	0.5
GST grant <sup>(a)</sup> , \$b	13.1	10.2	8.7	3.9	4.2	1.7	0.9	2.4
Cross Subsidy, \$b	(1.6)	(1.0)	(0.4)	(0.7)	0.8	0.6	0.2	1.9
Cross Subsidy, \$ per capita	(237)	(182)	(79)	(296)	486	1,378	525	8,870

(a) Based on GST estimates for 2008-09 from Commonwealth 2008-09 Budget Paper No.3, Table B.1, p. 93.

Table 8.8 disaggregates the equal per capita subsidy paid by New South Wales to individual recipient States in 2008-09.

**Table 8.8: NSW GST cross subsidy – equal per capita benchmark, 2008-09**

	SA	TAS	ACT	NT	Total
Total, \$m	359	317	84	902	1,662
\$ per capita	51	45	12	129	237

Transfers from donor to recipient States can also be measured by comparing GST revenue grants with the amount of GST revenue generated in each State.

On this basis, economic activity in New South Wales is estimated to generate \$15 billion in GST revenue in 2008-09, compared to the \$13 billion in GST revenue grants that New South Wales will receive. This is a cross subsidy to the other States (except for Victoria, Queensland and Western Australia) of \$2 billion, or \$291 per capita (see Table 8.9). For every \$1 generated in GST revenue in New South Wales, only 87 cents is returned in GST revenue grants.

**Table 8.9: GST generated and GST grants, 2008-09<sup>(a)</sup>**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Generated, \$b	15.1	11.3	8.8	4.6	3.2	0.9	0.9	0.4
Grants, \$b	13.1	10.2	8.7	3.9	4.2	1.7	0.9	2.4
Cross Subsidy, \$b	(2.0)	(1.1)	(0.1)	(0.7)	1.0	0.8	...	2.0
Cross Subsidy, \$ per capita	(291)	(196)	(23)	(308)	622	1,617	163	8,991

(a) Based on GST estimates for 2008-09 from Commonwealth 2008-09 Budget Paper No.3, Table B.1, p. 93.

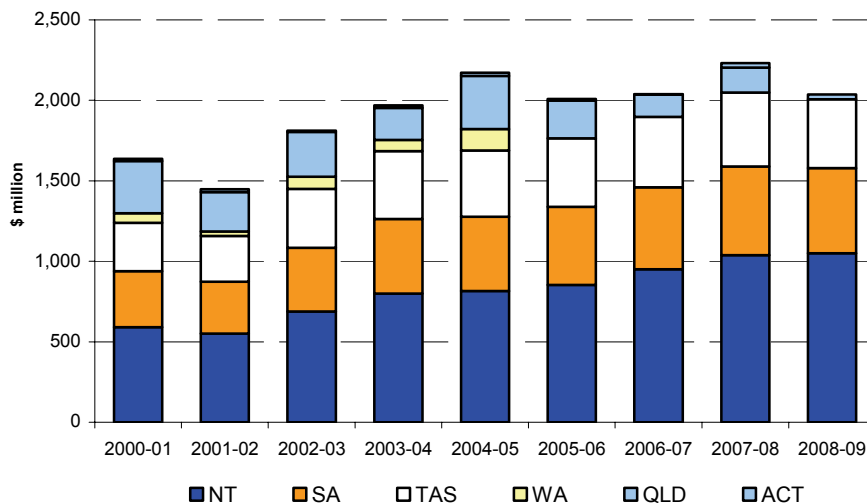
Table 8.10 provides a disaggregation of the estimated NSW subsidy calculated on a GST generated basis paid to individual recipient States.

**Table 8.10: NSW GST cross subsidy – GST generated benchmark, 2008-09**

	SA	TAS	ACT	NT	Total
Total, \$m	529	427	30	1,051	2,037
\$ per capita	76	61	4	150	291

Chart 8.4 shows how this cross subsidy has changed over time. The cross subsidy generally has been increasing over time, though is expected to decline in 2008-09, owing to New South Wales' larger expected share of GST revenue grants. On a GST generated basis also, Queensland is expected to become a small donor State for the first time in 2008-09.

**Chart 8.4: NSW GST cross subsidy – GST generated benchmark**



## **2010 Review of Revenue Sharing Relativities**

The next CGC Review of State Revenue Sharing Relativities is due to report by 26 February 2010.

The terms of reference for the 2010 Review direct the Commission to:

- ◆ aggregate and otherwise simplify its assessments
- ◆ apply a materiality threshold to assessments
- ◆ eliminate unreliable assessments
- ◆ address data quality and quality assurance issues and
- ◆ undertake a program of continuous improvement of assessments (data and methods).

The Commission's report to the 2007 Treasurers' Conference outlined progress in 2006 on the review. Through 2007 and into 2008, the Commission has produced a number of staff discussion papers on proposed assessments for States' comment.

As part of the 2010 Review, the Commission is visiting all States to discuss directly with agency officials the costs of service delivery. New South Wales hosted a State visit by the Commission in the week 31 March-4 April 2008.

The main themes put before the Commission during the NSW State Visit were the costs of urban density and congestion; the extra costs of providing services to a culturally and linguistically diverse population; the demands placed on Sydney as Australia's 'global' city and major international business, tourist and trade centre; and the particular needs of the large Aboriginal population in urban and regional centres of New South Wales.

Urban density and congestion affects the costs of providing public transport, roads and traffic management; the costs of providing infrastructure generally; and the costs of providing services that are delivered in the home or community rather than in dedicated service locations.

The need to provide culturally appropriate services and invest additional time to ensure that people whose first language is not English fully understand their interactions with government agencies, must also be considered.

As Australia's only international city, Sydney has a large flowthrough of goods and people. This international focus to Sydney has costly ramifications. Large tourist populations can increase the cost of providing key services and the presence of world-renowned landmarks heighten the attraction of Sydney as a target for terrorism and increase associated security costs. Opportunities for cross border crime, such as drug trafficking, are also higher in an international city, increasing associated justice, health and community service expenses.

New South Wales has Australia's largest indigenous population, and a more urbanised indigenous population than other States. New South Wales argued that the needs of major city and regional-centre based indigenous populations are no less than those of remote indigenous populations.