Part IV: Federal Financial Relations

This Part provides information concerning goods and services tax (GST) revenue, general revenue assistance, revenue replacement payments, general purpose assistance to local government and Specific Purpose Payments to the States and Territories (the States) in 2000-01. The information supplements material provided in *Budget Paper No. 3, Federal Financial Relations, 2001-02*.

On 1 July 2000, a new system of Commonwealth-State Financial Relations commenced as part of *The New Tax System.* A key element of *The New Tax System* is the provision of all GST revenue to the States, which provides them with a secure, broad-based revenue source with which to fund community services, such as schools, hospitals and the police.

The new system of Commonwealth-State financial relations has also provided for the abolition of a range of narrow and inefficient State taxes and the introduction of a First Home Owners Scheme.

In addition, the Commonwealth has made a commitment to provide assistance to the States in the transitional years to ensure that each individual State will be no worse off than it would have been had the reforms not been implemented. To meet its guarantee, the Commonwealth pays the States Budget Balancing Assistance (BBA) to cover any shortfall of GST revenue below the Guaranteed Minimum Amount (GMA)a calculation of the amount of funding each State would have had available to it under the previous system of financial relations).

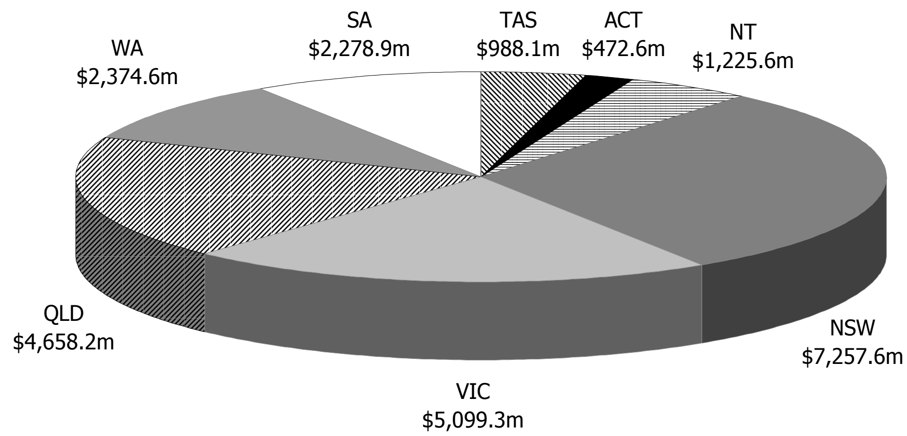
GST REVENUE PROVISION

The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act) provides that the States receive all GST revenue. The distribution of GST revenue among the States is based on horizontal fiscal equalisation principles (discussed in detail in *Budget Paper No. 3, Federal Financial Relations, 2001-02*).

In accordance with the final determination of GST revenue made by the Commissioner of Taxation under the Act, a total of $24,354.9 million in GST revenue was provided to the States in 2000-01.

The final provision of GST revenue to the States in 2000-01 is illustrated in Chart 1.

Chart 1: GST revenue provision to the States and Territories



The calculation of the distribution of GST revenue to the States is shown in Table 25. The distribution differs marginally from estimates shown in *Budget Paper No. 3, Federal Financial Relations, 2001-02,* reflecting final determinations made under the Act.

Table 25: GST revenue provision to the States and Territories

	Population as at 31 December 2000	Per capita relativities	Weighted population (1) x (2)	Share of weighted population	GST revenue/HCGs pool according to (4)	Unquarantined HCGs	Distribution of GST revenue (5) - (6)
				(%)	($m)	($m)	($m)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	6,502,615	0.90913	5,911,722	30.7	9,360.3	2,102.7	7,257.6
VIC	4,797,366	0.87049	4,176,059	21.7	6,612.1	1,512.8	5,099.3
QLD	3,597,203	1.01830	3,663,032	19.0	5,799.8	1,141.6	4,658.2
WA	1,897,381	0.98365	1,866,359	9.7	2,955.1	580.5	2,374.6
SA	1,500,491	1.18258	1,774,451	9.2	2,809.6	530.7	2,278.9
TAS	470,142	1.51091	710,342	3.7	1,124.7	136.6	988.1
ACT	312,384	1.11289	347,649	1.8	550.4	77.9	472.6
NT	196,308	4.16385	817,397	4.2	1,294.2	68.6	1,225.6
Total	19,273,890	n/a	19,267,011	100.0	30,506.2	6,151.3	24,354.9

GENERAL REVENUE ASSISTANCE

In 2000-01, general revenue assistance to the States comprised Budget Balancing Assistance (BBA), National Competition Policy Payments (NCPPs) and Special Revenue Assistance(SRA).

Budget Balancing Assistance

As previously noted, the Commonwealth has guaranteed that in each of the transitional years following the introduction of tax reform, each State's budgetary position will be no worse off than had reforms not been implemented. This is given effect to by the payment of transitional assistance in the form of BBA.

In 2000-01, a total of $2,818.1 million in BBA was paid to the States. The calculation and distribution of BBA is shown in Table 26, and is broadly consistent with estimates at Budget.

Table 26: Guaranteed Minimum Amount components, GST revenue provision and Budget Balancing Assistance to the States and Territories

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Guaranteed Minimum Amount:									
State revenues forgone									
Financial Assistance Grants	5,224.2	3,659.8	3,428.7	1,623.2	1,798.3	824.1	371.8	1,130.0	18,060.1
Revenue replacement payments	2,109.6	1,412.3	1,279.4	878.7	551.7	188.2	93.7	119.7	6,633.4
Accommodation taxes	72.4	na	na	na	na	na	na	7.0	79.4
plus **Reduced revenues**									
Gambling taxes	481.7	366.8	181.9	53.3	71.3	19.4	18.4	12.5	1,205.3
plus **Interest costs**									
Interest costs	3.3	7.5	11.7	2.3	4.0	2.2	1.2	3.0	35.2
plus **Additional expenditures**									
First Home Owners Scheme	287.7	232.0	205.8	110.5	100.0	30.2	21.0	8.9	996.1
Additional First Home Owners Scheme	18.4	15.3	9.4	7.3	5.9	1.7	1.4	0.6	60.0
GST administration costs	335.2	247.3	185.4	97.8	77.3	24.2	16.1	10.1	993.5
plus **Other items**									
Wholesale sales tax payments	38.0	5.0	18.0	19.0	12.7	13.0	4.0	3.0	112.7
minus **Reduced expenditures**									
Off-road diesel subsidies	116.3	48.5	101.4	145.8	31.4	1.9	0.0	3.4	448.7
Savings from tax reform	147.3	100.4	83.6	50.1	36.4	12.2	8.5	12.5	451.0
minus **Growth dividend**									
Remaining State taxes	42.2	27.2	14.3	8.5	6.8	1.7	1.3	0.9	103.0
Total Guaranteed Minimum Amount (1)	8,264.7	5,769.8	5,121.1	2,587.6	2,546.7	1,087.2	517.8	1,278.0	27,173.0
GST revenue provision (2)	7,257.6	5,099.3	4,658.2	2,374.6	2,278.9	988.1	472.6	1,225.6	24,354.9
Budget Balancing Assistance (1) - (2)	1,007.2	670.5	462.9	213.0	267.8	99.1	45.2	52.5	2,818.1

National Competition Policy Payments

National Competition Policy Payments are distributed between the States on an equal per capita basis. Payment is subject to satisfactory progress in implementing specified reforms under the *Agreement to Implement the National Competition Policy and Related Reforms*. Details of NCPPs are shown in Table 27.

Table 27: National Competition Policy Payments

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
2000-01 (a)	155.9	114.7	73.0	45.5	35.9	11.2	7.5	4.5	448.0

(a) Payments to Queensland and the Northern Territory were influenced by payment suspensions resulting from the Commonwealth accepting National Competition Council recommendations. These suspensions, potentially, could be reimbursed in 2001-02.

Special Revenue Assistance

In 2000-01, in accordance with the recommendations of the Commonwealth Grants Commission, SRA of $13.5 million was paid to the Australian Capital Territory.

REVENUE REPLACEMENT PAYMENTS

In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Arrangements*, taxation of petroleum, alcohol and tobacco under the 'safety net' arrangements ceased on 1 July 2000. However, due to collections being received which relate to taxable dealings that occurred before 1 July 2000, lagged payments continued to be made in 2000-01.

Details of revenue replacement payments under 'safety net' arrangements for 2000-01 are shown in Table 28. This distribution is lower than estimates shown in *Budget Paper No. 3, Federal Financial Relations, 2001-02* resulting from an increased number of refunds.

Table 28: Revenue replacement payments to the States and Territories

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Tobacco									
Share	0.32492	0.21803	0.19065	0.11100	0.08988	0.03226	0.01456	0.01870	
Amount ($m)	20.9	14.1	12.3	7.2	5.8	2.1	0.9	1.2	64.5
Petroleum									
Share	0.30039	0.20153	0.19593	0.17118	0.07549	0.02453	0.01291	0.01804	
Amount ($m)	75.7	50.8	49.4	43.2	19.0	6.2	3.3	4.5	252.1
Alcohol									
Share	0.33796	0.22332	0.19314	0.11147	0.07857	0.02415	0.01569	0.01569	
Amount ($m)	40.0	26.4	22.8	13.2	9.3	2.9	1.9	1.9	118.3
Total ($m)	**136.6**	**91.3**	**84.5**	**63.5**	**34.1**	**11.1**	**6.0**	**7.6**	**434.9**

LOCAL GOVERNMENT GENERAL PURPOSE ASSISTANCE

Table 29 provides details of the Commonwealth payments to local government authorities in 2000-01 for each of the six States and the Northern Territory, and an analogous payment made to the Australian Capital Territory.

In 2000-01, local government general purpose assistance was increased on the basis of an annual escalation factor determined by the Treasurer and reflects the underlying real per capita growth. The payments made to the States and shown in *Budget Paper No. 3, Federal Financial Relations, 2001-02* were based on an estimated escalation factor of 1.0389 and took into account an underpayment of $1.7 million in 1999-2000.

On 22 June 2001, the Treasurer determined the final 2000-01 escalation factor of 1.0446 on the basis of the Australian Statistician's determination of population and ongoing CPI (which excludes the estimated impact of the tax reform measures in *The New Tax System*). This has resulted in an overpayment of around $7.2 million in 2000-01 for which there will an adjustment in 2001-02, as provided for under the *Local Government (Financial Assistance) Act 1995.*

Table 29: General purpose assistance to local government

	NSW $m	VIC $m	QLD $m	WA $m	SA $m	TAS $m	ACT $m	NT $m	Total $m
Financial Assistance Grants	309.7	227.6	170.0	90.0	71.9	22.6	14.9	9.3	916.0
Identified road grants	117.9	83.8	76.2	62.1	22.3	21.5	13.0	9.5	406.5
Total general purpose assistance(a)	427.7	311.4	246.2	152.1	94.2	44.1	28.0	18.9	1,322.5

(a) Total general purpose assistance was the actual payment that the States received on behalf of local governments in 2000-01. It is equal to the estimated entitlement for 2000-01, adjusted for an underpayment from 1999-2000.

SPECIFIC PURPOSE PAYMENTS

Tables 30 and 31 provide information on Commonwealth Specific Purpose Payments (SPPs) to the States and local government together with details of repayments and interest on advances (loans) to the States. The majority of these advances were funded from borrowings made on behalf of the States.

Details are classified as follows:

- SPPs
  - current;
  - capital;
- repayments of advances;
- details of new advances made; and
- interest on Commonwealth advances.

SPP information is presented on a functional basis, which aggregates payments directed toward like objectives and purposes. SPPs are further divided into those paid 'to' the States (by far the larger group by number) and those judged to be paid 'through' the States to other groups. Payments in the latter group are indicated within the table by (*) and separate totals for 'to' and 'through' are provided in the summary at the end of the table.

Table 30: Specific Purpose Payments to the States, repayments of advances, advances and interest payments ($'000)

Table 31: Specific Purpose Payments direct to Local Government Authorities ($’000)