Chapter 1: Overview and Recent Developments

On 1 July 2000, a new system of Commonwealth-State financial relations commenced as part of *The New Tax System*.

This Chapter provides an overview of this new system, outlines the total payments from the Commonwealth to the States in 2000-01 and 2001-02, and discusses key developments since the 2000-01 Budget.

OVERVIEW OF COMMONWEALTH-STATE FINANCIAL RELATIONS

A key element of *The New Tax System* is to provide all goods and services tax (GST) revenue to the States. This is a landmark reform of Commonwealth-State financial relations. The reforms provide the States 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:

- provides all GST revenue to the States, to be spent according to their own budgetary priorities;
  - this provides the States with a robust and growing tax base, ensuring that they will be better off in the medium and long term;
- provides for the abolition of a range of narrow and inefficient State taxes, such as Financial Institutions Duty and stamp duty on quoted marketable securities, which are to be abolished from 1 July 2001;
- introduced a new First Home Owners Scheme; and
- established a Ministerial Council for Commonwealth-State Financial Relations (the Ministerial Council).

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.

The reforms to Commonwealth-State financial arrangements required the passage of legislation by both the Commonwealth Parliament and by the States. The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* and the *A New Tax System (Commonwealth-State Financial Arrangements — Consequential Provisions) Act 1999* give effect to the Commonwealth's commitments.

The legislation builds on (and incorporates as a Schedule) the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the

Intergovernmental Agreement), endorsed by Commonwealth, State and Territory Heads of Government in June 1999.

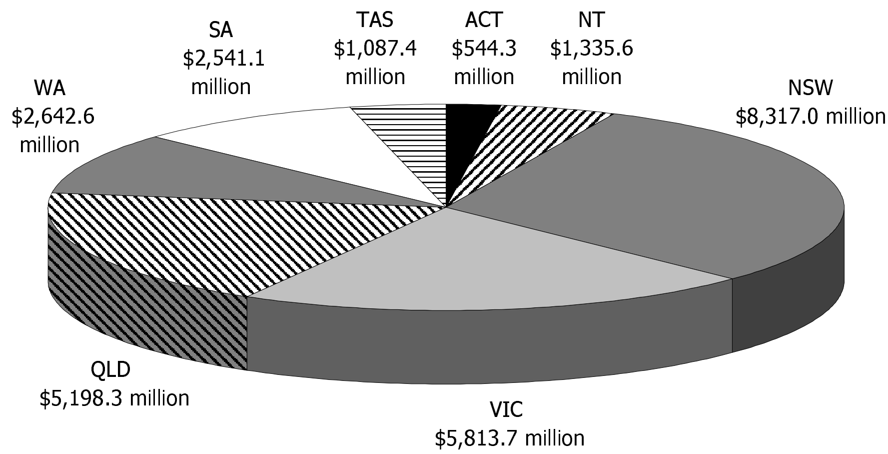
The States have also enacted legislation to meet their commitments.

GST REVENUE PROVISION AND COMMONWEALTH PAYMENTS TO THE STATE/LOCAL SECTOR

It is estimated that the States will receive around $27.5 billion in GST revenue in 2001-02, which can be spent by the States according to their own priorities.

Chart 1 illustrates the estimated GST revenue provision to each State in 2001-02.

Chart 1: GST revenue provision to the States, 2001-02 (estimated)



In addition to providing all GST revenue to the States, the Commonwealth will also make payments totalling $23.8 billion to the State/local sector in 2001-02, comprising:

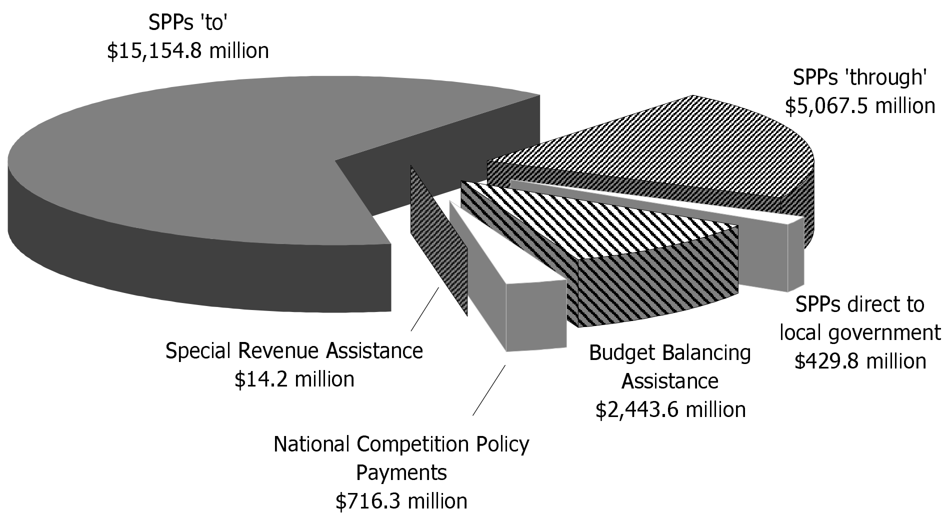
- general revenue assistance:
  - Budget Balancing Assistance;
  - National Competition Policy Payments; and
  - Special Revenue Assistance; and
- Specific Purpose Payments (SPPs):
  - Specific Purpose Payments 'to' the States;

– Specific Purpose Payments ‘through’ the States; and

– Specific Purpose Payments direct to local government.

Specific Purpose Payments account for the majority of Commonwealth payments to the State/local sector in 2001-02, as illustrated in Chart 2.

Chart 2: Commonwealth payments to the State/local sector, 2001-02 (estimated)



Tables 1 and 2 summarise the estimated GST revenue provision and Commonwealth payments to each State in 2000-01 and 2001-02 respectively.

The provision of GST revenue to the States and Commonwealth payments to the State/local sector are discussed in greater detail in Chapters 2 and 3.

Table 1: GST revenue provision and total Commonwealth payments to the State/local sector, 2000-01 (estimated)

2000-01	NSW $m	VIC $m	QLD $m	WA $m	SA $m	TAS $m	ACT $m	NT $m	Total $m
(1) Provision of GST revenue to the States	7,196.9	5,063.6	4,636.1	2,343.1	2,264.6	982.4	467.5	1,225.9	24,180.0
(2) General revenue assistance (2.1)+(2.2)+(2.3)	1,206.9	815.3	575.0	272.4	316.1	115.2	68.9	62.3	3,432.2
(2.1) Budget Balancing Assistance	1,051.0	700.7	489.1	227.0	280.2	104.0	47.9	57.6	2,957.5
(2.2) National Competition Policy Payments	155.9	114.7	85.9	45.5	35.9	11.2	7.5	4.7	461.2
(2.3) Special Revenue Assistance	na	na	na	na	na	na	13.5	na	13.5
(3) Total Specific Purpose Payments (3.1)+(3.2)+(3.3)(a)	6,373.8	4,577.2	3,463.0	2,321.7	1,512.6	528.4	322.6	356.2	19,534.4
(3.1) Specific Purpose Payments 'to' the States(a)	4,726.5	3,148.5	2,686.8	1,805.8	1,178.9	418.4	226.4	299.2	14,569.2
(3.2) Specific Purpose Payments 'through' the States	1,568.3	1,347.7	728.9	479.8	315.2	100.3	93.6	53.6	4,687.3
(3.3) Specific Purpose Payments direct to local government	79.1	81.0	47.3	36.1	18.5	9.7	2.6	3.4	277.9
(4) Total Commonwealth payments to the State/local sector (2)+(3)	7,580.7	5,392.6	4,038.1	2,594.2	1,828.7	643.6	391.5	418.5	22,966.5
(5) GST revenue and total Commonwealth payments (1)+(4)	14,777.6	10,456.2	8,674.2	4,937.2	4,093.3	1,626.0	859.1	1,644.3	47,146.5

(a) This figure does not include State splits for FBT transitional grants for public hospitals since indicative estimates of the distribution to each State are not currently available.

Table 2: GST revenue provision and total Commonwealth payments to the State/local sector, 2001-02 (estimated)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2001-02	$m	$m	$m	$m	$m	$m	$m	$m	$m
(1) Provision of GST revenue to the States	8,317.0	5,813.7	5,198.3	2,642.6	2,541.1	1,087.4	544.3	1,335.6	27,480.0
(2) General revenue assistance (2.1)+(2.2)+(2.3)	1,325.1	759.1	347.7	251.7	281.1	93.0	65.0	51.5	3,174.1
(2.1) Budget Balancing Assistance	1,084.1	580.6	213.0	181.0	225.7	75.7	39.4	44.2	2,443.6
(2.2) National Competition Policy Payments	241.0	178.5	134.6	70.7	55.4	17.3	11.5	7.4	716.3
(2.3) Special Revenue Assistance	na	na	na	na	na	na	14.2	na	14.2
(3) Total Specific Purpose Payments (3.1)+(3.2)+(3.3)(a)	6,729.0	5,050.8	3,630.4	2,274.3	1,595.6	512.0	348.4	430.5	20,652.0
(3.1) Specific Purpose Payments 'to' the States(a)	4,917.0	3,472.3	2,762.9	1,694.1	1,225.0	391.4	242.0	369.0	15,154.8
(3.2) Specific Purpose Payments 'through' the States	1,689.0	1,463.3	790.1	521.5	339.8	106.2	101.4	56.2	5,067.5
(3.3) Specific Purpose Payments direct to local government	123.0	115.2	77.4	58.6	30.8	14.4	5.0	5.3	429.8
(4) Total Commonwealth payments to the State/local sector (2)+(3)	8,054.1	5,809.9	3,978.0	2,526.0	1,876.7	604.9	413.5	482.1	23,826.2
(5) GST revenue and total Commonwealth payments (1)+(4)	16,371.1	11,623.6	9,176.3	5,168.6	4,417.7	1,692.4	957.8	1,817.7	51,306.2

(a) This figure does not include State splits for FBT transitional grants for public hospitals since indicative estimates of the distribution to each State are not currently available.

KEY DEVELOPMENTS SINCE THE 2000-01 BUDGET

The introduction of *The New Tax System* on 1 July 2000 has significantly reformed Commonwealth-State financial relations. Key developments since the 2000-01 Budget are highlighted below.

- As the States receive all GST revenue, the Commonwealth commenced monthly payments of GST revenue to the States in July 2000. Total GST payments to the States are estimated at $24.2 billion for 2000-01.
  - As a consequence, the States commenced payments to the Commonwealth meeting the agreed costs incurred in administering the GST (the payments in 2000-01 reflect costs incurred in 1999-2000 and 2000-01). The payments reflect a substantial increase in the Australian Taxation Office's workload as a result of a higher than anticipated number of GST registrations. The payments are expected to decrease in 2001-02 and subsequent years.
- A new First Home Owners Scheme commenced on 1 July 2000. Under the Scheme, a grant of $7,000 is available to eligible applicants who are buying or building their first home. The Scheme is administered by the States on the basis of principles agreed by all jurisdictions in the Intergovernmental Agreement.
  - In addition to this ongoing Scheme, the Commonwealth announced a new initiative on 9 March 2001 to double the grant to $14,000 for first home owners who enter into contracts between 9 March 2001 and 31 December 2001 inclusive to build or purchase new but previously unoccupied homes. The $14,000 grant is also available for owner-builders who commence building their home between these dates. The Commonwealth is fully funding the extension to the Scheme.
- On 1 July 2000, accommodation taxes were abolished, and Financial Institutions Duty and stamp duty on quoted marketable securities will be abolished from 1 July 2001.

The Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, was established to oversight the implementation and operation of the Intergovernmental Agreement. The Ministerial Council met on 30 March 2001 to consider expected payments to the States, as well as issues related to tax reform and the administration of the GST.