

PART 4: 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 2003-04. The information supplements material provided in Budget Paper No. 3, *Federal Financial Relations 2004-05*.

Under *The New Tax System*, which came into effect on 1 July 2000, Commonwealth-State financial relations have been substantially reformed. All GST revenue collected is received by the States. This provides the States with access to a secure, growing and broad-based revenue source. States can spend the GST revenue according to their own budget priorities.

The implementation of *The New Tax System* has also enabled the abolition of a range of narrow and inefficient state taxes. This includes financial institutions duty and stamp duty on quoted marketable securities which were abolished from 1 July 2001. In March 2004, the Australian Government and the State Governments agreed to abolish bank account debits tax by 1 July 2005 and agreed to review the need to retain a range of state business stamp duties.

The new system of Commonwealth-State financial relations has also provided for the introduction of the First Home Owners Scheme.

In addition, the Australian Government 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 this guarantee, the Australian Government pays the States Budget Balancing Assistance to cover any shortfall of GST revenue below the Guaranteed Minimum Amount (GMA) which is 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 GST revenue pool is distributed to the States on the basis of recommendations of the Commonwealth Grants Commission (CGC), which applies the principles of Horizontal Fiscal Equalisation to help determine state revenue shares. Budget Paper No. 3, *Federal Financial Relations 2004-05* provides more details on Horizontal Fiscal Equalisation.

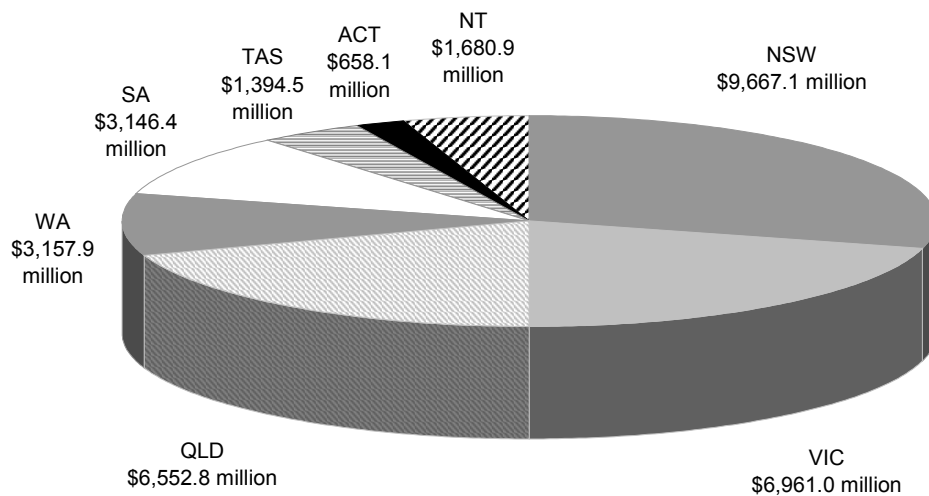
Under the Act, the Commissioner of Taxation (the Commissioner) is required to make a determination by 20 June each year of the estimated GST revenue collections for the year. In accordance with the Commissioner's determination of GST revenue on

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18 June 2004, a total of \$33,218.7 million in GST revenue was provided to the States in 2003-04. This reflects a GST revenue estimate for 2003-04 of \$33,240.0 million minus a \$21.3 million adjustment for the difference between the Commissioner's determination of 2002-03 GST collections and the 2002-03 GST outcome. The Commissioner's estimate of GST for 2003-04 was broadly consistent with both the estimate at Budget, and the final GST revenue outcome as reported in Appendix A and in Note 15 in Part 3.

The final provision of GST revenue to the States in 2003-04 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 31. The distribution differs marginally from estimates shown in Budget Paper No. 3, *Federal Financial Relations 2004-05*, reflecting final determinations made under the Act.

The 2003-04 GST revenue was distributed, in accordance with the Act, using GST relativities recommended by the CGC.

Table 31 shows the per capita relativities applied to the States' populations (as at 31 December 2003) in order to arrive at a weighted population share for each state. A state's share of GST revenue is equal to its weighted population share of the combined GST revenue and unquarantined Health Care Grants (HCGs), less the unquarantined HCGs it receives.

Table 31: GST revenue provision to the states and territories

	Population as at 31 December 2003	Per capita relativities	Weighted population (1) x (2)	Share of Weighted Population (%)	GST revenue/HCGs pool according to (4)	Unquarantined HCGs (\$m)	Distribution of GST revenue (5) - (6) (\$m)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	6,716,277	0.89117	5,985,345	30.0	12,082.9	2,415.8	9,667.1
VIC	4,947,985	0.87010	4,305,242	21.5	8,691.2	1,730.2	6,961.0
QLD	3,840,111	1.01902	3,913,150	19.6	7,899.6	1,346.8	6,552.8
WA	1,969,046	0.96946	1,908,911	9.6	3,853.6	695.7	3,157.9
SA	1,531,375	1.21215	1,856,256	9.3	3,747.3	600.9	3,146.4
TAS	479,958	1.59948	767,683	3.8	1,549.8	155.3	1,394.5
ACT	322,579	1.14979	370,898	1.9	748.7	90.7	658.1
NT	198,700	4.38638	871,574	4.4	1,759.5	78.6	1,680.9
Total	20,006,031	na	19,979,059	100.0	40,332.6	7,113.9	33,218.7

GENERAL REVENUE ASSISTANCE

In 2003-04, general revenue assistance to the States comprised Budget Balancing Assistance (BBA), National Competition Policy Payments and Special Revenue Assistance.

Budget Balancing Assistance

As previously noted, the Australian Government 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 the reforms not been implemented. This is given effect to by the payment of transitional assistance in the form of BBA.

In June 2004, it was determined that New South Wales was entitled to \$68.8 million in BBA for 2003-04. The other states did not require BBA in 2003-04 as their respective shares of GST revenue exceeded their GMAs by a combined total of \$1,106.0 million.

The calculation of BBA entitlements for 2003-04 is shown in Table 32 and is broadly consistent with estimates at Budget.

Consistent with the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Australian Government advanced BBA to a number of states in four quarterly instalments in 2003-04. These advances were based on the estimated BBA entitlements of the States at the time of each advance. However, the upward revision to GST estimates in the Budget resulted in a lower than previously estimated BBA entitlement for New South Wales, and no BBA entitlement for any of the other States. On the basis of the determined BBA entitlements, the advances to the states in 2003-04 exceeded the states' final entitlements to BBA in 2003-04 by \$374.2 million. This is shown in Table 33.

Consistent with the provisions of the Act, the Australian Government will deduct the amount of excess BBA paid in 2003-04 from payments to be made to the states under the Act in 2004-05.

Table 32: 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
State revenues forgone									
Financial Assistance Grants	5,411.0	4,016.3	4,219.1	1,810.6	2,170.1	1,032.5	443.1	1,388.4	20,491.1
Revenue Replacement Payments	2,544.0	1,702.4	1,543.4	1,064.1	661.8	224.7	113.1	143.6	7,997.0
Financial Institutions Duty	703.0	388.3	na	150.7	100.1	24.2	20.0	16.7	1,413.0
Marketable Securities Duty	456.0	236.5	27.0	29.3	15.6	0.8	24.8	1.1	791.1
Marketable Securities Duty Needs	-22.7	11.2	13.6	2.8	3.9	2.6	-12.2	0.9	0.0
Accommodation taxes	82.0	na	na	na	na	na	na	9.0	91.0
plus Reduced revenues									
Gambling taxes	582.0	389.4	251.3	62.7	98.2	27.9	23.9	17.7	1,453.2
plus Interest costs									
Interest costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
plus Additional expenditures									
First Home Owners Scheme	237.9	195.8	168.8	93.9	57.0	19.5	11.3	7.8	792.0
GST administration costs	191.7	141.2	109.6	56.2	43.7	13.7	9.2	5.7	570.9
plus Other items									
Wholesale sales tax payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
minus Reduced expenditures									
Off-road diesel subsidies	141.2	58.8	137.4	177.9	37.7	2.3	0.0	4.0	559.3
Savings from tax reform	179.1	122.9	101.6	60.6	44.1	14.9	10.1	14.8	548.0
Low alcohol beer subsidies	25.3	17.5	4.9	8.0	4.7	1.7	1.0	1.2	64.4
minus Growth dividend									
Remaining State taxes	99.1	64.0	33.5	20.0	16.1	4.1	3.1	2.2	242.0
plus Adjustments									
2002-03 GMA adjustment	-4.4	6.5	-6.1	-2.5	-0.6	2.1	0.3	0.7	-4.0
Total	9,735.9	6,834.4	6,049.3	3,001.3	3,047.2	1,325.0	619.3	1,569.3	32,181.5
GST revenue provision	9,667.1	6,961.0	6,552.8	3,157.9	3,146.4	1,394.5	658.1	1,680.9	33,218.7
Budget Balancing Assistance	68.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	68.8

Table 33: Overpayment of Budget Balancing Assistance

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Payments in 2003-04	316.7	104.2	0.0	0.0	22.0	0.0	0.0	0.0	443.0
BBA entitlement	68.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	68.8
BBA overpayment	247.9	104.2	0.0	0.0	22.0	0.0	0.0	0.0	374.2

National Competition Policy Payments (NCPs)

NCPs are distributed between the States on an equal per capita basis. Payment is subject to each State achieving satisfactory progress in implementing specified reforms under the *Agreement to Implement the National Competition Policy and Related Reforms*. Out of a maximum level of payments in 2003-04 of \$759.0 million, the National Competition Council (NCC) recommended permanent deductions of \$53.9 million and suspensions of \$126.9 million. The payments made to the States in 2003-04, as set out in Table 34, reflect that the permanent deductions and suspensions recommended by the NCC were agreed to by the Australian Government and applied accordingly.

Table 34: National Competition Policy Payments

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2003-04	203.5	178.7	87.9	33.6	40.7	17.2	11.0	5.9	578.5

Special Revenue Assistance

In 2003-04, in accordance with the recommendations of the CGC, Special Revenue Assistance of \$15.0 million was paid to the Australian Capital Territory.

FINANCIAL ASSISTANCE GRANTS TO LOCAL GOVERNMENT

Table 35 provides details of the Australian Government payments to local government authorities in 2003-04 for each of the six states and the Northern Territory, and an analogous payment made to the Australian Capital Territory.

In 2003-04, local government Financial Assistance Grants were increased on the basis of an annual escalation factor determined by the Treasurer. The payments made to the States in 2003-04 and shown in Budget Paper No. 3, *Federal Financial Relations 2004-05* were based on an estimated escalation factor of 1.0367, estimated in June 2003, and take into account an underpayment of \$6.0 million in 2002-03.

On 24 June 2004, the Treasurer determined the final 2003-04 escalation factor to be 1.0316 on the basis of the Australian Statistician's determination of population and Treasury's estimate of the ongoing consumer price index. The difference between the estimate and the final escalation factor for 2003-04 has resulted in an overpayment of \$7.4 million in 2003-04 for which there will be an adjustment in 2004-05, as provided for under the *Local Government (Financial Assistance) Act 1995*.

Table 35: Financial Assistance Grants to local government

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	Total \$m
General Purpose Assistance	353.2	260.0	199.2	103.0	80.9	25.2	17.0	10.4	1,049.0
Untied local road funding	135.0	96.0	87.2	71.2	25.6	24.7	14.9	10.9	465.5
Total Financial Assistance Grants(a)	488.3	355.9	286.4	174.2	106.5	49.9	32.0	21.3	1,514.5

(a) Total Financial Assistance Grant is the actual cash payment that the State receives on behalf of local government. It is equal to the estimated entitlement for a given year adjusted for an overpayment or underpayment from the previous year. The information presented in this table differs from that in Table 36, which is prepared on an accrual basis.

SPECIFIC PURPOSE PAYMENTS (SPPs)

Tables 36 and 37 provide information on Australian Government SPPs to and through the States, and direct to local government.

Table 36 presents SPPs on a functional basis, and includes SPPs for current and capital purposes. Payments are aggregated according to like objectives and purposes and are further divided into those paid to the States and those paid through the States to be passed on to local government and others. Payments through the States are indicated in the table with an (*) and separate totals for payments to the States and payments through the States are presented in the summary at the end of the table.

Australian Government advances (loans) to the States, including new advances, interest on advances and repayments by the States are also detailed in Table 36. The majority of these advances were funded from borrowing made on behalf of the States under the previous Australian Loan Council arrangements.

Table 37 presents information on Australian Government SPPs paid direct to local government authorities for both current and capital purposes.

Tables 36 and 37 provide information prepared on an accrual basis.

