

9 INTERGOVERNMENTAL FINANCIAL RELATIONS

FEATURES

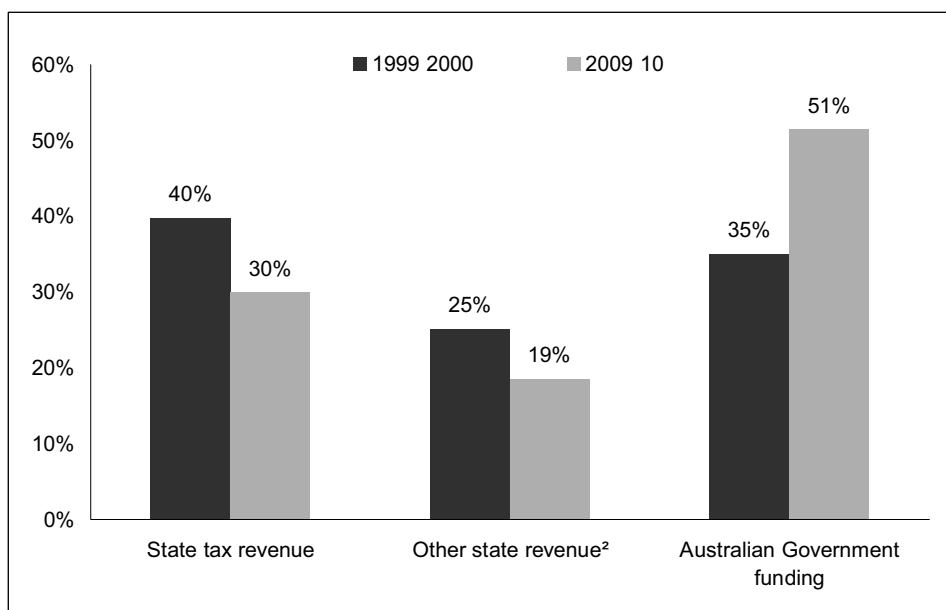
- GST revenue from the Australian Government to all States has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10 since last Budget.
- Queensland, like all states, is becoming increasingly reliant on Australian Government funding, with approximately 49% of Queensland's revenue being sourced from the Australian Government in 2009-10.
- Council of Australian Government (COAG) reforms during 2008 resulted in substantial changes to the system of Australian Government payments, including improved funding arrangements for Specific Purpose Payments (SPPs) and new National Partnership Agreements.
- \$6.3 billion of additional funding has been provided to Queensland to 2012-13, including \$3 billion in COAG reform agreements. The Australian Government's *Nation Building and Jobs Plan* provides around \$3.3 billion of additional funding for Queensland over the next three years.
- The Commonwealth Grants Commission's *2009 Update Report on State Revenue Sharing Relativities* shows that Queensland will again receive a below per capita share of GST revenue in 2009-10. Queensland's share of GST revenue in 2009-10 will be reduced by \$381.8 million in underlying terms compared with 2008-09 due to a downward revision to the State's assessed relativity.
- Queensland's GST receipts in 2009-10 are expected to be \$7.660 billion, which is less than the \$8.549 billion received in 2007-08. In per capita terms, Queensland's share of GST in 2009-10 and 2010-11 will be similar to that received in 2003-04, with GST not expected to regain the levels of 2004-05 until after 2012-13.
- The expected reduction in Queensland's share of GST in 2008-09 follows underlying losses experienced in recent years. It is anticipated that by the 2010 Review of Methodology, Queensland's annual cumulative loss in GST funding since the 2004 Review of Methodology will be more than \$1.2 billion.
- The Queensland Government will provide \$1.3 billion in grants to Queensland local government authorities in 2009-10.

FEDERAL FINANCIAL ARRANGEMENTS

Federal financial relations are characterised by a disparity between the revenue-raising capacity and the expenditure responsibilities of the Australian and state governments respectively. This mismatch is known as vertical fiscal imbalance (VFI). The Australian Government collects the major share of taxation revenues and states must rely on grants from the Australian Government to meet their expenditure requirements.

Since the introduction of the Australian Government's national tax reforms in 2000, states' dependence on Australian Government funding has increased further. Chart 9.1 shows all states' funding sources for 1999-2000 and 2009-10. In 1999-2000 the states received 35% of their revenues from the Australian Government. This is estimated to increase to 51% in 2009-10 as a result of changes to intergovernmental fiscal arrangements. In contrast, the proportion of the states' revenues from state taxes has declined from 40% in 1999-2000 to an estimated 30% in 2009-10.

Chart 9.1
Revenue sources, all states, 1999-2000 and 2009-10¹



Notes:

1. 2009-10 data are estimates.
 2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.
- Sources: ABS *Government Finance Statistics* Cat No. 5512.0 and state and Australian Government Budget Papers.

The framework for federal financial arrangements has recently undergone significant reform through the Council of Australian Governments (COAG). Under the new framework, there are four categories of funding provided to the states:

- National Specific Purpose Payment (SPP) funding agreements covering health, education, skills and workforce development, disability and housing
- National Partnership payments for specific purposes or reform-linked objectives
- GST revenue payments
- other general revenue assistance payments.

Australian Government funding to states

Table 9.1 shows that Australian Government payments to the states in 2009-10 are expected to total \$91.9 billion, an increase of \$6.8 billion or 8% compared with 2008-09.

Table 9.1					
Estimated Australian Government payments to the states, 2008-09 and 2009-10¹					
	2008-09 \$ million	2009-10 \$ million	Change Nominal Terms %	Change Real ² Terms %	Change Real ² Per Capita %
Payments for specific purposes					
National Partnership payments	13,781	24,243			
Specific Purpose Payments ³	28,279	25,833			
Total payments for specific purposes⁴	42,060	50,076	19.1	17.0	15.0
GST revenue	41,189	41,330	0.3	-1.4	-3.1
Other general revenue⁵	1,857	494			
Total payments	85,106	91,901	8.0	6.1	4.3
Notes:					
1. Numbers may not add due to rounding.					
2. Deflated by the 2008 09 year average national inflation forecast of 1.75% and national population growth of 1.75%.					
3. Specific Purpose Payments includes existing SPPs and new national SPPs.					
4. Payments for specific purposes are not strictly comparable as some payments were reclassified as general revenue assistance from 1 January 2009.					
5. Other general revenue includes NCP payments, royalties, compensation for Australian Government policy decisions and ACT municipal services.					
Source: <i>Australian Government Budget Paper No.3, 2009 10.</i>					

Total payments for specific purposes in 2009-10 are expected to be \$50.1 billion, a 15% increase from 2008-09 in real per capita terms. This largely reflects new COAG reform agreements and the impact of the Australian Government's *Nation Building and Jobs Plan*.

GST revenue from the Australian Government to all states is expected to increase slightly from \$41.2 billion in 2008-09 to \$41.3 billion in 2009-10, an increase of 0.3% in nominal terms. In real per capita terms, GST is expected to decrease by 3.1%. Since the Australian Government's 2008-09 Budget, GST revenue has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10. Total downward revisions in GST revenue over the period 2008-09 to 2011-12 are estimated at \$25.5 billion.

The large downward revisions of the GST pool over 2008-09 has resulted in New South Wales, South Australia, Tasmania and the Northern Territory receiving less GST than their guaranteed minimum amount, which means they require budget balancing assistance in 2008-09. This is the first time any state has received budget balancing assistance since 2003-04. Under the new *Intergovernmental Agreement on Federal Financial Relations* (IGA), budget balancing assistance will not be available to states after 2008-09.

State shares of Australian Government funding

Table 9.2 shows the expected shares of total Australian Government payments to each state for 2009-10 compared with each state's population share. Queensland's anticipated share of total Australian Government funding of 19.8% in 2009-10 will be less than its population share of 20.2%.

Table 9.2			
Relative shares of payments to the states, 2009-10¹			
	Share of payments %	Share of population %	Relative share ² %
New South Wales	30.6	32.4	94.6
Victoria	22.6	24.8	91.1
Queensland	19.8	20.2	98.1
Western Australia	10.0	10.3	97.8
South Australia	8.7	7.4	116.9
Tasmania	3.0	2.3	132.9
Australian Capital Territory	1.7	1.6	108.5
Northern Territory	3.5	1.0	336.2

Notes:

- Numbers may not add due to rounding.
- A state's relative share is measured as its funding share as a percentage of its population share.

Source: *Australian Government Budget Paper No.3, 2009 10.*

Queensland's share of Australian Government funding

Table 9.3 details Queensland's share of estimated Australian Government payments in 2009-10 and the difference from its population share. Queensland expects to receive \$701 million less than a per capita share of GST revenue in 2009-10. In the same year, Queensland expects to receive \$507 million more than a per capita share of total payments for specific purposes. In terms of total Australian Government funding, Queensland expects to receive \$194 million less than a per capita share in 2009-10.

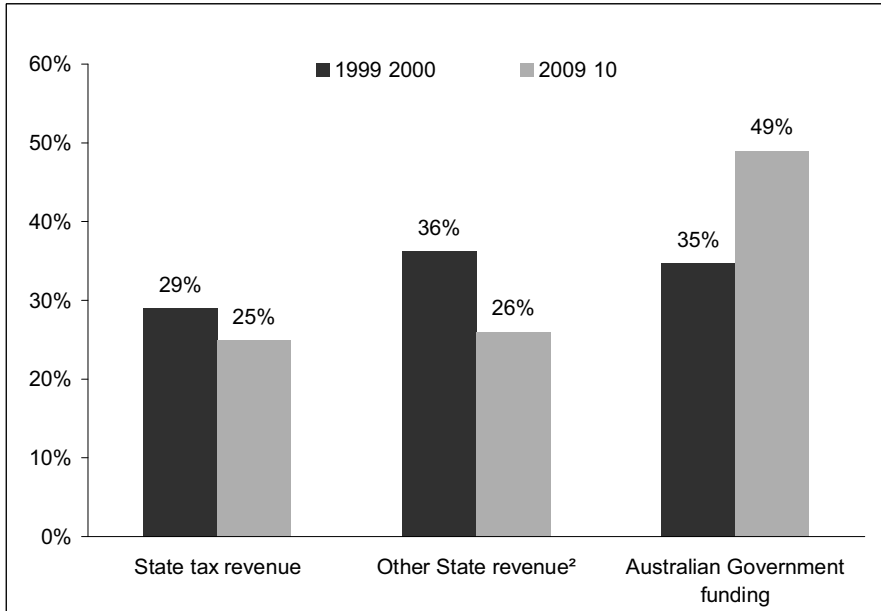
Table 9.3		
Queensland's share of estimated Australian Government payment, 2009-10		
	Queensland's Share	Difference from Population Share
	%	\$ million
Payments for specific purposes		
National Partnership payments	24.1	950.1
Specific Purpose Payments	18.5	-443.2
Total payments for specific purposes	21.2	507.0
GST revenue¹	18.5	-701.1
Total payments	19.8	-194.1
Notes:		
1. Adjustment for GST deferral included.		
Source: <i>Australian Government Budget Paper No.3, 2009 10.</i>		

Additional funding from COAG reform agreements is estimated to be \$333 million in 2009-10, and \$3 billion in total from 2008-09 to 2012-13. This includes improved funding arrangements for specific purposes payments and National Partnerships in areas such as health, education, skills and workforce development, housing, disabilities and Indigenous services. In addition, the Australian Government's \$42 billion *Nation Building and Jobs Plan* is expected to direct around \$3.3 billion to Queensland between 2008-09 and 2012-13.

Revisions to total GST revenue, combined with changes to Queensland's relative share of total GST funds, have had substantial impacts on the GST expected to be received by Queensland.

Queensland's reliance on Australian Government funding, as shown in Chart 9.2, is consistent with the national trend, with the share of total funding sourced from the Australian Government increasing from 35% in 1999-2000 to an estimated 49% in 2009-10. This is partly due to increased payments for specific purposes, which are expected to peak in 2009-10, combined with reductions in Queensland's own-source revenue, which has fallen from 65% in 1999-2000 to 51% in 2009-10.

Chart 9.2
Revenue sources, Queensland, 1999-2000 and 2009-10¹



Notes:

1. 2009-10 data are estimates.

2. Includes user charges, interest earnings, contributions from trading enterprises and mining revenue.

Source: ABS Government Finance Statistics Cat No. 5512.0 and Queensland Budget estimates.

COAG REFORM OF AUSTRALIAN GOVERNMENT PAYMENTS

The Council of Australian Government (COAG) reforms during 2008 resulted in substantial changes to the system of Australian Government payments. These reforms culminated in a new IGA, which outlines the principles of Federal-State financial relations, and details a range of major reforms, including:

- improved funding arrangements for Specific Purpose Payments (SPPs)
- a framework for new National Partnership agreements (NPs)
- restructuring the number and types of payments
- a new performance reporting regime for SPPs and NPs
- a new Indigenous expenditure reporting framework
- an expanded role for the COAG Reform Council (CRC).

The package of changes has improved state funding, and gives states additional flexibility to apply the new funding to meet state priorities, but has been accompanied by commitments to meet new national performance benchmark measures.

The new funding arrangements also include reward payments to states for achieving agreed implementation milestones for a number of reform areas, including:

- preventative health
- literacy and numeracy
- business deregulation.

COAG reform agreements have resulted in \$15.1 billion of additional funding for specific purposes and national partnerships. Queensland's share of additional funding from COAG agreements is estimated at \$3 billion from 2008-09 to 2012-13.

Specific purpose payments

One of COAG's reform objectives was to reduce the number of SPPs from around 90 to less than 20. Following deliberation, COAG agreed to five new major SPPs:

- a National Healthcare Agreement
- a National Schools Agreement
- a National Skills and Workforce Development Agreement
- a National Disability Agreement
- a National Housing Agreement.

A large number of former SPPs have been redesignated as National Partnership payments, contingent payments or general revenue assistance, or are proposed to be cashed out. The new IGA provides for Treasurers to periodically review the adequacy of funding and indexation for the new SPPs.

In addition to these agreements there is a National Indigenous Reform Agreement (NIRA), which brings together the key Indigenous reforms in the new funding agreements.

Key characteristics of the new agreements are:

- the agreements are permanent, and do not have to be renegotiated every three or four years (unlike previous SPPs)
- each agreement has improved base and escalation arrangements
- each agreement has documented objectives, outcomes and performance measures
- performance information for the new SPPs will be compiled and publicly released by the CRC.

States have flexibility to use funding within each of the five SPP areas in accordance with state policy priorities. For example, healthcare funding is no longer restricted to public hospitals, and can be spent anywhere within the health system.

The table below outlines Queensland's additional funding for each SPP under the new arrangements.

Table 9.4 Queensland's additional SPP funding 2008-09 to 2012-13			
SPP	Base and escalation \$ million	Distribution change \$ million	Total increase \$ million
Healthcare	946	108	1,054
Schools	203	126	329
Skills and Workforce	7	20	27
Disability	79	18	97
Housing	9	16	25
Total	1,245	287	1,532

COAG's Public Accountability and Performance Reporting guidelines require states to provide performance information in respect of each new National Agreement, and for this information to be consolidated into a report which will be provided to COAG and publicly released. The intention of this process is to make states accountable to their electors for their performance, rather than to the Australian Government or to COAG.

The performance reporting agreement has set in train a comprehensive review of statistical reporting arrangements between the Australian Government and the states. The Ministerial Council for Federal Financial Relations (comprising Australian Government, State and Territory Treasurers) has responsibility for overseeing and maintaining an effective performance reporting regime.

National Partnership payments

National Partnership payments are intended to be for specific projects, such as election commitments, with funding being provided for limited periods. Deliverables, including objectives, timeframes and funding are specified in individual National Partnership Agreements.

National Partnerships may consist of up-front facilitation payments or have reward payments which will be made to states that achieve agreed performance benchmarks. National Partnerships may also use a mixture of facilitation and reward payments.

States may also be required to contribute funding toward achieving National Partnerships. In some cases pre-existing budget allocations may be recognised as a funding contribution, but in the majority of cases, additional state funding is required. The National Partnerships signed at the November 2008 COAG meeting include a requirement for Queensland to contribute \$641 million in co-investment payments.

The following table sets out details of the National Partnership funding agreed for Queensland at the November 2008 COAG meeting.

Table 9.5
Queensland's additional COAG funding
2008-09 to 2012-13

Funding area	Additional funding \$ million	Co-investment required \$ million
Hospital and Health Workforce Reform	267	108
Preventative Health	45	..
National E-Health initiative	..	22
Indigenous Health	..	162
Computers in Schools	159	..
Improving teacher quality	88	6
Low SES school communities	171	171
Homeless	136	138
Social Housing	81	..
Indigenous Economic Participation	..	21
Indigenous Remote Service Delivery	..	13
Remote Indigenous Housing	419	..
Business regulation and competition	113	..
Total	1,479	641

Other COAG reform elements

A new Indigenous expenditure reporting framework

States have agreed to help develop and implement a new Indigenous Expenditure Reporting Framework (IERF) to help address existing deficiencies in the current availability of Indigenous expenditure data. This will be a key part of monitoring progress towards achieving COAG's 'Closing the Gap' objectives.

A key issue with the IERF will be identifying expenditure on Indigenous services provided as part and parcel of 'mainstream' expenditure, particularly in the Health and Education areas.

Role of the CRC

In addition to its role of collating and publishing SPP performance information, the CRC will be responsible for monitoring states' progress on reform agendas. In particular, the CRC will determine whether states have achieved the milestones required for the release of reward payments under National Partnerships which have a reward component.

NATION BUILDING AND JOBS PLAN

The Australian Government announced its \$42 billion *Nation Building and Jobs Plan* in February 2009. The plan has several elements which require state participation, including \$14.7 billion for improvements to schools, \$6.6 billion for improvements for social housing, and \$0.9 billion for transport infrastructure.

Final funding allocations for states are being negotiated between the Australian Government and the states. Queensland expects to receive in excess of \$3 billion in additional funding under the *Nation Building and Jobs Plan*.

Under the plan, states have to commit to spending the additional money within nominated timeframes and maintaining current expenditure effort. Sanctions will be applied for non-compliance, including that the Australian Government may reallocate funding to other states if a state is unable to meet the expenditure guidelines, and that states' grant funding may be reduced if states substitute Australian Government funding for own source funding.

PAYMENTS FOR SPECIFIC PURPOSES BY FUNCTION

In total, Australian Government payments to Queensland for specific purposes in 2009-10 are estimated at \$10.636 billion, an increase of 14.4% from 2008-09.

Table 9.6		
Queensland payments for specific purposes, 2008-09 and 2009-10^{1,2}		
	2008-09	2009-10
	\$ million	\$ million
Payments for specific purposes		
Health	2,410.2	2,399.2
Education and training	2,605.7	4,358.2
Disability services	469.4	508.1
Housing	599.6	1,327.2
Transport and main roads	2,413.3	1,615.1
Local government	460.6	283.4
Other	334.7	145.1
Total payments for specific purposes	9,293.5	10,636.3
Notes:		
1. Numbers may not add due to rounding.		
2. Payments for specific purposes include existing SPPs, new national SPPs and National Partnerships.		
Source: <i>Australian Government</i>		

Health

From 2009-10, Queensland Health will receive the majority of its Australian Government funding through the new National Healthcare Agreement (NHA) SPP. The NHA will be adjusted annually for population growth and increases in costs associated with increases in health prices and technology improvements. Queensland expects to receive \$2.2 billion from Health SPP funding in 2009-10.

Queensland Health will also receive new funding for National Partnership payments in specific reform areas such as Hospital and Health Workforce Reform and Preventative Health.

Education and training

The National Schools Agreement and National Skills and Workforce Agreement support the delivery of education services in state and non-state schools, training institutions and other organisations. The Australian Government will also provide over \$2 billion in 2009-10 of National Partnership payments to support the delivery of specified outputs in education and early childhood.

The Australian Government also provides funding for a range of specific vocational education and training programs. Increased funding will be provided for TAFE infrastructure improvements and productivity places as part of the *Nation Building and Jobs Plan*.

Disability services

The new National Disability Agreement commenced on 1 January 2009 replacing the Commonwealth State/Territory Disability Agreement (CSTDA). The funding received under the National Disability Agreement during 2009-10 will be used to continue existing service provision as well as provide increased accommodation support, respite and in-home support services for people with a disability, their families and carers.

Disability Services Queensland will also receive funding from the Australian Government for the Home and Community Care (HACC) program. The HACC Review Agreement, coupled with projected growth funding, ensures the program is a key part of the community care system and will continue to assist frail older people and those with disabilities to live as independently as possible in their own homes.

Housing

In 2009-10, the Department of Housing expects to receive over \$1.3 billion in payments for specific purposes, including funding under the National Housing Agreement, and National Partnerships in the areas of homelessness, remote Indigenous housing and social housing. This funding will be used for the continued development of a core social housing sector to assist people unable to access alternative suitable housing options, through the delivery of affordable, appropriate, flexible and diverse housing assistance responses that provide people with choice and are tailored to their needs, local conditions and opportunities.

Transport and main roads

Funding is provided by the Australian Government for capital infrastructure and maintenance works on the National Network. This road funding is provided through the *Nation Building* program and the Building Australia Fund, which includes planning funding for a Brisbane Inner City Rail Feasibility Study and capital funding towards the Gold Coast Light Rail project in South East Queensland.

The Australian Government also contributes funding under the *Nation Building* program for targeted safety and other works on other state-controlled and local government roads.

Local government

Payments to local government consist of general purpose Financial Assistance Grants and untied grants for local roads.

Other

Other payments for specific purposes include funding for a range of programs including environment and water sustainability and natural disaster relief.

GST REVENUE PAYMENTS

Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states. Under its terms of reference the CGC is required to determine its recommendations on the basis of horizontal fiscal equalisation, as detailed in Box 9.1.

Box 9.1

Horizontal fiscal equalisation and distribution of GST

Commonwealth Grants Commission

The Commonwealth Grants Commission (CGC) advises the Australian Government on the distribution of GST revenue among the states and each year updates the financial, economic and demographic data that underpin its recommendations.

Horizontal Fiscal Equalisation

The Australian Government distributes GST revenue to states based on the principle of horizontal fiscal equalisation (HFE), using per capita relativities recommended by the CGC. Queensland supports the principle of HFE.

The principle of HFE is that state governments should receive funding from the Australian Government such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency of service delivery, each would have the capacity to provide services to the same standard.

A distribution based on HFE principles recognises the different financial capacities of the states, particularly that some states have inherently greater capacity to raise revenue and that some states have inherently greater costs to meet in providing services to an Australian standard. If the distribution of the GST to the states were on any basis other than HFE, some taxpayers would be forced to accept either a lower standard of state services or a higher level of state taxation than other taxpayers in similar circumstances.

More information on HFE and GST distribution can be accessed through the Queensland Treasury website: www.treasury.qld.gov.au/gst-factsheets or the Commonwealth Grants Commission website: www.cgc.gov.au.

2009 Update Report on State Revenue Sharing Relativities

At the 2009 Treasurer's Conference, the Australian Government accepted the CGC's *2009 Update Report on State Revenue Sharing Relativities* (2009 Update) as the basis for the distribution of the GST revenue to the states in 2009-10.

In the 2009 Update, the CGC recommended an underlying decrease in Queensland's share of GST revenue of \$381.8 million in 2009-10, as shown in Table 9.7. Queensland already received a less than per capita share of the GST in 2008-09, and the result of the 2009 Update has reduced Queensland's share even further.

New South Wales and Victoria have gained significantly from the 2009 Update with underlying increases of \$613.3 million and \$56.6 million respectively. In 2009-10, for the first time, New South Wales and Victoria will receive a greater per capita share of the GST than Queensland.

Table 9.7
Components of underlying change in states share of GST revenue
2008-09 to 2009-10¹

	NSW \$ million	VIC \$ million	QLD \$ million	WA \$ million	SA \$ million	TAS \$ million	ACT \$ million	NT \$ million
Revenue	545.0	82.6	-312.2	-304.4	1.3	-14.5	7.5	-5.4
Expenditure	55.0	-88.2	-34.1	6.7	50.8	-26.3	-0.5	36.7
Commonwealth								
Payments	14.0	62.6	-35.1	-11.3	-0.3	-0.6	4.3	-33.4
Total	613.3	56.6	-381.8	-309.7	52.2	-41.0	11.4	-0.9

Note:

1. Numbers may not add due to interactions between Expenditure and SPP assessments.

Source: Commonwealth Grant Commission 2009 Update Report on State Revenue Sharing Relativities.

The decrease in Queensland's GST revenue share follows reductions in its share of GST funding of \$166.4 million in 2007 and \$409.3 million in 2008. It is anticipated that by the 2010 Review of methodology, Queensland's annual cumulative loss in GST funding since the 2004 Review of methodology will be more than \$1.2 billion.

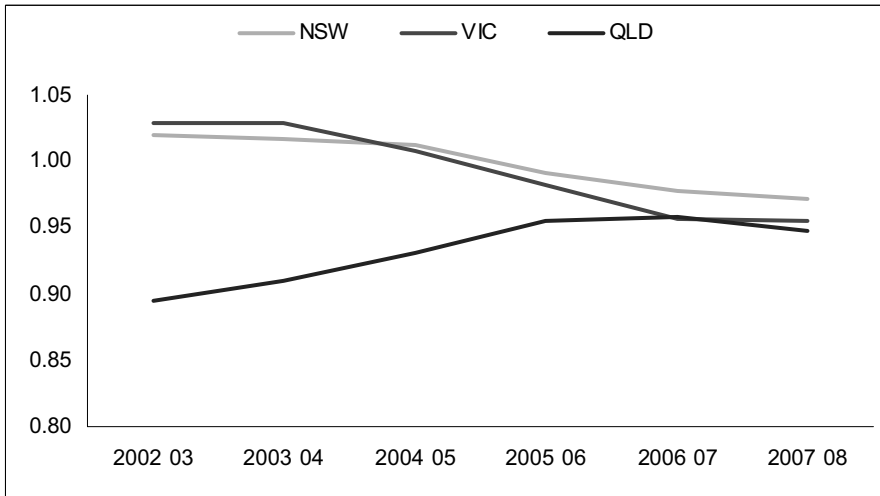
Queensland's declining share of GST revenue reflects increases in the state's fiscal capacity over the period 2002-03 to 2007-08, particularly from strong performances in the property market and mining sector. The change in Queensland's GST share over the last few years demonstrates the responsiveness of the CGC's methodology to changes in states' revenue earning capacities and expenditure needs. However, the current methodology does not adequately account for the increases in capital expenditure required by states driven by high population growth. Queensland is working with the CGC and the other states to develop a capital assessment as a part of the 2010 Review process (see Box 9.2 for more details).

Relationship between GST distribution and economic performance

A key feature of recent Updates has been the decreasing relativities of the fast growing states of Queensland and Western Australia compared with the more established economies of New South Wales and Victoria.

There has been some criticism of the GST distribution process on the basis that periods of rapid growth, such as recently experienced by the Queensland and Western Australian economies, are not adequately taken into account. Chart 9.3 shows that Queensland's GSP per capita has been converging with that of both New South Wales and Victoria over the period from 2002-03 to 2007-08.

Chart 9.3
Convergence between larger states – GSP per capita relativities

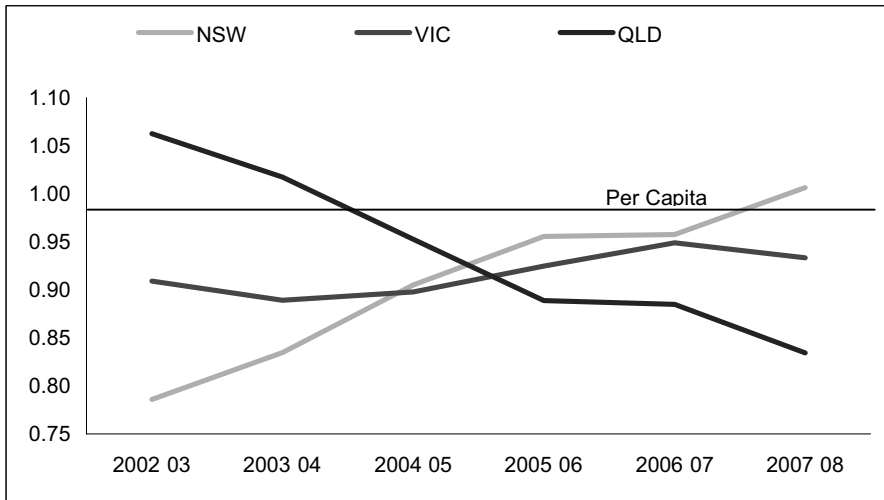


Source: Queensland Treasury calculations based on Commonwealth Grants Commission *Relative Fiscal Capacities of the States 2009*.

Over these years, Victoria’s GSP per capita has declined from 3% above the Australian average, while Queensland’s GSP per capita has risen substantially towards the national average.

At the same time, New South Wales’ assessed GST single year relativity, which is a key determinant of its share of the GST pool, has risen from 0.79 to 1.01. Over the same period Queensland’s single year GST relativity has fallen from 1.06 to 0.83 as shown in Chart 9.4.

Chart 9.4
Single year GST relativities – larger states



Source: Commonwealth Grants Commission 2009 Update Report on State Revenue Sharing Relativities.

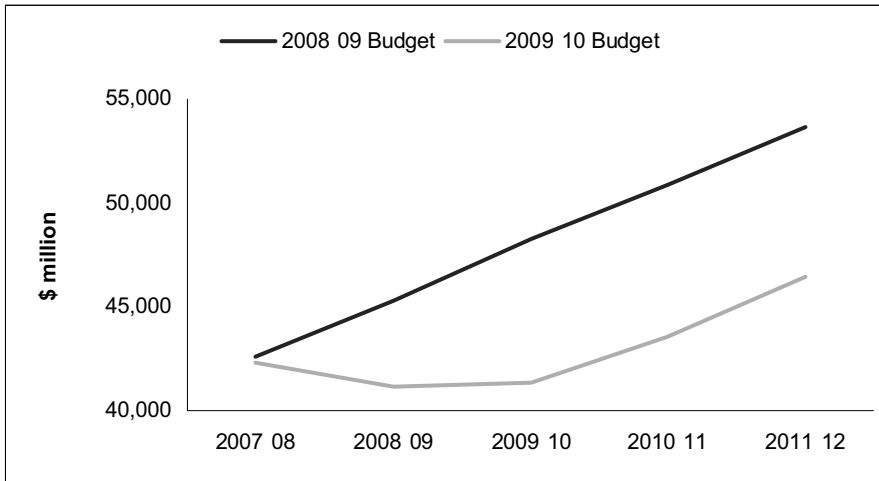
The CGC's 2009 Update data shows that in every year since 2005-06, Queensland's assessed single year GST relativity has been lower than that for both New South Wales and Victoria, which means that for the past three years Queensland has been assessed as requiring less per capita from the GST pool than either of these states.

It is clear that as the relative economic strength of a state changes, so too does its assessed share of GST funding. Queensland recognises that this is the intended consequence of the GST assessment process. However, due to the five year averaging process used by the Commission, Queensland and Western Australia will continue to experience low relativities as a result of their earlier strong economic growth, while at the same time experiencing significant reductions in own source revenues associated with the impact the global financial crisis has had on property markets and commodity prices.

Queensland's declining GST revenue

Total GST revenue to all states declined by 2.7% between 2007-08 and 2008-09, and in 2009-10 is expected to rise by 0.3%. This is far lower than the average growth of 8.2% between 2000-01 and 2007-08, and reflects the global financial crisis. Since the Australian Government's 2008-09 Budget, GST revenue has been revised down by \$4.1 billion in 2008-09 and \$6.9 billion in 2009-10. Total GST revenue is not expected to reach 2007-08 levels until 2010-11, while Queensland's share of GST is not expected to reach 2007-08 levels until 2012-13 due to its declining share of the GST pool.

Chart 9.5
Comparison of GST revenue – 2008-09 and 2009-10 Commonwealth Budget

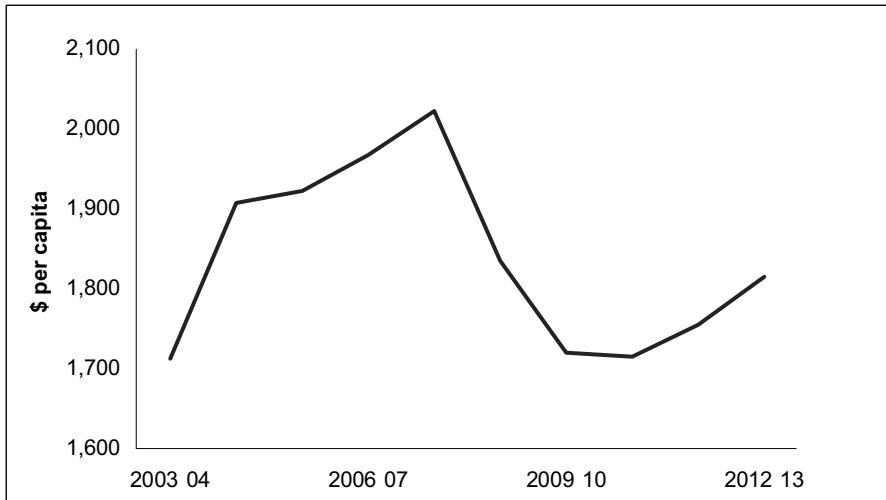


In 2009-10, Queensland will receive a share of GST well below its population share, based mainly on the CGC's determination that Queensland has a relatively greater capacity to raise revenue from stamp duty on conveyances and royalties from mining. Changes in the characteristics of Queensland's population, such as age and income levels, also reduced Queensland's share of GST funding in the 2009 Update.

The CGC currently use an average of the five most recent single year relativities to reduce the volatility of the annual results. In the absence of this process for smoothing changes in state shares, the strong performance of the Queensland and Western Australian economies over 2003-04 to 2007-08 would have resulted in more GST being redistributed away from Queensland and Western Australia, and towards New South Wales and Victoria.

As GST is distributed on a per capita basis, the declines in Queensland's total GST share have been mitigated in recent years by increased population growth. However, Queensland's population growth has resulted in a commensurate increase in demand for services, and Queensland's ability to meet this demand, or enhance existing services, is affected by strong per capita declines in GST. In per capita terms, Queensland's share of GST in 2009-10 and 2010-11 will be similar to that received in 2003-04, with GST not expected to regain the levels of 2004-05 until after 2012-13.

Chart 9.6
Queensland GST per capita, 2003-04 to 2012-13



Source: Australian Government Budget Paper No.3, 2009 10 and Queensland Treasury.

A key concern that Queensland has with the Commission's current processes is that they do not adequately take account of states' need for increased capital expenditure that is inextricably associated with a fast growing population. Queensland is currently experiencing population growth at a much higher rate than the national average, which is underpinning an ever increasing demand for infrastructure. At the same time, Queensland is receiving an ever diminishing share of the GST funding. There is a direct link between rapid population growth and demand for infrastructure, which needs to be addressed by the Commission. Queensland supports the capital assessment proposed by the Commission for their 2010 review of methodology, which will take into account a state's relative population growth and recognise the immediacy of the demand.

2010 Review of State Revenue Sharing Relativities - progress report

The CGC undertakes a substantive review of its methodology every five years, with the next review due to be completed in 2010. The terms of reference for the *2010 Review of State Revenue Sharing Relativities* (2010 review) direct the CGC to simplify its processes and introduce a more streamlined approach to HFE, as discussed in Box 9.2. The 2010 review is different to previous reviews and can be viewed as an overhaul of the way the CGC structures its assessments.

Box 9.2 The 2010 Review

An overhaul of how the Commission determines the distribution of the GST

The CGC is currently conducting a review, due in 2010, of the processes used to determine the distribution of the GST revenue. The CGC has indicated that it intends to vigorously pursue both equalisation and simplification for the 2010 Review, and has adopted a strategy that:

- starts with a clean slate when it comes to devising assessment methods
- adopts a top-down approach, only disaggregating assessment categories if doing so materially improves equalisation and it can be done reliably
- works toward improving the quality of data used in the assessments
- establishes new assessment guidelines with stronger reliability and materiality criteria.

Using this strategy, the CGC believes that simplification will improve the reliability and robustness of the processes and acceptability of the outcomes. The CGC has been providing all states with the opportunity to contribute to the development of the reviewed distribution process.

Queensland has been proactively working with the Commission to identify areas for simplification of assessments in the 2010 Review. A number of alternative approaches and models have been suggested by Queensland to simplify and enhance assessments, such as road measurement, dispersion and wages input costs.

Queensland has strongly supported the Commission's proposal to include capital expenses as part of the new methodology. The proposed capital assessment recognises the immediate need for capital expenditure that is experienced by states with rapidly growing populations. Queensland believes the recognition of capital expenses will significantly improve the quality of HFE.

A robust assessment of the extra costs of service provision that large or dispersed states face is essential to ensuring the 2010 Review achieves equalisation. Queensland has proposed a simplified assessment approach to assessing these extra costs and is continuing to work with the Commission to ensure that Queensland's unique geography is not ignored.

The CGC's draft report for the 2010 Review is due to be released in early July 2009. More information is available on the CGC's web site: www.cgc.gov.au.

OTHER COMMONWEALTH PAYMENTS

Contingent payments

Contingent payments are a specific class of Australian Government payments which arise when the amount of funding cannot be reliably estimated. The main type of contingent payment is Natural Disaster Relief.

Other general revenue assistance

General revenue assistance payments arise when the Australian Government has an obligation to make a payment to a State, but the State has full control over how to allocate the money. Examples include offshore royalty revenue payments to Western Australia, and municipal services funding for the ACT. Queensland does not receive any general revenue assistance payments.

REVIEW OF AUSTRALIA'S TAX SYSTEM

On 11 May 2008, the Federal Treasurer announced a comprehensive review of Australia's tax system to design a tax structure that positions Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes. The review, chaired by the Secretary of the Australian Treasury, Dr Ken Henry, is due to report to the Australian Government by December 2009.

The review should have a strong reform focus as tax reform has the potential to deliver wide ranging economic, social and environmental benefits for the nation.

Tax reform should be considered an important component of national economic reform, with the potential to produce significant benefits for the Australian economy by impacting positively on economic efficiency and productivity, and thereby generating higher levels of employment and income. In this regard, the interaction of the tax system with the transfer system will be a critical area of study for the review. There are also important issues of equity and fairness that will need to be considered by the review.

The Queensland Government has demonstrated its own commitment to tax reform by abolishing eight taxes over the last eight years, reforming others and introducing a range of administrative reforms that have simplified the state tax system for taxpayers and made tax administration more efficient.

The review also offers the opportunity for a fundamental reorientation of the national taxation system to strengthen intergovernmental financial relations and, in turn, the Australian Federation.

Australia's federal system, based on Commonwealth, state and local governments, has been an important driver of national social and economic development over the past century. However, a growing imbalance in the financial powers between the levels of government has weakened states' fiscal autonomy and revenue capacity since federation. This has been largely the product of the erosion of state revenue bases and the placing of restrictive conditions on Australian Government grants.

This deterioration in state finances threatens to reduce the capacity of state governments to deal with budgetary pressures and meet the needs of their communities, particularly in the face of 21st century policy challenges such as demographic change, climate change, increasing global competition in education, and the need to provide infrastructure for sustainable economic growth. A robust national economy and vibrant community require a strong federation and therefore strong state and local governments.

Reform of existing state taxes, including administrative reform and consideration of the abolition of less efficient state taxes, the replacement of any abolished taxes with state access to alternative revenue sources, and a reduction in the states' reliance on Australian Government grants should be considered important elements of a national tax reform agenda.

The Queensland Government looks forward to participating further in the review and with the Australian Government to deliver a bold blueprint for future national tax reform.

STATE-LOCAL GOVERNMENT FINANCIAL RELATIONS

In 2009-10, a total of \$1.344 billion in grants will be provided by the Queensland Government to Queensland's local governments, compared to \$1.2 billion in 2008-09. (This includes financial assistance grants being paid by the Australian Government through the states to local government.)

Table 9.8 details Queensland Government grants to local governments.

The overall increase in total Queensland Government grants to local government authorities in 2009-10 reflects the expansion of some existing programs or the introduction of new initiatives, in particular increases in funding for Indigenous community housing and the rectification of road 'Black Spots'.

Table 9.8
Grants to local government in Queensland ^{1,2}

	2008-09 Estimated Actual \$ million	2009-10 Budget Estimate \$ million
Queensland Government grants		
Communities ³	163	267
Community Safety	7	5
Education and Training	17	18
Employment, Economic Development and Innovation	19	10
Environment and Resource Management	7	5
Health	3	3
Infrastructure and Planning ⁴	890	919
Premier and Cabinet ⁵	5	3
Transport and Main Roads	82	114
Other	7	..
Total Queensland Government grants	1,200	1,344
Notes:		
1. For current and capital purposes to local government authorities and Aboriginal and Islander councils. Includes Australian Government grants paid through the State to local governments.		
2. Data collected on different basis to previous years and therefore not directly comparable with previous Budget papers.		
3. Includes grants for housing, disability services, child safety, sport and recreation.		
4. Includes general purpose grants from the State and Australian Governments.		
5. Includes grants for the arts.		

Grant purposes

The majority of grants to local government are for capital purposes. In 2009-10 capital grants will comprise 58% of Queensland Government grants to local government.

Significant grant purposes include:

- housing and community amenities
- general public services
- capital works subsidies provided towards the costs of local public infrastructure
- road subsidies for local roads, networks and drainage.

Chart 9.7 highlights the range of purposes for which local government grants will be provided by the Queensland Government in 2009-10.

Chart 9.7
State grants to local government in Queensland by purpose 2009-10

