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**PARLIAMENT OF TASMANIA**

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**LEGISLATIVE COUNCIL SESSIONAL COMMITTEE**

**GOVERNMENT ADMINISTRATION "A"**

**REPORT**

**ON**

***INQUIRY INTO THE IMPACT OF THE COMMONWEALTH HORIZONTAL FISCAL  
EQUALISATION SYSTEM AS ASSESSED BY THE COMMONWEALTH GRANTS  
COMMISSION AS IT APPLIES TO TASMANIA'S EXPENSES AND DELIVERY OF  
SERVICES***

## MEMBERSHIP OF THE INQUIRY COMMITTEE

### FORTY-NINTH PARLIAMENT

Hon Ruth Forrest MLC (Inquiry Chair)  
Hon Mike Gaffney MLC (Inquiry Deputy Chair)  
Hon Kerry Finch MLC *(to 31/07/2020)*  
Hon Sarah Lovell MLC  
Hon Rob Valentine MLC  
Hon Meg Webb MLC *(from 23/05/2019)*  
Hon Josh Willie MLC *(to 23/05/2019)*

### FIFTIETH PARLIAMENT

Hon Nick Duigan MLC  
Hon Ruth Forrest MLC (Inquiry Chair)  
Hon Mike Gaffney MLC (Inquiry Deputy Chair)  
Hon Sarah Lovell MLC  
Hon Dr Bastian Seidel MLC  
Hon Meg Webb MLC

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# ABBREVIATIONS

ABS	Australian Bureau of Statistics
CGC	Commonwealth Grants Commission
EPC	Equal Per Capita
GBE	Government Business Enterprise
GST	Goods and Services Tax
HFE	Horizontal Fiscal Equalisation
PNFC	Public Non-Financial Corporations
NPP	National Partnership Payments
PC	Productivity Commission
PSP	Payment for Specific Purpose
SPP	Specific Purpose Payments
SOC	State-Owned Company
VFI	Vertical Fiscal Imbalance

# EXECUTIVE SUMMARY

The Legislative Council Sessional Government Administration Committee 'A' (the Committee) undertook this inquiry seeking to better understand the complex nature and application of the principle of Horizontal Fiscal Equalisation (HFE) and the impact of direct Commonwealth payments on Tasmania's GST receipts. The complexity of the HFE system has increased over time adding to the challenge for those seeking to understand its application and impact on the State's revenues.

The intent of this Inquiry has been to seek clarification as to the matters noted in the terms of reference:

*To inquire into and report upon the impact of the Commonwealth Horizontal Fiscal Equalisation (HFE) system as assessed by the Commonwealth Grants Commission (CGC) as it applies to Tasmania's expenses and delivery of services with particular regard to:*

- 1. Tasmania's assessed and actual expense per capita per category compared to the National average expense per capita per category; and*
- 2. Impact of direct Commonwealth payments on Tasmania's GST receipts.*

The progress of this Inquiry Report was impacted by the COVID-19 pandemic when other matters took priority, and by the early calling of the State election in March 2021 for 1 May 2021, thus dissolving all Parliamentary Committees. The Committee was re-established on 24 June 2021 and this Report finalised.

In responding to the complexity of this area the Committee has provided a summary of the history and a glossary of key terms and concepts to assist readers. The Report should be read in its entirety to gain a more thorough appreciation of the key aspects of the Commonwealth HFE System and the impact this has on Tasmania's expenses and revenues in relation to the delivery of services by the State.

The CGC utilises a HFE process to assess the relative fiscal capacities of each of the States. Through this process the CGC derives an Australian average standard of service for each service sector. The CGC then considers the fiscal capacity of each State, identifying any

funding shortfall that each State has between that fiscal capacity and what it would require to be able to provide that Australian average standard of service.

This approach seeks to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same (average) standard of service as every other State. The derived amounts are for the purpose of identifying relativities between categories and between States which is the cornerstone of the HFE system. This process is further described in this Report and on the CGC website.

The Committee notes the CGC assessments are mathematical constructs that include assessments for each expense and revenue category. These assessments are not observable amounts that can be identified by examining government accounts.

Differences between assessed and actual amounts arise for a variety of reasons. A State may choose not to fund a particular service which was included by the CGC in its assessment and the State won't be financially penalised if that occurs. As a result, the adoption of different policies across States may explain some differences between actual and assessed amounts.

The Government provided explanations of differences between actual and assessed amounts of some categories including why assessed amounts were greater than actual expenditure in the case of the expense category Services to Communities and less in the category Services to Industry. However, the Treasurer and Treasury officers did not provide an explanation for the differences between actual and assessed expenditure amounts for health, rather reiterating that CGC assessments were mathematical constructs, noting the State spends above the national per capita average on health in delivering health services. These measures are not comparable thus making an accurate assessment of comparable expenditure on health services with other States difficult.

In light of the complexity of this important area and its potential impact on the State's fiscal position, the Committee recommends Government provide user-friendly information to assist Tasmanians in understanding the relationship between Federal and State Government grant funding.

To assist in this the Committee recommends Government publish an annual summary in response to each CGC update. The update should include:

- a. the main changes from the previous report;
- b. details of the State's actual and assessed revenue and expenses for each category alongside the national averages for same; and
- c. an explanation of the differences between:
  - Tasmania's actual expenditure and CGC assessment for each category; and
  - Tasmania's actual expenditure and CGC assessment compared to national average actual expenditure and CGC assessment for each category.

The Committee notes the potential negative and distorting impact on future untied GST revenue to Tasmania, resulting from the granting of significantly more than its per capita share of national programs and/or Payments for Specific Purposes (PSP's) that are not quarantined.

The additional funds received by the State in such circumstances are taken into consideration by the CGC and over time all but the State's per capita share, in Tasmania's case 2.1 per cent, is redistributed to the other States. This has the effect of Tasmania forgoing untied GST revenue over subsequent years in exchange for tied Commonwealth funding for a specified purpose without the flexibility GST revenue enables. The same applies to all other States and as noted in a report of the Productivity Commission may result in a growing tendency to quarantine some Commonwealth payments purely on political grounds.

The Treasurer and Treasury officers stated that the quarantining of PSP's should be used judiciously and only in cases where there are significant impacts for the State, such as the funding provided to the State Government for the operations of the Mersey Community Hospital for at least 10 years.

The Committee notes the Productivity Commission's position whereby decisions by the Commonwealth Treasurer to quarantine certain PSP's would benefit from stricter and principled guidelines.

As Committee Chair, I thank all past and present Members for their contribution to advance and enhance the knowledge of Members of Parliament and other readers of this Report. The Committee thanks and acknowledges the support of the Committee

Secretariat, past and present, including Gabrielle Woods and Julie Thompson during the Inquiry.

A handwritten signature in black ink, appearing to read 'Ruth Forrest', written in a cursive style.

**Hon Ruth Forrest MLC**  
**Inquiry Chair**

**12 August 2021**



# FINDINGS

## TERM OF REFERENCE 1

1. The Commonwealth Grants Commission (CGC) assesses the relative fiscal capacities of each of the States.
2. The CGC derives an Australian average standard of service for each service sector and then looks at the fiscal capacity of each State and identifies the funding shortfall that each State has between that fiscal capacity and what it would require to be able to provide that Australian average standard of service.
3. The CGC's approach gives effect to Horizontal Fiscal Equalisation (HFE) - to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same (average) standard of service as every other State.
4. The assessment of each State's fiscal capacities requires the CGC to calculate each State's revenue raising capacity and its expenditure needs.
5. The amounts derived through the CGC process are for the purpose of identifying relativities between categories and between States which is the cornerstone of the HFE system.
6. The CGC assessments are mathematical constructs that include assessments for each category and are not observable amounts that can be identified by examining government accounts.
7. The CGC assessments are based on observed reality, however imperfect the measurement.
8. Relativities across categories and States are not devoid of meaning but care needs to be taken when drawing conclusions and when interpreting differences between assessed and actual amounts for both expenses and revenue.
9. Differences between CGC assessed and actual state expenditure arise for a variety of reasons.
10. A State may choose not to fund a particular service which was included by the CGC in its assessment.
11. States are not financially penalised through CGC assessments if they choose not to fund a particular service, therefore State based policy decisions may explain some differences between actual and assessed amounts.
12. Efficiencies (or inefficiencies) may explain why a State's actual expenditure differs from CGC assessed amounts.
13. In the CGC assessment process:

- there are thirteen (13) categories of expenses (see table, page 27);
  - there are seven (7) categories of 'own source' revenue (see table, page 27). 'Other revenue' includes gambling taxes and contributions from government businesses;
  - there are components within each expense and revenue category;
  - each component is assigned a disability; and
  - the addition of all expense and revenue components gives an assessment for each category.
14. When assessing the categories, the CGC observes the range of services that States provide to their communities and utilises Australian Bureau of Statistics (ABS) data on how much it costs States to provide those services.
  15. When assessing the categories, the CGC considers factors affecting State finances that are beyond States' direct control and would cause their fiscal capacities to diverge (disabilities).
  16. Where the CGC determines there are not material differences in the categories between States or where such differences are difficult to measure, some components are treated on an equal per capita (EPC) basis across all States, thus without a disability factor.
  17. There is no impact on the GST distribution where EPC applies.
  18. In the case of the expense categories Services to Communities and Services to Industry, explanations were provided as to why CGC assessed amounts were greater than actual expenditure in the former and less than actual expenditure in the latter.
  19. The State Government provided an explanation of differences between actual and CGC assessed amounts of some categories but did not provide an explanation for the differences between actual and assessed amounts for health expenditure.
  20. The Treasurer and Treasury officers, when questioned about health actual expenditure being less than the CGC assessed amount, noted that CGC assessments were mathematical constructs and health actual expenditure was in fact greater than the national average.
  21. In developing an 'Australian average standard' as part of its revenue and expense assessments, the CGC does not purport to identify an optimal or desirable level of State government spending or revenue raising.
  22. The CGC does not form an opinion on how much a State should spend on any particular service it provides to its population, nor on how much tax any State should raise under the available revenue streams.

23. GST is provided to the States under the Intergovernmental Agreement on Federal Financial Relations on the basis that it is untied, general purpose revenue.
24. State governments are ultimately accountable to their communities in relation to how they spend untied GST revenue.

## **TERM OF REFERENCE 2**

1. Equalising the fiscal capacity of the States to provide services requires the CGC to take account of the total expenditure and investment all States would incur to provide the average level of services and the revenue they have available to finance it.
2. The HFE assessment includes the Commonwealth tied funding revenue the States receive as Payments for Specific Purposes (PSPs).
3. The decision to exclude a PSP from the CGC assessment process is made by the Federal Treasurer who issues instructions to the CGC in its terms of reference related to the PSP.
4. When the CGC is directed to exclude Commonwealth tied funding revenue by its terms of reference to a PSP such payments to the State are known as 'quarantined payments'.
5. The CGC has no role in identifying PSPs to be quarantined.
6. To the extent that a State receives above or below average per capita amounts of PSPs, the CGC is required to take the payments not quarantined into consideration.
7. Any payments to a State that are not quarantined will be equalised by the CGCs methodology in the form of reduced GST payments over time. In Tasmania's case, the State will retain only its per capita percentage (2.1%) of any payment that is not quarantined.

# RECOMMENDATIONS

The Committee makes the following recommendations:

1. The Government provide user-friendly information to assist in understanding the relationship between Federal and State Government grant funding.
2. The Government publish an annual summary in response to each CGC update which:
  - a. Describes the main changes from the previous report;
  - b. Details the State's actual and assessed revenue and expenses for each category alongside the national averages for same; and
  - c. Explains the differences between:
    - Tasmania's actual expenditure and CGC assessment for each category; and
    - Tasmania's actual expenditure and CGC assessment compared to national average actual expenditure and CGC assessment for each category.
3. The Government continue to advocate for the judicious use of quarantined payments for specific purposes (PSPs) by the Commonwealth Treasurer utilising strict and principled guidelines.

# 1. ESTABLISHMENT AND CONDUCT OF THE INQUIRY

- 1.1 The Committee was established by resolution of the Legislative Council and its operation is governed by Sessional Orders agreed to by the Council.
- 1.2 The Committee met on 20 November 2018 and resolved to conduct an inquiry into the impact of the Commonwealth Grants Commission Horizontal Fiscal Equalisation System in Tasmania.
- 1.3 On 21 November 2018 the Committee presented a Special Report on a Resolution to Commence Inquiry (the Inquiry) in accordance with Sessional Order 5 (14).
- 1.4 The Committee adopted the following Terms of Reference:

*To inquire into and report upon the impact of the Commonwealth Horizontal Fiscal Equalisation (HFE) system as assessed by the Commonwealth Grants Commission (CGC) as it applies to Tasmania's expenses and delivery of services with particular regard to:*

1. *Tasmania's assessed and actual expense per capita per category compared to the National average expense per capita per category; and*
2. *Impact of direct Commonwealth payments on Tasmania's GST receipts.*

- 1.5 The membership of the Inquiry Committee was:

Hon Nick Duigan MLC *(from 24/06/2021)*  
Hon Ruth Forrest MLC (Inquiry Chair)  
Hon Mike Gaffney MLC (Inquiry Deputy Chair)  
Hon Kerry Finch MLC *(to 31/07/2020)*  
Hon Sarah Lovell MLC  
Hon Dr Bastian Seidel MLC *(from 24/06/2021)*  
Hon Rob Valentine MLC  
Hon Meg Webb MLC *(from 23/05/2019)*  
Hon Josh Willie MLC *(to 23/05/2019)*

- 1.6 The Inquiry was advertised in Tasmania's three daily regional newspapers. The Committee also directly contacted a number of persons and organisations with specific knowledge or expertise and invited them to provide evidence to the Inquiry.
- 1.7 The Inquiry also established a dedicated web-page at [https://www.parliament.tas.gov.au/ctee/Council/GovAdminA\\_CHFE.html](https://www.parliament.tas.gov.au/ctee/Council/GovAdminA_CHFE.html)
- 1.8 All submissions and transcripts are included on the web-page and these should be read in conjunction with the Committee Report. A list of submissions is provided in Appendix 6.5 of the Report.
- 1.9 Four submissions were received and the Committee conducted three public hearings in Hobart.
- 1.10 The progress of this Inquiry Report was impacted by the COVID-19 pandemic when other matters took priority, and subsequently the early calling of the State election in March 2021 for 1 May 2021, thus dissolving all Parliamentary Committees. The Committee was re-established on 24 June 2021 and the membership of the Inquiry Committee was:
- Hon Nick Duigan MLC  
Hon Ruth Forrest MLC (Inquiry Chair)  
Hon Mike Gaffney MLC (Inquiry Deputy Chair)  
Hon Sarah Lovell MLC  
Hon Dr Bastian Seidel MLC  
Hon Meg Webb MLC
- 1.11 The Committee resolved to release its final report on 12 August 2021. The Committee intends that this Report be considered in its entirety.

## 2. BACKGROUND

2.1 The Committee undertook this inquiry seeking to better understand the complex nature and application of the principle of Horizontal Fiscal Equalisation (HFE) and the impact of direct Commonwealth payments on Tasmania's GST receipts. The opportunity to hear from those with expertise in this area would also provide some clarity to public commentary on this matter.

2.2 The complexity of this issue was acknowledged by Ms Fiona Calvert, Deputy Secretary of the Economic and Financial Policy Division, Department of Treasury and Finance. She stated:

*The principle of HFE and its application by the CGC is particularly complex, as noted by the Productivity Commission during its inquiry into HFE. The complexity of the HFE system has increased over time and while this may not be a problem in itself, indeed there are many aspects of public policy that are highly complex, it can lead to misinformation and undermined accountability for decisions and public confidence in the system. The PC also said that the system is so complex that only a handful of people understand it. I am very lucky to have three of those people in this room. I hope through our submission and my comments today that we have been able to dispel some of the myths around the two aspects of HFE that have been covered by your inquiry.<sup>1</sup>*

2.3 When appearing before the Committee at a public hearing the Treasurer, the Hon Peter Gutwein MP expressed the view the inquiry was politically motivated:

*I feel that this is a very politically motivated committee.<sup>2</sup>*

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<sup>1</sup> Ms Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division, Department of Treasury and Finance, [Transcript of Evidence](#), 20 May 2019, p. 4.

<sup>2</sup> The Hon Peter Gutwein MP, Treasurer, [Transcript of Evidence](#), 16 September 2019, p. 20.

### 3. HISTORY AND CURRENT PRACTICE

- 3.1 The following history of fiscal equalisation in Australia is sourced from the Commonwealth Grants Commission website:

*Horizontal fiscal equalisation has a long history in Australia. Upon federating, the six colonies of Australia ceded the right to impose and collect customs and excise duties (the dominant source of public revenue at the time) in favour of the Commonwealth. This created a vertical fiscal imbalance (VFI) and led to various general revenue-sharing schemes with the States. In addition, special grants were made to the fiscally weaker States — Western Australia, Tasmania and South Australia — largely on an ad hoc basis.*

*In 1933, following the threat of Western Australia's secession, the Commonwealth Grants Commission (CGC) was established to make recommendations on these special grants. This was done on the basis of making it possible for a claimant State 'by reasonable effort to function at a standard not appreciably below that of other States'. During the Second World War, the Commonwealth assumed sole responsibility for collecting income tax. This significantly exacerbated VFI and necessitated a greater level of general revenue sharing with the States. In the post-war period, specific purpose payments also became more important as a means of providing financial assistance and influencing the delivery of services and infrastructure within States. In contrast, the significance of horizontal equalisation achieved by way of special grants recommended by the CGC gradually declined. South Australia, Western Australia, Tasmania and Queensland entered and withdrew from claimancy at various times between 1960 and 1975.*

*A major change occurred in the mid to late 1970s. Financial assistance grants (to address VFI) were replaced by income tax sharing arrangements, and the Premiers' Conference of April 1977 decided that revenue under this arrangement was to be distributed on the basis of relativities based on equalisation principles. This meant that the same funding source was being used to address vertical and horizontal fiscal imbalance, and the CGC's recommendations affected the finances of all States, not just the claimant States. The distribution of funding was allocated so that each State could provide government services at standards not appreciably different from the standards of government services provided by the other States. The CGC has been recommending relativities based on full equalisation since 1981.*



*Another significant change occurred with the introduction of the GST in 2000. The GST replaced financial assistance grants and various state taxes, and the GST pool was to be returned to the States according to the principle of HFE. It meant that the Commonwealth no longer had any substantive role in determining the total level of general revenue grants to the States.*

*In 2017, the Australian Government asked the Productivity Commission (PC) to conduct an inquiry into HFE. The final PC report was handed to the Government in May 2018 and the Government released an interim response to the report in July 2018. Legislation has now passed the Parliament to amend the Commonwealth Grants Commission Act 1973 and the Federal Financial Relations Act 2009 to give effect to the Government's policy of:*

- introducing a minimum GST revenue sharing relativity (relativity floor)*
- permanently boosting the GST revenue pool with additional Commonwealth financial assistance*
- transitioning the HFE system from full equalisation (so-called equalising to the strongest State) to 'reasonable' equalisation, based upon the fiscal capacity of the stronger of New South Wales and Victoria.*

*The new policy includes a transition to the new arrangements. The transition period will end in 2026-27.<sup>3</sup>*

### **3.2 The Productivity Commission describes what HFE is and why it exists:**

*HFE involves the transfer of funds to or between States to offset differences in revenue-raising capacities and/or the use and costs of providing services and infrastructure.*

*The primary rationale for HFE is fiscal equality, or the equal treatment of equals — as people in different regions might expect to be treated under a unitary government. This is an unrealistic expectation in a federation, where the States have significant policy autonomy. So in practice HFE seeks equal fiscal treatment of jurisdictions, not interpersonal equity.*

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<sup>3</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 2 October 2019).

*There is also an efficiency aspect to HFE. The theory argues that, in the absence of HFE, people could move interstate solely due to differences in States' abilities to offer lower taxes or a greater level of services, instead of underlying economic drivers like employment opportunities. HFE is sometimes also seen as a mechanism to insure against adverse economic shocks, by acting to offset lower revenues in a single jurisdiction. The relevance of these other rationales for HFE is more contested.*

*HFE is one part of a broader system of federal financial relations in Australia, which is characterised by both horizontal and vertical fiscal inequities (gaps). The latter refers to the fact that the Commonwealth Government raises revenues in excess of its spending responsibilities, while State Governments have insufficient revenue from their own sources to finance their spending responsibilities. For the States, some of this 'gap' is of their own volition, due to how they choose to use their tax bases. The distribution of GST revenues in Australia aims to correct both for the imbalance in taxing and spending powers between the Commonwealth and the States (vertical), and between the States (horizontal).<sup>4</sup>*

- 3.3 The Productivity Commission provides the following summary of the current practice of HFE in Australia:

*Presently, the CGC recommends a distribution of GST revenue according to the following:*

*State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.*

*The CGC also applies a set of four supporting principles to guide its methodology. These are: reflect what States collectively do (rather than what they could or should do), policy neutrality (avoid individual State policy decisions directly affecting their GST shares), practicality and contemporaneity. These supporting principles,*

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<sup>4</sup> Australian Government Productivity Commission, Horizontal Fiscal Equalisation System, [Productivity Commission Inquiry Report - No. 88](#), 15 May 2018, p. 6.

*however, are generally subsidiary to the primary objective of achieving full and comprehensive equalisation.*<sup>5</sup>

See Appendix 6.1 - Summary of History and Current Practice.

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<sup>5</sup> Australian Government Productivity Commission, Horizontal Fiscal Equalisation System, [Productivity Commission Inquiry Report - No. 88](#), 15 May 2018, p. 7.

## 4. KEY HFE TERMS AND CONCEPTS

### 4.1 TERMS<sup>6</sup>

#### ***assessed borrowing***

*The difference between assessed revenue and assessed expenses. It may be a positive or negative figure.*

#### ***assessed differences (also known as needs)***

*The financial impact on a State's budget of its disabilities. They are measured, for example, as the difference between assessed expenses and average expenses, average revenue and assessed revenue. Assessed differences can be either positive or negative.*

#### ***assessed expenses***

*The expenses a State would incur if it were to follow average expense policies, allowing for the disabilities it faces in providing services, and assuming it provides services at the average level of efficiency. Assessed expenses exclude differences from the average due to policy choices under the control of a State.*

...

#### ***assessed revenue***

*The revenue a State would raise if it were to apply the average policies to its revenue base, and raised revenue at the average level of efficiency. Assessed revenue excludes differences from the average due to policy choices under the control of that State, for example a higher or lower tax rate applied by a State compared to the average.*

...

#### ***assessed unit cost (of a service)***

*The cost per unit of service assessed by the Commission for a State to deliver a particular service to a particular segment of the population at the average standard*

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<sup>6</sup> Australian Government Commonwealth Grants Commission website, [Glossary of key terms](#), accessed 3 August 2021.

*(for example, cost per student of State primary education). The assessed unit cost can differ for different population groups.*

...

#### **average expenses**

*The average per capita expense, in a category, a group of categories or in total. It is calculated as the sum of expenses of all States, divided by the Australian population.*

#### **average revenue**

*The average per capita revenue, in a category, a group of categories or in total. It is calculated as the sum of State revenues, divided by the Australian population.*

...

#### **category**

*A classification of in-scope transactions relating to distinct services or revenue sources, used for analytical purposes. In the 2015 Review, the adjusted budget is divided into Commonwealth payments, six specific revenue categories, twelve specific expenditure categories, net borrowing and two residual (or other) categories - one for revenue and one for expenditure.*

#### **component**

*A part of an expense or revenue category that is separated from others in the category because different disability factors apply to it.*

...

#### **disability**

*An influence beyond a State's control that requires it:*

- *to spend more (or less) per capita than the average to provide the average level of service; or*
- *to make a greater (or lesser) effort than the average to raise the average amount of revenue per capita.*

...

***equal per capita assessment method (EPC)***

*Each State's assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. It is typically used when there are judged to be no material disabilities between the States, or no reliable assessments could be developed due to data or other limitations. Such an assessment means that no needs are assessed for any State and that there is no impact on the GST distribution.*

...

***expense assessment framework***

*The general approach used to assess expenses. Under the current framework, an expense category is divided into expense components, separate disabilities which move average expenses away from an equal per capita distribution are recognised in each component and the final category assessment is achieved by summing the component assessed expenses.*

...

***fiscal capacity***

*The fiscal capacity of a State is a measure of its ability to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average rates and received its actual Commonwealth payments, excluding the GST. Once the GST has been distributed using the Commission's recommendations, State fiscal capacities should be equal.*

*The relative capacity of each State is a comparison of its fiscal capacity with the average capacity.*

...

***impact on relativities (previously called inclusion), see also no impact on relativities***

*Treatment applied to a Commonwealth payment that provides budget support for State services for which expenditure needs are assessed. The expenses funded by*

*payments that impact on the relativities are assessed in relevant categories and the revenue is assessed on an actual per capita basis.*

...

***net borrowing***

*The outcome of an operating budget calculated as expenses and expenditure on non-financial assets less State own source revenues and revenues received from the Australian Government.*

***no impact on relativities (previously called exclusion or out of scope)***

*Treatment applied to a Commonwealth payment that does not provide budget support for State services or for which expenditure needs are not assessed. Both the payment and the expenses relating to it have no impact on a State's fiscal capacity. Occasionally the terms of reference instruct the Commission to ensure a particular payment has no impact on relativities. (See quarantine.)*

...

***quarantine***

*The treatment of a Commonwealth payment, and where possible the expense for which it is used, in such a way as to have no impact on the relativities. Quarantining always results from instructions given directly to the Commission in its terms of reference and the term is used only in this context.*

...

***wage costs disability***

*Recognises that otherwise comparable public sector employees in different States are paid different wages, partly due to differences in labour markets beyond the control of State governments.*

## KEY CONCEPTS<sup>7</sup>

4.2 *The expense assessments estimate what it would cost each State to provide the average level of service in a particular year — its ‘assessed expense’. The average level of service is represented by the average expenses per capita, which encapsulates the average policies, practices and circumstances of the States. This is a population weighted average, giving equal weight to each Australian’s experience. Since more Australians experience the New South Wales level of service, it has more weight in the average and less Australians experience Tasmania’s level of service, it has less weight in the average.*

*The expense assessments start from a presumption that, if all things were equal, each State could provide the average level of service by spending the average amount per capita on it — in this case, assessed expenses per capita would equal the average expense per capita.*

*However, all things are not equal. The circumstances of the States are different and these differing circumstances lead to differences in:*

- *the use of services*
- *the cost of providing each unit of service.*

*The expense assessments adjust the average expenses up or down to allow for the financial impact of a range of differences in State circumstances — but only to the extent that those circumstances are beyond the direct control of individual State governments.*

*Each State’s assessed expenses therefore:*

- *are based on the average level of service*
- *only make allowances for the effects on the use or assessed unit cost of services that are due to influences beyond the control of individual States (called disabilities). These disabilities generally reflect differences in the demographic, economic and geographic circumstances of the States.*

*A State’s assessed expenses mostly differ from its actual expenses because:*

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<sup>7</sup> Commonwealth Grants Commission website, [The GST Distribution Model – A Mathematical Presentation](#), (accessed 9 August 2021).



- *it may decide not to provide the average level of service*
- *it may provide the service more or less efficiently than the average*
- *not all disabilities are included, either because they cannot be reliably measured or have an immaterial impact.*

*The assessed expenses do not take account of the effect a State's own decisions have on the level of services provided or how they are provided. This is a matter for each State Government. Any additional expenses or any savings arising from a State's own decisions accrue entirely to the State.*

- 4.3 The Commonwealth Grants Commission's principles in assessing a State's revenue raising capacity includes assessing the revenue each State is capable of raising.

*One of the principles that the Commission applies in assessing the funding needs of States is to reflect what States do. The Commission observes the range of services that States provide and collects data on how much it costs States to provide those services, given the circumstances of each State. From those data, it is able to derive an Australian average standard of service for each service sector. The Commission then looks at the fiscal capacity of each State – what it is capable of raising from its own revenue sources and receives from the Commonwealth in specific payments – and identifies the funding shortfall that each State has between that fiscal capacity and what it would require to be able to provide that Australian average standard of service.<sup>8</sup>*

- 4.4 The CGC has since 1993 as part of its five yearly review and annual updates commented on Tasmania's fiscal capacity.

- 4.5 The 2019 Update Report summarises Tasmania's fiscal capacity as follows:

*Tasmania has weak revenue raising capacity, with well below average mining production, taxable payrolls and value of property sales. In addition, it has the second highest per capita assessed expenses for schools, health, housing and welfare.*

*These high service delivery costs reflect the State's above average shares of people in regional areas, people of low socio-economic status, older people and government*

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<sup>8</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 2 October 2019).

*school students. Tasmania's higher assessed costs are compounded by diseconomies of scale in administration.*<sup>9</sup>

Furthermore:

*Tasmania's fiscal capacity strengthened marginally but it remains the State with the second lowest fiscal capacity. Its expense needs increased due to increasing wage costs and higher population growth relative to previous years.*<sup>10</sup>

4.6 In its determination of how much GST a State should receive, the CGC makes three assessments:

- Expenditure – the amount a State needs to spend to provide the Australian average level of services and infrastructure;
- Own source revenue - the amount of revenue a State could raise under Australian average tax regimes; and
- Commonwealth payments for specified purposes (PSPs) or tied payments - this is taken into account in determining GST needs so that needs are not met twice.

4.7 A State's GST requirement is the difference between its assessed expenditure and the sum of its assessed own-source revenue, assessed net borrowing and actual SPPs. The assessed GST requirement covers the gap between assessed revenue and expenditure.

4.8 In undertaking the assessment the CGC identifies drivers (called disabilities) that cause a State's service delivery costs or revenue raising capacity to vary from the average. For example, if a State has a greater than average proportion of children it may need to spend more on schools, and a State with proportionally more elderly people may need to spend more on hospitals.

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<sup>9</sup> Australian Government Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities*, 2019 Update, p. 14.

<sup>10</sup> Ibid., p. 14.

## 5. EVIDENCE

**TERM OF REFERENCE 1: The impact of the Commonwealth Horizontal Fiscal Equalisation system as assessed by the Commonwealth Grants Commission as it applies to Tasmania's expenses and delivery of services with particular regard to Tasmania's assessed and actual expense per capita per category compared to the National average expense per capita per category.**

5.1 The Department of Treasury and Finance (the Department) provided the following tables with assessed and actual expenditure and revenue estimates for the period 2015-16 to 2017-18<sup>11</sup>:

**Table 3: CGC Assessed and Actual expenditure and revenue estimates (average 2015-16 to 2017-18)<sup>8</sup>**

<b>Expenditure</b>	<b>Actual</b>	<b>Assessed</b>	<b>Diff.</b>	<b>Category description</b>
	\$M	\$M	\$M	
Schools education	1 246.0	1 218.3	27.7	State spending on government pre-schools, primary and secondary schools, student transport, and non-government schools
Post-secondary education	84.8	113.8	-29.0	State spending on vocational education and training (VET) and higher education
Health	1 430.3	1 573.6	-143.3	State spending on public hospitals and community and public health services
Housing	66.5	88.3	-21.7	State spending on and revenue received from social housing services and expenses on home purchase assistance for first home buyers
Welfare	394.4	449.7	-55.3	State expenses on family and child services, services for people with a disability and general welfare services
Services to communities	47.2	150.1	-102.9	State subsidies for the provision of electricity, water and wastewater services (utilities subsidies) and a range of expenses for administration of communities, community amenities and environmental services
Justice	377.3	428.8	-51.5	State spending on police services, law courts, legal services, prisons and corrective services
Roads	91.1	136.0	-44.9	State spending on the maintenance of roads, bridges (including tunnels) and other related services
Transport	70.1	104.4	-34.3	State spending on bus, rail (passenger and freight), and ferry services, ports and other maritime related services, and air transport
Services to industry	215.9	142.0	74.0	State spending on the regulation and development of businesses and industries, and other economic affairs
Depreciation	260.8	317.8	-57.0	This recognises the extent of State usage of existing infrastructure each year
Other expenses	903.5	855.4	48.0	A residual category and includes expenses on general public services, natural disasters, capital grants to local governments for community amenities, assessed administrative scale expenses, native title and land rights expenses, national capital expenses (except those relating to police) and a location adjustment
<b>Assessed Expenditure</b>	<b>5 188.0</b>	<b>5 578.1</b>	<b>-390.1</b>	
Investment	60.2	144.4	-84.2	Total capital expenditure of the general government sector on non-financial assets such as extra, or upgraded, infrastructure and land.
<b>Total Expenditure</b>	<b>5 248.3</b>	<b>5 722.5</b>	<b>-474.3</b>	
<b>Revenue</b>	<b>Actual</b>	<b>Assessed</b>	<b>Diff.</b>	<b>Category description</b>
Payroll tax	335.5	319.2	16.3	A broad based tax imposed by States on the wages and related benefits (remuneration) paid by employers
Land tax	141.7	127.4	14.3	State land tax on residential investment, commercial and industrial land
Stamp duty	275.0	315.3	-40.3	Stamp duties raised by States when ownership of property and motor vehicles is transferred.
Insurance tax	104.7	95.0	9.6	Insurance tax levied on the premiums of a range of insurance products and emergency service levies
Motor taxes	137.0	194.3	-57.3	Annual registration and associated charges levied by States on vehicle owners or collected by the Commonwealth on behalf of States. It also includes fire and emergency services levies for States
Mining revenue	35.3	60.4	-25.0	Royalties levied by States on mining production
Other revenue	842.2	1 062.8	-220.6	A residual category for revenues not assessed in other revenue categories. It comprises revenues for which reliable data could not be found to make an assessment, an assessment method could not be developed, or an assessment was not material. Revenues assessed in this category are assessed equal per capita and have no impact on States' GST distributions
<b>Own-source revenue</b>	<b>1 871.4</b>	<b>2 174.4</b>	<b>-303.0</b>	
Net borrowing	32.1	266.5	-234.4	Net borrowing reflects the extent to which the States' total outlays on service delivery and investment in infrastructure exceed their total revenue.
Commonwealth Grants	1 030.9	1 030.9	-	Payments to States made by the Australian Government, including general revenue grants, payments for specific purpose (PSPs) and Commonwealth own purpose expenses. The CGC examines the purpose of each payment using established guidelines to decide whether the payment has an impact on State fiscal capacities
GST <sup>9</sup>	2 314.0	2 250.8	63.2	Funds made available by the Australian Government for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation
<b>Total Revenue</b>	<b>5 248.3</b>	<b>5 722.5</b>	<b>-474.3</b>	

Source: CGC, 2019 Update: 4.The Assessed Budget (category tables), Tables S4-1 to S4-27, February 2019.

<sup>11</sup> Department of Treasury and Finance, *Submission #3*, March 2019, p. 9.

- 5.2 The table sets out actual vs assessed revenue averaged over the three-year period. The largest difference between ‘actual’ and ‘assessed revenue’ is in the ‘Other revenue’. This represents the largest shortfall. The other notable shortfall is in the category of Net borrowing.
- 5.3 More details about the ‘Other revenue’ category were provided by the Department in a supplementary answer (attached at Appendix 6.2). Revenue in this category is treated equal per capita (EPC). This means that changes from year to year will not lead to GST adjustments. Notably ‘Other revenue’ includes gambling revenue and income tax and dividends from government businesses (GBEs and SOCs). In Tasmania’s case contributions from government businesses have been significant, representing 9 per cent of general government revenue in 2019/21 but estimated to decline over the forward estimates to 3 per cent in 2023/24. Because ‘Other revenue’ is treated on an EPC basis Tasmania will not receive more GST if government business contributions decline.
- 5.4 Net borrowing included under revenue is not a borrowing per se (see Key Terms in 4 above) but rather the difference between revenue and expenses, or the amount needed for spending where there’s a revenue shortfall (actual or assessed). The table indicates a significant shortfall in net borrowings. This means there was not enough funds to meet all the assessed expenses. This is one reason why ‘actual expenses’ were less than ‘assessed expenses’.
- 5.5 The table also sets out where Tasmania spends less than its assessed amounts (referred to in this Report as ‘underspending’) and where it spends more (referred to in this Report as ‘overspending’). Underspending occurs in nine (9) of the thirteen (13) categories. The largest underspends are in the Health and Services to Community category. The largest overspend is in Services to Industry.
- 5.6 Differences between actual and assessed for both expenses and revenue can and do occur for a variety of reasons so care needs to be taken when discussing underspends, overspends and shortfalls. The CGC states the aim of HFE is to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same standard of service as every other State and their

work should not be understood as identifying the desired level of spending that each State should fund for particular services.<sup>12</sup>

5.7 Caution is also required in interpreting the data, firstly, as actual expenses, for each State used may not be strictly comparable between States because States sometimes classify similar expenses differently. Secondly, the assessed figures for each State may not capture all influences on State expenses capacities. Consistent with the terms of reference, the CGC has not assessed some influences where they could not be reliably calculated.

5.8 The Productivity Commission also notes that caution should be exercised when interpreting differences between actual and assessed expenditures referencing the CGC and concluding:

*... part of any difference between actual and assessed expenditures may be attributable to efficiency considerations, but the extent of the attribution cannot be factually established.*<sup>13</sup>

5.9 The CGC makes it clear that its role does not involve forming an opinion on how much a State should spend on any particular service it provides to its population, nor on how much tax it should raise under the revenue heads available to States. The Commission expresses no view or opinion how a State should spend its GST revenue.<sup>14</sup>

5.10 Ms Fiona Calvert, Deputy Secretary Economic and Financial Policy Division, Department of Treasury and Finance reiterated this point at a Committee hearing:

*As noted by the Commission, it does not have a view on how a state should spend its GST revenue. Indeed, alongside the distribution of GST revenue, according to the principle of HFE, the intergovernmental agreement on federal financial relations specifies that states may spend their GST shares as they see fit. State governments are ultimately accountable to their electorates in relation to how they spend GST revenue. The specific amounts provided to the states through equalisation are untied*

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<sup>12</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 14 October 2019).

<sup>13</sup> *Inquiry Report into Horizontal Fiscal Equalisation - No. 88*, op.cit., p. 95.

<sup>14</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 14 October 2019).

*revenue, and the CGC's assessments are not a benchmark for states' spending priorities.<sup>15</sup>*

5.11 The Department submission further noted the Productivity Commission also do not make any recommendations as to how States should spend the GST they receive.<sup>16</sup>

5.12 The Treasurer, the Hon Peter Gutwein MP re-iterated this position when giving evidence:

*The assessment process that the Commonwealth Grants Commission goes through is effectively a mathematical construct. That point was made by Treasury officials when they had the opportunity to speak to you. That is the way I always viewed it. It is an assessment they use to arrive at the relativities through the equalisation process and where it starts and ends, to be frank. The claims we are spending either more or less than we should, based on the Commonwealth Grants assessment, is quite erroneous. In fact, the Commonwealth Grants Commission makes the point itself on its own website those assessments should not be utilised for that particular purpose.*

...

*If you are going to look at health, or any other expenditure of the Government, the fact is we spend on health more on a per capita basis than the Australian average. The fact is we spend, based on the CGC's own data, more than every other State and Territory bar Western Australia and the Northern Territory on a per capita basis. Those measures, as well as what we see in the Review of Government Services, all indicate compared to the rest of the country and the national average that Tasmania is generally spending above it.<sup>17</sup>*

5.13 Whilst responding to the matter of assessed versus actual spending, particularly in Health, the Treasurer introduced a separate issue of per capita spending, in other words the State's actual spending in that category versus the national average. This issue is better understood with the following table detailing the

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<sup>15</sup> Ms Fiona Calvert, op. cit., p.2

<sup>16</sup> Department of Treasury and Finance Submission, op. cit., p. 4.

<sup>17</sup> The Hon Peter Gutwein MP, op. cit., p. 2.

assessed and actual expenditure per capita for Tasmania compared to the national actuals on a per capita basis, all averaged over three years 2015-16 to 2017-18<sup>18</sup>:

**Table 2 - Assessed and Actual Expenditure Per Capita (average 2015-16 to 2017-18)**

Category	Tasmania		National
	Assessed (\$pc)	Actual (\$pc)	EPC (\$pc)
Schools education	2 341.8	2 394.8	2 160.3
Post-secondary education	218.6	163.1	214.2
Health	3 024.1	2 748.6	2 472.8
Housing	169.5	127.9	146.5
Welfare	864.2	758.0	730.2
Services to communities	288.6	90.8	271.7
Justice	824.1	724.9	785.1
Roads	261.3	174.7	278.5
Transport	200.7	134.9	557.9
Services to industry	272.8	414.6	256.2
Depreciation	611.0	501.4	569.4
Other expenses	1 644.4	1 737.2	1 284.6
Investment	276.9	115.4	558.2
<b>Total Expenditure</b>	<b>10 997.9</b>	<b>10 086.3</b>	<b>10 285.6</b>

Source: CGC, 2019 Update: 4.The Assessed Budget (category tables), Tables S4-1 to S4-27, February 2019.

5.14 The table shows that there were two categories where Tasmania spent more than our assessed amounts and there were five categories where we spent more than the national average.

5.15 The Department submission stated:

*... Table 2 shows that, for many expenditure assessments, Tasmania receives more than its per capita share. However, in some areas it receives less.*

*For example, as Tasmania is assessed as having greater than average costs for delivering education and health services as a result of its inherent cost disabilities (such as an ageing population, and lower than average socio-economic status) the CGC methodology distributes GST towards Tasmania and away from other States.*

*However, due to it being less urbanised and having lower population growth and lower costs, GST is distributed away from Tasmania and towards other States for other assessments such as infrastructure, public transport and roads.*

<sup>18</sup> Department of Treasury and Finance Submission, op. cit., p. 7.

*There is a notable divergence between actual and assessed expenditure in the CGC categories, Services to Communities, and Services to Industry.*

*The Services to Communities category covers State subsidies for the provision of electricity, water and wastewater services (utilities subsidies) and a range of expenses for administration of communities, community amenities and environmental services. It does not include welfare or housing services as they are covered elsewhere.*

*Tasmania's actual expenditure is significantly below its assessed expenditure because the CGC assessment is based on 'what States do' on average, and that is to provide electricity and water subsidies to smaller geographically isolated communities where full cost recovery is most difficult. Because Tasmania is assessed to have small isolated communities under the CGC's geographic assessment, it is assessed to have an above EPC requirement to provide water and electricity subsidies. However, in practice Tasmania provides electricity subsidies through Hydro Tasmania for diesel generation on the Bass Strait islands only and there are no water subsidies.*

*The Services to Industry category covers State spending on the regulation and development of businesses and industries, and other economic affairs. Because State expenditure on business development and economic affairs is highly policy influenced, the CGC does not assess it and treats it as EPC. However, regulation expenses for agriculture (including forestry and fishing) and other industries are assessed.*

*Tasmania's actual expenditure on the Services to Industry category is about 50 per cent higher than assessed. This higher spending compared to the CGC's assessed spending could reflect policy choice because of the importance the Government places on the agriculture and tourism industries.*

*More detail on the CGC's methodology for determining the distribution of the GST can be found in an information paper on its website <https://www.cgc.gov.au/about-us/fiscal-equalisation>.*

*The CGC's assessed expenditure is therefore only an assessment. The CGC recommends caution in making comparisons between assessed and actual*

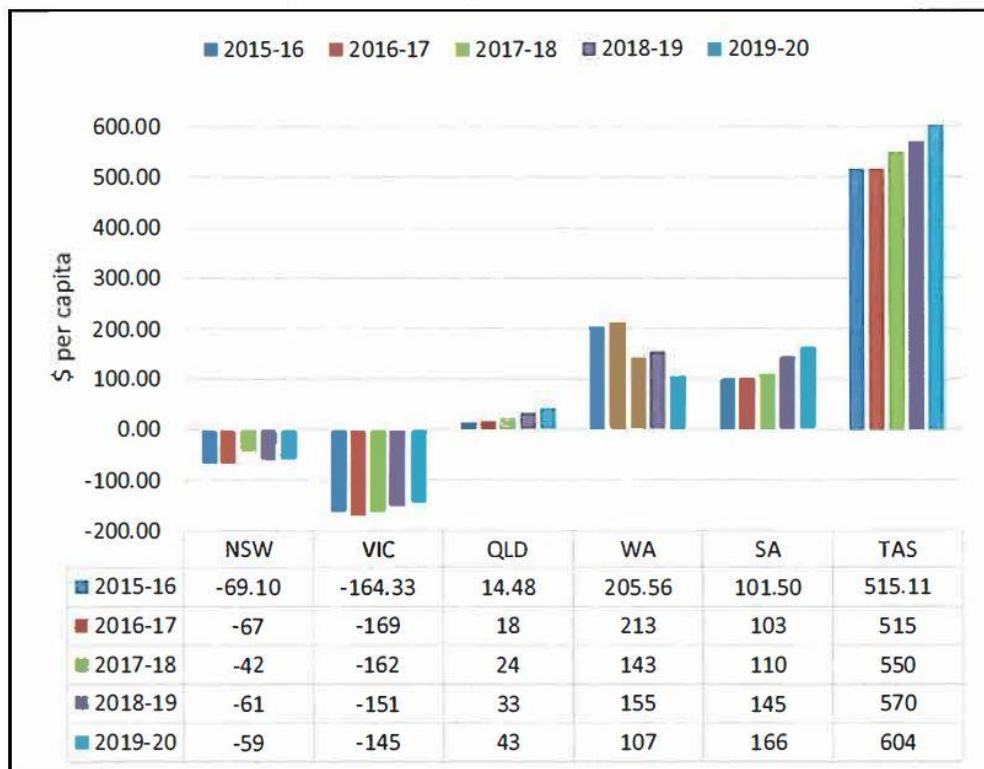


expenditure and revenue as these concepts are only intended for equalisation purposes to support the equalisation process.<sup>19</sup>

5.16 Public Policy Analyst Mr Martyn Goddard challenged this view in his submission:

*Tasmania has the nation's oldest, sickest and poorest population. As such, it has a greater relative need for publicly funded health services than any other jurisdiction with the exception of the Northern Territory. In recognition of this, the Grants Commission has over the five years from 2015-16 to 2019-20 will have redistributed \$1.439 billion to Tasmania from other states to allow this state's government to deliver a level and quality of service that is equal to the national average. Because GST grants are classified as 'general purpose', neither the Commonwealth government nor the Grants Commission can direct a state on how to spend that money. In Tasmania's case, none of the GST money it receives in recognition of this state's above-average health needs is actually being spent on health.*

**Per capita amounts redistributed between states,  
health expense category, 2015-16 to 2019-20<sup>8</sup>**



...

<sup>19</sup> Department of Treasury and Finance Submission, op. cit., pp. 6-7.

...

*If this money was being used to fund health services, the per-capita amount being spent by the state government on this sector would be significantly above the national average.<sup>20</sup>*

5.17 The Treasurer responded to claims of underspending in health:

*These claims have been made. ... \$233 more per capita in 2016-17 and 2017-18. Then you have the Australian average, which shows on the far side of the graph that, over the period 2012-13 to 2017-18, demonstrates that Tasmania spent \$237 per capita more than the national average on Health. We have taken the trouble, because of these erroneous claims out there in the public, to spell it out clearly in the Treasury submission. If you want to question Treasury's integrity that is one thing, but it is there for the Committee to take on board. I have paid scant attention to the submissions that have been made by that particular individual because there have been a lot of erroneous statements made.<sup>21</sup>*

5.18 Ms Calvert commented on the different approaches taken to assess health expenditure in her opening comments at a Committee hearing:

*The CGC's assessments are a mathematical construct to give effect to the principle of HFE rather than specifying an observable standard that should be achieved by all states and territories. They are a mechanism to ensure that each state has equal financial capacity to provide the average level of services in aggregate.*

*Some comparisons use health expenditure data from the Australian Institute of Health and Welfare that shows Tasmania's per capita expenditure at below the national average. The AIHW methodology has been developed primarily for international health expenditure comparisons rather than state comparisons. The CGC uses comprehensive data based on ABS government finance statistics the state governments produce for budget purposes that is designed to enable comparison between states.*

*The State budget records health expenditure based on annual financial statements of State governments, prepared in accordance with the principles of Australian*

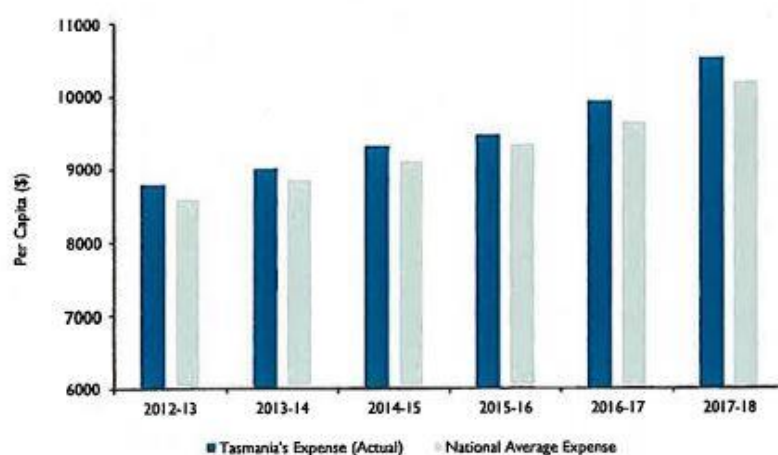
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<sup>20</sup> Mr Martyn Goddard, Public Policy Analyst, [Submission # 4](#), March 2019, p. 7.

<sup>21</sup> [The Hon Peter Gutwein MP](#), op. cit., p. 4

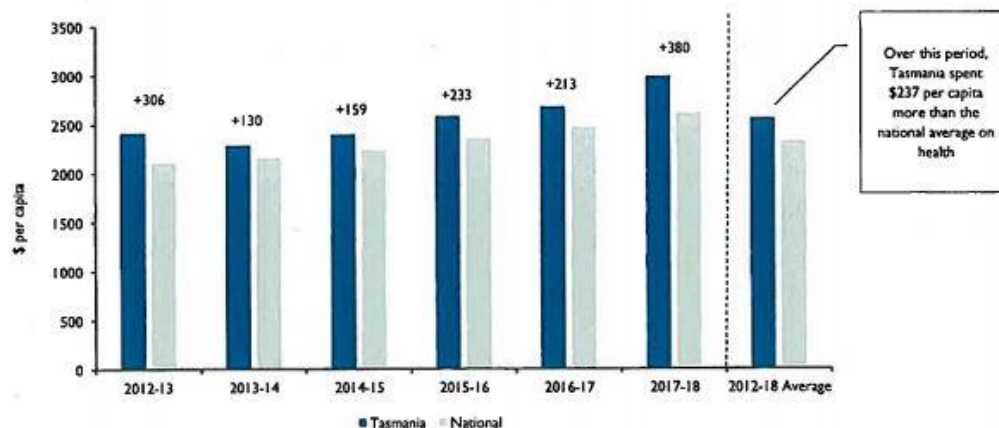
Accounting Standards and, in particular, AASB1049 Whole-of-Government and General Government Sector Reporting. The AIHW data does not appear to cover the same rate of health expenditure. Tasmania's actual health expenditure, based on GFS data, is higher than the national average, which is shown in chart 2 on page 10 of our submission.<sup>22</sup>

**Chart 1 - Total Per Capita Expense Category (average 2012-13 to 2017-18)**



Source: CGC, 2016-2019 Updates: 4.The Assessed Budget (category tables), Table S4-24 Total Expenses, April 2016 to February 2019.

**Chart 2 - CGC Health Expense Category - Tasmania versus National (average 2012-13 to 2017-18)**



Source: CGC, 2016-2019 Updates: 4.The Assessed Budget (category tables), Table S4-14, Health, April 2016 to February 2019.

- 5.19 Considerable caution is needed in interpreting this data. The CGC state the aim of HFE is to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same standard of service as every other State and

<sup>22</sup> Ms Fiona Calvert, op. cit., p. 3.

their work should not be understood as identifying the desired level of spending that each State should fund for particular services.<sup>23</sup>

- 5.20 What is measured and included as data for each State might also vary making rigorous comparisons between States more difficult.
- 5.21 The CGC makes it clear that its role does not involve forming an opinion on how much a State should spend on any particular service it provides to its population, nor on how much tax it should raise under the revenue heads available to States. The Commission expresses no view or opinion how a State should spend its GST revenue.<sup>24</sup>
- 5.22 Nevertheless the Department offered explanations of why the actual costs of Services to Industry were greater than assessed and greater than the national average on a per capita basis but when it came to why the health actual was less than the assessed amount, the explanation offered was that it was more than the national average.
- 5.23 The main reasons for differences in States' fiscal and revenue raising capacities, and matters considered by the CGC in its assessments, relate to:
- ... mining production, property sales, taxable payrolls, remoteness, Indigenous status, population growth, community size including differing costs associated with providing services to big cities and very small communities, the diseconomies of small scale, natural disasters and employee costs.*<sup>25</sup>
- 5.24 Whilst the data provided demonstrates the State spends above the national average on health related expenditures, the question remains as to whether the State is spending as much as the CGC has assessed as being required for Tasmanians to access the Australian average standard of health services.
- 5.25 The Commonwealth Grants Commission's principles in assessing a State's revenue raising capacity includes assessing the revenue each State is capable of raising.

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<sup>23</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 2 October 2019).

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

*One of the principles that the Commission applies in assessing the funding needs of States is to reflect what States do. The Commission observes the range of services that States provide and collects data on how much it costs States to provide those services, given the circumstances of each State. From those data, it is able to derive an Australian average standard of service for each service sector. The Commission then looks at the fiscal capacity of each State – what it is capable of raising from its own revenue sources and receives from the Commonwealth in specific payments – and identifies the funding shortfall that each State has between that fiscal capacity and what it would require to be able to provide that Australian average standard of service.<sup>26</sup>*

**Findings: Term of Reference 1:**

1. The Commonwealth Grants Commission (CGC) assesses the relative fiscal capacities of each of the States.
2. The CGC derives an Australian average standard of service for each service sector and then looks at the fiscal capacity of each State and identifies the funding shortfall that each State has between that fiscal capacity and what it would require to be able to provide that Australian average standard of service.
3. The CGC's approach gives effect to Horizontal Fiscal Equalisation (HFE) - to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same (average) standard of service as every other State.
4. The assessment of each State's fiscal capacities requires the CGC to calculate each State's revenue raising capacity and its expenditure needs.
5. The amounts derived through the CGC process are for the purpose of identifying relativities between categories and between States which is the cornerstone of the HFE system.
6. The CGC assessments are mathematical constructs that include assessments for each category and are not observable amounts that can be identified by examining government accounts.
7. The CGC assessments are based on observed reality, however imperfect the measurement.

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<sup>26</sup> Australian Government Commonwealth Grants Commission website, [About Us - Fiscal Equalisation – History of fiscal equalisation in Australia](#), (accessed 2 October 2019).

8. Relativities across categories and States are not devoid of meaning but care needs to be taken when drawing conclusions and when interpreting differences between assessed and actual amounts for both expenses and revenue.
9. Differences between CGC assessed and actual state expenditure arise for a variety of reasons.
10. A State may choose not to fund a particular service which was included by the CGC in its assessment.
11. States are not financially penalised through CGC assessments if they choose not to fund a particular service, therefore State based policy decisions may explain some differences between actual and assessed amounts.
12. Efficiencies (or inefficiencies) may explain why a State's actual expenditure differs from CGC assessed amounts.
13. In the CGC assessment process:
  - there are thirteen (13) categories of expenses (see table, page 27);
  - there are seven (7) categories of 'own source' revenue (see table, page 27). 'Other revenue' includes gambling taxes and contributions from government businesses;
  - there are components within each expense and revenue category;
  - each component is assigned a disability; and
  - the addition of all expense and revenue components gives an assessment for each category.
14. When assessing the categories, the CGC observes the range of services that States provide to their communities and utilises Australian Bureau of Statistics (ABS) data on how much it costs States to provide those services.
15. When assessing the categories, the CGC considers factors affecting State finances that are beyond States' direct control and would cause their fiscal capacities to diverge (disabilities).
16. Where the CGC determines there are not material differences in the categories between States or where such differences are difficult to measure, some components are treated on an equal per capita (EPC) basis across all States, thus without a disability factor.
17. There is no impact on the GST distribution where EPC applies.
18. In the case of the expense categories Services to Communities and Services to Industry, explanations were provided as to why CGC assessed amounts were greater than actual expenditure in the former and less than actual expenditure in the latter.

19. The State Government provided an explanation of differences between actual and CGC assessed amounts of some categories but did not provide an explanation for the differences between actual and assessed amounts for health expenditure.
20. The Treasurer and Treasury officers, when questioned about health actual expenditure being less than the CGC assessed amount, noted that CGC assessments were mathematical constructs and health actual expenditure was in fact greater than the national average.
21. In developing an 'Australian average standard' as part of its revenue and expense assessments, the CGC does not purport to identify an optimal or desirable level of State government spending or revenue raising.
22. The CGC does not form an opinion on how much a State should spend on any particular service it provides to its population, nor on how much tax any State should raise under the available revenue streams.
23. GST is provided to the States under the Intergovernmental Agreement on Federal Financial Relations on the basis that it is untied, general purpose revenue.
24. State governments are ultimately accountable to their communities in relation to how they spend untied GST revenue.

<b>TERM OF REFERENCE 2: Impact of direct Commonwealth payments on Tasmania's GST receipts.</b>
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## **5.26 IMPACT OF DIRECT COMMONWEALTH PAYMENTS ON TASMANIA'S GST RECEIPTS**

The following information was sourced from the Commonwealth Grants Commission (CGC) website:

41 *National [Specific Purpose Payments] SPPs, National Partnership Payments [NPP's] and, in some cases, Commonwealth own purpose outlays can contribute to a State's capacity to finance its government services. When the Commission considers such payments contribute to a State's capacity, it will include the payment as a revenue source and include the expense financed by it as a State expense.*

42 *The Commission examines each operating and capital payment on a case by case basis to decide whether they contribute to a State's fiscal capacity. It decides the treatment of each payment [including many payments to the States and certain payments not made to States that may indirectly affect State fiscal capacities by reducing the call for State provided services] on the basis of equalisation principles, after following any directions in the terms of reference. The size of a payment does not influence its treatment. Payments which support State services, and for which expenditure needs are assessed, will impact the relativities.*

...

43 *The Australian Government also makes payments (including Commonwealth own-purpose outlays) to State [Public Non-Financial Corporations] (PNFC's), non-government agencies and individuals. These payments are not included in measures of State revenue or expenses. However, they can indirectly affect State fiscal capacities by reducing the call for State provided services. For example, Commonwealth payments to individuals (such as the Medicare rebates) may reduce the quantity of community health services States need to provide.*

44 *A State with an above average amount of these payments may need to spend less than the average per capita amount in providing its government services. Similarly, a State with a below average amount of these payments may be*



*required to spend more. Any such indirect effects on State fiscal capacities may be recognised and assessed as a disability if they are material and can be reliably measured.*<sup>27</sup>

- 5.27 The CGC provided the following summary regarding treatment of other Commonwealth 'tied' payments in its submission to the Inquiry:

*Equalising the fiscal capacity of the States to provide services requires the Commission to take account of the total expenditure and investment all States would incur to provide the average level of services and the revenue they have available to finance it. This includes not just the revenue the States can collect from their own tax bases under average policies but also, consistent with the terms of reference, the Commonwealth tied funding revenue they receive as Payments for Specific Purposes (PSPs). The Commission has adopted a single guideline to decide the treatment of PSPs - payments which support State services, and for which expenditure needs are assessed, will have an impact on the distribution of the GST revenue. To the extent that a State receives above average per capita amounts of PSPs, less GST is required to equalise its fiscal capacity. Conversely, if a State receives below average amounts of PSPs, it requires more GST.*

*The Commission excludes revenue received through PSPs under certain circumstances, such as when the requirements of its guideline are not met, as well as when directed to do so by its terms of reference. Payments under the latter case are known as 'quarantined payments'. The Commission has no role in identifying payments to be quarantined.*<sup>28</sup>

- 5.28 Ms Calvert noted in her opening comments at a Committee hearing:

*Treasury's submission provides a significant amount of detail on the impact of Commonwealth payments on GST received by the states and territories. Those principles relate to Tasmania as in the same way as they do to other states and territories.*

*The Commonwealth Treasurer's terms of reference for the commission directed to take accounts for payments for specific purposes and given direction on the*

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<sup>27</sup> Australian Government Commonwealth Grants Commission website, [The GST Distribution Model – A Mathematical Presentation](#), (accessed 2 October 2019), pp. 11-12.

<sup>28</sup> Commonwealth Grants Commission, [Submission #1](#), p. 3.

*treatment of specific quarantine payments. The Commission treats all Commonwealth payments to the States on a case-by-case basis, guided by the HFE objective and using the following guideline; payments which support State services and for which expenditure needs are assessed will have an impact on the relativities.*

*In effect, if a Commonwealth payment supports State services and it is an expenditure area that is assessed by the Commission, it will have an impact on State relativities. If the Commonwealth makes the state-specific payment or if a State receives a Commonwealth payment for a particular program that is above its per capita share, it will have all but its population share of that payment equalized to other states through the GST redistribution system, unless that payment is quarantined by the Commonwealth Treasurer. Where a payment is quarantined, state relativities are not affected.<sup>29</sup>*

5.29 The Department submission stated:

*Unless the CGC is directed by the Commonwealth Treasurer in its Terms of Reference in an assessment year to quarantine a Commonwealth payment, the benefits of State-specific Commonwealth payments are largely equalised away by the CGC's methodology. If not quarantined, approximately 98 per cent (all but Tasmania's population share) of the payment will be offset in the form of reduced GST payments to Tasmania over time.*

*Because of the one year lag and three year averaging methodology, GST payments will be reduced by almost one third of the Commonwealth payment in each of years 2, 3 and 4 after the payment (for a single year payment) or over a number of years where the payment is received over time. The only part of the payment that is not redistributed is a State's per capita share, which, in Tasmania's case, is currently 2.1 per cent. This is particularly problematic with larger payments and has occurred in the past with the Royal Hobart Hospital funding. Because over time, all but the State's per capita share is redistributed, Tasmania in effect forgoes untied GST revenue in exchange for tied Commonwealth funding.*

*Table 4 provides an example of how a hypothetical \$100 million payment made only to Tasmania in a particular year (Year 1) by the Commonwealth would impact on its GST revenue share in subsequent years.*

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<sup>29</sup> Ms Fiona Calvert, op. cit., p. 3.

**Table 4 - Illustrative Example - Impact of a Commonwealth Payment Over Time**

	Payment year		CGC assessment application years		
	Year 1	Year 2	Year 3	Year 4	Year 5
	\$m	\$m	\$m	\$m	\$m
Commonwealth payment	100	0			
GST impact	0	0	-32.6	-32.6	-32.6
Cumulative budget impact	+100	+100	+67.4	+34.7	+2.1

Source: CGC, 2019 Update - Population Data, Table S1-I Total ERP by State, February 2019 and Tasmanian Treasury calculations. This example ignores the impact of growth in the GST pool which would inflate the actual application year effects.

Table 4 shows Tasmania receiving a \$100 million payment from the Commonwealth Government in Year 1. The CGC's assessment process is based on three-year averages and its assessments relate to the circumstances of past years, so there is a time lag before the fiscal circumstances of Year 1 affect GST revenue. The first time that a Year 1 payment will come into the CGC's assessment process will be in Year 3. The estimated GST impact is a decrease of around \$32.6 million for each of the three years to Year 5, after which Year 1 falls out of the CGC's assessment period. By that time, however, the benefit of the original payment is estimated to have been reduced to less than \$2.1 million, which is Tasmania's per capita share of the total payment to Tasmania.

The recognition of Commonwealth payments to States in this way means that over the long run there are generally no 'winners' or 'losers' when the Commonwealth Government announces funding for specific purposes for particular States or Territories. If the funding is allocated on a per capita share basis, each State ends up with its per capita share of national funding as the redistribution to and away from each State ultimately balances out.

Because all the State payments in excess of per capita shares are redistributed, the net effect is that the payments do not impact each States' relativities. However, if a payment is a one-off program specifically for the benefit of one State, such as the Royal Hobart Hospital example, or if Tasmania for example, receives significantly more than its per capita share of a national program, then as mentioned, most of this funding is redistributed away to other States through HFE with no reciprocal distribution from other States to Tasmania from the same funding program.<sup>30</sup>

<sup>30</sup> Department of Treasury and Finance, [Submission #3](#), pp. 15-16.

- 5.30 Ms Calvert provided an example of the impact of quarantined versus non-quarantined payments:

*I will now compare two contrasting examples for Tasmania.*

*As you are aware, the Commonwealth Government transferred ownership of the Mersey Community Hospital back to Tasmania in 2017. An associated payment of \$730.4 million was paid to the Tasmanian Government. This payment was quarantined by the Commonwealth Treasurer and so did not impact on Tasmania's GST share.*

*In contrast, funding of \$270 million was provided for the Royal Hobart Hospital in 2010-11 and a further \$20 million in 2011-12. A final \$50 million payment is still to be received. Over time, all but the State's per capita share of this funding will be redistributed to other states, meaning that Tasmania, in effect, foregoes untied GST revenue in exchange for tied Commonwealth funding.<sup>31</sup>*

- 5.31 The Hon Peter Gutwein MP, Treasurer, appeared at the hearing of 16 September 2019 and discussed the impact of Commonwealth payments on GST and the quarantining of payments:

**CHAIR** - *The second term of reference, the impact of direct Commonwealth payments on Tasmania GST receipts, we know from time to time payments are fully quarantined or special deals are done, or however you want to refer to it. For example, we know the funding for the Royal Hobart Hospital was not quarantined at all; Midland Highway is part quarantined, part not. Do you have a view on whether there should be the ongoing quarantining in terms of the impact on the federation as a whole? What is your overall view on how this is dealt with?*

**Mr GUTWEIN** - *I think funding commitments are significant and impact on the state would be quite detrimental. The Royal Hobart Hospital is one, by all accounts that should have been quarantined, because it has a significant impact. The Mersey Hospital was quarantined. The most recent outcome in housing and housing debt, the impact of that will be quarantined. Again, that will be -*

**CHAIR** - *That is dependent on the federal Treasurer responding.*

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<sup>31</sup> Ms Fiona Calvert, op. cit., pp. 3-4

**Mr GUTWEIN** - I am certain he will - and will depend on the accounting treatment. There are some large moving parts, there are debts being forgiven, payments from the state and how they qualify that. From the point of view of GST, I am firmly of the belief that should be quarantined. We should not lose money into the future and I believe it will be quarantined. The point of quarantining of payments, as long as it is applied consistently -

**CHAIR** - You mean for all States?

**Mr GUTWEIN** - For all States, and Treasury is of the view and I tend to agree, there should be as little quarantining as possible. There are special cases when there are large spending commitments made that would detrimentally affect this state or conversely for other states.<sup>32</sup>

5.32 The Treasurer reiterated his position:

*That's where Treasury's view and mine would be that where possible, quarantining be kept to an absolute minimum, just on those where there are significant impacts.*<sup>33</sup>

5.33 The Productivity Commission Report also states that the quarantining of payments should be done with stricter, principled guidelines:

*Accountability is already blurred by the patchwork of payments from the Commonwealth to the States. While the general principles applied to Commonwealth payments in the HFE formula appear sound and internally consistent with the CGC's overall approach to HFE, they may not always be consistent with governments' other, more direct, objectives for those payments. Perhaps as a result of this, there has been a growing tendency to quarantine some Commonwealth payments purely on political grounds.*

*The ability of the Commonwealth Treasurer to quarantine payments from HFE would benefit from stricter, principled guidelines. This would ensure that quarantining does not compromise the objective of HFE and undermine the efficacy of the equalisation process.*

*These guidelines should be determined in consultation with the States, and should seek a balance between enhancing accountability and transparency, while not*

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<sup>32</sup> [The Hon Peter Gutwein MP](#), op. cit., pp. 16-17.

<sup>33</sup> Ibid., p. 18.

*unduly affecting the ability of the Commonwealth Treasurer to quarantine payments in exceptional circumstances (where quarantining is in the national interest).<sup>34</sup>*

5.34 The Commonwealth Grant Commission publishes a list of all fully and partly quarantined payments<sup>35</sup>:

**Table B.1 Selected Commonwealth payments quarantined or discounted by Treasurer, 2012-13 Update to 2017-18 Update<sup>a</sup>**

<i>Payment/partnership agreement</i>	<i>Recipient state</i>	<i>Year first quarantined/ discounted</i>	<i>Estimated value, 2011-12 onwards (\$m)</i>	<i>Treatment</i>
Centenary of Canberra – A Gift to the National Capital	ACT	2012	62	Excluded
Macquarie Point Railyards Precinct Remediation Project	Tas	2013	50	Excluded
Tasmanian Forests Intergovernmental Agreement	Tas	2013	53	Excluded
Stronger Futures in the Northern Territory (2 <sup>nd</sup> Implementation)	NT	2014	514	Excluded
South Australian River Murray Sustainability Program	SA	2014	285	Excluded
Commonwealth Government forgiveness of South Australian Government public housing debts	SA	2014	320	Excluded
Commonwealth payments for major roads <sup>b</sup> (including WestConnex, East–West Link, Western Sydney Infrastructure Plan, Perth Freight Link)	All except Tas and ACT	2015	9 400	50 per cent discount
Infrastructure Growth Package: Asset Recycling Fund (all States eligible, but not all have yet recycled assets)	ACT, NSW, NT, SA	2015	4 132	Excluded
Northern Territory Remote Aboriginal Investment	NT	2015	949	Excluded
Royal Victorian Eye and Ear Hospital Redevelopment	Vic	2016	100	Excluded
Infrastructure Projects in Western Australia	WA	2016	1 215	Excluded

<sup>a</sup> The value listed is the total amount of funding (as stipulated in the funding agreement or Commonwealth Budgets) to be distributed over the life of the agreement; for some payments this extends to the 2020-21 financial year. This is the case because the terms of reference usually stipulate that, once a payment has been quarantined, the CGC should continue to treat it in the same manner until the agreement expires.

<sup>b</sup> Some funding has been redirected to other State projects (following the cancellation of infrastructure projects such as the East–West Link and the Perth Freight Link) but has, thus far, remained discounted.

Sources: CGC (2017k, p. 2); COAG (2012b, 2014); Commonwealth of Australia (2012, 2013, 2014a, 2014b, 2015a, 2015b, 2016a, 2016b, 2017b, 2017f).

<sup>34</sup> Australian Government Productivity Commission, *Horizontal Fiscal Equalisation Inquiry Report Overview & Recommendations – No. 88*, 18 May 2018, pp. 19-20.

<sup>35</sup> *Inquiry Report into Horizontal Fiscal Equalisation – No. 88*, op. cit., p. 298.

5.35 The Committee requested additional information related to fully and partially quarantined Australian Government grants to all States and Territories. In response the Treasurer provided a copy of the *CGC 2019 Update Report – Treatment of Commonwealth payments*. The chapter details the CGC’s current treatment of Australian Government grants to all States and Territories (attached at Appendix 6.3).

5.36 See Appendix 6.4 — 2019-20 Treatment of Commonwealth Payments – Australian Government Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities 2021 Update.

**Findings: Term of Reference 2:**

1. Equalising the fiscal capacity of the States to provide services requires the CGC to take account of the total expenditure and investment all States would incur to provide the average level of services and the revenue they have available to finance it.
2. The HFE assessment includes the Commonwealth tied funding revenue the States receive as Payments for Specific Purposes (PSPs).
3. The decision to exclude a PSP from the CGC assessment process is made by the Federal Treasurer who issues instructions to the CGC in its terms of reference related to the PSP.
4. When the CGC is directed to exclude Commonwealth tied funding revenue by its terms of reference to a PSP such payments to the State are known as 'quarantined payments'.
5. The CGC has no role in identifying PSPs to be quarantined.
6. To the extent that a State receives above or below average per capita amounts of PSPs, the CGC is required to take the payments not quarantined into consideration.
7. Any payments to a State that are not quarantined will be equalised by the CGCs methodology in the form of reduced GST payments over time. In Tasmania’s case, the State will retain only its per capita percentage (2.1%) of any payment that is not quarantined.

## **6. APPENDICES**



## 6.1 APPENDIX

### *Summary of History and Current Practice*

#### **Summary:**

1. Upon federating, the six colonies of Australia ceded the right to impose and collect customs and excise duties (the dominant source of public revenue at the time) in favour of the Commonwealth.
2. This created a vertical fiscal imbalance (VFI) and led to various general revenue-sharing schemes with the States.
3. Special grants were made to the fiscally weaker States — Western Australia, Tasmania and South Australia — largely on an ad hoc basis.
4. In 1933, following the threat of Western Australia's secession, the Commonwealth Grants Commission (CGC) was established to make recommendations on these special grants.
5. Recommendations on these special grants was done on the basis of making it possible for a claimant State 'by reasonable effort to function at a standard not appreciably below that of other States'.
6. During the Second World War, the Commonwealth assumed sole responsibility for collecting income tax. This significantly exacerbated VFI and necessitated a greater level of general revenue sharing with the States.
7. In the mid to late 1970s financial assistance grants (to address VFI) were replaced by income tax sharing arrangements.
8. Revenue under the income tax sharing arrangement was to be distributed on the basis of relativities based on equalisation principles.
9. This revenue was then used to address vertical and horizontal fiscal imbalance with the CGC's recommendations affecting the finances of all States, not just the claimant States.
10. The distribution of funding was allocated so that each State could provide government services at standards not appreciably different from the standards of government services provided by the other States.
11. The CGC has been recommending relativities based on full equalisation since 1981.

12. In 2000 with the introduction of the GST, the GST replaced financial assistance grants and various state taxes, and the GST pool was to be returned to the States according to the principle of Horizontal Fiscal Equalisation (HFE).
13. In 2017, the Australian Government asked the Productivity Commission to conduct an inquiry into HFE.
14. The final Productivity Commission report was handed to the Australian Government in May 2018 and the Australian Government released an interim response to the report in July 2018.
15. Legislation has been passed in the Australian Parliament to give effect to the Government's policy of introducing a minimum GST revenue sharing relativity (relativity floor); permanently boosting the GST revenue pool with additional Commonwealth financial assistance; and transitioning the HFE system from full equalisation (so-called equalising to the strongest State) to 'reasonable' equalisation, based upon the fiscal capacity of the stronger of New South Wales and Victoria.
16. The new policy includes a transition to the new arrangements. The transition period will end in 2026-27.

## **6.2 APPENDIX**

*Letter dated 3 September 2019 from Tony Ferrall, Secretary, Department of Treasury and Finance providing answers to questions taken on notice*

## Department of Treasury and Finance

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Hon Ruth Forrest, MLC  
Chair  
Legislative Council Committee Inquiry into Horizontal Fiscal Equalisation  
HOBART TAS 7000

Dear Ms Forrest

### **Inquiry into Horizontal Fiscal Equalisation**

I refer to your letter dated 15<sup>th</sup> August 2019 requesting additional information arising from the attendance of Treasury officers before the Legislative Council Committee.

Please find the requested information below.

***1. Provide details as to all revenue sources that are included in the 'other revenue' category?***

***a. Are income tax equivalents and dividends included?***

***b. How are equity injections and transfers between state owned businesses treated?***

The other revenue category is a residual revenue category. It includes revenues for which:

- a conceptual case for a differential assessment does not exist;
- data to support a reliable assessment are not available; or
- a differential assessment would not have a material effect on State GST distributions.

Revenue included in the other revenue category is treated equal per capita (EPC). That is, there is no differential assessment by the CGC that will affect GST shares. The revenues currently include:

- gambling revenue;
- fees and fines;
- other user charges - user charges not included in a category assessment are treated EPC in the other revenue assessment. Where user charges form part of a category assessment, they are differentially assessed. For example, health, housing, post-secondary education, transport, and mining user charges are offset against relevant assessment category expenditure.
- municipal rates - because GFS data includes municipal rates with State revenue for the ACT, municipal rates are treated EPC in other revenue.
- other taxes - other taxes include revenues relocated from revenue categories to the other revenue category and treated EPC because they are not material enough to warrant a differential assessment, or can't be reliably assessed. For example stamp duty

on motor vehicle transfers is transferred from the stamp duty on conveyances category to the other revenue category.

- interest income;
- contributions by trading enterprises (income tax equivalents and dividends); and
- grants - these are grants from parties other than the Commonwealth. Only Commonwealth grants are differentially assessed.

Income tax equivalents and dividends are included in the other revenue category under contributions by trading enterprises.

Equity injections and transfers between state-owned businesses are not assessed by the CGC as they are outside of the General Government GFS operating statement that the CGC bases its assessments.

As noted, other revenue is assessed EPC so any changes in the amount of revenue received in the other revenue category do not affect GST shares.

## **2. *Provide details regarding the differences between assessed and actual expenditure, in relation to depreciation.***

The CGC currently assess net investment and depreciation separately. For the 2020 Methodology Review the CGC is proposing to assess net investment and depreciation together in an assessment of gross investment.

The current depreciation assessment provides States with the capacity to meet the depreciation expenses on their assessed infrastructure stocks, assuming they applied the average depreciation rate. The assessment, however, does not include urban transport depreciation because those expenses are part of the net expenses covered by the urban transport assessment.

The depreciation assessment has three steps.

First, the CGC estimates the stock of infrastructure each State would hold if it provided the average level of services to their population and did so using the average policies on how services are provided (called assessed infrastructure stock). The calculations allow for the effects of each State's population characteristics on the quantity of infrastructure it requires. For example, States with higher proportions of their population enrolled at school may require more schools.

Second, it adjusts that assessed stock for State-specific factors that affect its cost. For example, States with high wage structures or a higher proportion of their population in remote areas generally face higher costs to acquire a specific piece of infrastructure.

Third, it applies the national average depreciation rate (the ratio of the sum of depreciation expenses for all States and the sum of state stock of infrastructure) to the assessed infrastructure.

Tasmania's actual depreciation will therefore differ from its assessed depreciation because Tasmania's assessed depreciation expense is based on the national average rate of depreciation, multiplied by Tasmania's adjusted stock of infrastructure as described above.

Whereas, Tasmania's actual depreciation expense is based on its actual rate of depreciation and its actual stock of infrastructure.

### **3. *What is included in expenditure under 'investments'?***

Investment is the acquisition of additional, or upgraded, infrastructure and land. Investment is gross investment less depreciation. The CGC currently assess investment and depreciation separately.

Under the current 2015 methodology, the investment assessment includes investment in infrastructure in the following State Government activities:

- roads;
- urban transport;
- other services (all other Government services); and
- land (assessed EPC).

### **4. *Provide details regarding the differences between assessed and actual expenditure in relation to investment; and***

#### ***a. Provide details regarding investment in infrastructure.***

The following is based on information contained in the CGC's 2015 Methodology Review final report.

The investment assessment estimates the amount each State would invest to acquire additional infrastructure to ensure it finishes the year with the per capita stock of infrastructure it requires to provide the average services in its circumstances.

Each State's assessed investment in roads, urban transport and other infrastructure is calculated as the difference between the infrastructure it requires at the end of the year and the infrastructure it required at the start of the year, adjusted for factors affecting the cost of acquiring infrastructure.

The calculation of assessed investment allows for the effects of:

- population growth.

The assessment is based on the view that, if States were alike, they would need the average per capita stock of infrastructure if they were to provide the average level of services under average service delivery policies. However, because population growth is not the same in all States, the assessment recognises that States with above average population growth need to invest above average amounts. This is the main driver of the investment assessment.

- changes in other State circumstances affecting the quantity of infrastructure required to provide average services.

States are not alike. Each State needs a State specific stock of infrastructure per capita (which reflects its specific characteristics) if it is to deliver the average level of services to its residents. For example, if a State's population uses hospitals at above average rates, it warrants more hospital beds per capita. The quantity of stock disability measures these State specific requirements. For most services, the factors for the quantity of services States provide are used to measure the stock disabilities.

- changes in the average stock of infrastructure per capita (capital deepening).

The assessment is based on the change in the national value of the stock of infrastructure at the start of the year and end of the year. This will reflect changes in the intensity of capital used over the period.

- relative cost levels prevailing during the year.

Cost disabilities allow for interstate differences in wage levels, the price of materials and other unavoidable factors affecting the cost of services and infrastructure.

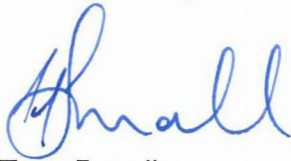
Tasmania's assessed investment will differ from its actual investment because its assessed investment is based on the change in the national stock of infrastructure per capita adjusted for state specific quantity and cost of infrastructure disabilities.

Whereas, Tasmania's actual investment is based on its actual increase in its stock of infrastructure. Actual investment expenditure is the net acquisition of non-financial assets in the GFS operating statement, which is defined as gross fixed capital formation less depreciation plus changes in inventories plus other transactions in non-financial assets.

The CGC cautions against comparing actual and assessed net investment expenditure *because net investment is very volatile and this volatility is exaggerated by it being a net effect (that is net of depreciation).* Such analysis is meaningless for assessing investment needs. (What States Do - Investment CGC Staff Research paper CGC 2017-17-S p3).

Should you have any queries or require any further information regarding this matter, please contact Damien Febey on (03) 6166 4268 or email [damien.febey@treasury.tas.gov.au](mailto:damien.febey@treasury.tas.gov.au).

Yours sincerely



Tony Ferrall  
Secretary

3 September 2019

### **6.3 APPENDIX**

*Letter dated 23 September 2019 from Tony Ferrall, Secretary, Department of Treasury and Finance providing answers to questions taken on notice*



Treasurer

23 SEP 2019

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Hon Ruth Forrest MLC  
Chair  
Legislative Council Committee Inquiry into Horizontal Fiscal Equalisation  
HOBART TAS 7000

Dear Ms Forrest

**Inquiry into Horizontal Fiscal Equalisation**

I refer to your letter dated 17 September 2019 requesting additional information arising from my appearance before the Committee on 16 September 2019.

Please find the requested information below.

**1. Please provide an updated list of fully and partially quarantined Australian Government grants to all States and Territories.**

The attached *CGC 2019 Update Report - Treatment of Commonwealth payments* chapter details the CGC's current treatment of Australian Government grants to all States and Territories (States).

**2. With regard to the Australian Government grant payments for the Midland national highway, how will the CGC take into account the ongoing maintenance cost of the fixed road infrastructure (such as flexible safety barriers) in determining relativities?**

The CGC's Roads assessment takes into account Australian Government grant payments to each State and associated State cost factors such as road lengths, traffic volumes and heavy vehicle movements. For Tasmania, this assessment includes the Midlands Highway.

The CGC staff have confirmed that, consistent with all other States' roads, the fixed road infrastructure installed on the Midlands Highway will not directly affect the calculation of Tasmania's assessed annual roads costs, infrastructure investment needs, or depreciation costs.

Yours sincerely

Hon Peter Gutwein MP

Encl

# TREATMENT OF COMMONWEALTH PAYMENTS IN THE 2019 UPDATE

## BACKGROUND

- 1 The Commission has been guided to treat Commonwealth payments on the basis of equalisation principles. In the 2015 Review, it adopted a single guideline to decide the treatment of all payments on a case by case basis:

payments which support State services, and for which expenditure needs are assessed, will have an impact on the relativities.
- 2 Expenditure needs are differences assessed by the Commission that affect the per capita cost of delivering services in the States. In some cases, on conceptual grounds, the Commission considers that there are no differences in the per capita cost in delivering certain services among States. Expenditure for those services will be assessed based on population shares. This is considered as a deliberative equal per capita assessment and the need is population shares.
- 3 Where expenditure needs for some services have not been assessed because the cost of delivering those services are not materially different among States, or because the Commission has not been able to assess them, these are not a deliberative equal per capita assessment. Any associated payments should not affect the GST distribution.
- 4 Adopting the guideline and applying it on a case by case basis to Commonwealth payments therefore results in some payments having an impact on the relativities and others not. The decision is made purely on the basis of whether the payment is available to support State services and whether needs have been assessed. The size of payments should not influence the treatment of a payment.

## TERMS OF REFERENCE REQUIREMENTS

- 5 The terms of reference (ToR) provide guidance to the Commission on the treatment of Commonwealth payments. They ask the Commission:
  - to ensure that some specified payments, including all reward payments, have no impact on the Goods and Services Tax (GST) distribution
  - to treat national specific purpose payments (SPPs), national health reform funding, Quality schools funding (for government schools), national partnership project payments and general revenue assistance (GRA) other than the GST, so that they would affect GST shares, but treat national partnership facilitation payments so that they would not.

However, the Commission is given discretion to vary the treatment of the second group of payments where it is appropriate, reflecting the nature of the payment and the role of State governments in providing services.

- 6 These instructions, which are consistent with the Intergovernmental Agreement on Federal Financial Relations (as amended) (IGA), make it clear that where it has discretion, the Commission should exercise that discretion in deciding if and how payments should affect the GST distribution.
- 7 The 2019 Update ToR require the Commission to prepare its assessments on the basis that the following payments should not directly affect the relativities:
  - payments to New South Wales and Victoria relating to the sale of Snowy Hydro Ltd to the Commonwealth (paid in 2017-18)
  - payments relating to the Project Agreement for the Health Innovation Fund – Stage 1
  - payments to South Australia relating to the Project Agreement for the Proton Beam Facility
  - payments to Tasmania relating to the Project Agreement for Queensland Fruit Fly Response in Tasmania (paid in 2017-18)
  - payments to the Australian Capital Territory relating to the Project Agreement for the expansion of Clare Holland House
  - payments relating to the Project Agreement for the Western Australian Hospital Infrastructure Package (paid in 2017-18)
  - \$259.6 million in additional General Revenue Assistance to the Northern Territory to offset the reduction in its GST share (paid in 2017-18)
  - payments to the Northern Territory of up to \$110 million per annum for 5 years for Remote Indigenous Housing commencing in 2018-19
  - additional General Revenue Assistance relating to GST transitional support and top-up payments under the Commonwealth’s HFE reform package:
    - to the Northern Territory to effectively lift its GST relativity to 4.66
    - to any other State or Territory to effectively lift their GST relativities to 0.7
    - to any State or Territory under subsection 5(3) of the *Federal Financial Relations Act 2009* (the cumulative ‘no worse off’ guarantee).
- 8 Accordingly, the payments made in 2017-18 have been treated in a way that they do not affect the relativities. Payments made in years after 2017-18 will not affect the relativities when they are paid in the assessment years of future updates.
- 9 The following payments that commenced in 2017-18 were quarantined by the 2018 Update ToR. They have been treated in a way that they do not affect the relativities.
  - \$1.42 billion to Victoria relating to the Regional Rail Revival program

- \$1.2 billion to Western Australia relating to the re-allocated Perth Freight Link Infrastructure funding.
- 10 In addition, as directed by the 2019 Update ToR, the Commission has continued to exclude those payments quarantined by previous terms of reference. They are:
- Assisting preparation towards the launch of the National disability insurance scheme
  - Caring for our country — animal and plant pest disease eradication
  - Centenary of Canberra 2013 — A gift to the national capital
  - Health care grants for the Torres Strait
  - Improving health services in Tasmania
  - Infrastructure growth package — Asset recycling initiative
  - \$730.4 million to Tasmania relating to the transfer of the Mersey Community Hospital
  - Northern Territory remote Aboriginal investment
  - Roads to recovery
  - Royal Darwin Hospital — equipped, prepared and ready
  - Royal Victorian Eye and Ear Hospital redevelopment
  - Sinking Fund on State debt
  - South Australian River Murray sustainability programme
  - States' drawdowns from DisabilityCare Australia Fund during the transition phase for the National disability insurance scheme
  - Trial of My Way sites
  - Victorian cytology service
  - Western Australia infrastructure projects
  - 50% of the following payments:
    - \$1.5 billion for WestConnex
    - \$3 billion for the East-West link
    - \$2.9 billion for the Western Sydney infrastructure plan
    - \$0.6 billion for the Toowoomba second range crossing
    - \$0.9 billion for the Perth freight link/Roe highway
    - \$0.4 billion for the North-South road corridor
    - \$0.1 billion for the Northern Territory roads package.

- 11 The list of quarantined payments and the amounts relevant to this update are available on the [Commission's website](https://cgc.gov.au/) (<https://cgc.gov.au/>).<sup>1</sup>
- 12 The 2019 Update terms of reference also require the National health reform funding and corresponding expenditure relating to the provision of cross-border services to the residents of other States be allocated to States on the basis of residence. We have adjusted the National health reform funding accordingly.

## BACKCASTING

- 13 If there are major changes in the Commonwealth-State financial relations between the historical years used in the Commission's assessments and in the year the recommended relativities would be applied, we 'backcast' the new arrangements, unless the terms of reference direct us not to do so or it cannot be done reliably.
- 14 Under the backcasting process, State revenues and expenses in the historical years are adjusted to what they would have been if the new financial arrangements had been in place at that time. This improves contemporaneity of the relativities. Backcasting is only done when the application year changes are reliably known and data needed for calculating the backcast amounts are reliable.
- 15 In the 2019 Update, the Commission has not backcast any payments commencing in 2018-19 or 2019-20 published in the *Federal Financial Relations, Budget Paper No. 3, 2018-19* because they do not represent a major change in federal financial arrangements. Treatment of these new payments will be considered when they appear in the data in the assessment period.

## TREATMENT OF PAYMENTS MADE IN 2015-16 TO 2017-18

- 16 Table 1 provides a summary of the treatment accorded each payment. Payments where treatments are prescribed by the terms of reference are marked with an asterisk. Table 2 to Table 3 show details of payments made in 2015-16 to 2017-18 and the Commission's decision on the treatment of each payment.

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<sup>1</sup> CGC relevant website page: U2019 Update\Supporting Information\2. The Adjusted Budget Summary.xlsx\Table S2-5b Commonwealth payments quarantined by terms of reference.

**Table 1 Summary of treatment of Commonwealth payments**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
<b>GENERAL REVENUE ASSISTANCE</b>				
GST payments	x	x	x	Pool for relativities
ACT municipal services	x	x	x	No impact on relativities
Commonwealth assistance to the Northern Territory*			x	Other revenue (EPC)
Reduced royalties	x	x	x	Mining revenue (APC)
Royalties	x	x	x	Mining revenue (APC)
Snowy Hydro Ltd — company tax compensation	x	x	x	Other revenue (EPC)
<b>HEALTH</b>				
<b>National health reform funding</b>	x	x	x	Impact on relativities
<b>National partnership payments</b>				
<b>Health services</b>				
Expansion of the BreastScreen Australia program	x	x	x	Impact on relativities
Hummingbird House	x	x	x	50% Impact
Improving health services in Tasmania*				
Better access to community based palliative care services	x			No impact on relativities
Improving patient pathways through clinical and system redesign	x	x	x	No impact on relativities
Innovative flexible funding for mental health	x			No impact on relativities
Reducing elective surgery waiting lists in Tasmania	x	x		No impact on relativities
Subacute and acute projects	x	x	x	No impact on relativities
Management of Torres Strait/Papua New Guinea	x		x	No impact on relativities
Cross-border health issues				
Mersey Community Hospital — hospital transfer*		x		No impact on relativities
Mersey Community Hospital — drug and alcohol residential rehabilitation treatment and palliative care		x		Impact on relativities
Mosquito control and cross border liaison in the Torres Strait	x	x	x	No impact on relativities
National bowel cancer screening Program — participant follow-up function	x	x	x	Impact on relativities
OzFoodNet	x	x	x	Impact on relativities
Royal Darwin Hospital — equipped, prepared and ready*	x	x	x	No impact on relativities
Vaccine-preventable diseases surveillance	x	x	x	Impact on relativities
Victorian cytology service*	x	x	x	No impact on relativities
<b>Health infrastructure</b>				
<b>Hospital infrastructure projects</b>				
Hospital infrastructure and other projects of national significance	x			Impact on relativities
National cancer system	x	x	x	Impact on relativities
Regional priority round	x	x	x	Impact on relativities
Albury-Wodonga Hospital Cardiac Catheterisation Laboratory	x	x	x	Impact on relativities
Bright Hospital — feasibility study	x			Impact on relativities

**Table 1 Summary of treatment of Commonwealth payments (continued)**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
<b>Health infrastructure (<i>Continue</i>)</b>				
Construction of Palmerston Hospital		x		Impact on relativities
Improving local access to health care on Phillip Island	x	x		Impact on relativities
Redevelopment of the Royal Victorian Eye and Ear Hospital*	x			No impact on relativities
Upgrade of Ballina Hospital		x		Impact on relativities
Western Australia Hospitals Infrastructure Package*			x	No impact on relativities
<b>Indigenous health</b>				
Addressing blood borne viruses and sexually transmissible infections in the Torres Strait	x		x	Impact on relativities
Improving trachoma control services for Indigenous Australians	x	x	x	Impact on relativities
Northern Territory remote Aboriginal Investment* — health component	x	x	x	No impact on relativities
Rheumatic fever strategy	x	x	x	Impact on relativities
Renal infrastructure in the Northern Territory	x	x		Impact on relativities
<b>Mental health</b>				
Supporting National Mental Health Reform	x	x		Impact on relativities
<b>Other</b>				
Electronic recording and reporting of controlled drugs			x	Impact on relativities
Encouraging more clinical trials in Australia			x	Impact on relativities
Essential vaccines (vaccine purchase)	x	x	x	No impact on relativities
National coronial information system		x	x	No impact on relativities
Public dental services for adults	x	x	x	Impact on relativities
Zika response teams	x			No impact on relativities
<b>EDUCATION</b>				
Quality Schools Funding — Government	x	x	x	Impact on relativities
Students First Funding — Non-government#	x	x	x	No impact on relativities
<b>National partnership payments</b>				
Independent Public Schools	x	x		Impact on relativities
MoneySmart teaching	x	x	x	Impact on relativities
National quality agenda for early childhood education and care	x	x	x	Impact on relativities
National school chaplaincy programme	x	x	x	Impact on relativities
National school for Travelling Show children	x			No impact on relativities
Northern Territory remote Aboriginal Investment* — children and schooling component	x	x	x	No impact on relativities
Online safety programs in schools	x	x	x	Government – impact; Non-govt# – no impact
School pathways program	x	x	x	No impact on relativities
School security program	x	x	x	No impact on relativities
Trade training centres in schools	x	x		Government – impact; Non-govt# – no impact
Universal access to early education	x	x	x	Impact on relativities

**Table 1 Summary of treatment of Commonwealth payments (continued)**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
<b>SKILLS AND WORKFORCE DEVELOPMENT SERVICES</b>				
National skills and workforce development SPP	x	x	x	Impact on relativities
<b>National partnership payments</b>				
Building Australia's future workforce — Skills reform	x	x		Impact on relativities
Commonwealth/State and Territory joint group training	x			Impact on relativities
Skilling Australians Fund			x	Impact on relativities
TAFE fee waivers for childcare qualifications	x			No impact on relativities
NSW infrastructure skills centre		x		Impact on relativities
<b>COMMUNITY SERVICES</b>				
National disability SPP	x	x	x	Impact on relativities
<b>National partnership payments</b>				
Assisting preparation towards the launch of the National disability insurance scheme*	x			No Impact on relativities
Family Advocacy and Support Services		x	x	No impact on relativities
Home and community care	x	x	x	No impact on relativities
National Occasional Care Programme	x	x	x	No impact on relativities
National outcome standards for perpetrator interventions	x	x		Impact on relativities
<b>Northern Territory remote Aboriginal investment*</b>				
Community safety component	x	x	x	No impact on relativities
Municipal and essential services component	x			No impact on relativities
Pay equity for the social and community services sector	x	x	x	Impact on relativities
Payments from the DisabilityCare Australia Fund*			x	No impact on relativities
Specialist disability services	x	x	x	No impact on relativities
Transition to NDIS in Western Australia*	x	x	x	No impact on relativities
Women's safety package — technology trials		x	x	Impact on relativities
<b>AFFORDABLE HOUSING</b>				
National affordable housing SPP	x	x	x	Impact on relativities
<b>National partnership payments</b>				
First home owners boost#	x	x	x	No impact on relativities
Homelessness	x	x	x	Impact on relativities
Northern Territory remote Aboriginal investment* — Remote Australia strategies component	x	x	x	No impact on relativities
Remote Indigenous housing	x	x	x	75% impact; 25% No impact on relativities
<b>INFRASTRUCTURE</b>				
<b>National partnership payments</b>				
Centenary of Canberra* — Constitution avenue upgrade	x			No impact on relativities



**Table 1 Summary of treatment of Commonwealth payments (continued)**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
INFRASTRUCTURE (continue)				
Infrastructure investment program				
Black spot projects	x	x	x	Impact on relativities
Bridges renewal program	x	x	x	No impact on relativities
Developing Northern Australia				
Improving Cattle Supply Chains			x	Impact on relativities
Northern Australian roads		x	x	Impact on relativities
Heavy vehicle safety and productivity	x	x	x	Impact on relativities
Improving the national network	x	x	x	National network roads (NNR) – 50% impact
Investment				
Rail component	x	x	x	National rail network (NRN) – 50% impact; Non-NRN – impact
Road component	x	x	x	NNR – 50% impact; Non-NNR – Impact
Off-network projects##				
Rail component	x	x	x	States – impact; Local – no impact
Road component	x	x	x	States – impact; Local – no impact
Supplementary			x	States – impact; Local – no impact
Roads to recovery*,##	x	x	x	No impact on relativities
Infrastructure Growth Package — Asset Recycling Fund				
Asset Recycling Initiative*	x	x	x	No impact on relativities
New Investments				
Road*	x	x	x	State non-NNR – impact; State NNR and roads identified in terms of reference – 50% impact; Local – no impact
Black spot projects	x	x	x	Impact on relativities
Roads to recovery*,##	x			No impact on relativities
Western Sydney Infrastructure plan*	x	x	x	50% impact
Interstate road transport	x	x	x	Motor tax revenue
Latrobe Valley economic diversification##	x			States – impact; Local – no impact
Murray-Darling Basin regional economic diversification program	x		x	Impact on relativities
Supporting drought-affected communities program##	x	x	x	No impact on relativities
Western Australia infrastructure projects*	x	x		No impact on relativities
Wifi and Mobile Coverage on Trains			x	Impact on relativities

**Table 1 Summary of treatment of Commonwealth payments (continued)**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
ENVIRONMENT				
National partnership payments				
Assistance for pest and weed management in drought-affected areas*,	x	x	x	No impact on relativities
Bushfire mitigation	x	x		Impact on relativities
Development of business cases for constraints measures and potential Implementation	x		x	No impact on relativities
Environmental management of former Rum Jungle mine site	x		x	No impact on relativities
Great Artesian Basin sustainability initiative	x	x	x	Impact on relativities
Hydrogen energy supply chain pilot project			x	No impact on relativities
Implementation of the National Insurance Affordability Initiative		x		No impact on relativities
Implementing water reform in the Murray-Darling basin	x	x	x	No impact on relativities
Kamay 250 <sup>th</sup> anniversary project			x	Impact on relativities
Management of established pest and weeds	x	x	x	Impact on relativities
Management of the world heritage values of the Tasmanian wildness	x	x	x	No impact on relativities
Mechanical fuel load reduction trials	x			No impact on relativities
National fire danger rating system			x	No impact on relativities
Natural disaster resilience#	x	x	x	No impact on relativities
Pest and disease preparedness and response programs(a)*	x	x	x	No Impact on relativities
South Australian River Murray Sustainability Program*				
Irrigation efficiency and water purchase	x	x		No impact on relativities
Irrigation industry assistance	x	x	x	No impact on relativities
Regional economic development	x	x		No impact on relativities
Water for the future				
Water Reform Programs##	x	x		States – impact; Local – no impact
National water security plan for cities and towns##	x			States – impact; Local – no impact
Sustainable Rural Water Use and infrastructure Program##	x	x	x	States – impact; Local – no impact
Water Infrastructure Development Fund				
Feasibility studies		x	x	Impact on relativities
Capital component			x	Impact on relativities
Whale and dolphin entanglements	x	x		No impact on relativities
CONTINGENT PAYMENTS				
Hepatitis C settlement fund	x		x	No impact on relativities
Natural disaster relief and recovery arrangements	x	x	x	No impact on relativities

**Table 1 Summary of treatment of Commonwealth payments (continued)**

Payment	Year of payments			Treatment
	15-16	16-17	17-18	
<b>OTHER STATE SERVICES</b>				
<b>National partnership payments</b>				
2014 G20 leaders' summit security	x			No impact on relativities
Developing demand-driver infrastructure for the tourism industry	x	x	x	Impact on relativities
Financial assistance grants to local governments				
General purpose assistance#	x	x	x	No impact on relativities
Untied local roads grants#	x	x	x	No impact on relativities
Legal assistance services	x	x	x	No impact on relativities
National register of foreign ownership of land titles	x	x		No impact on relativities
North Queensland Stadium		x	x	Impact on relativities
North Queensland strata title inspection scheme			x	Impact on relativities
Provision of fire services	x	x	x	No impact on relativities
Sinking fund on State debt*	x	x		No impact on relativities
South Sydney Rabbitohs' Centre of Excellence			x	No impact on relativities
Supplementary funding to South Australia for local roads#			x	No impact on relativities
Tasmanian horticulture market growth	x			Impact on relativities
Tasmanian Regional Tourism infrastructure and Innovation Fund	x			Impact on relativities
Tasmanian tourism growth package		x		Impact on relativities
Tourism demand driver infrastructure recovery package		x		Impact on relativities
<b>COMMONWEALTH OWN-PURPOSE EXPENSE (COPE) PAYMENTS</b>				
<b>Payments to States</b>				
Highly specialised drugs	x	x		No impact on relativities
Commonwealth grants to Indigenous community health organisations	x	x	x	States – impact; Non-government organisations – no impact
Indigenous advance strategy				
Jobs, land and economy	x	x	x	No impact on relativities
Children schooling	x	x	x	Impact on relativities
Safety and wellbeing	x	x	x	Impact on relativities
Culture and capability	x	x	x	No impact on relativities
Remote Australia strategies	x	x	x	Municipal and essential services – no impact; others – impact
Other COPEs paid to States	x	x	x	No impact on relativities
<b>Payments to non-government organisations</b>	x	x	x	No impact on relativities
Source:	Commonwealth of Australia <i>Final Budget Outcome</i> and information collected from Commonwealth agencies.			
(a)	Includes payment for Queensland fruit fly response in Tasmania.			
*	Treatment prescribed by the terms of reference.			
#	Payments made through the States.			
##	Payments (full or partial) made direct to local governments.			

**Table 2 Payments listed in the Commonwealth's final budget outcome**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>GENERAL REVENUE ASSISTANCE</b>				
GST Payments		2015-16 to 2017-18	Pool for relativities	
ACT municipal services	Payments to assist the ACT to meet the additional municipal costs which arise from Canberra's role as the national capital, and to compensate the ACT for additional costs resulting from the national capital planning influences on the provision of water and sewerage services.	2015-16 to 2017-18	No impact	Needs not assessed
Commonwealth assistance to the Northern Territory	Payment to the Northern Territory to offset the reduction in the Territory's GST share.	2017-18	No impact	2019 Update Terms of reference requirement
Compensation for reduced royalties	Payment to Western Australia for the loss of shared offshore petroleum royalty revenue resulting from imposing the crude oil excise on condensate. This arises because crude oil excise payments are a deductible expense for calculating the offshore petroleum royalty.	2015-16 to 2017-18	Mining revenue and assessed APC	
Royalties	Includes the transfer of two-thirds of the Commonwealth Government's petroleum royalties from North West Shelf Project to Western Australia; and payment to the Northern Territory in lieu of uranium royalties.	2015-16 to 2017-18	Mining revenue and assessed APC	
Snowy Hydro Ltd — company tax compensation	Payments to compensate Victoria and New South Wales for company tax payments by Snowy Hydro Ltd.	2015-16 to 2017-18	Other revenue and assessed EPC	
<b>HEALTH</b>				
<b>National Health Reform</b>				
National health reform funding	This funding replaces the National Healthcare SPP. The majority of the Commonwealth funding for public hospital services is provided as activity based funding, based on an efficient price for hospital services determined by the Independent Hospital Pricing Authority. The funding also includes an explicit component for public health.	2015-16 to 2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>National Partnership Payments</b>				
<b>Health services</b>				
Hummingbird House	Payment to Queensland for the construction and operation of a dedicated respite and hospice care facility for children with life-limiting conditions, and their families and carers. Queensland Kids (trading as Hummingbird House) is a not-for-profit organisation.	2015-16 to 2017-18	50% impact	A split treatment is adopted because the Commission is unsure of the extent this payment would relieve the State or the private sector of responsibilities.
Improving health services in Tasmania	Payments to address pressures on the Tasmanian health system and improve healthcare outcomes for Tasmanians. Includes the following components: <ul style="list-style-type: none"> <li>– Better access to community based palliative care services</li> <li>– Improving patient pathways through clinical and system redesign</li> <li>– Innovative flexible funding for mental health</li> <li>– Reducing elective surgery waiting list</li> <li>– Subacute and acute projects</li> </ul>	2015-16 to 2017-18	No impact	2014 Update Terms of reference requirement
Mersey Community Hospital	Payment to Tasmania for funding to support the transfer and operation of the Mersey Community Hospital for the next ten years. Funding will also support the delivery of rehabilitation and palliative care services <ul style="list-style-type: none"> <li>– Mersey community hospital</li> </ul>	2016-17	No impact	2018 Update Terms of reference requirement
Other health services	<ul style="list-style-type: none"> <li>– Drug and alcohol residential rehabilitation treatment and palliative care services</li> </ul>	2016-17	Impact	
	Consists of payments for: <ul style="list-style-type: none"> <li>– Expansion of the BreastScreen Australia program</li> <li>– National bowel cancer screening program</li> <li>– OzFoodNet</li> <li>– Vaccine-preventable diseases surveillance</li> </ul>	2015-16 to 2017-18	Impact	
	<ul style="list-style-type: none"> <li>– Management of Torres Strait/Papua New Guinea cross-border health issues (former Healthcare grants for the Torres Strait)</li> <li>– Royal Darwin Hospital — equipped, prepared and ready</li> <li>– Victorian cytology service</li> </ul>	2015-16 to 2017-18	No impact	Earlier updates terms of reference requirements

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
	– Torres Strait health protection strategy — mosquito control	2015-16 to 2017-18	No impact	Needs are not assessed as it supports unique services provided in Queensland
<b>Health infrastructure</b>				
Hospital infrastructure and other projects of national significance	Funding to expand and modernise key public hospitals across Australia to improve hospital care.	2015-16	Impact	
National cancer system	Funding to support infrastructure to deliver a world class cancer care system in Australia.	2015-16 to 2017-18	Impact	
Regional priority round	The Commonwealth is delivering the \$1.8 billion commitment to Health and Hospitals Fund investment in Regional Australia. Regional Priority funding will improve access to essential health services for Australians living in rural, regional and remote areas. The Commonwealth will also work in partnership with the States to expand and modernise key health infrastructure, including hospitals, across Australia.	2015-16 to 2017-18	Impact	
Bright Hospital — feasibility study	Payment to Victoria for the study which will examine the feasibility of redeveloping the Bright Hospital.	2015-16	Impact	
Redevelopment of the Royal Victorian Eye and Ear Hospital	Payment to Victoria for the completion of the development of the Royal Victorian Eye and Ear Hospital.	2015-16	No impact	Update 2016 Terms of reference requirement
Western Australia Hospital infrastructure package	This is a GST top-up payment to Western Australia. The payment is provided to support hospital expansions and refurbishment, to improve access an patient care by supporting Joondalup Health Campus expansion, Osborne Parks Hospital expansion and Royal Perth Hospital refurbishment	2017-18	No impact	Update 2019 Terms of reference requirement
Other Health infrastructure projects	Funding for the following infrastructure projects: – Albury-Wodonga Hospital Cardiac Catheterisation Laboratory – Construction of Palmerston hospital – Improving local access to Healthcare on Phillip Island – Upgrade of Ballina Hospital – Warrnambool Integrated Cancer Care Centre	2015-16 to 2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2018	Reason for 'No impact'
<b>Indigenous health</b>				
Addressing blood borne viruses and sexually transmissible infections in the Torres Strait	Funding to provide additional staff for the treatment of communicable diseases at the health care clinic on Saibai Island, and development and implementation of a culturally appropriate sexual health education campaign for people in the Torres Strait.	2015-16 and 2017-18	Impact	
Improving trachoma control services for Indigenous Australians	Funding for the continued expansion of trachoma control activities in jurisdictions where trachoma, an infectious disease which can lead to blindness, is endemic. Funding is also being provided to jurisdictions where trachoma has been funded previously, to determine whether full trachoma control programs are required for those jurisdictions.	2015-16 to 2017-18	Impact	
Northern Territory remote Aboriginal investment — Health component	Funding to improve health and wellbeing of Indigenous people by supplementing primary health care services in remote Northern Territory communities. This funding includes support for the provision of integrated oral and hearing health services to children in remote communities.	2015-16 to 2017-18	No impact	2016 Update Terms of reference requirement
Rheumatic fever strategy	Funding to support register and control programs for acute rheumatic fever and rheumatic heart disease in Indigenous children.	2015-16 to 2017-18	Impact	
Renal infrastructure in the Northern Territory	Payment to the Northern Territory for the construction of accommodation facilities and renal infrastructure. The funding will be forwarded in full by the Territory to the Western Desert Nganampa Walytja Palyantjaku Tjutaku Aboriginal Corporation.	2015-16 to 2016-17	Impact	
<b>Mental health</b>				
Supporting national mental health reform	Funding to deliver improved health, social, economic and housing outcome for people with severe and persistent mental illness by addressing service gaps and preventing ongoing cycling through State mental health systems.	2015-16 to 2016-17	Impact	
<b>Other</b>				
Electronic recording and reporting of controlled drugs	Funding to support the incorporation of State system enhancements into the national electronic recording and reporting of controlled drugs system.	2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Encouraging more clinical trials in Australia	Funding to increase the number and value of clinical trials to deliver health benefits, provide jobs and improve the nation's innovative capacity.	2017-18	Impact	
Essential vaccines	Funding for the purchase of essential vaccines, which have not yet transitioned to centralised purchasing arrangements, for eligible individuals under the National Immunisation Program.  Reward funding will be provided to the States for achieving performance benchmarks that maintain or increase vaccine coverage amongst Indigenous Australians and four year olds as well as in low coverage areas, and maintain or decrease vaccine wastage and leakage.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
National coronial information system	Funding to support the ongoing administration, maintenance and improvement of Australia's national database of coronial data.	2016-17 and 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Public dental services for adults	Funding to assist in the treatment of up to 400 000 people on public dental waiting lists, with a particular focus on Indigenous patients, high risk patients and those from rural areas.	2015-16 to 2017-18	Impact	
Zika response team	Payment to Queensland to assist in enhancing the ability of the Dengue Action Response Team in Cairns and Townsville to increase surveillance and control in areas at high risk of the exotic mosquitoes, <i>Aedes aegypti</i> , spreading the Zika virus in Queensland.	2015-16	No impact	Needs are not assessed. The Commonwealth has paid for the unique services in Queensland to protect all States from the spread of Zika virus



**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>EDUCATION</b>				
Quality schools funding (former Students First funding)	<p>The Commonwealth's Quality schools policy aims to improve the educational outcomes of Australian students and their schools.</p> <p>The funding is provided to government and non-government schools in all States and includes recurrent funding, capital funding, special circumstances funding for non-government schools, funding for non-government representative bodies and other prescribed purpose funding.</p>	2015-16 to 2017-18	Government — impact; Non-government — no impact	Non-government schools — States act as an intermediary and needs are not assessed
<b>National Partnership Payments</b>				
Independent public schools	Funding to support increased autonomy in around 1 500 government schools, including through greater engagement of parents and local communities in school decision making and the provision of professional development for principals, school leaders and school communities.	2015-16 to 2016-17	Impact	
MoneySmart teaching	Funding to support the delivery of face-to-face professional learning to teachers in primary and secondary schools and the development of teacher support materials, to improve financial literacy in schools.	2015-16 to 2017-18	Impact	
National quality agenda for early childhood education and care	Funding to deliver an integrated and unified national regulatory system for early childhood education and care, and reduce the regulatory burden on service providers.	2015-16 to 2017-18	Impact	
National school chaplaincy programme	Funding to assist approximately 2 900 schools engage the services of a school chaplain, who provides pastoral care services in these schools	2015-16 to 2017-18	Impact	
National school for Travelling show children	Payment to New South Wales to support the provision of on-site supervision services for students of the National school for Travelling show children, who receive educational instruction from the Dubbo School of Distance Education. Students are from New South Wales, Victoria and Queensland.	2015-16	No impact	Needs are not assessed. The Commonwealth purchase the services from States

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
NT remote Aboriginal Investment — children and schooling component	Payment to Northern Territory to improve school readiness and the literacy and numeracy of remote and very remote Indigenous students in the Northern Territory. The funding aims to improve the attendance, engagement and educational achievement of Indigenous students.	2015-16 to 2017-18	No impact	2016 Update Terms of reference requirement
Online safety programs in schools	Funding to support the delivery of online safety programs in schools from providers that have been certified by the Children's e-Safety Commissioner.	2015-16 to 2017-18	Government — impact; Non-government — no impact	Non-government schools — States act as an intermediary and needs are not assessed
School pathways program	Payment to South Australia and Western Australia with a focus on providing a career path for young people wanting to enter the defence industry.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Schools security program	Funding to assist government and non-government schools at-risk of social, religious or ethnically motivated crimes to meet their particular security needs by providing security-related infrastructure such as fencing, lighting and CCTV.	2015-16 to 2017-18	No impact	Needs for this service are not assessed
Trade training centres in schools	Funding for the provision of facilities to enhance vocational education opportunities for students in years 9 to 12 in every school. Funds are available for major capital works, upgrade or refurbishment of existing facilities and/or industry standard equipment.	2015-16 to 2016-17	Government — impact; Non-government — no impact	Non-government schools — States act as an intermediary and needs are not assessed
Universal access to early education	Funding with the objective that children have access to affordable, quality early childhood education in the year before formal schooling, with a focus on Indigenous communities. This program is delivered by degree-qualified early childhood teachers for at least 600 hours a year.	2015-16 to 2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>SKILLS AND WORKFORCE DEVELOPMENT SERVICES</b>				
National skills and workforce development SPP	Funding to work towards increasing the skill levels of all Australians, including Indigenous Australians.	2015-16 to 2017-18	Impact	
<b>National Partnership Payments</b>				
Building Australia's future workforce — Skills reform	Funding for reforms of the vocational education training (VET) sector. Aims to create: <ul style="list-style-type: none"> <li>— accessible training for working-age Australians and in particular, a more equitable training system, which provides greater opportunities for participating in education and training</li> <li>— a transparent VET sector, which enables better understanding of the VET activity in each State</li> <li>— a higher quality VET sector, which delivers learning experience and qualifications that are relevant to individuals, employers and industry</li> <li>— a more efficient VET sector which is responsive to the needs of students, employers and industry.</li> </ul>	2015-16 to 2016-17	Impact	
Commonwealth/State and Territory joint group training	Funding to support group training organisations to deliver strategies and initiatives to improve Australian apprenticeship commencements and completions.	2015-16	Impact	
Skilling Australians Fund	Fund will support the training of Australian through a range of projects focused on skills priorities.	2017-18	Impact	
TAFE fee waivers for childcare qualifications	Funding to remove course fees for child care diplomas and advanced diplomas, delivered by a TAFE institute or other training providers.	2015-16	No impact	Needs are not assessed. The Commonwealth purchase the services from States
NSW Infrastructure Skills Centre	Funding for the development of a new facility within the NSW TAFE at Annandale. The facility is intended to provide training in skill areas directly related to a number of major infrastructure projects underway in Sydney	2016-17	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>COMMUNITY SERVICES</b>				
National disability SPP	<p>Funding associated with the National Disability Agreement, which commits the Commonwealth and the States to strive, through the provision of disability support services, to help people with disabilities and their carers achieve an enhanced quality of life and participate as value members of the community.</p> <p>Disability services for 'Older people' (people aged 65 years and over (50 years and over for Indigenous Australians)) became a Commonwealth responsibility from July 2011.</p> <p>Treasury advised the SPP is not provided to States on the basis that any proportion of it should be directed towards 'older people'.</p>	2015-16 to 2017-18	Impact	
<b>National Partnership Payments</b>				
Assisting preparation towards the launch of the National Disability Insurance Scheme	Funding to assist Tasmania and the ACT in the transition to the new operating environment under DisabilityCare Australia and to support the ACT to expand services ahead of the launch of the National Disability Insurance Scheme (NDIS).	2015-16	No impact	2014 Update Terms of reference requirement
Family Advocacy and Support Services	Funding for the establishment and operation of Family Advocacy and Support services by Legal Aid Commissions across Australia	2016-17-2017-18	No impact	Needs are not assessed. The Commonwealth purchases the services from States
Home and Community care (HACC)	<p>Funding to Victoria and Western to continue the joint Commonwealth-State HACC program for the provision of basic community care maintenance and support services such as domestic assistance and personal care to older people.</p> <p>The Commonwealth and Victoria are working on transitioning HACC responsibilities for older people to the Commonwealth from 1 July 2015.</p>	2015-16 to 2017-18	No impact	Needs are not assessed. Home and community care for 'older people' are Commonwealth responsibilities
National Occasional Care programme	Funding to support non-Child Care Benefit approved child care service providers, particularly in rural, regional and remote areas.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
National outcome standards for perpetrator intervention	Funding for effective interventions for perpetrators of domestic, family and sexual violence. The National Partnership supports the development and implementation of a national reporting and accountability framework including performance indicators.	2015-16 to 2016-17	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Northern Territory remote Aboriginal investment — Community safety and components — Municipal and essential services components	Funding to improve community services in the Northern Territory. Community safety component — funding to support services and initiatives to make communities safer, including those that improve child safety and combat alcohol abuse. Municipal and essential services component — funding to assist the Northern Territory to take responsibility for the ongoing delivery of municipal and essential services in Indigenous communities.	2015-16 to 2017-18	No impact	2016 Update Terms of reference requirement
Pay equity for the social and community services sector	The Commonwealth's share of the wage increases arising from Fair Work Australia's decision on 1 February 2012 to grant an Equal Remuneration Order in the social and community services sector. The Commonwealth's commitment includes providing funding for its share of the wage increases for in-scope programs funded through existing SPPs and NPPs.	2015-16	No impact	2016 Update Terms of reference requirement
Payments from the DisabilityCare Australia Fund	Funding to reimburse the States for their NDIS expenditure, over a 10 year period.	2015-156 to 2017-18	Impact	
Specialist disability services	Funding for specialist disability services for people aged 65 years and over (50 years and over for Indigenous Australians), in participating States.	2017-18	No impact	2015 Review Terms of reference requirement
Transition to NDIS in WA (former Trail of My Way sites)	The NP agreement builds on the agreement between the Commonwealth and Western Australia for disability reform in Western Australia signed on 5 August 2013, which provides a two-year trial of two service delivery models. The payment supports the trial of the My Way model in the Lower South West region from July 2014 and the Cockburn/Kwinana region from July 2015. The My Way sites run in parallel with the NDIS trial site in the Perth Hill region for two years from 1 July 2014. The trials seek to inform the delivery of disability reform by evaluating the merits of the My Way and NDIS trial sites.	2015-16 to 2017-18	All States — no impact	Needs are not assessed. Disability services for 'Older people' are Commonwealth responsibilities
		2015-16 to 2017-18	No impact	2014 Update Terms of reference requirement

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No Impact'
Women's Safety Package — Technology trails	Funding to support a series of trials to test new technologies or innovative uses of existing technologies to improve the safety of women and children affected by family and domestic violence.	2016-17 to 2017-18	Impact	
<b>AFFORDABLE HOUSING</b>				
National Affordable Housing SPP	The Commonwealth and the States have committed to the objective that all Australians have access to affordable, safe and sustainable housing which assist them to participate in the labour force and more broadly in the community.	2015-16 to 2017-18	Impact	
<b>National Partnership Payments</b>				
First Home Owners Boost	As part of the Economic Security Strategy, to stimulate housing activity, support the construction industry and assist first homebuyers to enter the housing market. The Boost has now ceased. The payment in 2012-13 reflects the final 12 month application period and the timeframes allowed for the construction of new homes. Negative expenditure for some States reflects funds recovered from applicants later found to be ineligible returned to the Commonwealth.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Homelessness	Funding to support homelessness initiatives consistent with the priorities identified in the Commonwealth Government's White Paper on Homelessness: The Road Home, with a focus on prevention, early intervention and breaking the cycle of homelessness through a better connected service system. Outputs include: <ul style="list-style-type: none"> <li>— implementation of the A Place Called Home initiative (building new homes for individuals and families experiencing homelessness)</li> <li>— street to home initiatives for chronic homeless people (rough sleepers)</li> <li>— support to private and public tenants to help sustain their tenancies, including through tenancy support, advocacy, case management, financial counselling and referred services</li> <li>— assistance for people leaving child protection services, correctional and health facilities, to access and maintain stable, affordable housing.</li> </ul> Funding is allocated between the States based on their shares of the homeless population as estimated by the ABS in the 2006 Census of Population and Housing.	2015-16 to 2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Northern Territory remote Aboriginal investment — Remote Australian strategies component	Funding to the Northern Territory to improve public housing in remote communities by investing in housing works including upgrading, new houses or housing related infrastructure. It will also fund the removal of asbestos from community buildings in remote communities and a sustainable, professional and accredited Aboriginal interpreter service.	2015-16 to 2017-18	No impact	2016 Update Terms of reference requirement
Remote Indigenous Housing	Funding to facilitate significant reform in the provision of housing for Indigenous people in remote communities and to address overcrowding, homelessness, poor housing conditions and severe housing shortages in remote Indigenous communities.	2015-16 to 2017-18	75% Impact 25% No impact	75% impact — States have greater control over the management of RIH dwellings and needs are assessed. 25% no impact — to recognise part of funding is being used to overcome differences among States in the level of RIH stock provided by the Commonwealth and needs are not assessed
<b>INFRASTRUCTURE</b>				
<b>National Partnership Payments</b>				
Centenary of Canberra — Constitution avenue upgrade	Payments to the ACT for the redevelopment of Constitution Avenue.	2015-16	No impact	2013 Update Terms of reference requirement

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Infrastructure Investment program	To assist national and regional economic and social development by the provision of funding aimed at improving the performance of land and rail infrastructure. It has several components. (NNR — National network roads, NRN — National rail network)			
	Black spot projects — To improve the safety of road sites which have been identified as high risk areas for serious crashes.	2015-16 to 2017-18	Impact	
	Bridges renewal program — To upgrade bridges across the nation. This fund will renew and replace bridges to contribute to the productivity of bridges serving local communities and facilitate higher productivity vehicle access.	2015-16 to 2017-18	No impact	Needs for bridges cannot be assessed reliably
	Developing Northern Australia — Northern Australian roads. This funding will provide incentives for private sector investment to improve road network and transport logistics in Northern Australia. This funding has two components: — improving cattle supply chain — Northern Australia Roads.	2016-17-2017-18	Impact	
	Heavy vehicle and productivity — To address the safety of drivers of heavy vehicles through the construction of rest stops and parking bays, upgrading the capacity of roads (including bridges) and technology trials which will improve heavy vehicle productivity.	2015-16 to 2017-18	Impact	
	Improving the national network — The Commonwealth is contributing to the safety and productivity of heavy vehicles by providing funding for projects that improve the safety of the road environment, enhance the capacity of existing roads and improve connections to freight networks. Investment — Targets nationally significant projects that will improve the efficiency and safety of the national land transport network. Funding is provided for road and rail construction projects and network maintenance, including transport development, innovation projects and grants to land transport research entities.	2015-16 to 2017-18	NNRs — 50% impact; 50% no impact	50% NNR investment — assessment may not capture all non-policy influences



**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Infrastructure Investment program (continued)	— Investment — Rail Victorian regional rail revival program and Reallocation of Perth freight link infrastructure funding (rail) components are treated as no impact as directed by 2018 Update ToR	2015-16 to 2017-18	Non-NNRs — impact; NRN — 50% impact	50% NRN investment — assessment may not capture all non-policy influences
	— Investment — Road Reallocation of Perth freight link infrastructure funding (road) components are treated as no impact as directed by 2018 Update ToR	2015-16 to 2017-18	Non-NNRs — impact; NNRs — 50% impact local government — no impact	50% NNR investment — assessment may not capture all non-policy influences Needs for local government are not assessed Some roads are treated 50% no impact as required by terms of reference
	— Investment — Supplementary	2017-18	States — Impact; local government — no impact	Needs for local government are not assessed
	Off-network projects — To improve rail and road infrastructure not included on the national land and transport network. It improves safety, assists industry development and supports job creation in local communities.			
	— Rail	2015-16 to 2017-18	Impact	
	— Road — Supplementary	2015-16 to 2017-18	States — Impact; local government — no impact	Needs for local government are not assessed
	Roads to recovery	2015-16 to 2017-18	No impact	2005 Update Terms of reference requirement

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Infrastructure Growth Package	Infrastructure Growth Package will provide \$11.6 billion for investment in critical infrastructure to encourage economic growth boost productivity and create jobs. The package includes three components.			
	Asset Recycling Fund — Asset Recycling Initiative. Payment to encourage States to divest assets and reinvest the proceeds into additional productive infrastructure. Funding allocated on a first-come, first-served basis, as projects are agreed between Commonwealth and individual States.	2015-16 to 2017-18	No impact	2015 Review Supplementary Terms of reference requirement
	Asset Recycling Fund — New investments. Additional funding to expedite investment in high quality economic infrastructure. This includes funding for significant road projects, the National Highway Upgrade Program, funding for <i>Black spot projects</i> , and <i>Roads to Recovery</i> . It includes payments direct to local governments. Projects include WestConnex in New South Wales, Melbourne's East West Link Western Section (stage 2), Adelaide's North South Corridor, the Perth Freight Link, Toowoomba Second Range Crossing, and projects on the National Land Transport Network in the Northern Territory. The 2015 Review Supplementary terms of reference ask the Commission apply a 50% discount to payments for these projects.	2015-16 to 2017-18	State non-NNR — impact; State NNR and roads identified in terms of reference — 50% impact; Local government — no impact; Black spot — impact; Roads to recovery — no impact	50% NNR investment — assessment may not capture all non-policy influences Some roads are treated 50% no impact as required by terms of reference Local government — needs not assessed Roads to recovery — 2005 Update Terms of reference requirement
Interstate road transport	Western Sydney Infrastructure Plan. Additional funding over 10 years to construct and upgrade existing road infrastructure to support the new Western Sydney airport at Badgerys Creek and provide road infrastructure to support the growing population in Western Sydney. The terms of reference ask the Commission apply a 50% discount to payment for this project.	2015-16 to 2017-18	50% impact	2015 Review Supplementary Terms of reference requirement
	Payments of funds received through the Federal Interstate Registration Scheme that provides an alternative to State registration for vehicles engaged in interstate trade.	2015-16 to 2017-18	Assessed as motor tax revenue	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Latrobe Valley economic diversification (partial paid direct to Local government)	The programme will provide up to \$10.85 million to two infrastructure projects to support economic diversification in the Latrobe Valley. — Warragul Station Precinct Upgrade — Moe Rail Precinct Revitalisation Project	2015-16	Warragul Station — impact Moe Rail Precinct — no impact	Needs for local government are not assessed
Murray-Darling Basin regional economic diversification program	Funding to support regional communities in adjusting to the changes brought about by the implementation of the Murray-Darling Basin Plan for water reform.	2015-16 and 2017-18	Impact	
Supporting drought-affected communities program	Funding to drought-declared local government areas for infrastructure projects that provide employment for people whose work opportunities have been impacted by drought. Projects include those that will stimulate local community spending, use local resources, business and supplies, or provide long-lasting benefits to communities and the agricultural industries.	2015-16 to 2017-18	No impact	Needs for drought affected regions are not assessed Needs for local government are not assessed
Western Australia infrastructure projects	Payment to Western Australia for infrastructure projects that will boost jobs and growth. Funding will be allocated to the development of the Mitchell Freeway and to increase the Commonwealth's contributions to other projects under the National Partnership Agreement on Land Transport infrastructure.	2015-16 to 2016-17	No impact	2016 Update Terms of reference requirement
WiFi and Mobile Coverage on Trains	Payments to establish mobile and internet connectivity along the train route between Hornsby and Wyong.	2017-18	Impact	

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>ENVIRONMENT</b>				
<b>National Partnership Payments</b>				
Assistance for water infrastructure and pest management in drought-affected areas	Payments to assist drought-affected farm businesses with installing water-related infrastructure and with managing the impacts of pest animals in drought-affected areas, with the pest management component contingent upon equal contribution from the States.	2015-16 to 2017-18	No impact	Needs for drought-affected areas are not assessed
Bushfire mitigation	Payment to enable States to implement long-term bushfire mitigation strategies and improve fuel reduction activities. Part of the payment is for the remaining components of the National Burning Project which will develop consistent national standards and bushfire fuel load classification processes and systems.	2015-16 to 2016-17	Impact	
Development of business cases for constraints measures (former Water reform — constraints measures)	Under the Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin, the Commonwealth is making payments to the States to address physical, institutional and operational constraints that limit the delivery of environmental water to the environmental assets of the Murray-Darling Basin. There are three phases: 1) feasibility studies, 2) business cases and 3) confirmation of the projects This payment is for phase 2. It supports the development of business cases that will form the basis of advice for due diligence and executive decision making on investments.	2015-16 and 2017-18	No impact	This payment is part of the Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin which relates to the protection of environment and needs are not assessed
Environmental management of the former Rum Jungle mine site	Payment to the Northern Territory to support the ongoing management of the former Rum Jungle mine site.	2015-16 and 2017-18	No impact	Needs for the protection of environment are not assessed
Great Artesian Basin Sustainability Initiative	Funding for the repair of uncontrolled artesian bores and the replacement of wasteful open earth bore drains with piped water reticulation systems through the Great Artesian Basin. This initiative is delivered through States and jointly funded by Commonwealth, States and private bore owners.	2015-16 to 2016-17	Impact	
Hydrogen Energy Supply Chain Pilot Project	Commonwealth funding to support a pilot project to demonstrate the feasibility of a hydrogen energy supply chain (HESC) based on gasification of brown coal to produce liquid hydrogen for use in Japan.	2017-18	No impact	For a Commonwealth priority

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No Impact'
Implementation of the National Insurance Affordability Initiative	The initiative aims to reduce flood risk and bring about reductions in insurance premiums. Payment is made to Queensland for the construction of a flood levee in Roma and improving the flood defences in Ipswich.	2016-17	No impact	Needs for the protection of environment are not assessed
Implementing water reform in the Murray-Darling Basin	Funding for implementation of the Agreement on Implementing Water Reform in the Murray-Darling Basin. The Agreement will ensure continuing progress in restoring the Basin's rivers to health and securing strong regional communities and sustainable food and fibre production.	2015-16 to 2017-18	No impact	Needs for the protection of environment are not assessed
Kamay 250 <sup>th</sup> Anniversary Project	Funding for construction of new commemorative monument and upgrade as part of Kamay Botany Bay National park, Kurnell Master Plan to commemorate 250 <sup>th</sup> anniversary of Captain James Cook's landing at Kurnell.	2017-18	Impact	
Management of Established pest and weed	Funding to support delivery of projects to build the skills and capacity of landholders, the community and industry in managing common established pest animals and weeds.	2015-16 to 2017-18	Impact	
Management of the world heritage values of the Tasmania wilderness (former Tasmanian Wilderness World Heritage Area)	Funding to support the Australian Government's duties as a party to the World Heritage Convention to take appropriate legal, scientific, technical, administrative and financial measures necessary for the identification, protection, conservation, presentation and rehabilitation of cultural and natural heritage situated on its territory which is of Outstanding Universal Value. The payment is to support the Tasmanian government to <ul style="list-style-type: none"> <li>– deliver its ongoing responsibilities to manage the World Heritage values of the 2013 extension to the Tasmanian Wilderness World Heritage Area</li> <li>– complete a study of the cultural values of the Tasmanian Wilderness World Heritage Area to meet the outstanding requests from the World Heritage Committee (in 1989, 2008, 2013 and 2014) for 'further study and consultation with the Tasmanian Aboriginal community in order to provide more detailed information on the cultural value of the property and how these relate to the Outstanding Universal Value'.</li> </ul>	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Mechanical fuel load and reduction trials	Payment to New South Wales to undertake a research trial that examines the effectiveness of mechanical fuel removal in forests where conservation values could be compromised by fuel reduction burning.	2015-16	No impact	Needs are not assessed. The Commonwealth purchased this service from New South Wales

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
National fire danger rating system	Funding to develop a prototype national fire danger rating system and associated social research to assist the States in communicating fire danger to the public.	2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Natural disaster resilience	Funding to reduce the impact of the increasing resilience to natural disaster. The Commonwealth and States will work with other parties, such as volunteers, private and non-government sectors and local government to achieve this outcome.	2015-16 to 2017-18	No impact	Needs for local government and non-government organisations are not assessed
Pest and disease preparedness and response programs	Funding to eradicate exotic animal and plant pests and diseases, which if allowed establishing and spreading, would have serious economic and environmental impacts. 2017-18 includes a payment to Tasmania relating to the project agreement on Queensland Fruit Fly Response in Tasmania which is quarantined by the 2019 Update terms of reference.	2015-16 to 2017-18	No impact	Part of the Caring for our Country program which was quarantined by the 2009 Update terms of reference
South Australian River Murray Sustainability program	Comprised of: – Irrigation efficiency and water purchase. Funding to support more efficient delivery and use of water by irrigation water providers and irrigators. – Irrigation industry assistance. Funding to help improve productivity of the South Australian River Murray industry. – Regional economic development. Funding for the redevelopment of the Loxton Research Centre, a program of industry-led research, and a regional development and innovation program.	2015-16 to 2017-18	No impact	2014 Update Terms of reference requirement
Water Reform Programs (formerly National Urban Water and Desalination Plan	Funding for four specific urban water management projects in large urban centres as part of the National Urban Water and Desalination Plan. These projects will help secure water supplies and reduce reliance on traditional rainfall dependent water sources. It is included in the Water Reform payment in 2016-17.	2015-16 to 2016-17	States — Impact; local government — no impact	Needs for local government are not assessed
National Water Security Plan for Cities and Towns	Payment to fund six specific urban water management projects and 18 projects, across 17 remote communities to assist implementation of COAG Strategy for Water and Wastewater in remote (including Indigenous) communities.	2015-16	States — Impact; local government — no impact	Needs for local government are not assessed

**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Sustainable Rural Water Use and infrastructure	This funding is provided under numerous arrangements, such as the National Partnership (NP) on Water for the Future and Water Management Partnership Agreements relating to the Intergovernmental Agreement on Murray-Darling Basin Reform. Aims to improve the efficiency and productivity of rural water management and usage; delivers substantial and lasting water returns to the environment; and helps secure a long-term sustainable future for irrigated agriculture.	2015-16 to 2017-18	States — Impact; local government — no impact	Needs for local government are not assessed
Water Infrastructure Development Fund — feasibility studies	Funding to support delivery of feasibility studies that inform investment decisions on water infrastructure.	2016-17 to 2017-18	Impact	
Capital component	Funding of up to \$220m to partially fund the capital construction costs of small number of high-priority water infrastructure	2017-18	Impact	
Whale and dolphin entanglements	Payment to support State government purchase of equipment and training aimed at improving responses to whale and dolphin entanglements. Funding is part of the Commonwealth's broader Whale and Dolphin Protection Plan.	2015-16 to 2016-17	No impact	Needs for national parks and wildlife services are not assessed
<b>CONTINGENT PAYMENTS</b>				
Hepatitis C settlement fund	Contribution to the participating States' schemes for out-of-court settlement costs for eligible individuals who contracted Hepatitis C through the blood supply service between 1985 and 1991.	2015-16 and 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Natural Disaster Relief and Recovery Arrangements (NDRRA)	Funding to assist the States with relief and recovery assistance following eligible natural disasters. This includes payments to the States in response to recent and past natural disasters including the January 2013 flood and Tropical Cyclone Oswald, November 2010 to February 2011 floods, bushfires and Tropical Cyclone Yasi.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States



**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
<b>OTHER STATE SERVICES</b>				
2014 G20 leaders' summit security	Funding to upgrade Queensland's policing capacity to support the G20 leaders' summit in Brisbane and the finance ministers' and central bank governors' meeting in Cairns.	2015-16	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Developing demand-driver infrastructure for the tourism industry	Payment for projects that create and encourage tourism, and assist the tourism industry to meet the national tourism strategy, <i>Tourism 2020</i> . Projects may be for recurrent or capital purposes.	2015-16 to 2017-18	Impact	
Financial assistance grants to local government	To provide financial contribution through State governments for the provision of local government services to the community. Payment is made up of general purpose assistance and untied local roads grants. General purpose assistance is distributed between the States on a per capita basis, while untied local roads grants are paid on the basis of 1991-92 interstate road shares.	2015-16 to 2017-18	No impact	Needs for local government are not assessed
Legal assistance services	To provide funding to the State Legal Aid Commission for the provision of legal assistance to disadvantaged persons in accordance with Commonwealth policy priorities.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States
National register of foreign ownership of land titles	Funding to support the delivery of the National Register of Foreign Ownership of Land Title by helping the States develop systems that will enable data on sales and transfers of real property involving foreign owners to be provided to the Australian Taxation Office.	2015-16 to 2016-17	No impact	Needs are not assessed. The Commonwealth purchase the services from States
North Queensland Stadium	Funding to support the delivery of the North Queensland Stadium including site master planning and services infrastructure within the stadium site to allow for future entertainment centre.	2016-17 to 2017-18	Impact	
North Queensland Strata Title Inspection Scheme	Funding to improve information available to owners of strata title properties about a property's susceptibility to weather damage.	2017-18	Impact	
Provision of fire services	Funding to provide the States with equitable payment arrangements for the fire protection of Commonwealth-owned buildings.	2015-16 to 2017-18	No impact	Needs are not assessed. The Commonwealth purchase the services from States



**Table 2 Payments listed in the Commonwealth's final budget outcome (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Sinking fund on State debt	Contributions to the Debt Retirement Reserve Trust Account on behalf of the six States and the Northern Territory in accordance with the Financial Agreement Act 1994.	2015-16 to 2016-17	No impact	2009 Update Terms of reference requirement
South Sydney Rabbitohs' Centre of Excellence	Funding to support the Centre of Excellence, which houses a community and administration centre, as well as a football development department with elite facilities.	2017-18	No impact	New South Wales acts as an intermediary and the payment does not affect its fiscal capacity
Supplementary funding South Australia for local roads	Commonwealth funding to South Australia for local roads.	2017-18	No impact	Needs for local government are not assessed
Tasmanian horticulture market growth	Funding to support the engagement of a Tasmania-based horticulture market growth facilitator to collate information and identify opportunities for growth in exports of Tasmanian fruit and vegetable products.	2015-16	Impact	
Tasmanian regional tourism infrastructure and innovation fund	Funding projects that create and support tourism infrastructure across Tasmania, contributing to <i>Tasmania's Tourism 2020</i> outcomes. The funding will be directed towards Tasmanian business that rely on and contribute to tourism, which allow them to build or expand on existing attractions to increase the number of visitors to the area.	2015-16	Impact	
Tasmanian tourism growth package	Payment to support the delivery of feasibility studies for three tourism ventures to boost Tasmania's tourism industry.	2016-17	Impact	
Tourism demand-driver infrastructure recovery package	Payment to support projects that deliver additional tourism demand-driver infrastructure in affected tourism regions of Queensland as part of a recovery package to address the impacts of Tropical Cyclone Debbie.	2016-17	Impact	

**Table 3 Commonwealth own-purpose expenses payments (COPEs) — payments to State general government**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No Impact'
Highly specialised drugs	Funding to provide access to certain drugs under the PBS which must be supplied through hospitals to outpatients because of special needs in clinical administration or monitoring. The Commonwealth funds all usage of highly specialised drugs by hospital outpatients. The payments only cover the cost of the drugs themselves by reimbursing the amount spent by public and private hospitals for these pharmaceutical benefits.	2015-16 to 2016-17	No impact	Needs are not assessed. The Commonwealth purchase the services from States
Commonwealth grants to Indigenous community health organisations	Funding to improve access for Indigenous people to effective health care services essential to improving health, life expectancy and reducing child mortality. Payments are made to national and State agencies and non-government organisations (NGOs).	2015-16 to 2017-18	Payment to State general government sector — Impact; payments to NGOs — no impact	Needs not assessed. Payments to NGOs are used for the <i>non-State</i> sector adjustment for community health assessment
<b>INDIGENOUS ADVANCE STRATEGY</b>				
Jobs, land and economy	This program aims to improve the vocational, workplace and entrepreneurial skills of Indigenous people to improve employment outcomes and support the development of Indigenous businesses. It also provides support for native title through the funding of native title representative bodies and service providers and capacity building of prescribed bodies corporate, which hold native title. It also includes demand-driven employment funding and the Remote Jobs and Community Program.	2015-16 to 2017-18	No impact	Needs not assessed
Children and schooling	This program supports activities that nurture and educate Indigenous children, youth and adults to improve pathways to prosperity and wellbeing. This includes improving family and parenting support, child care and early learning, school education, youth engagement and transition and higher education.	2015-16 to 2017-18	Impact	
Safety and wellbeing	This program supports activities that will achieve outcomes such as, but not limited to: a reduction in harm from drug, alcohol and substance misuse, a reduction of offending, violence and victimisation in communities, improved health, social and emotional wellbeing.	2015-16 to 2017-18	Impact	
Culture and capability	This program supports Indigenous people to maintain their culture and participate equally in the economic and social life of the nation and to ensure that Indigenous organisations are capable of delivering quality services to their clients.	2015-16 to 2017-18	No impact	Needs not assessed

**Table 3 COPEs — payments to State general government (continued)**

Payment	Program description	Years paid in U2019	Treatment in U2019	Reason for 'No impact'
Remote Australia Strategies	This program supports the provision of infrastructure, housing, telecommunications and home ownership in remote Indigenous communities, as well as the development of local and regional place based approaches. It funds activities leading to one or more of the following outcomes: increased home ownership, particularly on Indigenous owned land, improved Indigenous telecommunications activities to remote areas, discrete support for remote infrastructure, including renewable energy systems, and flexible, place-based agreements with Indigenous communities and regions to improve Indigenous school attendance and attainment, employment, community safety and other enabling services.	2015-16 to 2017-18	Municipal and essential services component — no impact; others impact	Needs for essential services are not assessed
<b>ALL OTHER COPEs</b>				
All other COPE payments	The Commission does not have information on all COPE payments, especially those paid to non-government organisations, and therefore would not be able to consider the treatment of each payment.			

## **6.4 APPENDIX**

*2019-20 Treatment of Commonwealth Payments*

# Treatment of Commonwealth payments

## Commission's approach

146 The Commission used the following guideline, developed in the 2020 Review, to determine the treatment of new Commonwealth payments in this update:

payments which support State services, and for which expenditure needs are assessed<sup>7</sup>, will have an impact on State fiscal capacities.

147 The treatment of Commonwealth payments that commenced in 2019-20, as listed in the *Commonwealth of Australia's Final Budget Outcome 2019-20*, are shown in Table 4-4.

148 States were consulted on the appropriate treatment of all payments. Where States raised issues with the proposed treatment of payments or made specific comments, these are discussed below. New South Wales did not comment on the treatment of Commonwealth payments.

Table 4-4 Treatment of Commonwealth payments

Commonwealth payment	2019-20 \$m	Treatment	Reason for treatment
<b>Health</b>			
COVID-19 public health response	2955.2	No Impact	Payment supports State services. However, the health assessment does not currently assess needs for the drivers of spending under this agreement (COVID-19). See earlier discussion at paragraphs 45-52.
Achieving better health outcomes	0.3	Impact	Payment supports State services for which needs are assessed.
Additional assistance for public hospitals	4.1	Impact	Payment supports State services for which needs are assessed.
Adult Mental Health Centres	2.0	No impact	Payment supports State services for which needs are assessed. However, the adult mental health centre is one of 8 centres across the country being established as part of a Commonwealth trial. The trials in other States are being funded by payments outside the scope of the Commission's assessments. All payments for this purpose should be treated consistently.
Comprehensive palliative care across the life course	3.9	No impact	Needs are not assessed for aged care, which is a Commonwealth responsibility.
Grace's Place	4.1	Impact	This is a payment to a third party providing a service for which needs are assessed.
CCTV trial in aged care facilities	0.5	No impact	Needs are not assessed for aged care, which is a Commonwealth responsibility.
Lymphoedema garments and allied health therapy	2.0	Impact	Payment supports State services for which needs are assessed.
Veteran Wellbeing Centre Program	5.0	No impact	Needs are not assessed for veterans' services, which are a Commonwealth responsibility.

<sup>7</sup> Some expenses are assessed EPC because population is considered the driver. This is referred to as a deliberative EPC assessment. In these cases, the Commission considers that needs are assessed.

Commonwealth payment	2019-20 \$m	Treatment	Reason for treatment
<b>Education</b>			
Local Schools Community Fund	30.2	Split	Needs are assessed for government schools. They are not assessed for non-government schools.
<b>Skills and workforce development</b>			
National Infection Control Training Fund	8.4	No impact	Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) may be influenced by factors not assessed in the Commission's Post-secondary category assessment.
Skills for Tasmania	2.3	Impact	Vocational education training is a normal State-type function and needs are assessed.
<b>Community services</b>			
COVID-19 Domestic violence support	32.5	No impact	Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) are influenced by factors not assessed in the Commission's Welfare category assessment.
NDIS Strategic Investment in Queensland	3.5	No Impact	NDIS transition payments historically have been treated as no impact.
<b>Infrastructure</b>			
Major projects Business Case Fund	13.5	Impact	Business case development for road and rail infrastructure projects is a normal State-type function and needs are assessed.
Urban congestion fund	148.1	Split	Infrastructure spending on the National Network is treated as 50% 'no impact' (as per the 2020 Review Commission decision). Off network payments are treated as having an impact on the relativities.
Adelaide City Deal	3.2	Split	This payment includes numerous sub-payments, treatment of each of these is considered separately (a).
Barkly Regional Deal	1.3	Split	This payment includes numerous sub-payments, treatment of each of these is considered separately (a).
Darwin City Deal	25.0	Split	This payment includes numerous sub-payments, treatment of each of these is considered separately (a).
Geelong City Deal	1.5	Split	This payment includes numerous sub-payments, treatment of each of these is considered separately (a).
Launceston City Deal	2.5	Split	This payment includes numerous sub-payments, treatment of each of these is considered separately (a).
<b>Environment</b>			
Bushfire Wildlife and Habitat Recovery	13.0	No impact	Payment supports State services but needs for environmental protection are not assessed.
Lindenow Valley water security scheme	1.0	No impact	Payment supports State services but needs for drought assistance are not assessed.
Water efficiency program	0.3	No impact	Payment supports State services but needs for environmental protection are not assessed.
Water for fodder program	28.0	No impact	Payment supports State services but needs for drought assistance are not assessed.
Yellow crazy ant control	3.0	No impact	Payment supports State services but needs for environmental protection are not assessed.

Commonwealth payment	2019-20 \$m	Treatment	Reason for treatment
<b>Other purposes</b>			
Bushfire legal assistance funding	3.0	No impact	Payment supports State services. However, the drivers of Commonwealth funding under this agreement (bushfires) are influenced by factors not assessed in the Commission's Justice category assessment.
COVID-19 legal assistance funding	28.0	No impact	Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) are likely to be influenced by factors not assessed in the Commission's Justice assessment.
Family law information sharing	3.0	No impact	Funding is for a trial placement to support collaboration between the federal family law system and State agencies; the funding predominantly supports a Commonwealth function.
Household resilience program	10.0	No Impact	Payment supports State services but needs for environmental disaster mitigation are not assessed.
National tourism icons package	5.0	Impact	Payment supports State services for which needs are assessed.

(a) City and regional deals include a mix of sub-payments. For the treatment of payments made in 2019-20, see Table 4-5.

## Issues raised by States on Commonwealth payments

### Adult Mental Health Centres

#### Issue

- 149 The purpose of this national partnership payment is to establish an Adult Mental Health Centre in Adelaide. The centre will provide a range of mental health support services. The South Australian centre is one of 8 centres (one in each State) being established as part of a Commonwealth trial designed to improve accessibility to mental health services for adults. In all states except South Australia the Adult Mental Health Centres have been funded via Commonwealth own-purpose expenses payments.
- 150 The Commission's methods assess needs for mental health services. The issue for the Commission was whether this payment should also be treated as having no impact on the relativities.

#### State views

- 151 Both the ACT and Tasmania supported consistent treatment across jurisdictions. However, they questioned why the payment is assessed as 'no impact' given that mental health services are assessed. To that effect, they considered that all funding related to the development of mental health centres should be treated as an impact payment, whether by Commonwealth own-purpose expenses or national partnership.
- 152 South Australia supported 'no impact' treatment noting that funding for centres in other jurisdictions has been provided as a Commonwealth own-purpose expenses payment.

## **Commission decision**

- 153 Where Commonwealth own-purpose expenses affect a State's fiscal capacity, they should be included in the Commission's assessment. However, most States could not provide detailed information on this type of revenue, and Government Finance Statistics data do not have a classification code to identify function of government for revenue from Commonwealth grants.<sup>8</sup>
- 154 Given the lack of detailed information and the need for consistent treatment across jurisdictions, the Commission treated the payment as not having an impact on State fiscal capacities.

## **Local Schools Community Fund**

### **Issue**

- 155 The 2019-20 Budget provided \$30.2 million for the Local Schools Community Fund to provide all schools — government, Catholic and independent — with funding for small scale projects to meet priorities identified by schools and their communities.
- 156 The issue for the Commission was whether the funding supports State services, and whether its methods assess needs for these services.

### **State views**

- 157 The ACT and Tasmania supported a 'no impact' treatment for independent and Catholic schools, but not for government schools. They said that a portion of the Local School Community funding is for government schools (36% in 2019-20 as noted by the ACT).
- 158 The two States said government school services are an assessed State provided service and associated payments should have an impact on the relativities.

## **Commission decision**

- 159 The Commission accepted the arguments of the ACT and Tasmania that funding for government schools supports State services for which needs are assessed.
- 160 Given that government schools make up a measurable proportion of the funding, it considered the payments should be split, with funding for government schools having an impact on the relativities and funding for non-government schools having no impact. This was because the Commission assesses needs for government schools.

## **National Disability Insurance Scheme investment in Queensland**

### **Issue**

- 161 The National Disability Insurance Scheme (NDIS) project agreement will support the delivery of the scheme in Queensland by increasing the number of participants.
- 162 The issue for the Commission was whether this funding supports State services, and whether its methods assess needs for these services.

<sup>8</sup> This information is necessary if a Commonwealth own-purpose expenses payment is to receive a 'no impact' treatment. Without it, the Commission is unable to identify the expense related to the payment.



## State views

- 163 Tasmania noted that the payment relates to specific projects to assist with, or research, issues relating to accessing NDIS services, and to support organisations and individuals in becoming providers. It concluded that funding is not related directly to providing NDIS services to participants.
- 164 Tasmania argued that if project funding is delivering functions similar to those that are normally provided by States, and those functions are captured by the welfare assessment, then the payment should be treated as having an impact on State relativities.

## Commission decision

- 165 The Commission recognised the NDIS as a Commonwealth responsibility. In the past, the Commission has either quarantined all Commonwealth payments related to the National Disability Insurance Scheme or assessed them as having no impact.
- 166 The Commission decided to continue this practice and treated this payment as having no effect on relativities.

## Grace's Place residential trauma recovery centre

### Issue

- 167 This program provides funding to New South Wales to assist with the construction of a residential trauma recovery centre for children and young people aged between 3 and 18 years affected by homicide. The payment is disbursed to the Homicide Victims Support Group (a non-government organisation) through the New South Wales government.
- 168 The issue for the Commission was whether the project will improve New South Wales' fiscal capacity. Ordinarily, a payment to a third party would be treated as having no impact on relativities but this is not the case if needs are assessed for the policy issue being addressed, in this case mental health.

### State views

- 169 Queensland and Tasmania said this payment should affect relativities as it is for mental health services, for which needs are assessed. They argued that the primary consideration should be the purpose of the payment and not how the payment is structured or dispersed.

### Commission decision

- 170 The payment supports the construction of facilities that provide mental health services, for which needs are assessed. While the payment is provided to a third party, the services provided will have an impact on the demand for State services. The Commission treated the payment as having an impact on relativities consistent with its treatment of other mental health services.

## City Deals

### Issue

- 171 The Commonwealth provides funding to various city and regional areas to support a range of projects in the Commonwealth, State, local and non-government sectors.

- 172 The issue for the Commission was whether its methods assess needs for these payments, given that City deals encompass payments for multiple purposes.

## State views

- 173 Queensland noted that the city deals involve multiple sub-projects. Therefore, it said the Commission should assess these projects individually.
- 174 South Australia said there should not be a blanket determination for all funding under a program. It noted that some funding will be passed to non-government entities and cited the example of the Western Sydney City Deal, which has split treatment according to the ultimate recipient of the funding.
- 175 The ACT noted that the development of an Education and Community Precinct in the Darwin Central Business District is a major objective of the Darwin City Deal. It said several projects, including the relocation of the Northern Territory Library, development of an art gallery and construction of associated infrastructure, including roads, are not directly related to the Charles Darwin University. Therefore, the ACT considered that there should be further investigation into this deal, with payments having an impact on relativities where funds are used for State and Territory service delivery for which needs are normally assessed.
- 176 The ACT considered that some of the funds used for the Launceston City Deal, including the development of the Launceston Creative Precinct and new bus interchange, relate to expenditure where needs are assessed. Therefore, the funds for these projects should affect relativities.

## Commission decision

- 177 The Commission used data on each payment provided by the Department of Infrastructure, Transport, Regional Development and Communications. If the payment was for investment in State type services for which needs are assessed, the payment affected relativities. If the payment reflects a Commonwealth responsibility or was provided for non-State services, the payment did not affect relativities. Table 4-5 shows the treatment in 2019-20.

Table 4-5 Treatment of city and regional deals

City Deal	State	Spending in 2019-20	Proportion of spending affecting relativities
		\$m	%
Adelaide City Deal	South Australia	3.2	100
Barkly Regional Deal	Northern Territory	1.3	0
Darwin City Deal	Northern Territory	25.0	0
Geelong City Deal	Victoria	1.5	100
Launceston City Deal	Tasmania	2.5	0
Western Sydney City Deal	New South Wales	6.3	0

Source: Commission decision based on data from the Department of Infrastructure, Transport, Regional Development and Communications.

# Implementation of new equalisation arrangements

## Issue

- 178 In 2018, the Australian parliament enacted the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*, which amends the *Commonwealth Grants Commission Act 1973* and the *Federal Financial Relations Act 2009*. The new arrangements will see a gradual transition from comprehensive to reasonable equalisation. Reasonable equalisation involves equalising to a standard State, being the fiscally stronger of New South Wales and Victoria. The transition to reasonable equalisation will be completed in 2026–27.
- 179 The first phase of the new arrangements commenced in 2019–20 and involved the Commonwealth making supplementary payments (if required) to deliver an outcome at least equivalent to a relativity of 0.70 to Western Australia and 4.66 to the Northern Territory. Only Western Australia required the supplementary payment.
- 180 The second phase of the new arrangements starts in 2021–22. This involves commencing the transition of the Commission's recommended GST pool sharing relativities from being based on State relative fiscal capacities to being based on equalising State fiscal capacities to at least the fiscally stronger of New South Wales and Victoria.
- 181 In its 2020 Review report the Commission described how it intended to implement the new arrangements and provide sufficient information for States to understand the effects of each element.<sup>9</sup> In particular, the Commission said that it would apply the same approach for the new arrangements as it does for the previous arrangements. That is, the standard State capacities would be calculated as the simple average of the 3 assessment year outcomes, in the same way that the relative fiscal capacities are calculated as the simple average of the 3 assessment years.
- 182 The Commission asked for feedback on the proposed implementation and presentation of the new arrangements.

## State views

- 183 Most States supported the proposed presentation. Some asked for elements of the new arrangements to be shown separately.
- 184 Queensland said the calculations to equalise to the standard State should be undertaken in the application year, as is the case for the relativity floor.
- 185 Western Australia suggested it would be helpful to develop a glossary of terms relating to the new arrangements.
- 186 The ACT said that in principle there was a case for backcasting the top-up pool, but accepted the amounts are too small to have a significant effect on grant distributions.

## Commission decision

- 187 The Commission will show each element of the new arrangements separately.
- 188 In regard to Queensland's comments, the arrangements for equalising the standard State and implementing a relativity floor are expressed in different pieces of legislation.

<sup>9</sup> See Chapter 4, *Report on GST Revenue Sharing Relativities 2020 Review — Volume 2*, available at [www.cgc.gov.au](http://www.cgc.gov.au).

- 189 The amended *Commonwealth Grants Commission Act 1973* describes the transition approach of blending the results of the previous arrangements (equalising State relative fiscal capacities) with the results of the new arrangements (equalising to the fiscally stronger between New South Wales and Victoria). Given this, the Commission considered it appropriate to apply the same approach to the new arrangements as for the previous arrangements. That is, the Commission would derive fiscal capacity measures as the average of the results from 3 assessment years.
- 190 The amended *Federal Financial Relations Act 2009* specifies the minimum relativity (or floor) for distributing the GST pool. This legislation also provides that from 2022-23 an adjustment may be required if the blending process results in a relativity that is less than the minimum. The Commission considered it appropriate to make this adjustment to the year in which the recommended relativities will be used to distribute the GST pool (the application year).
- 191 The glossary on the Commission's website (and in this report) has been updated to include terms relating to the new equalisation arrangements.

## 6.5 LIST OF SUBMISSIONS AND WITNESSES

### *Submissions received*

1	Australian Government Commonwealth Grants Commission
2	Australian Government Productivity Commission
3	Department of Treasury and Finance
4	Martyn Goddard, Public Policy Analyst
4a	Martyn Goddard, Public Policy Analyst – Supplementary Submission
4b	Martyn Goddard, Public Policy Analyst – Supplementary Submission – July 2019

### *List of witnesses*

<b>Monday, 20 May 2019, Hobart</b>
Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division and Damien Febey, Assistant Director, Intergovernment and Financial Policy Branch, Department of Treasury and Finance
Martyn Goddard, Public Policy Analyst
<b>Monday, 12 August 2019</b>
Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division and Damien Febey, Assistant Director, Intergovernment and Financial Policy Branch, Department of Treasury and Finance
<b>Monday, 16 September 2019</b>
Hon Peter Gutwein MP, Treasurer and Andrew Finch, Chief of Staff

## **6.6 MINUTES OF PROCEEDINGS**

**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**THURSDAY, 21 FEBRUARY 2019**

The Inquiry met at 2.50 pm in Committee Room 2, Parliament House, Hobart and via teleconference.

**Members Present:**

Ms *Forrest* (Inquiry Chair) (via tele-conference)  
Mr *Gaffney* (Inquiry Deputy Chair)  
Mr *Finch* (via tele-conference)  
Mr *Valentine*  
Mr *Willie*

**Apology**

Ms *Lovell*

**In Attendance**

Ms Gabrielle Woods (Secretary)  
Ms Julie Thompson (Executive Assistant)

**Election of Chair:**

The Secretary called for nominations for the Inquiry Chair. Ms *Forrest* being the only nominee, the Secretary declared Ms *Forrest* to be duly elected Inquiry Chair. The Secretary yielded the Chair and Ms *Forrest* took the Chair.

**Election of Deputy Chair:**

The Inquiry Chair called for nominations for Deputy Chair. Mr *Gaffney* being the only nominee, the Inquiry Chair declared Mr *Gaffney* to be duly elected Inquiry Deputy Chair.

**Future Program:**

The Inquiry discussed possible stakeholders to be invited to participate.

The Inquiry **AGREED** that the Chair write to the following —

1. Treasurer (Whole of Government) cc Minister for Education; Minister for Health; and Minister for Infrastructure.
2. Dr Bruce Felmingham (UTAS) and other relevant UTAS schools

3. Auditor-General
4. Grattan Institute
5. Tasmanian Greens
6. Shadow Treasurer
7. Productivity Commission (invitation includes the choice of written submission or verbal evidence and offering an extension on the submission deadline date if required)
8. Saul Eslake (invitation includes the choice of written submission or verbal evidence)
9. Commonwealth Grants Commission (invitation includes the choice of written submission or verbal evidence and offering an extension on the submission deadline date if required)

#### **Media Release**

The Inquiry **RESOLVED** that a media release is to be prepared by the Chair and the Secretary that would announce the commencement of the inquiry.

#### **Background Information**

The *Inquiry Secretary* informed the Inquiry of her meeting with Parliamentary Research Service advising that there were a number of recommendations made by the Productivity Commission's Report. The Federal Government has passed legislation which will introduce changes from 2021 to the current system.

The Inquiry **AGREED** for the *Inquiry Secretary* to request Parliamentary Research Service provides background information on comparative federations.

The Inquiry **RESOLVED** to insert the advertisement calling for submissions in the early general news pages of the three daily newspapers on Saturday 23 February 2019.

The Inquiry **RESOLVED** to publish the Inquiry Webpage.

#### **Next Meeting**

The Committee **AGREED** to meet at 9.00 am on Tuesday 9 April 2019 to discuss submissions received and future program.

#### **Adjournment:**

The Committee adjourned at 3.18 pm

DATE

9/4/19

CONFIRMED

  
INQUIRY CHAIR



**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**TUESDAY 9 APRIL 2019**

The Inquiry met at 9.17 am in Committee Room 2, Parliament House, Hobart.

**Members Present:**

Ms *Forrest* (Inquiry Chair)  
Mr *Gaffney* (Inquiry Deputy Chair)  
Mr *Finch*  
Ms *Lovell*  
Mr *Valentine*  
Mr *Willie*

**In Attendance**

Ms Gabrielle Woods (Secretary)  
Ms Julie Thompson (Executive Assistant)

**Confirmation of Minutes**

The **Minutes of the Meeting** held on 21 February 2019 were confirmed as a true and accurate record.

**Correspondence**

**Inwards**

The following correspondence was received:

1. Email dated 25 March 2019 from Sam Thiessen, Principal Policy Analyst, Intergovernment & Financial Policy Branch, Department of Treasury and Finance regarding the future program of the inquiry.

**Submissions received**

The following Submissions were received :

1. Commonwealth Grants Commission
2. Productivity Commission – Australian Government
3. Department of Treasury and Finance
4. Martyn Goddard

The Inquiry **RESOLVED** that the Submissions received be published to the webpage.

**Future Program:**

The Inquiry discussed possible stakeholders and date for public hearings.

The Inquiry **AGREED** that the Department of Treasury and Finance and Martyn Goddard be invited to present verbal evidence on Monday 20 May 2019 from 3.00 pm.

The *Chair* flagged the possibility of acquiring a consultant to analyse the evidence received by the Inquiry dependent upon cost.

The *Chair* advised the Inquiry expects to report on the Terms of Reference before the end of the year.

The *Inquiry Secretary* advised to circulate sections of the Productivity Commission's HFE Report referred in the Productivity Commission's Submission and reply to Sam Thiessen, Department of Treasury and Finance.

**Next Meeting**

Monday 20 May 2019 at 3.00 pm in Committee Room No. 1, Parliament House, Hobart.

**Adjournment:**

The Committee adjourned at 9.28 am.

**DATE**

**CONFIRMED**

  
**INQUIRY CHAIR**

**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY - HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**MONDAY 20 MAY 2019**

The Inquiry met at 2.57 pm in Committee Room 1, Parliament House, Hobart.

**Members Present:**

Ms *Forrest* (Inquiry Chair)  
Mr *Gaffney* (Inquiry Deputy Chair)  
Mr *Finch* (via tele-conference)  
Ms *Lovell*  
Mr *Valentine*  
Mr *Willie*

**In Attendance**

Ms Gabrielle Woods (Secretary)  
Ms Julie Thompson (Executive Assistant)

**Confirmation of Minutes**

The **Minutes of the Meeting** held on 9 April 2019 were confirmed as a true and accurate record.

**Correspondence**

**Outwards**

The following correspondence was endorsed:

1. Letters dated 18 April 2019 to Tony Ferrall, Department of Treasury and Finance and Martyn Goddard providing an invitation to present verbal evidence.

**Inwards**

The following correspondence was received:

1. Email dated 15 April 2019 from Martyn Goddard providing a supplementary submission.

**Public Hearings**

At 3.00 pm Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division and Damien Febey, Assistant Director, Intergovernment and Financial Policy Branch, Department of Treasury and Finance were called, made the statutory declaration and were examined. (GAA/HFES 3)

The witnesses withdrew at 4.04 pm.

At 4.05 pm Martyn Goddard was called, made the statutory declaration and was examined. (GAA/HFES 4)

**Tabled Documents:**

1. Analysis of Relativities – Difference from EPC
2. Revenue and expenses ratios
3. Assessed Budget Summary
4. Commission Terminology

Ms Lovell left the table at 4.44 pm  
Ms Lovell took her place at 4.46 pm

The witness withdrew at 5.02 pm.

**Future Program:**

The Inquiry **RESOLVED** to invite the Treasurer and Department of Treasury and Finance to attend a public hearing on Monday, 5 August 2019 from 2.00-4.00 pm (preferable) or Friday 9 August 2019 from 9.30 – 11.30 am.

**Publishing to webpage**

The Inquiry **RESOLVED** that Martyn Goddard's supplementary submission and Tabled Documents from today's hearing be published to the webpage.

**Next Meeting**

Monday 5 August or Friday 9 August 2019 in Committee Room No. 1, Parliament House, Hobart.

**Adjournment:**

The Committee adjourned at 5.12pm

DATE

12/8/19

CONFIRMED



INQUIRY CHAIR

**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**MONDAY 12 AUGUST 2019**

The Inquiry met at 3.00 pm in Committee Room 2, Parliament House, Hobart.

**Members Present:**

*Ms Forrest* (Inquiry Chair)  
*Mr Gaffney* (Inquiry Deputy Chair)  
*Ms Lovell*  
*Mr Valentine*  
*Ms Webb*

**In Attendance**

Ms Julie Thompson (Executive Assistant)

**Confirmation of Minutes**

The **Minutes of the Meeting** held on 20 May 2019 were confirmed as a true and accurate record.

**Correspondence**

**Outwards**

The following correspondence was endorsed:

1. Letter sent 21 May 2019 to the Hon Peter Gutwein MP inviting the Treasurer to appear at a public hearing.

**Supplementary Submission**

The following supplementary submission was received:

1. Supplementary Submission dated July 2019 from Martyn Goddard.

The Inquiry **RESOLVED** to publish the supplementary submission to the website.

**Public Hearing**

At 3.04 pm Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division and Damien Febey, Assistant Director, Intergovernment and Financial Policy Branch, Department of Treasury and Finance were called, made the statutory declaration and were examined. (GAA/HFES 3)

Mr *Finch* took his place at 3.11 pm.

**Questions on Notice:**

1. Provide details as to all revenue sources that are included in the 'other revenue' category?
  - a. Are income tax equivalents and dividends included?
  - b. How are equity injections and transfers between state owned businesses treated?
2. Provide details regarding the differences between assessed and actual expenditure, in relation to depreciation.
3. What is included in expenditure under 'investments'?
4. Provide details regarding the differences between assessed and actual expenditure in relation to investment; and
  - a. Provide details regarding investment in infrastructure.

The witnesses withdrew at 4.05 pm.

**Future Program:**

The Inquiry **RESOLVED** to invite the Treasurer to attend a public hearing on Monday, 16 September 2019 from 4.00 pm – 5.00 pm (preferable) or Tuesday 17 September 2019 from 1.15 pm – 2.15 pm.

**Next Meeting**

Monday 16 September or Tuesday 17 September 2019 in Committee Room No. 2, Parliament House, Hobart.

**Adjournment:**

The Committee adjourned at 4.13 pm

DATE

16/9/19

CONFIRMED



INQUIRY CHAIR

**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**MONDAY 16 SEPTEMBER 2019**

The Inquiry met at 4.00 pm in Committee Room 2, Parliament House, Hobart.

**Members Present:**

*Ms Forrest* (Inquiry Chair)

*Mr Gaffney* (Inquiry Deputy Chair)

*Ms Lovell*

*Mr Valentine*

*Ms Webb*

**In Attendance**

*Ms Gabrielle Woods* (Secretary)

*Ms Julie Thompson* (Executive Assistant)

**Public Hearing**

At 4.01 pm the Hon Peter Gutwein MP, Treasurer and Mr Andrew Finch, Chief of Staff, were called. Mr Finch made the statutory declaration and both witnesses were examined. (GAA/HFES 3)

**Questions on Notice:**

1. Please provide an updated list of fully and partially quarantined Australian Government grants to all States and Territories; and
2. With regard to the Australian Government grant payments for the Midland national highway how will the CGC take into account the ongoing maintenance cost of the fixed road infrastructure (such as the flexible safety barrier) in determining relativities.

*Mr Kerry Finch* took his place at 4.02pm.

The witnesses withdrew at 5.05 pm.

**Confirmation of Minutes**

The **Minutes of the Meeting** held on Monday 12 August 2019 were confirmed as a true and accurate record.

**Correspondence**

**Inwards**

The following correspondence was received:

Letter dated 3 September 2019 from Tony Ferrall, Secretary, Department of Treasury and Finance providing answers to questions on notice.

**Outwards**

The following correspondence was endorsed:

1. Letter sent 15 August 2019 to Fiona Calvert, Deputy Secretary, Economic and Financial Policy Division, Department of Treasury and Finance providing a summary of questions on notice.

The Committee **RESOLVED** to publish this correspondence.

The Committee **RESOLVED** to publish today's Hansard to the website.

Mr *Gaffney* withdrew at 5.10pm  
Ms Lovell withdrew at 5.11pm

**Questions on Notice**

The Committee discussed the questions taken on notice. The Secretary to circulate a draft letter.

**Next Meeting**

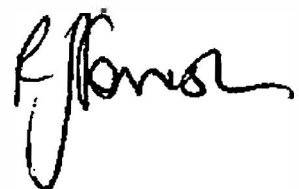
TBA

**Adjournment:**

The Committee adjourned at 5.24 pm

**DATE 13/11/19**

**CONFIRMED**



**INQUIRY CHAIR**



**GOVERNMENT ADMINISTRATION COMMITTEE 'A'**  
**INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**WEDNESDAY 13 NOVEMBER 2019**

The Committee met at 9.00am in Committee Room 1, Parliament House, Hobart and via teleconference/skype.

**Members Present:**

Mr *Finch*

Ms *Forrest* (Inquiry Chair)

Mr *Gaffney* (Inquiry Deputy Chair)

Ms *Lovell*

**Apologies:**

Mr *Valentine*

Ms *Webb*

**In Attendance**

Ms Gabrielle Woods (Secretary)

**Confirmation of Minutes**

The **Minutes of the Meeting** held on Monday 16 September 2019 were confirmed as a true and accurate record.

**Correspondence**

**Outwards**

The following correspondence was endorsed:

1. Letter dated 17 September 2019 to the Hon Peter Gutwein MP, Treasurer providing a summary of questions on notice.

**Inwards**

The following correspondence was received:

1. Letter dated 23 September 2019 from the Hon Peter Gutwein MP providing answers to questions on notice.

**Report Deliberations**

The Committee Chair noted the concern raised by Members who are not present at the meeting, due to other parliamentary commitments, and directed that all amendments to the draft Report are to be highlighted and distributed to all Members at the conclusion of the meeting.

**Next Meeting**

TBA

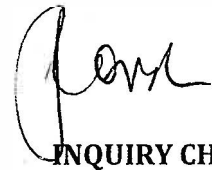
**Adjournment:**

The Committee adjourned at 5.24 pm

DATE

9/8/21

CONFIRMED

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INQUIRY CHAIR

**LEGISLATIVE COUNCIL SESSIONAL  
GOVERNMENT ADMINISTRATION COMMITTEE 'A'  
INQUIRY – HORIZONTAL FISCAL EQUALISATION SYSTEM**

**MINUTES OF MEETING**

**9<sup>th</sup> and 12<sup>th</sup> AUGUST 2021**

**Monday, 9 August 2021**

The Committee met at 9.02 am in Committee Room 2, Parliament House, Hobart and via webex.

**Members Present:**

Mr Duigan (*via Webex*)

Ms Forrest (CR2)

Dr Seidel (*via Webex*)

Ms Webb (CR2)

**Apologies:**

*Nil*

**In Attendance**

Ms Julie Thompson (Inquiry Secretary)

**Election of Chair:**

The Inquiry Secretary called for nominations for the *Inquiry Chair*. Ms Webb nominated Ms Forrest. Ms Forrest being the only nominee, the *Inquiry Secretary* declared Ms Forrest to be duly elected *Inquiry Chair*. Ms Forrest took the Chair.

Mr Gaffney took his place at 9.06 am (*via Webex*)

**Election of Deputy Chair:**

The *Inquiry Chair* called for nominations for *Inquiry Deputy Chair*. The *Inquiry Chair* nominated Mr Gaffney. Mr Gaffney being the only nominee, the *Inquiry Chair* declared Mr Gaffney to be duly elected *Inquiry Deputy Chair*.

**Confirmation of Minutes:**

The Minutes of the Meeting held on Wednesday, 13 November 2019 were confirmed as a true and accurate record.

**Report Deliberations**

The Committee considered the Draft Report.

Ms Lovell took her place at 9.15 am (*via Webex*)

The Committee further considered the Draft Report.

The Committee suspended at 10.05 am.

The Committee resumed at 10.33 am

The Committee further considered the Draft Report.

The Committee suspended at 12.58 pm.

### **Thursday, 12 August 2021**

The Committee resumed at 9.06 am in Committee Room 2, Parliament House, Hobart and via webex.

#### **Members Present:**

Mr *Duigan*

Ms *Forrest* (Inquiry Chair)

Ms *Lovell* (via *Webex*)

Dr *Seidel*

Ms *Webb*

#### **Apologies:**

*Nil*

#### **In Attendance**

Ms Julie Thompson (Inquiry Secretary)

#### **Report Deliberations**

The Committee considered the draft report.

Mr *Gaffney* (Inquiry Deputy Chair) took his place at 9.08 am

The Committee further considered the Draft Report.

The Committee suspended at 9.55 am.

The Committee resumed at 10.33 am.

The Committee further considered the Draft Report.

The Committee **RESOLVED** that the following sections stand part of the Report —

- *Cover Page and Membership of Inquiry Committee;*
- *Table of Contents and Abbreviations;*
- *Executive Summary* as amended;
- *Findings* as amended;
- *Recommendations;*
- *Establishment and Conduct of the Inquiry Chapter;*
- *Background Chapter;*
- *History and Current Practice Chapter;*
- *Key HFE Terms and Concepts Chapter;* and
- *Evidence Chapter* with the inclusion of the **AGREED** to Findings and Recommendations;
- *Appendices Chapter* with the inclusion of the Minutes of Meeting held on 9 August 2021 and today's Minutes (once confirmed by the *Inquiry Chair*).

The Committee **RESOLVED** that the Report be the Final Report of the Inquiry Committee.

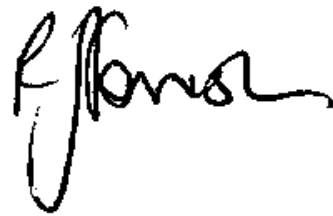
The Committee **RESOLVED** that the Report be presented at the next sitting of the Legislative Council.

The Committee **RESOLVED** that a Media Release be circulated to the Media upon Tabling attaching the Executive Summary and Recommendations.

The Inquiry Committee adjourned at 10.48 am sine die.

**DATE: 12/08/2021**

**CONFIRMED**

A handwritten signature in black ink, appearing to read 'F. Jones', written in a cursive style.

**INQUIRY CHAIR**