LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMIC DEVELOPMENT AND TOURISM
JEREMY HANSON MLA (CHAIR), MICHAEL PETTERSSON MLA (DEPUTY CHAIR), SUZANNE ORR MLA, MARK PARTON MLA

**Inquiry into referred 2015–16 Annual and Financial Reports**
**ANSWER TO QUESTION TAKEN ON NOTICE**
**27 February 2017**

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**Mr Pettersson MLA** asked the Treasurer, upon notice, on 27 February 2017:

In relation to Commonwealth Grants methodology:

> **MR PETTERSSON**: Yes. Further output 2.1, the Directorate participated in the Commonwealth Grants Commission in 2015. In this there was a review of methodology. Several of these seem to be quite negative, particularly relating to how needs for transport and health funding are calculated. Could anyone provided me with an overview of some of these changes?
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> **Mr Barr**: Grants Commission process. Who wants to—
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> **Mr Nicol**: Unfortunately I do not have my technical expert here, Mr Pettersson. Essentially every five years the Grants Commission undertakes a detailed review of relativities and essentially this takes two components. One is an assessment of need, an assessment of cost, and the other part of it is what the state of the data is and whether new data sources have become available to provide input into that.
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> We participate fully in that process. So I have a team whose sole job essentially is to—90 per cent of their job is essentially to work with the Grants Commission, provide input into their assessments, argue the case for the ACT et cetera. All reviews have risks and potential upsides as well and as I said, we make the best case we can to reflect fairly but try and get the best outcome for Canberra. If you want to go into further details I would probably have to call someone up to take you through them and I am happy to do that.
>
> **MR PETTERSSON**: No, it is okay.
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> **Mr Nicol**: I can take your question on notice as well if you wish.
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> **Mr Barr**: We will provide some further information if we can.
>
> **MR PETTERSSON**: Yes, any negative changes to the ACT budget would be appreciated.
>
> **Mr Nicol**: Yes, we can do that.

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**Mr Barr MLA** – The answer to the member's question is as follows:-

Yes in the context of the ACT's share of the Goods and Services Tax (GST) in 2015-16.

***2015-16***

The *Intergovernmental Agreement on Federal Financial Relations* (IGA-FFR) determines that GST revenue be distributed to the States and Territories to equalise their fiscal capacities via the application of Australia's Horizontal Fiscal Equalisation (HFE) system administered by the Commonwealth Grants Commission (CGC):

- The associated HFE principles are designed to ensure State and Territory governments should receive funding from the pool of GST 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.

In Terms of Reference from the Commonwealth Treasurer on 21 June 2013, the CGC was asked to review the methods which should be used to distribute the GST from 2015-16 for a five year period to achieve this HFE outcome, as referenced in the 2015-16 Annual Report and the subsequent role of Treasury in facilitating the ACT Government's response.

Subsequent GST relative per capita shares recommended for use in distributing the GST revenue among the States and Territories in 2015-16 saw the ACT incurring the second biggest decrease in share, after Western Australia:

- From the perspective of the ACT's 2015-16 budget, the report's recommendations translated into a loss of $129 million or $325 per capita to the ACT compared with the GST estimates released in the ACT Budget Review in February 2015.

The reasons for the loss include:

- Changes in data relating to payroll tax - revision of previous years' Australian Bureau of Statistics data on compensation of employees which increased the ACT's assessed revenue raising capacity, reducing its GST entitlement by approximately $35 million;

- Changes in methods of assessment causing a reduction of approximately $93 million, including:

    - Adoption of a more comprehensive assessment of public transport expenses, for which the ACT has below the Australian average needs, resulting in a loss of $33 million;

    - A reduced estimate of the impact on State and Territory expenses of below the Australian average provision of health services by the private sector, resulting in a loss of $31 million;

    - Recognition of the impact of city size and urban population growth on the need for urban transport infrastructure, resulting in a loss of $27 million; and

- Equalisation of 50% of the infrastructure payments provided by the Commonwealth for the Majura Parkway project, a reduction of approximately $10 million in 2015-16.

However, the 2015 Review outcome did represent a return to the ACT's long run average share of the GST pool.

Importantly, while the ACT experienced the single biggest redistribution away from it of any jurisdiction in per capita terms, HFE still delivered approximately $98 million to the ACT above what would have been delivered if the GST were allocated on a population share basis.

All eight ACT submissions and other dealings with the CGC in the 2015 Review can be located on the CGC's public website: https://cgc.gov.au/index.php?option=com_content&view=article&id=219&Itemid=271.

***2016-17***

This 2015-16 outcome for the ACT was reversed in the subsequent release the following year of the *Report on GST Revenue Sharing Relativities – 2016 Update, Commonwealth Grants Commission.*

Using the latest three years (2012-13 to 2014-15) of socio-economic and demographic data, the recommendations led to an increase in the ACT's GST share:

- The Report's recommendations translated into a gain of $55 million or $138 per capita compared with the GST estimates released in the 2015-16 ACT Budget Review for the financial year 2016-17.

- This per capita gain to the ACT was the second largest of any jurisdiction.

There were many reasons for this turnaround but principally, it reflected a combination of data revisions:

- On taxable payrolls increasing GST to the ACT by $61 million; and

- A further increase of $28 million reflecting the fact that property sales in the ACT was low relative to other jurisdictions resulting in the ACT's relative capacity to raise revenue from conveyance duty decreasing.

***2016-17 Commonwealth Mid-Year Economic and Fiscal Outlook***

This 2016-17 budget outlook was further revised following the release of the 2016-17 Commonwealth Mid-Year Economic and Fiscal Outlook (MYEFO). MYEFO reflects a large downward revision in GST pool estimates for 2016-17 and increasing write-downs over the forward estimates.

For the ACT, the write-down in the GST pool in tandem with a reduction in our population projections led to a reduction in our GST estimate in 2016-17 of -$18.5 million, and -$98.8 over the forward estimates:

- The Commonwealth revises its estimates for the total pool of GST and population in each of its budget updates. The loss in GST experienced by the ACT as a result of MYEFO is not related to the methodology used by the Commonwealth Grants Commission, but rather largely reflects a reduction in the total GST to be shared amongst the States.

Approved for circulation to the Standing Committee on Economic Development and Tourism

Signature: Andrew Barr Date: 10.3.17

Mr Andrew Barr MLA
Treasurer