

10 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

Features

- Tasmania's estimated share of Commonwealth sourced revenue in 2003-04 will total \$1 860.7 million.
- In 2003-04, Tasmania's share of Goods and Services Tax (GST) revenue is forecast to be \$1 299.7 million. This will again be insufficient to meet the Commonwealth's commitment under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) that Tasmania will be no worse off under these new arrangements than under the previous arrangements.
- Under the terms of the IGA, the Commonwealth will, therefore, again be required to provide Budget Balancing Assistance to Tasmania. In 2003-04, this assistance is estimated to be \$9.3 million.
- In 2003-04, Specific Purpose Payments (SPPs), including the Health Care Grant, are expected to total \$534.1 million.
- Two major Specific Purpose Revenue agreements, the Commonwealth-State Housing Agreement and Australian Health Care Agreement, are required to be renegotiated with the Commonwealth prior to 1 July 2003. Another major Specific Purpose Payment, the Commonwealth-State/Territory Disability Agreement was due to expire in June 2002 but has been extended and is still under renegotiation. The successful renegotiation of these agreements with the Commonwealth is vital to the sustainable provision of a range of ongoing services to the Tasmanian community.
- The Commonwealth Grants Commission's five-yearly review of the methodology used to determine general purpose revenue sharing relativities is to be completed in early 2004. Fiscal equalisation remains a key foundation of an equitable and efficient system of Commonwealth-State financial relations and Tasmania continues to contribute actively to the review process.

INTRODUCTION

Commonwealth sourced revenue is a vital source of revenue for all states and territories (states). This revenue is required to address the imbalance between the revenue raising powers and functional responsibilities of Commonwealth and State governments. In 2000-01, the Commonwealth raised 72 per cent of total General Government revenue but had direct responsibility for approximately 57 per cent of total outlays. While this imbalance existed prior to the implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the degree of imbalance has increased further since 1 July 2000, as a result of the reforms implemented under the Agreement. In 2002-03, it is estimated that the Commonwealth will derive 73 per cent of total revenue, but only be directly responsible for 58 per cent of General Government expenditure.

In 2003-04, it is expected that Commonwealth sourced revenue will comprise 62 per cent of the State's total General Government sector revenue.

There are many different factors that influence the quantum of revenue transferred from the Commonwealth to the states. Foremost amongst these factors are the provisions of the IGA, the level of funds Tasmania would have received under the previous arrangements, actions taken by the Commonwealth in relation to the IGA and the determinations of the Commonwealth Grants Commission (CGC).

The purpose of this Chapter is to provide information regarding:

- the importance of Commonwealth sourced revenue to the State Budget;
- the significant issues currently affecting Commonwealth-State financial arrangements; and
- the magnitude and nature of the estimated Commonwealth sourced revenues to be received by the State during 2003-04.

Background information is also provided in the appendices to this Chapter that explains why Commonwealth payments to the states are essential and the role of the CGC.

This Chapter has been prepared using the accrual Uniform Presentation Framework (UPF). Consequently, some of the contents will differ from prior years because previous Budgets presented estimates only of those Commonwealth receipts that were paid into the Consolidated Fund. Under the new accruals presentation, this Chapter now includes Commonwealth receipts that will pass through the Special Deposits and Trust Fund. This will be reflected primarily in the presentation of Specific Purpose Payments (SPPs) estimates.

SUMMARY OF COMMONWEALTH SOURCED REVENUE

The following table provides a summary of the estimated magnitude and nature of Commonwealth sourced revenue to be received by Tasmania in 2003-04.

Table 10.1: Summary of Commonwealth Sourced Revenue, 2003-04

	2002-03 Budget	2003-04 Budget
	\$m	\$m
General Purpose Payments		
GST Revenue	1 199.5	1 299.7
Budget Balancing Assistance	52.7	9.3
Total General Purpose Payments (Equivalent to the Guaranteed Minimum Amount)	1 252.2	1 309.0
Other Commonwealth Sourced Revenue		
Competition Payments to Tasmania	17.4	17.6
Specific Purpose Payments	380.6	374.4
Health Care Grant	153.4	159.7
Total Other	551.4	551.7
Total Commonwealth Revenue	1 803.6	1 860.7

Source: *Commonwealth Statements of Estimated Payments* March 2002 and March 2003 Treasurers' Conferences, with adjustment to reflect the impact of increased 2001-02 population estimates on General Purpose Payments in 2003-04.

Tasmania's share of the GST pool of revenue now comprises just over 70 per cent of total receipts from the Commonwealth. The second largest individual source of Commonwealth revenue is the Health Care Grant, which will comprise 8.6 per cent of the total estimated Commonwealth sourced revenue in 2003-04. Total receipts from the Commonwealth in 2003-04 are projected to increase by 3.2 per cent on 2002-03 levels. Reasons for this increase, and further information on the calculation of the various Commonwealth revenue amounts, are provided later in this Chapter.

Chart 10.1 highlights the significance of Commonwealth sourced revenue to the State Budget. In 2003-04, it is estimated that total Commonwealth sourced revenue will comprise over 62 per cent of total revenue. This is approximately 3.5 times the level of funding which the State generates from its own taxation revenue sources.

Chart 10.1: Commonwealth Sourced Revenue as a Proportion of Total Revenue, 2003-04

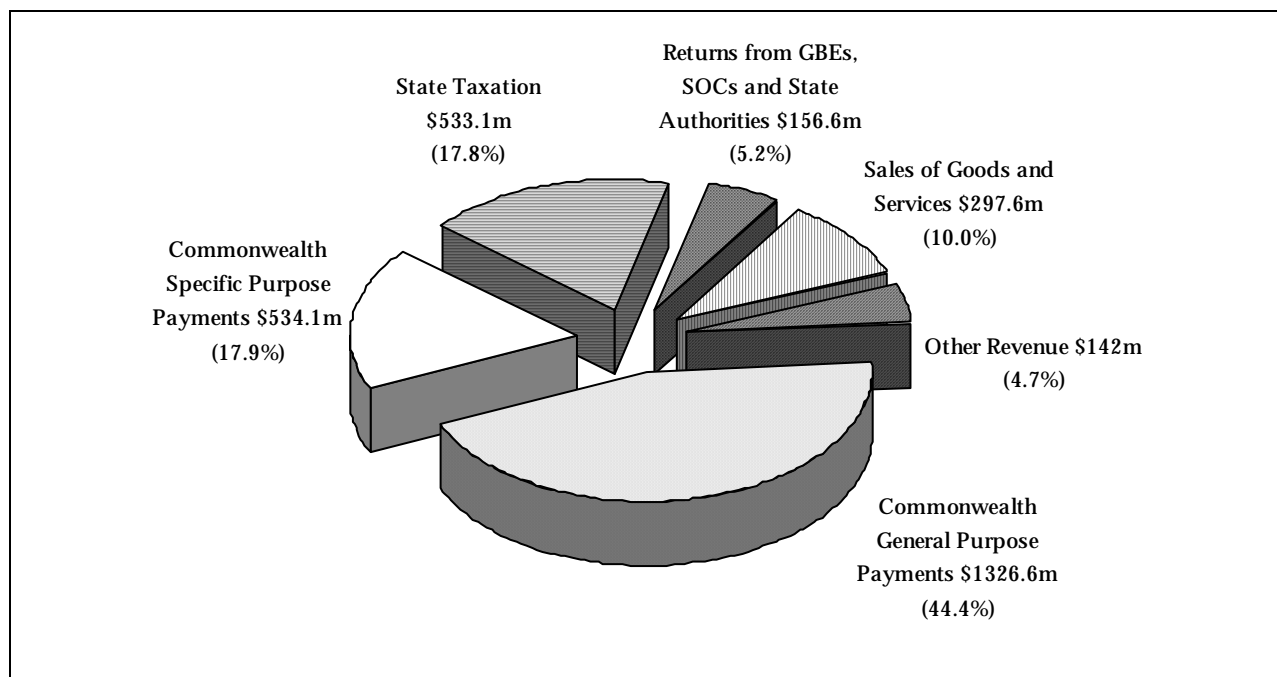
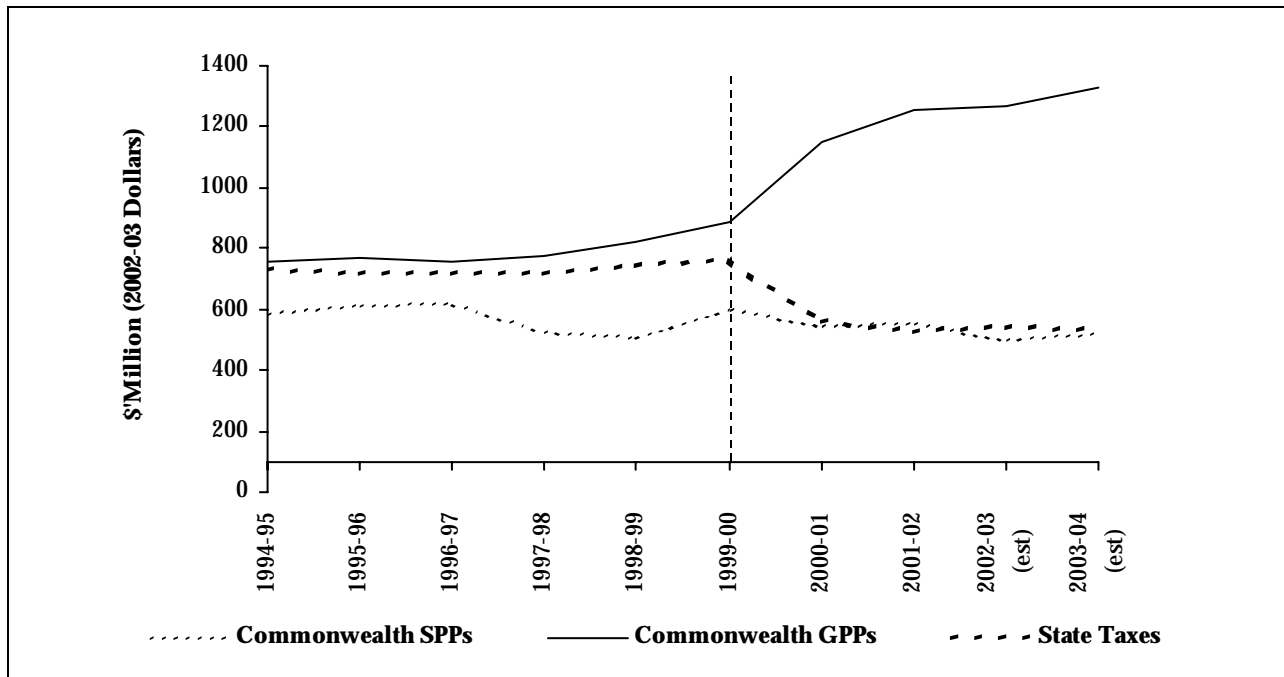


Chart 10.2 summarises the major trends that have occurred in Commonwealth sourced revenue over the past decade. Major points to be made in relation to Chart 10.2 are:

- a major change in the composition of Commonwealth transfers of revenue to the states occurred from 2000-01 as a result of the implementation of the IGA. This change resulted in a significant increase in the level of General Purpose Payments (GPPs);
- in aggregate, the transfer of revenue by the Commonwealth to the states has gradually increased over time;
- while GPPs increased as a consequence of the IGA, this increase has been offset by decreases in State taxes that were required under the IGA. In addition, the increase in GPPs also offset significantly increased expenditure required of the State under the national tax reform arrangements; and
- when both Commonwealth sourced revenue and the revenue derived from State taxes are taken into account, in real terms the total revenue to Tasmania from these sources has changed little under the IGA arrangements.

Chart 10.2: Major Sources of Budget Revenue (Real Terms)



Sources: *Commonwealth Budget Paper Number 3* (various years); *Commonwealth Statement of Estimated Payments*, March 2003 Treasurers' Conference; Department of Treasury and Finance, *Tasmanian Budget Paper No 1 Budget Overview* (various years).

MAJOR ISSUES IN COMMONWEALTH–STATE FINANCIAL RELATIONS

The following sections highlight a number of major issues that currently exist in the area of Commonwealth-State financial relations.

Commonwealth Grants Commission's 2003 Update Report

As with its 2002 Report, the Commonwealth Grants Commission's (CGC) 2003 Update Report provides information on GST relativities and Financial Assistance Grant (FAG) relativities.

In 2003-04, based on available information, the level of general purpose funding to Tasmania, New South Wales, Victoria, South Australia and Western Australia will be determined by the Guaranteed Minimum Amount (GMA). Queensland, Northern Territory and the Australian Capital Territory are expected to receive their GST relativity based share of the GST pool.

For those states still receiving the GMA, the FAG relativity will again have the greatest impact on overall funding in the calculation of the GMA. The GST relativity will determine the mix of GST revenue and Budget Balancing Assistance (BBA) received to make up the GMA.

In relation to Tasmania's FAG relativity for 2003-04, the CGC has calculated that this has increased from the level calculated for 2002-03. This change in the FAG relativity for Tasmania, together with the change in Tasmania's population share, will result in an increase in Tasmania's share of FAG revenue foregone by \$61.5 million in 2003-04.

The main reason for the increase in Tasmania's relativity was the use of more up-to-date data in the Commission's assessment and the decline in the relative importance of some expenditure and revenue categories in which Tasmania is assessed to have a relative advantage. For example, Tasmania's assessed relative advantage in relation to debt charges (interest payments) became less important as the relative importance of interest payments to the State budget has declined. However, Tasmania's assessed relative disadvantage in raising revenue from stamp duty on conveyances has become more significant as the relative importance of this revenue source across all jurisdictions has increased.

Impact of the Intergovernmental Agreement on Commonwealth Sourced Revenue

Background

Under the IGA signed by the states and the Commonwealth in June 1999, all parties agreed to a range of important commitments and reforms.

The most significant commitment made by the Commonwealth under the IGA was the guarantee that the budgetary position of each individual state would be no worse off under the new arrangements than it would have been had the reforms not been implemented. This commitment was an acknowledgment of the fact that it would be some years before the receipts generated by the GST would equal or exceed the level of Commonwealth revenue transferred to the states prior to the implementation of the reforms on 1 July 2000, plus the State taxation revenues foregone and increased expenditures incurred under the IGA

arrangements. In the years until GST revenues are sufficient to cover the states' IGA commitments, each state's Commonwealth revenue is to be determined by the calculation of a GMA and the making of BBA payments to the states to 'top-up' the GST revenue during this period.

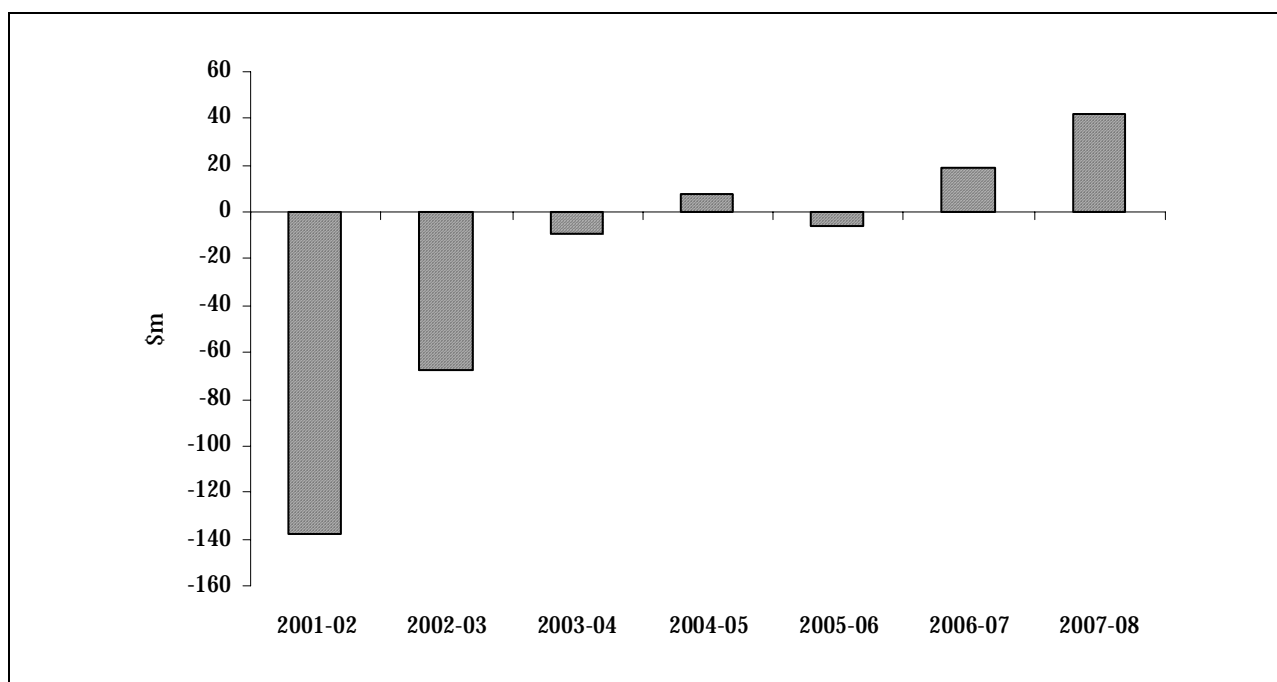
Impact of IGA Changes on Commonwealth Sourced Revenue

Due to the nature of the commitments included in the IGA and the level of revenue generated by the GST, Tasmania has not yet financially benefited from the revised Commonwealth-State financial arrangements. While the level of GST revenue has increased in each year since its introduction, until such time as that revenue exceeds the total GMA required for each state, any increase in GST revenue will solely benefit the Commonwealth by reducing the top-up payments it needs to make to ensure that the States' budget position is not financially disadvantaged. Tasmania is not currently expected to derive any significant financial benefit from these arrangements until at least 2006-07, some six years after the implementation of the IGA.

Chart 10.3 below shows that while Tasmania may, based on current estimates, benefit marginally from the implementation of the IGA in 2004-05, the State will once again require modest BBA in 2005-06. It is emphasised that these are estimates only and comparatively small changes in a number of factors, including GST relativities, the level of GST revenue and the GMA calculation methodology, could result in the need for BBA payments in either year. In particular, the CGC is currently finalising its major review of the methodology used to assess the relative needs of each state, and the outcomes of this review will impact on the GMA for the five years commencing in 2004-05. The CGC Review is discussed further in this Chapter.

It is only from 2006-07 that Tasmania's share of GST revenue is expected to exceed its GMA by enough to engender some confidence in the forecast that the State will be better off in that year than it would have been prior to the IGA.

Chart 10.3 Estimated Impact of the IGA on Tasmania in the Absence of BBA, 2001-02 to 2007-08



Source: Commonwealth Budget 2002-03, *Commonwealth Statement of Estimated Payments* - March 2003 Treasurers' Conference.

Table 10.2 provides an indication of the year in which each state is expected to permanently leave the 'guarantee period' and no longer be in need of BBA payments. Once out of this transitional period, the level of Commonwealth funding to any given state will be determined by its share of GST revenue, rather than its GMA. These estimates were provided by the Commonwealth at the March 2003 Treasurers' Conference.

Table 10.2: Year when States permanently out of the Guarantee Period

State/Territory	Year Out of Guarantee Period
Queensland	2003-04
Northern Territory	2003-04
Australian Capital Territory	2003-04
Tasmania	2006-07
Western Australia	2006-07
South Australia	2007-08
New South Wales	2008-09
Victoria	2008-09

Source: Heads of Treasuries Report to the Treasurers' Conference, March 2003.

It should be noted that while neither Tasmania nor Western Australia are expected to require BBA in 2004-05, it is anticipated that both jurisdictions will need BBA again in 2005-06, before permanently coming out of the guarantee period in 2006-07. This is predominantly due to the abolition of debits tax in 2005 and the additional own-source revenue foregone by the states as a result.

2003 Treasurers' Conference

The IGA established the Treasurers' Conference comprising the Commonwealth Treasurer and the Treasurers of all states.

The major functions of the Treasurers' Conference are to:

- oversight the operation of the GST;
- oversight and coordinate the implementation of the IGA;
- discuss the CGC recommendations prior to the Commonwealth Treasurer making a determination; and
- make recommendations to the Commonwealth Treasurer on the GMA applying to each state under the transitional arrangements.

The Treasurers' Conference last met on 28 March 2003. At this meeting, the Treasurers:

- discussed the CGC recommendations and made recommendations to the Commonwealth Treasurer in relation to the GMA for each state;
- agreed to amendments to the Australian Taxation Office Performance Agreement to incorporate additional performance indicators and to provide additional GST data to the states; and

- noted the report of the GST Administration Subcommittee for 2002-03.

State and Territory Share of National Revenues

A paper, prepared by the Northern Territory Treasury, was presented at the March 2003 Treasurers' Conference, clarifying the extent of the benefit to the states of the reforms to Commonwealth-State financial arrangements. The following conclusions can be drawn from the paper:

- the states' share of national tax revenue and expenses is forecast to continue to decline over the forward estimates period. Conversely, the Commonwealth's share of national revenue and expenses is forecast to continue to increase over the same period; and
- SPPs and own-purpose revenue will remain an important source of revenue to the states in the future. Either, or both, revenue sources will need to increase if states are to avoid experiencing a declining share of national tax revenues.

Commonwealth Grants Commission 2004 Major Review

Every five years, the Commonwealth Grants Commission (CGC) undertakes a review of the methodology it uses to assess the relative needs of each state. The most recent major CGC Review was completed in 1999 and the current Review is to be completed by 2004. The methodology determined through the 2004 Review will be used by the CGC for the following five years to determine states' needs and ultimately the level of Commonwealth General Purpose Payments to be received by Tasmania.

Tasmania has made significant contributions to the Review thus far, including:

- the provision of a major submission in April 2002;
- hosting workplace discussions between the CGC (staff and commissioners) and staff in Government service delivery areas around Tasmania eg Burnie Court Rooms and Launceston General Hospital;
- participation at both staff and commissioner level conferences in October 2002 and November 2002;
- the provision of a rejoinder submission in February 2003;
- participation in bi-lateral discussions with the Commission in March 2003; and
- the completion of CGC information and data requests on an on-going basis throughout the Review.

The Review is now reaching its final stages with the CGC due to release preliminary calculations under the new methodology in July 2003. Following the release of these preliminary calculations Tasmania will be heavily involved in further analysis and consultations. The CGC is required to finalise states' relativities under the new methodology by 25 February 2004.

Major Specific Purpose Payment Issues

As indicated earlier in this Chapter, Specific Purpose Payments (SPPs) from the Commonwealth are a significant source of funds for Tasmania. Detailed information on SPPs is provided later in this Chapter. This section highlights some major issues currently existing in relation to SPPs.

There are three major SPP agreements currently under renegotiation. These are the Australian Health Care Agreement (AHCA), the Commonwealth-State/Territory Disability Agreement (CSTDA) and the Commonwealth-State Housing Agreement (CSHA). The current status of each is reported below.

In addition to the current renegotiations, the Commonwealth has released a paper, entitled '*Auslink*', on national land transport reforms, which has funding implications for the states. The House of Representatives Standing Committee on Economics, Finance and Public Administration *Inquiry into Local Government and Cost Shifting* also has potential implications for future funding arrangements between the Commonwealth and the states.

Australian Health Care Agreement (AHCA)

The AHCA expires on 30 June 2003. The AHCA governs the provision of approximately \$160.0 million in Commonwealth payments provided to Tasmania in the form of the Health Care Grant. Funding provided under this agreement primarily facilitates the provision of hospital services.

State Health Ministers met on 29 November 2002. At that meeting, states indicated that they were not prepared to commit to a reform agenda in the absence of any commitment to funding for that agenda. The Commonwealth advised the states to present their case for consideration and that this would be at the Health Ministers' meeting scheduled for 21 February 2003.

In response the states prepared a joint paper outlining their position for consideration at the February meeting. However, the Commonwealth did not attend the meeting and no response has been provided to the states' paper.

The Commonwealth presented its initial offer to the states in late April 2003. Under the offer, the Commonwealth will provide the states with \$42.0 billion over five years, which is \$1.0 billion less than would be provided under the current agreement. The Commonwealth offer is subject to a number of conditions, including the requirement that states at least match the rate of growth in the Commonwealth's contribution, commit to a specified level of funding over each of the five years of the next agreement and report each year on progress against this commitment.

At the May 2003 Health Ministers' meeting, all states rejected the Commonwealth's offer. The states are concerned that the offer falls short of the current arrangements, let alone the level of Commonwealth funding which the states have estimated is needed to fund hospitals on a sustainable basis. They are also concerned about the requirement to match the growth in Commonwealth funding, particularly given hospital funding represents a much smaller proportion of the Commonwealth budget than it does of the state budgets and Commonwealth revenue is growing much faster than state revenues.

Commonwealth-State/Territory Disability Agreement (CSTDA)

The second CSTDA was due to expire on 30 June 2002. Rollover arrangements identical to the Agreement were initially extended to the end of October 2002 to allow negotiations for a new Agreement to be finalised. The Commonwealth Minister for Family and Community Services has since agreed to further extensions while the new agreement is negotiated.

The main issue being debated is the form of states' commitment to disability services. In order to be satisfied that the states will not reduce their effort in this area as a result of additional Commonwealth funding being provided, the Commonwealth is insisting that the states match the rate of growth in its contribution. However, states consider that their track record in providing growth funds in disability services should be

sufficient to overcome the Commonwealth's concerns. The need to retain budgetary flexibility is also a key consideration for the states. The issue is currently unresolved.

Commonwealth-State Housing Agreement (CSHA)

The CSHA expires on 30 June 2003. Commonwealth funding provided under the CSHA to Tasmania totals approximately \$22.0 million per annum and is provided to assist with meeting the cost of the provision of low cost housing to the community.

The current agreement commenced on 1 July 1999 and comprises an overarching multilateral agreement between the Commonwealth and all states, which sets the parameters for separate (although largely consistent) bilateral agreements between each jurisdiction and the Commonwealth.

In November 2002, the Commonwealth Minister wrote to the states presenting the Commonwealth offer for the new CSHA. This offer proposed:

- the new CSHA to operate for five years from 2003-04 to 2007-08;
- an efficiency dividend of one per cent to continue to apply each year;
- notwithstanding the efficiency dividend, indexation to be introduced from 2004-05;
- GST compensation payments to cease;
- the option of withholding five per cent of CSHA funds from states not cooperating with the Commonwealth's welfare reforms, nor encouraging private sector involvement; and
- the present matching arrangements to continue.

The states remain concerned at the low level of funding offered by the Commonwealth, particularly if GST compensation payments are discontinued. There is also concern regarding the proposed five per cent penalty (a new condition) and the continuation of matching conditions that hamper states' flexibility in allocating funds across programs. Negotiations with the Commonwealth are continuing in order to resolve these issues.

Commonwealth Approach to SPPs

There are a number of common themes emerging from current SPP negotiations and other developments in relation to SPPs at a national level.

In July 2002, Commonwealth Treasury wrote to all state Treasuries outlining the Commonwealth's approach to SPPs. Key features of the Commonwealth's new approach to SPPs are:

- a focus on pursuing Commonwealth policy objectives (as opposed to providing funding for the states). This can be expected to result in more conditions being imposed on SPPs to meet Commonwealth objectives;
- a greater focus on accountability requirements, including:
 - the introduction of outcomes/outputs accountability measures; and
 - potentially greater reporting requirements;
- a proportion of funding being contingent on states' 'timely reporting of agreed financial and performance information to the satisfaction of the responsible Commonwealth Minister'; and

- SPPs should be indexed on the basis of broad, economy wide cost indices.

States are concerned about the intrusion by the Commonwealth into areas of state responsibility. Further, many of the conditions which the Commonwealth seek to impose impact adversely on state budget flexibility, as well as the efficiency and effectiveness of the provision of government services.

In addition to negotiations on individual SPPs, state Treasuries are continuing to engage the Commonwealth Treasury and the Department of Finance and Administration on SPP arrangements more generally with a view to achieving more favourable SPP outcomes for the states.

Monitoring of Commonwealth SPP Commitments

The terms of the IGA include a commitment that 'The Commonwealth will continue to provide SPPs to the States and Territories and has no intention of cutting aggregate SPPs as part of the reform process set out in this Agreement, consistent with the objective of the State and Territory Governments being financially better off under the new arrangements.'

This commitment, provided by the Commonwealth in relation to the maintenance of the level of aggregate SPPs to the states, was a crucial factor in reaching agreement on the IGA. It was included in the IGA to address the concern held by the states that, when the states ultimately started to benefit from the increase in GST revenue, the Commonwealth would use this situation as an opportunity to reduce its funding contribution to State services which are the subject of SPP agreements.

In the light of the importance of this issue to the states, the states have established a monitoring process to assess whether the Commonwealth is meeting its commitment in relation to the level of SPPs. While the Commonwealth has refused to endorse these monitoring arrangements, the monitoring has shown that the Commonwealth has met its commitments in relation to 2001-02 and, based on its 2002-03 Mid-Year Economic and Fiscal Outlook, is expected to meet its commitments in relation to 2002-03 and 2003-04.

The Commonwealth commitment in relation to SPPs has been assessed by comparing the level of SPPs made in 2001-02, and those estimated to be made in 2002-03 and 2003-04, with the level that would have been necessary to maintain the level of SPPs in 1999-00 in real per capita terms. While this comparison shows that Commonwealth funding of SPPs has been maintained in real per capita terms compared with 1999-00, there is estimated to be a reduction, in real per capita terms, in the level of payments in 2002-03 compared with 2001-02.

Notwithstanding the results of the SPP monitoring undertaken to date, the ongoing importance of this monitoring is emphasised by continued suggestions from Commonwealth agencies and Ministers that consideration is being given to reducing funding provided under SPP agreements on the basis that states have access to additional revenue through the GST. This notion is totally contrary to the spirit and letter of the IGA commitment in relation to SPPs. The IGA, unlike other agreements, is enshrined in Commonwealth legislation and Tasmania will be constantly vigilant in keeping the Commonwealth to its commitment in the IGA not to cut the aggregate level of SPPs as part of the reform process.

COMMONWEALTH SOURCED REVENUE - DETAILED INFORMATION

The following sections provide detailed information on Commonwealth sourced revenue and the estimated level of receipts from the Commonwealth in 2003-04. The different types of Commonwealth sourced revenue identified are:

- General Purpose Payments;
- Competition Payments made to Tasmania;
- the Health Care Grant (HCG); and
- Specific Purpose Payments.

General Purpose Payments

Description

General Purpose Payments (GPPs) from the Commonwealth can be applied at the state's discretion, whereas Specific Purpose Payments must be spent in accordance with purposes agreed to between the Commonwealth and the states (or as prescribed by the Commonwealth). Prior to implementation of the IGA in July 2000, the largest component of Commonwealth sourced revenue and GPPs was the FAG. However, as a result of the IGA, FAGs and a number of other revenue items have been replaced by the distribution of GST revenue to the states and the provision of BBA, both of which are also classified as General Purpose Payments.

Under the terms of the IGA, the Commonwealth distributes all the revenue it receives from the GST to the states. As with all jurisdictions, Tasmania's allocation of GST revenue is based on the State's population share, adjusted by a relativity factor that embodies the State's per capita financial needs, based on recommendations by the CGC. The relativity factors are calculated by the CGC, with input from each jurisdiction, in accordance with the principle of Horizontal Fiscal Equalisation (HFE). The principle of HFE, the CGC, and its most recent recommendations are discussed in the appendixes to this Chapter.

The level of GPPs received by the State in any financial year is the greater of the GMA or GST revenue share. The GMA is the sum of:

- Commonwealth revenues foregone by the State as a result of reforms agreed to under the IGA;
- additional expenditure incurred by the State as a result of IGA commitments; and
- expenditure savings and increased receipts resulting from national tax changes.

Where, in any given year during the transitional period, Tasmania's GMA exceeds the State's share of GST revenue, the difference between the GMA and the State's GST revenue represents the amount of BBA to be paid to the State by the Commonwealth in relation to that year.

The additional financial assistance provided by the Commonwealth in relation to National Competition Policy outcomes is also classified as a General Purpose Payment in this document. It also should be noted that the HCG, by convention, is identified as a Specific Purpose Payment item in Commonwealth and State

Budget Papers, but is applied as if it were general purpose funding because of its link with the GST revenue distribution. There are no general purpose capital grant programs currently in place.

Calculation of the Guaranteed Minimum Amount (GMA)

Table 10.3 provides details of the amounts used to calculate the GMA for Tasmania in 2002-03 and 2003-04.

Table 10.3: Guaranteed Minimum Amount - Tasmania, 2002-03 and 2003-04

	2002-03 Budget	2003-04 Budget
	\$m	\$m
State Revenues Foregone		
Financial Assistance Grants ¹	963.9	1 025.4
Revenue Replacement Payments	210.7	220.5
Financial Institutions Duty	23.6	24.2
Marketable Securities Duty	0.7	0.8
Marketable Securities Duty Needs ²	2.4	2.6
	1 201.3	1 273.5
Plus Reduced Revenues		
Gambling Taxes	22.0	25.4
	22.0	25.4
Plus Interest Costs		
Interest Costs	0.6
	0.6
Plus Additional Expenditures		
First Home Owners Scheme	21.2	19.4
GST Administration Costs	13.4	13.5
	34.6	32.9
Plus Other Items		
Wholesale Sales Tax Equivalent Payments Foregone	13.0
	13.0
Minus Reduced Expenditures		
Off-road Diesel Subsidies	2.2	2.2
Savings from Tax Reform	13.9	14.9
Low Alcohol Beer Subsidies	1.7
	16.1	18.8
Minus Growth Dividend		
Remaining State Taxes	3.2	4.1
	3.2	4.1
Guaranteed Minimum Amount	1 252.2	1 309.0

Sources: Budget Paper No 1 *Budget Overview 2002-03*, Commonwealth Statement of Estimated Payments, March 2003 Treasurers' Conference.

Notes:

- Adjusted subsequent to the Heads of Treasuries estimates advice to the March 2003 Treasurers' Conference, to take into account the revised 2003-04 FAG pool estimates flowing from updated 2001-02 population figures.
- The Commonwealth agreed to provide states with the additional funds associated with the CGC needs assessment of Stamp Duty on Marketable Securities. As the duty has been abolished, the CGC no longer makes an assessment of each state's capacity to raise taxation revenue through this source.

Reconciliation of the Increase in the GMA for Tasmania

Table 10.4 provides a reconciliation of the estimated General Purpose Revenue from the Commonwealth to Tasmania in 2002-03 and 2003-04.

Table 10.4: Reconciliation of the Guaranteed Minimum Amount from 2002-03 to 2003-04

	Amount	
	\$m	\$m
GMA 2002-03 – Budget Estimate		1 252.2
Plus changes in FAGs and HCGs		
Change due to population share decline	(8.5)	
Change due to higher FAG Relativity	24.5	
Change due to indexation and population adjustment of FAG pool	<u>45.5</u>	
		61.5
Plus changes in State Revenues Foregone		
Revenue Replacement Payments	9.8	
Financial Institutions Duty	0.6	
Marketable Securities Duty	0.1	
Marketable Securities Duty Needs	<u>0.2</u>	
		10.7
Plus changes in Reduced Revenues		
Gambling Taxes	<u>3.4</u>	
		3.4
Plus changes in Interest Costs		
Interest Costs	<u>(0.6)</u>	
		(0.6)
Plus changes in Additional Expense		
First Home Owners Scheme	(1.8)	
GST Administration	<u>0.1</u>	
		(1.7)
Plus changes in Other Items		
Wholesale Sales Tax Equivalent Payments Foregone	<u>(13.0)</u>	
		(13.0)
Minus changes in Reduced Expenditures that are clawed back by the Commonwealth		
Savings from Tax Reform	1.0	
Low Alcohol Beer Subsidies	<u>1.7</u>	
		2.7
Minus Growth Divided		
Remaining State Taxes	<u>0.9</u>	
		0.9
GMA 2003-04 – Budget Estimate		<u><u>1 309.0</u></u>

Sources: Budget Paper No 1 *Budget Overview 2002-03*; *Commonwealth Statement of Estimated Payments*, March 2003 Treasurers' Conference, with adjustment to reflect the impact of increased 2001-02 population estimates; *Report on State Revenue Sharing Relativities 2003 Update*, Commonwealth Grants Commission; Department of Treasury and Finance.

It is estimated that the GMA for Tasmania for 2003-04 will be \$1 309.0 million. The major factor in the GMA is the level of FAG revenue foregone by the State. The level of FAGs is determined by the size of the national pool (which is indexed in real per capita terms), Tasmania's population share and the State's FAG relativity. Despite the ongoing increase in Tasmania's population, Tasmania's estimated population share of the national total is predicted to decline in 2003-04. The State's FAG relativity, however, has increased from 1.75186 in 2002-03 to 1.79057 for 2003-04, which is sufficient to ensure that Tasmania's share of the national weighted population and, therefore, the FAG/HCG pool, has increased from an estimated 4.19 per cent to almost 4.26 per cent. When applied to the increased pool of FAG/HCGs, this increased share increases Tasmania's level of FAG foregone by \$61.5 million in 2003-04. However, a decline in a number of GMA components, including the forecast of First Home Owners Scheme expenditure and, more particularly, the scheduled discontinuation of compensation through the GMA for Wholesale Sales Tax (WST) tax equivalent payments, which ceased following the introduction of the GST, means that Tasmania's total GMA in 2003-04 will grow by less than the rise in FAG foregone.

Total General Purpose Payments (Excluding Competition Payments made to Tasmania)

For 2003-04, it is estimated that Tasmania's share of the GST revenue pool will be less than its GMA. As a result, the State's GMA will determine the level of Commonwealth funding to Tasmania in 2003-04, rather than the level of GST revenue.

Table 10.5 provides an estimate of the amount to be received by Tasmania in 2003-04, in respect of GST revenue and the BBA payment.

Table 10.5: Total Estimated General Purpose Revenue (Excluding Competition Payments to Tasmania), 2002-03 and 2003-04

	2002-03	2003-04
	Budget	Budget
	\$m	\$m
GST Revenue	1 199.5	1 299.7
Budget Balancing Assistance	52.7	9.3
Total General Purpose Revenue (excluding Competition Payments)	1 252.2	1 309.0

Sources: Budget Paper No 1 *Budget Overview 2002-03*; *Commonwealth Statement of Estimated Payments*, March 2003 Treasurers' Conference.

Competition Payments made to Tasmania

The *Agreement to Implement the National Competition Policy and Related Reforms* signed by the Commonwealth and all states in 1995 provides for the states to receive general revenue grants from the Commonwealth which reflect a share of the expected revenue gains to the Commonwealth arising from states' implementation of the National Competition Policy reform agenda. The Commonwealth agreed to index FAGs in real per capita terms and make separate Competition Payments. The Commonwealth

acknowledged that the benefits to the states from the expanded economic activity arising from economic reform would, as a result of the states' limited own-source revenue measures, not otherwise be fully available to them. It is these circumstances that gave rise to Competition Payments, rather than any notion of providing compensation for complying with the process requirements of the NCP. These Competition Payments are being made in three tranches according to a schedule agreed between the Commonwealth and the states at the 1995 Premiers' Conference.

The National Competition Council (NCC) has been charged with the task of assessing the compliance by each state with the conditions governing the making of Competition Payments. Tasmania has received all of its Competition Payments to date, with payments to the State from the third tranche of National Competition Policy Payment funds estimated to reach \$17.4 million in 2002-03, subject to NCC assessment of Tasmania's progress toward NCP reform.

Table 10.6: Estimated Competition Payments to Tasmania

Year	National Total	Tasmanian Share ¹
	\$m	\$m
2002-03 estimate	739.8	17.4
2003-04	758.2	17.6
2004-05	777.1	18.2
2005-06	796.5	18.5
2006-07 and future years	796.5	18.5

Source: Department of Treasury and Finance

Note:

1. Based on the following assumptions: a continuation of current State population shares and the achievement of NCP targets.

Health Care Grant (HCG)

The AHCA provides for HCGs to be paid to states for the five years ending 2002-03. The HCG is the single largest source of Commonwealth revenue to the states after GST revenue.

The AHCA funding consists of three main elements:

- A base grant to assist states in providing the full range of hospital services and to assist with public hospital quality improvement and the provision of palliative care;
- Payments to assist with implementing the National Mental Health Strategy; and
- A grant from the National Health Development Fund (NHDF) to help finance significant health system restructuring (as agreed between each state and the Commonwealth) as one means of improving the performance of the system. The amount of the grant for 2003-04 is not known at this stage as it is dependant upon the approval of specific projects.

It is important to note that, apart from the mental health and NHDF components, the HCG is not specifically earmarked for expenditure on hospitals and there are no matching funding obligations, although all states are required to provide free public hospital services under the AHCA.

Table 10.7 provides details of the estimated HCG payments for 2002-03 and 2003-04.

Table 10.7: Health Care Grant – Tasmania, 2002-03 and 2003-04

Components	2002-03	2003-04
	Budget	Budget
	\$m	\$m
Base Grant	152.1	158.1
Other Payments	1.3	1.6
TOTAL	153.4	159.7
Real terms percentage change (2003-04 over 2002-03)		1.8%

Source: *Commonwealth Statement of Estimated Payments*, March 2003 Treasurers' Conference.

Specific Purpose Payments

Description

SPPs are grants provided for specific purposes, either agreed between each state and the Commonwealth, or as prescribed by the Commonwealth.

SPPs are usually determined through the Commonwealth Budget. Recurrent SPPs normally result from specific fixed term funding agreements, usually of three or five years duration. Often the states have to commit to matching these grants dollar for dollar in order to receive the funds being made available. Conditions such as this reduce a state's control over its own Budget priorities by limiting discretion as to how its financial resources can be applied. Consequently, all states are continually looking to remove such conditions from new or renegotiated inter-government agreements.

The largest SPPs are for public hospitals (the HCG which was discussed separately earlier in this section), roads, housing and education. Other significant SPPs include the Home and Community Care (HACC), Supported Accommodation Assistance (SAAP) and Disability Services programs. Together these SPPs, with the exception of the AHCA, which, as indicated above, is not earmarked, represent considerable tied funding.

As discussed earlier in this Chapter, the Commonwealth has guaranteed that funding for SPPs will not be reduced as a result of the reform of Commonwealth-State financial arrangements. This guarantee is being monitored by the Treasurers' Conference.

Total Specific Purpose Payments

Total SPPs to Tasmania, including the HCG, are estimated to be \$534.1 million in 2003-04, representing a real terms decrease of 2.2 per cent over the 2002-03 estimate of \$534.0 million. This can be largely attributed to a decline in capital SPPs driven by a decrease in Commonwealth road programs in 2003-04. Capital receipts by their nature are subject to year-to-year fluctuations.

Table 10.8 compares estimates for the major types of SPPs for 2003-04 with estimates for 2002-03.

Table 10.8: Specific Purpose Payments – Tasmania, 2002-03 and 2003-04

Program	2002-03	2003-04	Real Terms
	Budget	Budget	Change Over
	\$m	\$m	2002-03
			%
Health Care Grants ¹	153.4	159.7	1.8
CSHA Block Assistance ²	17.7	22.3	23.1
Government Schools	44.2	45.6	0.8
Roads	24.6	20.6	(18.2)
HACC and SAAP	22.7	24.3	4.8
Disability Services	17.6	19.1	6.1
Local Government General Purpose Payments	47.0	49.0	1.9
Other ³	206.8	193.5	(8.6)
TOTAL	534.0	534.1	(2.2)

Source: Department of Treasury and Finance.

Notes:

1. Comprised of grants under the AHCA.
2. Excludes special housing programs.
3. Comprises all remaining SPPs from the Commonwealth to Tasmania, excluding payments direct to Local Government.

Specific Purpose Payments 'To' the State and 'Through' the State

It is important to note that the amounts in Table 10.8 represent the total capital and recurrent SPPs to be made to Tasmania. There are two categories of SPPs:

- those involving payments directly to a state government that assist in meeting its expenditure responsibilities. These are referred to as SPPs 'to' the state; and
- those involving payments to a State Government for on-passing to other bodies such as Local Government and non-government organisations. These are referred to as SPPs 'through' the state.

It is also important to note that in previous years this table only presented estimates of SPPs to be paid into the Consolidated Fund. However, under the new accruals presentation, this Table now also includes SPPs which pass through the Special Deposits and Trust Fund.

Table 10.9 illustrates the destination of Tasmania's SPPs in 2002-03 and 2003-04.

Table 10.9: Classification of Specific Purpose Payments by Destination, 2002-03 and 2003-04

Destination	2002-03	2003-04	Real Terms
	Budget	Budget	Change Over
	\$m	\$m	2002-03
			%
'Through' the State (to Local Government)	47.0	49.0	1.9
'Through' the State (to other organisations)	146.5	144.2	(3.8)
Total 'Through' the State	193.5	193.2	(2.4)
'To' the State	340.5	340.8	(2.2)
TOTAL SPECIFIC PURPOSE PAYMENTS	534.0	534.1	(2.2)

Source: Department of Treasury and Finance.

Total Commonwealth Sourced Revenue

The reforms to Commonwealth-State financial relations significantly increased the level of Commonwealth sourced revenue received by the states from 2000-01. However, as has been emphasised previously, this increase only compensates the states for the revenue foregone and the additional expenditure incurred by all states as a result of the implementation of the IGA. There is no revenue benefit to the states under the revised arrangements until such time as a state has moved out of the guarantee period.

Table 10.10 shows the (nominal) amounts and shares that Tasmania has received in GPPs, SPPs and total Commonwealth sourced revenue over the period 1976-77 to 2003-04. The last column of the table shows the decline in Tasmania's population as a proportion of Australia's population.

Table 10.10 also shows that there has been no increase in Tasmania's share of Commonwealth revenue as a consequence of the reform of Commonwealth-State financial relations under the IGA. For GPPs, levels of funding for 2000-01 and subsequent years cannot be directly compared with earlier years because of the change in funding arrangements under the IGA.

Table 10.10: Commonwealth Sourced Revenue - Tasmania

Year	General Purpose Grants	Tasmania's Grant Share	Specific Purpose Grants	Tasmania's Grant Share	Total Grants	Tasmania's Grant Share	Tasmania's Population Share
	\$m		\$m		\$m		
1976-77	218.2	5.2	149.4	3.7	367.6	4.5	2.9
1977-78	247.6	5.1	164.5	3.7	412.1	4.4	2.9
1978-79	274.2	5.2	156.1	3.5	430.4	4.4	2.9
1979-80	301.8	5.2	163.0	3.5	464.8	4.3	2.9
1980-81	329.1	4.8	189.6	3.5	518.8	4.2	2.9
1981-82	357.3	4.1	202.7	4.3	560.0	4.2	2.9
1982-83	400.1	3.7	244.2	4.1	644.3	4.1	2.8
1983-84	465.8	3.9	307.7	4.3	773.5	4.3	2.8
1984-85	512.7	4.0	308.0	3.8	820.6	4.2	2.8
1985-86	532.7	3.9	287.5	3.4	820.1	3.9	2.8
1986-87	548.7	3.8	302.2	3.4	851.0	3.8	2.8
1987-88	547.3	3.7	314.8	3.4	862.1	3.6	2.8
1988-89	516.4	3.8	367.2	3.2	883.7	3.6	2.7
1989-90	528.8	3.9	483.8	3.9	1 012.6	3.8	2.7
1990-91	549.4	4.1	433.8	3.0	983.3	3.5	2.7
1991-92	592.0	4.3	496.2	3.3	1 088.2	3.7	2.7
1992-93	605.8	4.3	537.8	3.1	1 143.6	3.6	2.7
1993-94	615.7	4.2	498.8	3.0	1 114.6	3.5	2.7
1994-95	628.8	4.2	497.6	2.8	1 126.4	3.5	2.6
1995-96	661.9	4.2	538.2	2.9	1 200.1	3.5	2.6
1996-97 ¹	662.8	4.2	552.4	2.9	1 215.2	3.5	2.6
1997-98	677.7	4.2	480.1	3.3	1 157.8	3.7	2.5
1998-99	726.1	4.3	498.0	3.2	1 224.1	3.6	2.5
1999-00	796.6	4.5	539.6	3.0	1 336.2	3.8	2.5
2000-01	1 098.4	4.0	522.7	2.7	1 621.1	3.5	2.4
2001-02	1 218.9	3.9	535.4	2.6	1 754.3	3.4	2.4
2002-03 (estimate) ^{2,3}	1 271.3	4.0	534.0	2.5	1 803.6	3.4	2.4
2003-04 (estimate) ^{2,3}	1 326.6	4.0	534.1	2.4	1 860.7	3.4	2.4

Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments*, March 2003 Treasurers' Conference; Department of Treasury and Finance; and program specific information.

Notes:

1. General Purpose Payments for 1996-97 to 1998-99 are net of State Fiscal Contributions and include Competition Revenue from 1997-98 onwards.
2. General Purpose Payments include GST revenue, BBA and Competition Payments made to Tasmania.
3. As a result of the changes to Commonwealth-State financial arrangements, Commonwealth General Purpose Payments to the states from 2000-01 onwards are not directly comparable with previous years. The amount to be received is the same as that which would have been received under the previous Commonwealth-State financial arrangements, after adjustment for the revenue to be foregone and the additional expenditure to be incurred by the states. See discussion under the section 'General Purpose Payments' above.

APPENDIX 1

Why Commonwealth Revenue is Essential

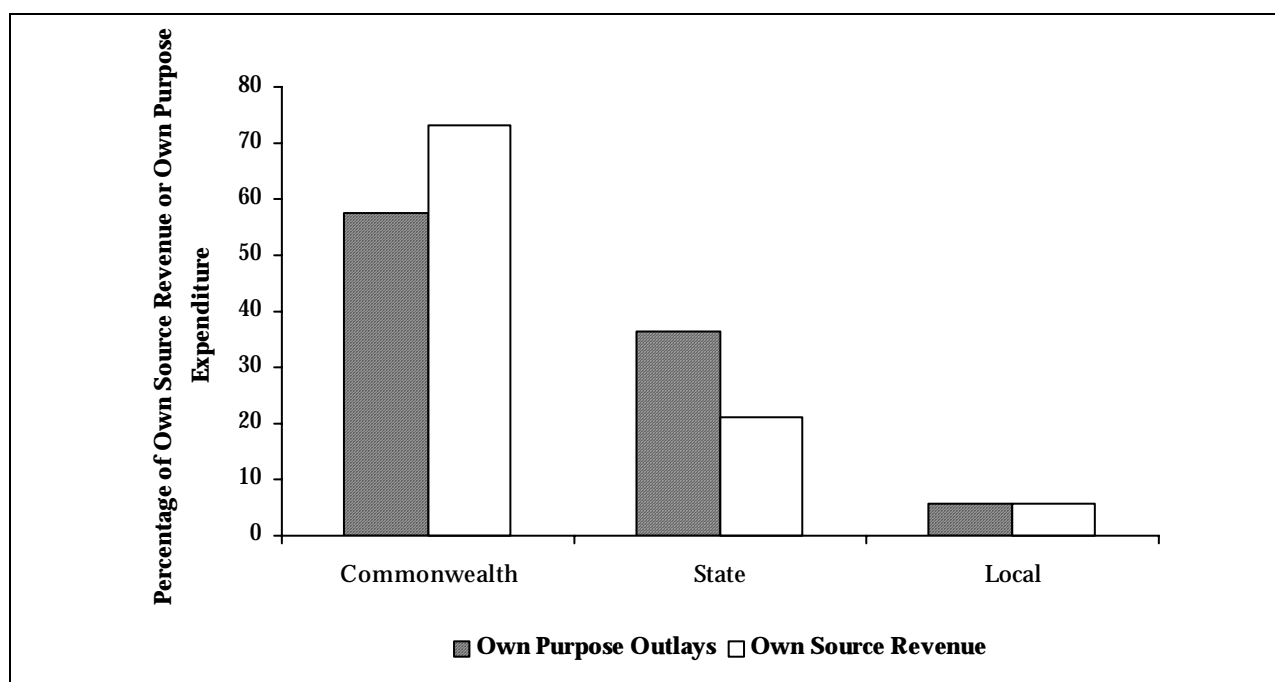
The transfer of revenue by the Commonwealth to the states is an essential part of the financial relations that exist between the different levels of government in Australia. These transfers are fundamentally linked to the nature of the Australian Federation and the way in which that Federation has developed over the past 100 years. In particular, they reflect the differing powers and responsibilities provided to the different levels of government and the fundamental desire to achieve a level of equity across the different states. The reasons for the revenue transfers to the states are outlined in further detail in the following sections on Vertical Fiscal Imbalance (VFI) and Horizontal Fiscal Equalisation (HFE).

Vertical Fiscal Imbalance

Since Federation, a financial relationship between the Commonwealth and State Governments has evolved in which the dominant characteristic is the fundamental imbalance between the revenue raising powers and functional responsibilities of each level of government. While the seeds of the present vertical fiscal imbalance lie in the original Constitution agreed at Federation, it has since been reinforced by Constitutional amendments and by High Court interpretations of the Constitution.

The term VFI refers to the difference between own source revenue and own purpose expenditure commitments for a level of government. This is illustrated in Chart 10.4, which compares the percentage shares of revenue and expenditure on a consolidated basis for the Commonwealth, State and Local Governments. It shows that, in 2002-03, it is estimated that the Commonwealth raised 73 per cent of total (General Government) revenue, whereas its own purpose (General Government) spending was only 58 per cent of total General Government outlays. In contrast, the states' share of this revenue was only 21 per cent, while combined state General Government outlays represented 37 per cent of the national total. Revenues and expenditures for local government are estimated to be broadly in balance.

Chart 10.4: Vertical Fiscal Imbalance as at 2002-03



Source: *Government Financial Estimates, Australia, 2002-03*, Cat. No 5501.0 Australian Bureau of Statistics.

As a result of VFI, there is a requirement for significant Commonwealth financial transfers to the states on an ongoing basis. As detailed in this Chapter, Commonwealth financial assistance to the states is provided in a variety of ways. It comprises General Purpose Payments or recurrent untied grants, and tied grants, known as Specific Purpose Payments, for both recurrent and capital purposes.

The reforms to Commonwealth-State financial relations, which commenced under the IGA on 1 July 2000, resulted in a substantial increase in VFI. The states have foregone FAGs, revenue replacement payments and financial institutions duty, and will cease to collect debits tax and a range of stamp duties in return for receiving all the revenues collected under GST, which is a Commonwealth tax. While VFI will be increased, the intention is that these arrangements will actually provide the states with a greater level of certainty in relation to Commonwealth revenue. This is because they will, in principle, sever the link between Commonwealth general revenue grants to the states and the fiscal policy decisions of the Commonwealth.

Horizontal Fiscal Equalisation

In addition to the differences that exist between the powers and responsibilities of the Commonwealth and State Governments, another fundamental characteristic of financial relations in the Australian Federation is the degree to which the fiscal capacities of the states differ. This refers to the difference, in per capita terms, between the cost to a state of providing a range of services common to all states and the financial resources available to it, including own source revenues and certain grant monies paid from the Commonwealth (apart from General Purpose Payments). The causes of such horizontal fiscal imbalance are complex and varied (demographic, geographic and economic to name a few). Those causes over which a state has no control are the explicit focus of the HFE process.

In the absence of an arrangement whereby Commonwealth General Purpose Payments and HCGs are distributed in accordance with HFE, those states which face unduly high costs and/or a lesser ability to raise revenues, through no fault of their own, would be required to deprive their communities of the

opportunity to access similar levels and standards of service than those offered elsewhere in Australia. The principle of HFE is therefore an integral element of Commonwealth-State financial transfers.

The HFE framework that is now used takes, as its starting point, the scope of state transactions and functions, including all related recurrent expenditures and revenues, which are considered the normal responsibility of State Governments. The actual expenditures and revenues for each state are taken to differ from the experience of all states on average, due to influences beyond the states' control (disabilities) as well as differences in policy, practice and operating efficiency. The Commonwealth Grants Commission makes adjustments to the average expenditure and revenue for individual states to reflect their disabilities relative to the situation faced by other states, but it does not 'compensate' for differences attributable to policy, practice and relative efficiency. In this way the smaller states such as South Australia, Tasmania and the Northern Territory, which on the whole face higher than average per capita costs and lower than average revenue raising abilities, are granted a greater than proportional share of general revenue assistance to enable them to discharge their standard functions without necessarily having to impose above average revenue raising measures on their communities.

The IGA requires the GST revenue to be distributed to the states using the principle of HFE. As the IGA is attached to Commonwealth legislation and to legislation in each of the states, HFE is now effectively given the force of the law. This is a significant benefit to Tasmania, given the importance of the distribution of revenues on an HFE basis for the State.

APPENDIX 2

The Commonwealth Grants Commission

Established in 1933, the CGC is an independent Commonwealth Government statutory body charged with the task of making recommendations to the Commonwealth Treasurer, in the form of per capita relativity factors, on how GST revenue and the HCGs should be distributed between the states each year.

Since 1981, the basis for its recommendations has been an assessment of the relative fiscal capacities of the states. These assessments are carried out in accordance with the principle of HFE, which is discussed in the previous section. As a result of this assessment, it is estimated that Tasmania will receive approximately \$525.0 million more in 2003-04 than it would have received if Commonwealth General Purpose Revenue and the HCGs were distributed between the states on a per capita basis.

The CGC's assessments provide the states with an important source of comparable data on which to assess their relative performance in the areas of expenditure efficiency and revenue raising effort.

The revenue raising effort of each state can be measured by comparing the own-source revenue actually raised with its revenue raising capacity, as assessed by the CGC, based on 'standardised' revenue. Standardised revenue reflects the amount of revenue that could be raised by a state if national average tax rates were applied to each jurisdiction's revenue base. This measure includes state taxation, income from interest earnings, property and mining royalties, and contributions to government from public trading enterprises.

A revenue raising effort index has been calculated for each state and is shown for the five years to 2001-02 in Table 10.11. Chart 10.5 shows the revenue raising effort ratio of each state for the 2001-02 financial year, the most recent year for which Commission data are available. In both Table 10.11 and Chart 10.5, the average revenue raising effort of all states is represented by 100.

While the CGC's assessment of Tasmania's revenue raising efforts, in terms of total own-source revenue, has risen from an index of 94.21 at the time of the 2002-03 Budget to 102.39, the gain is primarily the result of an increase in the contributions to state revenue from public trading enterprises. In terms of total taxation, however, the State's revenue raising effort has actually declined since the CGC's 2002 determinations.

Table 10.11: Trends in State Revenue Raising Effort Ratios

State/Territory	1997-98	1998-99	1999-00	2000-01	2001-02
New South Wales	102.91	98.14	100.92	100.60	101.87
Victoria	105.40	107.63	95.61	100.12	102.93
Queensland	87.01	97.59	105.85	94.21	84.97
Western Australia	89.84	91.44	93.22	103.80	106.00
South Australia	115.40	107.91	107.90	103.84	108.76
Tasmania	102.26	93.28	89.75	96.86	102.39
Australian Capital Territory	95.07	92.87	107.32	113.60	108.24
Northern Territory	103.06	91.08	97.66	97.23	97.83

Source: *Report on State Revenue Sharing Relativities 2003 Update – Supporting Information*, Commonwealth Grants Commission.

Chart 10.5: State Revenue Raising Effort Ratios, 2001-02



Source: *Report on State Revenue Sharing Relativities 2003 Update*, Commonwealth Grants Commission.

It should be noted that because the CGC updates the data used to assess revenue raising effort each year, the indices for 1997-98 to 2000-01 in Table 10.11 are not directly comparable with those published last year in Budget Paper No 1 *Budget Overview 2002-03*.

An index has also been calculated that shows the relative level of service provision for each state. This index for the five years to 2001-02 is presented in Table 10.12. The ratio indicates a state's actual outlays as a proportion of the CGC's assessment of standardised expenditure. Standardised expenditure is simply the average expenditure by all states adjusted for each state to reflect its assessed disabilities.

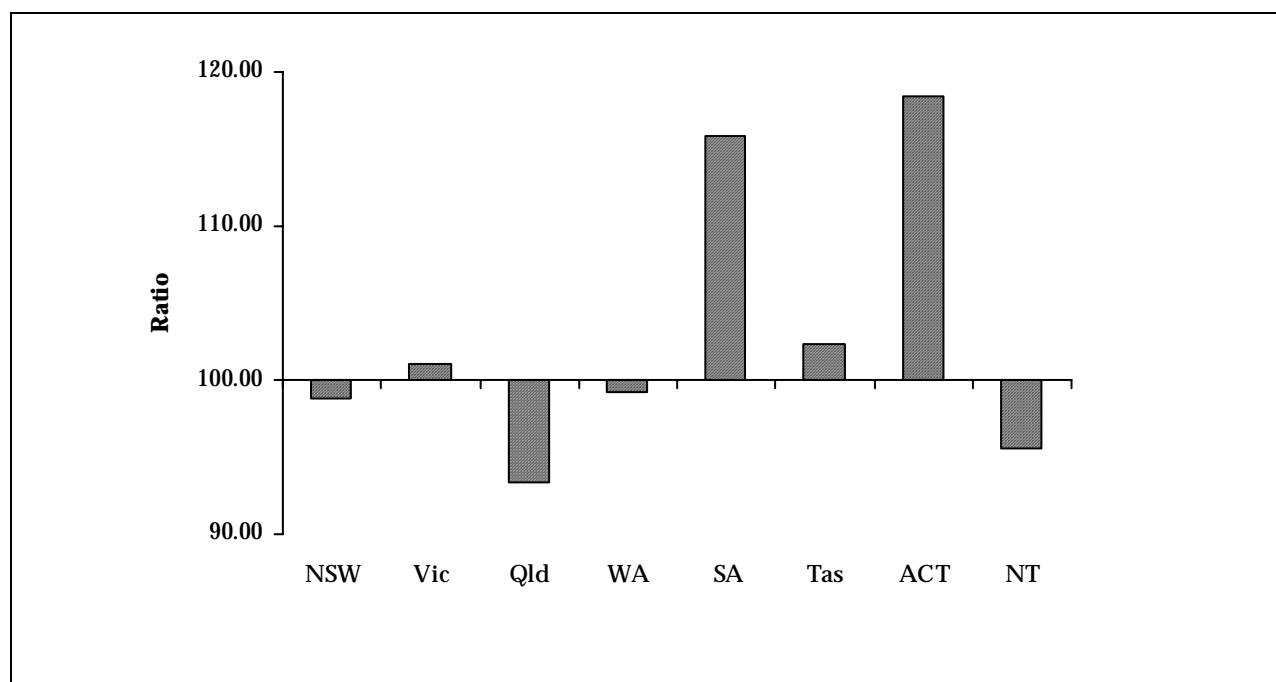
The index incorporates an adjustment to exclude outlays for depreciation and debt servicing payments. This has been necessary because of the differences in approaches across jurisdictions, which makes a meaningful comparison of these outlays, using this information, very difficult. The figures are shown graphically in Chart 10.6 for 2001-02, which is the most recent year for which Commission data are available.

Table 10.12: Trends in State Level of Service Provision Ratios

State/Territory	1997-98	1998-99	1999-00	2000-99	2001-02
New South Wales	102.7	100.2	100.4	98.8	98.8
Victoria	97.4	97.5	101.7	100.0	101.0
Queensland	93.4	98.3	89.2	93.9	93.3
Western Australia	102.9	102.0	103.8	101.4	99.2
South Australia	109.9	104.1	111.6	114.5	115.8
Tasmania	91.2	91.9	96.6	99.2	102.4
Australian Capital Territory	103.5	123.1	116.9	123.4	118.4
Northern Territory	99.4	105.0	99.4	95.1	95.5

Source: *Report on General Revenue Grant Relativities 2003 Update*, Commonwealth Grants Commission.

Chart 10.6: State Level of Service Provision Ratios, 2001-02



The ratio indicates that Tasmania's aggregate level of service provision is currently above the national average. This means that the Tasmanian Government spent more in 2001-02 on the provision of government services than it would have done had it applied the CGC's standardised level of per capita expenditure. Table 10.12 show that Tasmania's level of service provision has increased consistently over the four years to 2001-02.