



**COMMONWEALTH GRANTS
COMMISSION 2020
METHODOLOGY REVIEW OF
GST REVENUE SHARING
RELATIVITIES**

***NEW ISSUES FOR THE 2020
REVIEW***

ACT Government submission

ACT GOVERNMENT SUBMISSION

NOVEMBER 2019

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INTRODUCTION

The Commonwealth Grants Commission (CGC) carries out a comprehensive review of the methods it employs to determine Goods and Services Tax (GST) revenue sharing relativities for states and territories (states) once every five years. The final report of the current *2020 Methodology Review of GST Revenue Sharing Relativities* (2020 Review) is scheduled to be released by 28 February 2020 and the methods recommended will be used to distribute the GST revenue among jurisdictions from 2020-21 to 2024-25, if agreed by the Federal Treasurer.

This New Issues staff discussion paper, CGC 2019-01-S released on 8 October 2019, is part of an ongoing process of consultation since 2016-17 involving a range of consultations and staff and Commission papers. The paper sets out new issues identified by the Commission staff that are relevant for the 2020 Review arising from a review of jurisdictions' 2019-20 Budget papers.

The ACT welcomes the opportunity to comment on the range of issues that Commission staff have identified and provides its views below.

NEW ISSUES FOR THE 2020 REVIEW

WELFARE ASSESSMENT – TREATMENT OF NATIONAL DISABILITY SPP

Background

The change in arrangements for disability services due to the implementation of the National Disability Insurance Scheme (NDIS) has always been considered a major change in federal financial relations. Hence, backcasting has been used and the quantum and distribution of payments in the application year (as opposed to the assessment year) has played a key role in the assessment of expenses in the NDIS component of the Welfare category.

In the 2019 Update, the assessment of state expenses on NDIS was based on full scheme implementation in 2019-20 and treated equal per capita (EPC) on the basis of state populations in the 2011 Census. In 2020-21, the application year for the 2020 Review, transition to NDIS will mostly be complete and Commonwealth support for disability services will be through payments to the National Disability Insurance Agency (NDIA). The National Disability Specific Purpose Payment (SPP) will cease.

The new issue for this update is how the National Disability SPP should be treated from an equalisation perspective, given that the NDIS full scheme is expected to be implemented across all states before the onset of the application year 2020-21. Up to and including the 2019 Update, the payment to states through the National Disability SPP has had an impact on the GST distribution.

CGC staff position

CGC staff propose to recommend the Commission assess the National Disability SPP on an equal per capita (EPC) basis because in the application year all states will have largely completed their transition to the NDIS.

ACT position

The ACT supports the CGC staff position. We note the CGC backcasts the Commonwealth payments associated with NDIS and from 2020-21, the application year of the 2020 Review, there are no Commonwealth payments to the states to support NDIS. Further, the NDIS expenses are assessed on the basis of state population shares since state contributions are determined through that method. Hence, we consider it both logical and fair that since the only remaining Commonwealth payment to the states for NDIS, the National Disability SPP, will cease from 2020-21 onwards, such payment should be distributed equal per capita in all the assessment years till the 2019-20 assessment year drops off from the Update process, i.e. in the *GST Revenue Sharing Relativities 2024 Update*.

TREATMENT OF COMMONWEALTH PAYMENTS

Commonwealth payments commenced in 2018-19

Background

CGC staff used the Commonwealth's Final Budget Outcome (FBO) 2018-19 to examine the Commonwealth payments that commenced in 2018-19. They have proposed the equalisation treatment of the payments in Attachment A, Table A-1 of the New Issues discussion paper using the following guideline adopted in the 2020 Review (which is the same as the guideline in the 2015 Review):

payments which support State services, and for which expenditure needs are assessed (inclusive of deliberative EPC assessments), will impact on State fiscal capacities.

For a payment having multiple components, if the Commission decides that one or more components should not impact states' fiscal capacities, CGC staff will collect information to split the payments so that the correct treatment can be applied to each component.

The 2020 ToR received to date have not provided any directions on the treatment of particular payments. However, ToR for the 2019 Update quarantined the following payments that commenced in 2018-19:

- payments relating to the Project Agreement for the Health Innovation Fund – Stage 1;
- payments to the ACT relating to the Project Agreement for the expansion of Clare Holland House;
- payments to the Northern Territory of up to \$550 million over 5 years for Remote Indigenous Housing commencing in 2018-19;
- payments for the additional general revenue assistance relating to GST transitional support and top-up payments under the Commonwealth's HFE reform package (to commence in 2019-20);
 - Western Australia has already received payment worth \$434 million scheduled for 2019-20 in 2018-19; and
- payments to South Australia for a Proton Beam Therapy Facility, though the FBO for 2018-19 did not record any payment to South Australia on account of this.

CGC staff have received preliminary advice from the Commonwealth Treasury that supplementary ToR for the 2020 Review will ask the CGC to exclude payments worth \$56 million to Tasmania on account of the Marinus Link to be excluded from the calculation of state fiscal capacities. While such supplementary ToR have not been issued yet, CGC staff have indicated that their recommendation to the Commission will be for the payment to not impact state fiscal capacities since corresponding needs are not assessed.

CGC Staff position

The CGC staff have recommended that out of the 17 Commonwealth payments initiated in 2018-19:

- Three payments, with a total value of \$104.2 million, would impact states' fiscal capacities;
- Two payments, with a total value of \$10 million, would partially impact states' fiscal capacities; and
- Twelve payments, with a total value of \$907.4 million, would not impact states' fiscal capacities for reasons ranging from 2019 Update ToR to whether needs are assessed.

ACT position

The ACT agrees the rationale of CGC staff for the impact/no impact treatment of these payments.

Commonwealth payments commencing in 2019-20 or 2020-21

CGC staff position

CGC staff have presented a list of new payments that will commence in 2019-20 or 2020-21 in Attachment A, Table A-2 in the New Issues discussion paper. While the payments shown will impact the application year for the 2020 Review, 2020-21, CGC staff argue that none of the payments represents a significant change in federal financial arrangements and hence, they do not intend to recommend to the Commission that any of the payments be backcast. They propose to consider the treatment of the payments in the relevant updates.

ACT position

The ACT agrees with the CGC staff that none of the payments commencing in 2019-20 or 2020-21 represents a significant change in federal financial arrangements and hence, need not be backcast. That said, we note the significant number of new city/regional deals in the payments and consider that since infrastructure investment needs of states are assessed in the Investment category, these city/regional deals should be considered as having impacts on states' fiscal capacities in the relevant Updates.



ACT
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