



Public Policy Network Conference –2008

Short Changed?

Intergovernmental Financial Relations 10 years on

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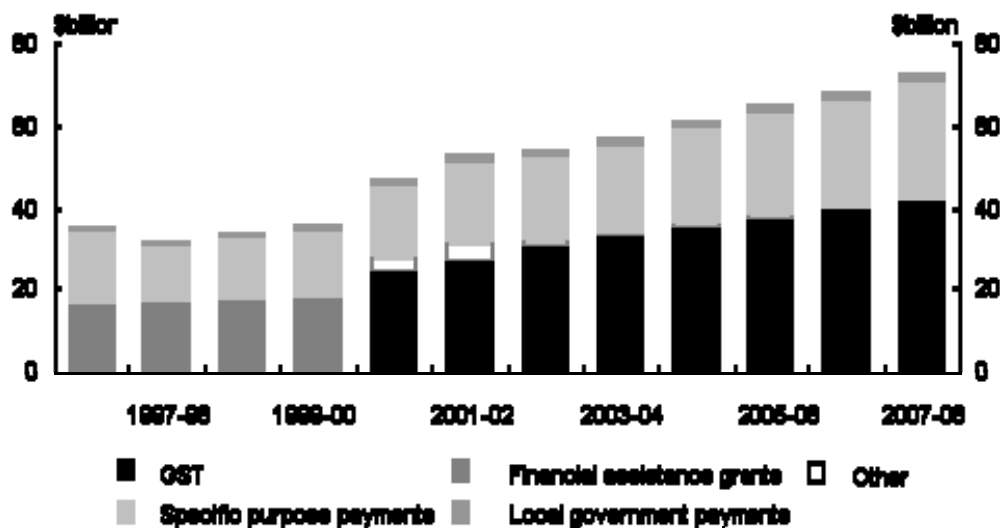
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The Impact of the IGA

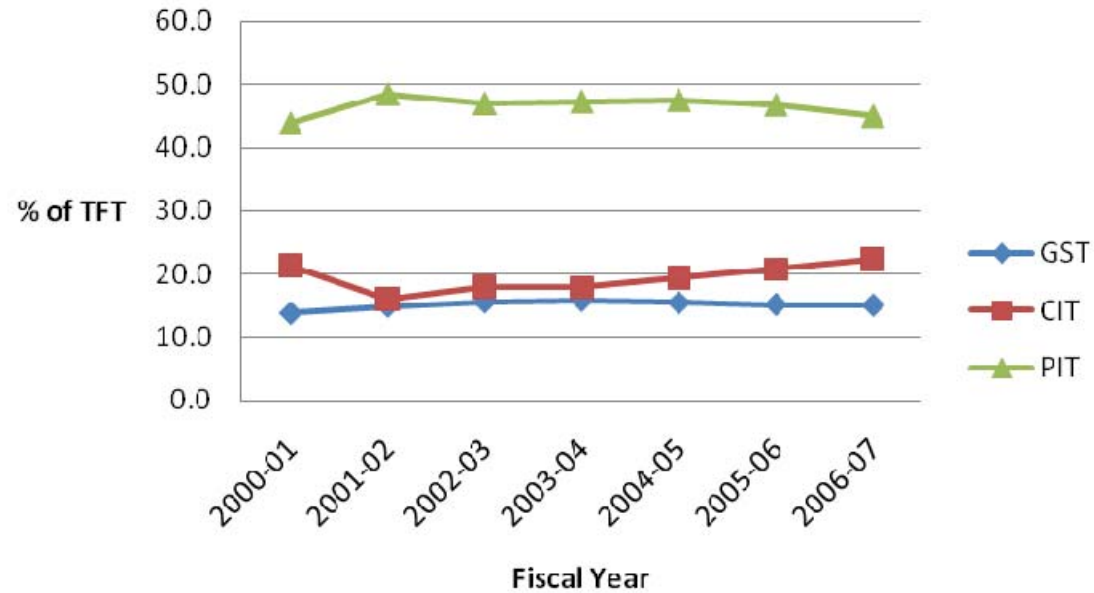


| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | Increase \$ | Increase % | Annual Avg. Increase % |
|-------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-------------|------------|------------------------|
| NSW | 7,257.60 | 8,132.00 | 9,080.20 | 9,667.10 | 9,937.50 | 10,426.70 | 10,937.5 | 3,679.90 | 50.7 | 7.2 |
| VIC | 5,099.30 | 5,593.10 | 6,365.10 | 6,961.00 | 7,374.40 | 7,864.50 | 8,588.0 | 3,488.70 | 68.4 | 9.8 |
| QLD | 4,658.20 | 5,018.60 | 5,887.60 | 6,552.80 | 7,374.20 | 7,721.10 | 8,092.2 | 3,434 | 73.7 | 10.5 |
| WA | 2,374.60 | 2,518.10 | 2,910.20 | 3,157.90 | 3,643.60 | 3,822.10 | 3,968.1 | 1,593.50 | 67.1 | 9.6 |
| SA | 2,278.90 | 2,476.60 | 2,859.10 | 3,146.40 | 3,307.60 | 3,449.00 | 3,604.9 | 1326 | 58.2 | 8.3 |
| TAS | 988.1 | 1,059.80 | 1,246.70 | 1,394.50 | 1,441.30 | 1,501.40 | 1,567.6 | 579.5 | 58.6 | 8.4 |
| ACT | 472.6 | 543.9 | 615.7 | 658.1 | 683.2 | 722.6 | 778.3 | 305.7 | 64.7 | 9.2 |
| NT | 1,225.60 | 1,289.80 | 1,514.50 | 1,680.90 | 1,743.20 | 1,832.70 | 2,015.3 | 789.7 | 64.4 | 9.2 |
| TOTAL | 24,354.90 | 26,631.90 | 30,479.10 | 33,218.70 | 35,505.00 | 37,340.10 | 39,551.9 | 15,197.00 | 62.4 | 8.9 |



Relative Performance of GST

Table 2. Growth in GST revenue relative to other federal taxes 2000-07.
(Source: ABS 2007)



| Column1 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | Increase \$ | Increase % |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-------------|------------|
| PIT | 76,910 | 86,085 | 91,477 | 98,979 | 108,784 | 114,624 | 117,614 | 40,704 | 50.7 |
| CIT | 37,524 | 28,439 | 35,079 | 37,503 | 44,570 | 50,978 | 58,538 | 21,014 | 56.0 |
| Total fed Tax | 175,591 | 177,838 | 194,827 | 209,560 | 229,131 | 245,223 | 261,506 | 85,915 | 48.9 |
| TOTAL GST | 24,354.90 | 26,631.90 | 30,479.10 | 33,218.70 | 35,505.00 | 37,340.10 | 39,551.9 | 15,197.00 | 62.4 |



But....

GST revenue has:

- Increased the VFI
- Improved State public finances but eroded fiscal capacity
- Increased political conflict around the CGC process

In 99-00 40% of State revenue from own source taxation

In 05-06 33% of State revenue from own source taxation

In Tasmania this figure is now around 20%!



State Taxes in Detail

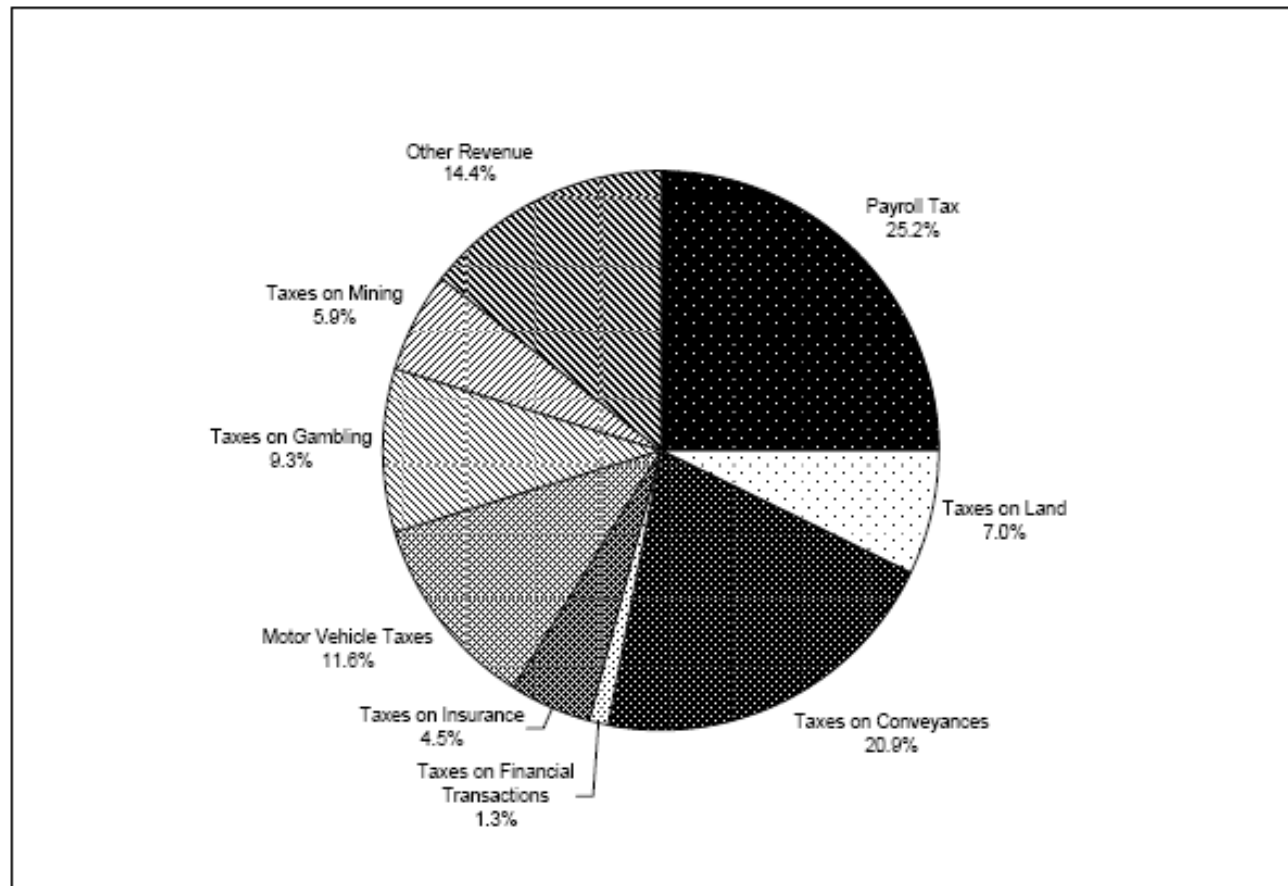


Figure 1. Structure of State Taxation 2004-05. (Source: ABS 2007)



Growth in State Taxation

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | Increase \$ | Increase % | Annual Increase % |
|-------------------------------------|---------|---------|---------|---------|---------|---------|-------------|------------|-------------------|
| Gambling Machine Tax | 2,071 | 2,236 | 2,272 | 2,434 | 2,653 | 2,839 | 768 | 37.10% | 7.40% |
| Payroll tax | 9,503 | 9,671 | 10,162 | 10,839 | 11,996 | 13,087 | 3,584 | 37.70% | 7.50% |
| Property tax | 7,406 | 9,546 | 11,397 | 13,566 | 13,201 | 13,784 | 6,378 | 86.10% | 17.2% (28%) |
| Total State Rev | 32,679 | 33,341 | 36,418 | 40,394 | 41,649 | 44,235 | 11,556 | 35.30% | 7.00% |
| Property tax contribution to growth | | 323% | 60% | 54% | 0% | 22% | 55.10% | | |



Funding Sources – Public Hospitals

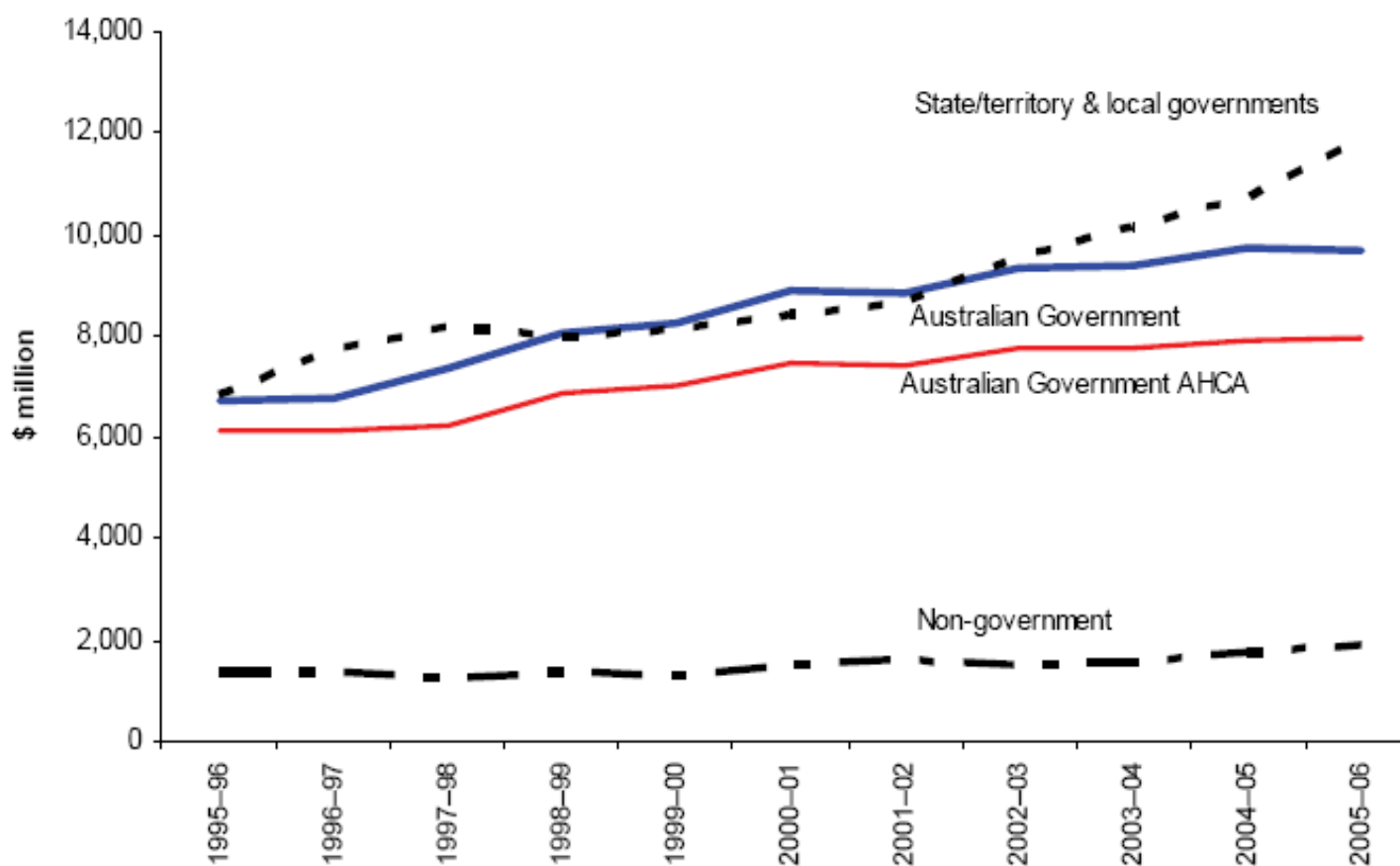


Fig 2. Funding sources for Australian Public Hospitals (Current Prices) 1995-96 to 2005-06. Source AIHW (2007, 5)



Public Hospital Funding Pressure

- In the year to 2005-06 States increased funding to public hospitals by \$1.63 billion
- It is estimated that an additional \$1.5 billion is required
- The growth in GST revenue of the same period was \$1.83 billion
- Hospitals have consumed 90% of the GST growth dividend



Some Reform Options

1. Expanding the State Tax Base
2. Increased Specific Purpose Payments
3. Increasing the GST
4. Sharing other Commonwealth Taxes
5. Transfer of Public Hospitals



Expanding the State Tax Base

- Gambling (9.3%) – politically unpopular, Rudd opposed and Xenaphon influential
- Property (27.9%) – structural decline, housing affordability
- Payroll (25.2%) – robust base, economic impact, business and competitive pressure



Increased Specific Purpose Payments?

- Incremental approach
- Increase VFI
- Inevitable intergovernmental conflict?



Increasing the GST?

- Efficient tax, international precedents.
- 17% rate would cover SPPs and provide budgetary independence
- Would fund elimination of Payroll and Gambling taxes – \$8.4 billion in compensation

But:

- Reduce fiscal capacity of States, more pressure on CGC.
- Political taboo



Sharing C'wealth Taxes

- Historical and Comparative precedents
 - Switzerland, Germany
 - Fraser 1976 – 33.6% of income tax for GPGs
- In 2007 21% of PIT could replace SPP
- Similar technical/normative problems to GST
- Perhaps less politically ambitious



Transfer of Public Hospitals

- Central to Rudd's National Hospital's Reform Plan
- 2005-06 public funding of public hospitals \$22.4 billion
- (\$10.1 via AHCA SPP and \$12.3 from States) – less than \$24.8 SPP
- Straight swap feasible?
- Improved VFI, efficiency gains
- **but** increased centralisation and governance issues
- C'wealth has capacity to fund health
- Growing political support?



Conclusion

- Fiscal federalism requires structural reform
- Rudd's cooperative federalism may deliver benefits but not the answers
- Will a Commonwealth takeover of public hospitals be the enduring legacy of the Rudd Government's first?