

Chapter 5 Intergovernmental Financial Issues

Overview The Council of Australian Governments' (COAG) Reform of Federal Financial Relations (RFFR) and the global financial crisis (GFC) are the major intergovernmental financial issues impacting on the Northern Territory's 2009-10 Budget.

The RFFR has culminated in a new Intergovernmental Agreement on Federal Financial Relations, encompassing National Agreements in the areas of health, school education, skills and workforce development, disability, housing, and Indigenous reform, supported by five new specific purpose payments and a range of new National Partnership agreements.

Government expenditure related to Indigenous people remains a focus across Australia. To this end, COAG has agreed to develop a national Indigenous Expenditure Report. In October 2008, the Northern Territory published its second Indigenous Expenditure Review covering revenue and expenditure from 2006-07. A Senate Inquiry into Government Expenditure on Indigenous Affairs and Social Services in the Northern Territory reported to Commonwealth Parliament in December 2008.

The GFC has impacted heavily on the Northern Territory's revenue streams. National goods and services tax (GST) collections are expected to decline in 2008-09 from those received in 2007-08, with growth not anticipated until 2010-11. This compares to average growth of 8.2 per cent per annum since the GST was introduced in 2000-01.

Reform of Federal Financial Relations

New Intergovernmental Agreement

In December 2007, COAG agreed a new model of cooperation between governments including reforms to federal financial relations. In November 2008, COAG reaffirmed its commitment to cooperative working arrangements through a new Intergovernmental Agreement on Federal Financial Relations (IGA). The Commonwealth and all states signed the IGA in December 2008.

The aim of the new IGA is to improve government services by increasing the flexibility states have in delivering services, providing a clearer specification of responsibilities of each level of government and enhancing accountability for outcomes. The IGA establishes six National Agreements (NAs) addressing the key service delivery areas of healthcare, school education, skills and workforce development, disability, housing, and Indigenous reform. It also provides for the establishment of National Partnership (NP) agreements to support reform in these areas. The IGA also outlines the funding arrangements for these agreements. Commonwealth Specific Purpose Payments (SPPs) accompany the functionally based NAs. While there is not an SPP for Indigenous reform, the five SPPs include Indigenous service delivery targets and a number of NPs support reform in Indigenous services. Commonwealth payments will also be made to states for NPs.

The IGA will be complemented by a new performance reporting framework which seeks to enhance public accountability for all governments within the new funding arrangements. This will include monitoring and assessment by the independent COAG Reform Council of NA and NP performance benchmarks and outcomes, with results to be made publicly available.

National Agreements

The NAs came into effect on 1 January 2009 with the exception of the National Healthcare Agreement, which will begin on 1 July 2009. The agreements encompass both Commonwealth and state effort and represent a significant simplification of the previously numerous, complex and prescriptive Commonwealth-state agreements in these service delivery areas. Each NA emphasises improved outcomes related to social inclusion (particularly with respect to Indigenous disadvantage). Key features of the agreements are summarised below.

Healthcare Agreement

The Healthcare Agreement covers the breadth of healthcare services including the prevention, primary and community care, hospital and related care and aged care sectors, representing the consolidation of a number of previous agreements such as the Australian Health Care Agreement (which focused on hospital care) and the Public Health Outcomes Funding Agreement.

Education Agreement

The Education Agreement aims to ensure all children are engaged in and benefit from schooling and that young people meet literacy and numeracy standards, excel by international standards and make successful transitions from school to work and further study. It also aims to enhance school education outcomes for disadvantaged children, particularly Indigenous children (previously the remit of separate Indigenous education agreements). This is of particular importance to the Territory, with school education being seen as a key to overcoming Indigenous disadvantage.

Skills and Workforce Development Agreement

The Skills and Workforce Development Agreement aims to ensure that people are equipped with the depth and breadth of skills required for the 21st century labour market and that training systems are able to meet these changing labour market demands. It encompasses vocational education and training (VET) that occurs in a range of settings, including schools.

Disability Agreement

The Disability Services Agreement covers services that provide skills and support to people living with a disability to enable them to live as independently as possible in stable and sustainable living arrangements, income support for people with disability and their carers, and support for families and carers.

Affordable Housing Agreement

The Affordable Housing Agreement covers: the provision of social housing; assistance to people in the private rental market; support and accommodation for people who are homeless or at risk of homelessness; and home purchase assistance. The Agreement consolidates a number of previous housing and homelessness agreements including the Commonwealth-State Housing Agreement, community housing, crisis accommodation assistance, housing assistance for Indigenous people, the Supported Accommodation Assistance Program, the Housing Affordability Fund and the National Rental Assistance Scheme.

Indigenous Reform Agreement

The Indigenous Reform Agreement is the vehicle agreed by COAG to progress reforms to close the gap of Indigenous disadvantage. It complements Indigenous specific outputs and outcomes described in the other NAs and in Indigenous specific NPs. It focuses on six key strategic areas of early childhood, schooling,

health, economic participation, healthy homes, safe communities, and governance and leadership.

SPP Reform

Prior to the RFFR, there were more than 90 individual SPPs across areas covered by the new NAs. A major part of the RFFR has been to reduce the number of SPPs to five, one for each functionally based NA.

Key features of the reform to SPPs include the broadbanding of payments, increased base funding and indexation, the removal of input controls (specifications as to how funding can be spent), and more focused and administratively simpler reporting requirements.

The reforms to SPPs have been welcomed by states. Broadbanding and removal of input controls increase the flexibility available to Northern Territory agencies to achieve agreed outcomes in each functional area.

Distribution of SPPs between states has been simplified with payments based on states' shares of national population, except for the national schools SPP which will be distributed on the basis of school enrolments. This will result in the Northern Territory's share of SPP funding declining over time. However, needs relating to the service delivery areas covered by the SPPs will continue to be assessed by the Commonwealth Grants Commission in its assessment of GST revenue sharing relativities. This will lead, all other things being equal, to increased GST funding to compensate for the reduction in SPP funding.

National Partnerships

National Partnership payments are designed to fund specific projects and to facilitate and/or reward states to deliver on nationally significant reforms. COAG has agreed to the NPs listed below as part of reforms under NAs (details are shown in *Budget Paper No. 3*).

Table 5.1: Key National Partnership Agreements

National Agreement	National Partnership
Healthcare	Hospital and Health Workforce Reform
	Preventive Health
	Closing the Gap in Indigenous Health Outcomes
Education and Skills and Workforce Development	Early Childhood Education
	Improving Teacher Quality
	Literacy and Numeracy
	Low Socio-Economic Status School Communities
	TAFE Fee Waivers for Childcare Qualifications
Indigenous Reform	Productivity Places Program
	Indigenous Early Childhood Development
	Remote Service Delivery
Affordable Housing	Indigenous Economic Participation
	Social Housing
	Homelessness
	Remote Indigenous Housing

In addition, NPs have been developed for Business Regulation – A Seamless National Economy, National Network (formerly AusLink) and the Commonwealth's Nation Building and Jobs Plan stimulus package.

Indigenous Expenditure

Although states have actively participated in the development of the NP agreements, the new arrangements are characterised by the restrictive controls that characterised the previous SPPs, albeit to a lesser extent, including matching funding requirements, potentially onerous reporting requirements and clauses that allow withholding of funds. It is essential that any such controls do not impair the capacity of states to deliver their agreed outcomes.

National Reporting Framework on Indigenous Expenditures

In 2007 COAG agreed to report transparently on expenditure on services for Indigenous people. Commonwealth Treasury is coordinating the development of a framework and methodology for the report. Over time, the national framework seeks to facilitate understanding of the link between expenditure and outcomes for Indigenous people. Nationally, it is acknowledged that considerable work will be required to address data gaps and improve data quality in relation to the use and cost of services for Indigenous people. The Northern Territory is the most advanced of the jurisdictions in its ability to report Indigenous-related expenditure, having undertaken two whole of government reviews.

Northern Territory Indigenous Expenditure Review

The Indigenous Expenditure Review (IER) 2006-07 was the second review undertaken by Northern Territory Treasury and was audited by the Northern Territory Auditor-General.

The first IER was undertaken for the 2004-05 financial year and was the first review of its type by any Australian government. The main purpose of the 2004-05 IER was to inform debate by providing a robust, transparent measure of Indigenous-related expenditure and revenue. The 2004-05 IER found that around half the Territory's budget was spent on Indigenous-related services and this exceeded the level of Indigenous-related revenue. It concluded that:

...despite the high level of expenditure, outcomes for Indigenous Territorians against a wide range of indicators remain poor relative to those of non-Indigenous Territorians. There is clearly a need for additional funding streams to the Territory.

Since the 2004-05 IER was completed, a number of initiatives have increased Indigenous spending in the Northern Territory. In 2005, the Commonwealth and Northern Territory governments signed an overarching agreement to support ongoing improvements in services for Indigenous Territorians. In 2007, the Commonwealth announced its Northern Territory Emergency Response (NTER) and increased levels of short-term funding in relation to child health and protection, community safety, education and housing in remote Indigenous communities. In August 2007, the Territory Government announced further investment of \$286 million in its Closing the Gap of Indigenous Disadvantage initiative.

The IER for the 2006-07 financial year predates the effect on Northern Territory finances of the NTER and Closing the Gap initiatives and provides a baseline against which these initiatives can be compared, both in terms of investment and outcomes. The 2006-07 IER builds on the 2004-05 review and, as a result of improved data sources, was able to undertake a more rigorous examination of revenue and expenditure.

Tables 5.2 and 5.3 show the key findings of the 2006-07 IER which can be summarised as:

- 52.4 per cent of the Territory's expenditure was Indigenous-related;

- 44.4 per cent of the Territory's revenue was Indigenous-related;
- Indigenous-related expenditure exceeded revenue by 8.0 percentage points or around \$248 million; and
- expenditure on Indigenous Territorians is 2.5 times per capita more than on non-Indigenous Territorians.

Table 5.2: Estimate of Northern Territory Government Expenditure Related to the Indigenous Population 2006-07

	Agency expenditure	Share of total expenditure	Indigenous-related expenditure	
	\$M	%	%	\$M
Service agency – human services	1 950.2	62.8	56.4	1 099.2
Service agency – economic services	541.5	17.4	43.2	234.1
Support agency	142.3	4.6	50.9	72.5
Central agency	473.2	15.2	46.9	221.7
Total	3 107.2	100.0	52.4	1 627.5

Source: Northern Territory Treasury

Table 5.3: Estimate of Northern Territory Government Revenue Related to the Indigenous Population 2006-07

	Total revenue		Indigenous-related share	
	%	\$M	\$M	%
GST	62.2	2 015.3	1 106.5	54.9
Tied grants	15.3	494.9	186.4	37.7
Own-source revenue	22.6	732.0	146.5	20.0
Total	100.0	3 242.2	1 439.5	44.4

Source : Northern Territory Treasury

To enable comparisons between the 2004-05 and 2006-07 reviews, the 2004-05 data was adjusted to incorporate methodological and data changes. Table 5.4 compares the updated data for 2004-05 with the original 2004-05 results.

Between 2004-05 and 2006-07:

- Indigenous-related revenue declined by 1.5 percentage points;
- Indigenous-related expenditure increased by 2.3 percentage points;
- the difference between Indigenous-related expenditure and revenue almost doubled, increasing from 4.2 to 8.0 percentage points; and
- the per capita ratio of Indigenous expenditure to non-Indigenous expenditure increased from 2.3 to 2.5.

Table 5.4: Comparison of Results Between 2004-05 and 2006-07 Reviews

	Revised 2004-05	2006-07	Change
Indigenous-related revenue (%)	45.9	44.4	- 1.5
Indigenous-related expenditure (%)	50.1	52.4	2.3
Difference (percentage points)	4.2	8.0	3.8
Per capita ratio Indigenous: non-Indigenous expenditure	2.3	2.5	0.2

Source: Northern Territory Treasury

The Indigenous share of total revenue fell primarily as a result of a decline in the Indigenous-related share of GST funding, and a decline in the contribution of GST to overall Territory revenue. The increase in expenditure, while significant, is in part likely to be as a result of improved data collection techniques in the 2006-07 IER.

Despite the high level of expenditure and recent improvements in life expectancy, educational attainment and infant mortality rates, outcomes for Indigenous Territorians across a wide range of indicators remain poor relative to those of non-Indigenous Territorians. The NTER and Closing the Gap have provided significant additional resources to address the long-term disadvantage faced by Indigenous Territorians and these initiatives will progressively impact on outcomes.

Senate Inquiry into Government Expenditure on Indigenous Affairs and Social Services in the Northern Territory

A Senate Standing Committee on Community Affairs Inquiry on Government Expenditure on Indigenous Affairs and Social Services in the Northern Territory was announced in September 2008. The Committee's report was tabled in Parliament on 4 December 2008.

Public hearings were held in Darwin and Canberra and 13 submissions were made to the Inquiry. Some submissions included considerable comment on, and criticism of, the Northern Territory Government's expenditure priorities in relation to Indigenous people and social services.

The Inquiry examined the methodology used by the Commonwealth Grants Commission to allocate GST revenue to jurisdictions; funding for, and outcomes from, services to Indigenous Territorians; and proposals and issues for the way forward. The Coalition members of the Committee prepared a dissenting report and the Australian Greens provided additional comments.

A number of submissions recognised the need for considerable funding to address long-standing backlogs in infrastructure including an injection of funds to address chronic housing shortages, homelessness, dilapidation of existing stock and overcrowding for Indigenous people.

Although the Territory receives above per capita distribution of GST revenue partly in recognition of expenditure needs of the Indigenous population in relation to use and cost of services, Commonwealth Grants Commission assessments do not explicitly take into account backlog in infrastructure or the effect of long-standing service deficits. Commission assessments deal with disadvantage to the extent that the average policies of all states deal with disadvantage, so by definition unmet need in a particular state is not addressed through the average of states' policies.

The Committee noted that it is not accurate to suggest that the Northern Territory receives GST funding that would enable it to make good deficiencies of infrastructure provision in Indigenous communities.

The Committee indicated that to move forward it would be necessary for there to be a clear definition of financial and administrative responsibility, by level of government and within individual governments; public accountability for outcomes; and thorough analysis and quantification of the extent of the actual needs of Indigenous communities. The Committee noted that current COAG initiatives, reporting against the NTER and Closing the Gap targets, are evidence of practical commitment to addressing past legacy issues.

Commonwealth Grants

Grants from the Commonwealth are an essential source of revenue for all states. The grants are made necessary by the substantial mismatch between states' service delivery responsibilities and their capacity to raise own-source revenues. Under Australia's federal system, the states have significant service delivery responsibilities, such as health and education, but limited revenue sources. Conversely, the Commonwealth's revenue raising capacity exceeds its service delivery responsibilities. This disparity between revenue raising capacity and service delivery responsibility between the two tiers of government is referred to as vertical fiscal imbalance.

There are two types of Commonwealth grants to the states:

- general purpose payments, which are predominantly GST revenue payments. These are untied payments that can be used by the states for any purpose; and
- other Commonwealth grants. These are generally payments tied to a specific function or program against which they are required to be acquitted. Under the RFFR, these payments comprise SPPs and NPs.

Commonwealth grants generally comprise around 80 per cent of Northern Territory revenue, with around 70 per cent of this being GST revenue.

GST Revenue

GST revenue usually accounts for around 60 per cent of Northern Territory revenue. In 2008-09, the Northern Territory's GST revenue is expected to increase by 1.7 per cent to \$2244.1 million. This represents the lowest annual increase since the introduction of the GST and is 6.7 per cent less than that expected at the time of the Territory's 2008-09 Budget in May 2008. While the Northern Territory's 2008-09 share of national population and of the GST revenue pool increased from 2007-08, an estimated decline of \$1.0 billion in national GST collections over the year and repayment of GST deferral advances from the Commonwealth has largely offset the positive influences.

The Northern Territory's estimate of 2008-09 national GST collections is based on the deterioration in economic conditions experienced since the Commonwealth released its Updated Economic and Fiscal Outlook (UEFO) in February 2009.

Commonwealth estimates of national GST collections for 2008-09 have been progressively revised downwards from \$45.2 billion in its 2008-09 Budget in May 2008, to \$43.9 billion in its mid-year report in November 2008 and \$42.2 billion in the UEFO.

The decline in national GST collections reflects a significant shift in household consumption patterns from goods and services attracting GST to those that do not. For example, there has been an increase in the proportion of household expenditure on food and rent, which in many instances do not attract GST, and a significant decrease in the value of sales of motor vehicles and fuel, with the latter reflecting the sharp decline in fuel prices in the latter half of 2008.

The decline in GST collections is expected to result in GST revenue for the Northern Territory falling beneath the Guaranteed Minimum Amount (GMA) by around \$90 million. The GMA represents the amount of revenue the Northern Territory would have received had the arrangements prior to the introduction of the GST been continued. Under the previous Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations, states were entitled to payments known

as budget balancing assistance if GST revenue fell below GMA. Budget balancing assistance for 2008-09 is expected to be paid in 2009-10.

Weak economic conditions are expected to persist through 2009-10 and the Northern Territory has estimated stable national GST collections over this period. Coupled with a slight reduction in the Northern Territory's assessed share of the GST revenue pool and national population, the Northern Territory's GST revenue is expected to decline by 0.8 per cent in 2009-10 to \$2226 million (excludes budget balancing assistance).

From 2010-11, the Northern Territory has forecast national GST collections growth of 6.0 per cent per annum in line with expected recovery of the economy. Relativities are estimated to increase to reflect the impact on GST of the move to a per capita distribution of the new SPPs (see above). However, this is partially offset by a projected decline in the Northern Territory's share of national population.

The level of GST revenue received by each state is dependent on total GST collections, states' population shares and relativities as determined by the Commonwealth Grants Commission. Accurate forecasting of these parameters can mitigate the risk of significant revenue variations in the Northern Territory budget. However, there are inherent difficulties in estimating the size of national GST collections, the Territory's population share and relativities over the forward estimates period.

The major short-term risk to the Northern Territory's budget arises from the uncertain impact of the GFC. The extent and speed of the downturn has been greater than previously anticipated and there is potential for greater declines than those currently predicted. However, in the latter years of the forward estimates period, the risk is anticipated to be more to the upside, with the possibility of more rapid growth as the economy emerges from the downturn.

Other risks impacting the forecasts include those arising from the 2010 Review of State Revenue Sharing Relativities by the Commonwealth Grants Commission (impacts from 2010-11) and the Northern Territory's share of national population growth. Should the Inpex project proceed within the proposed timetable, there is significant upside potential for population growth in the Northern Territory.

Table 5.5 shows the budget and forward projections for each of the key parameters underpinning the Northern Territory's GST revenue.

Table 5.5: Northern Territory GST Revenue Projections

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
NT GST revenue (\$M)	2 207.2	2 244.1	2 226.0	2 417.1	2 617.9	2 794.2
Growth (%)	9.5	1.7	- 0.8	8.6	8.3	6.7
National GST collections (\$M)	42 330	41 330	41 330	43 810	46 438	49 225
Growth (%)	7.0	- 2.4	0.0	6.0	6.0	6.0
NT population	217 559	221 784	225 776	229 388	232 829	236 089
Growth (%)	2.4	1.9	1.8	1.6	1.5	1.4
NT share of national population (%)	1.027	1.026	1.025	1.024	1.022	1.020
NT relativity	4.368	4.518	5.251	5.374	5.504	5.554

Source: Northern Territory Treasury, Commonwealth Treasury

Note: Excludes budget balance assistance.

Other Commonwealth Grants

Other Commonwealth grants represent around 20 per cent of Northern Territory revenue and are delivered through SPPs and NPs.

In 2008-09, other Commonwealth grants are estimated to be \$866.2 million, a 9.2 per cent increase on the \$793.2 million received in 2007-08.

In 2009-10, other Commonwealth grants are expected to increase 22.4 per cent to \$1060.8 million, reflecting the increased level of funding through the new National Agreements and the Commonwealth's Nation Building and Jobs Plan stimulus package.

Distribution of GST Between the States

Commonwealth Grants Commission

The role of the Commission is to recommend to the Commonwealth per capita relativities that determine the distribution of GST revenue among states. Its recommendation is based on the principle of horizontal fiscal equalisation as required under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations. Horizontal fiscal equalisation is defined as:

State governments should receive funding from the Goods and Services Tax revenue such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard. (Commonwealth Grants Commission 2009 Update)

Relativities are a reflection of differences in states' revenue raising capacity and expenditure needs, and shares of SPP funding. Unavoidable differences in revenue raising capacity and the costs of providing general government services form the basis for the assessments. Needs reflect differences in states' economic, demographic and physical circumstances and can be positive or negative. Because the Commission assesses needs within a fixed pool of available funds, a necessary consequence is that a positive need of one jurisdiction means it will be offset by a negative need in at least one other jurisdiction.

The Territory is assessed as having the highest level of needs of all jurisdictions. This is primarily due to the high costs of providing virtually all government services in the Territory and, to a lesser extent, the Territory's below average capacity to raise own-source revenue. This is partly offset by the Territory's relatively high share of SPP funding.

Table 5.6: GST Relative Needs 2007-08 (\$ per capita)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue raising capacity	99.13	307.80	- 292.29	- 1 229.29	589.28	829.98	416.71	291.15
Expenditure requirements	- 94.61	- 522.63	- 2.41	573.25	1.47	331.68	- 61.67	9 384.38
SPP needs	8.16	81.17	- 37.20	- 8.82	- 79.01	- 22.21	123.06	- 973.85
Total needs – difference from equal per capita	12.68	- 133.66	- 331.9	- 664.86	511.74	1 139.45	478.1	8 701.68

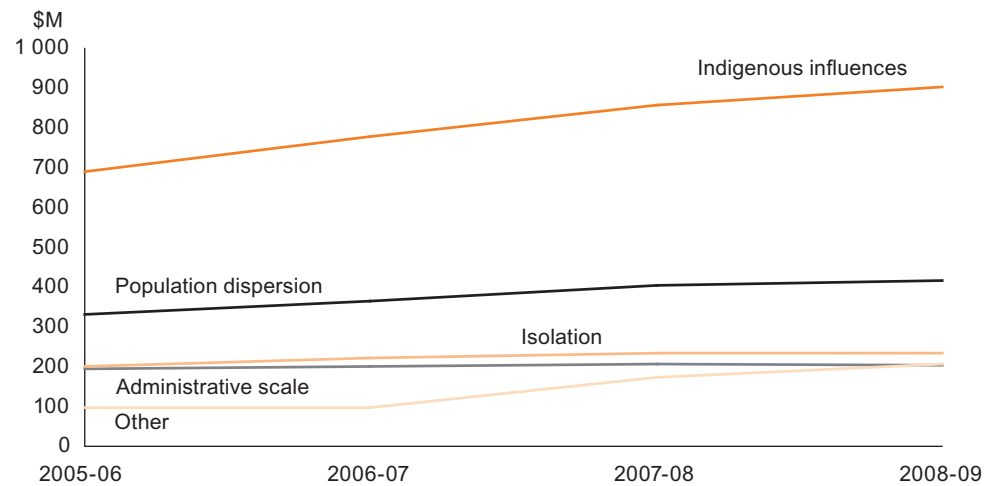
Source: Commonwealth Grants Commission, 2009 Update

The costs of providing services in the Territory are high because of:

- the large proportion of the population residing in the Territory that is Indigenous, which increases the use and costs of many services;
- the small but widely dispersed population over a large and remote land mass;
- large diseconomies of scale in central administration and the need to provide a high proportion of services in small and dispersed communities;
- small private sector relative to demand, particularly in the area of health services; and
- the Territory's isolation from major supply centres.

Chart 5.1 shows the main factors that contribute to the difference between the Territory's equalised share and equal per capita share of GST revenue. Indigenous influences account for about 46 per cent of the total expenditure needs of the Territory.

Chart 5.1: Contribution of Expense Disabilities to Redistribution of Northern Territory GST Revenue



Source: Commonwealth Grants Commission

2009 Update

Each year the Commission updates the relativities for the latest available financial, economic and demographic data. In March, the Commission released the 2009 Update of states' revenue sharing relativities that determine the distribution of the GST pool for 2009-10.

The Northern Territory's relativity for 2009-10 is 5.25073, a slight decline from a revised 5.25633 in 2008-09.

The 2009 Update reports on two changes to the Northern Territory's GST relativity and revenue. The first relates to changes arising from the implementation of the IGA, that requires the Commission to change its treatment of Health Care Grants and other Commonwealth payments in the calculation of relativities. This resulted in a decrease of \$4.7 million in the Territory's GST revenue. Previously the relativities applied to a combined pool of GST and health care grants.

The COAG reforms require relativities to be applied to the GST pool only. This means the changes also result in revised relativities for 2008. Table 5.7 shows the changes in relativities arising from the implementation of the IGA.

Table 5.7: GST Relativities

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2008 Update	0.91060	0.92540	0.96508	0.88288	1.20856	1.52994	1.17205	4.51835
Revised 2008 relativities	0.88779	0.91393	0.96118	0.85782	1.23151	1.66332	1.25457	5.25633

Source: Commonwealth Grants Commission

The second effect relates to changes in relativities that result from the update of data for 2009. The result for the Territory is a marginal decrease in its relativity. Relativities for New South Wales, Victoria, South Australia and the Australian Capital Territory increased while those for Queensland, Western Australia and Tasmania declined. Table 5.8 shows the 2009 Update relativities compared to the revised 2008 relativities.

Table 5.8: GST Relativities, Grant Shares and Population

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2008 Update								
Relativity	0.888	0.914	0.961	0.858	1.232	1.663	1.255	5.256
Grant share (%)	28.96	22.66	19.90	8.65	9.21	3.88	2.02	5.36
Population share (%)	32.62	24.79	20.70	10.08	7.48	2.33	1.61	1.02
2009 Update								
Relativity	0.932	0.919	0.916	0.785	1.247	1.620	1.271	5.251
Grant share (%)	30.19	22.77	18.53	8.01	9.28	3.73	2.05	5.41
Population share (%)	32.40	24.78	20.24	10.20	7.44	2.30	1.61	1.03
Impact (\$M)	613.3	56.6	- 381.8	- 309.7	52.2	- 41.0	11.4	- 0.9
Impact (\$pc)	86.60	10.45	- 86.30	- 138.88	32.10	- 81.51	32.39	- 4.00

Source: Commonwealth Grants Commission

The 2009 update relativities will apply in 2009-10. However, in order to achieve an apples with apples comparison of the financial effect of the new relativities, it is customary to apply the 2009 Update relativities to the current year (2008-09) to illustrate the change. The pure relativity impact for the Territory is a notional decrease in its GST revenue of \$0.9 million.

Major Influences on Changes in State Allocations from the GST Pool

The major changes to the 2009 update relativities relate to revenue capacity. Queensland and Western Australian relativities fell as a result of improved revenue raising capacity, particularly from turnover in property and mining. At a broad level, the key positive influence on GST allocation for the Northern Territory was higher assessed expenditure needs, while the major negative influences were improved revenue capacity and changed treatment and level of Commonwealth payments. Table 5.9 shows the major influences on changes in state allocations in the 2009 Update.

Table 5.9: Main Influences of Changes in State Allocations from the GST Pool, 2009 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Stamp duty on conveyances	346.1	- 44.5	- 183.3	- 86.0	- 19.6	- 9.7	0.7	- 3.7	346.8
Mining revenue	34.6	78.1	- 30.4	- 97.0	9.4	1.9	5.3	- 1.9	129.3
Land revenue	36.1	32.6	- 20.7	- 54.2	1.1	1.6	- 0.7	4.3	75.6
Payroll taxation	44.9	6.3	- 32.9	- 30.2	10.8	- 0.7	2.4	- 0.5	64.4
Inpatient services	20.4	11.5	- 25.5	- 14.0	13.4	- 16.0	5.4	4.8	55.5
Water sanitation and protection of the environment	3.4	- 30.6	- 8.6	17.0	16.0	- 0.6	- 3.9	7.2	43.6
Insurance taxation	43.1	- 10.3	- 16.2	- 13.4	0.0	- 2.6	0.3	- 1.0	43.5
Other	84.7	13.5	- 64.1	- 31.9	21.0	- 14.9	1.9	- 10.2	121.1
Total	613.3	56.6	- 381.8	- 309.7	52.2	- 41.0	11.4	- 0.9	733.4

Source: Commonwealth Grants Commission, 2009 Update

2010 Review

Every five to six years, the Commission undertakes a major review of its methodology for determining state revenue sharing relativities. The Commission is currently undertaking a major review and has been directed to report to the Commonwealth Treasurer by February 2010 on relativities to be used for distributing GST revenue between states from 2010-11.

The key focus of this methodological review is simplification while upholding the principle of horizontal fiscal equalisation. The Commission is expected to release a draft report by August 2009 for state comment.

Although the Northern Territory supports simplification, there is a risk that a simplified methodology will not fully capture the breadth of influences that impact on state costs. This risk arises primarily due to a paucity of detailed national data sets on costs of delivering services, particularly in remote and very remote areas.