# NSW Review of Federal Financial Relations

## Working together for a better future

Discussion Paper

October 2019

NSW GOVERNMENT

NSW Treasury
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**www.treasury.nsw.gov.au**

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# 1 Why have a Review?

## As we approach 2020, governments across the globe are presented with the challenge of how to prepare for a time of transformation

Our society is evolving – we are growing in number and living longer. Our preferences for where to live and how to move are shifting. Our consumption patterns are evolving, enabled by a digital world and the speed of transit. Our energy mix is uncertain, and our environment is suffering from the extremes of drought, presenting risk to livelihoods and communities. Advancements in technology are enabling unforeseen possibilities, all the while, disrupting our lives, reshaping the way we work, and the skills we need for a more automated future.

Across the world, people are adapting to these new realities. Choices are being made to move with the times. As Australians are planning for the future, they have every right to expect that their governments are doing the same. Changing demographics, megatrends and geopolitical tensions mean that state governments need to connect and respond to global challenges and perspectives far more than they have before. Addressed with vision, these challenges offer kernels of opportunity to lay the foundations for a brighter future for our citizens.

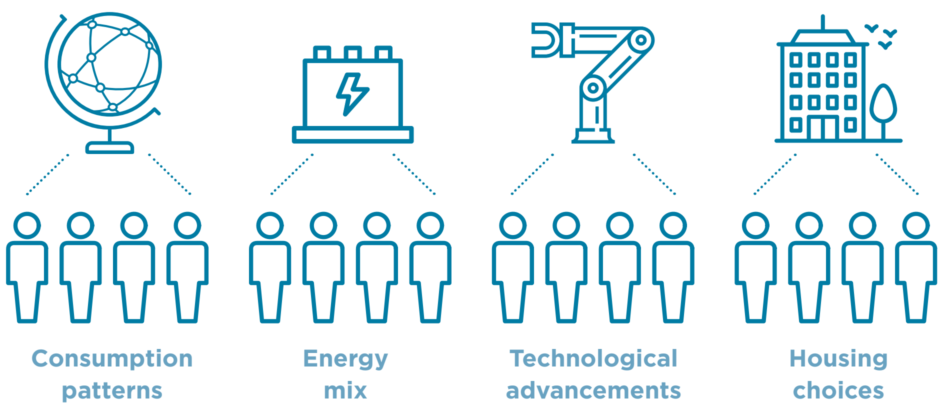
The global context means New South Wales cannot act alone. As a federation, all state, territory and Commonwealth governments must take a holistic approach to the challenges we face. We must acknowledge the constitutional roles of each level of government, but also the reality that lines blur when it comes to who pays and who is accountable. There is room to improve these relationships, but what ultimately matters for good government are the outcomes for citizens.

Our future generations will need healthcare, education, transport and the many other public services that are fundamental to our quality of life. Importantly, it is ingrained within our national values that we continue to deliver for all.

For all the challenges of federation, there are also many virtues and opportunities. While there are no easy solutions to the issues we face as a nation, federation by its nature encourages innovation and competition while offering a platform for collaboration. At the frontline of delivery, states and territories (collectively, the states) have the local expertise and tools to experiment in this era of change. Federation offers the opportunity to explore innovative solutions to the new challenges of a changing world, and then to share solutions nationally, with benefits for all.

## Our society is evolving

– we are growing in number and living longer.



New South Wales' recent history has been marked by strong economic progress and service delivery. The State is in great shape now. Over the last five years, New South Wales has the highest per capita economic growth among the states and, on average, the lowest rate of unemployment. Strong fiscal management has created opportunities for both cities and the regions, with a transformational pipeline of infrastructure shaping our future.
But while the near-term budget position is sound (with growing surpluses expected over the next four years), future generations may not be so fortunate.

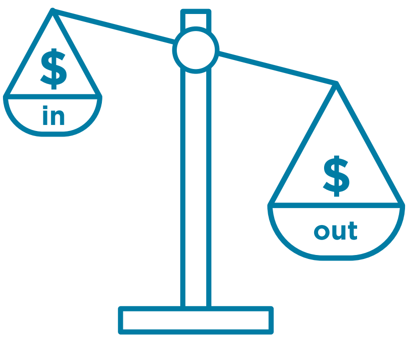
The 2016 NSW Intergenerational Report projected that unless there was a change in state policies, future growth in revenue would fall well short of spending growth. Without reform, hard decisions between cutting services, compromising quality, increased taxes, or burdening debt, would be the inevitable consequences for New South Wales governments of the future.

Good policy now can avoid hard choices later, leaving a legacy of intergenerational opportunity and fairness.

As the State of New South Wales grows and evolves, it will be necessary to review the State's revenue arrangements to ensure it is capable of meeting the needs of citizens now and into the future. With limited revenue-raising powers, states depend on revenue streams that can be volatile, unpredictable and damaging to productivity. Many are on the decline, and nearly all will be affected in some way by the unfolding changes to society and our world.

Like all states, New South Wales depends on Commonwealth funding to fill the gap between how much revenue it can raise, and how much it spends on providing essential services. This accounts for almost 40 cents in every dollar of revenue. The future of these revenue streams, including the amount of funding, the number of conditions attached, and the degree of continuity, will be critical to ensuring future generations can benefit from the same, or better, services than we do today.

Ultimately, the states will be held to account by the people for the outcomes they deliver. State and Commonwealth elections will determine whether governments are optimising valuable taxpayer dollars to deliver the best services and infrastructure for our collective future. Ensuring we focus on our citizens and not bureaucracy will keep us on course.




The 2016 NSW Intergenerational Report projected that unless there was a change in state policies, future

**growth in revenue would fall well short of spending growth.**

## As the nation's largest economy, New South Wales is seeking to drive a national vision for the federation that encourages innovation and competition. A federation that supports a stronger economy, better services, and ultimately, better outcomes for all Australians.

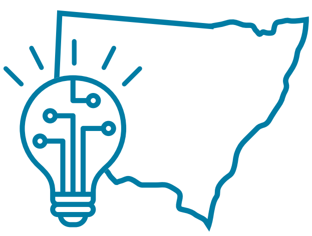
**To open this national discussion, the NSW Government has tasked the Review of Federal Financial Relations ('the Review') to:**

- consider the interactions between different levels of government in regard to state funding arrangements
- examine the New South Wales revenue system with a focus on Commonwealth funding arrangements including the design, complexity and number of funding agreements with the Commonwealth
- develop options for reform that improve the capacity of New South Wales to meet its funding needs sustainably over the long-term, informed by the objectives of encouraging a more dynamic form of federalism, rewarding state-led economic reform, and securing greater flexibility and autonomy for New South Wales, and
- provide Government with a realistic assessment of feasibility and implementation issues, as well as a road map to overcome practical obstacles to successful reform.

Past attempts at reforming our federal financial relations have largely been unsuccessful (Appendix 2). Major reform is hard, taking time and a willingness to invest in the leadership needed to see it through. But our history has demonstrated that Australian governments have an exceptional ability to work together during times of great change. Illustrative examples include the structural economic reforms of the 1980s and 1990s, the National Competition Policy reforms of the 1990s, the introduction of the Goods and Services Tax (GST) in 2000, and most recently, the roll out of transformational infrastructure programs in response to significant population pressures facing our cities and towns.

The nation's most lasting structural reforms have been achieved through a focus on the collective interest of our nation and citizens.

## Embarking on a new era of change, now is the time again to put citizens at the centre of government.



**As the nation's largest economy,**
**New South Wales**
**is seeking to drive a national vision**
for a federation that encourages
**innovation and competition.**

## Join the conversation

Your voice is important. We invite you to join this conversation to help shape our collective future.

**Over the next month, public submissions can be made through the Review's website.** Submissions will inform the Review's consideration of the issues and recommendations to Government in 2020.

Following release of this Discussion Paper, the Review will commence community consultations on the issues canvassed in this paper. Your aspirations and ideas will inform and guide the Review's recommendations to help shape a brighter future.

Your feedback will be captured in a Consultation Findings Paper. The Review's draft recommendations will be published ahead of the Review's Final Report in 2020.

Discussion Paper → Stakeholder consultation on Discussion Paper → Consultation Findings Paper → Draft Report → Final Report

### Connecting the pieces – links with other NSW Government initiatives

The Review was one of several major initiatives featured in the NSW 2019–20 Budget. In parallel, the NSW Government is also progressing an *Economic Blueprint*, which will develop long-term strategies to deliver the next phase of economic growth. The NSW Productivity Commission will complement the Economic Blueprint by identifying priorities for productivity enhancing reforms. The NSW Productivity Commission has released a Discussion Paper for public consultation.

This Review will focus on how the states and the Commonwealth can work better together to support and fund the delivery of critical services and infrastructure in a rapidly changing society. The role of Local Government will be considered by the NSW Productivity Commission.

The topics covered in the Review will also be reflected in the NSW Government's 2021 Intergenerational Report, which will provide an updated outlook on the long-term fiscal pressures facing the state.

# We invite you to join the conversation

to help shape our collective future.

For the **Review's Terms of Reference** visit:
**https://www.treasury.nsw.gov.au/terms-reference**

**News and updates** will be published on the Review's website:
**https://www.treasury.nsw.gov.au/federal-financial-relations-review**

# 2 Our society is changing

Strong budget fundamentals are in place and the NSW economy has been growing steadily. The budget has been in surplus for five years, and the positive net debt position forecast in 2019–20 is amongst the best in the country. The state has invested in the largest infrastructure pipeline on record – $93 billion over four years to 2022–23 – while also establishing the NSW Generations Fund – a fund to pay down future debts

Yet many households and the younger generation face an uncertain future. The national economy is now growing at its slowest rate in almost 10 years (1.4 per cent through the year to June 2019), household incomes have stagnated, and ongoing trade and geopolitical tensions are occurring abroad. For the younger generation, particularly millennials, it is unclear whether they will be left with a better world than that of earlier generations[1].

Good financial management and fiscal discipline will help the state provide essential services and infrastructure now and into the future. But governments will need to find a way to deliver better services to a growing and ageing population, at a time when community expectations of government services are evolving in step with a rapidly changing environment.

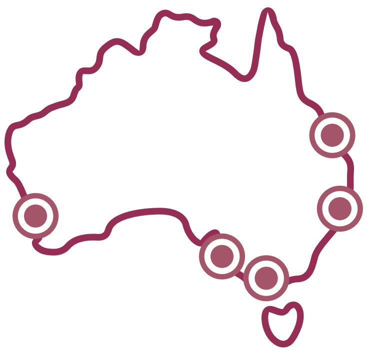
Over the next three decades, more than 80 per cent of Australia's population growth is expected to occur in the five largest cities[2], changing the shape of cities and putting new demands on the infrastructure required. New and innovative capital investment will be critical in moving people across better connected and liveable cities and towns. Harnessing new technologies in road use and vehicle monitoring may provide options for managing congestion and paying for this infrastructure[3].

Infrastructure is often long-lived, which poses challenges for governments with respect to addressing a growing maintenance spend[4]. It also poses challenges with respect to climate change – infrastructure designed today must withstand the changes in climate anticipated for 50 or more years in to the future.

**$93 billion**
of infrastructure to 2022–23.

However, many households and the younger generation face an **uncertain future.**

Over the next three decades, more than **80 per cent** of Australia's population growth is expected to occur in **the five largest cities.**



Planning for future infrastructure will be crucial but thought must also be given to existing assets[5].

Evolving consumption patterns will also force governments to rethink their impact on the environment, in particular lowering emissions from Australia's transport sector though cleaner modes of transport. Governments are the first port-of-call to make it easier for people to walk, ride a bike, take public transport or ride share. With the rising uptake of electric vehicles, governments will need to quickly update their policy and regulatory frameworks. The switch to electric vehicles will see households save on fuel costs but reduce government revenue flowing from fuel excise, which have already weakened over time as vehicles have become more efficient[6]. Over the 20 years to 2016–17, road use in terms of vehicle kilometres travelled increased by around 37 per cent. At the same time, petroleum excise, collected by the Commonwealth and related to road use, fell by around 20 per cent in real terms[7].

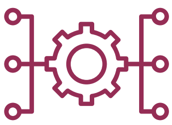
Technological advances, automation and the shift to gig and sharing economies, are profoundly changing the way we live, work and communicate with each other. Some jobs will be replaced, but with the right education and skills frameworks, new ones will be created. Workforces will need to be more flexible to achieve productivity gains in these new sectors, presenting one of governments' crucial challenges in preparing citizens for the jobs of the future.

These forces add a layer of complexity to our lives and mean that state and Commonwealth governments need to adapt to a world where government services will be more challenging to deliver, and traditional sources of revenue to pay for this service delivery may no longer be suitable (see Table 1).

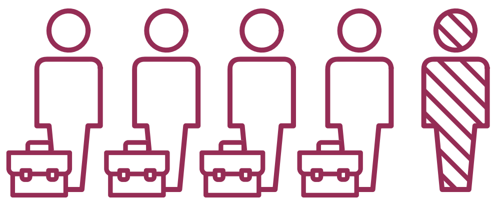
The 2016 NSW Intergenerational Report projects that the share of the population working to support living standards in the community will fall over time, with the number of working age people for every person 65 and over falling from around four to three by 2030. We have a social duty to care for the ageing population, however the state's ability to fund and deliver government services will be challenged by higher demand for health services, and lower tax revenues associated with reduced workforce participation, higher savings, and an increased share of spending on services that are exempt from the GST – a key source of state revenue. Without action, the budget implications for government will become unavoidable.

How well governments manage these global challenges will have a significant impact on the future economic, environmental and social well-being of Australians. By raising productivity, better using existing resources and demonstrating flexibility in adapting to the challenges that lie ahead, governments can lift opportunities for future generations.

**Infrastructure is often long-lived,** which poses challenges for governments in addressing a growing maintenance spend.

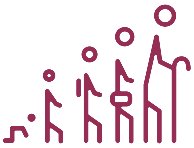
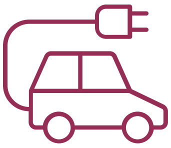


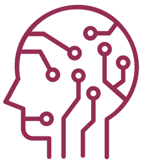
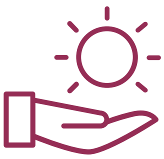
**Technological** advances, automation and the shift to gig and sharing economies, are profoundly **changing the way we live, work and communicate.**



The share of the population working to support living standards in the community **will fall over time.**

**Table 1: Trends affecting government service delivery**

| | Trend | Potential Impacts for governments |
|---|---|---|
|  | **Australia is ageing,** evidenced by the median age rising from 29 in 1976 to 37 in 2018[8]. Currently in NSW there are four people of working age (15–64) for every person aged 65 and over. This will fall over time. | Demands on public sector spending **will only increase with an ageing population** (increased expenditure on healthcare, transport, retirement security and aged care), while also reducing the tax payer funds available to pay for these services. |
|  | Vehicles are becoming more **fuel efficient** and the adoption of **electric vehicles** is increasing. Electric vehicles are expected to match petrol vehicles on both upfront price and range by the mid-2020s[9]. | Governments have **a once-in-a-generation opportunity** to look at new technologies and regulatory approaches **to keep our cities moving and make them great places to live and work**. New technologies for traffic and vehicle monitoring provide new options for governments to reduce congestion and find more sustainable ways to fund road maintenance into the future, rather than relying on revenue from declining fuel levies. |
|  | An increasing share of **the population is living in urban areas.** Over the 30 years to 2047, about 80 per cent of the country's population growth is expected to be in our five largest cities (Sydney, Melbourne, Brisbane, Perth and Adelaide)[10]. | As our cities and towns grow, state governments face **unprecedented demand for services and critical infrastructure** – from transport and mobility options, to hospitals and schools. Infrastructure Australia believes **major infrastructure investment needs to become 'the new normal**' to keep pace with population growth and what citizens and communities expect[11] – but our federation needs new approaches to pay for it. Governments will also need to ensure services are provided to rural and regional areas. |
|  | Use of **global offshore digital retail platforms** (such as Amazon) are seeing conventional local retailers displaced and under heavy price competition. | Governments need to ensure economic strategies are fit-for-purpose, helping displaced workers, impacted industries and communities manage the transition to access new opportunities. **States also need to reassess whether the tax revenue** received from business and through the Commonwealth's GST collections will be **sufficiently robust in this new environment**. |

| | Trend | Potential Impacts for governments |
|---|---|---|
|  | **Technology and data** will continue to transform the way services are delivered. | **Service delivery needs to keep pace with technology** to constantly evolve for a better customer experience. Whilst expensive initially, technology offers **reduced administrative and tax compliance costs** for citizens, businesses and governments. |
|  | **Gig and sharing economies** are changing the way people work, away from traditional big corporates to freelancing and self-employment. | The collaborative economy brings **challenges for how governments fund citizen services into the future**. **State and Commonwealth revenues** linked to employment (payroll and personal income tax) **need to be modernised** to reflect new ways of working. In this new world people will need continued education and training throughout their lifecycle. Vehicle registration (private) revenues could also be updated to reflect greater vehicle sharing. |
|  | The rise of **automation and Artificial Intelligence** will replace some jobs but create skill gaps in the IT industry to serve these new technologies. | **Education and skills services and policies need to be sufficiently agile to help citizens meet** changing employer demand from digital disruption and to access new job opportunities. **Automated technologies** such as driverless buses and trains could have transformative benefits for keeping communities moving, and providing improved, safer and more affordable public transport for citizens. |
|  | **Climate change** has uncertain implications for our natural resources and economic activity, including the agricultural, energy and infrastructure sectors, amongst others. | Governments have a responsibility for ensuring communities are well positioned for the economic and infrastructure impacts of climate change. Governments **need to invest in resilient infrastructure that can withstand climate change** events, such as increased flood, drought and storm events. |

# 3 Funding the future – why business as usual is not an option

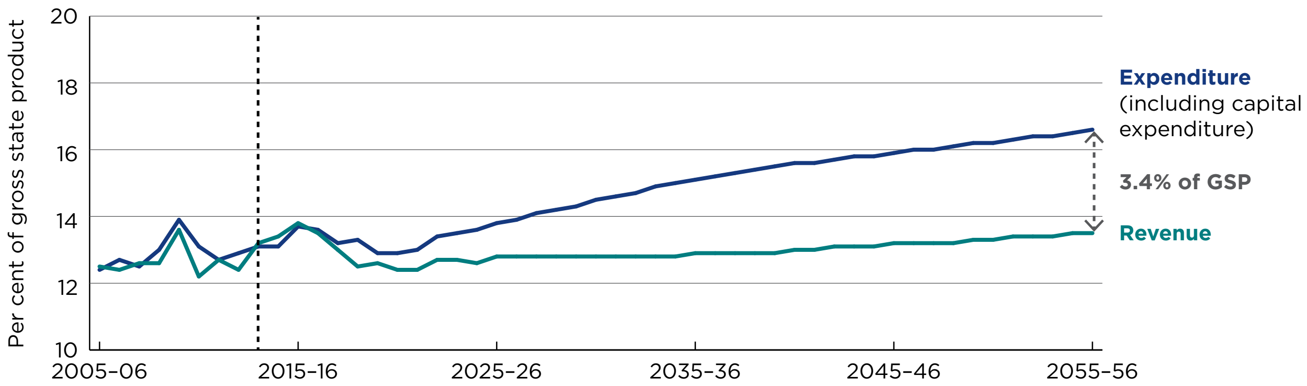
Australian governments may have avoided the Great Recession that affected many developed countries abroad, but they face real budget pressures over the coming decade

In the face of technological advancements, changing demographics and increasing consumer demand, spending on health, education and transport will be difficult to fund without policy change. This is particularly the case for health expenditure, which in New South Wales is expected to be $23.9 billion in 2019–20 and, according to the NSW Government's 2016 Intergenerational Report, could grow by 6.3 per cent a year to 2026 and 6.0 per cent over the long-term, mostly in the hospital system.

Without reform, the gap between revenue and expenditure will grow to 3.4 per cent of gross state product by 2056, equivalent to $20.6 billion if applied to today's gross state product (Chart 1). This would mean a fifth of NSW Government revenues would be redirected away from delivering services that support our quality of life to servicing debt by 2056. To put this in perspective, the state's entire education budget would not have the revenue to support it, relying on deficits and/or debt for funding or higher taxes.

To ensure future generations have access to quality government services without being burdened by unsustainable levels of debt, policy change is needed. To achieve this, the states will need to find a new model to lift productivity, work with the Commonwealth to improve citizen outcomes, and put in place fit-for-purpose usage-based funding arrangements.

**Chart 1: Projected NSW fiscal gap by 2055–56**




*Source: NSW Intergenerational Report 2016*

## New South Wales cannot rely on traditional funding sources to meet future challenges

Since federation, state governments have been responsible for delivering day-to-day government services through their expansive networks of hospitals, schools, public transport, police and housing (see Chart 2). They are now also leading the most transformational infrastructure works in history, with the 2019–20 Budgets of the three most populous states – New South Wales, Victoria and Queensland – containing a collective infrastructure spend of $186.4 billion over the four years to 2022–23[12].

The states pay for these services and investments through a mix of taxation, Commonwealth grants, royalties, sales of goods and services, and several other sources. For New South Wales, state taxes (such as payroll tax, stamp duties, and motor vehicle charges) and Commonwealth funding together make up the majority – around 76 per cent – of revenue (see Chart 3).

State taxes, while necessary, impose economic and social costs on the community that go beyond the revenue they collect. They also impact productivity growth and living standards by changing behaviour and affecting the decisions of citizens and businesses, such as whether to move house or to grow a business.

The states have, historically, relied on taxes that have relatively high economic and social costs and dampen productivity. Some taxes have larger impacts than others. Stamp duty on residential properties are particularly costly as they add to the cost of buying a house and therefore discourage people from downsizing, or moving closer to preferred jobs, schools and family[13]. On the other hand, payroll taxes and land taxes, which fall on workers and landowners respectively, have fewer impacts on behaviour.

**Chart 2: What money will be spent on in 2019–20** ($bn and % share, recurrent expenditure)

- Health **$23.6 billion 28%**
- Education **$18.2 billion 22%**
- Transport **$11.2 billion 13%**
- Public order and safety **$8.3 billion 10%**
- Social protection **$7.7 billion 9%**
- General public service **$7.6 billion 9%**
- Economic affairs **$2.7 billion 3%**
- Environmental protection **$1.5 billion 2%**
- Recreation, religion and culture **$1.5 billion 2%**
- Housing and community amenities **$1.1 billion 1%**

*Source: NSW 2019-20 Budget, Appendix A1*

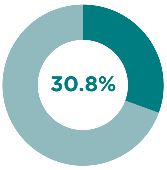
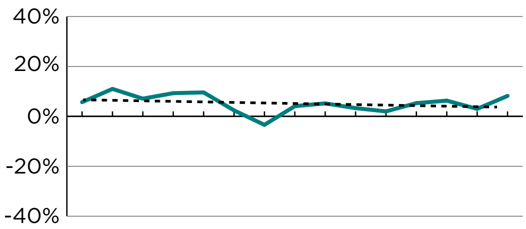
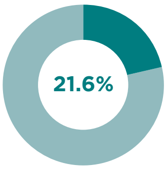
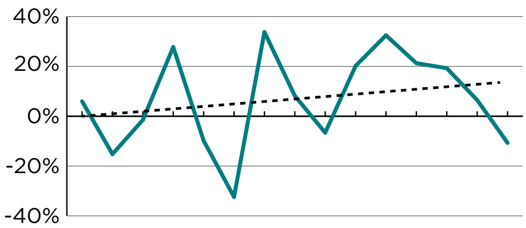
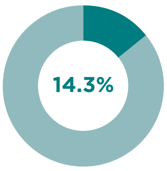
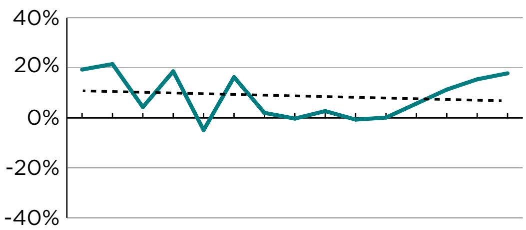
**Chart 3: Where NSW Government revenues come from in 2019–20** ($bn and % share)


- Taxation **$31.8 billion 38%**
- Sale of goods and services **$9.8 billion 12%**
- Other **$7.7 billion 9%**
- Royalties **$2 billion 2%**
- Commonwealth GST revenues **$18.7 billion 22%**
- Commonwealth National Agreements **$10.4 billion 13%**
- Commonwealth National Partnerships **$2.9 billion 4%**

*Source: NSW 2019–20 Budget, Statement 1*

Whilst the 2016 NSW Intergenerational Report projected that long-term growth in revenue under existing state policies will fall well short of spending growth, some revenue sources are at higher risk than others. State governments will need to modernise their tax systems in light of the changing environment (see Table 2).

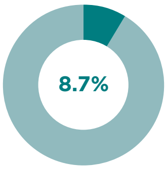
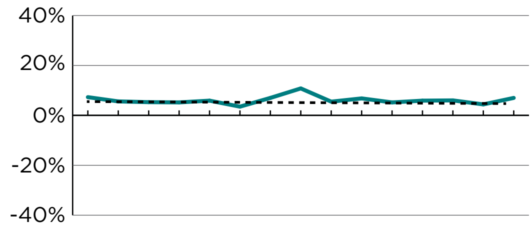
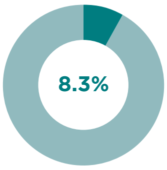
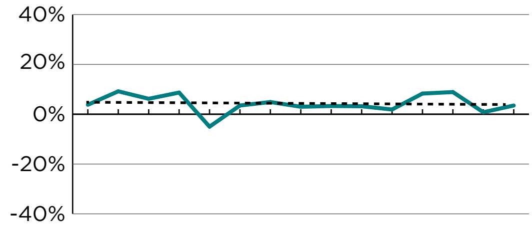
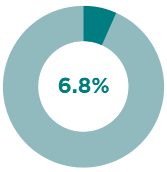
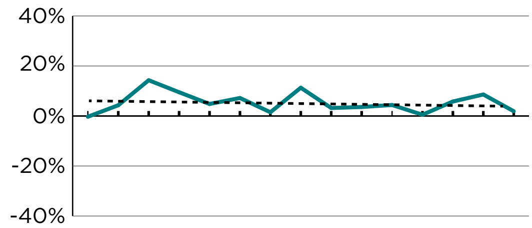
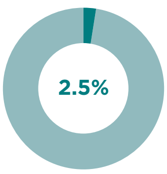
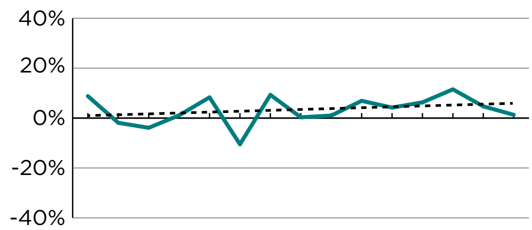
**Table 2. Trends across key New South Wales taxes**

| 2019–20 NSW tax revenue | Assessment | 15-year trend, 2004-05 to 2018-19* |
|---|---|---|
| **Payroll tax**<br>$9.8 billion<br>  | Sustainable in the short-term in the face of changes to the way work and businesses are currently arranged. Tax-free thresholds and exemptions make the tax more complicated and may impact on business decisions to expand. |   |
| **Property stamp duty** (transfer duty)<br>$6.9 billion<br>  | Remains vulnerable to volatile property cycles. Typically regarded as a highly inefficient tax as it discourages mobility and the best use of housing stock. |   |
| **Land tax**<br>$4.5 billion<br>  | Sustainable in the sense that the tax base (land) is immobile, but is less efficient than it could be, due to the wide range of exemptions that narrow its base. This can often encourage land use to be directed to exempt activities. |   |

Annual % change
Trend

State governments will need to
## modernise their tax systems
in light of the changing environment.

Annual % change
Trend

| 2019–20 NSW tax revenue | Assessment | 15-year trend, 2004–05 to 2018–19* |
|---|---|---|
| **Motor vehicle taxes** – charges on ownership and operation<br>$2.8 billion<br> | May be impacted by the growing sharing economy which could make car ownership less attractive in inner cities. Currently does not reflect the total costs of road use (such as congestion and wear and tear of roads). |  |
| **Gambling taxes**<br>$2.6 billion<br> | States' coordinated move to tax online gambling at the point of consumption has addressed immediate challenges. The Commonwealth Productivity Commission has recommended that governments eliminate tax concessions for certain types of gambling providers and instead provide support for community activities via transparent and direct government funding[14]. |  |
| **Insurance based taxes**<br>$2.2 billion<br> | Insurance based taxes (insurance duty, emergency services levy contribution, health insurance levy) are commonly considered to be one of the more costly taxes to society. By adding to the price of insurance, they can result in underinsurance and non-insurance. |  |
| **Motor vehicle** – stamp duties<br>$807 million<br> | By adding to the cost of transactions, motor vehicle stamp duties can discourage owners from changing vehicles. |  |

*Annual growth rate. Figures include the impact of historic policy changes.

Source: Figures derived from NSW 2019–20 Budget, Paper 4

## Issue 1

**A modern tax system that causes minimal disruption to citizens' lives and the economy will be essential for maintaining and improving our quality of life.**

While all taxes impose costs on the community and the economy, the states have historically relied on funding from taxes that impact people's choices and economic activity more than others. This is not in line with an ideal funding system. Unless addressed, citizens could be worse off through lower economic growth and reduced wellbeing through distortions to their decision-making.

### Question:

**Which state taxes impact citizen and business choices the most?**

## Issue 2

**Current revenue sources may not be sufficient to fund the future.**

With the changing environment, certain state and Commonwealth tax revenues will decline over time. In contrast, service delivery costs are likely to rise in the future. Sustainable and predictable sources of funding will need to be found, otherwise the ability of the states to fund the delivery of services and infrastructure may be compromised, and higher debt burdens could be imposed on future generations.

### Question:

**How can the tax system work better for citizens and businesses and improve the economy for future generations, keeping in mind:**

- **the changing environment**
- **the increasing volatility to state tax revenue bases.**

## The Commonwealth government's tax bases are also under pressure

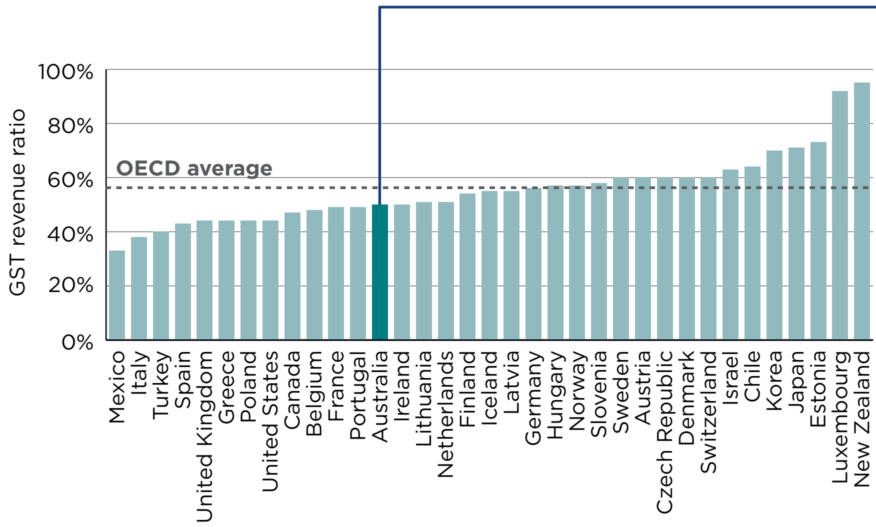
Developments in Commonwealth Government tax revenues also directly affect the ability of the states to fund their own services and infrastructure. In the 2019–20 Commonwealth Budget, for example, GST revenue forecasts were downgraded by $8.3 billion over the four years to 2021–22 compared to the 2018 Mid-Year Economic and Fiscal Outlook (MYEFO). This lowered New South Wales' revenues by an estimated $2.3 billion over the four years.

The long-term outlook for growth in the Commonwealth's GST revenues is also uncertain. Due to a high number of exemptions, the GST covers a small share of all household spending relative to the Organisation for Economic Cooperation and Development (OECD) average (Chart 4) and this is falling over time (Chart 5). Under current policy, GST revenues could continue to fall due to a higher health spend (which is exempt from GST) and higher rates of saving from the ageing population. This would leave the states more reliant on funding tied to Commonwealth policy, or their own taxes, to fund the delivery of services and infrastructure.

## Forecasting GST revenue

GST payments to the states are significantly affected by fluctuations in GST revenue collections. The significant write-downs to forecast GST revenues in the 2018 Commonwealth MYEFO and the 2019–20 Budget highlight the difficulties states face in predicting GST payments, a key source of funding. Proactive engagement and information sharing between governments on developments in revenue collections will be essential for the states to be able to plan ahead.

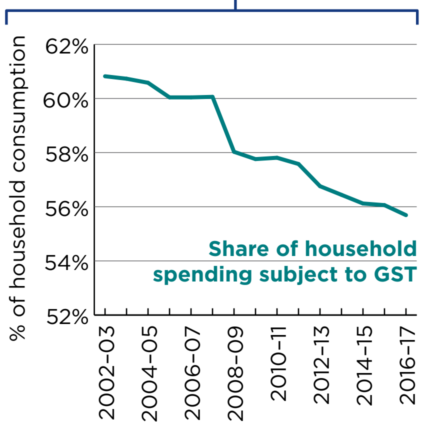
**Chart 4: Australia's GST coverage is low by international standards***




*Shows the amount of revenue collected due to tax exemptions relative to a comprehensive private consumption base tax. 2016 Figures.

Source: OECD Consumption Tax trends 2018

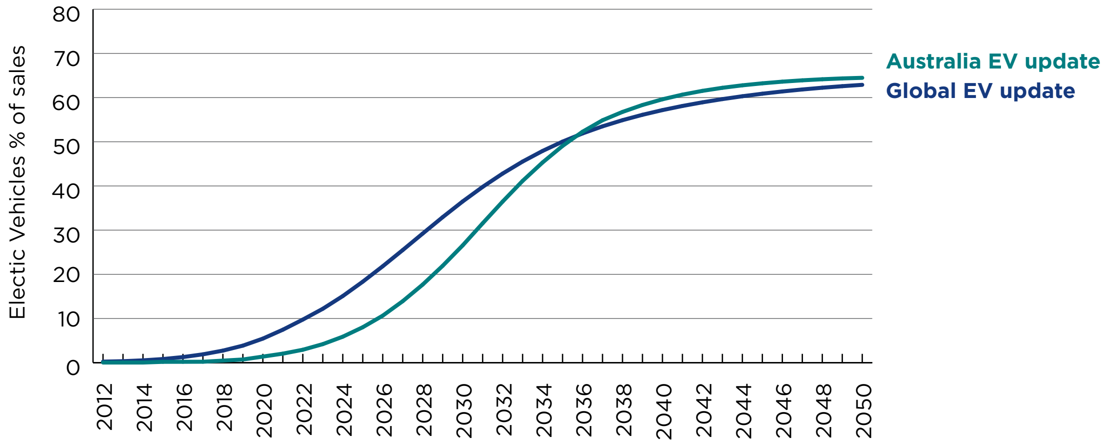
**Chart 5: And it is covering a smaller share of household spending over time**




*Source: Commonwealth Parliamentary Budget Office, 2018*

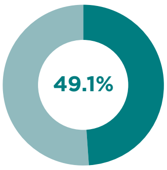
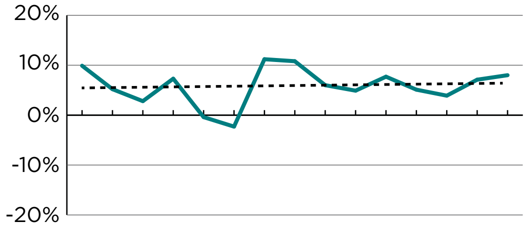
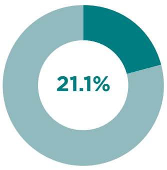
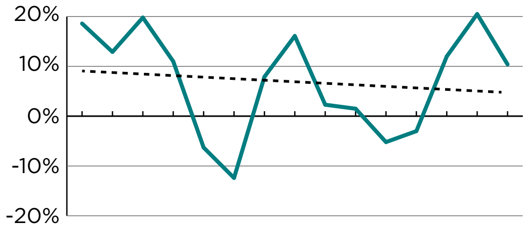
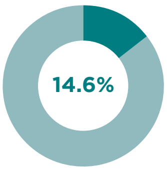
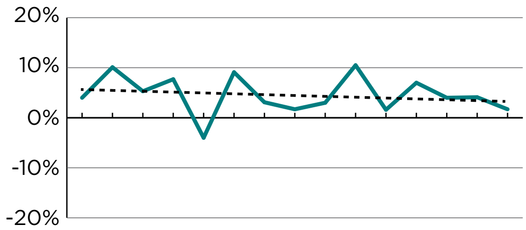
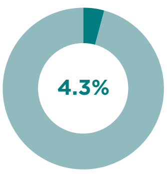
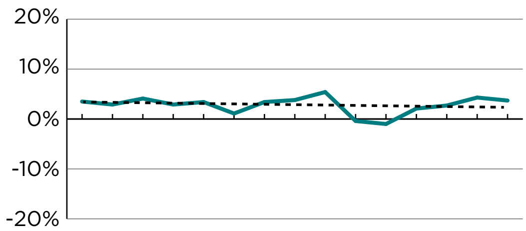
The Commonwealth Government's other tax bases are also under pressure and this may flow through to lower tied grant funding to the states. Fuel excise is most imminently under threat over the next decade, with the electric vehicle share of new car sales in Australia expected to rise from around 0.34 per cent in 2018 to 8 per cent in 2025[15]. The Bureau of Infrastructure, Transport and Regional Economics predicts the electric vehicle share jumping to 27 per cent in 2030 and 50 per cent by 2035 (Chart 6).

**Chart 6: Predicted electric vehicle sales as a percentage of annual new passenger vehicle sales**




*Source: Bureau of Infrastructure, Transport and Regional Economics, Electric Vehicle Uptake: Modelling a Global Phenomenon, Research report 151*

**Table 3. Trends across key Commonwealth taxes**

| 2019–20 Commonwealth tax revenue | Assessment | 15-year trend, 2004–05 to 2018–19* |
|---|---|---|
| **Personal income tax**<br>$234.1 billion<br> | May face challenges from increasing compliance difficulties associated with casual and gig economy work. Technology brings significant opportunity to improve the integrity of the tax base. |  |
| **Corporate income tax**<br>$100.6 billion<br> | Facing long-term challenges to its sustainability due to increasing compliance risks from rising capital mobility and international tax competition. |  |
| **GST**<br>$69.6 billion<br> | GST revenues have grown slower than the economy as the tax base has significant exclusions, including fresh food, education and health. Strong competition from online retailers has also put pressure on the price of goods that are subject to GST. Further erosion could occur over time if households continue to increase spending on GST exempt services (e.g. healthcare) and if the ageing population results in higher rates of saving. |  |
| **Fuel excise****<br>$20.5<br> | Eroded over time due to an absence of indexation before 2014–15 and rising fuel efficiency in vehicles. Further erosion may occur with the uptake of electric vehicles. Fuel excise is not tied to road or transport expenditure. |  |

** Annual growth rate. Figures include the impact of historic policy changes.*

*** Gross of claims under the fuel tax credits scheme which was introduced on 1 July 2016.*

*Source: Commonwealth 2019–20 Budget, Paper no. 1, the Commonwealth 2018–19 Final Budget Outcome, and ABS cat 5206.0, Commonwealth Parliamentary Budget Office (2018).*

Annual % change
Trend

## Issue 3

**Commonwealth tax revenue sources are eroding which will make it more challenging to fund services across the country.**

Growth in the Commonwealth's GST revenues is weakening due to price pressures on retail goods (which are largely subject to GST) and an increasing spend on GST-free services (such as healthcare). Further, Commonwealth fuel levies will be impacted by increasing use of electric cars, and company income tax revenues will be affected by rising capital mobility and international tax competition.

Weakening Commonwealth revenues will flow through to lower grant funding to the states. Without change, this could require the states to increase taxes or scale back delivery of services and infrastructure.

### Question:

**Is there a better way that the Commonwealth Government can ensure its revenue sources remain sustainable in a changing environment?**

## Effective policy change will require a whole-of-tax-system assessment from both levels of government

The states' options for reform need to factor in constitutional constraints. They must also be practically achievable. Careful consideration needs to be given to how changes to the tax mix impact different groups in society, including over the period in which they are being phased in. The states will need to work together with the Commonwealth to modernise the tax system. A revitalised approach would provide the necessary funding to deliver frontline public services, support productivity growth and carefully manage transitional impacts on individuals now and into the future.

**It should be designed to meet best-practice tax principles such as:**

### Efficiency

Taxes should not unduly impede economic growth, or encourage behaviour or decisions that are detrimental to society.

### Equity

The tax burden should be fairly distributed across the community.


### Simplicity & Transparency

Taxes should be easy to understand, comply with and administer.

### Robustness

Taxes should provide a reliable and sustainable revenue source for government.

# 4 The Australian Federation – why the relationship between states and the Commonwealth matters

## The states' frontline responsibilities are not only significant in the domestic context, but also internationally.

How the states pay for services has long been challenging. While states have broad service delivery responsibilities, the Constitution and a series of High Court decisions over the last century have provided the Commonwealth with a broader remit for raising revenue. Due to this imbalance, the states have always relied on grants from the Commonwealth to contribute funds for the delivery of services and infrastructure within their areas of responsibility. Presently, an extensive catalogue of Commonwealth grants makes up around 44 per cent of all state funding (Box 1).

The interdependent financial relationship between the Commonwealth and the states and the increasingly shared responsibility for service delivery are defining features of Australia's federation. Many other federations across the Western world, such as Switzerland and Canada, have more devolved powers and less financial dependence. Our unique levels of interdependency and shared responsibility mean that it is in the interests of both levels of governments to have robust and cooperative relationships, built on shared accountability and aspirations for the future.

As at 2016, there were only six countries where sub-national governments

**contributed a larger share of**

**a country's recurrent government spending than Australia[16].**

These are the United Arab Emirates, Canada, Switzerland, Sweden, South Africa, United States and Australia.

## How are the states funded?

In 2017–18, $105 billion (44 per cent)[17] of all states' revenue came from the Commonwealth, with the remainder sourced largely from taxes, fees and charges, and mining royalties.

The Northern Territory and Tasmania rely most heavily on Commonwealth funding due to the high cost of service delivery in those states, while Western Australia is least reliant due to its access to significant iron ore royalties.

The NSW Government expects 38 per cent of its revenue in 2019–20 to come from the Commonwealth. Funding is provided through three key channels:

- **GST payments ($18.7 billion, 22 per cent of revenue):** GST revenues are collected by the Commonwealth and distributed to the states to use at their discretion. Revenues are shared amongst the states so that they have the capacity to deliver services at a similar standard. This means that a higher-than-average amount of GST per capita is paid to states in which it is more difficult to raise revenue or more costly to deliver government services.
- **National Agreements ($10.4 billion, 12 per cent of revenue):** National Agreement payments are tied to achieving nationally agreed objectives in four key areas of state-service delivery: public hospitals, schooling, housing and homelessness, and skills and workforce development. Funding was traditionally tied to broad objectives in the service delivery area and gave states flexibility in how they achieved them. However, National Agreements today involve far more conditions on how the states spend funds, limiting autonomy in delivering on the agreed outcomes.
- **National Partnerships ($2.9 billion, 3 per cent of revenue):** National Partnership payments are tied to the delivery of specific projects or policy initiatives and are designed to complement National Agreements. New South Wales is a signatory to around 45 National Partnership agreements for the delivery of transport projects, health infrastructure, early childhood education and other initiatives.

# 5 Working together for a better future – creating public value for citizens

Federalism can provide many benefits to the community. Our system of devolving frontline services to the states means that delivery can be tailored to meet the distinct needs of communities. It also provides room for state governments to compete, providing impetus for the states to lift living standards through a stronger economic environment, the provision of better and more efficient services, and more responsive government.

Another benefit is that state autonomy provides a platform for the states to experiment at a local level so that good policy ideas can be dispersed across the country[18]. In times of significant structural upheaval, innovation and bold policy ideas will be critical to securing future living standards.

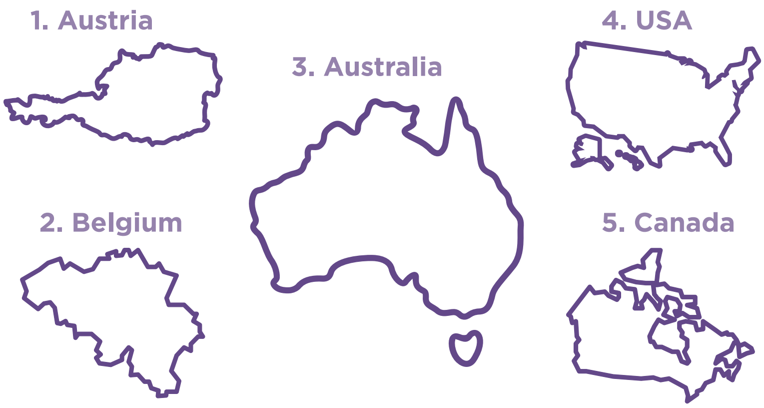
Despite these benefits, there are signs that over time, Australia has been moving towards a more centralised model of government, without the development of shared aspirations. This comes at the cost of failing to set the foundations for achieving both high quality citizen outcomes and generating public value.

Some of the challenging aspects to the current environment are discussed below, including: growing financial dependence; the link between funding distribution and productivity enhancing reform; the structure and design of funding agreements; and the need to work better together to achieve high quality citizen outcomes.

The **financial dependence** of Australian states on the Commonwealth is

**amongst the highest of all federations,**

third only to Belgium and Austria.



## The states' financial dependence on the Commonwealth is an ongoing challenge

While the states were responsible for nearly half of Australian general government operating expenditure in 2017–18, their limited taxation capacity means they contributed only 24 per cent of revenues. By contrast, the Commonwealth raises considerably more revenue than it needs for its own expenditure. The provision of grants to the states seeks to redress the misalignment of spending and revenue raising powers, known as *vertical fiscal imbalance*.

The tension of vertical fiscal imbalance is inherent in the federation and is likely to always be there. But there is discretion over its magnitude. The financial dependence of Australian states on the Commonwealth is amongst the highest of all federations, third only to Belgium and Austria[19].

The composition of this funding is also likely to change. While GST payments are untied, continued weakness in GST revenue growth would directly affect the capacity of the states to provide services and infrastructure and could mean that an increasing share of funding would be tied to National Agreements and National Partnerships. This leaves the states exposed to fluctuations in the Commonwealth's revenue collections and increasingly beholden to Commonwealth directions on tied funding. Effective relationships built around shared accountability and aspirations between the Commonwealth and states will be essential[20].

It is important for the states to review the sustainability of their own revenue bases and find ways to work better in partnership with the Commonwealth on areas of shared responsibility. Acknowledging however the constitutional and practical limits on state funding power, the states must also have access to adequate levels of untied revenue. There are opportunities for both levels of government to find a better system that balances the need to minimise the burden on Australian taxpayers, while ensuring the states have enough flexibility to develop innovative solutions to the issues affecting frontline service delivery.

### Issue 4

**Financial dependence on the Commonwealth needs to be reviewed.**

The states' financial dependence on the Commonwealth is inherent to our federation. However, there are opportunities for both levels of government to achieve shared outcomes through an alternative system that balances the need to minimise the burden on Australian taxpayers, while ensuring the states have enough flexibility to develop innovative solutions to the issues affecting frontline service delivery.

### Question:

**How can the states reduce their dependence on the Commonwealth?**

## The distribution of funding between states should complement reforms that lift living standards

The Australian federation is made up of socially, geographically and economically diverse regions. These differences mean that providing government services is more challenging in some states than others due to high service delivery costs and/or limited funding capacity. For example, running hospitals and schools can be more challenging in Tasmania and the Northern Territory due to the costs of serving smaller, more remote populations.

These disparities are offset through GST revenues, which are shared amongst the states so that they have funding to provide services at a similar standard. This means GST revenues are 'redistributed' from states that are fiscally 'strong' (such as Western Australia and New South Wales), to ones that are fiscally 'weaker' (such as the Northern Territory, Tasmania and South Australia). The distribution is recommended by the Commonwealth Grants Commission on an annual basis.

The Productivity Commission completed a review of GST sharing arrangements in 2018[21] in response to concerns that it misaligns the incentives of governments and discourages productivity-enhancing reform and industry development[22]. In response to the review, but not in agreement, the Commonwealth is phasing in an alternative model from 2021–22 to 2026–27.

In light of this recent context, it is not the intention of this Review to consider how GST is shared between states. Nor will the Review consider the practices of the Commonwealth Grants Commission. However, in principle, the distribution of GST and other Commonwealth revenues between states should provide incentives for the states to compete, reform and innovate.

### Issue 5

**The distribution of funding between states should complement reform.**

It is not the intention of this Review to evaluate the way the GST is distributed. However, it is critical that the allocation of funding between states does not discourage efforts to reform.

**Question:**

**How can Commonwealth – state relations encourage states to innovate and reform?**

## Funding agreements constrain the ability of states to plan for the needs of their citizens

The nature of Commonwealth and state relations has wide-reaching implications for the wellbeing of all Australians given its direct impact on public services and infrastructure.

Federal funding arrangements affect the ability of states to manage their budgets, plan for their future and spend funds in a way that maximises public value for citizens. While the Commonwealth seeks to hold states accountable for how they spend tax-payer funds, from a state perspective, the increasing number of strings attached to funding limits scope to design the best outcomes for citizens.

Today, many funding agreements between the two levels of government include:

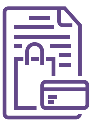
- **Strict conditions on how money can be spent.** Many agreements prescribe 'how' services should be delivered, with detailed definitions on the milestones to be achieved. This limits the opportunities for governments to be flexible, add value and innovate as service delivery and infrastructure projects evolve. Importantly, this restricts the ability of all governments to take a holistic view and ensure that the outcomes match those valued by citizens.
- **Funding uncertainty.** Some National Partnership Agreements are renewed in a piecemeal fashion, extended on an annual or ad-hoc basis rather than providing long-term sustainable funding. Essential government services like early childhood education and the provision of essential vaccines are subject to extensive annual negotiations and renewal despite the ongoing need for services. The impact of this uncertainty for citizens is illustrated through the experience of early childhood providers: the Commonwealth's fee setting restricts providers' ability to forward plan, engage staff, and deliver high quality services for parents.
- **Governments spend too much time negotiating agreements.** Commonwealth-state relations are increasingly preoccupied with transactional discussions to the detriment of long-term strategic thinking about the joint challenges facing the nation. In many areas bureaucratic negotiations take up a lot of time, which could be seen as wasteful and overly burdensome. A partnership approach would be a game-changer for the potential of our federation to deliver for all citizens.
- **A misalignment of the objectives between the two levels of government.** There are times when policies are developed and agreements are struck without a shared view of the bigger picture for the future. Examples are littered across service delivery where policy challenges could have been better addressed by a joint solution. The way healthcare is both funded and delivered in Australia is one such example.

## The potential for government partnerships in shaping a better way forward

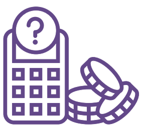
It is important that governments look at alternative options to the current way of doing things. A model based on a citizen-centred approach would address the Commonwealth's concerns that revenues are managed responsibly, while also allowing states the necessary flexibility to spend money in ways that best address citizen need. A shift in focus is required – one where states are held accountable for the outcome, not how the services are delivered.

This approach would reflect the unique and diverse make-up of our federation, recognising that what works in one jurisdiction may not always work in another. The challenges of housing and homelessness illustrate that a one-sized-approach doesn't fit all. Factors such as rates of homelessness, affordability, remoteness and people movements, are just some of the issues that call for a state-specific approach to service delivery.

### What is wrong with funding agreements between the states and Commonwealth

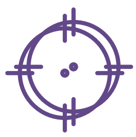


**Strict conditions on how money can be spent**



**Funding uncertainty**

**Governments spend too much time negotiating agreements**



**A misalignment of the objectives between the two levels of government**

With responsibility for major areas of service delivery (such as in health, education and transport) states are best placed to allocate funds towards the most effective interventions that improve citizen outcomes. They also have the line of sight to identify the immediate and long-term risks to sustainability and performance, including the rising cost of service delivery, the impact of changing technology and rising consumer expectations.

A partnership approach to federation could put citizens at the centre. Rather than prescriptive terms, funding could be contingent on the delivery of outcomes, encouraging states to innovate and use their local expertise to achieve the best public value. By focusing on shared outcomes, this model could set up our future for a more successful federation.

Governments have tried to develop a better model of engagement in the past. In 2008, the Commonwealth and state governments signed the Intergovernmental Agreement on Federal Financial Relations (IGAFFR), which acknowledged that coordinated action was necessary to address the many economic and social challenges that confronted the Australian community.

The IGAFFR framework set the principles that captured the spirit of Australia's federation. To this day, they continue to provide a solid foundation for social and economic reforms. The IGAFFR recognises that states have the primary responsibility for significant areas of service delivery and aims to improve effectiveness, productivity and citizen outcomes by providing states with increased flexibility and clearer lines of responsibility and accountability for service delivery. The overarching framework is based on two key principles:

- States are equal and sovereign partners with the Commonwealth
- States have autonomy to deliver services in a way that optimises outcomes for residents[23].

## The way forward

At its introduction in 2009, governments agreed to simplify the way forward, guided by trust on the underpinning principles. The framework had some initial success, with the number of agreements reduced from 90 to six core National Agreements and around 16 National Partnership Agreements.

The IGAFFR did not have a lasting impact. Instead, federal financial relations quickly returned to a complex matrix of funding flows. By the end of 2010, the catalogue of intergovernmental agreements had rapidly increased to over 300[24]. This continues to create major challenges for states to this day. The 2019–20 Commonwealth Budget contained more than 100 funding agreements nationally.

In 2018–19, there were 30 National Partnerships that provided New South Wales less than $10 million in funding. 25 of these were less than $5 million in value.

There is a well-documented decline in public trust in the institutions of government and a lack of public confidence in the capacity of both levels of government to address the problems that matter most to people[25]. Putting citizens at the centre would re-focus government efforts, building trust and stabilising our federation.

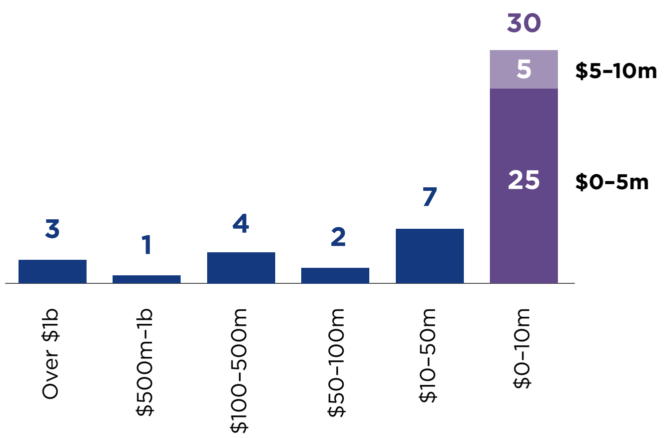
## Federal funding - a tangle of small projects

### 30 agreements provided

less than $10m in 2018–19.

### 25 agreements

were less than $5m in 2018–19.




Number of agreement payments to NSW by value range

## Issue 6

**Funding agreements will need to be fit for purpose.**

Commonwealth and state funding arrangements impact how every day services are funded and delivered. Governments often have the same goal, but need different approaches to implementation. Over time however, Commonwealth funding to states has come with an increasing number of strings attached and at times includes misaligned objectives.

Without giving states the flexibility to determine how to spend money received, states will find it increasingly difficult to manage their budgets, plan for their future, and ensure that funding is directed at areas that need it most.

### Question:

**How can agreements between the Commonwealth and states ensure accountability for how the money is spent but allow flexibility to deliver the best outcomes for citizens?**

## Issue 7

**Governments must work better together to achieve outcomes.**

While the Commonwealth and states have different roles and responsibilities for funding and service delivery, they both strive to ensure that citizens have access to high quality services and infrastructure. Despite this, there are many examples of where the needs of people are not at the centre of funding decisions and where governments can operate better together.

Without change, costs for both levels of government will be difficult to manage, as too will be the delivery of outcomes valued most by citizens.

### Question:

**How can governments work better together and learn from each other, putting citizens at the centre of decision making?**

# 6 Learning from Australia's successes – the potential for partnerships across governments

While past national reforms have set the foundations for economic prosperity, an attitude of set-and-forget will not provide for Australians into the future.

Improving the way states and the Commonwealth work together could be a game-changer for delivering nationally significant outcomes for citizens.

Reforms take time. They involve collaboration, effective working relationships, and consideration on how to balance the impacts on different groups in society. Now is the time to consider the next wave of reforms to position the nation for continued prosperity as it faces the significant challenges ahead[27]. Most importantly, if we act now, we can pave the way for a brighter future for decades to come.

## The states and the Commonwealth have delivered major reforms in the past

While reforming the federation has historically been difficult, both levels of government have shown that they can move past blame games and buck-passing to deliver reforms that set up the country for future prosperity.

The National Competition Policy established under the Hilmer reforms in the 1990s showed that the states and the Commonwealth could leverage the federation to incentivise and implement productivity-enhancing reforms. The result was higher economic growth[26].

The introduction of the GST in 2000 also illustrated the capacity of the states and the Commonwealth to work together. With this reform, the states and the Commonwealth negotiated a replacement for several economically damaging state taxes. Lengthy and substantial public debate on the suitable GST rate, the taxes it would replace, which goods and services should be covered, and the appropriate exceptions, resulted in a more sustainable way to fund the delivery of frontline-state services and support citizen outcomes, to now.

We have also collective action with the Asset Recycling Initiative, where several states, including New South Wales, received financial incentives from the Commonwealth to recycle old infrastructure assets and build new ones, enabling a pipeline of infrastructure investment that will transform the way citizens live for years to come.

# 7 Over to you...

Tell us what you think, we're keen to listen.

Through the following questions presented throughout this paper, we've sought to garner your views on the opportunities available to shape a better future:

?

1. Which state taxes impact citizen and business choices the most?

2. How can the tax system work better for citizens and businesses and improve the economy for future generations, keeping in mind:
   - the changing environment
   - the increasing volatility to state tax revenue bases?

3. Is there a better way that the Commonwealth Government can ensure its revenue sources remain sustainable in a changing environment?

4. How can the states reduce their dependence on the Commonwealth?

5. How can Commonwealth – state relations encourage states to innovate and reform?

6. How can agreements between the Commonwealth and states ensure accountability for how the money is spent but allow flexibility to deliver the best outcomes for citizens?

7. How can governments work better together and learn from each other, putting citizens at the centre of decision making?

If there are issues we haven't identified, share your perspective. Wherever possible, we encourage you to include relevant evidence or case studies to support the case being made.

Submissions will be published on the Review's website unless the author requests that it be treated as confidential. We may contact authors to discuss submissions.

# A1 Terms of Reference

## Introduction

1. Federal financial relations shape the NSW Government's capacity to fund services and infrastructure for the people of the state, through a complex mix of Commonwealth and state and territory (state) based funding arrangements.
2. With limited taxation powers, states have traditionally relied on revenue streams that can be volatile and less efficient, making the sustainability and reliability of Commonwealth funding critical to the states' capacity to deliver services and infrastructure.
3. As the New South Wales economy and society grow and evolve, it is necessary to review the state's revenue system, with a focus on the way it interacts with the Commonwealth, to ensure it remains fit for purpose and capable of meeting the needs of the people of New South Wales into the future.
4. As the nation's largest economy, it is incumbent on New South Wales to drive a renewed national conversation on a "bottom-up" vision for federation that encourages dynamism, reform and opportunities to build a stronger economy, and supports the sovereignty of states in respect to funding decisions.

## Objectives and scope

5. The NSW Review of Federal Financial Relations (the Review) will:
   - consider the interactions between different levels of government in regards to state funding arrangements
   - examine the New South Wales revenue system with a focus on Commonwealth funding arrangements including the design, complexity and number of funding agreements with the Commonwealth
   - develop options for reform that improve the capacity of New South Wales to meet its funding needs sustainably over the long term, informed by the objectives of encouraging a more dynamic form of federalism, rewarding state-led economic reform, and securing greater flexibility and autonomy for New South Wales, and
   - provide government with a realistic assessment of feasibility and implementation issues, as well as a road map to overcome practical obstacles to successful reform.
6. The Review will acknowledge the importance of all Commonwealth and State governments working together to develop more sustainable and predictable funding mechanisms.
7. The Review will recommend options for governments to deliver state funding arrangements in line with following principles:
   - **Distributed fairly across jurisdictions:** that provides states with adequate financial reward for policy effort while ensuring that there are no ongoing competitive or fiscal disadvantages.
   - **Sustainable:** to enable the efficient provision of services and infrastructure that is in line with community expectations, reflective of fundamental cost drivers, and in a way that allows states to use their experience and autonomy to delivery on reform goals.
   - **Predictable:** for recurrent expenditure that is stable over the economic cycle and provides certainty where there is an ongoing service need.

8. In examining the interactions between Commonwealth funding and the state tax system, the Review will be guided by the following principles:
   - **Lower:** The objective of taxation is to raise the revenue needed to fund necessary services and infrastructure. Taxation imposes costs on both individuals and the economy as a whole. A lower tax burden would support economic growth and alleviate cost of living pressures.
   - **Simpler:** A tax system that is easy to understand would reduce complexity and compliance costs for individuals, households and business, freeing up taxpayers' time and resources for more productive activities.
   - **Fairer:** A tax system needs to consider who pays taxes and whether the distribution is fair and equitable. Taxation changes should consider transitional impacts and the case for providing compensation if appropriate.
   - **Efficient:** An efficient tax system minimises impacts on economic growth by lowering reliance on taxes that distort decision making, discourage economic activity and impose high compliance costs.
   - **Sustainable:** A sustainable tax system has the ability to raise the revenue required to fund essential government services and critical infrastructure. This means that it is sustainable, stable and resilient to changes in market and industry structures.

## Composition and consultation

9. The Review Panel will be chaired by Mr David Thodey AO and comprise Ms Jane Halton AO PSM, The Rt Hon Sir Bill English KNZM, The Hon John Anderson AO, Professor Anne Twomey and Professor John Freebairn. The Review Panel will be supported by a Secretariat from within NSW Treasury.
10. The Review Panel will consult the public and consider feedback from a variety of stakeholders, including but not limited to community groups, business groups and those advocating on behalf of the vulnerable.
11. The Review Panel will consult with other states.
12. The Review Panel will, where necessary, draw on external expertise.

## Review timing

13. The Review Panel will deliver a discussion paper in the second half of 2019 to support the consultation, a draft report following consultation and a final report in the first half of 2020.

# A2 Selected previous reviews and studies of federal financial relations and state taxation

| | |
|---|---|
| **2002** | Garnaut, V., and Fitzgerald, V., Review of Commonwealth-State Funding, Treasurers of New South Wales, Victoria and Western Australia |
| **2006** | Warren, N., Benchmarking Australia's Intergovernmental Fiscal Arrangements, Treasurer of New South Wales |
| **2007** | Twomey, A. and Withers, G., Federalist Paper no 1 – Australia's Federal Future, Council for the Australian Federation |
| **2009** | Wanna, J., Phillmore, J., Fenna, A., and Harwood, J., Common Cause: Strengthening Australia's Federalism, Council for the Australian Federation |
| **2009** | Henry, K., Harmer, J., Piggot, J., Ridout, H., and Smith, G., Australia's future tax system: A report to the Treasurer, Commonwealth of Australia |
| **2014** | The Committee for Economic Development of Australia. (CEDA), A Federation for the 21st Century |
| **2014** | Shepherd, A.F., Boxall, P., Cole, A., Fisher, R., and Vanstone, A., The Report of the National Commission of Audit, Commonwealth of Australia |
| **2015** | Commonwealth of Australia, Reform of Federation White Paper |
| **2017** | Productivity Commission, Shifting the Dial: 5 Year Productivity Review, Report No. 84, Canberra |
| **2018** | Productivity Commission Horizontal Fiscal Equalisation, Report No. 88, Canberra, 2018 |

## References


1 Wood, D., Griffiths, K., and Emslie, O, Generation gap: ensuring a fair go for younger Australians, Grattan Institute, 2019.

2 Infrastructure Australia, An Assessment of Australia's Future Infrastructure Needs, The Australian Infrastructure Audit 2019, June 2019

3 McKinsey & Company, *Delivering for citizens: How to triple the success rate of government transformations*, Discussion Paper, June 2018

4 Infrastructure Australia, An Assessment of Australia's Future Infrastructure Needs, The Australian Infrastructure Audit 2019, June 2019

5 National Climate Change Adaptation Research Facility, *Climate proofing Australia's infrastructure*, Policy guidance brief, Australia, 2013

6 Measured in terms of petrol, diesel and other petroleum excise, net of fuel tax credits and adjusted for off-road use.

7 Bureau of Infrastructure, Transport and Regional Economics, *Australian Infrastructure Statistics – Yearbook 2018*, Canberra, August 2019

8 ABS, Australian Demographic Statistics, *Population by Age and Sex, Australia, States and Territories*, Australia, Cat No 3101.0, June 2018

9 Energeia, *Australian Electric Vehicle Market Study*, Australian Renewable Energy Agency, Australia, May 2018, viewed 29 September 2019, https://arena.gov.au/renewable-energy/electric-vehicles/

10 Infrastructure Australia, An Assessment of Australia's Future Infrastructure Needs, The Australian Infrastructure Audit 2019, June 2019

11 Infrastructure Australia, An Assessment of Australia's Future Infrastructure Needs, The Australian Infrastructure Audit 2019, June 2019

12 NSW 2019–20 Budget, Victoria 2019–20 Budget and Queensland 2019–20 Budget

13 Productivity Commission, *Shifting the Dial: 5 Year Productivity Review*, Report No. 84, Canberra, 2017

14 Productivity Commission 2010, Gambling, no. 50, Productivity Commission, Canberra

15 Bureau of Infrastructure, Transport and Regional Economics, *Electric Vehicle Uptake: Modelling a Global Phenomenon*, Research report 151, Canberra, August 2019

16 IMF Fiscal decentralisation database (2016 data)

17 Another $15 billion is provided to local governments or paid through the states to non-government entities. Sources: Commonwealth Grants Commission, *Commonwealth-state Financial Relations*, 2017–18, Canberra 2018, and calculations based on Commonwealth of Australia data.

18 Twomey, A. and Withers, G, *Federalist Paper no 1 – Australia's Federal Future*, Council for the Australian Federation, 2007

19 IMF Fiscal Decentralization Database (2016 data). Note that Data is unavailable for Mexico, another federation.

20 This was particularly evident when the Commonwealth unilaterally cut health and education funding in its 2014–15 Budget and when it wrote down forecast GST revenues by $8.3 billion in its 2019–20 Budget.

21 Productivity Commission, *Horizontal Fiscal Equalisation*, Report No. 88, Canberra, 2018

22 The CGC has a highly granular driven methodology which is based on a comprehensive dataset provided by state government officials and is subject to annual updates and 5-yearly reviews.

23 Intergovernmental Agreement on Federal Financial Relations (2009)

24 Shepherd, A.F., Boxall, P., Cole, A., Fisher, R., and Vanstone, A., The Report of the National Commission of Audit, Commonwealth of Australia, Canberra, 2014

25 https://www.themandarin.com.au/106018-the-apss-role-in-restoring-public-trust/

26 Modelling of gains from National Competition Policy reforms, productivity and price changes in large infrastructure sectors attributed to the NCP reforms (while only forming one part) contributed to a real GDP increase of 2.5 per cent, worth $20 billion by 2005. Productivity Commission. 2005. Review of National Competition Policy Arrangements See also Parliamentary Briefing

27 If operating effectively, federalism benefits countries through better services, lower costs and more responsive government. These benefits are not theoretical – on one estimate, Commonwealth-state reform that leads to greater decentralisation could provide a dividend of $86 billion in additional Australian GDP.

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NSW GOVERNMENT

You can find more information on the Review at:
**www.treasury.nsw.gov.au/federal-financial-relations-review**

You can make a submission to the Review at:
**FFRReview@treasury.nsw.gov.au**

You can get in touch with the Review at:
**FFRReviewSecretariat@treasury.nsw.gov.au**