

EXPLANATORY STATEMENT

Issued by authority of the Treasurer

A New Tax System (Commonwealth-State Financial Arrangements) Act 1999

Determination of Final Per Capita Relativities for 2005-06

Section 9 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act) requires the Treasurer to make a determination in writing of the per capita relativities factor for each State and Territory (State) before 10 June in the current GST year.

In 1999, Australian Government, State and Territory leaders signed an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA). The IGA sets out reform measures which implement changes to Commonwealth-State financial relations. These measures include, among other things, the provision of all GST revenue to the States and the abolition of certain state taxes.

The relativities factor is used to calculate the GST revenue payable to each State in 2005-06. Each State receives a share of the GST revenue pool equal to its weighted population share of the combined GST revenue and unquarantined Health Care Grants, less its unquarantined Health Care Grants. The relativities factor is applied to a State's population to determine its weighted population. Details of this calculation are set out in Budget Paper No. 3, *Federal Financial Relations 2006-07*.

As required by the IGA, which is Schedule 2 to the Act, the relativities factors are based on the recommendations of the Commonwealth Grants Commission, which are in accordance with the principle of horizontal fiscal equalisation. Horizontal fiscal equalisation is the principle that each State should receive funding from the pool of GST revenue and Health Care Grants to ensure that it has the capacity to provide the average standard of State-type public services, providing it operates at an average level of efficiency and makes the average effort to raise revenue from its own sources. The Commission's recommendations were published in its *Report on State Revenue Sharing Relativities 2005 Update*.

The Act also requires the Treasurer to consult the States before making the GST relativities determination. The Treasurer consulted the States at the Ministerial Council for Commonwealth-State Financial Relations meeting on 23 March 2005.