

# Chapter 7 Australian Government Grants

**Overview** Australian Government grants represent the Territory's principal source of budget funding. This funding includes:

- general purpose grants, which include GST revenue payments and, for the Territory, grants in lieu of uranium royalties. These payments are untied and can be used by the states for any purpose; and
- other grants, the majority of which are classified by the Australian Government as specific purpose payments (SPPs). These payments are assigned to specific purposes and represent tied funding.

GST revenue represents the most significant component of Australian Government funding and is calculated from its underlying parameters which include national GST collections, population and per capita state-revenue sharing relativities. The Commonwealth Grants Commission (hereinafter called the Commission) determines relativities each year in its annual update or at the end of its methodology review period (approximately every five years). GST estimates and projections and the Commission's 2007 Update and Ministerial Council report are discussed in the first half of this chapter.

Grants from the Australian Government are an essential source of revenue for all states. The grants are essential as, under Australia's federal system, the states have significant service delivery responsibilities but limited capacity to raise own-source revenue. Conversely, the Australian Government's revenue raising capacity considerably exceeds its limited service delivery responsibilities. The disparity between the two tiers of government in terms of revenue raising capacity and service delivery responsibilities is defined as vertical fiscal imbalance (VFI). The extent of VFI in Australia has increased since 2000-01 following the introduction of the goods and services tax (GST) and the associated tax reforms, including the abolition of a range of state taxes. Issues in public finance are discussed in the second half of this chapter.

**GST Revenue** The Territory expects to receive \$1975.9 million in GST-related revenue in 2006-07, a 6.8 per cent increase from the \$1850.2 million received in 2005-06. For 2007-08, an increase of 7.5 per cent to \$2123.4 million is expected.

The Territory's GST revenue grant is determined principally by:

- the level of national GST collections raised annually;
- the Territory's share of the national population; and
- the Territory's per capita revenue-sharing relativity as determined by the Commission.

Accurate forecasting of the parameters that determine GST revenue can mitigate the risk of significant revenue variations in the Territory budget. However, the inherent difficulties in estimating the size of the GST pool, the Territory's population and Commission relativities over the forward estimates period make this process difficult.

Unexpected changes in GST revenue parameters have a potential to pose risks (both upside and downside) for the Territory's financial performance. Since the

introduction of the GST, there have been a number of examples where such risks have materialised (for example, rebasing of the Territory's population in 2002-03 following the 2001 Census, and increases in the Territory's relativity in the 2006 and 2007 Updates, primarily due to changed financial circumstances in other states).

The Australian Government provides states with estimates of GST collections in its annual budget and in its Mid-Year Economic and Fiscal Outlook (MYEFO). Following the introduction of the GST in 2000, collections were volatile and difficult to predict. Although more stable at present, GST revenue will vary in line with changes in economic growth and consumption. The Australian Treasury remains the most informed source of GST estimates, given its access to the latest key statistical and collections data. Private and other government organisations such as Access Economics and Queensland Treasury also provide estimates of national GST collections. Such estimates provide states with early intelligence of likely variations from Australian Government estimates. GST revenue payments to the states are finalised in June each year following determination of estimates for national GST collections by the Australian Taxation Commissioner, estimated resident populations (as at 31 December) by the Australian Statistician and relativities by the Australian Treasurer. These determinations are final, with the exception of national GST collections, where future GST collections are adjusted for outcomes from prior years.

The Territory has adopted Australian Government estimates for national GST collections and populations in its GST revenue estimates for the 2007-08 Budget and forward estimates period. Neither the Australian Government nor the Commission provides estimates of future relativities (2008-09 onwards) and therefore, considering the potential for upside or downside movement, the Territory has adopted the 2007 Update relativities for this period. It should be noted that national GST collections are based on estimates from the Australian Government's MYEFO which were published in December 2006 and that the Territory's population may be significantly revised following the 2006 Census outcome. The first tranche of results from the 2006 Census will also impact on Commission relativities.

Table 7.1 shows the budget and forward projections for the Territory's GST revenue and the sensitivity of GST revenue to variations in key parameters. This table demonstrates that a change in any one GST parameter (in any particular year) can have a significant impact on the Territory's GST revenue. These impacts multiply when more than one parameter varies or when a trend emerges in forward years. Although a one percentage point change has a similar effect on each influence, the relativity is the most volatile and presents the greatest future risk, as discussed later in this chapter.

Table 7.1: Northern Territory  
GST Revenue Projections

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Budget Estimates (\$M)</b>	<b>1 975.9</b>	<b>2 123.4</b>	<b>2 245.9</b>	<b>2 354.2</b>	<b>2 467.9</b>
National GST Revenue (\$B)	39.3	41.9	44.4	46.6	49.0
Growth %	5.8	6.4	6.0	5.0	5.0
Population	208 330	211 303	214 325	217 380	220 479
Growth %	1.5	1.4	1.4	1.4	1.4
Share of National Population %	1.004	1.005	1.006	1.008	1.009
Relativity	4.32755	4.36824	4.36824	4.36824	4.36824
<b>Sensitivity to a one percentage point variation in growth in key parameters</b>					
National GST Revenue					
One year only variation (\$M)		18.4	19.5	20.5	21.6
Ongoing variation (\$M)		18.4	38.8	61.0	85.1
Population					
One year only variation (\$M)		21.3	22.4	23.5	24.6
Ongoing variation (\$M)		21.3	44.7	69.8	97.1
Relativity					
One year only variation (\$M)			22.4	23.5	24.6
Ongoing variation (\$M)			22.4	46.8	73.1

Source: Northern Territory Treasury, Australian Government *Mid-Year Economic and Fiscal Outlook 2006-07*.

## Other Australian Government Grants

The majority of other Australian Government agency grants are classified as specific purpose payments (SPPs), which are usually tied to some specific program or function against which they must be acquitted. SPPs are a major mechanism by which the vertical fiscal imbalance between the Australian and state levels of government is corrected.

In 2007-08, Territory Government agencies will receive about \$487 million in other Australian Government grants.

SPPs are usually governed by formal agreements between the Australian Government and the states which set out conditions such as:

- the programs and functions for which the funds may be used;
- the contribution of state discretionary funds;
- restrictions on how funded programs may be delivered;
- performance and reporting requirements; and
- punitive sanctions for the breach of conditions in the agreements.

The states continue to seek improvements in the structure of these agreements.

## Determination of State Revenue Sharing Relativities

### Commonwealth Grants Commission

The role of the Commission is to advise the Australian Government on relativities for use in the distribution of GST revenue among the states. The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations requires these recommendations to be based on the principle of horizontal fiscal equalisation, which is defined as:

*A distribution of the pool of funds made available by the Australian Government for transfer to the states as untied financial assistance 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 level.*  
(Commission 2007 Update Report)

Every five years, the Commission undertakes a major review of the method it uses to determine per capita relativities. This process is necessary to ensure that relativities continue to reflect the contemporary public administration, service provision and revenue-raising environment of state governments. The last review was completed in February 2004. The 2004 review methodology will be used as the basis for determining GST distribution among the states to 2009-10. Relativities in the intervening years are updated using the latest available financial, economic and demographic data.

### 2007 Update – State Revenue Sharing Relativities

In February 2007, the Commission released its Report on State Revenue Sharing Relativities – 2007 Update. The 2007 Update report details the Commission's recommendation for the distribution of the GST pool in 2007-08.

The Commission's recommendations are expressed in per capita relativities for each state. States' relativities reflect the financial effect on each jurisdiction of the:

- unavoidable influences on the use or costs of providing services (expenditure needs);
- unavoidable influences on revenue-raising capacities (revenue needs); and
- its per capita level of SPPs in relation to the national average (SPP needs).

Needs may be positive or negative. Because the Commission assesses needs within a defined level of available funds, a necessary consequence is that a positive need of one jurisdiction means at least one other jurisdiction will be assessed as having negative expenditure needs. States with positive needs have relativities above 1. These states require more than an equal per capita share of the GST pool to deliver the Australian benchmark level of services. Conversely, states with negative needs have relativities of below 1 and require less than an equal per capita share of the pool to provide services at Australian average levels.

Table 7.2 compares the changes in relativities between the 2006 and 2007 Updates. In the 2007 Update, the Commission has recommended an increase in relativities for New South Wales, Victoria, South Australia, the Australian Capital Territory and the Northern Territory. The remaining jurisdictions experienced a decrease in relativities.

Table 7.2: Impact of the 2007 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Relativity</b>								
2006 Update	0.87332	0.89559	1.02387	1.00480	1.18862	1.54931	1.14575	4.32755
Grant Share (%)	28.9	22.1	20.2	10.0	8.9	3.7	1.8	4.4
<b>Relativity</b>								
2007 Update	0.89079	0.90096	1.00607	0.94747	1.20791	1.54465	1.16293	4.36824
Grant Share (%)	29.5	22.2	19.8	9.4	9.1	3.7	1.9	4.4
<b>Effect of 2007 Relativity</b>								
<b>Impact (\$M)</b>	<b>277.0</b>	<b>64.0</b>	<b>-166.4</b>	<b>-271.6</b>	<b>69.3</b>	<b>-5.1</b>	<b>13.1</b>	<b>19.7</b>
<b>Impact (\$ per capita)</b>	<b>40.35</b>	<b>12.53</b>	<b>-40.74</b>	<b>-131.66</b>	<b>44.60</b>	<b>-10.41</b>	<b>39.74</b>	<b>94.45</b>

Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities – 2007 Update.

The outcome for the Territory was an increase in its relativity from 4.32755 to 4.36824, which translates to an increase of \$19.7 million in the Territory's share of GST revenue on a no-change basis (that is based on the 2006-07 GST pool and no change in population). In per capita terms, the largest positive impacts were in the Northern Territory (\$94.45) and South Australia (\$44.60), while the greatest negative impacts were in Western Australia (-\$131.66) and Queensland (-\$40.74). The annual change in relativities reflects the changes in the economic and social circumstances of the states, which impact on states' own-source revenue raising capacity or the costs of providing the standard level of government services. In the 2007 Update, the variation in states' revenue raising capacities accounts for most of the change in relativities. Changes in the relative costs of providing services between states generally had a smaller impact on relativities.

Table 7.3 shows the main contributors to the changes in state relativities between the 2006 and 2007 Update.

Table 7.3: Main Influences on Changes in State Allocations from the Pool, 2007 Update (\$M)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Stamp duty on conveyances	201.9	0.8	- 60.4	- 161.1	16.5	5.1	3.2	- 6.0	227.5
Abolition of some state taxes	101.9	14.9	- 62.2	- 26.3	- 17.0	- 13.7	7.2	- 4.8	123.9
Wages input costs	- 107.7	1.4	67.2	4.8	45.4	1.1	- 2.1	- 10.0	119.8
Mining revenue	24.2	48.0	- 82.2	- 10.1	13.8	1.8	3.0	1.4	92.3
Population characteristics	39.4	- 21.5	- 9.3	- 34.1	- 9.9	- 0.5	0.0	35.9	75.2
All other changes	17.3	20.5	- 19.5	- 44.8	20.5	1.0	1.9	3.1	64.3
<b>TOTAL</b>	<b>277.0</b>	<b>64.0</b>	<b>- 166.4</b>	<b>- 271.6</b>	<b>69.3</b>	<b>- 5.1</b>	<b>13.1</b>	<b>19.7</b>	<b>NA</b>

Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities – 2007 Update.

The decline in relativities for Western Australia and Queensland was driven by the continued strength of the property market and commodities prices. Conversely, the relative slow down in the property market in New South Wales increased its relativity closer to 1. The outcomes from the 2007 Update reflect the effectiveness of Australia's system of equalisation.

For the Territory, the increase in its relative share of GST revenue in 2007-08 was mainly due to the increase in the importance of expenses on services to Indigenous communities. This was partly offset by revisions to the ABS' Survey of Education and Training, which showed slower wages growth in the Territory compared with national wages growth, and the Commission's decision to discount the impact of visitor numbers on the costs of providing national parks and wildlife services.

Table 7.4 compares the relative revenue, expenditure and SPP needs of each jurisdiction. The Territory's needs are primarily driven by its expenditure requirements and, to a lesser extent, its below-average capacity to raise revenue. This is partly offset by the Territory's relatively high share of the total SPP funding.

Table 7.4: Causes of the Redistribution from Equal Per Capita, 2007 Update (\$ Per Capita)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Revenue raising capacity	- 167.31	193.02	- 28.20	- 555.53	529.03	842.77	377.15	306.38	116.39
Expenditure requirements	- 91.39	- 445.83	32.45	441.08	- 20.41	476.02	3.19	7 975.10	141.88
SPPs	6.82	24.38	8.94	- 7.49	- 30.72	- 65.92	- 5.91	- 530.55	10.04
Total needs – difference from EPC <sup>1</sup>	- 251.92	- 228.51	13.33	- 121.50	477.74	1 252.52	374.24	7 749.22	0.00

Source: Commonwealth Grants Commission Report on State Revenue Sharing Relativities – 2007 Update supporting volume.

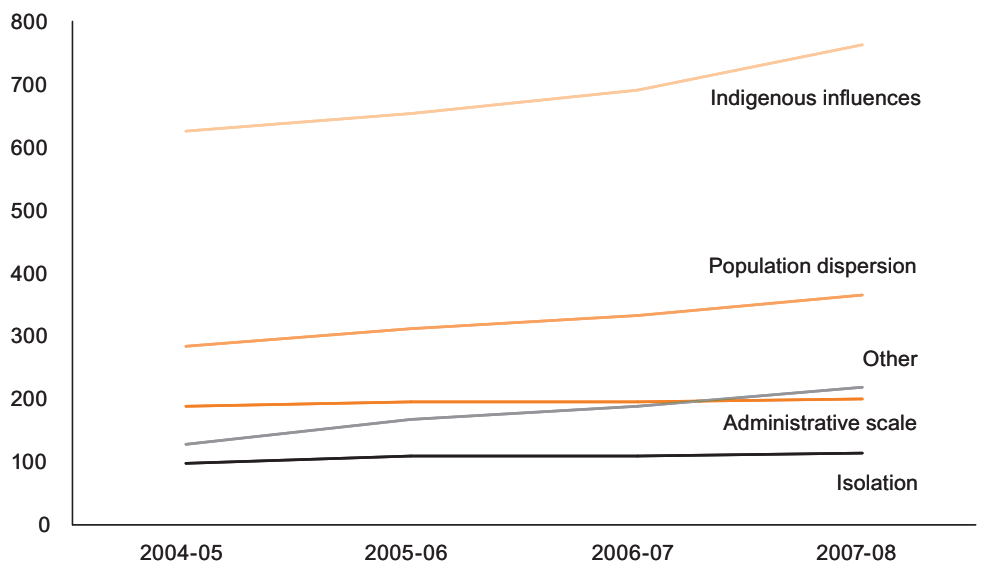
<sup>1</sup> This is the difference between an equal per capita distribution of GST revenue and the Commission's assessment.

The Territory's high expenditure requirements are due to the very high costs of providing virtually all government services. The main causes of the above average costs of service provision in the Territory are:

- the relatively large proportion of the Indigenous population residing in the Territory, which increases the unit costs and use of services;
- the small and highly dispersed population over a large and remote land mass;
- the large diseconomies of scale; and
- the isolation from the capital cities on the eastern seaboard.

Chart 7.1 shows the main factors that contribute to the difference between the Territory's equalised and equal per capita share of GST revenue. Indigenous influences account for nearly half the total redistribution of GST revenue to the Territory.

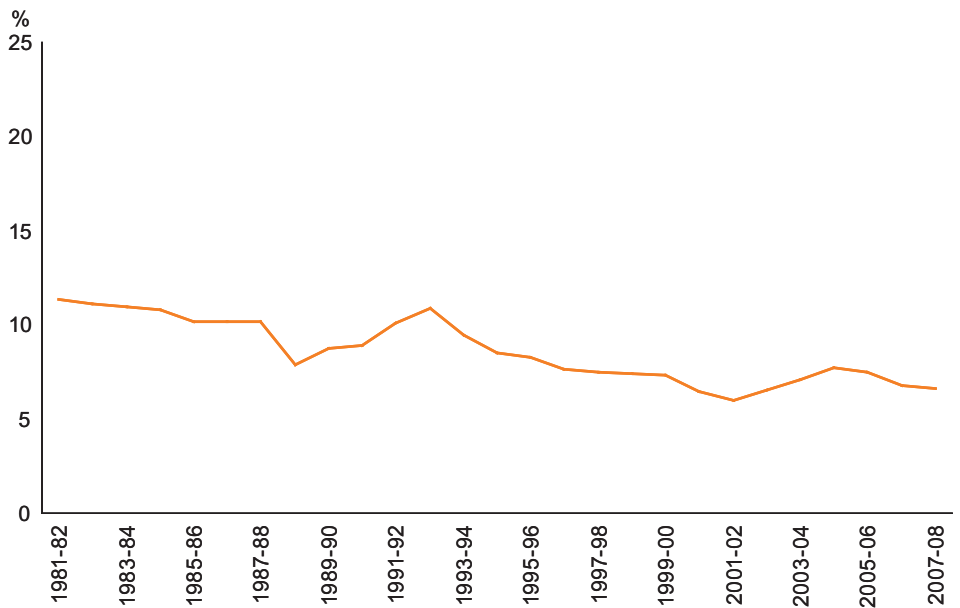
Chart 7.1: Expenditure Contribution to the Northern Territory GST Revenue (\$M)



Source: Commonwealth Grants Commission update reports.

The Commission's recommendations of the 2007-08 relativities will result in about 6.5 per cent of the total GST and health care grants pool being redistributed between states. The remaining proportion of the total pool is effectively distributed on an equal per capita basis. Chart 7.2 shows the proportion of the total pool that is redistributed between the states. Over the long term, the amount of equalisation payments as a proportion of the pool has been declining.

Chart 7.2: Redistribution of the Pool Over Time (%)



Source: Commonwealth Grants Commission 2007 Update.

## 2010 Review of State Revenue Sharing Relativities – Progress Report to Ministerial Council for Commonwealth-State Financial Relations 2007

The 2010 Review Terms of Reference instructed the Commission to report to the 2007 Ministerial Council on the progress towards simplifying the methodology used to determine GST grant allocation by:

- aggregating existing assessment categories, components and factors, in whole or in part;
- eliminating category assessments found unreliable because of unsatisfactory data or methodology;
- applying a materiality threshold to current and future assessments; and
- reviewing the scope for the use of more general indicators of revenue capacity and expenditure need.

The Commission has adopted a 'clean slate', 'top down' approach to determine the appropriate category structure for the 2010 Review. Under this approach, the Commission has started with broad expense and revenue categories and will only disaggregate where:

- there are distinct differences between the drivers of state expenses within the range of activities;
- materiality thresholds are met;
- the disaggregated category can be measured reliably; and
- equalisation outcomes are improved.

The Commission has developed a preliminary category structure for the 2010 Review with 12 expenditure (previously 39 expenditure and 8 user charges) and 7 revenue (previously 13) categories. The Commission is currently examining appropriate broad indicators for each category that are policy neutral and which capture known differences between states in the costs of providing services.

In 2006, the Commission, in consultation with the states, commenced a review of the principles and architecture of horizontal fiscal equalisation that will apply in the 2010 Review. The Commission has reported the main issues raised by states as including:

- the objective of equalisation – most states supported the current fiscal equalisation approach which provide states with the capacity to provide the same level of services. However, there is a minority state view that the Commission's methodology should achieve partial equalisation rather than full equalisation;
- scope of equalisation – the current application of equalisation is comprehensive as it includes all general government revenues and services. One state has proposed that the scope of equalisation should be limited to 'core' services such as education, health, and law and order;
- new equalisation pillars – the Commission's assessment is based on three fundamental tenets: capacity equalisation, equalising to internal standards and policy neutrality. Some states have argued for additional pillars related to simplicity and efficiency; and

- contemporaneity – the annual relativities are based on the average of individual relativities over five years with a two year lag. This approach was adopted by the Australian Government after consultation with the states to smooth relativities having regard to fluctuations in the economic and budget cycles of states. As a result, the relativity that applies in a given year may not reflect the current circumstances of the states. One alternative model proposed is to return to averaging the annual relativities over three years rather than five.

The Commission will release a discussion paper on its views on the principles and architecture of equalisation in May 2007.

Concurrently, the Commission is examining the quality and fitness for purpose of the data used in its assessments, including a program for reviewing the reliability of the main data sets and implementing a protocol for improving the quality of state data. In 2006, the Commission reviewed a number of state data sets including stamp duty on conveyances, court appearances, isolation, national parks, roads, native title, land rights and services to Indigenous communities.

The Commission's 2007 data work plan will focus on the reliability of Government Finance Statistics Government Purpose Classifications, socio-demographic composition, location and further work on the quality of state roads data.

## Issues in Public Finance

### Intergovernmental Agreement

The Australian Government has collected revenue on behalf of the states since the 1940s, when states' income taxing powers were transferred to the Australian Government. Until the inception of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (the Intergovernmental Agreement) in 1999, the Australian Government had complete discretion over the amount of its taxation revenue that was provided to states and the manner in which the revenue was provided (that is, tied or untied).

From the 1940s to the 1990s, the share of Australian Government revenue granted to the states gradually decreased, particularly the amount of untied revenue. By the late 1990s the fiscal arrangements between the two tiers of government were both inefficient and unsustainable. State government costs were escalating faster than revenue from the Australian Government and the importance of state own-source revenue was increasing as states sought to fund the growing demand for, and costs of, providing government services.

To address these issues, the Intergovernmental Agreement was signed by the Australian Government and the states in June 1999. The agreement defines the principles and institutional arrangements under which the Australian Government collects GST revenue on behalf of the states. Since its inception, the Intergovernmental Agreement has formed the basis of federal-state fiscal relations. The Intergovernmental Agreement:

- guarantees states access to a source of untied revenue which, over time, should better align with the growth in the cost of providing state services;
- allows for the staged abolition or review of a specified list of state taxes; and
- simplifies financial relations between the Australian Government and the states.

A key feature of the Intergovernmental Agreement is a guarantee that no state will be financially disadvantaged by the tax reforms implemented as part of the Intergovernmental Agreement. Accordingly, the Australian Government committed to providing budget balancing assistance (BBA) to offset any shortfall. Following a

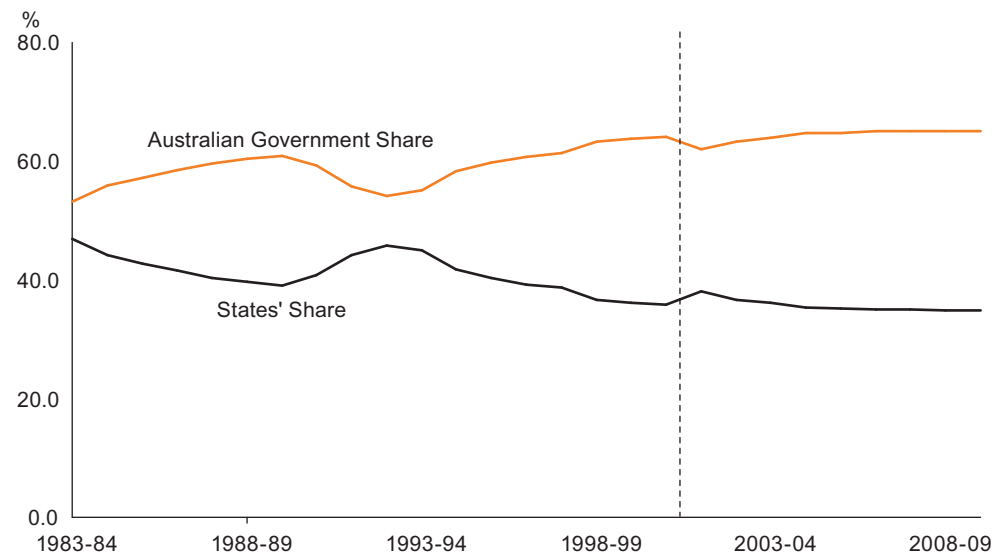
decision by the majority of states to abolish a number of taxes which were subject to review under the Intergovernmental Agreement, the Australian Government has conditionally agreed to extend the BBA arrangements to 30 June 2009.

States, in aggregate, are expected to receive \$2 billion more in GST revenue in 2006-07 than they would have if previous arrangements had remained in place. This is primarily because the GST provides states with access to a broadly-based consumption tax which reflects economic performance rather than the previous financial assistance grants, which were escalated by population growth and inflation.

The comparison, however, is artificial as the ongoing strength of the Australian economy and subsequent increases in national taxation revenue mean that changes to the previous methods of revenue distribution were inevitable. In addition, GST revenue growth has been insufficient to alter the continuing decline in the states' share of national tax revenue.

Chart 7.3 illustrates the ongoing long-term trend decline in states' share of national taxation revenue, including state taxation revenue. The states' share of taxation revenue has fallen from 46.9 per cent in 1983-84 to 35.0 per cent in 2006-07. Although there was a minor correction subsequent to the introduction of the GST in 2000, the states' share of taxation revenue has declined in each subsequent year of the new financial arrangements. Current forward estimates show a further decline to 34.9 per cent of national revenue in 2008-09. State estimates include provision of specific purpose payments to the states.

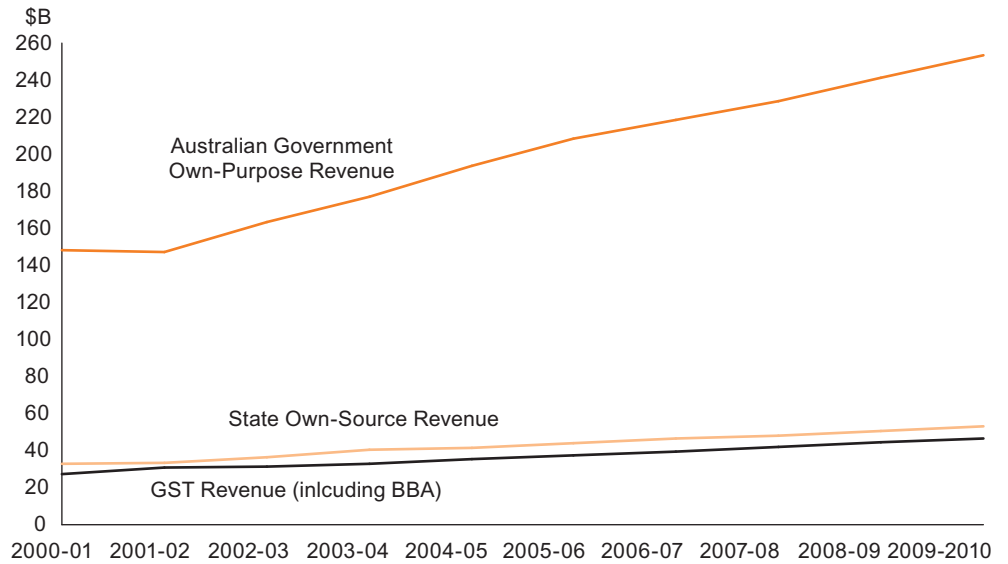
Chart 7.3: State and Territory Share of National Taxation Revenue



Source: Northern Territory Treasury.

Reflecting strong economic conditions, state own-source revenue, GST and Australian Government own-purpose revenue have all grown much more strongly than projected when the GST was introduced. However, based on 2006-07 estimates, Australian Government own-purpose revenue will have grown by almost \$70 billion since the first year of the GST (see Chart 7.4) compared to \$13 billion for each of GST and state own-tax revenue. The Australian Government's projected cash surplus of \$11.8 billion in 2006-07 is almost six times the \$2 billion excess of GST revenue over previous financial arrangements, and around 30 per cent of states' total GST revenue in 2006-07.

Chart 7.4: Growth in Australian Government Revenue

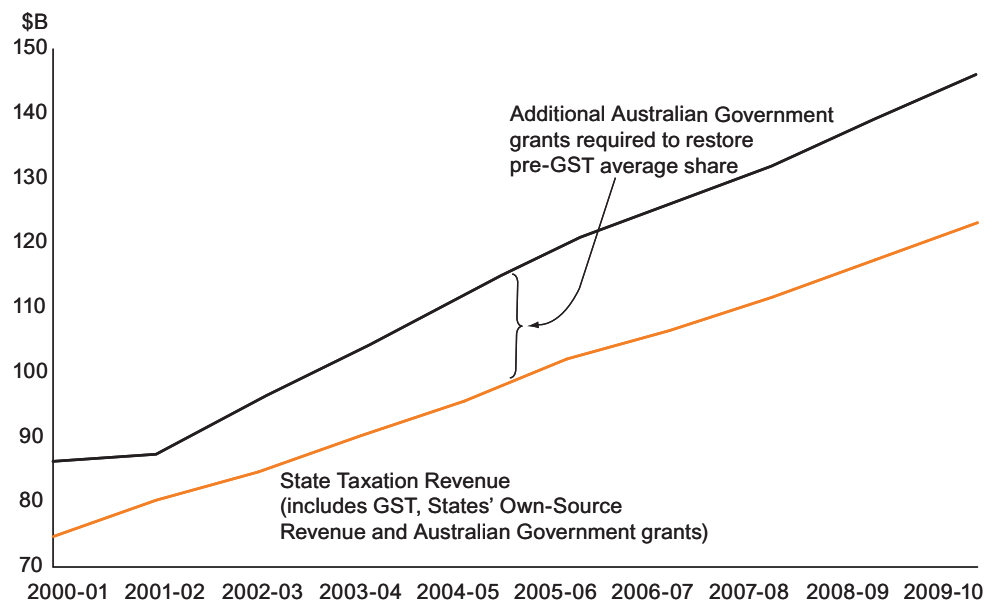


Source: Northern Territory Treasury.

In 2001, *The State and Territory Shares of National Tax Revenues* report by Heads of Treasuries to the Treasurers' Conference estimated that a combined real growth of around 3.4 per cent in state own-source revenue and specific purpose payments would be required to prevent states' share of national taxation revenue from diminishing further. However, the stronger than expected growth in Australian Government taxation revenue, coupled with the abolition of a number of additional state business taxes and a lack of any offsetting increases in Australian Government grants, has meant that vertical fiscal imbalance has increased since the introduction of the GST. Around \$2.7 billion in additional Australian Government grants would be required in 2007-08 to restore the states' share of national taxation revenue to its 2000-01 level, which at the time was at an historically low level.

Chart 7.5 shows the increase in Australian Government grants that would be necessary (in the absence of new or increased state taxes) to restore the states' share of national taxation revenue to its pre-GST average (the average states' share of national taxation revenue from 1983-84 to 1999-00 (41.3 per cent)).

Chart 7.5: Restoring States' Share of Pre-GST National Taxation Revenue



Source: Northern Territory Treasury.

The Intergovernmental Agreement provides for a meeting of all Australian treasurers to oversee its operation. This is known as the Treasurers' Conference and its eighth meeting was held on 30 March 2007. The meeting discussed the Commonwealth Grants Commission 2007 Update and report to the Ministerial Council and the Intergovernmental Agreement commitment by states to review the need for retention of a range of state taxes.

Last year, the states collectively agreed to abolish all but one of a range of taxes listed for review under the Intergovernmental Agreement. States opposed the abolition of tax on the property component of non-residential stamp duty due to inequity with residential home buyers and its importance to state revenue.

This year, the Australian Treasurer again requested that states provide a date for abolition of this tax. The states reiterated opposition to its abolition and noted that they had extended tax concessions outside those areas initially proposed under the Intergovernmental Agreement including initiatives in relation to payroll tax, stamp duty for first home buyers and land tax.

### General Issues with SPPs

Although SPPs are a means of reducing vertical fiscal imbalance between the states, they also provide the Australian Government with the ability to exert a policy influence over areas of service provision which are historically or constitutionally a state responsibility. SPPs are increasingly regarded by the Australian Government as a means of aligning the delivery of state services with its own policy objectives.

SPPs are an accepted feature of Australian intergovernmental financial relations, and are an important source of revenue for the states. Nonetheless, there are numerous problems with the current implementation of SPP arrangements, including:

- inefficiency – SPPs carry a large administrative burden and involve duplication of functions at the national and state levels of government;
- distortion of services – the input controls and performance requirements in SPPs often do not promote optimal outcomes, and stifle innovation in service delivery; and
- reduced budget flexibility – input controls in SPP agreements effectively control large amounts of state discretionary revenue, substantially reducing state budget flexibility.

### National Reform Agenda

On 10 February 2006, the Council of Australian Governments (COAG) agreed to a new national reform framework to maintain national economic performance and living standards into the future. The new framework is known as the National Reform Agenda (NRA) and comprises three broad streams in human capital, competition and best practice regulation. The NRA reforms are to be implemented through agreed intergovernmental action plans which will detail agreed reform actions, progress measures and outcomes.

Under the NRA, the Australian Government is to consider financial assistance to the states on a case-by-case basis, with reference to the distribution of costs and benefits between levels of government. The quantum and timing of financial assistance is expected to be determined as part of the implementation of NRA intergovernmental plans during 2007.

A new statutory authority, the COAG Reform Council (CRC), has been established to monitor and assess reform progress against intergovernmental plans and report annually to COAG. The Australian Government will determine eligibility for financial assistance based on CRC reports. At this stage, no revenue from this source has been factored into the Budget for 2007-08.

In February 2007, the Productivity Commission released a report modelling the potential benefits of the NRA. The modelling estimated the following impacts for the national economy:

- the competition and regulation reform streams aim to improve the efficiency of transport, energy and infrastructure markets and government regulation, and could increase national economic output by 2 per cent (around \$17 billion in 2005-06 dollars);
- achieving a 5 per cent productivity improvement in health services delivery could equate to resource savings (or additional resources for health expenditure) of around \$3 billion, with associated increases in government revenues of around 0.4 per cent of GDP (\$4 billion after ten years); and
- human capital reforms are based on improving labour force participation and productivity given the ageing of the population. Reforms to improve labour force productivity could increase national economic output by around 6 per cent after 25 years while initiatives to increase labour force participation could increase national output by around 3 per cent over the same period.

The modelling to date has not explicitly estimated the costs of implementing specific NRA reforms. Fiscal benefits are expected to favour the Australian Government (approximately 60 per cent) compared to states (40 per cent).