Inter-Governmental Transfers: The Canadian & Australian Models

CANADA

As per the Canada Constitution Act 1982, Article 36(2) Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of services at reasonably comparable levels of taxation. There are three major programs of federal transfers to the provinces:

(1) **The Equalization Program**: a constitutionally mandated unconditional block transfer program to support reasonably comparable levels of services at reasonably comparable levels of taxation in all provinces. The Canadian equalization program uses a notional average standard as the basis for equalization. The basic calculation for the equalization formula is that of a province's tax capacity. Tax capacity is calculated as the amount of per capita revenue that a province could raise by applying the national average tax rates to its tax bases. The tax capacity of each province is then compared with the amount of per capita revenue that could be raised if the province has a standard (five province average) per capita tax base. A province whose per capita tax base is below the standard receives an equalization payment equal to the difference between the province's tax capacity and the standard tax capacity, multiplied by the province's population.

(2) **Established Programs Financing (EPF)**: conditional block (per capita) transfers for health and education with federal conditions on accessibility and standards of service. EPF transfers are made on an equal per capita basis to all provinces. This program is based on the terms of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act of 1977. The federal government has provided each province with a total tax abatement of equalized under the terms of the equalization program.

(3) **Canada Assistance Plan (CAP)**: conditional matching transfers for welfare assistance. CAP evolved from the federal provincial shared-cost programs that existed in the areas of old age assistance, blind persons allowance, disabled persons allowance, and unemployment assistance. Currently, the CAP encompasses not only those four categories of assistance but also assistance to any other persons who require public support, such as needy mothers, dependent children, homes for special care, nursing homes, homes for unmarried mothers, hostels for transients, child-care institutions, work activity programs, and welfare programs for native people. The costs of direct financial assistance, welfare services, and administrative costs are eligible for subsidy. Capital costs and the operating costs of plant and equipment, however, are not. The primary advantage of the CAP is that it leaves wide discretion to the provinces in the allocation of expenditures to particular areas of social assistance in accordance with provincial circumstances. Grants under the CAP are matching and open-ended. The federal government pays 50 percent of all provincial expenditures for assistance to persons in need and for welfare services. Provincial welfare expenditures must meet only a few requirements to be eligible for federal grants. The provinces must agree to meet adequately the basic requirements of the recipients, including food, shelter, clothing, fuel, utilities, household supplies, and personal requirements. The only "eligibility" requirement is that of the individual recipient (as opposed to the income or means test). In addition, no residence requirement may be imposed as a condition of receiving aid. Provinces are free to choose their own rates and categories of assistance, since federal support is completely open-ended.

AUSTRALIA

In Australia, the tax bases of the federal and lower level governments (state and local governments) are divided in such a way that the federal government receives about two thirds of the total government revenues. In terms of expenditure, however, the federal government spends only one third of the total government revenues. This means half of the federal government revenues are distributed through various forms of transfers to the state and local governments. The Australian federal government grants to lower level governments include general purpose grants and specific purpose grants. Many countries that developed their formula-based transfer systems later has adopted methods substantially similar to those used in Australia. Currently, the Grants Commission distributes general purpose grants using a system that measures the States' fiscal capacities and fiscal needs. The objective of this system is to make it possible for any state with reasonable tax efforts to provide the level of public services not substantially below other states. The formula used for calculation the distribution has several alternative presentations, which are mathematically equivalent.

General Purpose Payments (**GPPs) (or untied grants**): which are grants to states for specific projects decided by the Commonwealth, e.g. schools, hospitals, or roads.The majority of these grants are "General Purpose Payments" (GPP); i.e., they can be used by states for any purpose. The remainder, called "Specific Purpose Payments" (SPP), are earmarked for specific services such as health, education, roads and housing. The Australian government's GPP can be seen as the equivalent of equalization payments in Canada. The GST revenue pool is distributed among all states on the basis of recommendations by the Commonwealth Grants Commission (CGC).

Specific Purpose Payments

SPP constitute a significant portion of Australian government funding to the states. The Australian government makes SPP to the states as a contribution to important areas of state responsibility. SPP can be classified into three groups:

- those paid "to" the States – direct payments to state governments,
- those paid "through" the States – payments that state governments pass on to local governments (for example, financial assistance grants to local governments) and to others (for example, to non-government schools);
- those paid directly to local governments to help fund roads, child-care programs and disability services administered by those governments;

SPP agreements often include agreed-upon national objectives, and generally contain conditions to help ensure those objectives are achieved. Such conditions may include:

- general policy requirements (for example, the provision of free public hospital access for Medicare patients);
- matching funding arrangements; and
- reporting on performance.

In making SPP payments, however, the Australian government does not seek to assume responsibility for state functions.