

# INTRODUCTION

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- 1 In February 2008, the Commonwealth Grants Commission (the Commission) completed its *Report on State Revenue Sharing Relativities 2008 Update*. That report recommends the per capita relativities that the Commission regards as appropriate to apply in 2008–09 for the distribution of a pool of GST revenue and Health Care Grants to the States<sup>1</sup> (hereafter called the GST relativities). It also reports a set of relativities to apply in 2008–09 for use in distributing a notional pool of financial assistance grants (FAGs) and Health Care Grants that assumed a continuation of the arrangements that applied in 1999–2000.<sup>2</sup>
- 2 The principles and methods developed in the 2004 Review<sup>3</sup> were used in these calculations, updated for changes in assessment data and any new developments affecting assessments, such as changes in Commonwealth–State financial relations. Specific requirements of the terms of reference have also been taken into account.
- 3 The working papers for the 2008 Update focus on the assessments for the GST relativities for each category, but there is a section that presents the FAG assessments where they are different from the GST assessments. Details of the Commission’s decisions on the assessment methods and the adjusted budget have been set out in the working papers accompanying the 2004 Review Report. This information is not repeated in these volumes.
- 4 There are four volumes of working papers to support the update report.
  - *Volume 1 — Assessment Methods and the Adjusted Budget* discusses the general approach to revenue and expense assessments, the compilation of the adjusted budget, including the treatment of Specific Purpose Payments (SPPs) for the 2008 Update.
  - *Volume 2 — Assessment Results Revenue* provides the results for each category of own-source revenues. The scope of each category and how assessed revenue raising capacity is calculated is explained. The resultant assessed revenues and their impact on State shares of GST revenue are reported. Any changes to the assessment method since the 2007 Update was completed are also explained.

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<sup>1</sup> References to States also include the Territories, unless the context suggests otherwise.

<sup>2</sup> The calculation of the FAG relativities required the assumption that the IGA changes had not taken place. The Commission used estimates of the notional amounts of revenues that States would have raised as taxes or received as revenue replacement payments had the changes not taken place.

<sup>3</sup> Commonwealth Grants Commission (2004), *Report on State Revenue Sharing Relativities, 2004 Review*, Canberra, CanPrint.

- *Volume 3 — Assessment Results Expense* provides the results for each category of expenses. The scope of each category and how the assessed cost of providing services is calculated are explained. The resultant assessed expenses and their impact on State shares of GST revenue are reported. Why the assessment has changed since the 2007 Update is also explained.
- *Volume 4 — Assessment Results User Charges and Common Factors* provides the results for all user charges categories and major factors. The scope of each category and how assessed revenue raising capacity is calculated is explained. The resultant assessed revenues and their impact on State shares of GST revenue are reported. Finally, why the assessments have changed since the 2007 Update is explained. For each major factor, this volume summarises how it was measured and shows the resultant factors. It also shows the importance of the factor to per capita relativities and explains why the results differ from those in the 2007 Update.

## CONTEXT OF THE 2008 UPDATE

- 5 The terms of reference for this update required the Commission to report, by 22 February 2008, on per capita relativities for use in distributing funds among the States in 2008–09. These were to:
- be calculated using the same principles and methods as in the 2007 Update;
  - be based on the review period 2002-03 to 2006-07 inclusive, on the latest available data, and accommodate later budget developments; and
  - take into account the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (1999)<sup>4</sup>.
- 6 The Commission was asked to consult with the Australian Treasury and the States before deciding on any changes in method required to ‘fulfil its obligations in respect of these terms of reference’.
- 7 These requirements were met.

### Intergovernmental Agreement

- 8 The relevant aspects of the IGA for the Commission were:
- the pool of untied funds to the States now comprises GST revenue and Health Care Grants;
  - during a transitional period, the Australian Government guaranteed that no State would be worse off than if it received a continued distribution of FAGs and Health Care Grants;
  - Australian Government payments associated with the safety net surcharge arrangements for alcohol, petroleum and tobacco ceased from 1 July 2000;

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<sup>4</sup> The IGA arose from the reform of the national tax system, including the imposition by the Australian Government of a Goods and Services Tax (GST), and involved changes to State taxes and services, and Commonwealth-State financial relations.

- Australian Government wholesale sales taxes were abolished from 1 July 2000 and States no longer imposed wholesale sales tax equivalent payment on their government business enterprises;
  - accommodation taxes levied on the cost of temporary residential accommodation were abolished from 1 July 2000;
  - States reduced their gambling taxes to make room for the GST without adding to the overall rate of gambling taxes and abolished bed taxes from 1 July 2000;
  - States abolished Financial Institutions Duty and Stamp Duty on Quoted Shares and Marketable Securities from 1 July 2001;
  - States assumed responsibility for a First Home Owners' Scheme and GST administration costs from 1 July 2000; and
  - States abolished Bank Account Debits Tax from Financial Transaction Taxes from 1 July 2005.
- 9 Consistent with the 2003 Update terms of reference, the Commission has also taken into account, in its assessments, the Australian Government's decisions to:
- implement a National Excise Scheme for Low Alcohol Beer; and
  - cease the bi-annual indexation of Petroleum Revenue Replacement Payments forgone.
- 10 The Commission took the IGA into account in assessing both the GST and FAG relativities. For each set of relativities, there was a different adjusted budget and the assessments for some categories were different. Where necessary to reflect any changes in State service provision or revenue raising responsibilities, the Commission backcast the changes into the assessment period. Backcasting required excluding some revenues from the adjusted budget for earlier years of the assessment period and using estimates of the expenses of new responsibilities.

### **Treatment of SPPs**

- 11 Previous terms of reference asked the Commission to quarantine these SPPs:
- National Competition Payments;
  - payments to the States to reimburse them for revenue lost as a result of the establishment of a national scheme of companies, securities and future regulation;
  - payments which were funded from the Natural Heritage Trust of Australia and the Regional Telecommunications Infrastructure Fund;
  - payments for the Fringe Benefit Tax Transitional Grants for the public and not-for-profit hospitals;
  - payments for the Extension of the First Home Owners Scheme;
  - payments for the Roads to Recovery program;
  - Australian Government payments to the Sinking Fund on State Debt;

- payments for the Victorian Cytology Service made under the Public Health Outcome Funding Agreements;
  - Residual Adjustment Amounts;
  - payments to Tasmania under the Supplementary Tasmanian Regional Forestry Agreement; and
  - payments to the Northern Territory for Royal Darwin Hospital: Equipped, Prepared and Ready.
- 12 The terms of reference also asked the Commission to prepare its assessments so that the following matters did not directly influence the per capita relativities:
- the following components of the Australian Health Care Agreements between the Commonwealth and a State:
    - payments in relation to mental health;
    - payments in relation to the National Health Development Fund;
    - payments in relation to the Pathways Home Initiative;
    - all payments under an adjustment module, including those related to the Critical and Urgent Treatment (CUT) Waiting List Initiative;
    - compliance payment arrangements (in this case including the maximum available compliance payments in the assessments);
    - payments to South Australia for the administration and management of the hospital at Woomera;
    - payments to Queensland in recognition of the cost associated with the movement of Papua New Guinea’s citizens across the Torres Strait;
  - the National Aboriginal Health Strategy component of the payment to the Northern Territory under the agreement for the Provision of Housing and Infrastructure for Indigenous People in the Northern Territory 2005-08;
  - the Commonwealth’s purchase of the Mersey Campus of the North West Regional Hospital from Tasmania; and
  - the Commonwealth funding to deliver the Northern Territory Emergency Response to address the indigenous crisis in the Northern Territory.
- 13 The Commission applied the exclusion method to the above SPPs.
- 14 Although the terms of reference foreshadowed that the Commission might be instructed to apply a particular treatment to other amounts of SPPs forgone because of non-compliance with SPP conditions, no guidance was received in this update.

**ACT special revenue assistance**

- 15 Clause 10 of the terms of reference asked the Commission to take into account all relevant fiscal needs of the ACT, as for the other States and Territory.

- 16 The Commission decided to include allowances in the relativities to reflect the additional expenses incurred by the ACT in providing police services and road maintenance. It did not assess an allowance comparable to that previously assessed for corporate affairs.

## **ELECTRONIC FORMATS**

- 17 The Commission's *Report on State Revenue Sharing Relativities 2008 Update*, the *Relative Fiscal Capacities of the States 2008* accompanying that report and the working papers are available on the Commission's web site at <[www.cgc.gov.au](http://www.cgc.gov.au)>. In addition, States have electronic access to the spreadsheets that support the calculation of revenue bases, factors, and assessed revenues and expenses.

## **FINANCIAL DATA SUPPORTING THE COMMISSION'S CALCULATIONS**

- 18 Only the States can receive the financial data supporting the Commission's calculations. Other parties seeking access to the Australian Bureau of Statistics (ABS) financial data should direct their inquiries to:

The Australian Statistician  
Australian Bureau of Statistics  
Locked Bag 10  
Belconnen ACT 2616.

## **POPULATION DATA SUPPORTING THE COMMISSION'S CALCULATIONS**

- 19 Mean resident population is the basis of all per capita standards used by the Commission. It is also used to rebase the State's relativities and factors so that the Australian factor is one.
- 20 In calculating factors, most assessments used special ABS cross-tabulations of 2006 Census data for assessment years 2004-05 to 2006-07 and 2001 Census data for all other years. Tables summarising the population characteristics used in these cross-tabs are included in Attachment B of the *Relative Fiscal Capacities of the States 2008*.

### **Mean Resident Population**

- 21 Details of the mean resident population for each State for the years 2001-02 to 2006-07 are shown in Table 1. Average state population growth between updates was faster than the Australian average in Queensland and Western Australia and below average in the other States. South Australia had the lowest rate of growth.
- 22 These figures differ from those used in the 2007 Update because MRP's were rebased using the 2006 Census. Table 2 shows the average of the State mean resident populations for each of the assessment years for both the 2007 Update and the 2008 Update. It also shows the extent of the change in absolute and percentage terms.

**Table 1 Mean resident population, 2001-02 to 2006-07**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
New South Wales	6 605 905	6 652 933	6 692 544	6 732 690	6 788 983	6 855 811
Victoria	4 835 447	4 895 375	4 956 093	5 019 406	5 090 985	5 167 516
Queensland	3 672 182	3 767 446	3 862 700	3 956 399	4 048 855	4 135 619
Western Australia	1 914 376	1 938 506	1 968 217	1 999 986	2 038 605	2 082 041
South Australia	1 516 510	1 526 339	1 536 284	1 546 636	1 560 479	1 576 644
Tasmania	472 288	475 046	480 685	484 809	488 468	491 648
Australian Capital Territory	320 909	324 149	326 210	328 537	332 238	336 691
Northern Territory	198 528	199 439	200 907	204 272	208 721	212 802
Australia	19 536 145	19 779 233	20 023 640	20 272 735	20 557 334	20 858 772

(a) Excludes Jervis Bay.

(b) Excludes other territories.

Source: Australian Bureau of Statistics, Special Data Request for Mean Resident Population, December 2006.

**Table 2 Changes in six-year average mean resident population due to Census 2006**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aus
2007 Update (m)	6 675	4 914	3 802	1 955	1 527	478	323	200	19 873
2008 Update (m)	6 721	4 994	3 907	1 990	1 544	482	328	204	20 171
Change (no.)	46 929	80 284	104 828	35 444	16 856	3 776	5 506	4 371	297 993
Change (%)	0.70	1.63	2.76	1.81	1.10	0.79	1.71	2.19	1.50

### ABS cross tabulations

23 In general, the population data used to calculate factors were from cross-tabulations of the 2006 Census data obtained by special requests from the ABS. The Commission modified the data it received from the ABS:

- to allocate 'not stated' values; and
- to adjust Census population to make it consistent with Estimated Resident Population (ERP).<sup>5</sup>

24 **Allocation of 'not stated' values.** The Census data supplied by the ABS contained non-response values or not-stated status for a number of socio-demographic characteristics. Not-stated values in the 2006 Census have been distributed among the population groups according to the proportion of known populations. For example, people whose income status was not-stated were allocated to either low or non-low income groups according to the proportions of those two groups whose incomes were known.

25 **Under-enumeration adjustment.** In the Census, some people were not included and some people were counted more than once. Overall, the number of people counted in the Census was smaller than the actual population. This is called under-enumeration.

<sup>5</sup> ABS, *Experimental Estimates of the Aboriginal and Torres Strait Islander Population*, Catalogue No. 3230.0.

- 26 The method used to adjust the 2006 Census differed from the method used in the 2004 Review. The 2004 Review adjustment involved forcing total Indigenous Census population to equal total Indigenous ERP. The 2006 Census adjustment involved forcing the total Census population to equal total ERP. The method was changed to use the additional information available and also because the 2006 Census Indigenous population adjusted for not-stated values were greater than the total reported for the Indigenous ERP (this was not the case in the 2004 Review). Given that there was no longer an undercount of the Indigenous population, the rationale behind adjusting for under-enumeration only for Indigenous populations no longer held.
- 27 To make the adjustment, ABS ERP data disaggregated by State, SLA and Indigeneity were used to derive a weight for each individual cell. These weights were applied to the Census population to adjust values to equal ERP.

28 *The data.* There were 13 main Census cross-tabs purchased from the ABS. The datasets, and the categories for which they were used, are shown in Table 3.

**Table 3**      **Census 2006 cross-tabs purchased from the ABS by expense category**

Table	Categories
State by SARIA <sup>(a)</sup> by Age by Indigeneity by English Fluency by Income	Government Schools Education – Pre-school
State by SARIA <sup>(a)</sup> by Major Cities by Indigeneity by English Fluency by Income by School Type	Government Schools Education
State by SARIA <sup>(a)</sup> by Major Cities by Age by Indigeneity by English Fluency by Employment Status	Vocational Education and Training
State by SARIA <sup>(a)</sup> by Sex by Age by Indigeneity by English Fluency by Income by Country of Birth	Health – Patient Service
State by SARIA <sup>(a)</sup> by Age by Indigeneity by State Housing by Household Income	Welfare and Housing – Dwellings
State by SARIA <sup>(a)</sup> by Age by Indigeneity by State Housing by Household Income	Welfare and Housing – Persons
State by Low Income Households paying more than 25% of their income in rent	Welfare and Housing – Count of Low income households in housing stress
State by CD Size by SARIA <sup>(a)</sup>	Health - STIC
State by SARIA <sup>(a)</sup> by UCL by Drainage Division by Total Population by Indigeneity	Health – Water, Sanitation and Protection of the Environment
State by SARIA <sup>(a)</sup> by Sex by Age by Indigeneity by English Fluency by Income by Country of Birth	Law and Order – Counting Persons
State by Major Cities by Sex	Transport – National Parks
State by SARIA <sup>(a)</sup> by Age by Employment Status	Transport – with Labour Force
State by SARIA <sup>(a)</sup> by Land Area	Transport – Area of UCL

(a) The Stated-based version of the Accessibility/Remoteness Index of Australia developed for Commission purposes.  
 Note: The count of persons is by Place of Usual Residence (PURP).

This chapter was prepared by the Expense – Law and Order section of the Commonwealth Grants Commission. If you have any questions about its content, please contact Daniel Dwyer on (02) 6229 8856 or [daniel.dwyer@cgc.gov.au](mailto:daniel.dwyer@cgc.gov.au).

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