

## **CHAPTER 4**

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# **RELATIVE FISCAL CAPACITIES OF STATES AND THEIR INDIVIDUAL CIRCUMSTANCES**

### **INTRODUCTION**

- 1 This chapter explains how each State's circumstances have determined its fiscal capacity and how that has evolved over time. There is a separate section for each State. Each starts with an overview of the assessed fiscal capacity of the State. This is followed by a more detailed analysis of the drivers of fiscal capacity, namely, the State's capacity to raise revenue, the impact of demographics and other characteristics on its costs, and its specific purpose payments (SPP)<sup>1</sup> income.
- 2 The fiscal capacities shown in this chapter may vary from those in reports for earlier years due to revision of budget or indicator data.

### **NEW SOUTH WALES —SECOND STRONGEST FISCAL CAPACITY OF ALL STATES**

- 3 In the period 2002-03 to 2006-07, had New South Wales provided the average level of services to its residents, with average revenue from SPPs and levied taxes at average rates, its fiscal position would have been \$182 per capita stronger than the average of the States. This outcome is the combination of:
  - its assessed revenue capacity being \$108 per capita above average;
  - its assessed expenses being \$70 per capita below average; and
  - its SPP income being \$5 per capita above average.

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<sup>1</sup> Some SPPs received by States are not included in the Commission's assessments, for example, where they fund activities that are delivered by States on behalf of the Australian Government. The analysis in this report does not include such SPPs.

- 4 Changes since 2005-06 have resulted in Western Australia overtaking New South Wales as the State with the strongest fiscal capacity. New South Wales now has the second strongest fiscal capacity of all the States.
- 5 Table 4-1 summarises the effects of the State's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-1 Comparison of New South Wales' fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	New South Wales	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	2 479	108	1.05
Assessed expenses (c)	5 124	5 054	- 70	0.99
SPP receipts	412	417	5	1.01
Fiscal capacity (d)	-2 341	-2 159	182	1.08

(a) New South Wales minus the Australian average.

(b) Ratio of New South Wales divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by New South Wales.

(c) Assessed expenses are net of user charges.

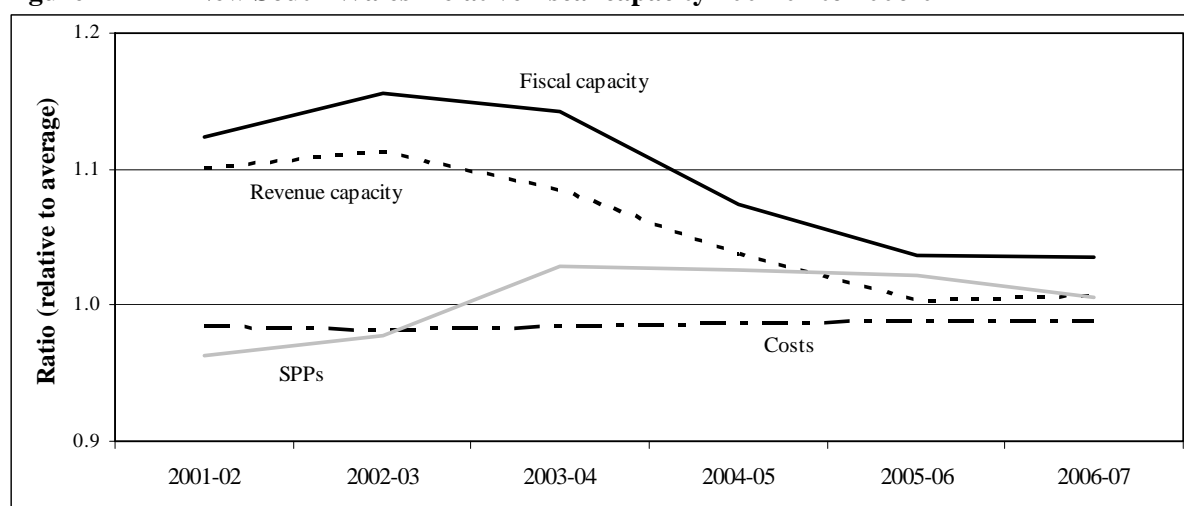
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

- 6 Figure 4-1 shows the relative revenue raising capacities, SPP incomes, and costs of service provision that contributed to New South Wales' relative fiscal capacity in each year from 2001-02 to 2006-07.

**Figure 4-1 New South Wales' relative fiscal capacity 2001-02 to 2006-07**



Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.

Source: Attachment E and CGC calculations.

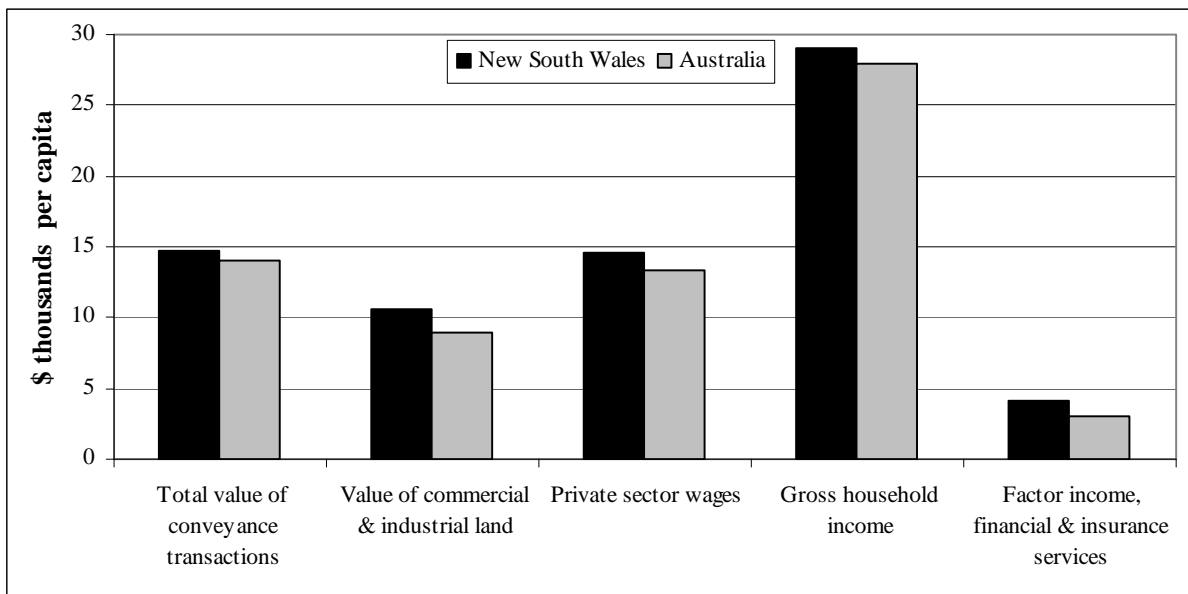
- 7 The fiscal capacity of New South Wales fell over the period. It increased between 2001-02 and 2002-03 but this increase was more than offset by the decline after 2002-03. Land values

and value of conveyances in New South Wales increased faster than the Australian average prior to 2002-03. However, the property boom ended earlier than in most other States and it did not share in the recent mining boom to the same extent as Queensland and Western Australia. Thus, New South Wales' revenue raising capacity fell after 2002-03, relative to the Australian average. It seems to have flattened out in 2006-07. Its costs of providing services have remained relatively constant over the period.

#### Above average revenue raising capacities

- 8 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2008 Update, New South Wales had above average per capita values of conveyances, land, payrolls (of medium and large businesses), financial transactions and household incomes (Figure 4-2). These combined to give New South Wales the second highest average revenue raising capacity of all States.

**Figure 4-2 Revenue indicators, New South Wales and Australia, five year average 2002-03 to 2006-07**



Source: Attachment B.

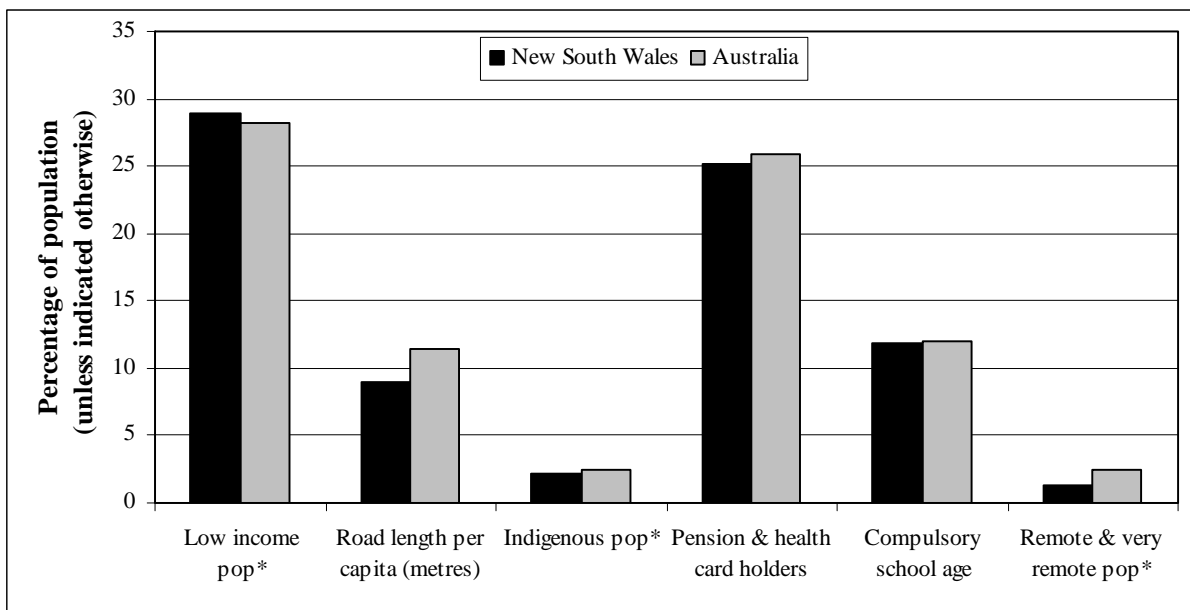
- 9 The strong revenue raising capacity of New South Wales stemmed from its above average per capita private sector wages, land and conveyancing values and financial activity.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). New South Wales could collect above average revenues from the application of an average tax effort because of a larger revenue base as indicated by:
    - average weekly earnings being 5 per cent above the national average over the five years to 2006-07;
    - private sector wages per capita being 9 per cent above the national average; and

- the proportion of businesses with employment of over 200 being 8 per cent above average (June 2004 data).
  - *Stamp duty on conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). The ability of New South Wales to raise revenue from this tax has been above the average, despite the recent slowdown, because:
    - the median house price for Sydney was 57 per cent above the average of all capital cities;
    - the value of conveyance transactions per capita in New South Wales over the five years to 2006-07 was 5 per cent above average; and
    - the average value of finance commitments per capita was 6 per cent above the national average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). New South Wales had above average capacity to raise revenue as evidenced by:
    - the value per capita of commercial and industrial land over the five years to 2006-07 was 18 per cent above the national average; and
    - the value per capita of residential land over the five years to 2006-07 was 26 per cent above the national average.
  - *Financial and insurance sector taxes* (5 per cent of tax revenue for all States over the five years to 2006-07). Sydney's role as a leading business centre for capital market activity, financial, insurance and business services, and as the home of head offices of many national and international businesses gave New South Wales substantial revenue raising advantages. Factor income per capita from financial, insurance, property and business services in the State over the five years to 2006-07 was 27 per cent above the average.
- 10 The substantial revenue raising advantages of New South Wales from payrolls, land and property transactions, and financial activity were partly offset by its below average revenue bases of some other taxes.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). Its ability to raise mining revenues was well below the Australian average with per capita factor income for mining being about 36 per cent of the average over the last five years.
  - *Vehicle transfers and registrations* (12 per cent of tax revenue for all States over the five years to 2006-07). Its ability to raise taxes on motor vehicle transfers and registrations was lower than the average mainly because the number of motor vehicles registered per capita was about 10 per cent below the average over the last five years, a reflection of its high urbanisation (which also affects expenses, such as higher use of public transport).
- 11 In summary, the above average revenue raising capacity is related to the status of New South Wales as a major centre for business. The impact is both direct in terms of taxes raised on business activity (for example, payroll tax) and indirect through influences on other tax bases (for example, property prices).

**Below average requirement for expenses**

12 Figure 4-3 shows that, in the period under consideration, New South Wales had below average proportions of its population with pensioner and concession cards, of school age, or who were Indigenous. These are groups known to be higher or more costly users of government services. New South Wales also had cost advantages due to economies of scale in essential administrative and policy areas because of its large population and a population settlement pattern that was less dispersed than some other States. However, higher wages partially offset its cost advantages. Overall, its costs of providing services were lower than those of many States and below the Australian average.

**Figure 4-3 Influences on costs of services, New South Wales and Australia**



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

- 13 Several indicators suggest that the use of many services in New South Wales is below the Australian average.
- *Less primary industry and mining activity.* Factor income per capita in the primary and mining industries was well below average. This reduced the need for provision of services, such as regulation, planning and support, to these industries.
  - *Lower school age population.* A slightly lower than average proportion of its population of compulsory school age reduced the call on State resources for school education.
  - *Lower Indigenous population.* New South Wales had a below average proportion of Indigenous people in its population and few remote Indigenous communities. This led to substantially lower expenses because Indigenous people are larger users of many health, welfare and law and order services. In addition, the per capita costs of providing services

to Indigenous people are generally greater than the average costs of providing services to the non-Indigenous population.

- *Lower road length per capita.* New South Wales road length per capita was 21 per cent below the national average. Consequently, it incurred below average costs for road maintenance and depreciation.
  - *Availability of private service providers.* The private sector provided some services to a greater degree than was possible in smaller States. For example, a higher proportion of general practitioners per capita helped reduce the call on public hospitals and outpatient services. Similarly, the large corporate sector provided greater sponsorship that helped to reduce expenses incurred by the State in supporting cultural and recreational facilities.
- 14 New South Wales also had several other features that worked to make the unit costs of many services less than the average.
- *Fixed costs spread over a large population base.* The fixed costs, such as for some specialist services and the head office and policy functions of government, could be spread over more people. This meant the fixed costs per capita were below the Australian average.
  - *Less geographical dispersion.* New South Wales has a smaller land area than four States and its population was geographically less dispersed than most other States. An above average proportion of its population lived in highly accessible regions, mostly along the coast, and the proportion of its population living in remote areas was almost half the Australian average in the 2006 Census. This helped reduce the unit costs of delivering services because some costs (such as freight and travel) are affected by distance and population dispersion.
- 15 Some features increased the cost of delivering services. These cost disadvantages partly offset the advantages outlined previously.
- *Low income households.* The proportion of people in its population with low incomes in the 2006 Census was about 2 per cent above average. It was about 3 per cent below the Australian average in the 2001 Census. Consequently, the cost of providing health and welfare services has increased.
  - *The price of labour,* the main input into State government services, was above the Australian average. Private sector wages per capita were the highest of all States (9 per cent above average), average weekly earnings for all employees were second only to the ACT over the last five years, and average compensation paid to employees was 8 per cent above the Australian average over the last five years.
  - *High office rental costs.* The high land values resulted in office rents being well above average (for example, rents for prime CBD property were 28 per cent above the average).
  - *Problems created by high urbanisation.* The large, densely settled and complex nature of the Sydney urban area created problems of congestion, pollution and pockets of social

disadvantage. These increased the costs per capita of policing, health and welfare services, road maintenance, and urban transit.

- *Population with low English fluency.* New South Wales had above average proportions of persons with low fluency in English (4 per cent compared to an average of 3 per cent). The Commission allows for the extra costs of delivering some services to this group due, for example, to the need for interpreters.
- *Aged population.* New South Wales had an above average proportion of persons aged 65 and over in its population (14 per cent compared to an average of 13.5 per cent), which increased the use of some health and community services.

16 In summary, while assessed expenses for New South Wales were slightly below the Australian average, some of the causes of its revenue advantages also reduced the State's expense advantages. In particular, New South Wales' relatively high wage levels increased its capacity to raise payroll tax and the cost of labour required to deliver State services.

#### **Average per capita share of SPPs**

- 17 New South Wales received one per cent more than the average per capita share of SPPs in the five year period to 2006-07. Its slightly above average share of SPPs was mainly in the areas of roads and government schools. Lower than average per capita grants in the areas of home and community care, housing and for Indigenous purposes, partially offset the above average SPP revenue.
- 18 New South Wales per capita share of SPPs increased from 2001-02 to 2003-04 but has declined slightly since then.

#### **VICTORIA —THIRD STRONGEST FISCAL CAPACITY OF ALL STATES**

- 19 In the period 2002-03 to 2006-07, had Victoria provided the average level of services to its residents, with average income from SPPs and levied taxes at average rates, its fiscal position would have been \$155 per capita stronger than the average of the States. This outcome is the combination of:
- its assessed revenue capacity being \$222 per capita below average;
  - its assessed expenses being \$416 per capita below average; and
  - its SPP income, some \$39 per capita below average.
- 20 Changes since 2005-06 have resulted in Western Australia overtaking Victoria and New South Wales in terms of fiscal capacity. Victoria has now the third strongest fiscal capacity behind Western Australia and New South Wales.
- 21 Table 4-2 summarises the effects of the State's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average. Unlike New South Wales, Queensland and Western Australia, Victoria has below average capacity to

raise revenue. The above average fiscal capacity is the result of Victoria's below average cost of providing services.

**Table 4-2 Comparison of Victoria's fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	Victoria	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	2 149	- 222	0.91
Assessed expenses (c)	5 124	4 708	- 416	0.92
SPP receipts	412	373	- 39	0.91
Fiscal capacity (d)	-2 341	-2 186	155	1.07

(a) Victoria minus Australian average.

(b) Ratio of Victoria divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by Victoria.

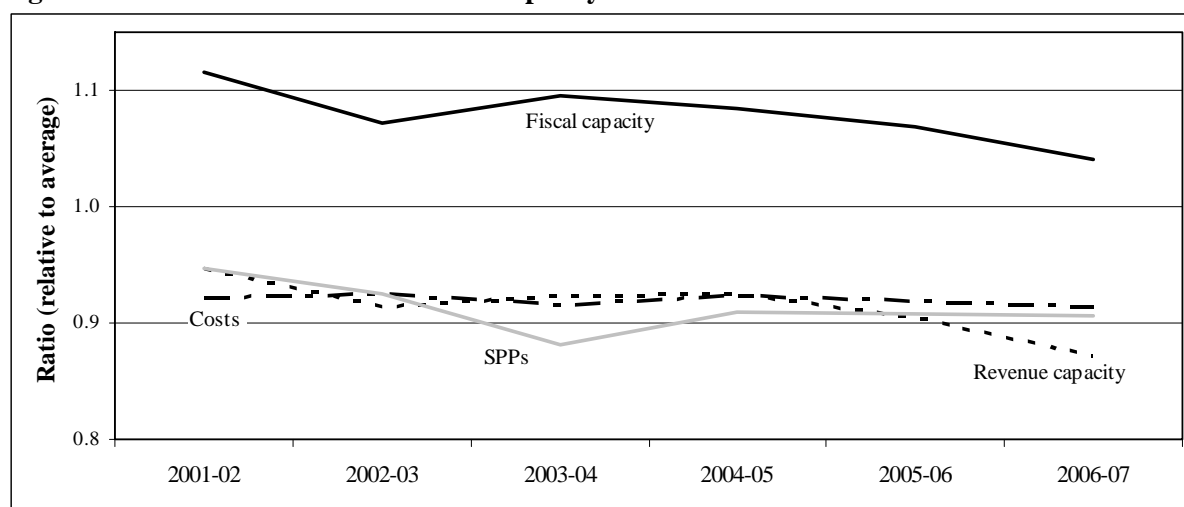
(c) Assessed expenses are net of user charges.

(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

**Figure 4-4 Victoria's relative fiscal capacity 2001-02 to 2006-07**



Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.

Source: Attachment E and CGC calculations.

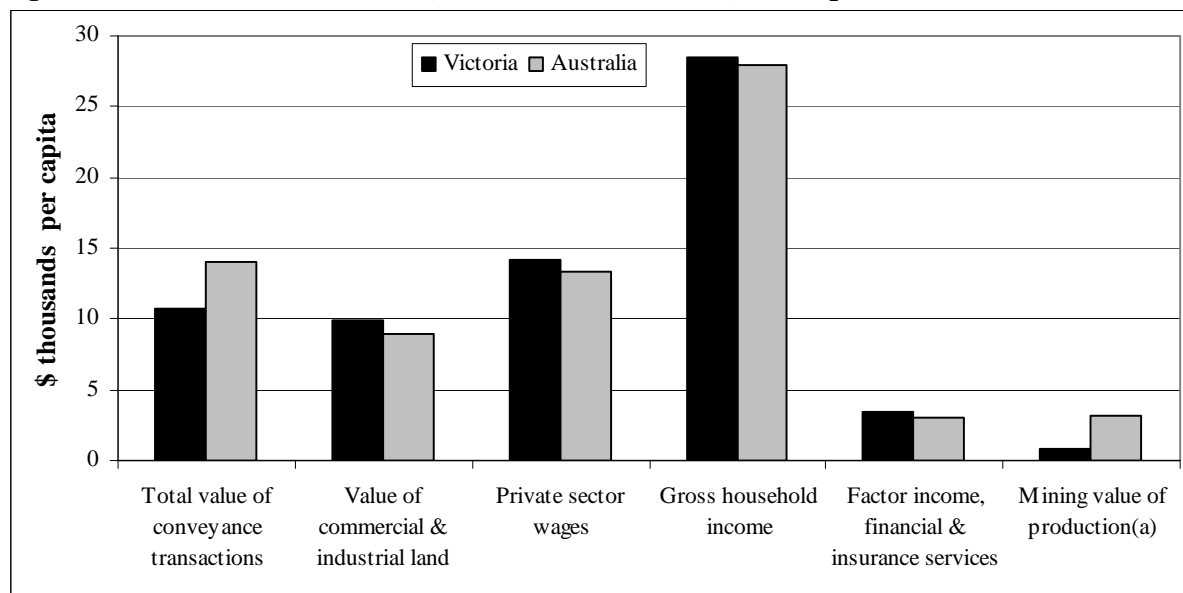
- 22 The fiscal capacity of Victoria shows a general declining trend. Victoria's revenue capacity shows a similar trend to its fiscal capacity, and explains much of the movement in the latter. The trend in revenue capacity has been driven by declines in capacity in most major taxes, namely payroll tax, conveyance duty and, to a lesser extent, vehicle registrations and transfers. Victoria's assessed costs of providing services declined slightly over the period.

#### Below average revenue raising capacities

- 23 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2008 Update, Victoria had above average per capita payrolls (of

medium and large businesses), commercial and industrial land values, household income, and factor income from financial and insurance services (Figure 4-5). In spite of these revenue advantages, overall it had below average revenue raising capacity. Victoria's below average capacity was due to its below average per capita taxable residential land, conveyancing transactions and mineral wealth.

**Figure 4-5 Revenue indicators, Victoria and Australia, 2008 Update**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

24 While land based taxes and mining revenue make up only around one third (on average) of State taxes, Victoria's ability to raise revenue from them was well below average. It offset its above average revenue capacity in the other main taxes, particularly payroll tax.

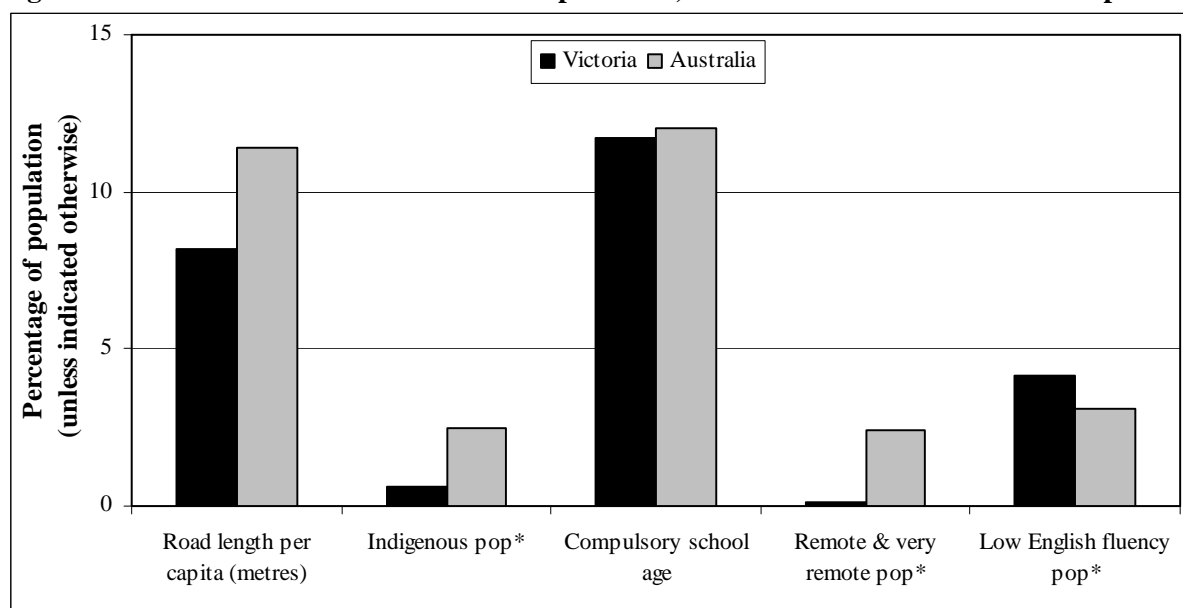
- *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). The ability of Victoria to raise revenue from this tax was well below the Australian average in recent years, because:
  - despite having above average per capita commercial and industrial land values, a greater proportion of its properties were in the lower value ranges and attracted lower rates of tax. This reduced its capacity to raise revenue from industrial and commercial properties; and
  - its value per capita of residential land was 2 per cent below average and the proportion of private renters was 9 per cent below average over the five years to 2006-07, indicating a lower tax base for non-principal residential properties.
- *Stamp duty from conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). The ability of Victoria to raise revenue from this tax was well below the Australian average over the last five years:

- even though Melbourne's median house prices were 11 per cent above the capital city average, Victoria's value of housing finance commitments was 11 per cent below the national average; and
  - its value of all conveyance transactions per capita was 23 per cent below average.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). The ability of Victoria to raise revenue from this tax was well below average because of its small mining sector. Victoria's per capita factor income for mining was 67 per cent below the national average over the last five years.
- 25 These disadvantages were greater than the small revenue raising advantages Victoria had in the State taxes on payrolls, motor vehicles and financial activities.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). Its ability to raise taxes on payrolls was more than 5 per cent above average, with private sector wages per capita being 6 per cent above the national average over the five years to 2006-07.
  - *Vehicle registrations and taxes* (12 per cent of tax revenue for all States over the five years to 2006-07). In the five years to 2006-07, its ability to raise taxes on motor vehicles was 5 per cent above average, with the number of motor vehicles registered per capita being 6 per cent above average in that period.
  - *Financial and insurance sector taxes* (5 per cent of tax revenue for all States over the five years to 2006-07). Factor income per capita from financial, insurance, property and business services in Victoria was 8 per cent above average over the five years to 2006-07, indicating an above average revenue capacity.
- 26 In summary, while Victoria is a major Australian centre for business, its below average taxable land and property transaction values and mining output resulted in a below average revenue raising capacity.

#### **Below average requirement for expenses**

- 27 Figure 4-6 shows that, in the period under consideration, Victoria had below Australian average proportions of its population of school age, living in remote areas or who were Indigenous. These are groups known to be higher or more costly users of government services. Victoria also had the advantage of economies of scale in essential administrative and policy areas because of its large population and its population settlement pattern was less dispersed than most other States. As a result, Victoria's costs of providing services were below the Australian average and the lowest of all States.

Figure 4-6 Influences on costs of service provision, Victoria and Australia — 2008 Update



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

- 28 A number of indicators suggest that the use of many services in Victoria has been below the Australian average.
- *Lower school age population.* A lower than average proportion of its population that was of compulsory school age (2 per cent below average over the last five years) resulted in a below average use of education services. In addition, the proportion of enrolments in the government school sector, which is the school education component with the highest cost to the States, was 5 per cent below average.
  - *Lower Indigenous population.* Victoria had the lowest proportion of Indigenous people in its population (76 per cent below average in the 2006 Census) and almost no remote Indigenous communities. This led to substantially lower expenses because Indigenous people are large users of many health, welfare and law and order services. In addition, per capita costs of providing services to Indigenous people are generally greater than the average costs of providing those services.
  - *Roads.* Victoria is a geographically small State. A consequence of this is a lower than average need for roads. Victoria had the second lowest road length per capita. On a per capita basis, road length in Victoria was 28 per cent less than the national average.
  - *Availability of private service providers.* The private sector provided some services to a greater degree than was possible in smaller States. For example, Victoria had a higher proportion of general practitioners per capita, which helped reduce the call on some public hospital and community health services. Similarly, the large corporate sector provided greater sponsorship that helped to reduce the expenses incurred by the State budget in supporting cultural and recreational facilities.

- *Water.* Victoria had a very low proportion of people living in remote and very remote areas. Water supply to remote communities is typically subsidised, so there was less need for subsidies in Victoria.
- 29 Victoria also had several other features that worked to make the unit costs of some services less than the average.
- *Fixed costs spread over a large population base.* The fixed costs, such as for some specialist services and the head office and policy functions for all services, can be spread over more people. In the five years to 2006-07, Victoria's fixed costs per capita were 49 per cent lower than the Australian average.
  - *Less geographical dispersion.* Victoria has a smaller land area than five States and its population was the second least geographically dispersed (the ACT was the least dispersed). An above average proportion of its population lived in highly accessible regions, and the proportion of its population living in remote and very remote areas was 95 per cent below the Australian average in the 2006 Census. This helped reduce the unit costs of delivering services because some costs (such as freight, travel and communication) are affected by distance and population dispersion.
- 30 Some features increased the costs per unit of service. These cost disadvantages in part offset the advantages outlined previously.
- *Problems created by high urbanisation.* The large, densely settled and complex nature of the Melbourne urban area created problems of congestion, pollution and pockets of social disadvantage. These increased the costs per capita of policing, health and welfare services, road maintenance and urban transit.
  - *Population with low English fluency.* Victoria had above average proportions of persons with low fluency in English (4 per cent compared to an average of 3 per cent). The Commission allows for the extra costs of delivering some services to this group due, for example, to the need for interpreters.
  - *Aged population.* In the 2006 Census, Victoria had a 3 per cent above average proportion of persons aged 65 and over in its population, which increased the use of some health and community services.
- 31 In summary, Victoria has the lowest costs of service provision of any State — 8 per cent below average in the five years to 2006-07. About two thirds of Victoria's below average costs were attributable to its lower Indigenous population, lower geographical dispersion and its ability to spread fixed costs over a large population base. The net effects of all these demographic and economic features were that Victoria was assessed to be able to provide the average level of State services for much less than the Australian average expenses per capita.

**Less than a per capita share of most SPPs**

- 32 Victoria received 9 per cent less than the average per capita share of SPPs in the five year period to 2006-07. Its below average share of SPPs was mainly in the areas of government schools, housing, Indigenous purpose and roads.
- 33 The value of Victoria's SPPs increased by 30 per cent over the five years covered by the 2008 Update, which was slightly less than the average increase of 32 per cent.

**QUEENSLAND — WELL ABOVE AVERAGE FISCAL CAPACITY**

- 34 In the period 2002-03 to 2006-07, if Queensland had provided the average level of services to its residents, with average revenue from SPPs and levied taxes at average rates, its fiscal position would have been \$82 per capita above the average of the States. This outcome is the combination of:
  - its assessed revenue capacity being \$94 per capita higher than average;
  - its assessed expenses being \$15 per capita above average; and
  - its SPP income being some \$3 per capita above average.
- 35 Table 4-3 summarises the effects of the State's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-3 Comparison of Queensland fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	Queensland	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	2 465	94	1.04
Assessed expenses (c)	5 124	5 139	15	1.00
SPP receipts	412	415	3	1.01
Fiscal capacity (d)	-2 341	-2 259	82	1.04

(a) Queensland minus the Australian average.

(b) Ratio of Queensland divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by Queensland.

(c) Assessed expenses are net of user charges.

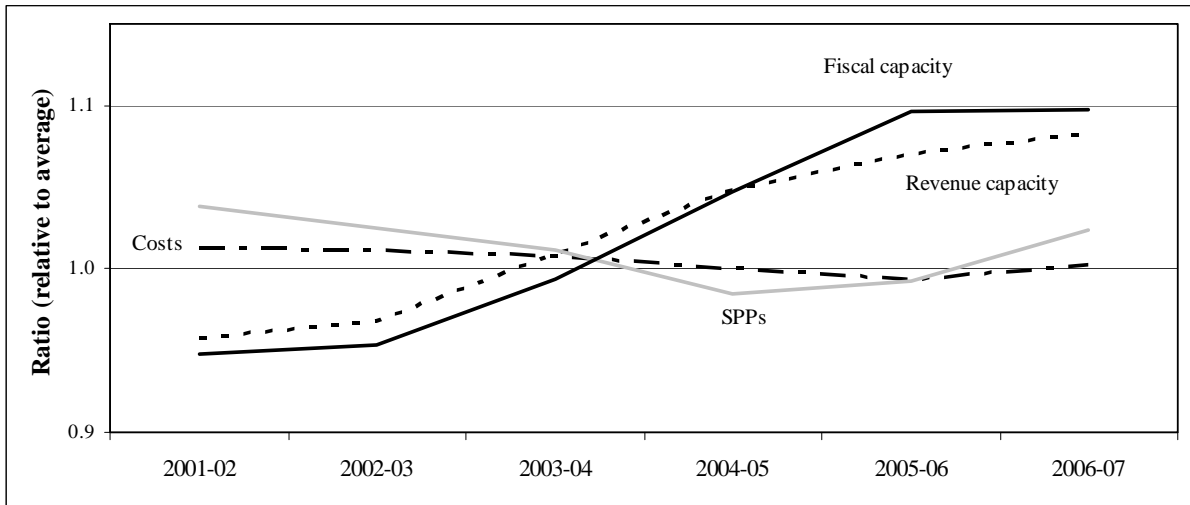
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

- 36 Figure 4-7 shows the relative revenue raising capacities, SPP incomes and costs of service provision that contributed to Queensland's relative fiscal capacity in each year from 2001-02 to 2006-07.

**Figure 4-7 Queensland's relative fiscal capacity 2001-02 to 2006-07**



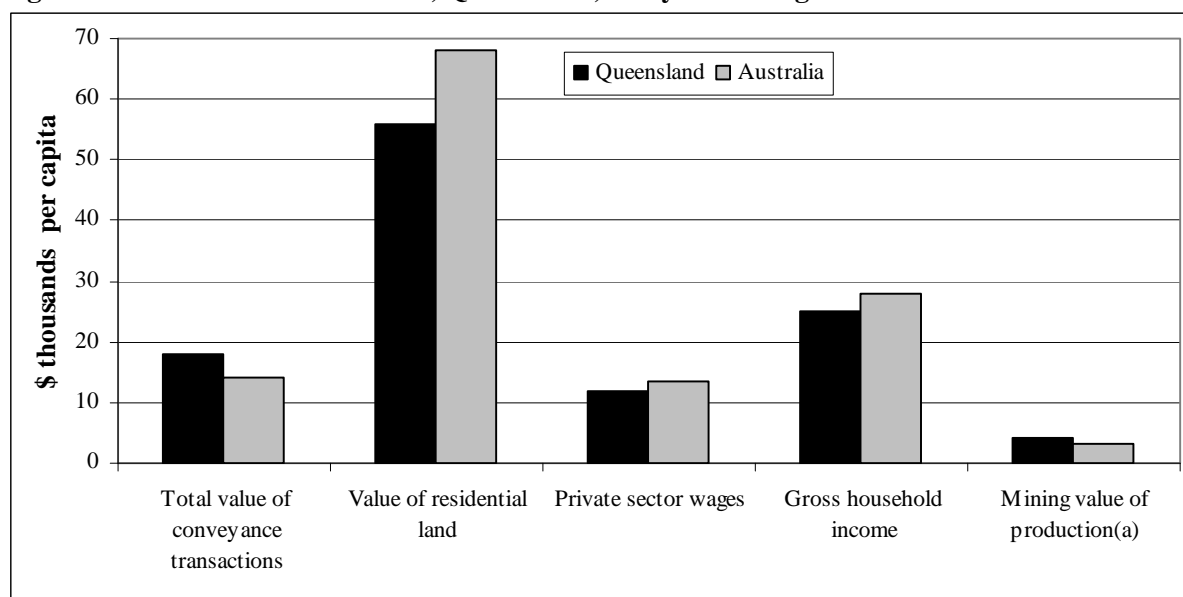
Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.  
 Source: Attachment E and CGC calculations.

- 37 The relative fiscal capacity of Queensland was relatively flat from 2001-02 to 2002-03. Its fiscal capacity rose strongly in the period 2003-04 to 2005-06, then levelled in 2006-07. A key contributing factor to this increase was the boom in Queensland's real estate market. Land values and property prices, together with volume of transactions, increased faster than the Australian average leading to an increase in revenue raising capacity. Increased mining and business activity also contributed to the growth in fiscal capacity by increasing its revenue capacity in these areas. Relative SPP income has risen recently following a period of decline. Its assessed costs of providing services rose by a small amount in 2006-07 after a period of no change or decline.

**Above average revenue raising capacities**

- 38 An examination of the economic activities that States can tax (Figure 4-8) shows that, in the five year period covered by the 2008 Update, Queensland had, on a per capita basis, above average values of conveyances and mining value of production and below average land values, private sector wages and household income. Overall, Queensland had a revenue raising capacity that was about 4 per cent above average.

**Figure 4-8 Revenue indicators, Queensland, five year average 2002-03 to 2006-07**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

39 Queensland's above average revenue raising capacity was largely due to its above average property sales and mining activity.

- *Stamp duties from conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). Queensland had an above average capacity to raise revenue from these duties, which have grown rapidly from near average levels in 2001-02. Over the five years to 2006-07, the per capita value of transactions in Queensland was 29 per cent above the Australian average. This was due to high property turnover — housing finance commitments were 9 per cent above the national average during the five years — and strong growth in median house prices in Brisbane over the last five years of 44 per cent (compared with Sydney growth of 14 per cent for example).
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). Queensland's ability to raise revenue from mining was above the Australian average. Per capita value of production was 32 per cent above average due largely to its strong production of coal.
- *Vehicle registrations and taxes* (12 per cent of tax revenue for all States over the five years to 2006-07). In the five years to 2006-07, its ability to raise taxes on motor vehicles was 8 per cent above average, due to above average vehicle ownership and well above average vehicle sales — sales have grown at over twice the average rate.

40 The revenue raising advantages Queensland had from the State taxes based on conveyances, mining and vehicles were partly offset by the following below average revenue bases:

- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). Queensland could collect below average revenues from the application of an average tax effort because of a smaller payroll tax revenue base because:
  - private sector wages per capita were 10 per cent below the Australian average; and
  - average weekly earnings were 6 per cent below the Australian average.
- *Land Taxes* (7 per cent of tax revenue for all States over the five years to 2006-07). The ability of Queensland to raise revenue from land was below average because:
  - per capita commercial land values were 18 per cent lower than the per capita average of all States; and
  - per capita residential land value was 18 per cent lower than the per capita average of all States.
- *Financial and insurance sector taxes* (5 per cent of tax revenue for all States over the five years to 2006-07). Factor income from finance, insurance, property and business services in Queensland was 30 per cent below the Australian average per capita. This reflected its significantly below average level of financial and business services.

41 Queensland had above average growth in many areas of taxable economic activity in recent years. Even in areas where Queensland has below average capacity to raise revenue, the State has been moving closer to average capacity in recent years. This growth is reflected in the strong growth in revenue capacity seen in Figure 4-7 and an overall above average capacity to raise revenue since 2003-04.

#### **Above average requirement for expenses**

42 Figure 4-9 shows that in the period under consideration, Queensland had above Australian average proportions of its population with pensioner and concession cards, of compulsory school age, or who were Indigenous. These groups are known to be higher or more costly users of government services. It also faced higher costs because its population was more dispersed than average as indicated by the proportion of remote and very remote population. As a result, its costs of providing services were higher than the Australian average.

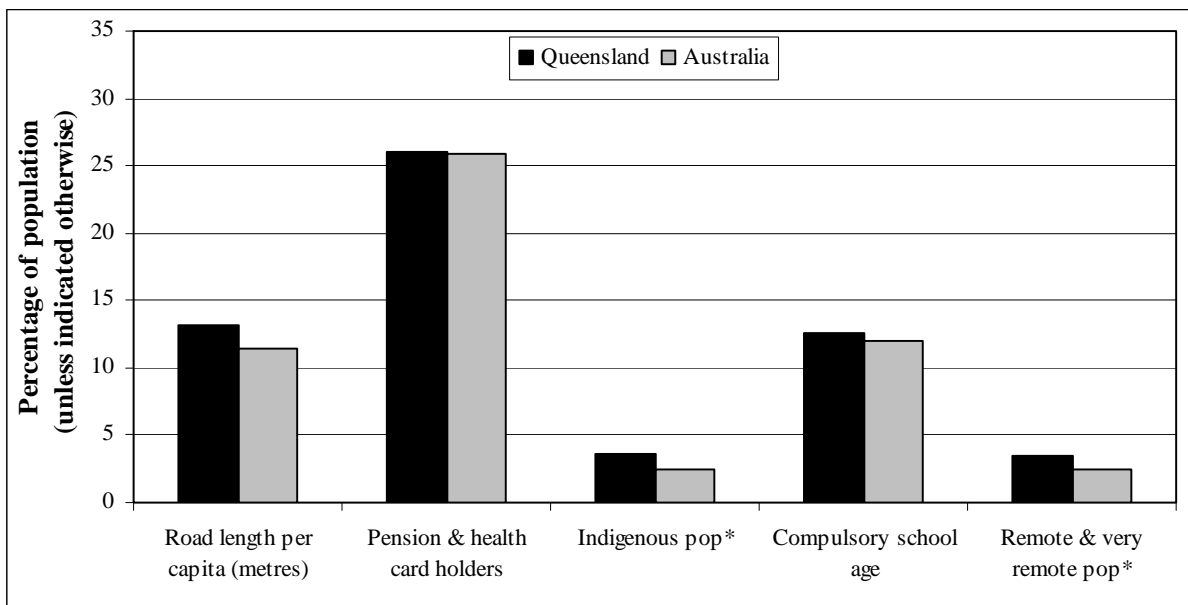
43 A number of indicators suggest that the use of many services in Queensland was above the Australian average.

- *Lower household incomes.* While the proportion of people in its population with low incomes in the 2006 Census was about 2 per cent below average, it was about 7 per cent above the Australian average in the 2001 Census. Census data from 2001 are still used in assessments (up to 2003-04). Taking account of this, overall, Queensland still has, over the period 2002-03 to 2006-07, an above average proportion of low income population. The proportion of people who held pensioner and concession cards was above the Australian average by about one per cent. This increased the need for welfare services,

and the cost of public education and community service obligations for transport services and utilities.

- *Higher compulsory school age population.* Queensland had an above average proportion of school age children in its population (about 4 per cent higher). It also had an above average proportion of students enrolled in government schools (about 5 per cent higher). This increased the State's education costs compared to the average.
- *Higher Indigenous population.* Queensland had an above average proportion of Indigenous people in its population (about 43 per cent higher, 2006 Census). This led to substantially higher expenses because Indigenous people are larger users of many health, welfare, and law and order services. In addition, per capita costs of providing services to Indigenous people are generally greater than the average costs of providing those services.
- *Roads.* Queensland's per capita arterial road length was 16 per cent above average. Consequently, it incurred above average costs for road maintenance and depreciation.

**Figure 4-9 Influences on costs of services, Queensland and Australia, 2008 Update**



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

44 Queensland also had features that increased the unit costs of many services above the average.

- *More geographical dispersion.* Queensland has a large land area, and its population is more geographically dispersed than in other States. A below average proportion of its population lived in its capital city (about 54 per cent compared with 68 per cent nationally, 2006 Census) and an above average proportion lived in its more remote and very remote regions (47 per cent higher, 2006 Census). This increased the unit costs of delivering services because costs such as freight, travel and communication are affected by distance and dispersion of population.

- 45 Some features decreased the use and costs of services in the State, partly offsetting its above average use and cost characteristics.
- *Low fluency in English.* Queensland had a below average proportion of people with low fluency in English (57 per cent lower, 2006 Census). The Commission assesses reduced costs in such situations due, for example, to the lower requirement for interpreters in delivering some services.
  - *Aged population.* Queensland had a below average proportion of aged people in its population (7 per cent lower for people 65 years and older, 2006 Census). Because older people use health and community services more often, the State faced less demand and costs for these services.
  - *The price of labour.* The main input cost for State government service provision, the price of labour, was below the Australian average in Queensland (although it is approaching the average). Its private sector wages and average weekly earnings were about 10 and 6 per cent respectively below the average.
  - *Below average need for public hospital separations.* Queensland had a below average need for public hospital separations (about 11 per cent lower), representing a lesser call on public hospitals and outpatient services.
- 46 In summary, Queensland's assessed cost of providing services gradually declined until 2005-06 then began to increase in 2006-07 as shown in Figure 4-7. Overall, the changes were not large and increased costs in some areas were generally offset by lower costs in other areas. For example, Queensland's assessed cost of providing hospital inpatient services and dealing with natural disasters increased in the five years covered by the update, but it fell in areas such as government primary school education, community health and the first home owners scheme. The net effect of its demographic and economic features meant the expenses incurred to provide the average level of service were just above the Australian average level.

#### **Above average amounts of SPPs**

- 47 Queensland received one per cent more than the Australian average per capita amount of SPPs in the five year period to 2006-07. Its slightly above average share of SPPs was mainly in the areas of government schools, home and community care, and road grants. Lower than average per capita grants in the areas of vocational education and soil salinity partially offset the above average SPP revenue.
- 48 Queensland's per capita share of SPPs decreased from 2001-02 to 2004-05 but rose in 2005-06 and 2006-07.

#### **WESTERN AUSTRALIA — STRONGEST AND RAPIDLY GROWING FISCAL CAPACITY**

- 49 In the period 2002-03 to 2006-07, if Western Australia had provided the average level of services to its residents, with average revenue from SPPs and levied taxes at the average rates,

its fiscal position would have been \$261 per capita higher than the average of the States. This outcome is the combination of:

- its assessed revenue capacity growing rapidly to \$660 per capita above average;
- its assessed expenses being \$404 per capita above average; and
- its SPP income being \$5 per capita above average.

50 Table 4-4 summarises the effects of the State’s revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-4 Comparison of Western Australia’s fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	Western Australia	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	3 031	660	1.28
Assessed expenses (c)	5 124	5 527	404	1.08
SPP receipts	412	417	5	1.01
Fiscal capacity (d)	-2 341	-2 080	261	1.13

(a) Western Australia minus the Australian average.

(b) Ratio of Western Australia divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by Western Australia.

(c) Assessed expenses are net of user charges.

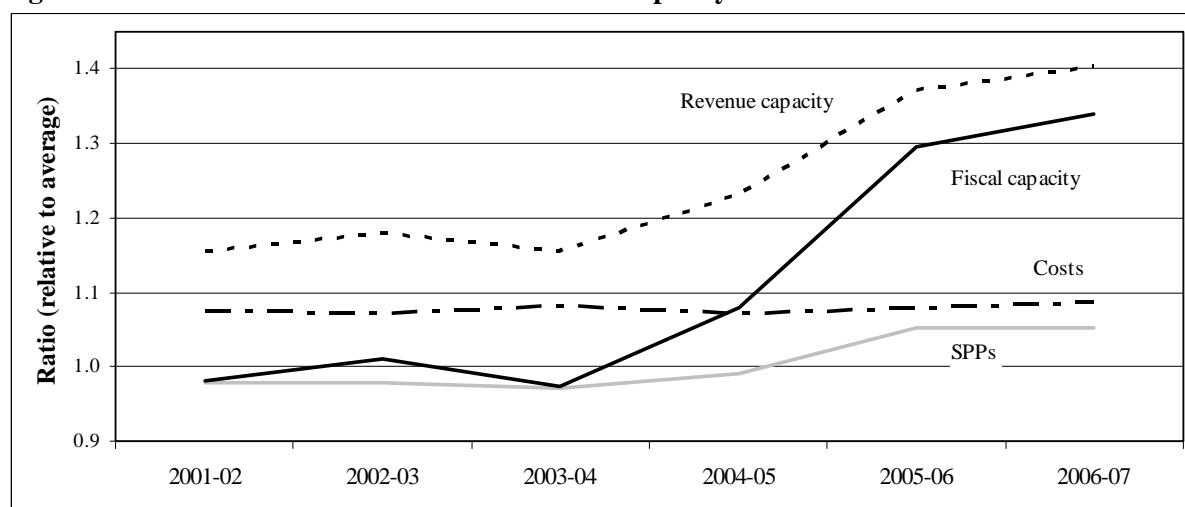
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

51 Figure 4-10 shows the relative revenue raising capacities, costs of service provision and SPP incomes that contributed to Western Australia’s relative fiscal capacity in each year from 2001-02 to 2006-07.

**Figure 4-10 Western Australia’s relative fiscal capacity 2001-02 to 2006-07**



Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.

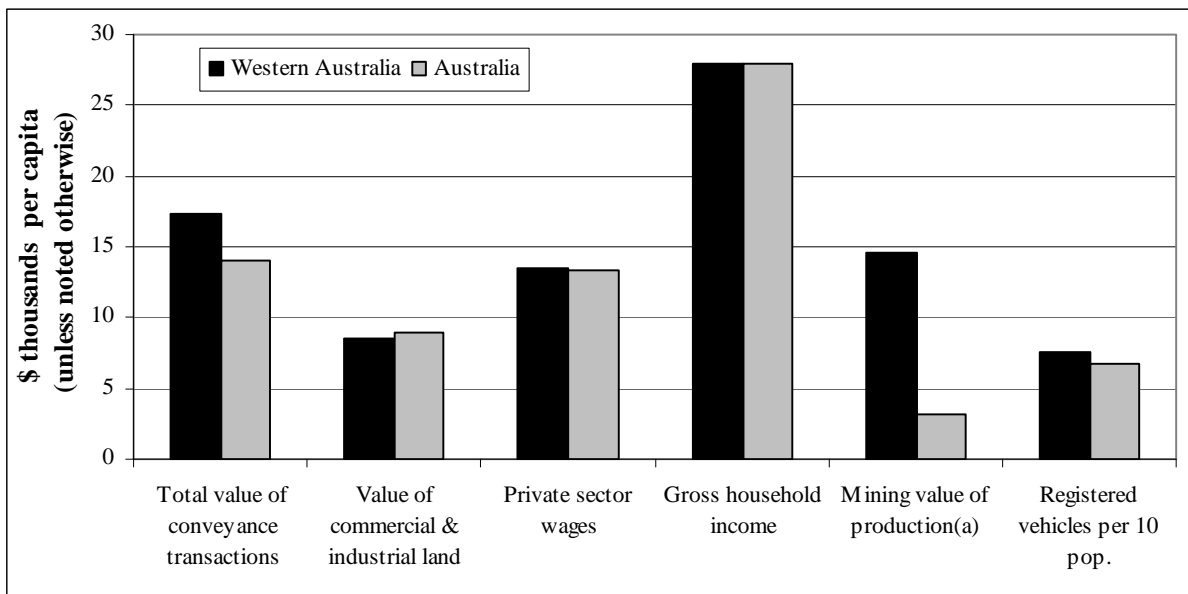
Source: Attachment E and CGC calculations.

52 The fiscal capacity of Western Australia has increased substantially since 2003-04. The increase was largely due to increased revenue from conveyances and mining revenues from the resources ‘boom’. Its assessed costs have been steady over the period whilst SPP income has increased.

**Above average revenue raising capacities**

53 An examination of the range of economic activities that States can tax showed that in the five year period covered by the 2008 Update, Western Australia had above average per capita value of conveyance transactions, mining production and registered motor vehicles (Figure 4-11). Wages and household income were in line with national averages, whilst per capita values of land were just below average. Overall, Western Australia was assessed to have the highest revenue raising capacity of all States, 22 percentage points higher than the second strongest (New South Wales).

**Figure 4-11 Revenue indicators, Western Australia and Australia, five year average 2002-03 to 2006-07**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

54 The strong revenue raising capacity of Western Australia stemmed mainly from its above average mining activity and number of motor vehicles. Conveyance duty has been high over the last three years and contributed to above average revenue capacity. Land revenue increased substantially in the latest year. Payroll tax per capita has been higher than the national average for each of the five years to 2006-07.

- *Mining revenues* (6 per cent of tax revenue for all States over the five years to 2006-07). Western Australia could collect well above average revenues because of a larger revenue base in mineral resources. Mining value of production per capita was 359 per cent above

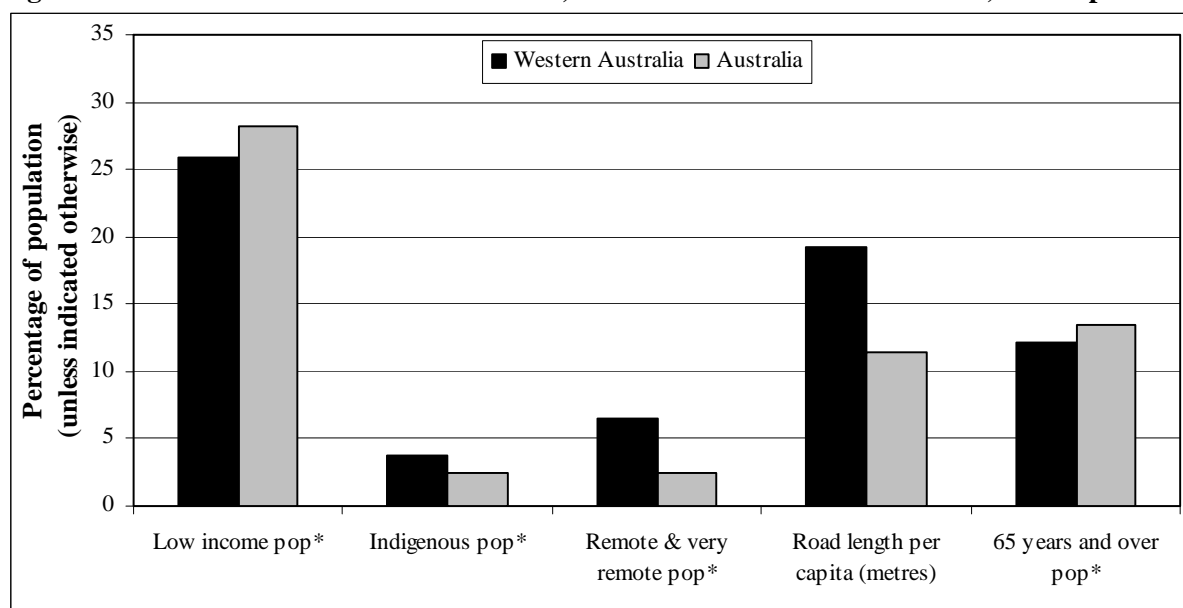
the national average from 2002-03 to 2006-07, with factor income per capita from mining 509 per cent above the national average over the same period.

- *Vehicle transfers and registrations* (12 per cent of tax revenue for all States over the five years to 2006-07). Western Australia had a larger capacity to raise taxes on motor vehicles because the number of motor vehicles registered per capita was 12 per cent above the national average from 2002-03 to 2006-07. This was the highest of all States.
  - *Stamp duty from conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). The ability of Western Australia to raise revenue from this tax has risen sharply and over the last three years has been above the Australian average. The annual median house price in Perth increased by 115 per cent from June 2003 to June 2007, the highest of all States. The value of secured housing finance commitments (owner occupation) increased by 119 per cent from June 2003 to June 2007, the second highest growth over this time across the States.
  - *Land taxes* (7 per cent of tax revenue for all States over the five years to 2006-07). The ability of Western Australia to raise revenue from this tax increased sharply in 2006-07, rising to above the national average in this year. The value per capita of residential land increased from one per cent below the national average in 2005-06 to 30 per cent above the national average in 2006-07.
  - *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). The payroll tax per capita for Western Australia has been increasing and has been above the national average for each of the four years to 2006-07. Private sector wages and salaries per capita increased by 32 per cent from 2002-03 to 2006-07 compared to the national average increase of 26 per cent over the same period.
- 55 The substantial revenue raising advantages Western Australia had from its mining, motor vehicle and conveyances were partly offset by below average revenue bases in insurances taxes.
- *Insurance taxes* (4 per cent of tax revenue for all States over the five years to 2006-07). Factor income for the finance and insurance sector was 35 per cent below the national average per capita between 2002-03 and 2006-07.
- 56 On balance, Western Australia's revenue raising advantages far outweighed its disadvantages, largely due to its mining sector.

#### **Above average requirement for expenses**

- 57 Figure 4-12 shows that, in the period under consideration, Western Australia had above average proportions of its population who were Indigenous or living in remote areas. These are groups known to be higher or more costly users of government services. Western Australia also had diseconomies of scale in essential administrative and policy areas because its population was relatively small and more widely dispersed. Its dispersed population also resulted in above average length of, and expenses on, roads.

Figure 4-12 Influences on costs of services, Western Australia and Australia, 2008 Update



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.

Source: Attachment B.

58 The use of some services in Western Australia was above the Australian average. The State's above average proportion of Indigenous people in its population and many remote Indigenous communities led to substantially higher expenses because Indigenous people are large users of many health, welfare and law and order services. In addition, the per capita costs of providing services to Indigenous people are generally greater than the average costs of providing those services.

59 Western Australia also had several other features that made the unit costs of many services higher than the average.

- *Fixed costs spread over a smaller than average population base.* The fixed costs, such as for some specialist services and the head office and policy functions for all services, were spread over fewer people. This meant that the fixed costs per capita were higher than the Australian average.
- *Greater geographical dispersion.* Western Australia has the largest land area of all the States, and its population was more geographically dispersed than other States. A below average proportion of its population lived in accessible regions, and well above average proportions of its population lived in remote and very remote areas. This increased the unit costs of delivering services because some costs (such as freight, travel, communication and staff allowances) are affected by distance and population dispersion.
- *Roads.* Western Australia had the second highest length of arterial road per capita (69 per cent above the average) because of the need to link its widely dispersed population, and incurred above average costs per capita on road maintenance and depreciation.

- *Nature of economy.* Western Australia had large mining and primary industry sectors, which resulted in a high need for regulation and research in these areas.
  - *Water.* Western Australia had an above average share of remote and very remote populations, a greater proportion of which lived in areas of low rainfall. Water supply and sewerage services to populations in these areas required higher per capita levels of subsidy than services to less remote populations and populations in areas of high rainfall.
  - *The price of labour,* the main input into State government services, has now moved to being above the Australian average. Private sector wages per capita and gross compensation of employees per capita, along with average weekly earnings, have all grown by between 30 and 40 per cent more than the national average over the past five years.
- 60 Some features decreased the use and costs of some services. These cost advantages partly offset the disadvantages outlined previously.
- *Population with low English fluency.* Western Australia continued to have below average proportions of persons with low fluency in English (2 per cent compared to an average of 3 per cent from the 2006 Census). The Commission assesses reduced costs in such situations due, for example, to lower requirements for interpreters in delivering services.
  - *Aged population.* Western Australia continued to have a below average proportion of aged persons in its population (12 per cent compared to an average of 14 per cent from the 2006 Census), which decreased the use of health and community services.
  - *Low income population.* Strong employment and wage growth in recent years has seen Western Australia's proportion of persons with low income move from slightly above the national average as at the 2001 Census to below the national average as at the 2006 Census (26 per cent compared to the national average of 28 per cent). This decreases the use of health and welfare services.
- 61 In summary, Western Australia's above average proportion of Indigenous people was a major driver of its higher assessed costs. Its smaller population resulted in diseconomies of scale in some service delivery areas and its dispersed population also increased its assessed service delivery costs.

#### **Slightly more than Australian average per capita share of SPPs**

- 62 Western Australia received one per cent higher than the Australian average share of SPPs in the five year period 2006-07. The overall result was a combination of above average shares of some SPPs and below average shares of others. For example, above average shares were received for housing and Indigenous purposes and lower than average shares for vocational education and training, roads and disability services.

**SOUTH AUSTRALIA – THIRD LOWEST FISCAL CAPACITY OF ALL STATES**

63 In the period 2002-03 to 2006-07, had South Australia provided the average level of services to its residents, with average revenue from SPPs and levied taxes at the average rates, its fiscal position would have been \$440 per capita lower than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$498 per capita lower;
- its assessed expenses being \$42 per capita lower; and
- its SPP income, some \$16 per capita higher.

64 Table 4-5 summarises the effects of the State’s revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-5 Comparison of South Australia’s fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	South Australia	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	1 873	- 498	0.79
Assessed expenses (c)	5 124	5 082	- 42	0.99
SPP receipts	412	428	16	1.04
Fiscal capacity (d)	-2 341	-2 781	- 440	0.84

(a) South Australia minus the Australian average.

(b) Ratio of South Australia divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by South Australia.

(c) Assessed expenses are net of user charges.

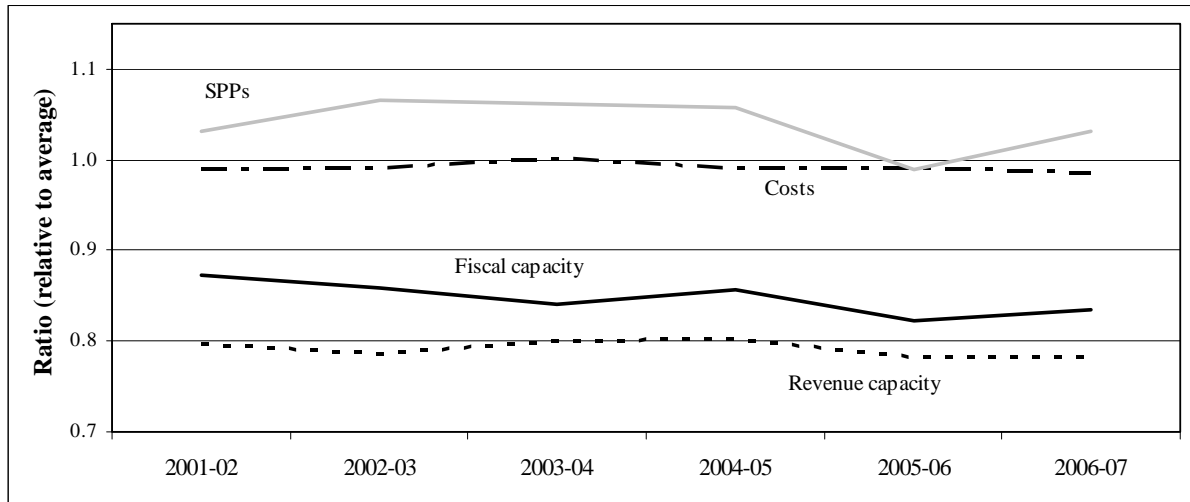
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

65 Figure 4-13 shows the relative revenue raising capacities, costs of service provision and SPP incomes that have contributed to South Australia’s relative fiscal capacity from 2001-02 to 2006-07.

**Figure 4-13 South Australia's relative fiscal capacity 2001-02 to 2006-07**



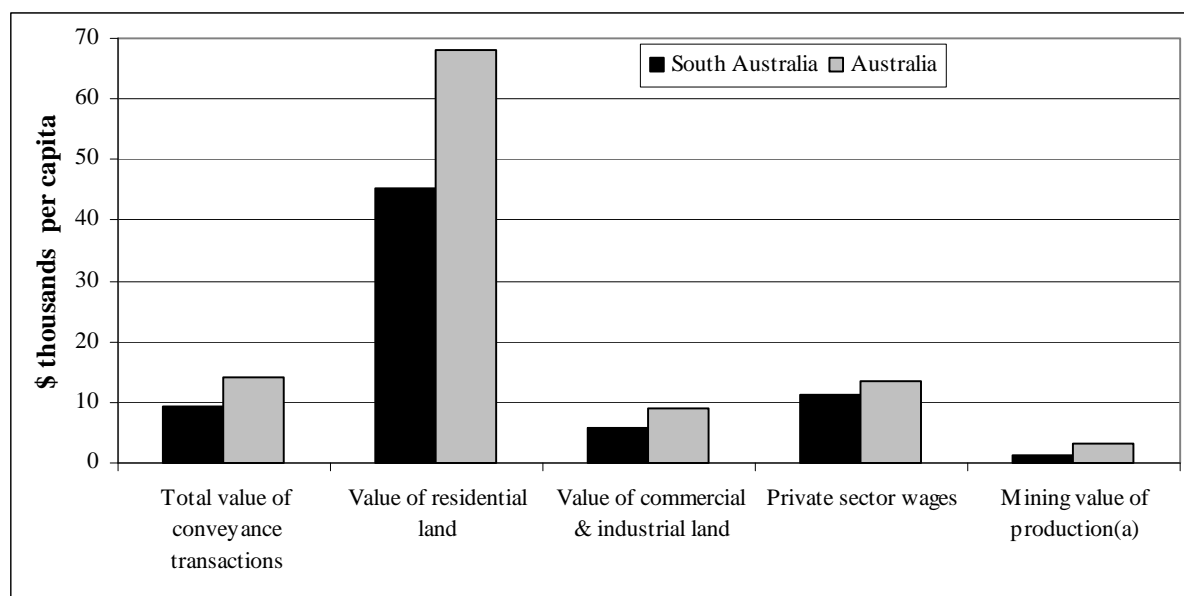
Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.  
 Source: Attachment E and CGC calculations.

- 66 The fiscal capacity of South Australia has generally declined over the last six years. However, there was a slight improvement between 2005-06 and 2006-07, as a result of SPP income increasing from a below average level in 2005-06.
- 67 There has generally been a decrease in revenue capacity over the past six years. The growth in South Australia's revenue base has been stronger than that of New South Wales and Victoria, but due to the boom in Queensland and Western Australia, it has been below the national average.
- 68 South Australia's cost of providing services was relatively flat over the six years.

**Second lowest revenue raising capacity**

- 69 An examination of the range of economic activities that States can tax showed that in the five year period covered by the 2008 Update, South Australia had well below average per capita value of conveyance transactions, residential and commercial land values, private sector wages and mining related activity (Figure 4-14). These combined to give South Australia the second lowest revenue raising capacity of all States.

**Figure 4-14 Revenue indicators, South Australia and Australia, five-year average 2002-03 to 2006-07**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

70 The main revenue raising disadvantages of South Australia stemmed from its below average per capita private sector wages, value of land sales and land values, and its relatively small mining sector.

- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). South Australia would have collected below average revenues from the application of an average tax effort because of a smaller revenue base over 2002-03 to 2006-07. This was largely due to private sector wages per capita that were 15 per cent below the national average.
- *Stamp duty on conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). The ability of South Australia to raise revenue from this tax has been below the Australian average because over the last five years its per capita value of conveyance transactions was 31 per cent below the national average. South Australia has around the national average number of transactions per capita, so the difference is due to lower than average value of transactions. This is consistent with indicators of the value of land in South Australia:
  - median house price for Adelaide was the second lowest of capital cities;
  - per capita value of residential land was 33 per cent below the national average; and
  - per capita value of commercial and industrial land was 36 per cent below the national average.

- *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). The ability of South Australia to raise revenue from taxing investments in real estate has been well below the Australian average in recent years. In addition to the indicators of low land values described above, South Australia also had the lowest proportion of private renters at 21 per cent below the average.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). South Australia had well a below average revenue base in mineral resources. For mining, both factor income and value of production were less than half the national average.

71 In summary, the main driver of South Australia’s below average revenue raising capacity is its low prices, both for labour and for land, compared with the Australian average.

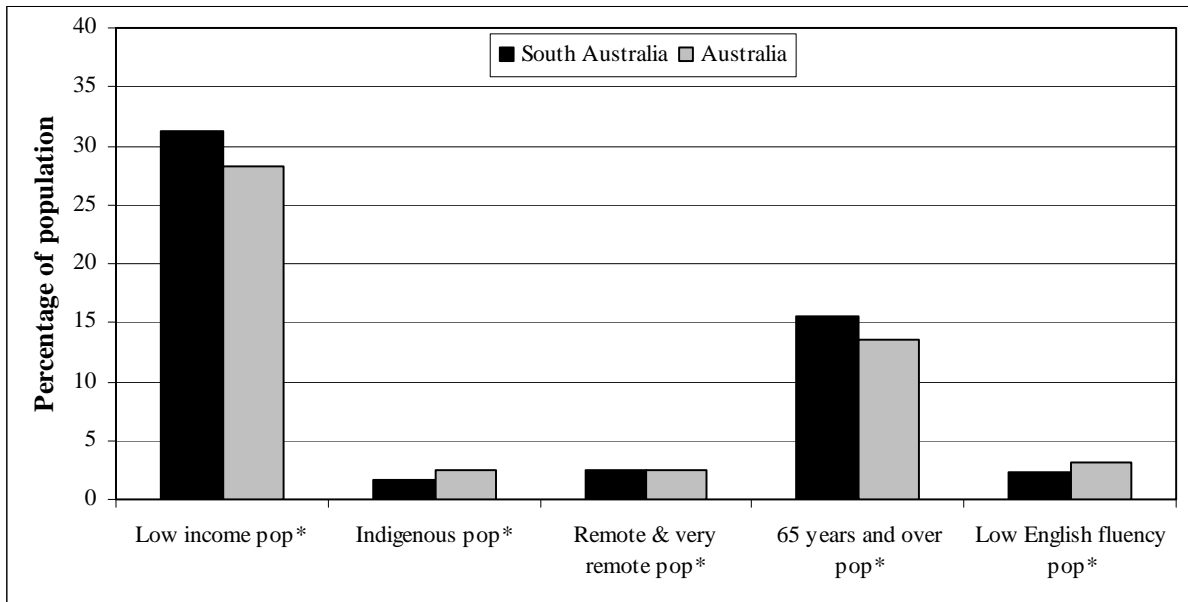
**Slightly below average requirement for expenses**

72 South Australia has close to average requirements for expenses as a result of a range of countervailing forces (Figure 4-15).

73 Decreasing its costs are its smaller than average proportion of its population which is Indigenous and its low wage levels.

74 Partially offsetting its cost advantages, South Australia had an above Australian average proportion of its population with low incomes and people who were aged 65 or over. South Australia faced diseconomies of scale in essential administrative and policy areas because of its small population. In aggregate, South Australia’s costs of providing services were marginally below the Australian average.

**Figure 4-15 Influences on costs of services, South Australia and Australia**



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

- 75 A number of indicators suggest that the use and cost of many services in South Australia would be below the Australian average.
- *Lower Indigenous population.* The proportion of Indigenous people in its population was 34 per cent below average and there were few remote Indigenous communities. This led to substantially lower assessed expenses because Indigenous people are larger users of many health, welfare and law and order services. In addition, the per capita costs of providing services to Indigenous people are generally greater than the average costs.
  - *Less geographical dispersion.* South Australia had a slightly higher than average proportion of people living in remote areas but a noticeably higher proportion of people living in highly accessible regions, mostly in and around Adelaide (it did not have as many people in accessible or moderately accessible regions). In combination, these implied a lower than average geographical dispersion, which helped reduce the unit costs of delivering services because some costs (such as freight, travel and communication) are affected by distance and population dispersion.
  - *The price of labour,* the main input into State government services, was assessed as being the second lowest in the country (around 13 per cent below the national average for gross compensation of employees).
  - *Low office rental costs.* The lower land values resulted in office and retail rents being below average (rents for prime CBD property were 34 per cent below average).
  - *Population with low English fluency.* South Australia had a below average proportion of persons with low fluency in English (2 per cent compared to an average of 3 per cent). The Commission assesses reduced costs in such situations due, for example, to the lower requirements for interpreters in delivering services.
- 76 Offsetting these, however, were some features that increased the use or costs per unit of service.
- *Lower household income.* The proportion of the population with low incomes was above the Australian average by 11 per cent. This increased the need for welfare services and the costs of public education and community service obligations for transport services and utilities.
  - *Fixed costs spread over a small population base.* The fixed costs, such as for some specialist services and the head office and policy functions for all services, were spread over fewer people. This in turn meant that the fixed costs per capita were higher than the Australian average.
  - *Aged population.* South Australia had an above average proportion of people aged 65 and over in its population (16 per cent compared to an average of 14 per cent), which increased the use of some medical and community services.
  - *Water.* South Australia had an above average share of population living in river catchments with low flows and poor quality water. Water supply and sewerage services

to populations in these areas required higher per capita levels of subsidy than services to populations in drainage basins with rivers of high flow and high quality.

- 77 South Australia's cost advantages just outweighed its cost disadvantages. The net effect was that it would be able to provide the average level of State services for slightly less than the Australian average expenses per capita.

#### More than average per capita share of most SPPs

- 78 South Australia received 4 per cent more than the Australian average per capita share of SPPs in the five year period to 2006-07. This was mainly due to it receiving a higher share of disability services, home and community care and vocational education grants. Partially offsetting these higher than average grants, South Australia received less than average grants for government school education and roads.

#### TASMANIA — SECOND LOWEST FISCAL CAPACITY OF ALL STATES

- 79 In the period 2002-03 to 2006-07, had Tasmania provided the average level of services to its residents, received average revenue from SPPs and levied taxes at average rates, its fiscal position would have been \$1 119 per capita less than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$766 per capita lower;
- its assessed expenses being \$398 per capita higher; and
- its SPP income, \$45 per capita higher.

- 80 Table 4-6 summarises the effects of the State's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-6 Comparison of Tasmania's fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	Tasmania	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	1 605	- 766	0.68
Assessed expenses (c)	5 124	5 522	398	1.08
SPP receipts	412	457	45	1.11
Fiscal capacity (d)	-2 341	-3 460	-1 119	0.68

(a) Tasmania minus the Australian average.

(b) Ratio of Tasmania divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by Tasmania.

(c) Assessed expenses are net of user charges.

(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

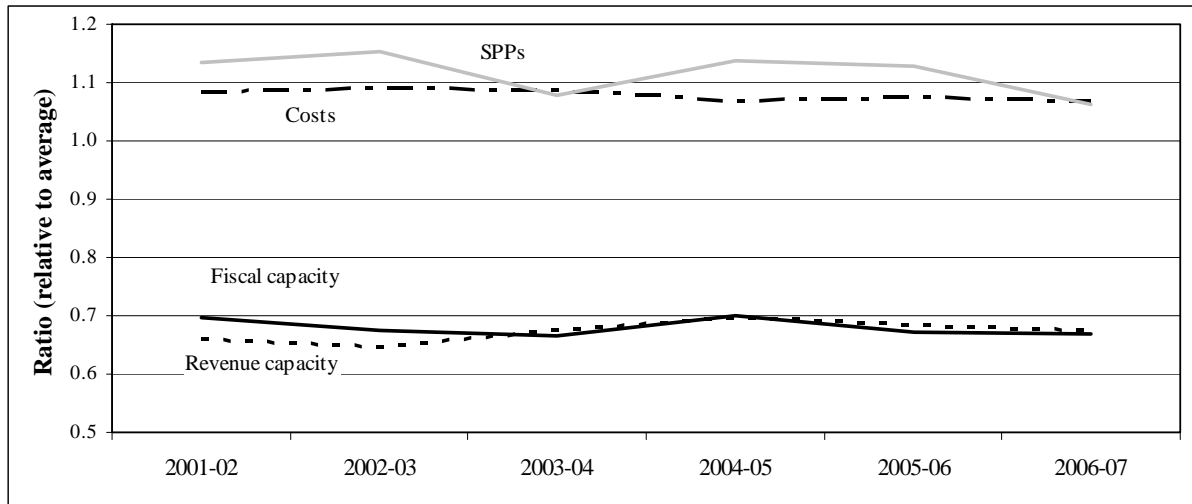
Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

- 81 Figure 4-16 shows the relative revenue raising capacities, SPP incomes and costs of service provision that contributed to Tasmania's relative fiscal capacity from 2001-02 to 2006-07.

82 The fiscal capacity of Tasmania has shown a slight decline over the last six years, apart from 2004-05. Tasmania's relative revenue capacity showed a generally slight upward trend because of faster than average increases in assessed revenues from most taxes, particularly conveyances and mining. Its relative costs of providing services have remained relatively constant.

**Figure 4-16 Tasmania's relative fiscal capacity 2001-02 to 2006-07**

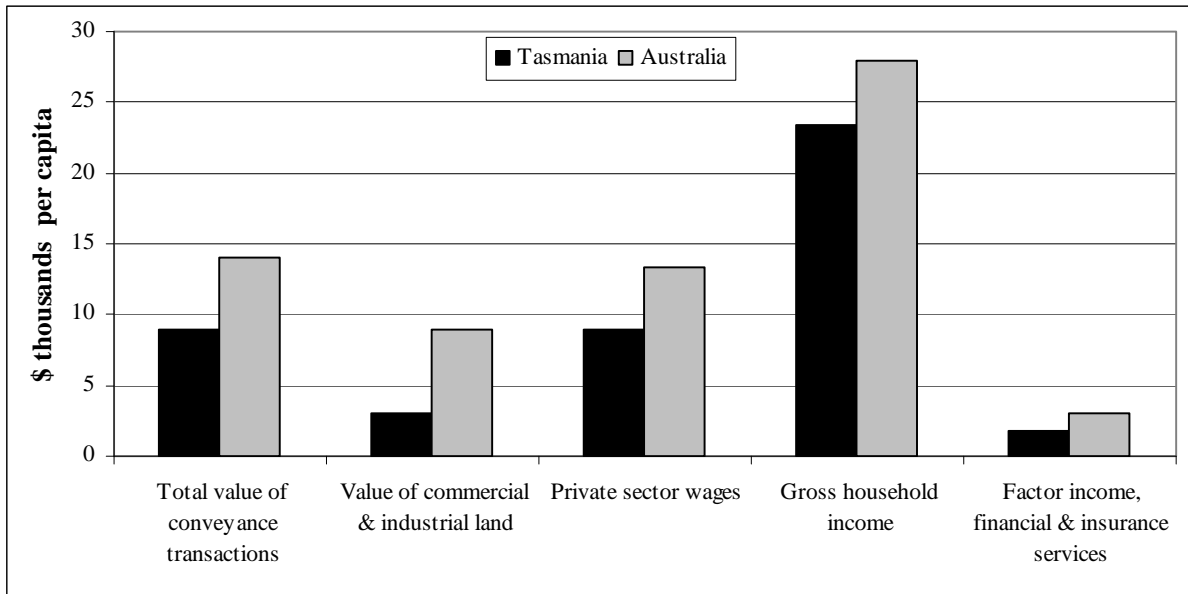


Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.  
 Source: Attachment E and CGC calculations.

**Below average revenue raising capacities**

83 General economic indicators suggested that, for years covered by the 2008 Update, Tasmania had a well below average revenue raising capacity. For example, per capita conveyance transactions, land values, payrolls (of medium and large businesses), financial transactions and household income were well below the Australian average (Figure 4-17). These combined to give Tasmania the lowest revenue raising capacity of all States, at about 32 per cent below the average.

Figure 4-17 Revenue indicators, Tasmania and Australia, 2008 Update



Source: Attachment B.

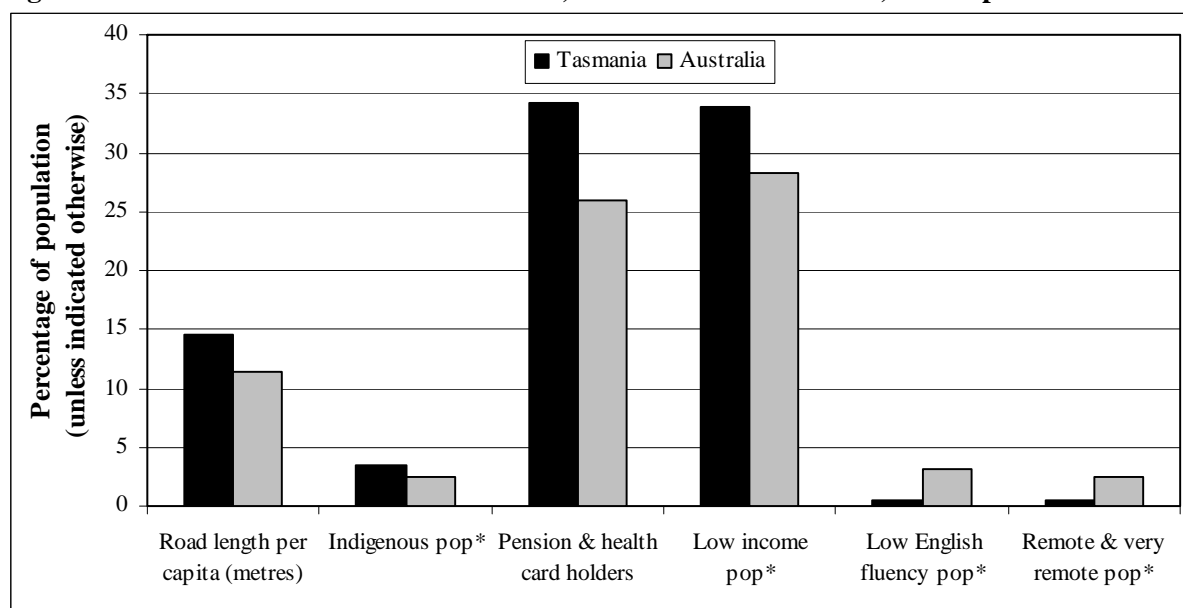
- 84 The low revenue raising capacity in Tasmania was a result of lower than average revenue bases for most of the major taxes.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). Tasmania lacked heavy industry and large companies, in part because of its isolation from the mainland and overseas markets. It was reliant on primary industry (agriculture, aquaculture and forestry), tourism and power generation, but these are not labour-intensive industries, or consisted mainly of small businesses. In combination with low wages, this limited its ability to raise revenue from payroll taxes:
    - average weekly earnings were 12 per cent below the national average over the five years to 2006-07;
    - private sector wages per capita were 32 per cent below the national average; and
    - proportion of businesses with employment of over 200 was 26 per cent below average.
  - *Stamp duty on conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). Because of the narrower range of economic activities and lower than average population growth, Tasmania had generally low property prices and low property turnover (although there was a marked increase in median house prices in Hobart in 2004). This limited its ability to raise revenue from stamp duty from conveyances, the second largest source of the States' own source revenues:
    - the median house price for Hobart was lowest among all capital cities; and
    - the average value of housing finance commitments per capita was 44 per cent below the average.

- *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). For similar reasons given above, Tasmania's land values were low. This limited its ability to raise revenue from land taxes. For example, the average values of commercial and industrial land and residential land over the five years to 2006-07 were 67 and 66 per cent respectively below the national average.
  - *Financial and insurance sector taxes* (5 per cent of tax revenue for all States over the five years to 2006-07). Tasmania had a low level of capital market activity, a small financial, insurance and business services sector, and few head offices of national and international businesses, which limited its revenue raising advantages. This is illustrated by its factor income per capita being 56 per cent below the average from the financial, insurance property and business services sectors over the last five years.
  - *Mining revenues* (6 per cent of tax revenue for all States over the five years to 2006-07). The value of Tasmania's resources was well below those of some other States. Factor income for mining was 61 per cent below the Australian average.
- 85 *Vehicle transfers and registrations* (12 per cent of tax revenue for all States over the five years to 2006-07) was the only area in which Tasmania's revenue raising capacity was better than the Australian average. Tasmania had an above average number of registered motor vehicles per capita (8 per cent). While this is in the top four tax sources for States, Tasmania's above average registrations were not sufficient to offset the weakness of the other main revenue bases.
- 86 In summary, Tasmania had well below average revenue raising capacity because most of its major revenue bases were below the average.

#### **Above average requirement for expenses**

- 87 Figure 4-18 shows that, in the period under consideration, Tasmania had above average proportions of its population with low incomes or who were Indigenous. These groups were more costly users of government services. Tasmania also faced diseconomies of scale in essential administrative and policy areas because of its small but dispersed population compared to many other States. As a result, Tasmania's costs of providing services were well above the Australian average.

**Figure 4-18 Influences on costs of services, Tasmania and Australia, 2008 Update**



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.

Source: Attachment B.

88 A number of indicators suggest that the use and/or unit cost of many services resulted in cost disadvantages for Tasmania.

- *Small population.* Tasmania's small population resulted in diseconomies of small scale in administration, policy and central office functions that affected most State services.
- *Lower household incomes.* Tasmania had a higher than average proportion of persons with low incomes (20 per cent more). This increased the need for welfare services and the cost of public education and community service obligations for transport services and utilities.
- *Aged population.* Tasmania had an above average proportion of persons aged 65 and over (12 per cent more), which increased the use of some medical and community services.
- *Freight and travel costs.* As an island State, Tasmania had higher freight and travel costs to the mainland, including funding for patients who needed to travel interstate for medical services due to lack of local facilities because of Tasmania's population size and dispersal.
- *Roads.* Tasmania had the third highest length of arterial road per capita (28 per cent above the average). This increased its costs per capita of road maintenance.

89 There were some areas where Tasmania had cost advantages.

- *Low costs of production.* It had low costs of wages, rents and power. For example:
  - average weekly earnings were 12 per cent lower than the average over the five years to 2006-07;

- commercial rent in Hobart prime CBD locations was the second lowest of the capital cities and 33 per cent below the average; and
  - cost of power generation was estimated as 40 per cent below the average because of relatively abundant hydro resources.
  - *Population with low English fluency.* Tasmania had well below average proportions of persons with low fluency in English (0.5 per cent compared to an average of 3 per cent in the 2006 Census).
  - *Geographic compactness.* Next to the ACT, Tasmania has the smallest land area, and relatively small distances to travel to access services.
  - *Lesser problems from urbanisation.* Tasmania is not highly urbanised, with nearly 50 per cent of its population living outside urban areas of 50 000 or more. This reduced demand for some services, including urban transport.
- 90 In summary, Tasmania has the second highest costs of service provision — 9 per cent above average in the five years to 2006-07. Its high costs were attributable to its small population, aged population, lower household income, and highest costs in travel and road maintenance. The effect of these features resulted in Tasmania being assessed as having higher than the Australian average expense per capita to provide the average level of State services.

#### **Above average share of SPPs**

- 91 Tasmania received 11 per cent more per capita of SPP income than the average over the period of the 2008 Update, with this share remaining relatively flat for each year of the update. Higher than average grants were seen for government school education, vocational education, home and community care, public health and housing. Lower than average grants were mainly received for roads.

#### **AUSTRALIAN CAPITAL TERRITORY — FOURTH LOWEST FISCAL CAPACITY OF ALL STATES**

- 92 In the period 2002-03 to 2006-07, had the ACT provided the average level of services to its residents, levied taxes at the average rates and received average revenue from SPPs, its fiscal position would have been \$372 lower than the average of all the States. This outcome is the combination of:
- its assessed revenue capacity being \$363 per capita lower;
  - its assessed expenses being \$50 per capita lower; and
  - its SPP income, \$60 per capita lower.
- 93 Table 4-7 summarises the effect of the Territory's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-7 Comparison of the ACT’s fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	ACT	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	2 008	- 363	0.85
Assessed expenses (c)	5 124	5 073	- 50	0.99
SPP receipts	412	352	- 60	0.86
<b>Fiscal capacity (d)</b>	<b>-2 341</b>	<b>-2 713</b>	<b>- 372</b>	<b>0.86</b>

(a) The ACT minus the Australian average.

(b) Ratio of the ACT divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by the ACT.

(c) Assessed expenses are net of user charges.

(d) Fiscal capacity = Assessed revenue + SPP income - Assessed expenses.

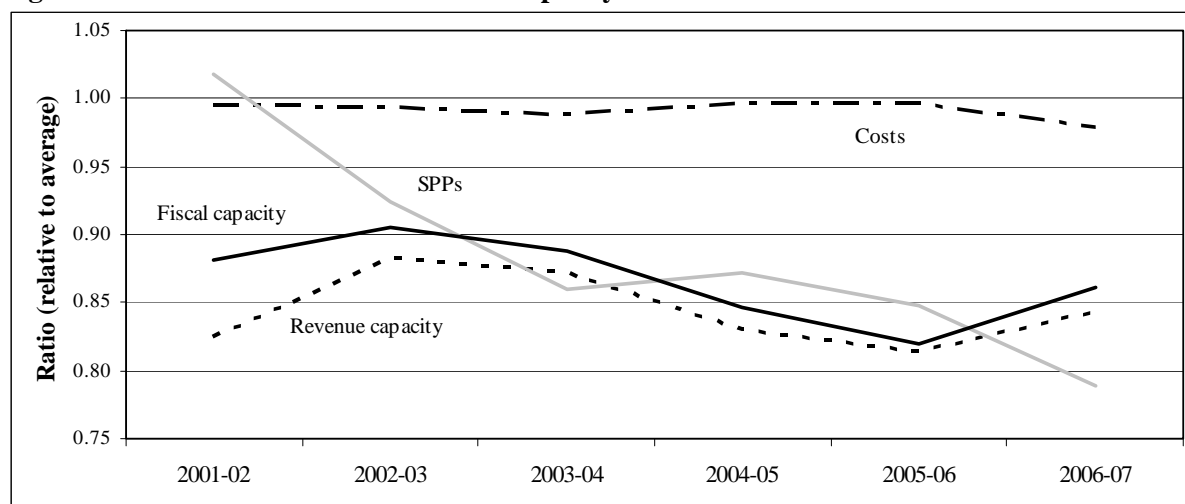
Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

94 Figure 4-19 shows the relative revenue raising capacities, SPP incomes and costs of service provision that contributed to the ACT’s relative fiscal capacity in each year from 2001-02 to 2006-07.

95 The fiscal capacity of the ACT improved in 2006-07. This followed a steady decline in its fiscal capacity between 2002-03 and 2005-06. The improved fiscal capacity of the ACT was due to a reduction in assessed costs and an improvement in revenue raising capacity. The reduction in assessed costs in 2006-07 reflects a decline in the cost of service provision across a broad range of government services. The turnaround in the ACT’s revenue raising capacity in 2006-07 was primarily due to an increase in conveyances associated with a strong property market and an improvement in the ACT’s payroll tax capacity.

**Figure 4-19 The ACT’s relative fiscal capacity 2001-02 to 2006-07**



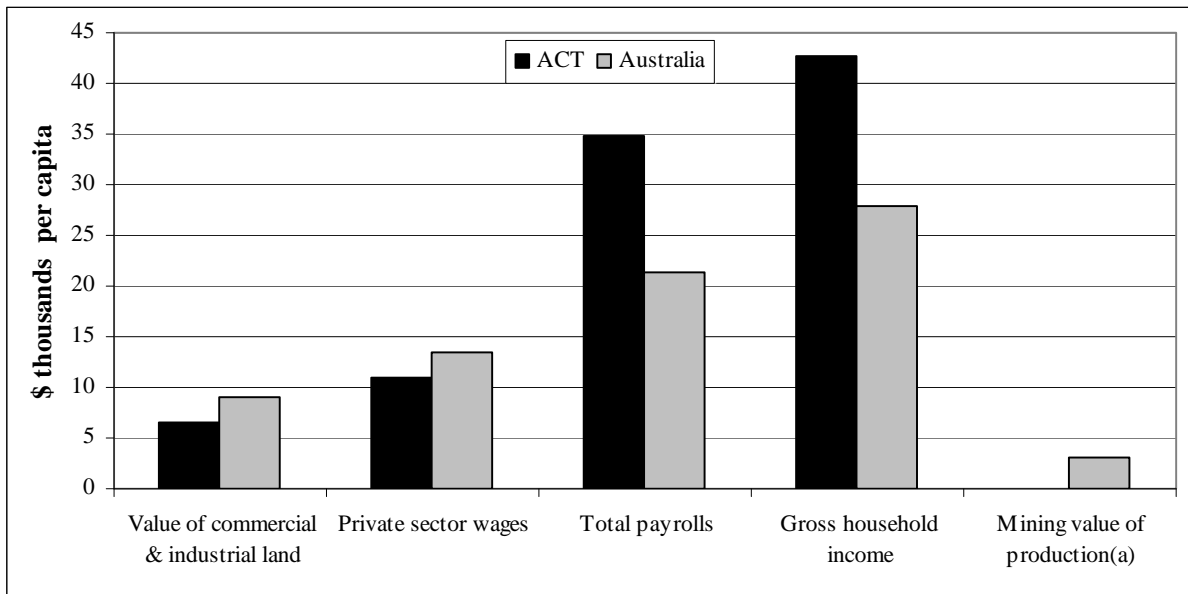
Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.

Source: Attachment E and CGC calculations.

**Below average revenue raising capacities**

96 An examination of the range of economic activities that the Territory can tax shows that in the five year period covered by the 2008 Update, the ACT had below average capacity to raise revenue from most major taxes, especially payroll tax and mining. Despite a higher than average level of payrolls, the dominance of the Australian public service in the ACT limited the Territory’s capacity to raise revenue through payroll taxes (Figure 4-20). In addition, the ACT effectively had no mining industry and so lacked a major revenue source available to other States. These impacts combined to give the ACT the third lowest revenue raising capacity of all the States and Territories.

**Figure 4-20 Revenue indicators, ACT and Australia, 2008 Update**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

97 The revenue raising disadvantages faced by the ACT were its limited capacity to raise revenues from the main sources normally relied upon by States. The dominance of the Australian Government within the ACT’s economy and an extremely small mining industry, limited its tax bases:

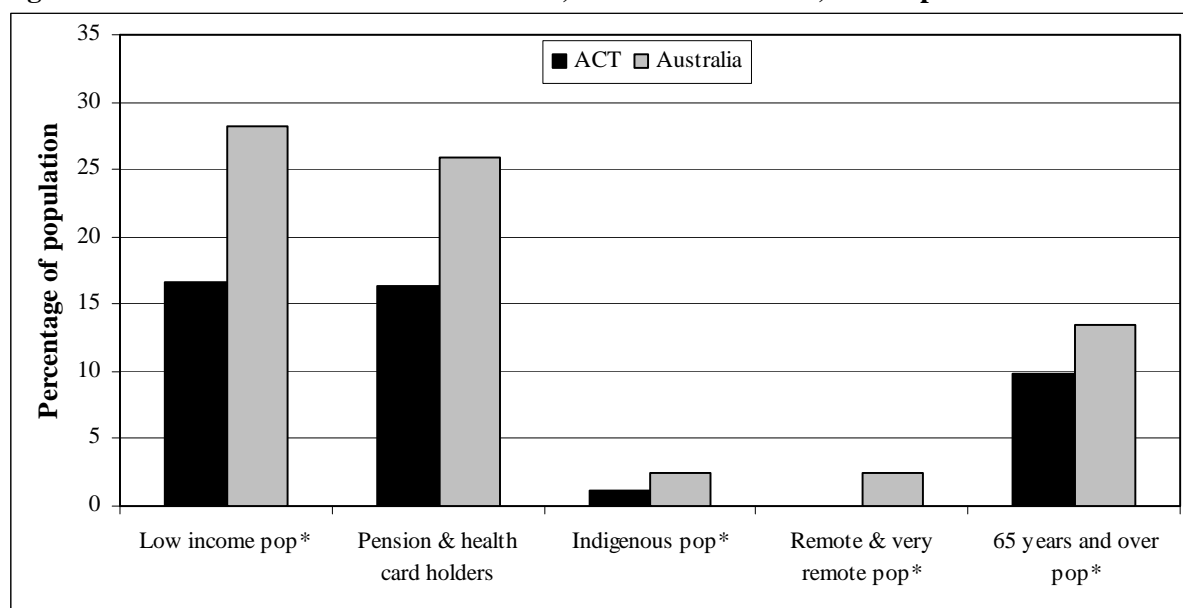
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). The ACT had a limited capacity to collect payroll tax due to the fact that the ACT cannot collect revenue from the Australian Government which accounts for a substantial portion of the ACT workforce. A better indicator of payroll tax capacity in the ACT is the level of private sector wages and salaries. Over the period of the 2008 Update, its per capita private sector wages and salaries were 18 per cent below the national average.

- *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). The ACT had a below average capacity to collect tax in this area. While the ACT's residential land values were above average by 5 per cent, the per capita value of commercial and industrial land was 27 per cent below average, giving it below average capacity to raise revenue from this source. In addition, the proportion of private renters in the ACT was 11 per cent below average, reducing its ability to collect land tax on residential properties.
  - *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). The ACT had almost no capacity to collect revenue from the mining industry. This was evidenced by the lowest per capita factor income for mining that was the lowest of any State and less than one per cent of the Australian average.
- 98 The revenue raising disadvantages faced by the ACT were partly offset by above average revenue raising capacity primarily in gambling taxes.
- *Gambling revenue* (9 per cent of tax revenue for all States over the five years to 2006-07). Its capacity to raise revenue from gambling was assessed as the highest of all States and Territories at 26 per cent above the Australian average. This was well above the State with the second highest capacity to raise revenue from gambling, which was New South Wales at 2 per cent above the national average.
- 99 In summary, the below average revenue raising capacity is related to the unique nature of the ACT economy, dominated by Australian Government employment and with little or no primary production, resulting in weak tax bases in a number of major areas of State taxation.

#### **Near average requirement for expenses**

- 100 A number of characteristics of the ACT population and the small geographic size of the Territory are associated with the lower cost of service delivery in the ACT. Figure 4-21 shows that, in the period under consideration, the ACT had below average proportions of its population in the following categories: low income, pensioner and concession card holders, Indigenous, living in remote areas and aged 65 years or older. These characteristics are normally associated with higher costs of service delivery.

Figure 4-21 Influences on costs of services, ACT and Australia, 2008 Update



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

101 A number of indicators suggest that the use or cost of many services in the ACT was below the Australian average.

- *Higher socio-economic status.* The higher than average socio-economic status of the ACT population reduced the demand for government services in a number of areas. The higher socio-economic status of the ACT population is reflected in a number of indicators:
  - proportion of persons with low incomes was 41 per cent below the national average;
  - proportion of Indigenous persons was 52 per cent below the national average;
  - proportion of persons with low English fluency was 41 per cent below the national average;
  - proportion of pensioner and concession card holders was 37 per cent below the national average; and
  - proportion of persons aged 65 years or over was 27 per cent below the national average.
- *Compact geographical nature.* The small geographic size lowered the costs faced by the ACT in the provision of service in a number of ways:
  - the ACT had no residents in remote or very remote regions and thus did not face additional costs of providing services in remote regions such as additional transportation costs and locality allowances; and

- as a consequence of its small area, the per capita length of arterial roads in the ACT was 60 per cent below the national average.
- 102 The ACT also had several features that worked to make the cost of some services higher than the average, almost offsetting its lower costs:
- *Small population.* As the second smallest jurisdiction, the ACT incurred extra costs through having a smaller population over which to spread the unavoidable fixed cost of head office and policy functions.
  - *Regional centre.* As a major regional centre in south-eastern New South Wales, the ACT provided services to some nearby residents of New South Wales. While a bilateral agreement was in place for health services, the ACT faced increased costs as a result of this extra service provision in education and other areas.
- 103 Overall, the ACT's cost of service provision over the period of the 2008 Update was below the national average. In 2006-07 there was a more marked decline in the cost of service provision as a result of cost reductions across a broad range of expense categories.

#### **Lower per capita share of SPPs**

- 104 The ACT received a 14 per cent below average per capita amount of SPPs in the five year period covered by the 2008 Update. Of the major SPP grants, lower shares were received for government school education, home and community care, disability services, roads and Indigenous purposes. The ACT received more than average per capita SPP payments for vocational education, housing and public health.
- 105 The ACT's relative share of SPPs has been well below the average since 2002-03 and declined further in 2006-07. The main cause of the marked decline since 2002-03 has been a reduction in road grants and, to a lesser extent, education and housing.

#### **NORTHERN TERRITORY — LOWEST FISCAL CAPACITY OF ALL STATES**

- 106 In the period 2002-03 to 2006-07, had the Northern Territory provided the average level of services to its residents, with average revenue from SPPs and levied taxes at the average rates, its fiscal position would have been \$7 457 per capita weaker than the average of the States. This outcome is the combination of:
- its assessed revenue capacity being \$297 per capita lower;
  - its assessed expenses being \$7 701 per capita higher; and
  - its SPP income, some \$541 per capita higher.
- 107 Table 4-8 summarises the effects of the State's revenue raising capacity, cost of providing services and SPP income on its fiscal capacity, compared with the Australian average.

**Table 4-8 Comparison of Northern Territory’s fiscal capacity with the Australian average capacity, 5-year average 2002-03 to 2006-07**

	Australia	Northern Territory	Difference (a)	Ratio (b)
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 371	2 074	- 297	0.87
Assessed expenses (c)	5 124	12 825	7 701	2.50
SPP receipts	412	952	541	2.31
Fiscal capacity (d)	-2 341	-9 798	-7 457	0.24

(a) The Northern Territory minus the Australian average.

(b) Ratio of Northern Territory divided by Australia, except in the case of fiscal capacity where the ratio is Australia divided by Northern Territory.

(c) Assessed expenses are net of user charges.

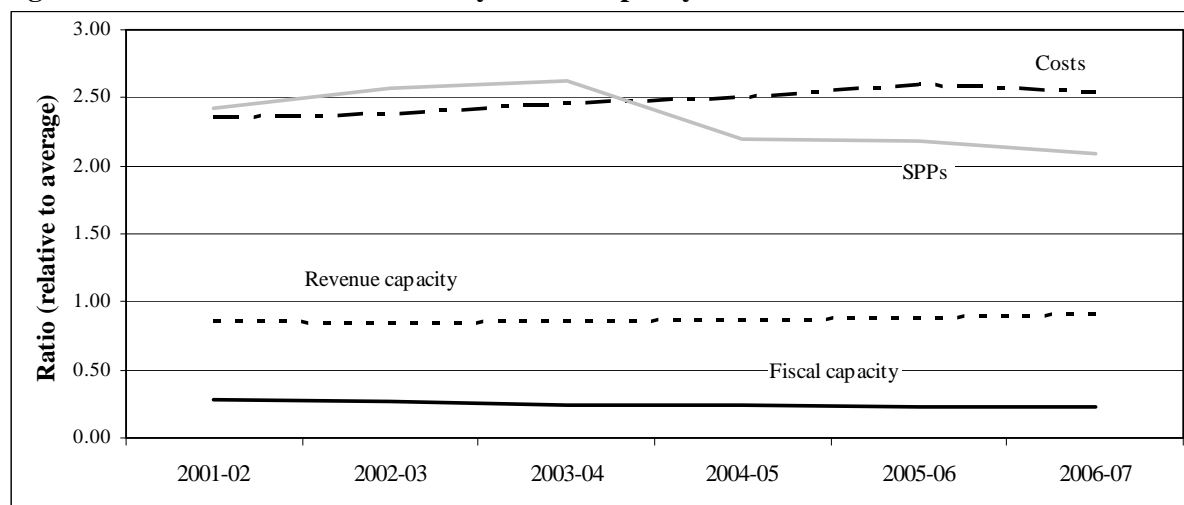
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

Note: Figures shown may not add correctly due to rounding.

Source: Attachments A and C.

108 Figure 4-22 shows the relative revenue raising capacities, SPP incomes and costs of service provision that have contributed to the Northern Territory’s relative fiscal capacity in each year from 2001-02 to 2006-07.

**Figure 4-22 The Northern Territory’s fiscal capacity 2001-02 to 2006-07**



Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.

Source: Attachment E and CGC calculations.

109 The fiscal capacity of the Northern Territory showed a decline over the six year period. Its revenue capacity improved slightly over the period. However, its assessed costs have also trended upwards, and from a much higher base.

110 The Territory’s revenue capacity was generally below average across most revenue sources. Its revenue capacity was above average only in the areas of mining revenue and heavy vehicle registration fees and taxes. However, these taxation sources did not provide a boost to its

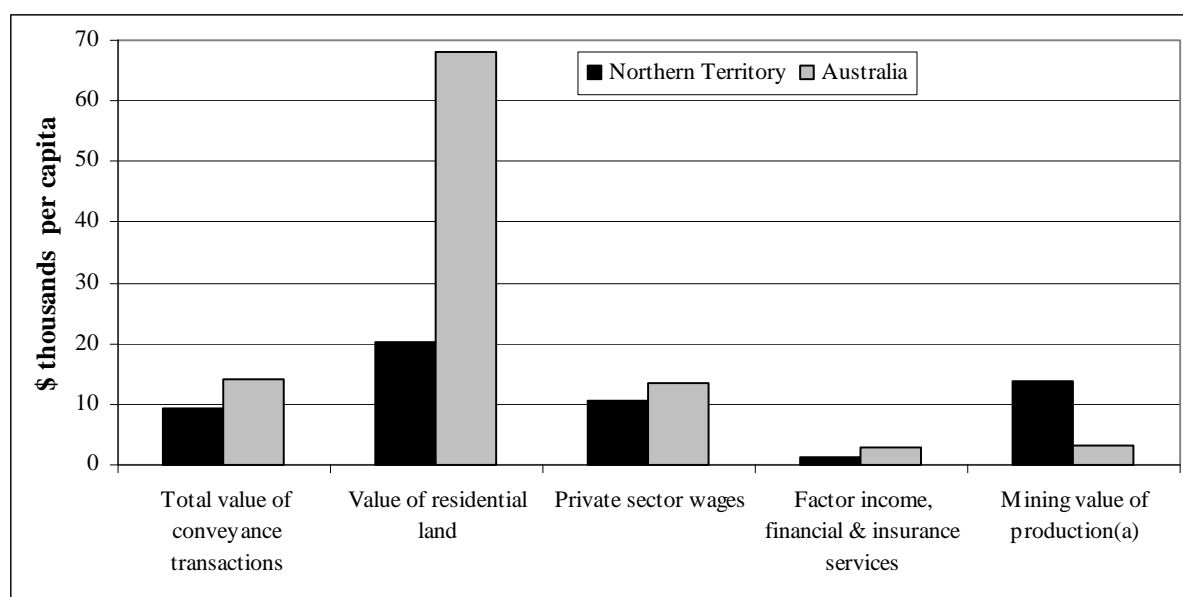
relative capacity over the period. The revenue source showing most growth was stamp duty on conveyances.

- 111 Costs have risen gradually over the last six years, largely driving the decline in fiscal capacity. Relative SPP income is over double the Australian average, but it rose and then fell to a lower level by the end of the period than the start.
- 112 Overall its fiscal capacity remained low — the lowest of all States — and trending downwards.

### Below average revenue raising capacities

- 113 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2008 Update, the Northern Territory had below average per capita value of conveyance transactions, value of residential land, private sector wages and salaries, and factor income for the financial and insurance services sector (and the property and business services sector) as shown in Figure 4-23. Its above average per capita mineral wealth was not sufficient to generate an overall above average revenue capacity.

**Figure 4-23 Revenue indicators, Northern Territory and Australia, 2008 Update**



(a) Average for the period 2001-02 to 2005-06. Mining value of production data is sourced from ABS catalogue 8415.0 which includes offshore oil and gas and other minerals subject to Australian Government, not State royalties or taxes – the CGC assessment uses value data that excludes these.

Source: Attachment B, except mining value of production as noted above.

- 114 The revenue raising disadvantages of the Northern Territory stemmed from its below average per capita private sector wages, land values and financial activities, which represent some of the main State revenue bases.
  - *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2006-07). The Northern Territory’s relatively low ability to raise payroll tax revenues from the

application of an average tax effort reflects its smaller revenue base. Indicators for the five years to 2006-07 include:

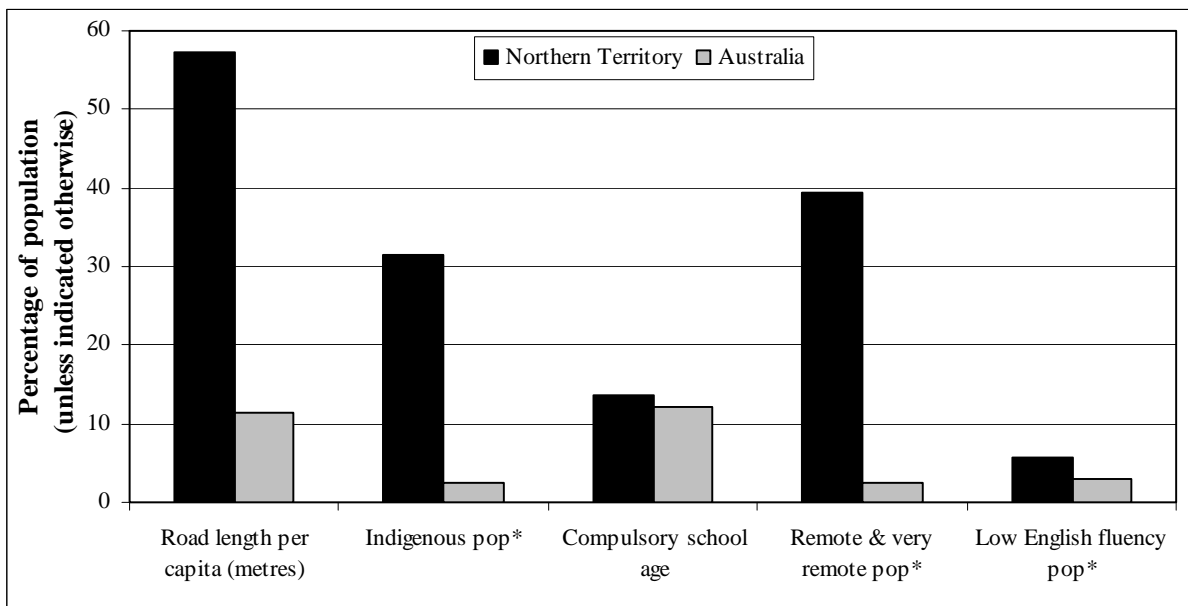
- private sector wages per capita were 20 per cent below the national average;
  - average weekly earnings were one per cent below the national average; and
  - it had a small commercial and industrial employment base (factor income from manufacturing industry was 20 per cent below average).
- *Stamp duty from conveyances* (22 per cent of tax revenue for all States over the five years to 2006-07). The Northern Territory has a relatively low ability to raise revenue from this tax. Its revenue raising capacity from this source averaged just 66 per cent of the Australian average over the five years to 2006-07. Indicators for the five years to 2006-07 show that:
    - the per capita value of conveyance transactions was 33 per cent below average;
    - the average per capita value of housing finance commitments was 26 per cent below the national average; and
    - the median price for house sales in Darwin was 14 per cent below average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2006-07). The Territory's ability to raise land revenues is relatively low and has been falling over recent years. This low capacity stems from below average residential land values:
    - while the per capita value of commercial and industrial land was one per cent above average and the proportion of private renters was above average by two per cent, residential land values per capita were 70 per cent below average;
    - each of these indicators increased over the five years at a much lower rate than the average.
  - *Financial and insurance sector taxes* (5 per cent of tax revenue for all States over the five years to 2006-07). In the five years to 2006-07, factor income per capita from finance, insurance, property and business services in Northern Territory was 32 per cent below the Australian average, reflecting a weak tax base in this segment of the economy. Darwin is not a leading business centre for capital market activity, or financial and business services.
- 115 The substantial revenue raising disadvantages the Northern Territory had were partly offset by above average revenue bases in some other areas of taxation, notably in mining.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2006-07). The Territory's ability to raise mining revenues was more than double the Australian average over the five years to 2006-07.
    - Factor income for mining per capita was five times the Australian average over the five years to 2006-07, although not all of this could be taxed by the Northern Territory as royalties from offshore oil and gas, and uranium were collected by the Australian Government.

116 In summary, the below average revenue raising capacity was related to the Territory’s less developed private sector. The impact was both direct in terms of taxes raised on business activity (for example, payroll tax) and indirect through influences on other tax bases (for example, real estate). The only area where it had significantly above average capacity was taxes on mining operations. Conveyance duty has however been the main area of revenue growth.

**Well above average requirement for expenses**

117 On the expense side, Figure 4-24 shows that, in the period under consideration, the Northern Territory had above Australian average proportions of its population of school age, with low fluency in English, living in remote areas or who were Indigenous. These are groups known to be higher or more costly users of government services. The Northern Territory also had above Australian average road length per capita and faced diseconomies of scale in essential administrative and policy areas because of its small population and its population settlement pattern, which was the most dispersed of all States. As a result, the Northern Territory’s costs of providing services were above those of all States and above the Australian average.

**Figure 4-24 Influences on costs of services, Northern Territory and Australia, 2008 Update**



Note: Indicators marked \* are from 2006 Census. All other data are a five year average to 2006-07.  
Source: Attachment B.

118 A number of indicators suggest that the use of many services in Northern Territory was above the Australian average.

- *Higher Indigenous population.* The Northern Territory had the highest proportion of Indigenous people in its population (more than 12 times the average in the 2006 Census). Nearly three quarters of these people lived in remote or very remote communities. This led to substantially higher expenses because Indigenous people are large users of many

health, welfare and law and order services. In addition, the per capita costs of providing services to Indigenous people are generally greater than the average costs of providing those services.

- *Population with low English fluency.* The Northern Territory had an above average proportion of persons with low fluency in English (81 per cent above average in the 2006 Census). The high Indigenous population contributed to this situation. The Commission assesses higher costs in such situations due, for example, to requirements for interpreters in delivering services.
- *Availability of private service providers.* The private sector provided services to a lesser degree than is possible in larger States. For example, the number of general practitioners per capita was 38 per cent below the average, resulting in greater demand on outpatient and community health services. There may also be more demands on the State budget to support cultural and recreational facilities because the small corporate sector provided sponsorship to a lesser degree than was possible in some other States.
- *Roads.* The Northern Territory had the highest length of arterial road per capita (402 per cent above the average) because of the need to link its widely dispersed population, and incurred above average costs per capita on road maintenance and depreciation.

119 The Northern Territory also had several features that work to make the unit costs of many services higher than the average.

- *Fixed costs spread over a small population base.* Fixed costs, such as for some specialist services and the head office and policy functions for all services, were spread over fewer people. This in turn meant that fixed costs per capita were higher than the Australian average. In 2006-07, the Territory's fixed costs per capita were almost 13 times the Australian average.
- *More geographical dispersion.* The Northern Territory is physically the third largest State and is isolated in terms of distance from other State capitals and sources of supply. Its population was the most geographically dispersed, with a population living in remote or very remote areas more than 16 times the average (2006 Census). This increased the unit costs of delivering services because some costs (such as freight, travel and communication) are affected by distance and population dispersion.

120 Some features decreased the costs per unit of service. These cost advantages partially offset the disadvantages outlined previously.

- *Low office rental costs.* Retail rents were well below average (for 2006-07, rents for prime CBD property were 26 per cent below the average).
- *Young population.* The Northern Territory had a below average proportion of aged persons in its population (65 per cent below average in the 2006 Census), which reduced the use of some medical and community services.

121 In summary, the Northern Territory had the highest assessed costs of service provision of any State — more than two and a half times the average in the five years to 2006-07. About

80 per cent of the Northern Territory's above average costs were attributable to its higher Indigenous population, greater geographical dispersion, isolation and the need to spread fixed costs over a small population base. Indigenous influences alone resulted in more than half of the redistribution to the Northern Territory.

**More than a per capita share of most SPPs**

- 122 The Northern Territory received twice the Australian average SPPs in the five year period to 2006-07. Its high share was due to an above average share for many major SPPs including government schools, housing, Indigenous purpose grants, roads, vocational education and national public health. The only major SPP where there was a below average share was home and community care.