

## CHAPTER 5

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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 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 — STRONGEST FISCAL CAPACITY OF ALL STATES

- 3 In the period 2001-02 to 2005-06, 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 \$212 per capita stronger than the average of the States (slightly less than in 2006). This outcome is the combination of:
  - its assessed revenue capacity being \$139 per capita above average;
  - its assessed expenses being \$73 per capita below average; and
  - its SPPs being average.
- 4 Table 5-1 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.

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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.

**Table 5-1 Comparison of New South Wales fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	New South Wales	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	2 348	139	1.06
Assessed expenses(c)	4 892	4 819	- 73	0.99
SPP receipts	392	392	0	1.00
Fiscal capacity(d)	-2 292	-2 080	212	1.10

(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.

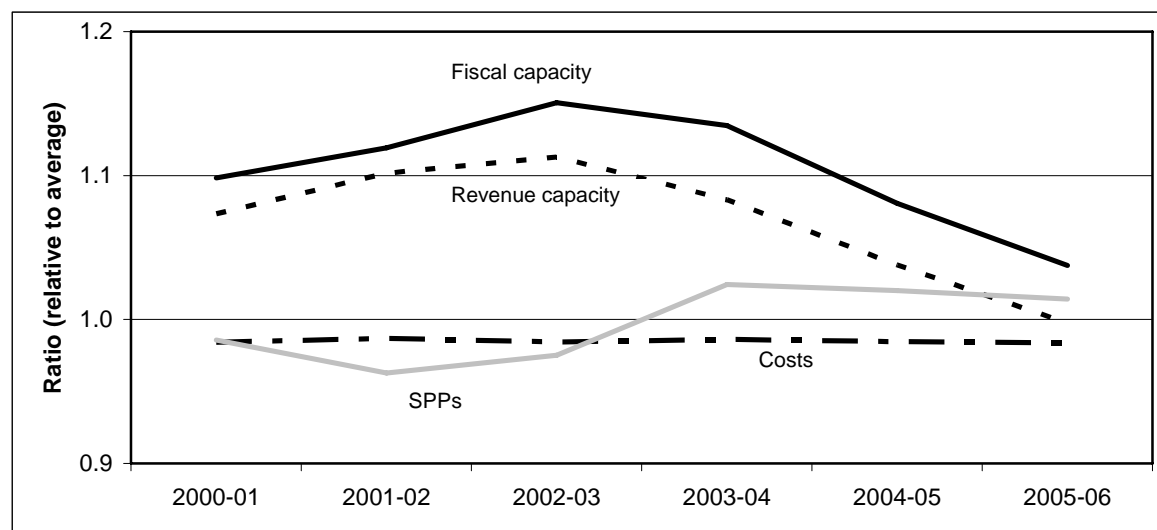
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

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

Source: Calculated from data in Attachments A and C.

5 Figure 5-1 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 2000-01 to 2005-06.

**Figure 5-1 New South Wales' relative fiscal capacity over the last six years**



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

Source: Attachment E and CGC 2007 Update calculations.

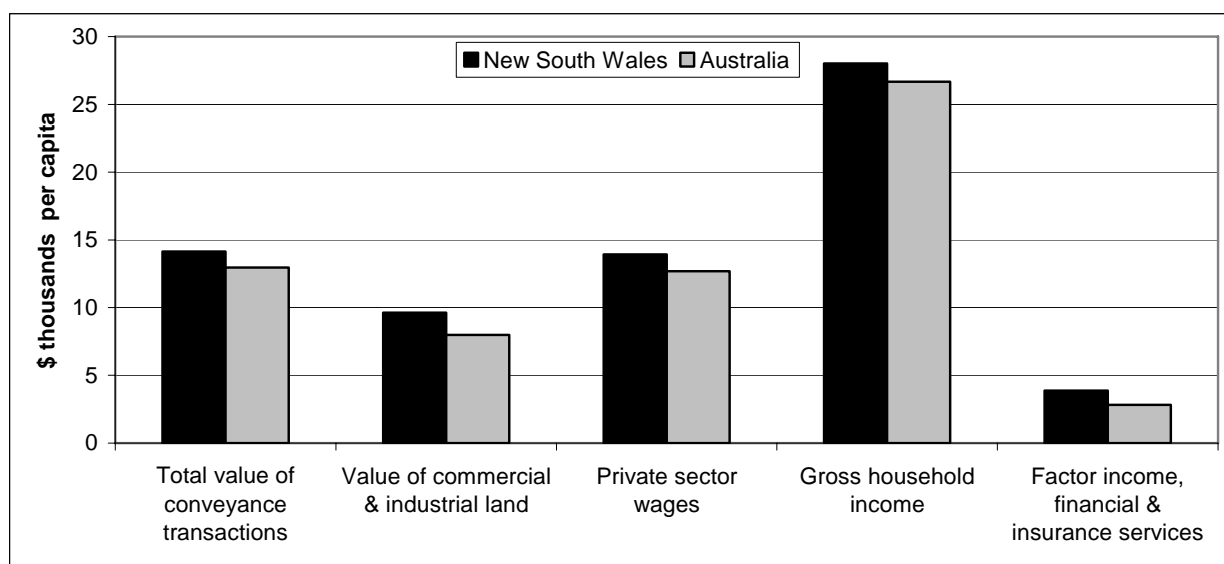
6 The fiscal capacity of New South Wales fell over the period. It increased between 2000-01 and 2002-03 but this increase was more than offset by the decline after 2002-03. Land values and value of conveyances in New South Wales increased faster than the Australian average between 2000-01 and 2002-03. 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. Its costs of providing services have remained relatively flat over the period

shown, although there was a small decline between 2004-05 and 2005-06. Relatively low growth in wage costs assessed by the Commission since the 2006 Update has resulted in a slightly lower cost of providing services for the 2007 Update.

### Above average revenue raising capacities

7 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2007 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 5-2). These combined to give New South Wales the second highest average revenue raising capacity of all States.

**Figure 5-2 Revenue indicators, New South Wales and Australia, five year average 2001-02 to 2005-06**



Source: Attachment B.

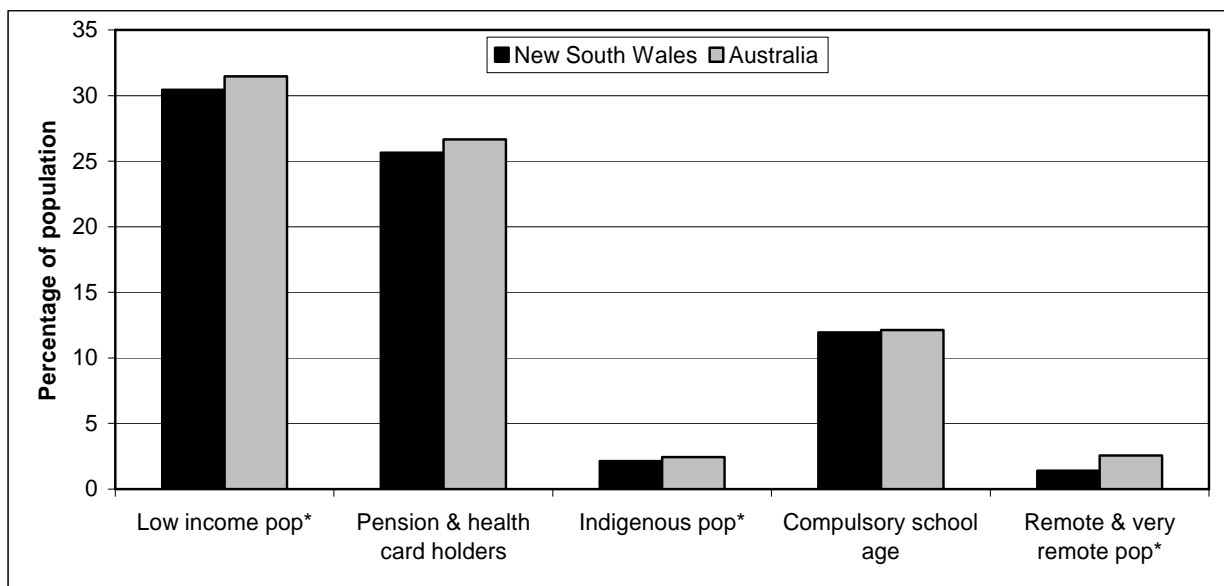
- 8 The strong revenue raising capacity of New South Wales stemmed from its above average per capita private sector wages, land and conveyancing values and financial activity.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2005-06). New South Wales could collect above 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 (a slight decline from the 2006 Update);
    - private sector wages per capita being 10 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* (21 per cent of tax revenue for all States over the five years to 2005-06). 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 60 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 2005-06 was 9 per cent above average; and
    - the average value of finance commitments per capita was 10 per cent above the national average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). 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 2005-06 was 20 per cent above the national average;
    - the value per capita of residential land over the five years to 2005-06 was 29 per cent above the national average; and
    - factor income from ownership of dwellings was 15 per cent above the national average, suggesting a higher land tax base.
  - *Financial and insurance sector taxes* (6 per cent of tax revenue for all States over the five years to 2005-06). 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 2005-06 was 27 per cent above the average.
- 9 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 smaller taxes.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2005-06). 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 2005-06). 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 11 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).
- 10 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**

11 Figure 5-3 shows that, in the period under consideration, New South Wales had below average proportions of its population with low incomes, 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, as indicated by the proportion of people in remote or very remote locations. 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 5-3 Influences on costs of services, New South Wales and Australia**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
 Source: Attachment B.

- 12 Several indicators suggest that the use of many services in New South Wales is below the Australian average.
- *Higher household income.* The proportion of people in its population with low incomes, or who held pensioner and concession cards, was below the Australian average. This reduced the need for welfare services, the costs of public education and community service obligations for transport services and utilities.
  - *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 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 official statistics show that 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.
  - *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.
- 13 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. This helped reduce the unit costs of delivering services because some costs (such as freight and travel) are affected by distance and population dispersion.
- 14 There were some features of New South Wales that increased the cost of delivering services. These cost disadvantages partly offset the advantages outlined previously.
- *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, and average compensation paid to employees was 9 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 (3.9 per cent compared to an average of

3.0 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 (13.1 per cent compared to an average of 12.6 per cent), which increased the use of some health and community services.

15 In summary, while 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**

16 New South Wales received close to the average per capita share of SPPs in the five year period to 2005-06.

17 Its relative share of SPPs has increased over the five years covered by the 2007 Update. This was mainly because of increases in its share of Roads and Government Schools grants.

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

18 In the period 2001-02 to 2005-06, 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 \$195 per capita stronger than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$169 per capita below average;
- its assessed expenses being \$398 per capita below average; and
- its SPP income, some \$33 per capita below average.

19 Table 5-2 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, Victoria has below average capacity to raise revenue. The above average fiscal capacity is largely the result of Victoria's below average cost of providing services.

20 Figure 5-4 shows the relative revenue raising capacities, SPP incomes and costs of service provision, which have contributed to Victoria's relative fiscal capacity in the years 2000-01 to 2005-06.

**Table 5-2 Comparison of Victorian fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	Victoria	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	2 040	- 169	0.92
Assessed expenses(c)	4 892	4 495	- 398	0.92
SPP receipts	392	358	- 33	0.91
Fiscal capacity(d)	-2 292	-2 097	195	1.09

(a) Victorian figure 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.

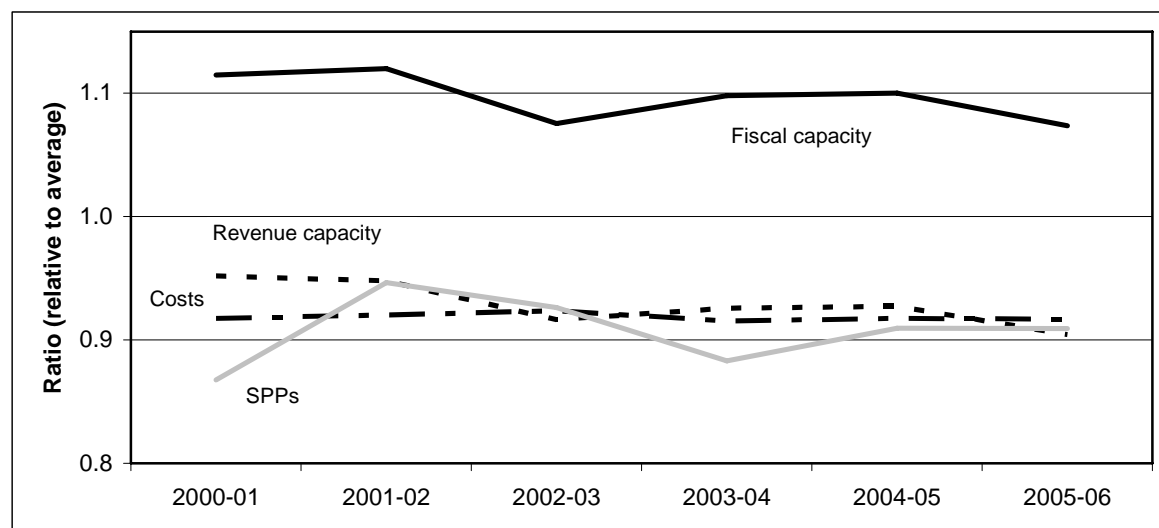
(c) Assessed expenses are net of user charges.

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

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

Source: Calculated from data in Attachments A and C.

**Figure 5-4 Victoria's relative fiscal capacity over the last six years**



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

Source: Attachment E and CGC 2007 Update calculations.

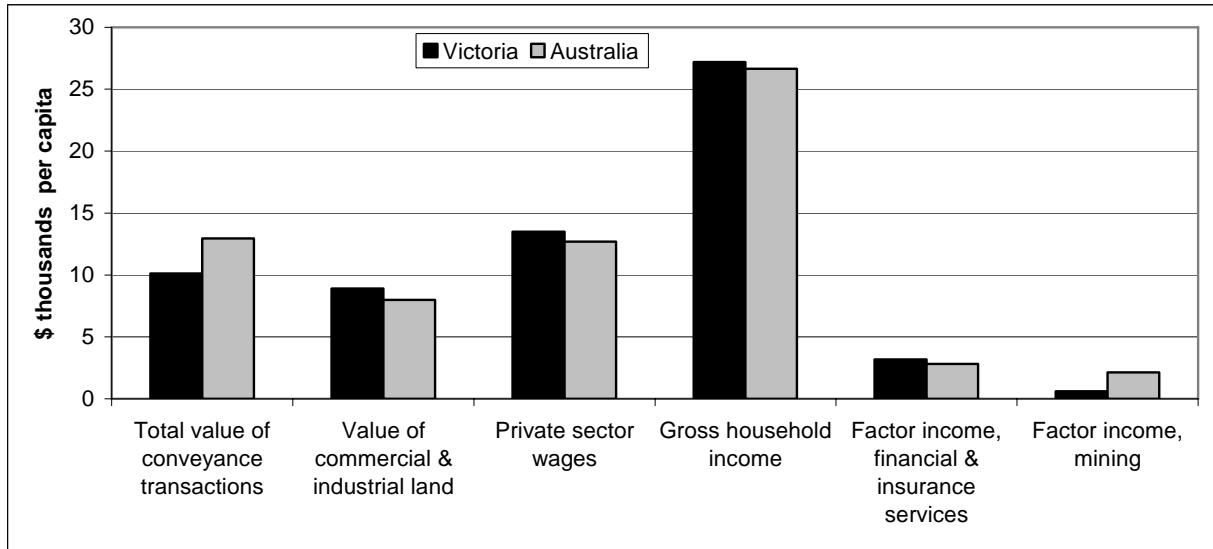
21 The fiscal capacity of Victoria shows a general declining trend. Victoria's revenue capacity shows a similar trend to its fiscal capacity, and explains much of the movement in the latter. The trend in revenue capacity has been driven by declines in capacity in most major taxes, namely payroll tax, 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**

22 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2007 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 5-5). 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 5-5 Revenue indicators, Victoria and Australia, 2007 Update**



Source: Attachment B.

23 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 so far below average it offset its above average revenue capacity in the other main taxes, particularly payroll tax.

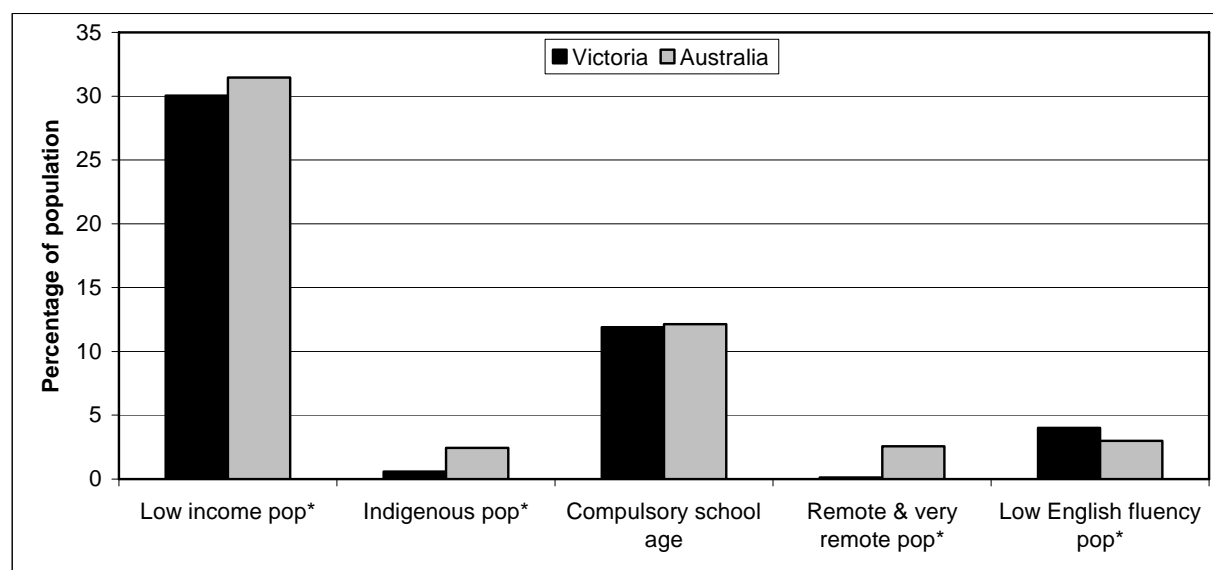
- *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). The ability of Victoria to raise revenue from this tax was well below the Australian average in recent years, because:
  - despite having above average per capita commercial and industrial land values, a greater proportion 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;
  - while the value per capita of residential land was 1 per cent above average, the proportion of private renters was 14 per cent below average over the five years to 2005-06, indicating a lower tax base for non-principal residential properties; and
  - factor income from ownership of dwellings was 2 per cent below the national average, suggesting a lower land tax base.
- *Stamp duty from conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). 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 18 per cent above the capital city average, the value of housing finance commitments was 10 per cent below the national average; and
  - the value of all conveyance transactions per capita was 22 per cent below average.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2005-06). 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 72 per cent below the national average over the last five years.
- 24 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 2005-06). Its ability to raise taxes on payrolls was more than 6 per cent above average, with private sector wages per capita being 6 per cent above the national average over the five years to 2005-06.
  - *Vehicle registrations and taxes* (12 per cent of tax revenue for all States over the five years to 2005-06). In the five years to 2005-06, its ability to raise taxes on motor vehicles was 5 per cent above average, with the number of motor vehicles registered per capita being 7 per cent above average in that period.
  - *Financial and insurance sector taxes* (6 per cent of tax revenue for all States over the five years to 2005-06). Factor income per capita from financial, insurance, property and business services in Victoria was 9 per cent above average over the five years to 2005-06, indicating an above average revenue capacity.
- 25 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**

- 26 Figure 5-6 shows that, in the period under consideration, Victoria had below Australian average proportions of its population with low incomes, 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 5-6 Influences on costs of service provision, Victoria and Australia — 2007 Update**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
Source: Attachment B.

27 A number of indicators suggest that the use of many services in Victoria has been below the Australian average.

- *Higher household income.* In the 2001 Census, the proportion of people in its population with low incomes was 4 per cent below the Australian average. This reduced the need for welfare services, and the costs of public education and community service obligations for transport services and utilities.
- *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 3 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 2001 Census) and almost no remote Indigenous communities. This led to substantially lower expenses because official statistics show that 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.
- *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.
- 28 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 2005-06, 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 2001 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.
- 29 There were some features of Victoria that increased the costs per unit of service. These cost disadvantages in part offset the advantages outlined previously.
- *High office rental costs.* Melbourne office and retail rents were well above average. In the last four years, rents for prime CBD property were 10 per cent above average and even more above average in non CBD locations.
  - *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 (4.0 per cent compared to an average of 3.0 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 2001 Census, Victoria had a 4 per cent above average proportion of persons aged 65 and over in its population, which increased the use of some health and community services.
- 30 In summary, Victoria has the lowest costs of service provision of any State — 8 per cent below average in 2005-06. 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**

- 31 Victoria received a share of SPPs in the five year period covered by the 2007 Update that was 9 per cent below average. This was mainly because of a low share of government schools (5 per cent below average), housing (11 per cent below average), Indigenous purpose (90 per cent below average) and Roads grants (about 20 per cent below average).
- 32 The value of Victoria’s SPPs increased by 16 per cent over the five years covered by the 2007 Update, which was slightly less than the average increase of 20 per cent.

**QUEENSLAND — NEAR AVERAGE FISCAL CAPACITY**

- 33 In the period 2001-02 to 2005-06, 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 \$4 per capita below the average of the States, meaning that there will be a comparatively small net redistribution of the GST and HCG pool to Queensland in 2007. This outcome is the combination of:
- its assessed revenue capacity being \$34 per capita higher than average;
  - its assessed expenses being \$42 per capita above average; and
  - its SPP income being some \$4 per capita above average.
- 34 Table 5-3 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 5-3 Comparison of Queensland fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	Queensland	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	2 243	34	1.02
Assessed expenses(c)	4 892	4 934	42	1.01
SPP receipts	392	396	4	1.01
Fiscal capacity(d)	-2 292	-2 295	- 4	1.00

(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.

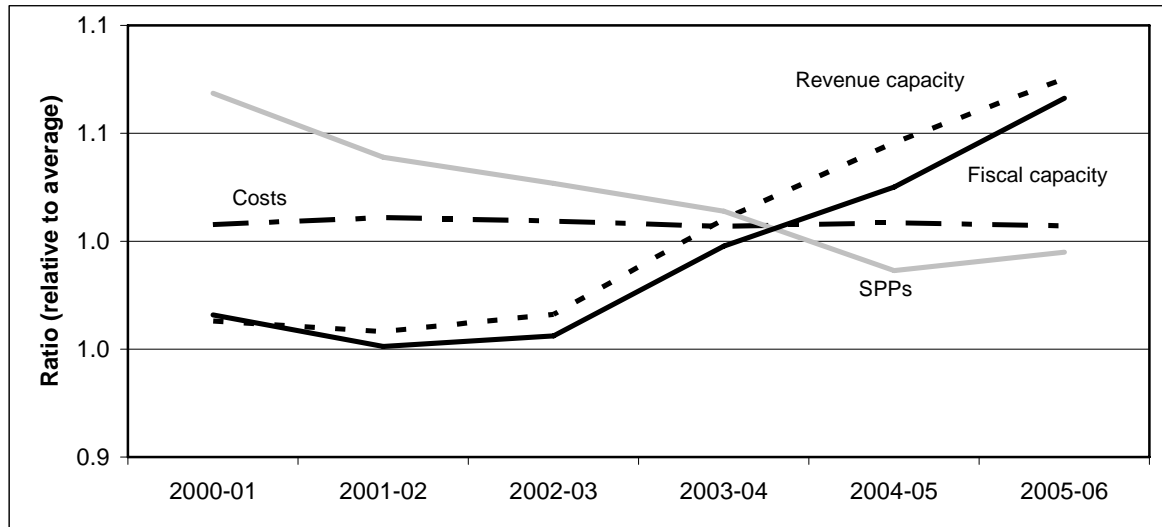
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

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

Source: Calculated from data in Attachments A and C.

- 35 Figure 5-7 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 2000-01 to 2005-06.

**Figure 5-7 Queensland's relative fiscal capacity over the last six years**



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

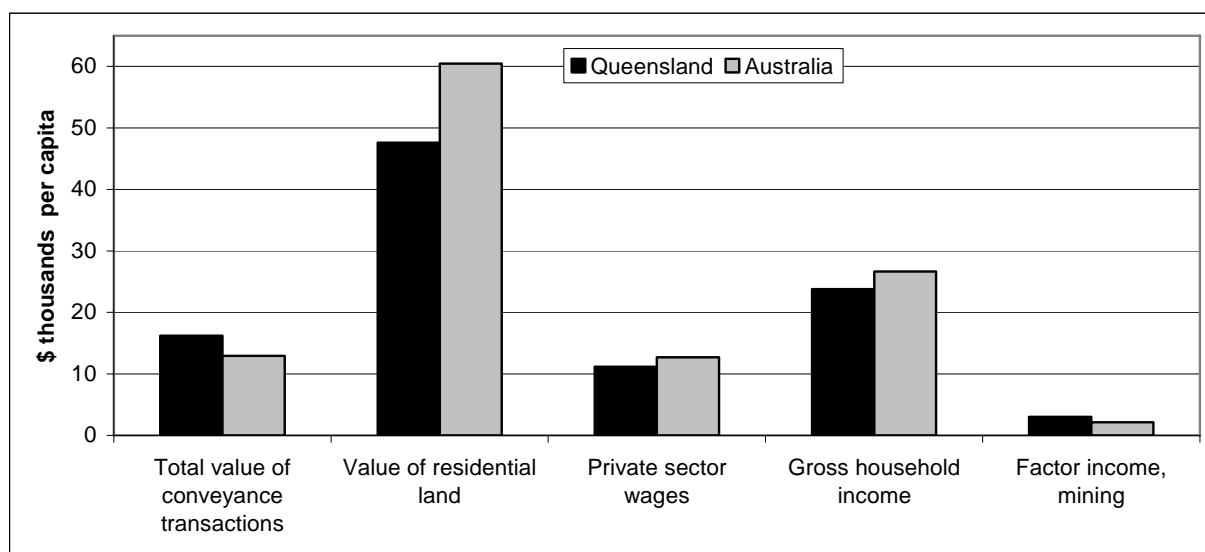
Source: Attachment E and CGC 2007 Update calculations.

36 The relative fiscal capacity of Queensland was relatively flat from 2000-01 to 2002-03. In 2003-04, its fiscal capacity rose to be close to the Australian average. In the following two years, it has risen further and is now well above the average. The main 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 and so did its revenue raising capacity. A surge in mining activities also increased its revenue capacity. Meanwhile, its SPP income has shown a general decline since 2000-01, although there was an increase in 2005-06. Its assessed costs of providing services rose by a small amount.

#### **Above average revenue raising capacities**

37 An examination of the economic activities that States can tax (Figure 5-8) shows that, in the five year period covered by the 2007 Update, Queensland had, on a per capita basis, above average values of conveyances and mining factor income but below average land values, below average private sector wages and below average household income. These combined to give Queensland a revenue raising capacity that was about 2 per cent above average.

**Figure 5-8 Revenue indicators, Queensland, five year average 2001-02 to 2005-06**



Source: Attachment B.

- 38 Queensland's above average revenue raising capacity was largely due to its above average property sales and mining activity.
- *Stamp duties from conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). Queensland had an above average capacity to raise revenue from these duties since 2002-03. Over the five years to 2005-06, per capita value of transactions in Queensland was 25 per cent above the Australian average. This was due to high property turnover — housing finance commitments were 5 per cent above the national average during the five years — and an above average increase in median house prices in Brisbane over the last five years.
  - *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2005-06). Queensland's ability to raise revenue from mining was above the Australian average. Per capita mining factor income was 41 per cent above average (2001-02 to 2005-06 averages) 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 2005-06). In the five years to 2005-06, its ability to raise taxes on motor vehicles was 7 per cent above average, due largely to above average vehicle sales.
- 39 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 2005-06). 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 12 per cent below the Australian average (2001-02 to 2005-06 average);

- average weekly earnings were 6 per cent below the Australian average (2001-02 to 2005-06 average); and
  - Queensland had an above average proportion of small to medium sized businesses that are exempt from payroll tax under the average tax policy. For example, the proportion of businesses with less than 200 employees in the State was 48 per cent compared to an average of 41 per cent.
  - *Land Taxes* (7 per cent of tax revenue for all States over the five years to 2005-06). The ability of Queensland to raise revenue from land was below average because:
    - per capita commercial land values were 22 per cent lower than the per capita average of all States (2001-02 to 2005-06 average); and
    - per capita residential land value was 21 per cent lower than the per capita average of all States (2001-02 to 2005-06 average).
  - *Financial and insurance sector taxes* (6 per cent of tax revenue for all States over the five years to 2005-06). Factor income from finance and insurance in Queensland was 39 per cent below the Australian average per capita (2001-02 to 2005-06 average). Similarly, factor income from property and business services was 27 per cent lower. This reflected its significantly below average level of financial and business services.
- 40 Queensland had above average growth in most areas of taxable economic activity in recent years, resulting in an overall above average revenue raising capacity in 2004-05 and 2005-06, but its revenue raising capacity remains below average in some taxes.

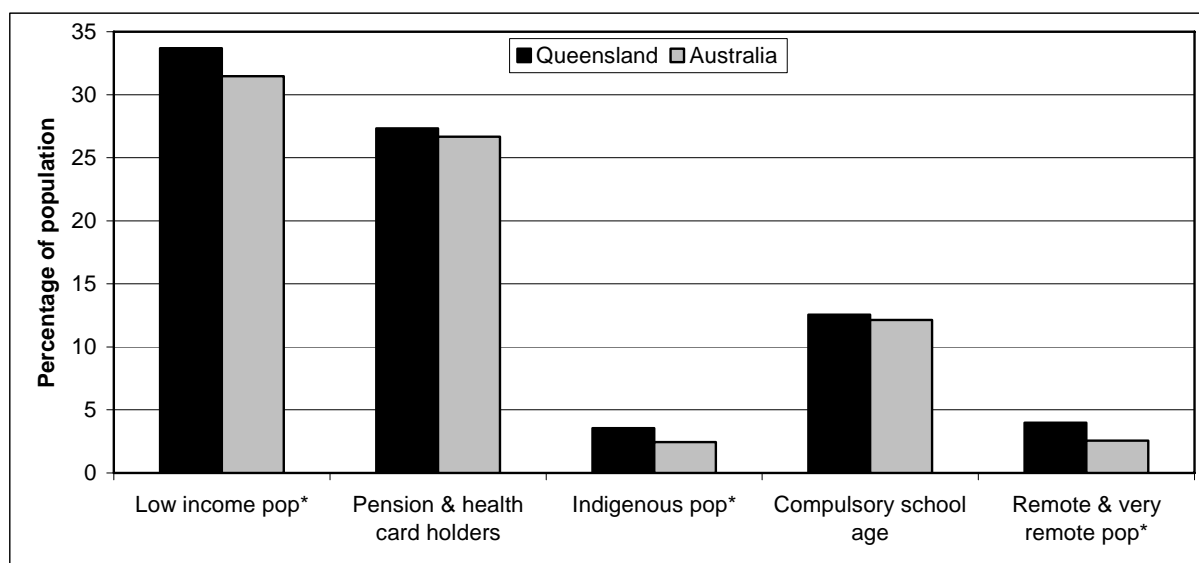
#### **Above average requirement for expenses**

- 41 Figure 5-9 shows that in the period under consideration, Queensland had above Australian average proportions of its population with low incomes, 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 a result, its costs of providing services were higher than the Australian average.
- 42 A number of indicators suggest that the use of many services in Queensland was above the Australian average.
- *Lower household incomes.* The proportion of people in its population with low incomes was about 7 per cent above the Australian average (2001 Census). The proportion of people who held pensioner and concession cards was above the Australian average by about 3 per cent (2001-02 to 2005-06 average). This increased the need for welfare services, and the cost of public education and community service obligations for transport services and utilities.
  - *Above average compulsory school age population.* Queensland had an above average proportion of school age children in its population (about 4 per cent higher, 2001-02 to 2005-06 average). It also had an above average proportion of students enrolled in

government schools (about 3 per cent higher, 2001-02 to 2005-06). This increased the State's education costs compared to the average.

- *Above average Indigenous population.* Queensland had an above average proportion of Indigenous people in its population (about 46 per cent higher, 2001 Census). This led to substantially higher expenses because official statistics show that 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.

**Figure 5-9 Influences on costs of services, Queensland and Australia, 2007 Update**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
Source: Attachment B.

- 43 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 20 per cent lower, 2001 Census) and an above average proportion lived in its more remote and very remote regions (56 per cent higher, 2001 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.
- 44 There were also some features of Queensland that 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 (61 per cent lower, 2001 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, 2001 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. Its private sector wages and average weekly earnings were about 12 and 6 per cent respectively below the average (2001-02 to 2005-06 average).
- *Below average public hospital separations.* Queensland had below average public hospital separations (about 5 per cent lower, 2001-02 to 2003-04 average), representing a lesser call on public hospitals and outpatient services.
- *Roads.* Queensland's per capita arterial road length was 11 per cent below average (2001-02 to 2005-06 average). Consequently, it incurred below average costs for road maintenance and depreciation.

45 In summary, Queensland's assessed cost of providing services were relatively stable over the last five years. The net effect of its demographic and economic features meant the expenses incurred to provide the average level of service would be just above the Australian average level.

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

- 46 Queensland received 1 per cent more than the Australian average per capita amount of SPPs in the five year period to 2005-06. Its slightly above average share of SPPs was mainly in the areas of government schools, home and community care, housing and road program grants. Lower than average per capita grants in the areas of vocational education and training and public health partially offset the above average SPP revenue.
- 47 Queensland's per capita share of SPPs decreased steadily from 2000-01 to 2004-05 but rose in 2005-06.

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

- 48 In the period 2001-02 to 2005-06, 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 \$120 per capita higher than the average of the States. This outcome is the combination of:
- its assessed revenue capacity growing rapidly to \$496 per capita above average;
  - its assessed expenses being \$377 per capita above average; and
  - its SPP income being \$1 per capita above average.

49 Table 5-4 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 5-4 Comparison of Western Australia’s fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	Western Australia	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	2 706	496	1.22
Assessed expenses(c)	4 892	5 270	377	1.08
SPP receipts	392	392	1	1.00
Fiscal capacity(d)	-2 292	-2 172	120	1.06

(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.

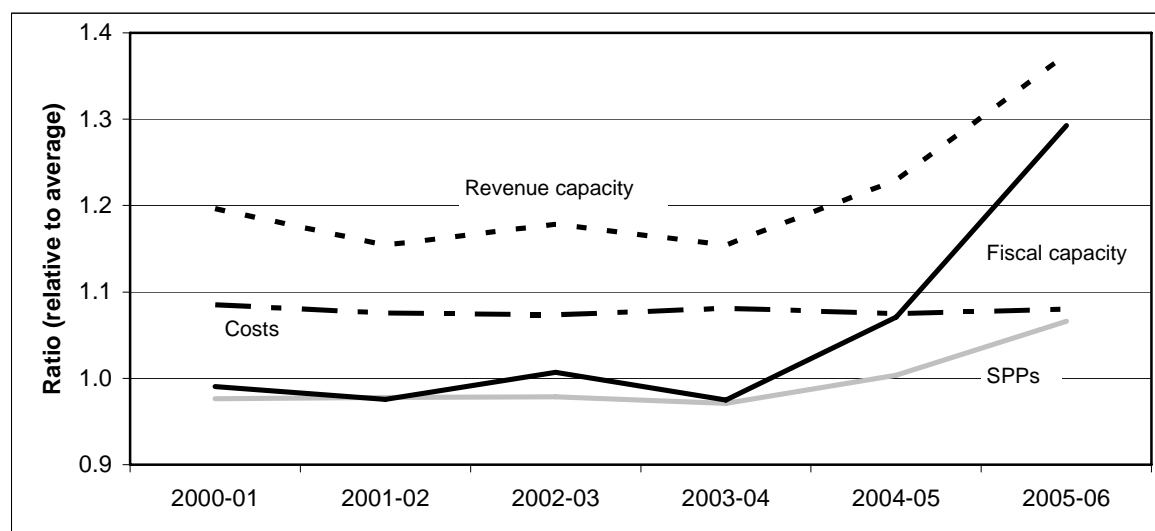
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

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

Source: Calculated from data in Attachments A and C.

50 Figure 5-10 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 2000-01 to 2005-06.

**Figure 5-10 Western Australia’s relative fiscal capacity over the last six years**



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

Source: Attachment E and CGC 2007 Update calculations.

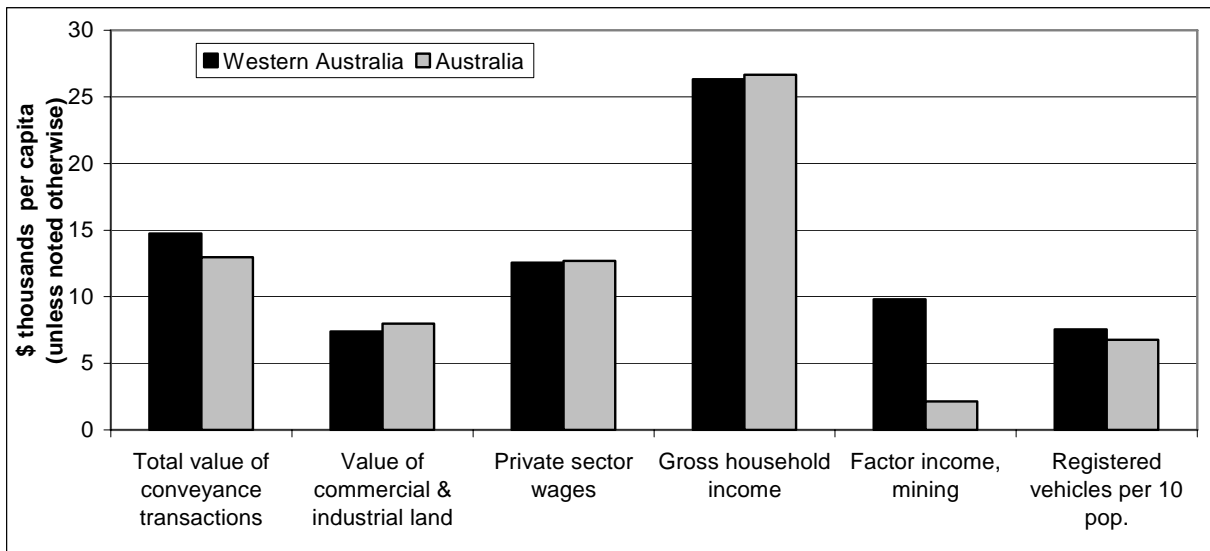
51 The fiscal capacity of Western Australia has increased significantly since 2003-04. The increase was largely due to increased revenue from conveyances, which has further strengthened Western Australia’s overall strong revenue capacity due to well above average

mining revenues from the resources ‘boom’. Its assessed costs increased slightly over the period and SPP income increased.

### Above average revenue raising capacities

52 An examination of the range of economic activities that States can tax showed that in the five year period covered by the 2007 Update, Western Australia had above average per capita factor income from mining and registered motor vehicles (Figure 5-11). Its per capita values of land, wages and household income were just below average but overall, Western Australia was assessed to have the highest revenue raising capacity of all States, 16 percentage points higher than the second strongest (New South Wales).

**Figure 5-11 Revenue indicators, Western Australia and Australia, five year average 2001-02 to 2005-06**



Source: Attachment B.

53 The strong revenue raising capacity of Western Australia stemmed mainly from its above average mining activity and number of motor vehicles. Conveyance duty increased sharply in the last two years and contributed to above average revenue capacity.

- *Mining revenues* (6 per cent of tax revenue for all States over the five years to 2005-06). Western Australia could collect well above average revenues because of a larger revenue base in mineral resources. Factor income per capita from mining was 359 per cent above the national average from 2001-02 to 2005-06.
- *Vehicle transfers and registrations* (12 per cent of tax revenue for all States over the five years to 2005-06). 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 2001-02 to 2005-06. This was the highest of all States.
- *Stamp duty from conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). The ability of Western Australia to raise revenue from this tax has risen

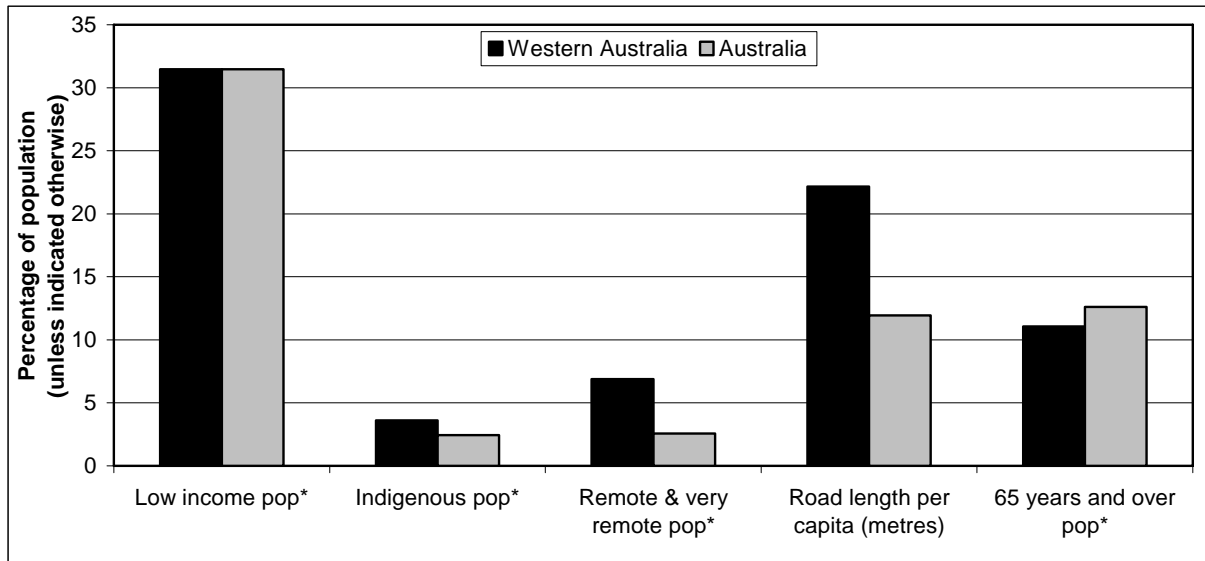
sharply in the last two years and is now above the Australian average. The average value of housing finance commitments was 12 per cent above the national average from 2001-02 to 2005-06, even though the median price of houses in Perth was 12 per cent below average.

- 54 The substantial revenue raising advantages Western Australia had from its mining and motor vehicles were partly offset by below average revenue bases of some other important State taxes.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2005-06). Western Australia would have collected below average revenues if it had applied Australian average tax rates because of a smaller revenue base as indicated by:
    - private sector wages per capita that were 1 per cent below the national average between 2001-02 to 2005-06;
    - average weekly earnings were 2 per cent below the national average between 2001-02 to 2005-06; and
    - a small commercial and industrial employment base (for example, factor income from the manufacturing industry per capita was 13 per cent below average between 2001-02 to 2005-06).
  - *Land and insurance taxes* (11 per cent of tax revenue for all States over the five years to 2005-06). Below average residential, commercial and industrial property values provided Western Australia with below average abilities to raise revenue from land and insurance taxes:
    - the value per capita of commercial and industrial land was 9 per cent below the national average between 2001-02 to 2005-06; and
    - factor income for the finance and insurance sector was 37 per cent below the average per capita.
- 55 On balance, Western Australia's revenue raising advantages far outweighed its disadvantages, largely due to its mining sector.

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

- 56 Figure 5-12 shows that, in the period under consideration, Western Australia had above average proportions of its population who were Indigenous or lived 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 5-12 Influences on costs of services, Western Australia and Australia, 2007 Update



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
 Source: Attachment B.

57 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 official statistics show that 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.

58 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 (85 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.
- 59 There were some features of Western Australia that decreased the use and costs of some services. These cost advantages partly offset the disadvantages outlined previously.
- *Population with low English fluency.* Western Australia had below average proportions of persons with low fluency in English (1.9 per cent compared to an average of 3.0 per cent). The Commission assesses reduced costs in such situations due, for example, to lower requirements for interpreters in delivering services.
  - *Aged population.* Western Australia had a below average proportion of aged persons in its population (11.1 per cent compared to an average of 12.6 per cent), which decreased the use of health and community services.
  - *The price of labour,* the main input into State government services, was below the Australian average. Private sector wages, average weekly earnings and average compensation paid to employees were all below the Australian average by between 1 and 3 per cent, although most indicators show faster than average growth in recent years.
  - *Low office rental costs.* Below average land values resulted in office and retail rents being below average. Western Australia had the third lowest prime CBD office rental costs in Australia (16 per cent below average) although an upturn in the property market may presage an end to this situation.
- 60 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**

- 61 Western Australia received \$1 per capita more than the Australian average share of SPPs in the five year period 2005-06. 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**

- 62 In the period 2001-02 to 2005-06, 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 \$419 per capita lower than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$460 per capita lower;
- its assessed expenses being \$25 per capita lower; and
- its SPP income, some \$16 per capita higher.

63 Table 5-5 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 5-5 Comparison of South Australia’s fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	South Australia	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	1 749	- 460	0.79
Assessed expenses(c)	4 892	4 868	- 25	0.99
SPP receipts	392	408	16	1.04
Fiscal capacity(d)	-2 292	-2 710	- 419	0.85

(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.

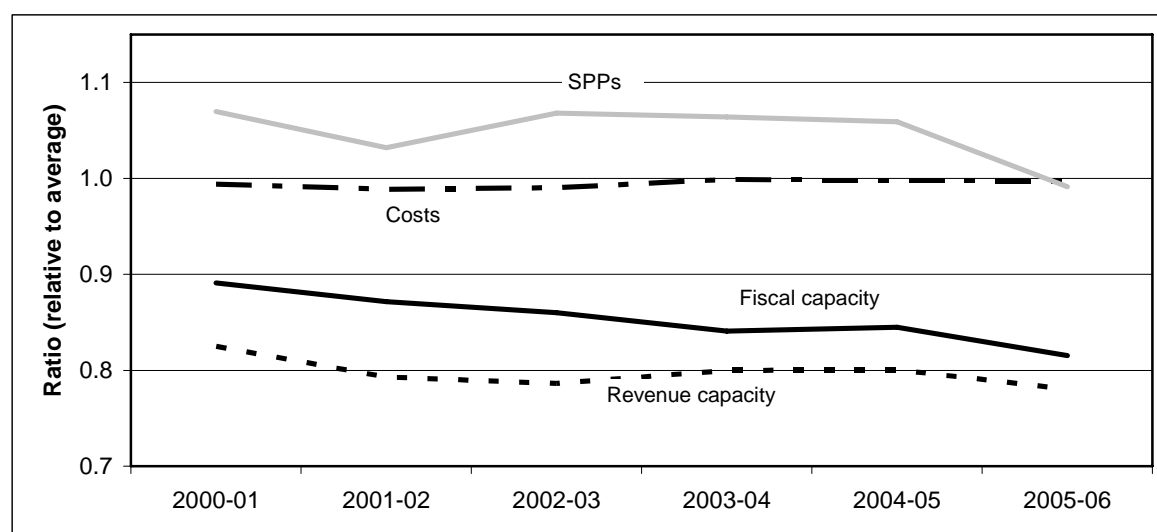
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

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

Source: Calculated from data in Attachments A and C.

64 Figure 5-13 shows the relative revenue raising capacities, costs of service provision and SPP incomes that have contributed to South Australia’s relative fiscal capacity from 2000-01 to 2005-06.

**Figure 5-13 South Australia’s relative fiscal capacity over the last six years**



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

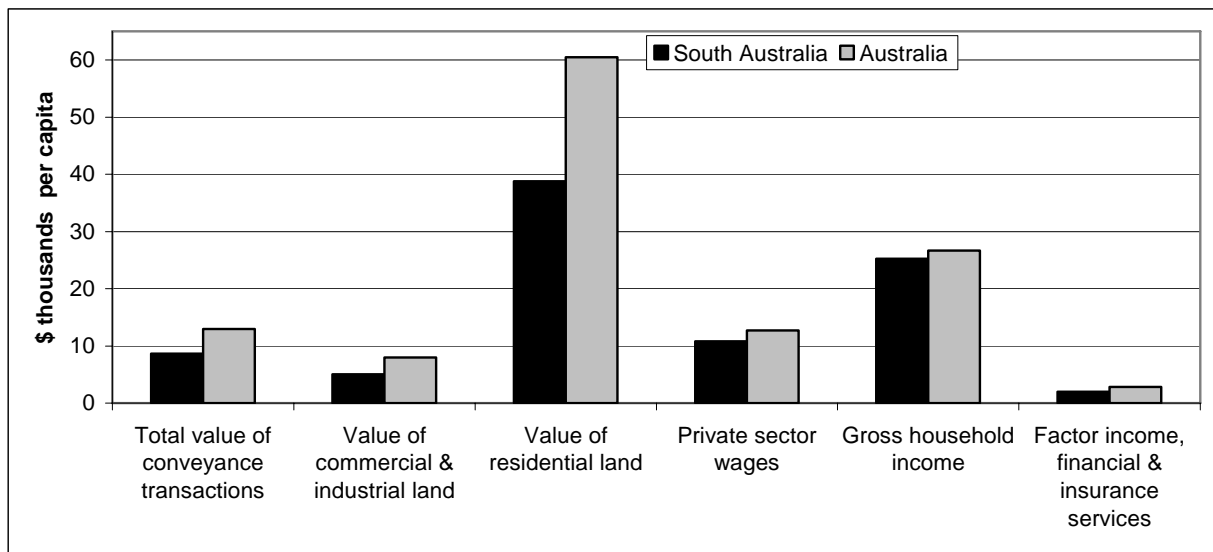
Source: Attachment E and CGC 2007 Update calculations.

- 65 The fiscal capacity of South Australia has declined over the last six years. There was an improvement in revenue capacity between 2002-03 and 2004-05 which slowed this trend. The revenue effect was mainly a result of the late arrival of the property boom in South Australia. The State's revenue capacity had fallen in earlier years because of the boom in the real estate market in New South Wales and Queensland causing South Australia to appear weaker in relative terms.
- 66 South Australia's costs of providing services was relatively flat over the six years while its SPP income has shown an overall decline.

**Second lowest revenue raising capacity**

- 67 An examination of the range of economic activities that States can tax showed that in the five year period covered by the 2007 Update, South Australia had well below average per capita value of conveyance transactions and below average per capita values of residential and commercial land, payrolls (of medium and large businesses), financial transactions and lower than average household disposable incomes (Figure 5-14). These combined to give South Australia the second lowest revenue raising capacity of all States.

**Figure 5-14 Revenue indicators, South Australia and Australia, five-year average 2001-02 to 2005-06**



Source: Attachment B.

- 68 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.
- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2005-06). South Australia would have collected below average revenues from the application of an average tax effort because of a smaller revenue base over 2001-02 to 2005-06. This was due to:

- private sector wages per capita that were 15 per cent below the national average; and
  - a smaller commercial and industrial employment base (factor income from wholesale and retail trade was 18 per cent below average).
  - *Stamp duty on conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). The ability of South Australia to raise revenue from this tax has been below the Australian average in recent years because over the last five years:
    - per capita value of conveyance transactions was 33 per cent below the national average;
    - average housing finance commitments per capita were 20 per cent below the national average;
    - median house price for Adelaide was the second lowest of capital cities;
    - per capita value of residential land was 36 per cent below the national average; and
    - factor income from ownership of dwellings was 12 per cent below the national average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). The ability of South Australia to raise revenue from taxing investments in real estate has been well below the Australian average in recent years:
    - per capita value of commercial and industrial property was 37 per cent below the national average;
    - per capita value of total residential land was 36 per cent below the national average; and
    - South Australia had the lowest proportion of private renters at 27 per cent below the average.
- 69 South Australia's substantial revenue raising disadvantages for the major State taxes that are based on property transactions, land and payrolls were partly offset by above average revenue from vehicle transfers and registrations.
- *Vehicle registrations* (8 per cent of tax revenue for all States over the five years to 2005-06). The number of motor vehicles registered per capita was 6 per cent above the national average from 2001-02 to 2005-06 and revenues from registrations were 11 per cent above average.
- 70 In summary, the below average revenue raising capacity is connected to South Australia's lower level of business activity and smaller property market, compared with the Australian average.

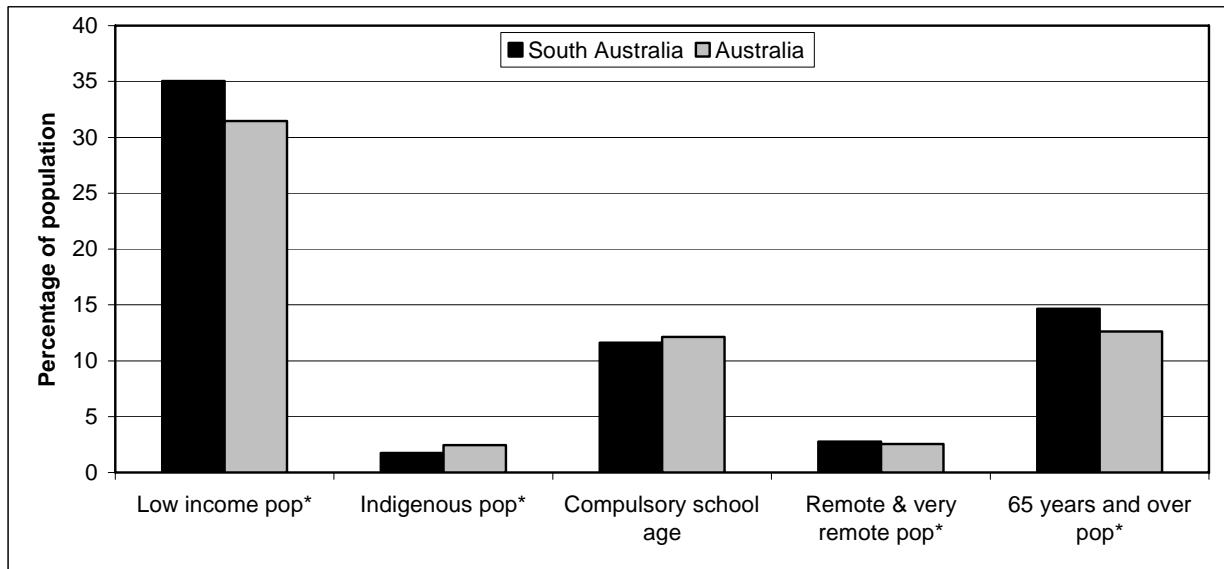
#### **Slightly below average requirement for expenses**

- 71 In the period under consideration, South Australia had a below Australian average proportion of its population who were Indigenous, so did not face the higher use and costs associated with

providing services to those persons (Figure 5-15). South Australia also had among the lowest prices for labour.

72 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. These are groups known to be higher or more costly users of government services. 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 5-15 Influences on costs of services, South Australia and Australia**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
Source: Attachment B.

73 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 29 per cent below average and there were few remote Indigenous communities. This led to substantially lower assessed expenses because official statistics show that 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.
- *Lower school age population.* A lower than average proportion of its population of compulsory school age (4 per cent below average) reduced the use of education services to below the Australian average. In addition, the proportion of enrolments in the government school sector was just below average.
- *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 well below the Australian average. Private sector wages were 15 per cent below average, average weekly earnings for all employees were the second lowest, and compensation paid to employees was 13 per cent below the Australian average over the last five years.
- *Low office rental costs*. The lower land values resulted in office and retail rents being below average (rents for prime CBD property were 22 per cent below average).
- *Population with low English fluency*. South Australia had a below average proportion of persons with low fluency in English (2.2 per cent compared to an average of 3.0 per cent). The Commission assesses reduced costs in such situations due, for example, to the lower requirements for interpreters in delivering services.

74 Offsetting these, however, were some features of South Australia that increased the use or costs per unit of service.

- *Lower household income*. The proportion of the population with low incomes, or who held pensioner and concession cards, was above the Australian average by 11 and 16 per cent respectively. This increased the need for welfare services and the costs of public education and community service obligations for transport services and utilities.
- *Availability of private service providers*. The private sector provided fewer services than in the larger States. The small corporate sector reduced the capacity for private sponsorship of cultural and recreational activities, shifting a greater burden to the State.
- *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 (14.7 per cent compared to an average of 12.6 per cent), which increased the use of some medical and community services.
- *Water*. South Australia had an above average share of population living 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 populations in areas of high rainfall.

75 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**

76 South Australia received 4 per cent more than the Australian average per capita share of SPPs in the five year period to 2005-06. This was mainly due to it receiving a higher share of disability services, home and community care and vocational education grants. Partially offsetting the 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**

77 In the period 2001-02 to 2005-06, had Tasmania provided the average level of services to its residents, received average revenue from SPPs and levied taxes at the average rates, its fiscal position would have been \$1 086 per capita less than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$730 per capita lower;
- its assessed expenses being \$405 per capita higher; and
- its SPP income, \$49 per capita higher.

78 Table 5-6 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 5-6 Comparison of Tasmania’s fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	Tasmania	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	1 479	- 730	0.67
Assessed expenses(c)	4 892	5 298	405	1.08
SPP receipts	392	440	49	1.12
Fiscal capacity(d)	-2 292	-3 378	-1 086	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.

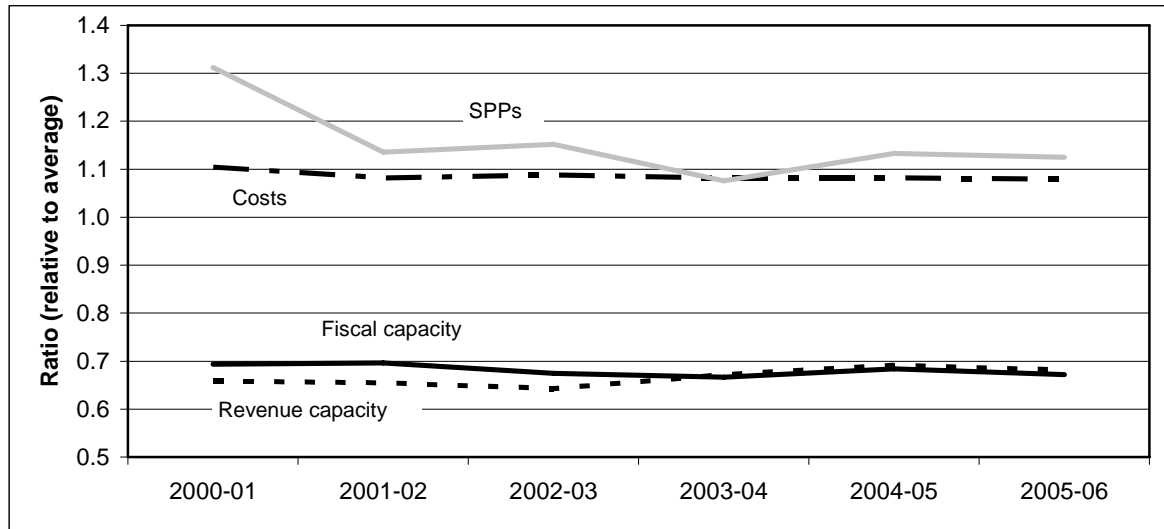
Note: Figures shown may not add correctly due to rounding.

Source: Calculated from data in Attachments A and C.

79 Figure 5-16 shows the relative revenue raising capacities, SPP incomes and costs of service provision that contributed to Tasmania’s relative fiscal capacity from 2000-01 to 2005-06.

80 The fiscal capacity of Tasmania has shown a slight decline over the last six years. 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 decreased slightly, mainly because of higher than average increases to wages in New South Wales (which impacted on the average).

**Figure 5-16 Tasmania's relative fiscal capacity over the last six years**

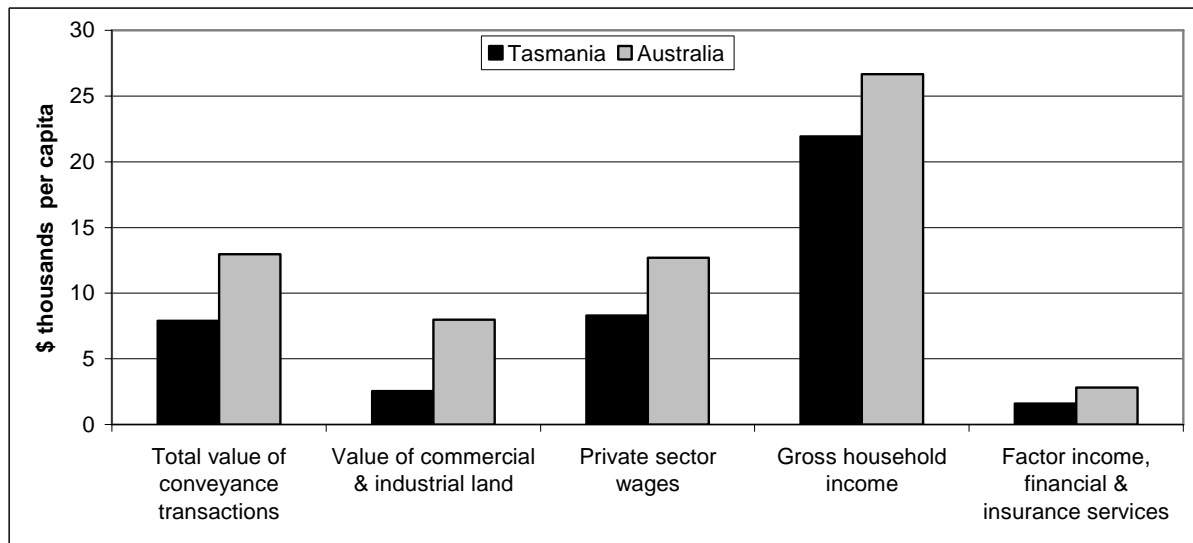


Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.  
 Source: Attachment E and CGC 2007 Update calculations.

**Below average revenue raising capacities**

81 General economic indicators suggested that, for years covered by the 2007 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 5-17). These combined to give Tasmania the lowest revenue raising capacity of all States, at about 33 per cent below the average.

**Figure 5-17 Revenue indicators, Tasmania and Australia, 2007 Update**



Source: Attachment B.

- 82 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 2005-06). 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 13 per cent below the national average over the five years to 2005-06;
    - private sector wages per capita were 35 per cent below the national average; and
    - proportion of businesses with employment of over 200 was 18 per cent below average.
  - *Stamp duty on conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). 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 46 per cent below the average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). 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 2005-06 were 68 and 69 per cent respectively below the national average.
  - *Financial and insurance sector taxes* (6 per cent of tax revenue for all States over the five years to 2005-06). 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. Factor income per capita at 57 per cent below the average from the financial, insurance property and business services sectors over the last five years illustrates this.
  - *Mining revenues* (6 per cent of tax revenue for all States over the five years to 2005-06). The value of Tasmania's resources was well below those of some other States. Factor income for mining was 77 per cent below the Australian average.
- 83 *Vehicle transfers and registrations* (12 per cent of tax revenue for all States over the five years to 2005-06) was the only area in which Tasmania's revenue raising capacity was better than the

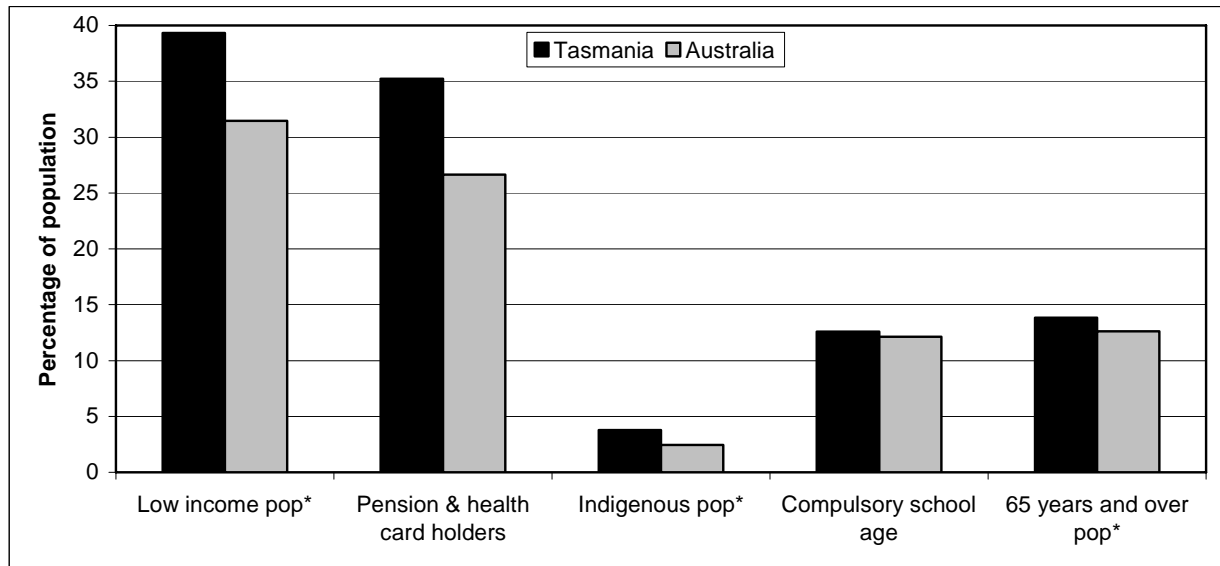
Australian average. Tasmania had an above average number of registered motor vehicles per capita (8 per cent). While this is in the top four tax sources for States, Tasmania's above average registrations were not sufficient to offset the weakness of the other main revenue bases.

84 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**

85 Figure 5-18 shows that, in the period under consideration, Tasmania had above average proportions of its population with low incomes, pensioner and concession cards, of school age, 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 5-18 Influences on costs of services, Tasmania and Australia, 2007 Update**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
 Source: Attachment B.

- 86 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 (25 per cent more) or holding pensioner and concession cards (32 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 (13.9 per cent compared to an average of 12.6 per cent in 2001), 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.

87 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 13 per cent lower than the average over the five years to 2005-06;
  - commercial rent in Hobart prime CBD locations was the second lowest of the capital cities and 20 per cent below the average; and
  - cost of power generation was estimated as 41 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 (0.4 per cent compared to an average of 3.0 per cent in the 2001 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.

88 Tasmania saw a small relative reduction in costs over the last six years, bringing it closer to the average. This reduction was mainly due to lower than average growth in assessed expenses, in particular for inpatient services, police, justice services and superannuation. In total, the effect of all of Tasmania's demographic and economic features was that its assessed expenses were 8 per cent above average.

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

89 Tasmania received 12 per cent more per capita of SPP income than the average over the period of the 2007 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**

90 In the period 2001-02 to 2005-06, had the ACT 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 \$326 lower than the average of all the States. This outcome is the combination of:

- its assessed revenue capacity being \$328 per capita lower;
- its assessed expenses being \$38 per capita lower; and
- its SPP income, \$37 per capita lower.

91 Table 5-7 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 5-7 Comparison of the ACT’s fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	ACT	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	1 882	- 328	0.85
Assessed expenses(c)	4 892	4 854	- 38	0.99
SPP receipts	392	355	- 37	0.91
Fiscal capacity(d)	-2 292	-2 618	- 326	0.88

(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 capacity + SPP income - Assessed expenses.

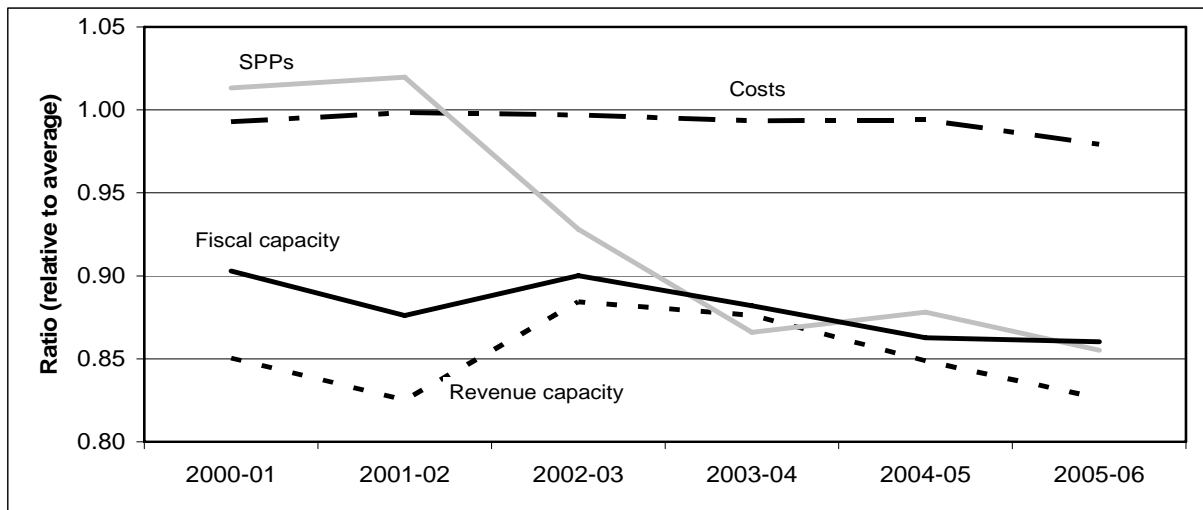
Note: Figures shown may not add correctly due to rounding.

Source: Calculated from data in Attachments A and C.

92 Figure 5-19 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 2000-01 to 2005-06.

93 The fiscal capacity of the ACT has shown an overall trend of decline over the six year period. A peak occurred in the ACT’s revenue raising capacity in 2002-03 due to a spike in value of conveyances from the property boom and payroll tax capacity in that year. Since then, revenue capacity and relative SPP income has fallen overall, causing the downward trend in fiscal capacity. That downward trend was arrested in 2005-06 primarily due to a reduction in assessed costs for the ACT.

**Figure 5-19 The ACT's relative fiscal capacity over the last six years**

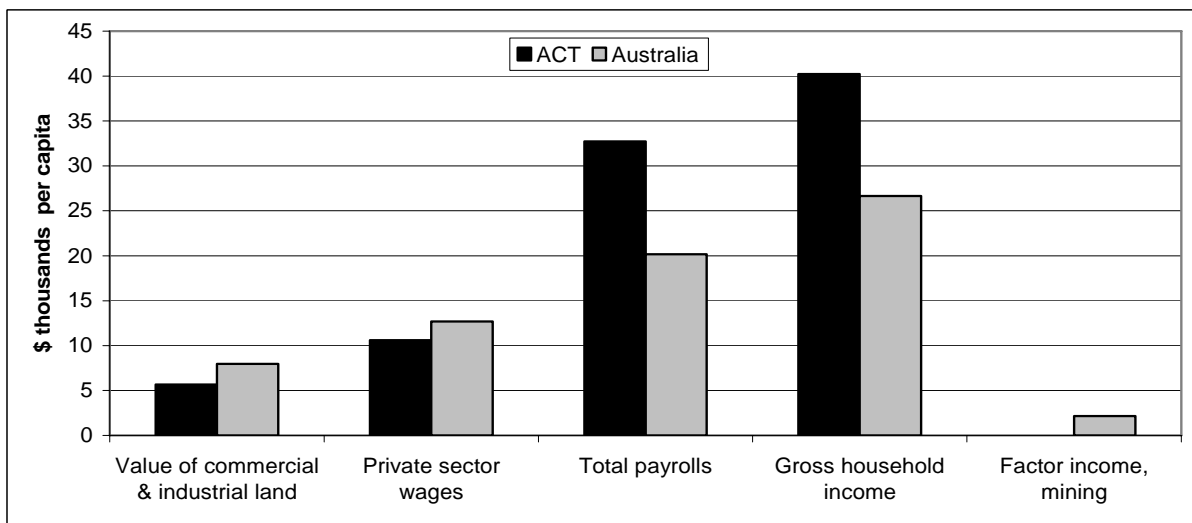


Note: Graph shows actual figures for each financial year, not five year averages reported in each update or review.  
 Source: Attachment E and CGC 2007 Update calculations.

**Below average revenue raising capacities**

94 An examination of the range of economic activities that the Territory can tax showed that in the five year period covered by the 2007 Update, the ACT had below average capacity to raise revenue from most major taxes, especially payroll tax and mining (Figure 5-20). Because of the dominance of the Australian public service within the ACT labour market, the ACT had below average per capita private payroll figures. This contrasted with total payrolls per capita (including government) where the ACT was considerably higher than the Australian average. 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 5-20 Revenue indicators, ACT and Australia, 2007 Update**



Source: Attachment B.

95 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, a small industry sector and near zero mining, limited its tax bases:

- *Payroll tax* (25 per cent of tax revenue for all States over the five years to 2005-06). The ACT cannot collect revenues from the Australian Government, which makes up a substantial portion of the ACT workforce, and therefore its revenue base for payroll tax was limited over the period of the 2007 Update:
  - per capita compensation of all employees was 61 per cent above the national average but;
  - per capita private sector wages and salaries were 18 per cent below the national average; and
  - small employment bases in the mining, agriculture, manufacturing and wholesale trade industries (factor incomes were below average by 100, 97, 76 and 50 per cent respectively) further limited the ACT's capacity to raise revenue from this source.
- *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). The ACT had a below average capacity to collect tax in this area. While the ACT's residential land values were above average by 6 per cent, the per capita value of commercial and industrial land was 29 per cent below average, giving it below average revenue capacity overall. The proportion of private renters in the ACT was also below average by 7 per cent, 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 2005-06). The ACT had almost no capacity to collect revenue from the mining industry. This was evidenced by the per capita factor income for mining that was the lowest of any State and less than 0.4 per cent of the Australian average.

96 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 2005-06). Its capacity to raise revenue from gambling was assessed as the highest of all States and Territories at 25 per cent above the Australian average. This was well above the second highest, which was New South Wales at 3 per cent above average.

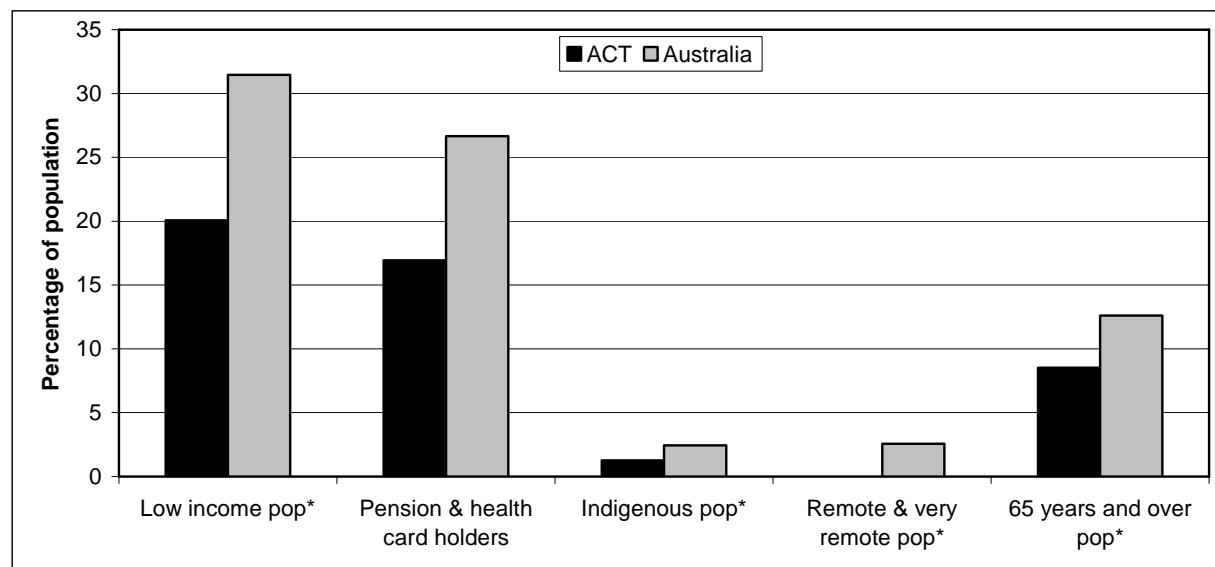
97 In summary, the below average revenue raising capacity is related to the unique nature of the ACT economy, dominated by federal government employment and with little or no primary production, resulting in weak tax bases in a number of major areas of State taxation.

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

98 Figure 5-21 shows that, in the period under consideration, the ACT had below average proportions of its population in the following categories: low incomes, pensioner and

concession card holders, Indigenous, living in remote areas and aged 65 years or older. All of these categories are normally associated with higher costs of service delivery.

**Figure 5-21 Influences on costs of services, ACT and Australia, 2007 Update**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.

Source: Attachment B.

99 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 composition of the ACT population had a higher socio-economic status, reducing the call on government services in a number of areas such as welfare and concessions:
  - per capita compensation of employees was 61 per cent above the national average;
  - proportion of Indigenous persons was 48 per cent below the national average;
  - proportion of persons with low English fluency was 40 per cent below the national average;
  - proportion of persons with low incomes was 36 per cent below the national average;
  - proportion of persons with pensioner and concession card holders was 37 per cent below the national average; and
  - proportion of persons aged 65 years or over was 32 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 such regions such as additional transportation costs and locality allowances;
- as a consequence of its small area, the ACT had a low length of arterial roads per capita of about half the national average; and
- these roads were also used relatively less by heavy vehicles.

100 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.

101 Overall, the ACT's cost of service provision was only slightly below the national average. A more marked fall in assessed expenses was seen in 2005-06. The fall was a result of ongoing declines in a number of major expense categories such as Government primary education, Inpatient services, and General public services.

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

102 The ACT received a 9 per cent below average per capita amount of SPPs in the five year period covered by the 2007 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. There has been below average growth in SPPs compared to the Australian average.

103 The ACT's relative share of SPPs has been well below the average since 2002-03 and declined further in 2005-06. The main cause of the marked decline since 2002-03 has been a reduction in road grants and, to a lesser extent, housing.

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

104 In the period 2001-02 to 2005-06, 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 \$6 748 per capita weaker than the average of the States. This outcome is the combination of:

- its assessed revenue capacity being \$261 per capita lower;

- its assessed expenses being \$7 038 per capita higher; and
- its SPP income, some \$551 per capita higher.

105 Table 5-8 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 5-8 Comparison of Northern Territory’s fiscal capacity with the Australian average capacity, 5-year average 2001-02 to 2005-06**

	Australia	Northern Territory	Difference <sup>(a)</sup>	Ratio <sup>(b)</sup>
	\$ per capita	\$ per capita	\$ per capita	
Assessed revenue	2 209	1 948	- 261	0.88
Assessed expenses(c)	4 892	11 931	7 038	2.44
SPP receipts	392	943	551	2.41
Fiscal capacity(d)	-2 292	-9 039	-6 748	0.25

(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.

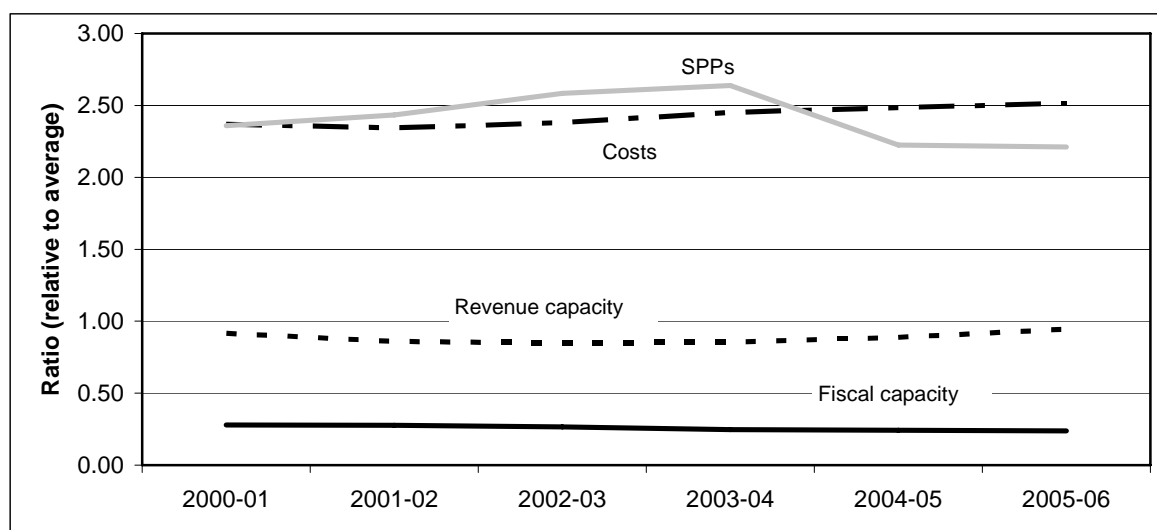
(d) Fiscal capacity = Assessed revenue capacity + SPP income - Assessed expenses.

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

Source: Calculated from data in Attachments A and C.

106 Figure 5-22 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 2000-01 to 2005-06.

**Figure 5-22 The Northern Territory’s fiscal capacity over the last six years**



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

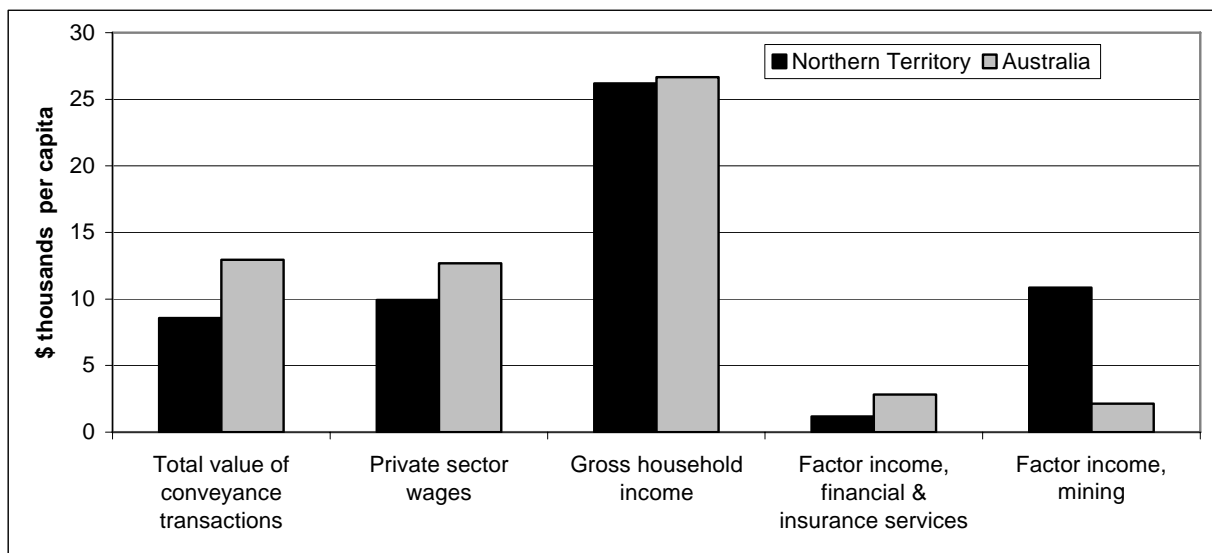
Source: Attachment E and CGC 2007 Update calculations.

- 107 The fiscal capacity of the Northern Territory showed a decline over the six year period. Its revenue capacity was generally below average across most revenue sources but increased in the past two years. A higher than average proportion of its revenue capacity is derived from mining operations. However, assessed revenue in this area declined because it did not share in the recent mining boom to the same extent as Western Australia and Queensland. The increase in revenue capacity in the last two years has been largely due to rapid growth in conveyances and, to a lesser extent, gambling taxes.
- 108 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 and had slowly risen until 2004-05 when a drop occurred, taking it to its lowest point in the six years to 2005-06.
- 109 Overall its fiscal capacity remained low — the lowest of all States — and trending downwards.

**Below average revenue raising capacities**

- 110 An examination of the range of economic activities that States can tax showed that, in the five year period covered by the 2007 Update, the Northern Territory had below average per capita value of conveyance transactions, 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 5-23. Its above average per capita mineral wealth and number of heavy vehicles were not sufficient to generate an overall above average revenue capacity.

**Figure 5-23 Revenue indicators, Northern Territory and Australia, 2007 Update**



Source: Attachment B.

- 111 The revenue raising disadvantages of 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 2005-06). The Northern Territory would collect below average revenues from the application of an average tax effort because of its smaller revenue base:
    - private sector wages per capita were 22 per cent below the national average;
    - average weekly earnings were 1 per cent below the national average; and
    - it had a small commercial and industrial employment base (factor income from manufacturing industry was 29 per cent below average).
  - *Stamp duty from conveyances* (21 per cent of tax revenue for all States over the five years to 2005-06). The ability of the Northern Territory to raise revenue from this tax has been well below the Australian average in recent years, but has grown rapidly in the last two years in particular. Indicators for the five years to 2005-06 show that:
    - the per capita value of conveyance transactions was 34 per cent below average;
    - the average per capita value of housing finance commitments was 28 per cent below the national average; and
    - the median house prices for Darwin was 15 per cent below average.
  - *Land tax* (7 per cent of tax revenue for all States over the five years to 2005-06). Below average property prices indicated below average ability to raise revenue from land tax:
    - while the per capita value of commercial and industrial property was 8 per cent above average and the proportion of private renters was above average by 9 per cent, residential property values per capita were 68 per cent below average.
  - *Financial and insurance sector taxes* (6 per cent of tax revenue for all States over the five years to 2005-06). In the five years to 2005-06, factor income per capita from finance, insurance, property and business services in Northern Territory was 33 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.
- 112 The substantial revenue raising disadvantages the Northern Territory had were partly offset by above average revenue bases in some other areas of taxation.
- *Mining revenue* (6 per cent of tax revenue for all States over the five years to 2005-06). Its ability to raise mining revenues was more than double the Australian average. Factor income for mining per capita was more than five times the Australian average over the five years to 2005-06, but not all of this could be taxed by the Northern Territory as royalties from offshore oil and gas, and uranium, are collected by the Australian Government.
  - *Heavy vehicle revenue* (1 per cent of tax revenue for all States over the five years to 2005-06). In 2004-05, the number of heavy motor vehicles per capita was about

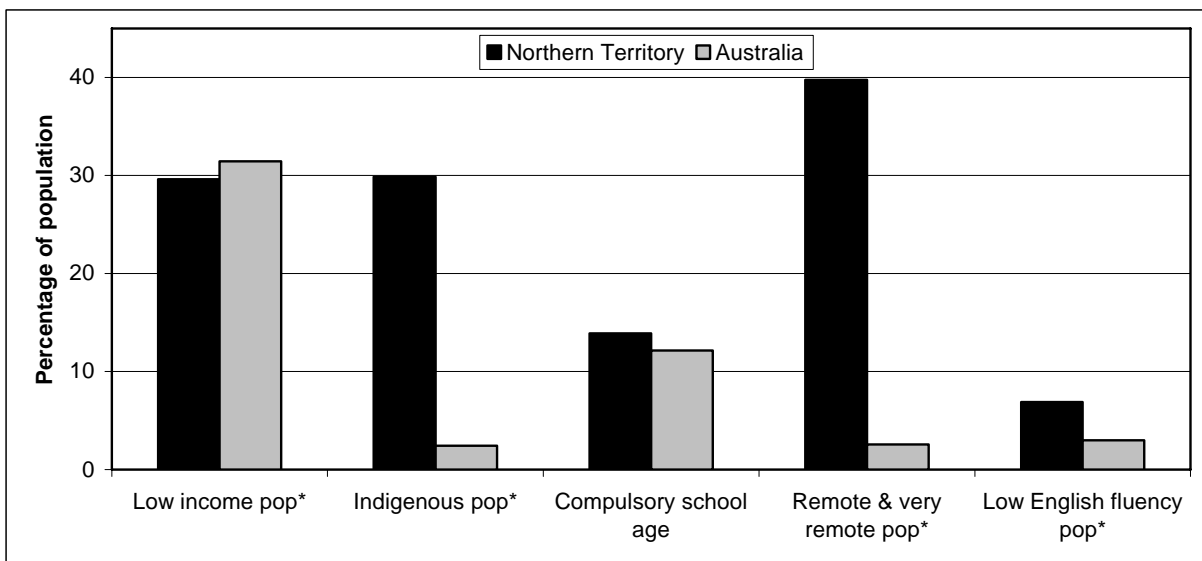
44 per cent above the average. After applying the average tax rates its ability to raise revenue from taxes on heavy vehicles was about 37 per cent above average.

113 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 areas where it had above average capacity are taxes on mining operations and heavy vehicles. Conveyance duty and gambling taxes are the two main areas of growth in recent years.

### Well above average requirement for expenses

114 On the expense side, Figure 5-24 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 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 5-24 Influences on costs of services, Northern Territory and Australia, 2007 Update**



Note: Indicators marked \* are from 2001 Census. All other data are a five year average to 2005-06.  
Source: Attachment B.

115 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 2001 Census). More than three quarters of these people lived in remote or very remote communities.

This led to substantially higher expenses because official statistics show that 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 (131 per cent above average in the 2001 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 35 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.

116 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.* 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. In 2005-06, the Territory's fixed costs per capita were almost 13 times higher than 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 15 times the average (2001 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.

117 There were some features of the Northern Territory that 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 (in 2004-05, rents for prime CBD property were 10 per cent below the average).
- *Young population.* Northern Territory had a below average proportion of aged persons in its population (70 per cent below average in the 2001 Census), which reduced the use of some medical and community services.

118 In summary, the Northern Territory had the highest assessed costs of service provision of any State — almost two and a half times the average in the five years to 2005-06. About 85 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 nearly half of the redistribution to the Northern Territory.

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

119 The Northern Territory received 141 per cent of the Australian average SPPs in the five year period to 2005-06. Its high share was due to an above average share for many major SPPs including government schools (43 per cent above average), housing (close to four times the average), Indigenous purpose grants (23 times the average), roads (more than 2.5 times the average), vocational education (about 30 per cent above average) and national public health (113 per cent more). The only major SPP where there was a below average share was home and community care (32 per cent below average). Its receipts increased by 13 per cent between 2001-02 and 2005-06, slower than the average increase of 26 per cent. Reduced grants for housing and national public health were significant contributors to the lower than average growth.