

GENERAL PUBLIC SERVICES — ASSESSMENT RESULTS

- 1 This working paper describes the expenses assessment for General Public Services and provides information on its impact on GST revenue distribution for the 2008 Update. The assessment method is discussed in detail in Volume 6 of the 2004 Review Working Papers.

DESCRIPTION OF THE CATEGORY

- 2 The General Public Services category comprises residual expenses for State-wide general administration and governance services. More specifically, the category includes expenses on:
- legislative bodies, electoral offices, financial affairs;
 - community relations, supervision and regulation of local government authorities;
 - overall economic and social planning and statistical services, administration and management of crown land;
 - labour and employment affairs, community development, town and community planning; and
 - communication affairs and other administration and regulation of services not connected with a special function.
- 3 No specific purpose payments were associated with the General Public Services category.
- 4 Table 1 shows the average expenses and user charges for the last six financial years. In 2006-07, the category average of \$278.03 per capita represented 4.32 per cent of total average expenses. In 2006-07, user charges accounted for about 38.36 per cent of category average expenses. User charges are not discussed further in this paper. They are the subject of a separate assessment paper.

Table 1 General Public Services, average expenses and user charges, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average expenses (\$pc)	208.31	211.83	228.45	233.62	256.88	278.03
% of total State average expenses	4.04	3.97	4.20	4.11	4.29	4.32
Average user charges (\$pc)	83.94	86.90	89.07	106.39	107.29	106.65
% of category average expenses	40.30	41.03	38.99	45.54	41.77	38.36

DEVELOPMENTS WHICH AFFECTED THE 2008 UPDATE

Data revisions

- 5 The Australian Bureau of Statistics (ABS) revised its current price estimates of gross state product (GSP) by industry due to the availability of new data. These estimates are used to calculate the economic environment factor for the regulatory and planning services component of General Public Services expenses. All States were affected by the revisions, although the extent to which each State and industry was affected varied. GSP estimates for the years 2001-02 to 2005-06 were revised down for New South Wales, Queensland and the ACT. Estimates for all other States were revised up. Queensland, Western Australia and the Northern Territory recorded the most significant revisions. The ABS said that the current data is the best available but that there will be further revisions to gross state product estimates by industry in the 2007-08 issue of 5220.0. These revisions are likely to partially offset the revisions published in the 2006-07 issue of 5220.0.

ASSESSMENT METHOD

Description of the assessment

- 6 The General Public Services assessment for the 2008 Update was undertaken using nine components: fixed costs, government services, regulatory and planning services, ethnic affairs, HIH related expenses, national capital, land rights, native title and isolation.
- 7 The 2008 Update expenses assessment method is the same as the 2007 Update:
- the expenses for fixed costs, isolation, national capital, land rights and native title were assessed using general methods;
 - the expenses for government services were assessed using the general methods for input costs and dispersion;
 - the expenses for regulatory and planning services were assessed using Gross State Product, the proportion of the population receiving unemployment benefits or Community Development Employment Project (CDEP) payments and general methods for input costs and dispersion;

- the expenses for ethnic affairs were assessed using the proportion of the population born in a non-English speaking country and the general method for input costs; and
- HIH related expenses were assessed equal per capita.

Assessment structure

- 8 Table 2 summarises the assessment structure for the 2008 Update.
- 9 The proportion of expenses relating to fixed costs, HIH related expenses, national capital, native title and isolation were based on actual expense data from the Australian Bureau of Statistics Government Finance Statistics (GFS) and data provided by States. The proportion of expenses relating to government services, regulatory and planning services and ethnic affairs were derived by the Commission by applying a fixed proportion to the balance of expenses in the General Public Services category.

Table 2 General Public Services, assessment structure for the 2008 Update, 2006-07

Component	Component weight	Factors	Basis of calculation
	%		
Fixed costs	9.49	Administrative scale Input costs	General method. General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
Government services	61.75	Dispersion Input costs	General method, based on government services employment distribution. General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
Regulatory and planning services	26.32	Economic environment Socio-demographic composition Dispersion Input costs	Based on current price gross state product data for all industries excluding government administration and defence and general government gross operating surplus. Based on the proportion of the population receiving unemployment benefits or Community Development Employment Projects payments. General method, based on Government Services employment distribution. General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
Ethnic affairs	0.27	Socio-demographic composition Input costs	Based on the proportion of the population born in a non-English speaking country. General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
HIH related expenses	1.38	None	Equal per capita.
National capital	0.10	National capital	Based on additional costs incurred by the ACT as a result of its status as the national capital.
Land rights	0.02	Land rights	Based on the additional costs incurred by the Northern Territory arising from the operation of the Australian Government <i>Aboriginal Land Rights (Northern Territory) Act 1976</i> .
Native title	0.32	Native title	Based on costs incurred by States in the administration of, and compensation claims arising from the Australian Government <i>Native Title Act 1993</i> (as amended).
Isolation	0.35	Isolation	General method.

Calculating the category factor

10 Table 3 summarises the components, component weights and factors assessed for this category for the last year of the 2008 Update. It shows the calculation of the category factor for 2006-07.

Table 3 General Public Services, derivation of category factor, 2008 Update, 2006-07

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (component weight = 9.49 %)								
Administrative scale	0.38031	0.50456	0.63046	1.25230	1.65373	5.30328	7.74403	12.25245
Input costs	1.02528	0.99212	0.98387	0.99199	0.97579	0.95664	1.01939	1.01769
Component factor	0.38993	0.50059	0.62029	1.24227	1.61369	5.07334	7.89420	12.46916
A Wgtd comp factor	0.03720	0.04775	0.05917	0.11850	0.15393	0.48395	0.75304	1.18945
Government services (component weight = 61.75 %)								
Dispersion	1.00027	0.99719	1.00304	1.00052	0.99870	0.99980	0.99190	1.01836
Input costs	1.02528	0.99212	0.98387	0.99199	0.97579	0.95664	1.01939	1.01769
Component factor	1.02555	0.98931	0.98691	0.99251	0.97449	0.95645	1.01129	1.03605
B Wgtd comp factor	0.63324	0.61086	0.60938	0.61284	0.60171	0.59057	0.62443	0.63972
Regulatory and planning services (component weight = 26.32 %)								
Socio-demographic composition	1.00266	0.98931	0.99242	0.97263	1.02079	1.06637	0.92671	1.39757
Economic environment	0.98571	0.96280	0.94780	1.36325	0.87375	0.82239	0.91344	1.30696
Dispersion	1.00027	0.99719	1.00304	1.00052	0.99870	0.99980	0.99190	1.01836
Input costs	1.02528	0.99212	0.98387	0.99199	0.97579	0.95664	1.01939	1.01769
Component factor	1.01362	0.94193	0.92791	1.32587	0.87172	0.85005	0.84964	1.76597
C Wgtd comp factor	0.26670	0.24783	0.24415	0.34885	0.22936	0.22366	0.22355	0.46465
Ethnic affairs (component weight = 0.27 %)								
Socio-demographic composition	1.22546	1.25538	0.56976	0.86315	0.76629	0.30483	1.00189	0.57011
Input costs	1.02528	0.99212	0.98387	0.99199	0.97579	0.95664	1.01939	1.01769
Component factor	1.25644	1.24549	0.56056	0.85623	0.74774	0.29161	1.02132	0.58019
D Wgtd comp factor	0.00332	0.00329	0.00148	0.00226	0.00197	0.00077	0.00270	0.00153
HHH related expenses (component weight = 1.38 %)								
EPC	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
E Wgtd comp factor	0.01378	0.01378	0.01378	0.01378	0.01378	0.01378	0.01378	0.01378

Table 3 General Public Services, derivation of category factor, 2008 Update, 2006-07 (continued)

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
National capital (component weight = 0.1 %)								
National capital	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	61.95227	0.00000
Component factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	61.95227	0.00000
F Wgtd comp factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.05947	0.00000
Land rights (component weight = 0.02 %)								
Land rights	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.01962
Component factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	98.01962
G Wgtd comp factor	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.02080
Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Native title (component weight = 0.32 %)								
Native title	0.20554	0.32537	2.91788	1.87710	0.52858	0.00000	0.00000	4.50882
Component factor	0.20554	0.32537	2.91788	1.87710	0.52858	0.00000	0.00000	4.50882
H Wgtd comp factor	0.00066	0.00104	0.00936	0.00602	0.00170	0.00000	0.00000	0.01447
Isolation (component weight = 0.35 %)								
Isolation	0.04081	0.06917	0.11309	1.80761	1.09363	2.75060	1.22840	58.74083
Component factor	0.04081	0.06917	0.11309	1.80761	1.09363	2.75060	1.22840	58.74083
I Wgtd comp factor	0.00014	0.00024	0.00040	0.00640	0.00387	0.00974	0.00435	0.20791
Category factor	0.95503	0.92480	0.93772	1.10865	1.00632	1.32247	1.68132	2.55231

Note: (a) For each component, the component factor is calculated using the formula in the following paragraph. The weighted component factor is the component factor multiplied by the component weight. This is then population weighted to ensure that the sum of assessed expenses equals average expenses.

(b) Category factor is the sum of the weighted component factors. It equals A + B + C + D + E + F + G + H + I.

11 The category factor was calculated by summing the weighted component factors as follows:

category factor	=	fixed costs + government services + regulatory and planning services + ethnic affairs + HIH related expenses + national capital + land rights + native title + isolation
fixed costs	=	0.0949 [fixed costs input costs * administrative scale]
government services	=	0.6175 [dispersion + input costs - 1]
regulatory and planning services	=	0.2632 [(socio-demographic composition + economic environment -1) * (input costs + dispersion -1)]
ethnic affairs	=	0.0027 [input costs * ethnic affairs socio-demographic composition]
HIH related expenses	=	0.0138 [equal per capita]
national capital	=	0.0010 [national capital]

land rights = 0.0002 [land rights]
 native title = 0.0032 [native title]
 isolation = 0.0035 [isolation]

12 In each case, the contribution to the category factor was calculated as the component weight (the percentages in the table) multiplied by the component factor (the bracketed terms in the formulas). Each component's contribution to the category factor was scaled to ensure that the sum of assessed expenses equalled average expenses.

RESULTS FOR 2006-07

13 Table 4 shows, for 2006-07, the actual, average and assessed gross expenses per capita and cost of service provision ratio. The assessed cost of providing services ratio is equivalent to the category factor shown in Table 3.

Table 4 General Public Services, assessment results, 2006-07

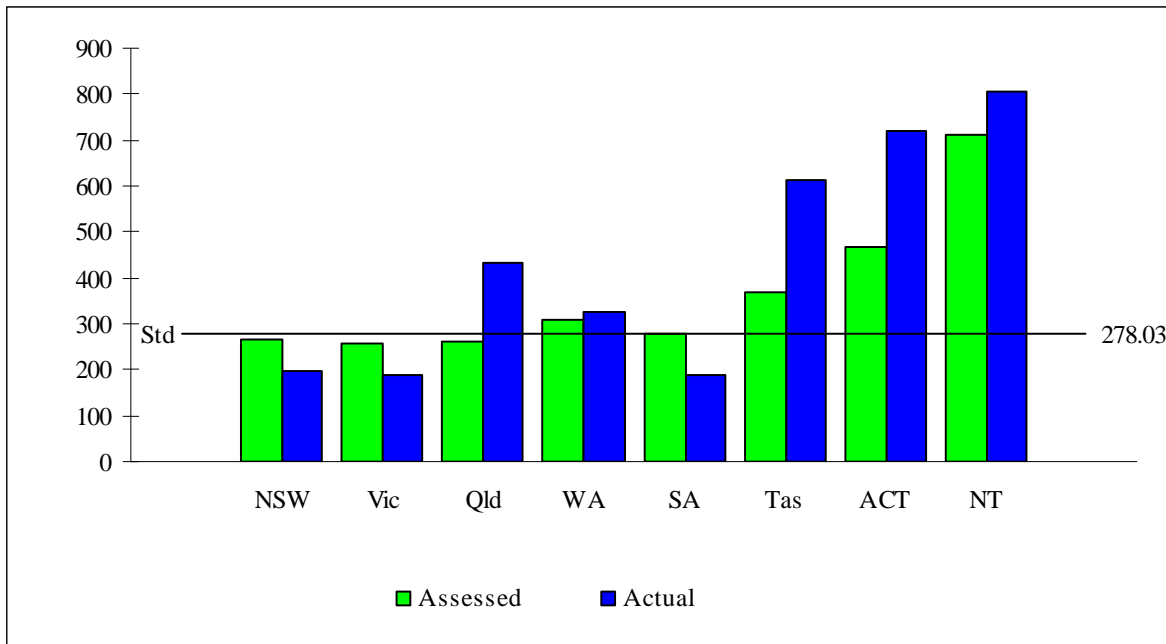
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	196.36	187.86	432.82	326.56	188.38	614.66	719.64	803.59	278.03
Assessed expenses	265.53	257.12	260.71	308.24	279.79	367.69	467.46	709.62	278.03
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio (a)	95.50	92.48	93.77	110.87	100.63	132.25	168.13	255.23	100.00

Note: (a) The assessed cost of providing services ratio is the ratio of assessed to average expenses per capita.

14 Table 10 at the end of this working paper summarises the results of the assessment. It shows the average, actual and assessed expenses for each State for all years of the 2008 Update.

15 Figure 1 illustrates the actual, average and assessed expenses per capita for General Public Services for 2006-07.

Figure 1 General Public Services, expenses per capita – assessed, actual and average, 2006-07



CONTRIBUTION TO GST REVENUE DISTRIBUTION

16 Table 5 shows the category’s contribution to the distribution of GST revenue and health care grants (hereafter GST revenue) implied by the 2008 Update. It also shows the contribution of each factor and component.

Differences from an equal per capita assessment

17 Table 5 indicates that the main drivers of this assessment were:

- the administrative scale factor — which recognised the differences in the costs of operating the minimum administrative structures required to provide State services;
- the economic environment factor — which recognised the effects of differences in the relative size of States economies; and
- the input costs factor — which recognised the interstate differences in the costs of inputs used to provide services (labour, office accommodation and electricity).

18 This category includes many whole of State services (such as those provided by Treasuries and legislative bodies). These expenses are large for General Public Services and invariably greater in per capita terms for the less populous States. Administrative scale factors, therefore, result in higher GST revenues for less populous States and reduced GST revenues for New South Wales, Victoria and Queensland.

19 The category factor reflected the following on a State by State basis.

- *New South Wales* — its negative GST revenue distribution was primarily due to its economies of scale, lower than average unemployment and relatively high level of access to sources of supply. This negative effect was partially offset by disabilities stemming from its relatively higher labour costs and higher costs of regulating its economy.
- *Victoria* — had the largest negative GST revenue distribution reflecting the lowest assessed cost of providing services ratio. This was largely due to its economies of scale, lower than average unemployment and relatively high level of access to sources of supply.
- *Queensland* — its negative GST revenue redistribution was primarily due to its economies of scale, lower labour costs and lower costs of regulating its economy. These negative influences were offset by higher native title costs and higher than average unemployment.
- *Western Australia* — had a positive GST revenue distribution, due to its diseconomies of scale and higher costs of regulating its economy. These positive effects were partially offset by lower labour costs on average over the update period.
- *South Australia* — its positive distribution was primarily due to its diseconomies of scale and higher than average unemployment. These positive effects were largely offset by lower costs of regulating its economy and lower labour costs.
- *Tasmania* — its positive distribution was primarily due to its diseconomies of scale and higher than average unemployment. These influences were partially offset by lower costs associated with regulating its economy and lower labour costs.
- *ACT* — its positive distribution was primarily due to its higher per capita costs associated with diseconomies of small scale and its additional costs as a national capital.
- *Northern Territory* — had the largest positive GST revenue distribution. This was due to higher costs because of diseconomies of small scale, its isolation from sources of supply and higher than average unemployment.

Table 5 General Public Services, contribution of assessment to GST revenue distribution, 2008 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fixed costs									
Administrative scale	-123.5	-74.2	-43.1	16.2	29.0	60.1	65.3	70.3	240.8
Input costs	6.1	-0.6	-3.2	-0.9	-1.2	-0.6	0.2	0.1	6.5
Component factor	-120.9	-74.1	-44.8	15.3	27.5	57.4	67.3	72.4	239.9
Government services									
Dispersion	0.3	-2.5	2.2	0.2	-0.4	0.0	-0.5	0.7	3.3
Input costs	35.3	-3.6	-18.4	-5.3	-6.7	-3.4	1.2	0.8	37.4
Component factor	35.6	-6.2	-16.2	-5.1	-7.0	-3.4	0.8	1.5	37.9
Regulatory and planning services									
Socio-demographic composition	-6.0	-4.5	2.5	-0.3	1.8	2.2	-1.7	6.0	12.5
Economic environment	6.1	-0.5	-23.9	35.6	-12.1	-7.4	-1.2	3.4	45.0
Dispersion	0.1	-1.1	0.9	0.1	-0.1	0.0	-0.2	0.3	1.4
Input costs	15.0	-1.6	-7.8	-2.3	-2.8	-1.4	0.5	0.4	15.9
Component factor	14.9	-7.8	-27.9	32.5	-13.1	-6.4	-2.6	10.4	57.9
HIH related expenses									
EPC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Component factor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ethnic affairs									
Socio-demographic composition	1.1	1.0	-1.3	-0.2	-0.3	-0.2	0.0	-0.1	2.1
Input costs	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Component factor	1.3	0.9	-1.4	-0.2	-0.3	-0.3	0.0	-0.1	2.2
National capital									
National capital	-2.0	-1.5	-1.2	-0.6	-0.5	-0.1	6.1	-0.1	6.1
Component factor	-2.0	-1.5	-1.2	-0.6	-0.5	-0.1	6.1	-0.1	6.1
Land rights									
Land rights	-0.3	-0.3	-0.2	-0.1	-0.1	0.0	0.0	1.1	1.1
Component factor	-0.3	-0.3	-0.2	-0.1	-0.1	0.0	0.0	1.1	1.1
Native title									
Native title	-6.2	-2.0	7.1	2.0	-1.3	-0.5	-0.3	1.3	10.3
Component factor	-6.2	-2.0	7.1	2.0	-1.3	-0.5	-0.3	1.3	10.3
Isolation									
Isolation	-7.3	-5.3	-4.1	1.9	0.2	0.9	0.1	13.6	16.7
Component factor	-7.3	-5.3	-4.1	1.9	0.2	0.9	0.1	13.6	16.7
Redistribution from EPC resulting from the 2008 Update assessment									
Update assessment	-85.0	-96.2	-88.8	45.6	5.4	47.6	71.3	100.1	270.0

Note: The redistribution due to the component factors includes the effect of interactions between factors. Therefore the component factor figure may not equal the sum of its factors' redistribution.

CHANGES SINCE 2007 UPDATE

Effect of assessment on distribution of GST revenue

20 Table 6 shows the redistribution of GST revenue resulting from the assessments in the 2007 Update and the 2008 Update. It also shows the sources of the changes.

Table 6 General Public Services, effect of assessment on GST revenue distribution, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-88.6	-94.6	-88.1	37.0	5.9	49.3	75.3	103.8	271.3
Effect of revising category averages and factors for 2001-02 to 2005-06									
Category average	1.7	1.7	1.6	-0.6	-0.1	-0.9	-1.4	-1.9	4.9
Category factors	-2.6	0.2	-5.4	3.5	1.0	1.5	0.7	1.2	8.0
Interactions	0.1	0.0	0.1	-0.1	0.0	-0.1	0.0	-0.1	0.3
Total	-0.8	1.9	-3.8	2.8	0.8	0.5	-0.7	-0.7	6.0
Effect of replacing 2001-02 category averages and factors with those for 2006-07									
Category average	0.2	0.2	0.2	-0.1	0.0	-0.1	-0.2	-0.2	0.6
Category factors	4.2	-3.8	3.0	6.0	-1.4	-2.1	-3.2	-2.8	13.2
Interactions	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.1
Total	4.3	-3.6	3.1	5.9	-1.4	-2.2	-3.3	-2.9	13.4
Redistribution from EPC resulting from the 2008 Update assessment (a)	-85.0	-96.2	-88.8	45.6	5.4	47.6	71.3	100.1	270.0
Total effect of revisions and updating (b)	3.6	-1.7	-0.6	8.7	-0.6	-1.7	-4.0	-3.7	12.3

(a) Using the same pool and populations that were used to calculate the 2007 Update redistribution.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

21 Changes in the distribution of GST revenue between the 2007 Update and the 2008 Update were brought about because the Commission:

- used revised average expenses data and other revised data in updating factor calculations for the years 2001-02 to 2005-06; and

- replaced 2001-02 average expenses and factors with those of 2006-07 to move forward the five year period on which GST revenue distribution was based. Moving the five year period forward in this way ensures the assessments reflect recent trends in State priorities on the services provided and recent trends in State demographic and economic circumstances which affect the relative costs of the services.

22 Compared with an equal per capita assessment, the 2008 Update redistributed \$270.0 million away from New South Wales, Victoria and Queensland and to the other States.

Table 7 General Public Services, effect of assessment on GST revenue distribution by factor, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fixed costs									
Administrative scale	7.8	2.5	-0.2	-1.0	-1.0	-2.7	-2.4	-2.9	10.3
Input costs	-0.4	-0.1	0.4	0.2	0.2	0.1	-0.2	-0.3	0.9
Government services									
Dispersion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Input costs	-2.4	-0.9	2.3	0.7	0.4	-0.1	0.0	-0.1	3.4
Regulatory and planning services									
Socio-demographic composition	3.8	-0.7	-2.3	-1.4	0.0	0.1	-0.1	0.6	4.4
Economic environment	-4.7	-2.9	-2.8	10.3	-0.9	0.6	-0.4	0.9	11.7
Dispersion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Input costs	-1.0	-0.4	1.0	0.3	0.2	-0.1	0.0	0.0	1.5
HHH related expenses									
EPC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ethnic affairs									
Socio-demographic composition	-0.3	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.3
Input costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National capital									
National capital	0.1	0.1	0.0	0.0	0.0	0.0	-0.3	0.0	0.3
Land rights									
Land rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Native title									
Native title	1.1	-0.3	-0.8	-0.3	0.4	0.0	0.0	-0.1	1.6
Isolation									
Isolation	0.5	0.3	0.2	-0.2	0.0	-0.1	0.0	-0.5	0.9

23 Table 7 shows the changes in GST revenue distribution attributable to changes in each factor arising from both revising data for 2001-02 to 2005-06 and replacing 2001-02 data with 2006-07 data.

24 The main reasons for the changes in GST revenue distribution were as follows.

Changes due to revising average expenses and factors for years 2001-02 to 2005-06

25 **Revising average expenses.** Table 8 shows the average expenses for the six financial years of this update and those of the previous update. For this category, minor downward revisions were made to average expenses for 2001-02 to 2005-06. This had the effect of reducing the contribution of the category to the redistribution of GST revenue. The downward revisions resulted in increased GST revenue shares (\$4.9 million) for those States assessed to have a low cost of providing services ratio (New South Wales, Victoria and Queensland) — their redistributions were less negative in the 2008 Update than in 2007.

Table 8 General Public Services, Average expenses used in the 2007 and 2008 Updates

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2008 Update		208.31	211.83	228.45	233.62	256.88	278.03
2007 Update	269.22	218.67	212.30	229.76	242.95	257.99	
Difference	-	-10.37	-0.48	-1.31	-9.33	-1.11	-

26 **Revising category factors.** The category factor changed as a result revising the economic environment factor. This change arose from revisions to ABS gross state product data between 2001-02 and 2005-06. A downward revision to Queensland’s GSP data resulted in a reduction in the GST distribution to Queensland, while a large upward revision to Western Australia’s GSP data led to an increase in the GST distribution to that State. The effects of ABS revisions to GSP data for other States were less significant.

Changes in State circumstances – replacing 2001-02 with 2006-07 data

27 **Replacing average expenses.** Between 2001-02 and 2006-07, average expenses increased by 42.5 per cent, less than the increase in the GST pool (43.9 per cent). Since the category became less important to the calculation of relativities, States assessed to have above average needs (category factors above 1.0) received a smaller redistribution. Conversely, those that had category factors below one (New South Wales, Victoria and Queensland) increased their GST revenue shares (\$0.6 million).

28 **Replacing category factors.** Table 9 shows the actual expenses and implied assessed cost of providing services ratios for 2001-02, the year that drops out of the assessment period, and 2006-07, the year that comes into the assessment period. It shows that between 2001-02 and 2006-07 the costs of providing services increased for New South Wales, Queensland and

Western Australia. Replacing the category factors for these States increased their shares of GST revenue (\$13.2 million). The shares of the other States decreased.

Table 9 General Public Services, actual expenses, assessed expenses and assessed cost of providing services ratios, 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2001-02	128.95	107.91	351.67	213.16	204.44	377.40	860.50	1168.34	208.31
2006-07	196.36	187.86	432.82	326.56	188.38	614.66	719.64	803.59	278.03
	%	%	%	%	%	%	%	%	%
Change between 2001-02 and 2006-07	52.27	74.08	23.08	53.20	-7.85	62.87	-16.37	-31.22	33.47
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed expenses									
2001-02	196.66	195.08	192.68	220.65	212.58	290.47	383.26	576.82	208.31
2006-07	265.53	257.12	260.71	308.24	279.79	367.69	467.46	709.62	278.03
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2001-02	94.41	93.65	92.50	105.93	102.05	139.44	183.99	276.91	100.00
2006-07	95.50	92.48	93.77	110.87	100.63	132.25	168.13	255.23	100.00

29 The changes in the cost of service ratios between 2001-02 and 2006-07 were the result of a combination of changes in the level of State economic activity, unemployment rates and input costs. The declining importance of a number of common factors between 2001-02 and 2006-07 (for example, administrative scale, isolation and the national capital assessment) also contributed to the changes in the assessed cost of providing services ratios. These effects worked in opposite directions for some States so it is not possible to attribute the changes seen in Table 6 to a single factor.

- *New South Wales* — Between 2001-02 and 2006-07 the New South Wales economy did not grow as fast as the national average. This resulted in a lower assessed need for general government regulatory and planning services. Also, wages and other input costs did not grow as quickly in New South Wales reducing its assessed cost of providing services. However, the factors that reduced its share of GST were more than offset by those that increased it. Between 2001-02 and 2006-07 the unemployment rate in New South Wales decreased more slowly than the national average resulting in an increase in its GST share due to an assessed greater need for State government employment and labour market programs. The declining importance of fixed costs associated with operating the minimum administrative structures required to provide State services also increased the distribution to New South Wales. Overall, between 2001-02 and 2006-07, the cost of services ratio increased for New South Wales resulting in an increased GST distribution (\$4.2 million).

- *Victoria* — Over the 5 year period of the update Victoria's economy experienced slower than average growth, lower than average unemployment and lower than average increases in wages and other costs of providing services. These factors worked together to reduce Victoria's assessed cost of providing services ratio between 2001-02 and 2006-07. They were only partly offset by a gain in share from the declining importance of fixed costs associated with operating the minimum administrative structures required to provide State services. Overall, the reduction in Victoria's cost of services ratio resulted in a decrease in the GST distribution to Victoria of \$3.8 million.
- *Queensland* — Between 2001-02 and 2006-07 Queensland experienced higher than average growth in the level of economic activity as well as a higher than average increase in wages and other costs of providing services. These factors contributed to the increase in the assessed cost of providing services for Queensland between 2001-02 and 2006-07. The increase in the cost of providing services ratio for Queensland was tempered by the greater than average decline in unemployment in Queensland which reduced the need for State government employment and labour market programs.
- *Western Australia* — Between 2001-02 and 2006-07 Western Australia's assessed cost of providing services increased by 4.7 per cent. This was the largest increase amongst the States. It reflected faster than average growth in the level of economic activity and a higher than average increases in wages and other costs of providing services. Partly offsetting its higher assessed cost of service provision was the higher than average decline in the unemployment rate. Overall, the effect of replacing Western Australia's 2001-02 category factors with those for 2006-07 was to increase its GST distribution by \$6.0 million.
- *South Australia* — South Australia's cost of providing services ratio decreased resulting in a \$1.4 million reduction in its GST distribution. The main reasons for the decline were: slower than average growth in its economy resulting in an assessed easing of pressure on general government regulatory and planning services; and the declining importance of fixed costs associated with operating the minimum administrative structures required to provide State services. (For State's assessed as having above average fixed costs, a decline in the importance of fixed costs results in a decrease in their GST distributions.) The decline was partially offset by faster than average growth in wages and other costs of providing services.
- *Tasmania* — Between 2001-02 and 2006-07 Tasmania's assessed cost of providing services ratio decreased resulting in a \$2.1 million reduction in its GST distribution. The main factor behind the decline was the declining importance of fixed costs associated with operating the minimum administrative structures required to provide State services. The decline was partially offset by higher than average economic growth over the five year period which resulted in the Commission assessing a greater need for general government regulatory and planning services.

- *ACT* — Between 2001-02 and 2006-07 the ACT's assessed cost of providing services ratio decreased by 8.6 per cent. This was the largest percentage decrease amongst the States. The decline was due to lower than average economic growth, and the declining importance of both the national capital assessment and the administrative scale assessment (as a result, it received less than it normally would for national capital and administrative scale factors). Overall, the effect of replacing the ACT's 2001-02 category factors with those for 2006-07 was to reduce its GST distribution by \$3.2 million.
- *Northern Territory* — Over the five years covered by the update, the Northern Territory's cost of providing services ratio fell resulting in a decrease its GST revenue distribution of \$2.8 million. The fall was largely due to the declining importance of the administrative scale and isolation assessments together with a lower than average increase in wages and other costs of providing government services. The decline in the distribution of GST revenue to the Northern Territory as a result of these factors was partially offset by increasing costs of providing government services due to higher than average economic growth and unemployment.

This working paper was prepared by the Transport and Other Services section of the Commonwealth Grants Commission. If you have any questions about its content please contact Glenn Pure on (02) 6229 8816 or glenn.pure@cgc.gov.au



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Table 10 Assessment of expenses, General Public Services

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Expenses		211.83		228.45		233.62		256.88		278.03
New South Wales										
Assessed difference	- 67.162	- 10.10	- 64.795	- 9.68	- 70.572	- 10.48	- 77.139	- 11.36	- 85.720	- 12.50
Expenses - Assessed	1 342.102	201.73	1 464.092	218.76	1 502.312	223.14	1 666.823	245.52	1 820.406	265.53
Actual	1 015.054	152.57	982.715	146.84	1 096.286	162.83	1 244.363	183.29	1 346.230	196.36
Victoria										
Assessed difference	- 64.142	- 13.10	- 69.356	- 13.99	- 78.302	- 15.60	- 90.396	- 17.76	- 108.037	- 20.91
Expenses - Assessed	972.826	198.72	1 062.845	214.45	1 094.326	218.02	1 217.382	239.13	1 328.691	257.12
Actual	574.968	117.45	752.134	151.76	872.577	173.84	1 067.680	209.72	970.765	187.86
Queensland										
Assessed difference	- 71.883	- 19.08	- 73.806	- 19.11	- 71.598	- 18.10	- 74.374	- 18.37	- 71.612	- 17.32
Expenses - Assessed	726.160	192.75	808.613	209.34	852.692	215.52	965.701	238.51	1 078.218	260.71
Actual	1 192.193	316.45	1 251.954	324.11	1 290.232	326.11	1 560.434	385.40	1 789.959	432.82
Western Australia										
Assessed difference	28.445	14.67	26.317	13.37	31.152	15.58	44.485	21.82	62.896	30.21
Expenses - Assessed	439.071	226.50	475.949	241.82	498.387	249.20	568.164	278.70	641.768	308.24
Actual	572.959	295.57	510.054	259.15	479.229	239.62	559.355	274.38	679.912	326.56
South Australia										
Assessed difference	5.085	3.33	4.175	2.72	4.884	3.16	5.402	3.46	2.772	1.76
Expenses - Assessed	328.403	215.16	355.133	231.16	366.208	236.78	406.259	260.34	441.128	279.79
Actual	182.295	119.43	349.027	227.19	276.222	178.60	150.256	96.29	297.014	188.38
Tasmania										
Assessed difference	37.720	79.40	39.289	81.73	40.774	84.10	42.038	86.06	44.079	89.66
Expenses - Assessed	138.347	291.23	149.099	310.18	154.035	317.72	167.516	342.94	180.772	367.69
Actual	181.742	382.58	202.956	422.22	207.016	427.01	247.989	507.69	302.197	614.66
Australian Capital Territory										
Assessed difference	56.299	173.68	58.541	179.46	60.835	185.17	62.616	188.47	63.778	189.43
Expenses - Assessed	124.962	385.51	133.063	407.90	137.588	418.79	147.961	445.35	157.389	467.46
Actual	271.350	837.12	259.567	795.71	299.732	912.32	268.913	809.40	242.297	719.64
Northern Territory										
Assessed difference	75.638	379.26	79.636	396.38	82.826	405.47	87.369	418.59	91.843	431.59
Expenses - Assessed	117.885	591.08	125.533	624.83	130.548	639.09	140.986	675.47	151.009	709.62
Actual	199.195	998.78	265.921	1 323.60	214.803	1 051.55	181.803	871.04	171.005	803.59

Note: ACT expenses may include municipal expenses. Refer to Attachment A of the 2008 Update, *Relative Fiscal Capacity of States* for how these figures are compiled.

