How the CGC does its job
Role of the Commonwealth Grants Commission (CGC)

• The CGC recommends the distribution of GST revenue among the States

• The recommendations are made in accordance with terms of reference provided by the Commonwealth Treasurer, which require a distribution based on Horizontal Fiscal Equalisation (HFE)
CGC assessments are comprehensive

• The CGC bases its assessments on all State general government activities plus the activities of social housing and urban transport public non-financial corporations (PNFCs)

• No activities are prioritised over others
CGC assessments are policy neutral

- States are neither penalised nor rewarded for their individual policy choices

- Instead, GST requirements are assessed for each State based on the average policies of all the States
How much GST does a State receive?

• To determine how much GST a State should receive, the CGC makes three assessments:
  
  • Expenditure
  • Own source revenue
  • Commonwealth payments for specific purposes (PSPs) or ‘tied’ payments
Expenditure

• The amount a State needs to spend to provide the Australian average level of services and infrastructure
Own source revenue

• The amount of revenue a State could raise under Australian average tax regimes
Payments for specific purposes (PSPs)

• The amount each State receives from the Commonwealth in tied funding
• This is taken into account in determining GST needs so that needs are not met twice
A State’s GST requirement

- A State’s GST requirement is the difference between its assessed expenditure and the sum of its assessed own-source revenue, assessed net borrowing and actual PSPs.

- That is, the GST requirement covers the gap between assessed revenue and expenditure.
Assessed expenditure and revenue

![Bar chart showing expenditure and revenue in billions]
Drivers of State differences

• The CGC identifies drivers (called disabilities) that cause a State’s service delivery costs or revenue raising capacity to vary from the average
The CGC recognises differences in States’ expenditure needs

• If a State has a greater than average proportion of children, it may need to spend more on schools

• If a State has proportionally more elderly people, it may need to spend more on hospitals
Differences in PSPs

- States may receive more (or less) than average amount of PSPs from the Commonwealth, and so need more (or less) GST revenue

- PSPs for States are not determined by the CGC
The CGC recognises differences in States’ own source revenue

• If a State has more than average mining activity, it may be able to raise more royalties

• If a State has more than average high value property, it may raise more conveyance duties
Differences in revenues

Expenditure
- Taxes, fees, other income
- Mining
- Tied payments
- GST

Revenue

$ billions

Expenditure

Revenue

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Largest drivers of State differences

- Mining royalties
- Property sales
- Level of remoteness of the population
- Shares of Indigenous people
- Payrolls of large companies
- PSPs
- Taxable land values
- Big cities
GST requirements across the States

• The following chart shows the CGC’s assessments of the GST requirement per person for each State for one year
Assessed GST requirement per person

![Graph showing assessed GST requirement per person by state and territory. The graph indicates a significant difference in expenditure per person between New South Wales (NSW), Victoria (Vic), Queensland (Qld), Western Australia (WA), South Australia (SA), Tasmania (Tas), the Australian Capital Territory (ACT), the Northern Territory (NT), and the total expenditure.]
Assessed GST requirement per person

![Bar chart showing assessed GST requirement per person for different states and territories in Australia. The chart includes bars for expenditure and own source revenue.]
Assessed GST requirement per person

![Graph showing assessed GST requirement per person for different states and territories.](chart.png)
Assessed GST requirement per person

- Expenditure
- Own source revenue
- Net borrowing
- Commonwealth payments
- GST

$ per person

NSW  Vic  Qld  WA  SA  Tas  ACT  NT  Total
GST requirements across the States

• The Northern Territory’s high GST requirement reflects its high service delivery costs

• Tasmania’s above average GST requirement largely reflects its low capacity to raise revenue and relatively high service delivery costs

• Western Australia’s below average GST requirement reflects its very high capacity to raise its own revenues, despite also having high service delivery costs
Assessed GST requirement per person

Expenditure
Own source revenue
Net borrowing
Commonwealth payments
GST

$ per person

NSW Vic Qld WA SA Tas ACT NT Total

Australian Government Commonwealth Grants Commission
Assessed GST requirement per person

- Expenditure
- Own source revenue
- Net borrowing
- Commonwealth payments
- GST

NSW, Vic, Qld, WA, SA, Tas, ACT, NT, Total

$ per person
Assessed GST requirement per person

[Bar chart showing the assessed GST requirement per person for different states and territories in Australia. Each bar is divided into segments representing various components of the requirement: Expenditure, Own source revenue, Net borrowing, Commonwealth payments, and GST.]

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Assessment years

• The GST distribution recommended for a year is based on assessments for the three most recent years for which reliable data are available

• This aims to strike a balance between keeping up with current developments in State circumstances, obtaining reliable data, and smoothing individual year data volatility
The CGC assesses GST needs for each year

- Three years are used to determine the GST distribution for the year in which recommendations are applied
- For example:

<table>
<thead>
<tr>
<th>Years used to calculate GST shares</th>
<th>Current Year</th>
<th>Year it applies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>2018-19</td>
<td>2019-20</td>
</tr>
<tr>
<td>2016-17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How does the CGC make its recommendations?

• The CGC’s recommendations for GST shares take the form of a per person ‘relativity’ for each State

• A State’s relativity is a mathematical shorthand for the GST it requires per person in the year the CGC’s recommendations are applied
What is a relativity?

• A State’s relativity is the proportion of the average per capita GST that it requires to have the capacity to deliver the average level of services
  • A fiscally stronger State might only need 90% of the average GST per capita – its relativity would be 0.9
  • A fiscally weaker State might need 110% of the average GST per capita – its relativity would be 1.1
Why do States’ relativities differ?

• If there were no disabilities, each State would have a relativity of one.
  • Each State would then get the same GST per person.
  • This is equivalent to its State population share.

• However, States have varying disabilities (or advantages), and so have different relativities.
Population distribution vs recommended distribution

Population share of GST

- NSW, 32%
- Vic, 26%
- Qld, 20%
- WA, 10%
- SA, 7%
- Tas, 2%
- ACT, 2%
- NT, 1%

Recommended share of GST

- NSW, 27%
- Vic, 26%
- Qld, 22%
- SA, 10%
- WA, 5%
- Tas, 4%
- ACT, 2%
- NT, 4%