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TRENDS IN HORIZONTAL FISCAL EQUALISATION

REASON

In considering assessments for the next review, the Commission may wish to consider how the distribution of the pool of Financial assistance grants (FAGs) or Goods and Services Tax (GST) has changed over time and the most important causes of those changes.

ISSUES

- How much of the FAGs/GST was redistributed and to which States?
- What have been the most important drivers over time, nationally and for different States?

RECOMMENDATIONS

- The Commission endorse placing this document on the Commission's website and updating it after every review.

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Confidentiality statement

This document does not contain confidential material. Statement provided by Priscilla Kan.

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INTRODUCTION

1 From 1901-02 onwards, the Commonwealth made payments to the States in various forms to compensate the States for their revenue foregone[1] and to the financially weaker States as a result of federation.

2 In 1933, the Commonwealth Grants Commission was established to inquire into and report on applications by financially weaker States for financial assistance under Section 96 of the Constitution. It recommended funding for these States to give them a fiscal capacity not appreciably different from the stronger States. Over time this basis evolved into one of fiscal equality.

3 In 1981, the Commission reviewed the State factors which prescribed the per capita relativities used in States' tax sharing entitlements. The Commission recommended a set of relativities based on the principle of fiscal equalisation. This principle has been used until now for the calculation of relativities used in the distribution of financial assistance grants (FAGs) or Goods and Services Tax (GST) revenue between the States.

4 This paper provides information on, from the 1993 Review[2]:

- how much of the FAGs or GST revenue was redistributed and to which States
- the most important drivers over time, nationally and for different States.

RELATIVITIES SINCE THE 1993 REVIEW

5 The fiscal capacities of the States (formally measured by their relativities) change from year to year because the factors which determine them, such as the economic, demographic and social conditions in the States, change over time. The relativities can also change because of changes in the methods used to assess fiscal capacity[3] or changes in the pool to which the relativities will be applied.[4]

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1 Examples of transfer of revenue collection from the States to the Commonwealth include: customs and related excise duties in 1900, income tax collection in 1942.

2 Data for years prior to the 1993 Review are not complete. In addition, the revenue and expense standards were calculated either using a one State or six State rotating standard and were therefore not comparable with later years.

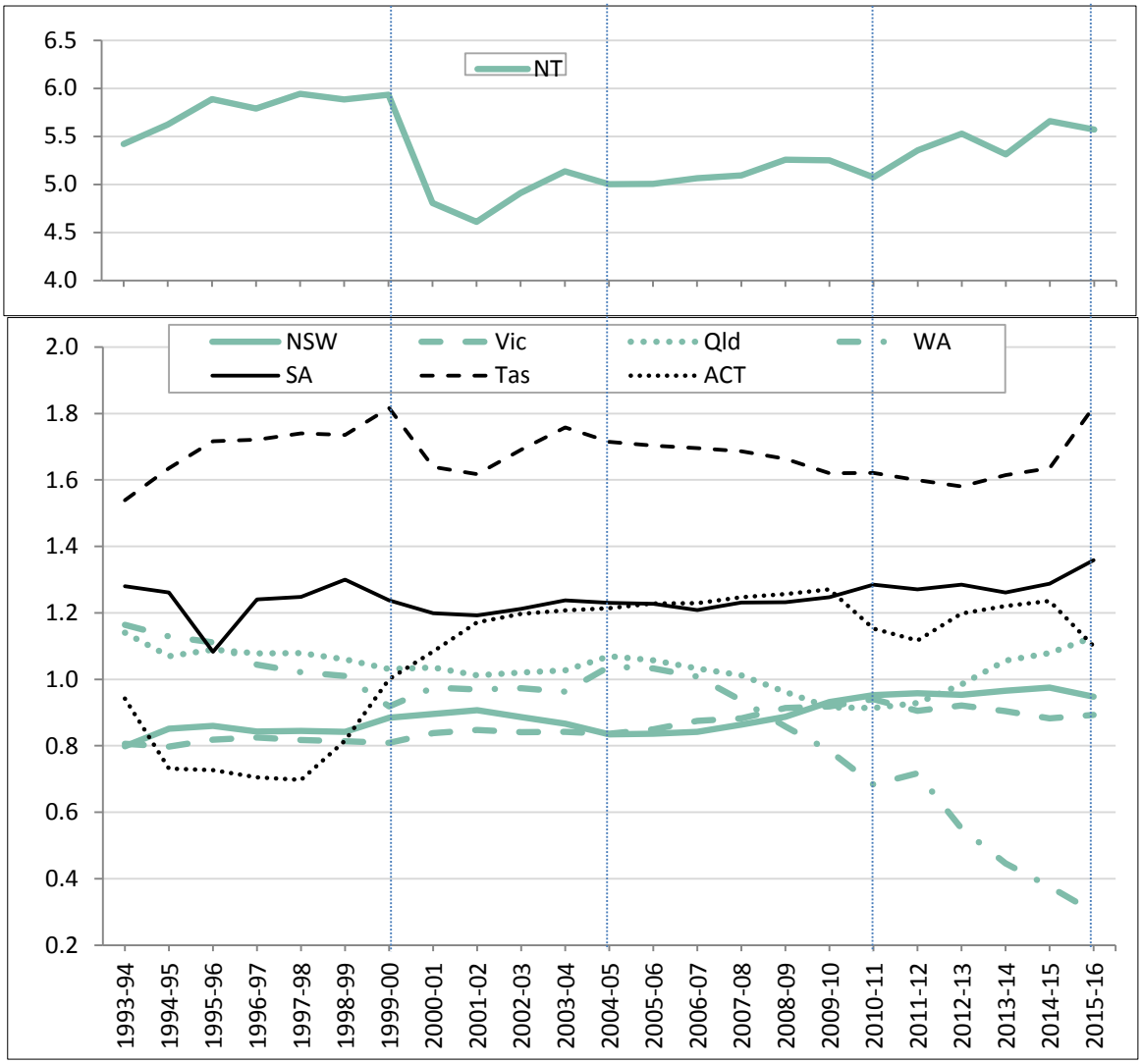
3 Changes in methods during reviews result in a discontinuity of relativities between reviews. For example, the change in assessment period from five years to three years in the 2010 Review increased the assessed fiscal capacities of Queensland and Western Australia (decreased their relativities) from the 2009 Update because these States' capacities to raise mining revenue in the most recent three years of the review were higher than those of the recent five years of the review. The changes in State assessed fiscal capacities arising from the use of shorter period were one-off and did not arise in future updates.

4 For example, from 2009-10, the pool has been the GST alone, but previously it was a combined pool of FAGs/GST and health care grants.

6 Figure 1 and Table 1 show the relativities adopted by the Commonwealth Treasurer since 1993-94, adjusted to be based on a pool comprising FAGs or GST only.

7 Over the period, the relative fiscal capacity of Western Australia has risen (its relativities decreased) while that of the other States has declined (their relativities increased). In the 2015 Review, the fiscal capacity of Western Australia, Victoria and New South Wales were above average while that of the other States was below average.

Figure 1 State per capita relativities for distributing the pool, average relativities



Note: The relativities are derived on the basis of a pool comprising FAGs or GST revenue only. The vertical lines indicate the years in which the Commission reviewed its methods.

Source: *Commonwealth of Australia's Final Budget Outcome* for 1993-94 to 2013-14. *Commonwealth of Australia's Budget Paper No. 3* for 2014-15 and 2015-16. Relativities from 1993-94 to 2008-09 were adjusted to be based on a pool comprising FAGs or GST only.

Table 1 State per capita relativities for distributing the pool, average relativities, 1993-94 to 2015-16

App Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1993-94	0.79844	0.80587	1.14009	1.16392	1.27997	1.53897	0.94204	5.42252
1994-95	0.85117	0.79708	1.06904	1.12942	1.26083	1.63558	0.73149	5.62222
1995-96	0.85950	0.81791	1.08894	1.11058	1.08241	1.71648	0.72621	5.88910
1996-97	0.84258	0.82469	1.07765	1.04376	1.24074	1.72075	0.70526	5.79195
1997-98	0.84514	0.81757	1.07875	1.02096	1.24845	1.73984	0.69749	5.94504
1998-99	0.84159	0.81353	1.06022	1.01010	1.30036	1.73541	0.81509	5.88675
1999-00	0.88394	0.80925	1.03071	0.91827	1.23721	1.81617	1.00072	5.93271
2000-01	0.89543	0.83771	1.03509	0.97505	1.19927	1.63899	1.08404	4.80772
2001-02	0.90659	0.84782	1.01194	0.96943	1.19270	1.61763	1.17180	4.61118
2002-03	0.88659	0.84044	1.01989	0.97336	1.21241	1.69064	1.19686	4.91305
2003-04	0.86632	0.84207	1.02717	0.96269	1.23759	1.75772	1.20690	5.13830
2004-05	0.83474	0.83645	1.06971	1.03819	1.23050	1.71446	1.21415	5.00336
2005-06	0.83571	0.84900	1.05700	1.03303	1.22712	1.70370	1.22837	5.00537
2006-07	0.84193	0.87451	1.03271	1.00778	1.20839	1.69599	1.22918	5.06502
2007-08	0.86380	0.88206	1.01143	0.93616	1.23141	1.68662	1.24724	5.09597
2008-09	0.88743	0.91347	0.96196	0.85797	1.23192	1.66348	1.25603	5.25758
2009-10	0.93186	0.91875	0.91556	0.78485	1.24724	1.62040	1.27051	5.25073
2010-11	0.95205	0.93995	0.91322	0.68298	1.28497	1.62091	1.15295	5.07383
2011-12	0.95776	0.90476	0.92861	0.71729	1.27070	1.59942	1.11647	5.35708
2012-13	0.95312	0.92106	0.98477	0.55105	1.28472	1.58088	1.19757	5.52818
2013-14	0.96576	0.90398	1.05624	0.44581	1.26167	1.61454	1.22083	5.31414
2014-15	0.97500	0.88282	1.07876	0.37627	1.28803	1.63485	1.23600	5.66061
2015-16	0.94737	0.89254	1.12753	0.29999	1.35883	1.81906	1.10012	5.57053

Note: The relativities are derived on the basis of a pool comprising FAGs or GST revenue only. The dashed lines indicate the years in which the Commission reviewed its method.

Source: *Commonwealth of Australia's Final Budget Outcome* for 1993-94 to 2013-14. *Commonwealth of Australia's Budget Paper No. 3* for 2014-15 and 2015-16. Relativities from 1993-94 to 2008-09 were adjusted to be based on a pool comprising FAGs or GST only.

SIZE OF THE EQUALISATION TASK

8 The Commission has used two summary measures of the size of the equalisation task. Both try to capture the impact of disparities in fiscal capacities among the States.

9 The first one measures for stronger States (those with above average fiscal capacities), how far their average fiscal capacity is from the average of all States (and by definition the converse for weaker States). This measure provides an answer to the question 'how much has to be redistributed from stronger States to weaker States to equalise their fiscal capacities' — how big is the redistribution from an equal per capita one.

10 The second measures how much must be transferred to bring all States up to the fiscal capacity of the strongest State. This measure provides an answer to 'what is the minimum pool size required to achieve equalisation'.

11 Box 1 illustrates distribution of the pool using these two measures in the 2015 Review.

Box 1 Illustrative distribution of the pool in the 2015 Review

Since the introduction of the tax sharing relativity reviews, the Commission has sought to equalise all participating States to the 'same' standard. In practice, this can be thought of as occurring in three steps.

- States with a lower than average fiscal capacity are brought to average.
- All States are brought to the capacity of the fiscally strongest State.
- Any remaining equalisation pool funds are distributed equal per capita.

The table below shows these steps for the 2015 Review. It shows that 12% of the pool is required to bring all States to at least the average fiscal capacity (this is the same as for the redistribution from an equal per capita distribution). An additional 58%, for a total of 70% of the pool, is required to bring all States to the capacity of the fiscally strongest State, Western Australia.

Illustrative distribution of 2015-16 GST

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total	
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	
GST requirement	2 254	2 123	2 682	714	3 233	4 328	2 617	13 252	2 370	
of which									$m	%
1. Payment to bring recipients to the average fiscal capacity	0	0	312	0	863	1 958	247	10 882	6 854	12
2. Payment to bring all States to the capacity of the strongest state (i.e. same capacity)	1 540	1 409	1 656	0	1 656	1 656	1 656	1 656	33 110	58
3. Balance of GST pool	714	714	714	714	714	714	714	714	17 235	30
GST requirement	2 254	2 123	2 682	714	3 233	4 328	2 617	13 252	57 199	100

Source: R2015 Report, Volume 1, Chapter 3, Box 1; Commission calculation.

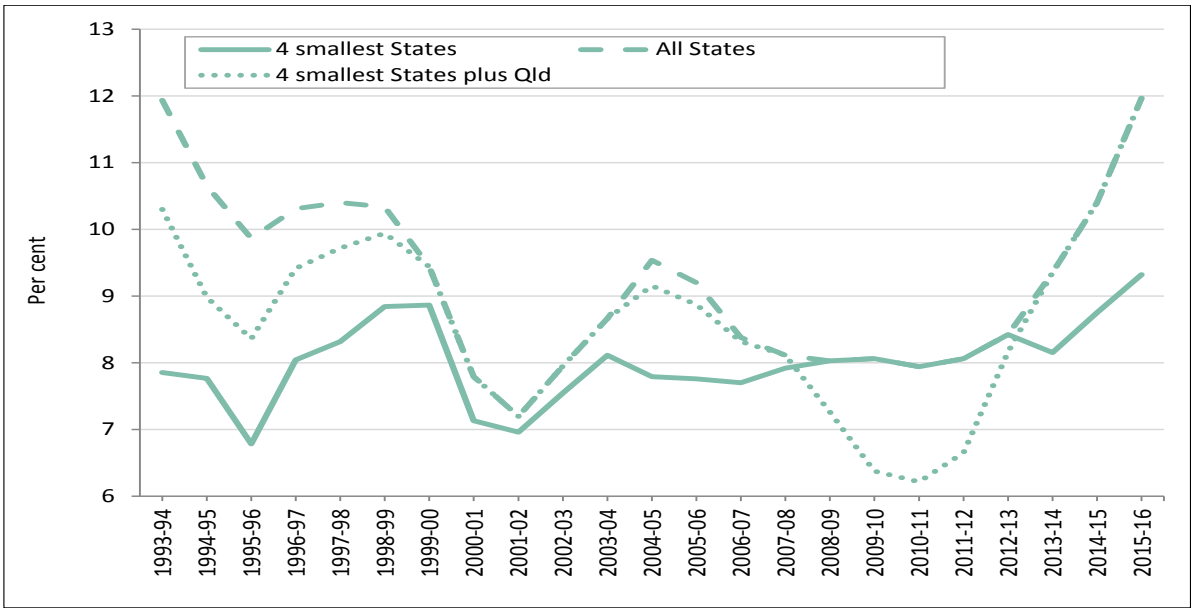
How much has been redistributed from stronger States to weaker States?

12 Figure 2 shows the proportion of the pool redistributed[5] from an equal per capita distribution to give all States the average fiscal capacity. It also shows the

[5] There was a time lag in the data used in the calculations of relativities and the year the relativities applied. For example, in the 2015 Review, data used in the assessment years (2011-12 to 2013-14)

redistribution required for the four smallest States (South Australia, Tasmania, the Australian Capital Territory and the Northern Territory) and the four smallest States plus Queensland.

Figure 2 Proportion of the pool redistributed to States with below average fiscal capacities, 1993-94 to 2015-16



Source: Commission calculation.

13 Over the last 23 years, around 7% to 12% of the pool has been redistributed annually. The redistribution of above 10% each year during 1993-94 to 1998-99 was mainly driven by the very strong fiscal capacities of New South Wales and Victoria. In the last eight years of the period, Western Australia dominated the redistribution.

14 As for the four smallest States, the percentage of the pool redistributed to them ranged from around 7% to 9% annually over the period. The equalisation task generated by the smallest States together has been increasing slowly over time and reaching its highest level in 2015-16.

15 Queensland's fiscal capacity fluctuated around the average, and it sometimes added to and sometimes moderated the equalisation task. In 2015-16, it added 2.6% to the proportion redistributed to the smallest States because of its below average fiscal capacities.

16 Figure 3 shows the redistribution for each State for the period 1993-94 to 2015-16. Table 2 shows the redistribution per person. They show that outcomes for all States were relatively stable in the first half of the period. In the second half of the period,

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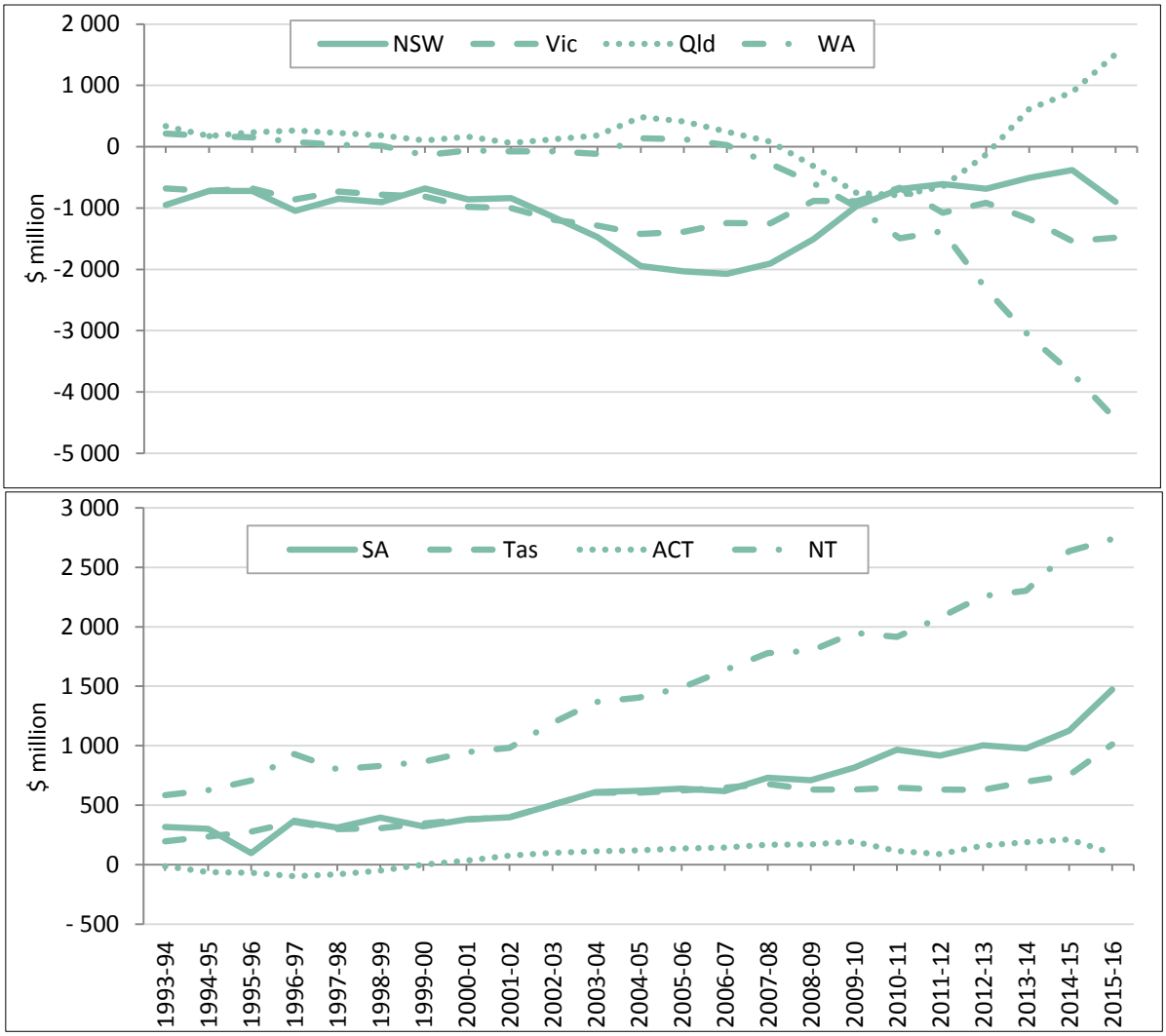
were used in the calculation of relativities for the distribution of GST in 2015-16. This means the relativities reflected the State circumstances in the assessment period and not the application period.

they varied much more. One reason for the variation is that the pool of GST revenue grew quicker than the pool of FAGs. A second reason was that States' fiscal capacities diverged because of the impact of the latest mining boom and the natural disasters that affected Queensland.

Figure 3 Pool redistribution, 1993-94 to 2015-16



Source: Commission calculation.

17 Specifically:

- New South Wales and Victoria were assessed to require less than their population share of the pool for the whole period.
- In all but five years (2008-09 to 2012-13), Queensland was assessed to require more than its population share.
- In the early part of the period, Western Australia was assessed to require more than its population share. Since 1999-2000 (except 2004-05 to 2006-07), it was assessed to require less than its population share.

- In the early part of the period, the ACT was assessed to require less than its population share. Since 1999-2000, it was assessed to require more than its population share.
- South Australia, Tasmania and the Northern Territory were assessed to require more than their population share of the pool for the whole period.

Table 2 Pool redistribution per person, 1993-94 to 2015-16

App year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redis	Redis /Pool
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	%
1993-94	- 158	- 152	107	125	215	416	- 47	3 428	93	11.9
1994-95	- 118	- 161	53	101	204	499	- 212	3 635	84	10.7
1995-96	- 117	- 151	71	89	66	585	- 226	4 004	81	9.9
1996-97	- 168	- 187	79	43	250	755	- 312	5 032	109	10.3
1997-98	- 135	- 158	65	16	211	631	- 261	4 232	89	10.4
1998-99	- 141	- 166	53	8	266	653	- 165	4 342	92	10.3
1999-00	- 104	- 172	28	- 73	215	738	1	4 455	85	9.4
2000-01	- 132	- 205	45	- 31	252	808	107	4 814	98	7.8
2001-02	- 126	- 206	17	- 41	263	841	234	4 910	98	7.2
2002-03	- 173	- 244	33	- 39	330	1 068	306	6 039	123	8.0
2003-04	- 220	- 260	48	- 59	398	1 263	347	6 885	144	8.7
2004-05	- 288	- 285	123	68	404	1 249	375	6 996	167	9.5
2005-06	- 299	- 275	103	60	413	1 279	415	7 282	167	9.2
2006-07	- 302	- 241	59	12	392	1 315	431	7 697	159	8.4
2007-08	- 275	- 239	20	- 131	459	1 367	490	8 170	162	8.1
2008-09	- 215	- 165	- 73	- 271	441	1 262	487	8 102	153	8.0
2009-10	- 135	- 161	- 168	- 431	499	1 249	546	8 547	162	8.1
2010-11	- 95	- 120	- 174	- 645	586	1 273	316	8 334	162	7.9
2011-12	- 84	- 193	- 144	- 577	557	1 231	241	8 936	165	8.1
2012-13	- 94	- 161	- 27	- 939	604	1 227	421	9 530	177	8.4
2013-14	- 68	- 204	131	-1 211	582	1 358	493	9 491	205	9.4
2014-15	- 50	- 261	187	-1 419	666	1 459	547	10 665	237	10.4
2015-16	- 117	- 247	311	-1 655	861	1 955	246	10 869	283	12.0

Source: Commission calculation.

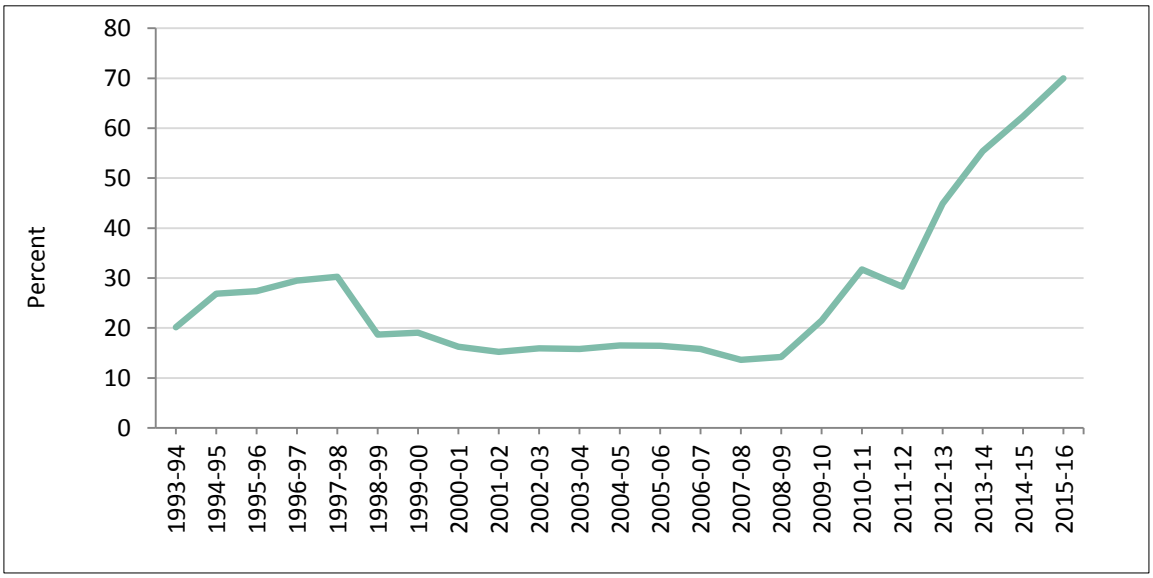
What was the minimum pool size required to achieve equalisation?

18 Figure 4 shows the percentage of the pool required to bring the fiscal capacities of all States to that of the strongest over the last 23 years. The percentage fluctuated between 20% and 30% in the first five years, decreased to between 15% and 19% in the next eleven years, then increased dramatically from 22% in 2009-10 to 70% in 2015-16. The dramatic increase of the percentage in the last six years was mainly driven by Western Australia, which shows its capacity far exceeded that of the others. To bring the fiscal capacities of all the other States up to that of Western Australia now requires a very large proportion of the pool.

19 During the period, the strongest States were:

- New South Wales — 1993-94, 2004-05 to 2007-08
- ACT — 1994-95 to 1997-98
- Victoria — 1999-2000 to 2003-04
- Western Australia — 2008-09 to 2015-16.

Figure 4 Percentage of the pool required for equalisation task, 1993-94 to 2015-16



Source: Commission calculation.

MAIN DRIVERS FOR DIFFERENT STATE FISCAL CAPACITIES

20 While changes in methods at a review can result in a change in measured State fiscal capacities, the underlying drivers include mineral endowments, levels of business activity, real estate markets, population demographics and population dispersion. These result in States having above or below fiscal capacities.

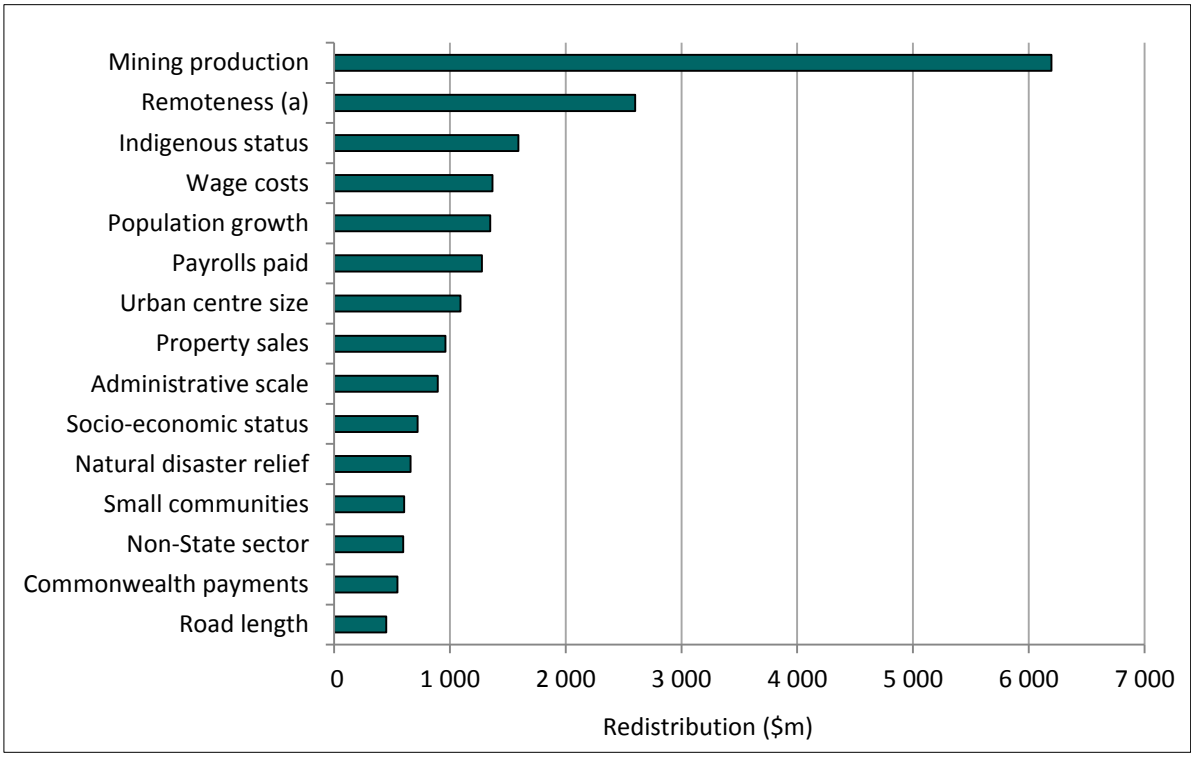
21 Figure 5 shows the main contributors to the redistribution of GST in the 2015 Review. Mining production, the effect of location on service use and unit cost (remoteness and regional costs) and Indigenous status were the three main causes of differences in States' assessed fiscal capacity in that review.

22 Mining production and Indigenous influences have been the most important contributors to the annual pool redistribution. Mining revenue was the top contributor in the last 12 years.

23 In addition, the costs of providing head office functions and whole of government services (as assessed in Administrative scale) and property sales (as assessed in Stamp duty on conveyances) were important between the 1999 Review and the 2009 Update, but were overtaken by remoteness from the 2010 Review onwards.

24 Because of changes in how the impacts of these drivers have been measured, we have not been able to quantify their relative impacts over time except for mining.

Figure 5 Main contributors to the redistribution of GST in the 2015 Review



(a) Includes remoteness and regional costs.
Source: Commission calculation.

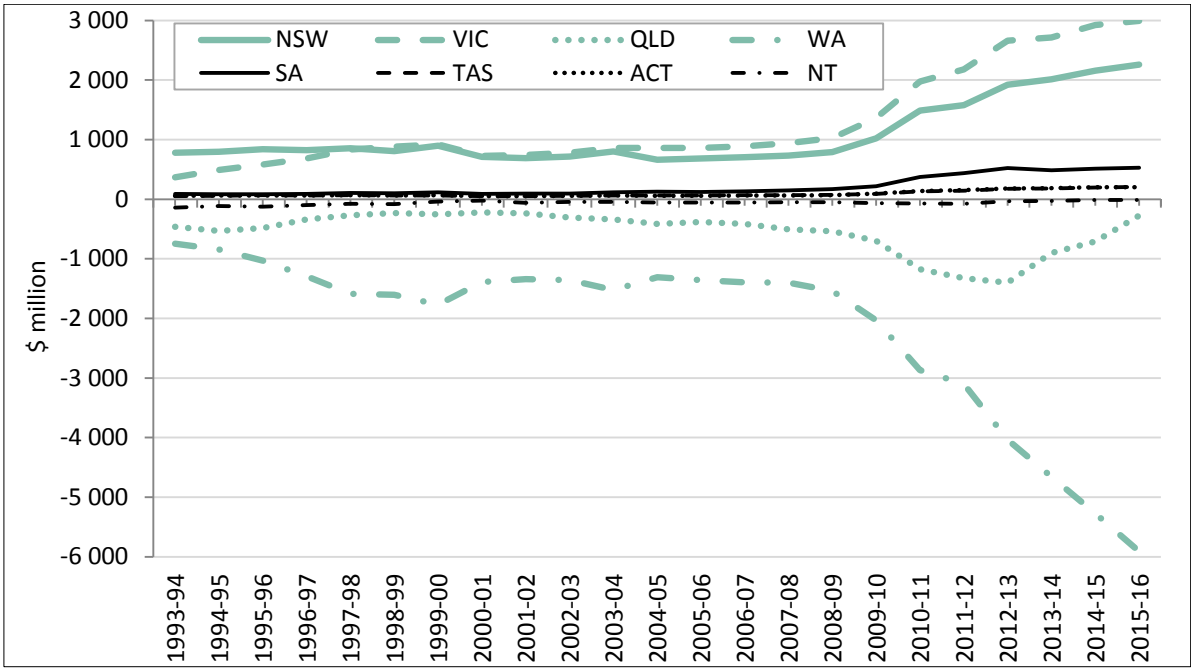
Mining production

25 Mining production was the largest single driver of differences in State fiscal capacities in the 2015 Review, even though only an average of 9.7% of State own-source revenue was directly collected from mining during 2011-12 to 2013-14. This is because mining is unevenly distributed between the States, much more so than all other revenue bases.

26 Figure 6 shows the pool redistribution as a result of the mining assessment from 1993-94 to 2015-16.

27 During 1993-94 to 2015-16, Queensland, Western Australia and the Northern Territory were assessed to have the capacity to raise above average levels of mining royalties. Western Australia's capacity grew very rapidly in the last eight years and that has contributed to its having the highest capacity to raise revenue in 2015-16. The other States, because of their below average capacities to raise mining revenue, received more than their population share of the pool.

Figure 6 Pool redistribution — impact of mining assessment, 1993-94 to 2015-16



Source: Commission calculation.

28 The growth in mining revenue from the 1993 Review to the 2015 Review has been large (almost double the growth in the equalisation pool) as well as being skewed to iron ore, for which Western Australia is by far the dominant State in terms of deposits. This combination has had a substantial effect on Western Australia's relativity.

29 Table 3 below shows the impact of mining growth on relativities under different scenarios. The second line shows the estimated relativities had mining revenue grown at only the rate of the pool, and the royalty revenue from any mineral did not grow materially differently to the others. The third line shows the estimated relativities had mining revenue grown at its actual rate, but again with no mineral royalties growing materially differently to the others. The fourth line shows the relativities recommended by the Commission in the 2015 Review.

Table 3 Impact of mining growth on relativities, 1993-94 to 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1993 Review	0.79844	0.80587	1.14009	1.16392	1.27997	1.53897	0.94204	5.42252
Pool growth, no differentiation	0.88062	0.75609	1.13869	0.92143	1.25695	1.70605	0.96119	5.39121
Full growth, no differentiation	0.95919	0.87765	1.03181	0.62458	1.26098	1.78293	1.09565	4.81030
2015 Review	0.94737	0.89254	1.12753	0.29999	1.35883	1.81906	1.10012	5.57053

Note: The effects of method changes and second round spending effects have been ignored.
Source: Commission calculation.

Commonwealth payments

30 In addition to the GST, the Commonwealth provides funding to the States by way of payments for specific purposes (PSPs)[6]. This funding is not distributed on an equal per capita basis and therefore affects each State's fiscal capacity differently.

31 PSPs were the fourteenth main contributor to the redistribution of GST in the 2015 Review. Their contribution was higher when the Commonwealth increased the level of assistance to all States in response to the global financial crisis.

32 Both GST and PSPs contribute to a State's fiscal capacity. Table 4 shows how much in total States were assessed to need to receive from the Commonwealth, compared to the average of all States to achieve fiscal equality in the 2015 Review. It also shows the distribution of the assessed PSPs and the required GST distribution.

Table 4 Relative Commonwealth funding per capita, 2015 Review

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	%	%	%	%	%	%	%	%	%
Total Commonwealth funding(a)	95.3	94.0	107.8	59.9	123.0	147.3	103.7	386.0	100.0
Payments of specific purposes(b)	96.2	100.0	101.1	99.0	105.8	102.2	95.8	162.1	100.0
GST requirement	94.7	89.3	112.8	30.0	135.9	181.9	110.0	557.1	100.0

(a) The assessed total requirement for Commonwealth funding is the average over the assessment period (2011-12 to 2013-14), expressed as a proportion of average.

(b) Include national agreement payments, specific purpose payments and national partnership payments that the Commission assessed.

Source: Commission calculation.

33 Table 4 shows, in the 2015 Review, New South Wales, Victoria and Western Australia were assessed to require less than the average per capita total Commonwealth funding while the other States were assessed to require more than the average. Western Australia's substantially above average own-source revenue raising capacity meant it has the lowest requirement for total Commonwealth funding to meet its spending needs and achieve fiscal equalisation, at 60% of the average. Western Australia received slightly less than the average level of PSPs and as a result was assessed as needing of 30% of the average GST payments.

34 The impact of Commonwealth funding can be illustrated differently. Table 5 shows Western Australia's strong revenue raising capacity meant that its slightly below average receipt of PSPs cover 42% of its total assessed Commonwealth assistance, with its GST requirement making up the remaining 58%. In contrast, the Northern Territory, despite receiving significantly above average PSPs, its high cost of

[6] Include payments under national agreements, specific purpose payments and national partnership payments.

delivering the average level of service meant that these payments only meet 15% of its total assessed Commonwealth assistance, with the GST having to meet the remaining 85%.

Table 5 Assessed Commonwealth funding, 2015 Review

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
Total Commonwealth funding	5 108	5 125	5 657	3 827	6 297	7 140	5 418	16 995	5 345
Payments of specific purposes	1 555	1 621	1 635	1 600	1 712	1 650	1 548	2625	1 617
GST requirement	3 553	3 504	4 022	2 227	4 586	5 490	3 870	14 370	3 728
	%	%	%	%	%	%	%	%	%
Total Commonwealth funding	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Payments of specific purposes	30.4	31.6	28.9	41.8	27.2	23.1	28.6	15.4	30.2
GST requirement	69.6	68.4	71.1	58.2	72.8	76.9	71.4	84.6	69.8

Note: Payments of specific purposes include national agreement payments, specific purpose payments and national partnership payments that the Commission assessed.

35 Table 6 illustrates the relative percentage of Commonwealth funding from 1993-94 to 2015-16.

Table 6 Relative Commonwealth funding per capita, percentage

App Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
Total Commonwealth funding									
1993-94	85.0	84.6	106.6	114.1	124.4	144.0	98.3	454.7	100.0
1994-95	88.2	84.7	103.0	111.2	120.0	147.6	88.7	477.9	100.0
1995-96	88.1	86.0	102.8	108.9	119.0	148.8	87.3	477.4	100.0
1996-97	87.9	87.8	102.7	105.6	118.0	149.8	88.2	470.7	100.0
1997-98	88.4	87.9	102.2	104.6	118.3	149.8	88.0	470.2	100.0
1998-99	88.3	88.1	101.2	104.1	119.9	149.0	93.3	460.5	100.0
1999-00	90.7	88.0	99.1	102.3	116.6	149.1	109.3	432.7	100.0
2000-01	91.4	88.5	100.3	104.4	115.3	142.6	110.1	383.0	100.0
2001-02	92.2	88.7	99.0	104.3	115.0	142.5	112.8	370.8	100.0
2002-03	90.9	88.1	99.7	105.8	116.0	145.5	113.3	384.8	100.0
2003-04	89.7	88.2	100.3	106.1	117.2	148.5	112.7	394.2	100.0
2004-05	88.6	87.1	105.1	102.3	118.2	150.5	111.1	396.9	100.0
2005-06	88.8	88.0	104.2	101.7	117.9	149.3	111.9	397.9	100.0
2006-07	89.3	89.8	102.4	100.1	116.7	148.6	111.2	401.8	100.0
2007-08	90.8	90.3	100.7	95.6	118.1	147.6	112.2	404.8	100.0
2008-09	92.7	92.2	97.2	90.4	118.1	146.2	112.1	416.2	100.0
2009-10	95.9	93.3	94.7	86.6	117.6	138.4	113.7	391.7	100.0
2010-11	97.0	94.2	97.3	82.1	118.0	134.1	103.3	351.2	100.0
2011-12	96.9	91.6	99.4	85.9	117.2	133.3	100.2	353.6	100.0
2012-13	96.9	92.2	101.5	79.3	117.0	135.6	103.9	357.2	100.0
2013-14	97.0	92.0	104.5	74.5	117.3	135.3	104.7	349.1	100.0
2014-15	97.3	92.1	105.0	70.0	116.9	136.5	107.1	375.2	100.0
2015-16	95.3	94.0	107.8	59.9	123.0	147.3	103.7	386.0	100.0
Payment for specific purposes									
1993-94	90.9	87.1	94.6	128.4	118.5	131.5	83.7	365.2	100.0
1994-95	91.8	91.0	94.7	128.7	107.6	121.5	81.6	349.0	100.0
1995-96	91.8	91.4	94.5	128.5	110.3	119.5	75.8	336.7	100.0
1996-97	90.6	89.6	93.9	129.7	113.4	122.5	83.6	375.5	100.0
1997-98	91.4	88.3	93.3	131.6	114.4	121.5	85.5	363.0	100.0
1998-99	91.6	88.3	95.9	136.6	106.7	114.7	83.3	341.8	100.0
1999-00	93.7	95.1	93.1	130.0	101.4	104.9	106.1	239.1	100.0
2000-01	93.5	94.9	93.1	131.6	102.0	104.2	105.0	232.4	100.0
2001-02	92.9	94.2	93.1	135.4	101.7	107.4	104.5	226.7	100.0
2002-03	92.3	93.8	93.3	141.3	101.0	102.4	104.8	211.6	100.0
2003-04	92.1	93.1	93.6	143.8	100.8	101.4	103.5	211.0	100.0
2004-05	98.0	90.0	103.0	98.4	107.3	124.0	102.2	251.3	100.0
2005-06	98.5	90.3	103.4	97.7	106.0	119.4	99.7	254.5	100.0
2006-07	99.3	90.6	102.7	98.4	105.9	116.1	94.1	245.0	100.0
2007-08	99.9	91.5	101.2	99.9	104.3	112.4	90.9	241.8	100.0
2008-09	101.2	90.6	100.7	101.0	104.1	111.1	85.9	233.2	100.0
2009-10	100.4	95.6	99.7	100.0	105.7	99.2	91.6	171.1	100.0
2010-11	99.5	94.7	103.7	98.9	105.2	100.2	89.2	161.6	100.0
2011-12	98.2	93.0	105.9	100.0	106.6	105.7	88.8	167.1	100.0
2012-13	98.3	92.3	104.3	100.5	106.5	115.5	89.9	184.3	100.0
2013-14	97.3	93.4	103.3	100.5	109.5	113.0	89.8	193.1	100.0
2014-15	97.3	95.7	101.9	100.3	105.3	111.3	92.1	195.5	100.0
2015-16	96.2	100.2	101.1	99.0	105.8	102.2	95.8	162.1	100.0

Note: The dashed lines indicate the years in which the Commission reviewed its method.

Source: Commission calculation.

STATE BY STATE ANALYSIS

New South Wales

36 Figure 7 shows the total redistribution (the solid black line) for New South Wales since the 1993 Review. For the whole period, the State was assessed to have an above average fiscal capacity.

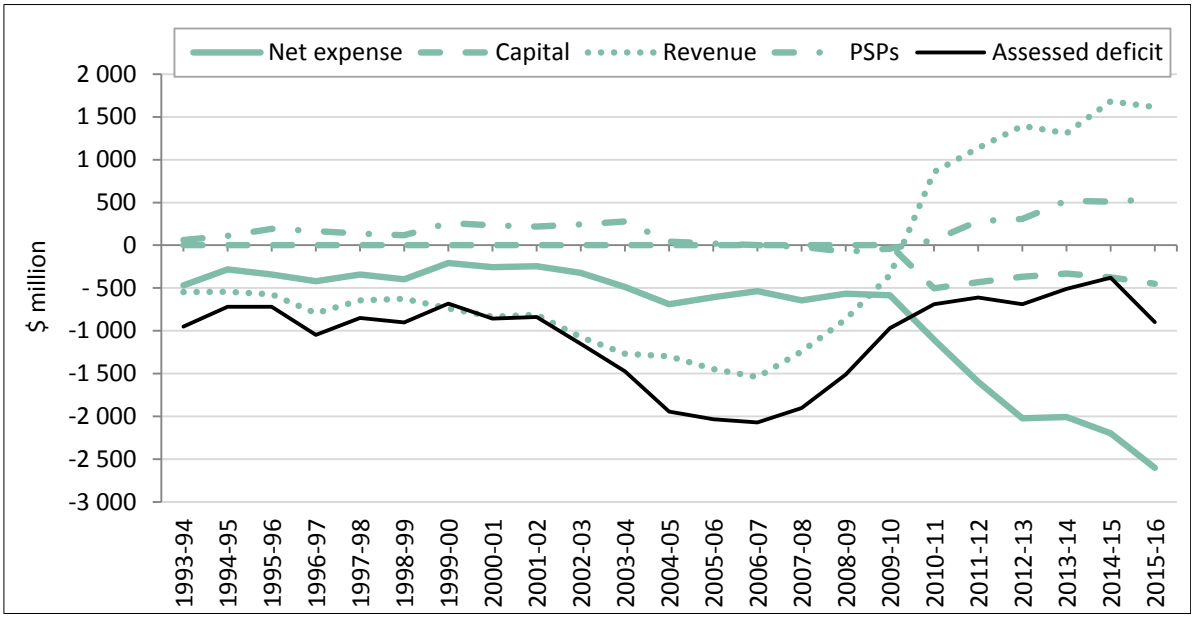
37 During 1993-94 to 2009-10, New South Wales was assessed to have an advantage in both revenue raising and cost of service provision. From 2010-11 onwards, the State was assessed to have a revenue disadvantage while its cost of service provision continued to be below average. Its expense advantage continued to increase following the 2010 Review.

38 Over the period, New South Wales' revenue raising capacity was above average in most areas, except mining and motor taxes. Its below average mining production resulted in large amounts of the pool redistributed to it, especially after 2010-11.

39 New South Wales had below average assessed costs of providing services, reflecting its below average shares of Indigenous people and people living in remote areas. Above average non-State provision of health services and economies of scale in administration also contributed, but above average wages increased its spending. The State also had a below average assessed requirement to acquire new assets because of its below average population growth.

40 For most of the period, New South Wales received less than its population share of Commonwealth payments.

Figure 7 Pool redistribution — New South Wales



Source: Commission calculation.

Victoria

41 Figure 8 shows the total redistribution (the solid black line) for Victoria since the 1993 Review. For the whole period, the State was assessed to have an above average fiscal capacity.

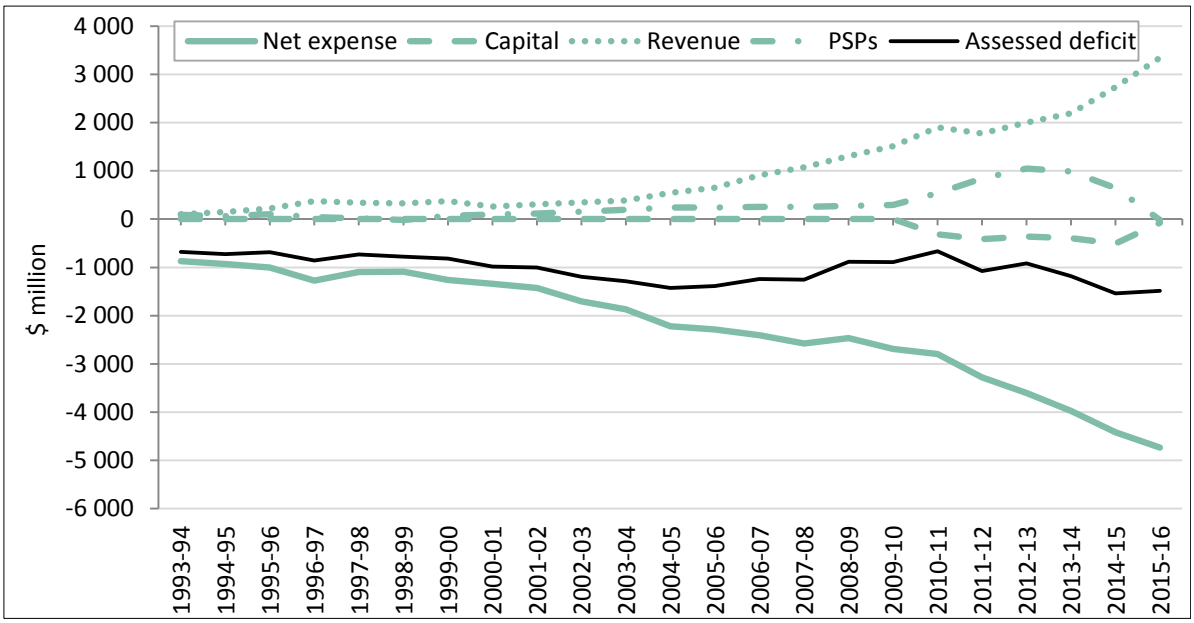
42 Over the period, Victoria was assessed to have an advantage in cost of service provision and a disadvantage in revenue raising. At times its revenue raising capacity grew faster than its assessed expense advantage (reducing its total redistribution) and at times slower (increasing its total redistribution).

43 Victoria's below average revenue raising capacity was mainly due to its well below average mining production. In some years, it had below average taxable payrolls, and in other years it had below average taxable residential land values and conveyancing values of transactions. These affect Victoria's revenue raising capacities differently over the years.

44 Victoria's below average assessed costs of providing services reflected its below average shares of government school enrolments, Indigenous people, people in areas of low socio-economic status and people in remote areas. It also had below average wage levels. The State also had a below average assessed requirement to acquire new assets because of its below average population growth.

45 For most of the period, Victoria received less than its population share of Commonwealth payments.

Figure 8 Pool redistribution — Victoria



Source: Commission calculation.

Queensland

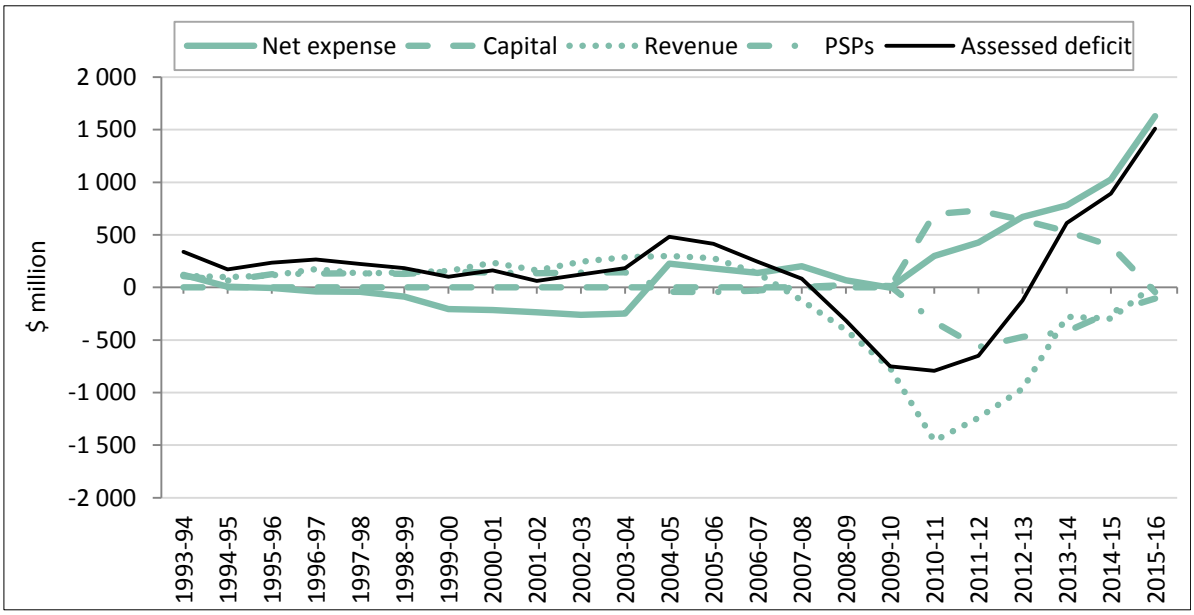
46 Figure 9 shows the total redistribution (the solid black line) for Queensland since the 1993 Review. For most of this period, Queensland was assessed to require more than its population share of the pool.

47 In the early part of the period, Queensland was assessed to have a revenue disadvantage. The onset of the mining boom quickly turned this to a revenue advantage which peaked in the 2010 Review and fell thereafter. In the 2015 Review, its revenue raising capacity was slightly below average which reflected its below average payroll tax base and below average stamp duty, although this was almost offset by its above average mining production.

48 Queensland was assessed to have an expense advantage up until the 2003 Update. From the 2004 Review onwards, Queensland was assessed to have an above average expense requirement, primarily due to its above average shares of government school enrolments, Indigenous people, people living in remote areas and road uses. These effects are partly offset by its below average wages and its ability to access some economies of scale. In recent years, natural disasters had led to a big increase in its expense disadvantage. Its above average population growth drove its above average requirement to acquire new assets.

49 In the early half of the period, Queensland received less than its population share of Commonwealth payments. This has changed and now Queensland receives more than its population share.

Figure 9 Pool redistribution — Queensland



Source: Commission calculation.

Western Australia

50 Figure 10 shows the total redistribution (the solid black line) for Western Australia since the 1993 Review. Over the period 1993-94 to 2007-08, its fiscal capacity was around the average. From 2008-09 onwards, Western Australia's fiscal capacity has become stronger and has had the strongest fiscal capacity among States since then.

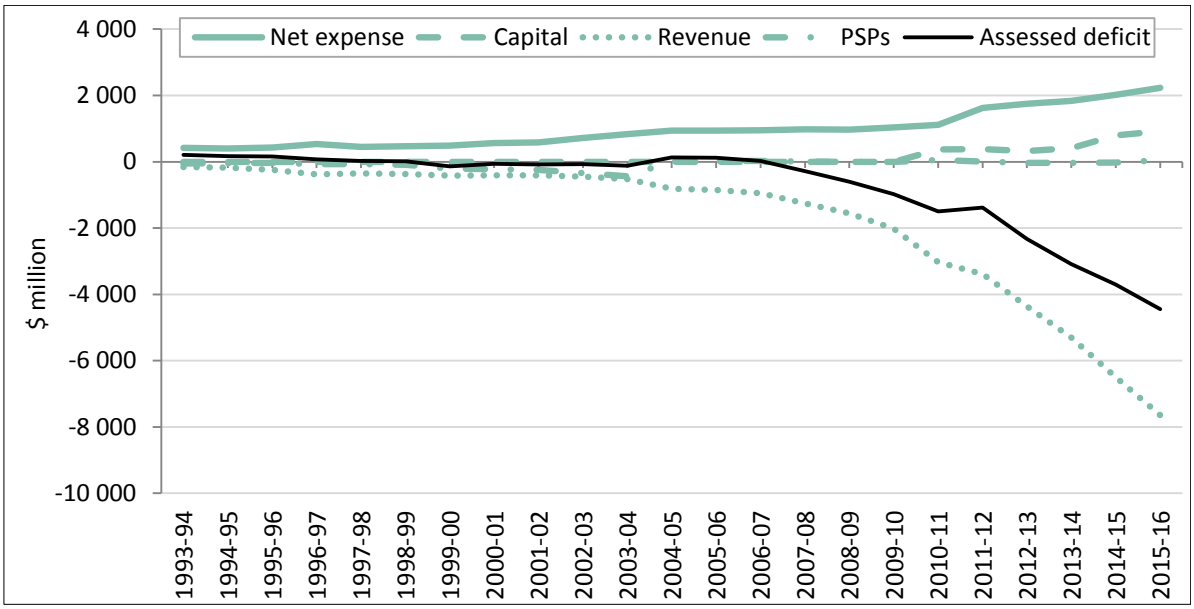
51 For all of this period, Western Australia was assessed to have a revenue advantage and an expense disadvantage.

52 Western Australia was assessed to have an above average revenue advantage in all revenue streams, except insurance. The onset of the latest mining boom increased its capacity rapidly and is now the dominant influence on its share of the pool.

53 Its above average assessed expenses and infrastructure requirements were due to above average shares of Indigenous people, people living in remote areas and above average population growth. Above average wage levels and below average non-State provision of health services also contributed.

54 For most of the period, Western Australia received an above average share of Commonwealth payments.

Figure 10 Pool redistribution — Western Australia



Source: Commission calculation.

South Australia

55 Figure 11 shows the total redistribution (the solid black line) for South Australia since the 1993 Review. Its fiscal capacity was below average for the whole period.

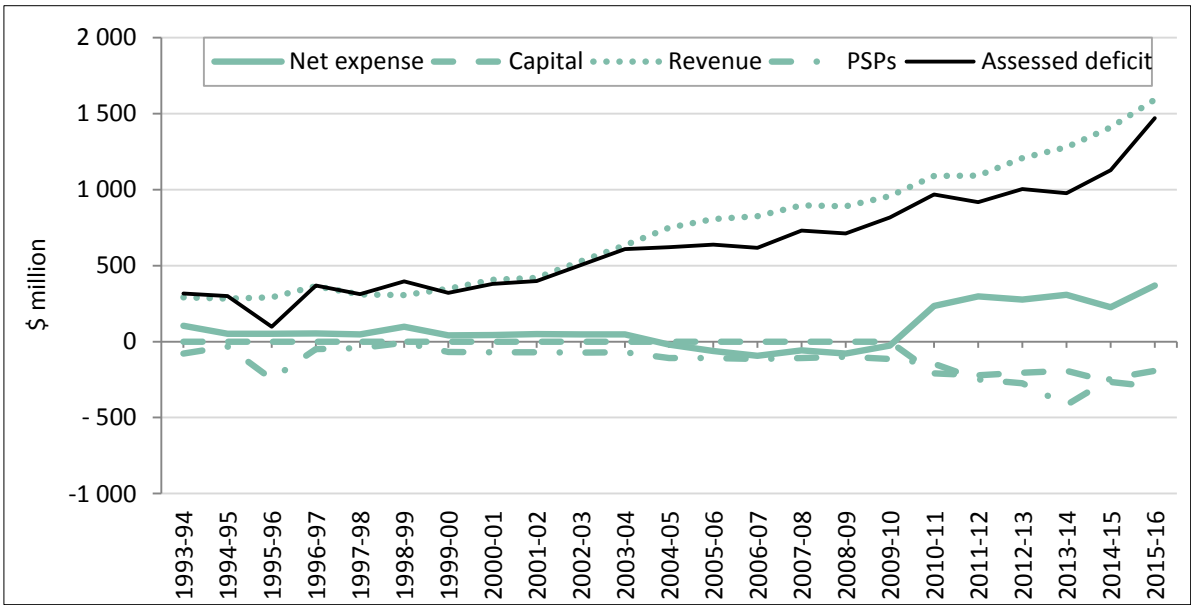
56 For all of this period, South Australia was assessed to have a revenue disadvantage. It was this disadvantage that dominated its share of the pool. It had below average revenue raising capacity across all State taxes, especially mining, payroll tax, stamp duty and land tax.

57 For most years, South Australia was assessed to have slightly above average expenditure requirements. This was because it had above average shares of older people and people with low socio-economic status, offset partially by below average wage levels and assessed transport costs.

58 It had below average population growth, leading to a below average assessed capital requirement.

59 For the whole period, South Australia received more than its population share of Commonwealth payments.

Figure 11 Pool redistribution — South Australia



Source: Commission calculation.

Tasmania

60 Figure 12 shows the total redistribution (the solid black line) for Tasmania since the 1993 Review. For all of this period, Tasmania was assessed to have disadvantages in revenue and service delivery expenses, and advantages in capital requirement and Commonwealth payments.

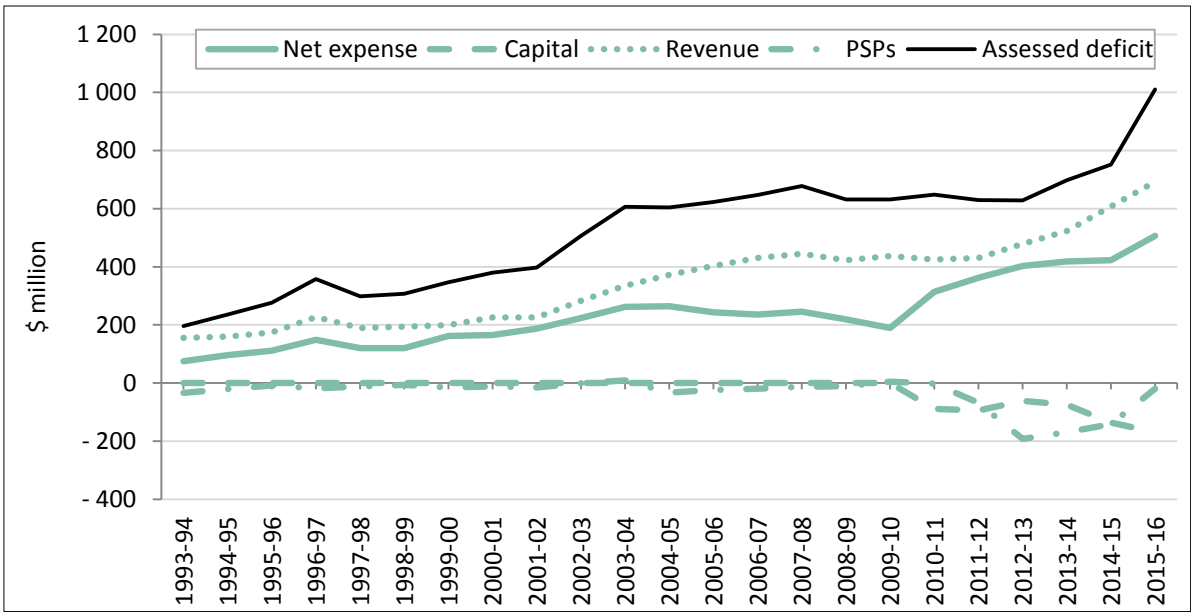
61 Tasmania had the weakest revenue raising capacity in most tax bases, along with well below average capacity for mining revenue.

62 Its above average service delivery costs are due to above average shares of people in areas with low socio-economic status, older people and government school students, compounded by diseconomies of small scale in administration.

63 A below average population growth is the main reason for its below average capital requirement.

64 For the whole period, Tasmania received more than its population share of Commonwealth payments.

Figure 12 Pool redistribution — Tasmania



Source: Commission calculation.

Australian Capital Territory

65 Figure 13 shows the total redistribution (the solid black line) for the ACT since the 1993 Review.

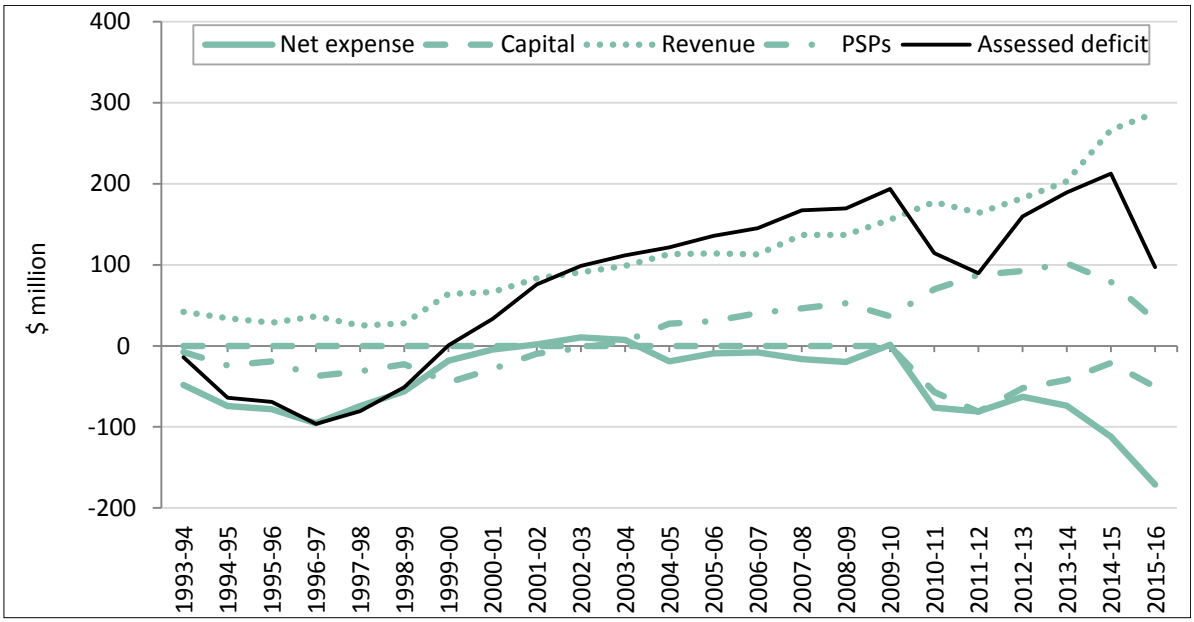
66 In the early part of this period, the ACT was assessed to require less than its population share of the pool, mainly because of its assessed expense advantage. Since the 1999 Review, its revenue disadvantage had been the dominant influence on its share of the pool.

67 The ACT had a below average capacity to raise revenue across most revenue streams. It had no mining industry and very low motor vehicle and land tax capacity. Its inability to raise payroll tax from the Commonwealth also contributed to its below average revenue raising capacity.

68 The low cost of its relatively young, urbanised, higher socio-economic status population, the lack of remote centres and rural road network more than offsets the impact of above average wage levels and diseconomies of small scale in administration. This affected both its service delivery expenses and investment needs.

69 During the first half of the period, ACT received more than its population share of Commonwealth payments. This changed from 2003-04 and since then the ACT received less than its population share of Commonwealth payments.

Figure 13 Pool redistribution — Australian Capital Territory



Source: Commission calculation.

Northern Territory

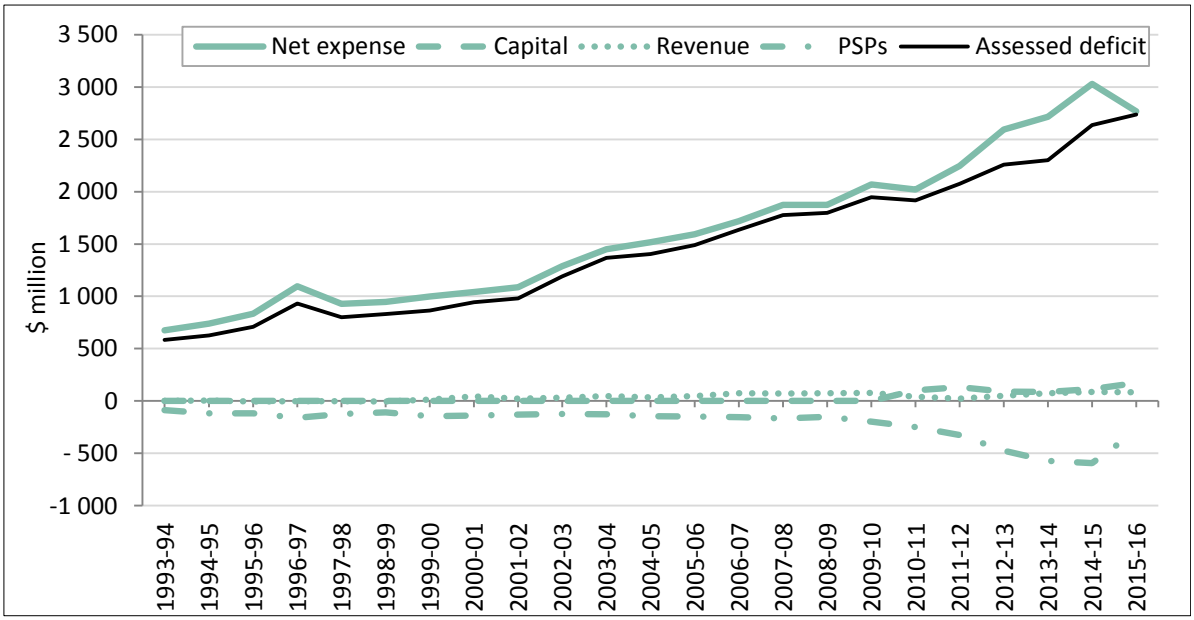
70 Figure 14 shows the total redistribution (the solid black line) for the Northern Territory since the 1993 Review. For the whole period, the Territory was assessed to require more than its population share of the pool, mainly due to its above average assessed expense and capital requirements.

71 From 1993-94 to 1998-99, the Northern Territory's revenue raising capacity was slightly above the average. This capacity decreased from 1999-2000 till now. It had below average revenue raising capacity for all revenue streams except mining, resulting in a slightly below average overall revenue raising capacity.

72 Its above average expense and capital requirements were due to its above shares of government school students, Indigenous people, young males and people in remote areas, and above average population growth. It also had below average non-State provision of health services, above average wage levels, and diseconomies of scale in administration. Its above average population growth drove its above average capital requirement.

73 For the whole period, Northern Territory received more than its population share of Commonwealth payments.

Figure 14 Pool Redistribution — Northern Territory



Source: Commission calculation.