



Australian Government

Commonwealth Grants Commission

**Report on
GST Revenue Sharing Relativities
2019 Update**

Canberra

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LETTER OF TRANSMITTAL



Australian Government
Commonwealth Grants Commission

LETTER OF TRANSMITTAL

19 February 2019

The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

As members of the Commonwealth Grants Commission appointed under the *Commonwealth Grants Commission Act 1973*, and in response to the terms of reference provided by you, we have prepared this report to provide updated per capita relativities for use in distributing GST revenue among the States and Territories in 2019-20.

In accordance with those terms of reference, we are also providing the results of the update to the States and Territories.

Yours sincerely

G J Smith
Chairperson

J D Petchey
Member

L S Williams AM
Member

P W Hendy
Member

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ACKNOWLEDGEMENTS

The Commission appreciates the ready co-operation extended to it and its staff during this update by staff of Commonwealth and State Treasuries and other agencies.

The Commission also acknowledges the commitment and capable contribution of its staff.

TERMS OF REFERENCE



THE HON JOSH FRYDENBERG MP
TREASURER
DEPUTY LEADER OF THE LIBERAL PARTY

Ref: MS19-000271

Mr Greg Smith
Chairperson
Commonwealth Grants Commission
Second floor, Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr Smith

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2019 Update of GST Revenue Sharing Relativities*.

The Commission should provide its report to the Government by 19 February 2019. A copy of the report should also be provided, under embargo, to the states and territories by 19 February 2019.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'JF'.

THE HON JOSH FRYDENBERG MP

11 / 2 / 2019

Terms of Reference for the 2019 Update of GST Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Josh Frydenberg, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon the recommended per capita relativities to be used to distribute GST revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) in 2019-20. The Commission should provide a copy of its report, under embargo, to the Commonwealth and the State Treasuries by 19 February 2019.

2. The Commission should undertake an assessment of the per capita relativities recommended to be used to distribute GST revenue among the States in 2019-20 (the GST relativities).
3. The Commission's assessment should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation (HFE).
4. The Commission's assessment should be based on the review period 2015-16 to 2017-18 inclusive. Where possible, the Commission should use the latest available data.
5. Subject to paragraphs 6 – 8, the Commission's assessment should be based on the application of the same principles, categories and methods of assessment that the Commission used to calculate the per capita relativities in its *Report on GST Revenue Sharing Relativities – 2018 Update*.
6. The Commission's assessment should treat Commonwealth payments to the States as follows:
 - (a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Quality Schools funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state services.
 - i. NHR funding and corresponding expenditure relating to the provision of cross-border services to the residents of other States should be allocated to States on the basis of residence.
 - (b) National Partnership facilitation and reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation process.
 - (c) General revenue assistance, excluding GST payments, will affect the relativities, recognising that these payments are available to provide untied general budget support to a State.
 - (d) Notwithstanding subparagraphs 6(a) – (c), the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of State governments in providing particular services.
 - (e) Those payments which the Commission has previously been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way.

Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 6(a) – (d), unless otherwise directed.

7. The Commission should prepare its assessment on a basis consistent with the Commonwealth's intention that the following Commonwealth payments should not directly influence the per capita relativities:
 - (a) Payments to New South Wales and Victoria relating to the sale of Snowy Hydro Ltd to the Commonwealth.
 - (b) Payments relating to the Project Agreement for the Health Innovation Fund – Stage 1.
 - (c) Payments to South Australia relating to the Project Agreement for the Proton Beam Facility.
 - (d) Payments to Tasmania relating to the Project Agreement for Queensland Fruit Fly Response in Tasmania.
 - (e) Payments to the Australian Capital Territory relating to the Project Agreement for the Expansion of Clare Holland House.
 - (f) Payments relating to the Project Agreement for the Western Australian Hospital Infrastructure Package.
 - (g) \$259.6 million in additional General Revenue Assistance to the Northern Territory to offset the reduction in its GST share.
 - (h) Payments to the Northern Territory of up to \$110 million per annum for 5 years for Remote Indigenous Housing commencing in 2018-19.
 - (i) Additional General Revenue Assistance relating to GST transitional support and top-up payments under the Commonwealth's HFE reform package:
 - i. to the Northern Territory to effectively lift its GST relativity to 4.66;
 - ii. to any other State or Territory to effectively lift their GST relativities to 0.7;
 - iii. to any State or Territory under subsection 5(3) of the *Federal Financial Relations Act 2009* (the cumulative 'no worse off' guarantee).
8. If data problems necessitate changes, the Commission should proceed on the basis that:
 - (a) new, more reliable data would be used in the first possible update, if method changes were not required; or
 - (b) if overcoming the data problems necessitated method changes, revised methods would be used in the first possible update, subject to consultation with the States during that update.
9. The Commission should consult the Commonwealth and the States before deciding on any changes in methods that arise as a result of a significant change in arrangements which govern Commonwealth-State relations and which are considered appropriate for the Commission to fulfil its obligations in respect of these terms of reference.
10. To the extent possible, the Commission should, upon reporting, provide all parties with details underpinning its calculations and assessments, and endeavour to meet requests for supplementary calculations.



JOSH FRYDENBERG

THE TASK

This report contains the Commission's response to the terms of reference for the 2019 Update received from the Commonwealth Treasurer on 12 February 2019.

The Commission has been asked to advise how Goods and Services Tax (GST) revenue should be distributed among the States in 2019-20. As directed in the terms of reference the Commission has:

- used the same principles and methods used in the 2018 Update
- used the latest available reliable data for the three years 2015-16 to 2017-18
- followed the guidance on the treatment of Commonwealth payments and direction on how some payments should be treated.

Details of the Commission's task are in Chapter 1 of the *Report on GST Revenue Sharing Relativities, 2015 Review, Volume 1* and the principles used in undertaking it are in Chapter 1 of Volume 2 in the same report. These documents are available on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>). An overview of the Commission's update processes is also available on the website.

CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW	2
Recommended GST distribution	2
Movements in the GST distribution	4
Why State fiscal capacities have changed	5
State by State changes since the 2018 Update	8
New South Wales	9
Victoria	10
Queensland	11
Western Australia	12
South Australia	13
Tasmania	14
Australian Capital Territory	15
Northern Territory	16
CHAPTER 1 – CHANGES IN THE GST DISTRIBUTION	17
Movements in the GST distribution	17
Why State fiscal capacities change between updates	18
Data revisions	19
Changes in State circumstances since the 2018 Update	20
Revenue	23
Commonwealth payments	27
Expenditure	28
Why State fiscal capacities differ	29
Size of the equalisation task	32
CHAPTER 2 – NEW ISSUES IN THIS UPDATE	36
Data issues	36
Incorporating 2016 Census data	36
Health data	37
Assessment issues	37
Mining revenue assessment	37
Natural disaster relief expenses	40
Treatment of National Disability Insurance Scheme (NDIS)	41
Treatment of Snowy Hydro Limited transfer	44
Rural road length	44
National redress scheme	45
Treatment of Commonwealth payments	45

Terms of reference (ToR) requirements	45
Treatment of new Commonwealth payments	46
Skilling Australians Fund	49
Remote Housing payment	50
Infrastructure investment program related payments	51
Wi-Fi and mobile coverage on trains	52
Hydrogen energy supply chain pilot project	52
Kamay 250 th anniversary project	53
South Sydney Rabbitohs' Centre of Excellence	54
Changes in the adjusted budget	55
Use of new Government Finance Statistics (GFS) classification data	55
State review of preliminary adjusted budget data	55
ATTACHMENT A – QUALITY ASSURANCE	57
Data quality improvement	57
Calculation audit processes	58
Reporting of methods, decisions and results	58
COMMISSION TERMINOLOGY	59
ACRONYMS	68

EXECUTIVE SUMMARY

This report recommends a distribution of GST revenue between the States in 2019-20 designed to give each of them the fiscal capacity to deliver services and the associated infrastructure at the same (average) standard, if each made the average effort to raise revenue from its own sources and operated at the average level of efficiency.

The GST distribution is based on the same methods applied in the 2018 Update, but using updated data, as required by the terms of reference. Data for 2017-18 are incorporated for the first time while, under the three-year averaging process, 2014-15 data drop out.

Differences in State fiscal capacities have reduced in this update, resulting in a decline in the proportion of GST revenue redistributed away from equal per capita (EPC) from States with above average fiscal capacities to those with below average fiscal capacities. The redistribution from EPC is estimated to fall from \$6.9 billion (10.4% of GST revenue in 2018-19) to \$6.5 billion (9.5%) in 2019-20.

The assessed fiscal capacities of Victoria, Queensland, South Australia and Tasmania have increased in this update, reducing those States' GST shares. Strong growth in property sales increased the revenue raising capacity of **Victoria**, but this influence was largely offset by an increase in service delivery costs, including wages. The effects of increased coal production and higher coal prices, and a continued decline in natural disaster expenses, reduced **Queensland's** GST share. A correction to States' previously reported natural disaster expenses contributed to this reduction. The scale of the increase in Queensland's fiscal capacity is such that, even taking into account growth in the GST pool, its recommended GST entitlement is slightly lower in 2019-20 than in 2018-19. **South Australia's** stronger fiscal capacity was driven by an increase in its share of Commonwealth payments and a decline in its share of population growth. The improvement in the fiscal capacity of **Tasmania** resulted from an increase in its revenue raising capacity and in its share of Commonwealth payments, partly offset by an increase in assessed wage costs.

The assessed fiscal capacities of the other four States have fallen, increasing those States' GST shares. A decrease in **New South Wales'** share of Commonwealth payments reduced its revenue raising capacity. **Western Australia** remains the fiscally strongest State but, between 2014-15 and 2017-18, its capacity to raise revenue from payroll tax, land tax, and stamp duty on conveyances declined. A fall in North West Shelf royalties also contributed to the decline in its revenue raising capacity. These changes were partly offset by a marked decline in its assessed wage costs (see Box 1-1 on page 22 for details). The **ACT's** weaker fiscal capacity resulted from above average growth in its wage levels between 2014-15 and 2017-18. The marginally weaker fiscal capacity of the **Northern Territory** resulted from an upward revision to its share of population growth, but this was largely offset by a fall in service delivery costs, including wages.

The Commission's recommended relativities for 2019-20 can be found at Table 1.

OVERVIEW

RECOMMENDED GST DISTRIBUTION

- Table 1 shows the per capita relativities the Commission recommends for use in distributing the GST revenue among the States in 2019-20. It also shows State shares of the GST revenue implied by the Commission's 2019-20 recommendations and an illustrative GST revenue distribution. The table compares these with the results for 2018-19.

Table 1 Relativities, shares and illustrative GST distribution, 2018-19 and 2019-20

	Relativities		GST shares		GST distribution	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
			%	%	\$m	\$m
New South Wales	0.85517	0.87013	27.4	27.9	18 257	19 269
Victoria	0.98670	0.98273	25.6	25.7	17 074	17 734
Queensland	1.09584	1.05370	22.0	21.1	14 630	14 558
Western Australia	0.47287	0.51842	4.9	5.4	3 271	3 694
South Australia	1.47727	1.46552	10.2	10.1	6 815	6 946
Tasmania	1.76706	1.75576	3.7	3.6	2 469	2 513
Australian Capital Territory	1.18070	1.23759	2.0	2.1	1 322	1 435
Northern Territory	4.25816	4.26735	4.2	4.1	2 792	2 860
Total	1.00000	1.00000	100.0	100.0	66 630	69 010

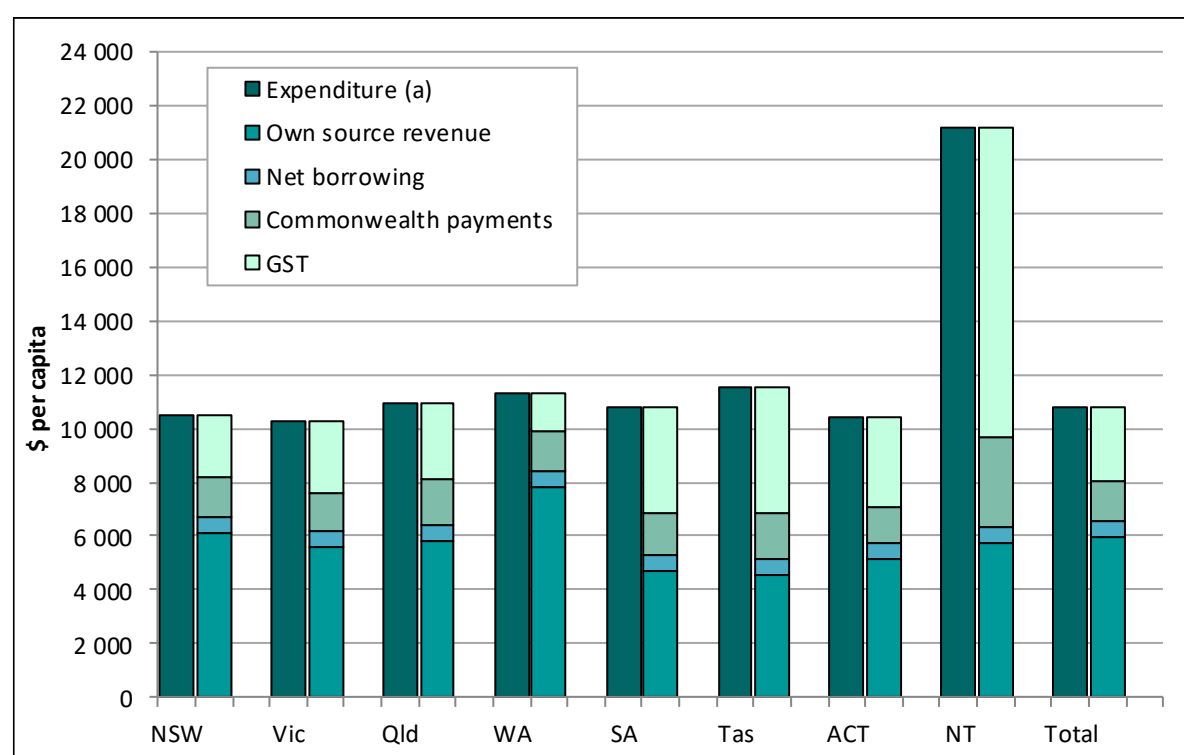
Source: Commission calculation.

- In addition to GST revenue, the Commonwealth will be making supplementary payments under its horizontal fiscal equalisation (HFE) reform package, to deliver an outcome equivalent to a relativity of 4.66 to the Northern Territory, and an outcome equivalent to a relativity of 0.7 to Western Australia.
- The methods used to derive these results for 2019-20 are set out in the *Report on GST Revenue Sharing Relativities, 2015 Review* and subsequent annual update reports. Using these methods, and data for 2015-16, 2016-17 and 2017-18, the Commission has measured how the economic, social, demographic and other characteristics of the States affect the relative expenses States need to incur to provide services (including infrastructure) and the relative capacity of States to raise their own revenue. The expense and revenue assessments are combined with the additional Commonwealth support States receive and data on State populations, to

calculate each State's share of the GST.¹ These shares aim to give each State in 2019-20 the fiscal capacity to provide the average standard of services and associated infrastructure for its population, if it makes the average effort to raise revenue and operates at the average level of efficiency.

- 4 Figure 1 illustrates the outcomes of this process. It shows that the per capita GST requirement for each State is the difference between the State's total assessed expenditure (expenses and investment) and the sum of its assessed own source revenue, assessed net borrowing and Commonwealth payments. Any additional payments received by States that are quarantined from the Commission's processes increase the fiscal capacities of those States relative to the other States.

Figure 1 Illustrative assessed budgets per capita, 2019-20



(a) Includes expenses and investment.

Source: Commission calculation.

- 5 Differences in State fiscal capacities have decreased in this update, resulting in a decline in the proportion of GST revenue redistributed away from EPC to the States with below average fiscal capacities. The proportion of GST revenue redistributed in this update fell from 10.4% (\$6.9 billion) to 9.5% (\$6.5 billion). The magnitude of the improvement in the fiscal capacity of Queensland is such that, even taking into

¹ The procedure used by the Commission to derive the recommended GST distribution using State revenue, expenditure and payments for specific purposes (PSPs) is called the distribution model. Information about the distribution model is available on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>).

account growth in the GST pool, its recommended GST entitlement is lower in 2019-20 than in 2018-19.

MOVEMENTS IN THE GST DISTRIBUTION

- 6 Table 2 shows the differences between the estimated GST distribution for 2018-19 and the illustrative distribution for 2019-20. Changes have occurred for a number of reasons:
- estimated State populations between 2018-19 and 2019-20 have changed
 - the amount of GST revenue available for distribution has increased
 - the relative fiscal capacities of the States have changed due to data revisions and changes in State circumstances.
- 7 The Commission's work focuses on the last factor — assessment of the changes in States' fiscal capacities.

Table 2 Distribution of the 2018-19 GST and illustrative 2019-20 GST distribution

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated 2018-19	18 257	17 074	14 630	3 271	6 815	2 469	1 322	2 792	66 630
Illustrative 2019-20 (a)	19 269	17 734	14 558	3 694	6 946	2 513	1 435	2 860	69 010
Change	1 012	661	-72	423	131	44	113	68	2 380
<i>Change caused by new:</i>									
Population (b)	28	119	-11	-18	-55	-27	0	-37	0
Pool (c)	653	614	522	116	241	87	47	98	2 380
Fiscal capacities (d)	331	-72	-583	324	-56	-16	66	6	0
Change (\$m)	1 012	661	-72	423	131	44	113	68	2 380
Change (\$pc)	123	99	-14	160	74	84	262	272	93

- (a) Obtained by applying the 2019 Update relativities to estimated State populations as at December 2019 and estimated GST revenue for 2019-20.
- (b) Effects on the distribution of 2018-19 GST revenue of using estimated State populations as at December 2019 instead of December 2018, with 2018 Update relativities.
- (c) Effect of applying the 2018 Update relativities to the estimated growth in GST revenue for 2019-20.
- (d) Effects on the distribution of the 2019-20 GST revenue of using the 2019 Update relativities instead of 2018 Update relativities.

Source: 2018-19 GST entitlement and 2019-20 GST revenue are taken from the *Australian Government Budget, Mid-Year Economic and Fiscal Outlook 2018-19*. December 2018 and 2019 population estimates were provided by the Commonwealth Treasury.

WHY STATE FISCAL CAPACITIES HAVE CHANGED

- 8 The Commission assesses fiscal capacities based on a rolling average of three years. In this update, revisions were first made to data used in the 2018 Update, including completing the revisions to Australian Bureau of Statistics (ABS) population estimates following the 2016 Census. Then, consistent with the terms of reference, the Commission added data for 2017-18 to its calculations and removed data for 2014-15. Largely due to a one-off correction to previously reported natural disaster expenses across States, and a reduction by New South Wales in its reported value of property sales in 2016-17, both revisions and changes in circumstances have been important influences on changes in measured State fiscal capacities.
- 9 The Commission has recommended a changed distribution for 2019-20 because new data reveal changes in fiscal capacities in all areas of State budgets, as shown in Table 3. Changes in States' estimated expense requirements and revenue raising capacities have been much more significant than changes in other aspects of State budgets.

Table 3 Change in fiscal capacities by source of change, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist (a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	231	436	-301	-425	50	27	64	-81	808
Investment requirement	38	-18	-4	-24	-95	2	9	93	141
Net borrowing	-2	16	-9	4	3	-6	-3	-3	23
Revenue raising capacity	-179	-598	-87	761	123	-13	-14	7	892
Commonwealth payments	244	92	-182	8	-137	-25	11	-10	354
Total	331	-72	-583	324	-56	-16	66	6	727

Note: The total change shown here, from 2018-19 to 2019-20, is equivalent to the change caused by new fiscal capacities shown in Table 2.

(a) The redistribution is calculated as the sum of all the positive numbers in the row.

Source: Commission calculation.

- 10 Table 4 shows the main causes of the change in the GST distribution. They are listed in order of importance. A reduction in expense needs or an increase in revenue raising capacity reduces a State's GST share, while an increase in expense needs or a reduction in revenue raising capacity increases its GST share.

Table 4 Causes of change in the GST distribution, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property sales	196	-630	200	233	13	-16	-20	25	666
Mining production	43	95	-436	217	74	8	13	-14	450
Wage costs	16	215	77	-363	6	29	35	-14	377
Natural disaster relief	146	174	-355	-21	32	3	12	9	376
Commonwealth payments	244	92	-182	8	-137	-25	11	-10	354
Taxable land values	-272	13	87	127	32	7	6	1	272
Taxable payrolls	-102	-68	41	154	0	-9	-12	-3	195
Investment growth	52	96	-83	-8	-33	-23	-14	13	161
Population growth	-33	-52	60	-14	-49	22	17	49	147
All other changes	41	-8	9	-9	7	-12	19	-48	77
Total	331	-72	-583	324	-56	-16	66	6	727

Source: Commission calculation.

11 The main causes of changes were as follows.

- **Property sales.** Differences in the rate of growth in the value of property sales between 2014-15 and 2017-18 affected States' revenue raising capacities. Victoria experienced the fastest growth in property sales. Property sales also increased faster than average in the ACT and Tasmania. These changes increased those States' revenue raising capacities, reducing their GST share. Property sales in Queensland and South Australia grew by less than average over the period, while property sales fell in Western Australia and the Northern Territory. As a result, these States experienced a decrease in their revenue raising capacity and an increase in their GST shares. While property sales in New South Wales grew by around the average over the period, downward revisions to its 2016-17 value of property sales decreased its revenue raising capacity and increased its GST share.
- **Mining production.** Between 2014-15 and 2017-18, the value of coal production rose by more than any other mineral. This increased the revenue raising capacity of the biggest coal producer, Queensland, and reduced the capacities of other States. Western Australia's revenue raising capacity was further reduced by a fall in North West Shelf royalties. These changes reduced Queensland's GST share and increased the shares of the other States.
- **Wage costs.** The Commission uses ABS Characteristics of Employment Survey (CoES) data to assess State wage costs. The latest ABS CoES data indicate that, between 2014-15 and 2017-18, wage levels rose more slowly in Western Australia and, to a lesser extent, in the Northern Territory compared with the other States. This reduced the GST shares of Western Australia and the Northern Territory. The CoES data indicate that wage levels in the other States have grown faster than average, increasing their assessed costs of delivering services and their GST shares.

- **Natural disaster relief.** Between 2014-15 and 2017-18, Queensland's net natural disaster relief expenses fell significantly, reducing its GST share. In addition, States have provided revised expenses for all years that exclude local government out of pocket expenses, to align with the 2015 Review method. The Commission made a one-off adjustment to correct for the previous overstatement of local government expenses in the assessment years, which particularly affected Queensland. No adjustment was made for years outside the assessment window. In total, these changes reduced the GST shares of Queensland and, to a lesser extent, Western Australia, and increased the GST shares of the other States.
- **Commonwealth payments.** There were large changes in the size and distribution of payments to the States between 2014-15 and 2017-18. New South Wales, Victoria, Western Australia and the ACT had a lower share of payments in 2017-18 than in 2014-15. This has increased their GST shares while the GST shares of the other States have reduced. These changes had the biggest impact on New South Wales, Queensland and South Australia. Payments for National health reform, road and rail infrastructure, and Quality schools funding for government schools contributed most to the change in the redistribution.
- **Taxable land values.** Differences between States in the rate of growth of taxable land values between 2014-15 and 2017-18 affected States' revenue raising capacities. Between 2014-15 and 2017-18, the value of taxable land grew fastest in New South Wales, increasing its revenue raising capacity and reducing its GST share. Slower growth in taxable land values in all other States reduced their revenue raising capacities, increasing their GST shares.
- **Taxable payrolls.** Differences between States in the rate of growth of taxable payrolls between 2014-15 and 2017-18 affected States' revenue raising capacities. Above average growth in taxable payrolls per capita in New South Wales, Victoria, Tasmania, ACT and the Northern Territory increased their revenue raising capacities and reduced their GST shares. Taxable payrolls in Queensland grew by less than the average over the period, and taxable payrolls actually fell in Western Australia. As a result, these States experienced a decrease in their revenue raising capacities and an increase in their GST shares.
- **Investment growth.** Between 2014-15 and 2017-18, total State investment in urban transport more than tripled. This resulted in an increase to the GST shares of New South Wales and Victoria, due to their above average urban transport investment needs. The Northern Territory's GST share has also increased due to an increase in rural road investment, for which it has above average needs.
- **Population growth.** Between 2014-15 and 2017-18, population growth rates increased considerably in Queensland, Tasmania and the ACT, increasing those States' investment needs and hence their GST shares. Over the same period,

population growth rates declined in Western Australia and South Australia, reducing those States' GST shares. Changes to population growth rates had relatively small effects on New South Wales and Victoria's GST shares. Revisions to ABS population growth estimates increased the GST share of the Northern Territory.

STATE BY STATE CHANGES SINCE THE 2018 UPDATE

- 12 Changes that have had important effects on the assessed fiscal capacity of each State are summarised in this section. Changes in assessed fiscal capacity can occur because more recent economic and demographic circumstances are being reflected in States' GST shares (referred to as changes in circumstances), or because historical data used in assessments have been revised (referred to as revisions).

New South Wales

Changes in this update. New South Wales' fiscal capacity has weakened, but it remains the second strongest State. A decline in its Commonwealth payments and downward revisions to its value of property sales increased New South Wales' GST share. These changes were partially offset by growth in its taxable land values and taxable payrolls. New South Wales' decreased fiscal capacity will see its GST share increase from 27.4% to 27.9%. Combined with pool growth, its GST entitlement in 2019-20 will rise by \$1 012 million, or 5.5%.

Table 5 Change in GST

	\$m	\$pc
Change due to:		
New population	28	3
Growth in GST available	653	79
New relativities	331	40
<i>Data revisions</i>	324	39
<i>Change in circumstances</i>	7	1
Total change	1 012	123

Note: Table may not add due to rounding.

Table 6 Main changes for New South Wales

\$m	Reason for change
-272	Taxable land values. Above average growth in taxable land values increased New South Wales' revenue raising capacity and reduced its GST share.
244	Commonwealth payments. New South Wales' share of payments was lower in 2017-18 than in 2014-15, mainly due to lower shares of payments for health and infrastructure. This increased its GST share.
196	Property sales. Downward revisions to its 2016-17 value of property sales reduced New South Wales' revenue raising capacity and increased its GST share.
146	Natural disaster relief. A one-off correction to remove local government out of pocket costs increased the GST share of States with a below average share of the correction, including New South Wales.
-102	Taxable payrolls. Above average growth in taxable payrolls increased New South Wales' capacity to raise revenue and reduced its share of GST.

Fiscal capacity. New South Wales' strong fiscal capacity is due to its below average expense requirement, reflecting the State's below average share of people living in remote areas, above average non-State provision of health services, and economies of scale in administration. It also has an above average capacity to raise revenue, with a high value of property sales, high land values and above average taxable payrolls.

Those effects on its fiscal capacity are partly offset by the State's above average investment requirement, mainly for urban transport, and a below average share of Commonwealth payments.

Table 7 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	22 105	2 690
Effect of assessed:		
Expenses	-2 278	-277
Investment	379	46
Net borrowing	7	1
Revenue	-1 206	-147
Commonwealth payments	263	32
Illustrative GST	19 269	2 344

Note: Table may not add due to rounding.

Victoria

Changes in this update. Victoria's fiscal capacity has been relatively stable and remains the third highest. Increases in its assessed wage costs, urban transport investment needs and share of National Disability Insurance Scheme (NDIS) contributions increased its GST share. These changes were offset by strong growth in the value of property sales. Despite a slight increase in its assessed fiscal capacity, a greater share of the estimated population in 2019-20 means Victoria's GST share will increase slightly from 25.6% to 25.7%. Combined with pool growth, its GST entitlement in 2019-20 will rise by \$661 million, or 3.9%.

Table 8 Change in GST

	\$m	\$pc
Change due to:		
New population	119	18
Growth in GST available	614	92
New relativities	-72	-11
Data revisions	-134	-20
Change in circumstances	62	9
Total change	661	99

Note: Table may not add due to rounding.

Table 9 Main changes for Victoria

\$m	Reason for change
-630	Property sales. Victoria had the highest growth in the value of property sales between 2014-15 and 2017-18, which increased its revenue raising capacity and reduced its GST share. As it has a higher than average value of property sales, the downward revision in New South Wales' 2016-17 value of property sales also affected Victoria, further reducing its GST share.
215	Wage costs. Above average growth in Victorian wage levels increased its assessed service delivery costs and its GST share.
174	Natural disaster relief. A one-off correction to remove local government out of pocket costs increased the GST share of States with a below average share of the correction, including Victoria.
103	People with disabilities. The method for assessing NDIS contributions has changed as most States will be funding NDIS under full scheme conditions in 2019-20. Victoria's NDIS contributions, and therefore assessed disability expenses, are higher under full scheme conditions than under transition arrangements, which have increased its GST share.
96	Investment growth. Growth in total urban transport investment from 2014-15 to 2017-18 increased Victoria's share of GST due to its above average urban transport investment needs.

Fiscal capacity. Victoria's strong fiscal capacity is due to its well below average expense requirement, reflecting its below average shares of government school enrolments, Indigenous people and people living in remote areas, and economies of scale in administration.

Those effects on its fiscal capacity are partly offset by its below average mining production and above average investment requirement due to an above average share of national population growth.

Table 10 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	18 014	2 690
Effect of assessed:		
Expenses	-4 791	-715
Investment	1 303	195
Net borrowing	-176	-26
Revenue	2 432	363
Commonwealth payments	953	142
Illustrative GST	17 734	2 648

Note: Table may not add due to rounding.

Queensland

Changes in this update. Queensland's fiscal capacity remains below average. However, its position has strengthened. Queensland remains the State with the fourth strongest fiscal capacity. Slower than average growth in the value of property sales and taxable land values increased its GST share. These changes were more than offset by an increase in coal royalties, a greater share of Commonwealth payments, and reduced natural disaster relief expenses. Compared with 2018-19, the State's GST share will fall from 22.0% to 21.1%. Growth in the pool does not offset the impact of Queensland's improved fiscal capacity, and its GST entitlement will fall slightly, by \$72 million, or 0.5%.

Table 11 Change in GST

	\$m	\$pc
Change due to:		
New population	-11	-2
Growth in GST available	522	102
New relativities	-583	-114
<i>Data revisions</i>	-292	-57
<i>Change in circumstances</i>	-291	-57
Total change	-72	-14

Note: Table may not add due to rounding.

Table 12 Main changes for Queensland

\$m	Reason for change
-436	Mining production. Queensland's value of coal production increased substantially between 2014-15 and 2017-18, which increased its revenue raising capacity and reduced its GST share.
-355	Natural disaster relief. Queensland's net natural disaster expenses were significantly lower in 2017-18 compared to 2014-15. In addition, a one-off correction to remove local government out of pocket costs reduced the GST share of States with an above average share of the correction, including Queensland.
200	Property sales. Slower than average growth in the value of property sales reduced Queensland's revenue raising capacity and increased its GST share.
-182	Commonwealth payments. Queensland's share of payments was greater in 2017-18 than in 2014-15, mainly due to higher shares of payments for health and infrastructure. This reduced its GST share.
87	Taxable land values. Below average growth in taxable land values reduced Queensland's revenue raising capacity and increased its GST share.

Fiscal capacity. Queensland's below average fiscal capacity is due to an above average expense requirement and below average revenue raising capacity. Its high expense requirement is due to above average shares of government school enrolments, Indigenous people and people living in remote areas. Its below average revenue raising capacity reflects its below average value of property sales, taxable payrolls and taxable land values.

Those effects on its fiscal capacity are partly offset by its above average mining production and share of Commonwealth payments.

Table 13 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	13 792	2 690
Effect of assessed:		
Expenses	1 406	274
Investment	-455	-89
Net borrowing	20	4
Revenue	510	99
Commonwealth payments	-714	-139
Illustrative GST	14 558	2 839

Note: Table may not add due to rounding.

Western Australia

Changes in this update. Western Australia remains the State with the strongest fiscal capacity but its fiscal capacity has weakened. As a result, Western Australia's share of GST revenue in 2019-20 will increase from 4.9% to 5.4%. This is primarily due to absolute falls in North West Shelf royalties, the value of property sales, taxable payrolls and taxable land values between 2014-15 and 2017-18. These changes were offset in large part by a decrease in its assessed wage costs. Compared with 2018-19, its GST share will rise by \$423 million, or 12.9%.

Table 14 Change in GST

	\$m	\$pc
Change due to:		
New population	-18	-7
Growth in GST available	116	44
New relativities	324	123
<i>Data revisions</i>	-4	-1
<i>Change in circumstances</i>	328	124
Total change	423	160

Note: Table may not add due to rounding. The Commonwealth will be making supplementary payments to Western Australia to deliver an outcome equivalent to a relativity of 0.7 (see paragraph 2).

Table 15 Main changes for Western Australia

\$m	Reason for change
-363	Wage costs. Below average growth in wage levels reduced Western Australia's assessed service delivery costs and its GST share.
233	Property sales. A fall in the value of property sales reduced Western Australia's revenue raising capacity and increased its GST share.
217	Mining production. An increased value of coal production in other States combined with a reduction in its North West Shelf royalties reduced Western Australia's revenue raising capacity and increased its GST share.
154	Taxable payrolls. A fall in taxable payrolls between 2014-15 and 2017-18 reduced Western Australia's revenue raising capacity and increased its GST share.
127	Taxable land values. A fall in land values reduced Western Australia's revenue raising capacity and increased its GST share.

Fiscal capacity. Western Australia's high fiscal capacity is due to above average capacity in all revenue streams except stamp duty and insurance tax. It has especially high capacity in mining revenue and, to a lesser extent, taxable payrolls. The effects on its fiscal capacity are partly offset by its having the third highest assessed expenses per capita.

Its high expense requirement is due to above average shares of Indigenous people and people in remote areas. Below average non-State provision of health services also contribute to its relatively high expense requirement.

Table 16 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	7 113	2 690
Effect of assessed:		
Expenses	1 994	754
Investment	-529	-200
Net borrowing	77	29
Revenue	-4 972	-1 880
Commonwealth payments	12	5
Illustrative GST	3 694	1 397

Note: Table may not add due to rounding.

South Australia

Changes in this update. South Australia's fiscal capacity, which remains the third lowest, has strengthened slightly due to an increase in its share of Commonwealth payments and a lower infrastructure requirement. These changes are partially offset by a decline in its share of mining production and below average growth in taxable land values. Compared with 2018-19, the State's share of GST will decrease slightly from 10.2% to 10.1%, but combined with pool growth, its GST entitlement will rise by \$131 million, or 1.9%.

Table 17 Change in GST

	\$m	\$pc
Change due to:		
New population	-55	-31
Growth in GST available	241	137
New relativities	-56	-32
<i>Data revisions</i>	-8	-5
<i>Change in circumstances</i>	-48	-27
Total change	131	74

Note: Table may not add due to rounding.

Table 18 Main changes for South Australia

\$m	Reason for change
-137	Commonwealth payments. South Australia's share of payments was greater in 2017-18 than in 2014-15. This reduced its GST share.
74	Mining production. An increased value of coal production in other States reduced South Australia's relative revenue raising capacity and increased its GST share.
-49	Population growth. A lower share of national population growth in South Australia has decreased its assessed investment needs.
-33	Investment growth. Growth in total urban transport investment from 2014-15 to 2017-18 decreased South Australia's share of GST due to its below average urban transport investment needs.
32	Taxable land values. Slower than average growth in land values reduced South Australia's revenue raising capacity and increased its GST share.

Fiscal capacity. South Australia's below average fiscal capacity is mainly due to its below average revenue raising capacity from property sales, mining royalties, taxable payrolls and taxable land values.

Those effects are reinforced by its above average expense requirement, which reflects its above average shares of older people and people of low socio-economic status, offset partially by below average wage costs and assessed transport costs.

Its above average requirement for GST is partially offset by an above average share of Commonwealth payments and its below average investment requirement due to a below average share of national population growth.

Table 19 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	4 731	2 690
Effect of assessed:		
Expenses	548	312
Investment	-442	-251
Net borrowing	53	30
Revenue	2 122	1 207
Commonwealth payments	-67	-38
Illustrative GST	6 946	3 949

Note: Table may not add due to rounding.

Tasmania

Changes in this update. Tasmania's fiscal capacity strengthened marginally but it remains the State with the second lowest fiscal capacity. Its expense needs increased due to increasing wage costs and higher population growth relative to previous years. These changes were offset by increases in its share of Commonwealth payments, above average growth in the value of property sales and a relative decline in urban transport investment needs. Tasmania's GST share will decrease slightly from 3.7% to 3.6%, but its GST entitlement in 2019-20 will rise by \$44 million, or 1.8%, due to growth in the pool.

Table 20 Change in GST

	\$m	\$pc
Change due to:		
New population	-27	-50
Growth in GST available	87	164
New relativities	-16	-31
<i>Data revisions</i>	1	1
<i>Change in circumstances</i>	-17	-32
Total change	44	84

Note: Table may not add due to rounding.

Table 21 Main changes for Tasmania

\$m	Reason for change
29	Wage costs. Above average growth in wage levels increased Tasmania's assessed service delivery costs and its GST share.
-25	Commonwealth payments. Tasmania's share of payments was greater in 2017-18 than in 2014-15, mainly due to higher shares of payments for road and hospital infrastructure. This reduced its GST share.
-23	Investment growth. Growth in total urban transport investment from 2014-15 to 2017-18 decreased Tasmania's share of payments due to its below average urban transport investment needs.
22	Population growth. Tasmania's share of national population growth increased between 2014-15 and 2017-18, increasing its assessed investment needs.
-16	Property sales. Above average growth in the value of property sales increased Tasmania's revenue raising capacity and reduced its GST share.

Fiscal capacity. Tasmania has weak revenue raising capacity, with well below average mining production, taxable payrolls and value of property sales. In addition, it has the second highest per capita assessed expenses for schools, health, housing and welfare.

These high service delivery costs reflect the State's above average shares of people in regional areas, people of low socio-economic status, older people and government school students. Tasmania's higher assessed costs are compounded by diseconomies of scale in administration.

Table 22 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	1 429	2 690
Effect of assessed:		
Expenses	587	1 106
Investment	-164	-309
Net borrowing	17	32
Revenue	731	1 375
Commonwealth payments	-86	-163
Illustrative GST	2 513	4 731

Note: Table may not add due to rounding.

Australian Capital Territory

Changes in this update. The ACT's fiscal capacity has weakened but it remains the fourth weakest State. Above average growth in wage levels, increasing population growth and growth in mining production in other States increased its GST share. These changes were partially offset by above average growth in the value of property sales and a relative decline in urban transport investment needs. Its weakened fiscal capacity will see its GST share increase from 2.0% to 2.1%. Combined with pool growth, its GST entitlement in 2019-20 will increase by \$113 million, or 8.5%.

Table 23 Change in GST

	\$m	\$pc
Change due to:		
New population	0	-1
Growth in GST available	47	110
New relativities	66	153
<i>Data revisions</i>	39	90
<i>Change in circumstances</i>	27	63
Total change	113	262

Note: Table may not add due to rounding.

Table 24 Main changes for the ACT

\$m	Reason for change
35	Wage costs. Above average growth in wage levels increased the ACT's assessed service delivery costs relative to other States and its GST share.
-20	Property sales. Above average growth in the value of property sales increased the ACT's revenue raising capacity and reduced its GST share.
17	Population growth. The ACT's share of national population growth increased between 2014-15 and 2017-18, increasing its assessed investment needs.
-14	Investment growth. Growth in total urban transport investment from 2014-15 to 2017-18 decreased the ACT's share of GST due to its below average urban transport investment needs.
13	Mining production. Growth in the value of coal production in other States reduced the ACT's relative revenue raising capacity, increasing its GST share.

Fiscal capacity. The ACT's below average fiscal capacity is due to its below average capacity to raise revenue across most revenue bases. The ACT is unable to levy taxes on Commonwealth agencies, such as on payrolls and land. It also has no mining industry and receives a below average share of Commonwealth payments.

The ACT's expense requirement is also below average, partially offsetting the effect of its low revenue raising capacity. The low cost of its relatively young, urbanised, higher socio-economic status population more than offsets the impact of diseconomies of scale in administration and above average wage costs.

Table 25 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	1 158	2 690
Effect of assessed:		
Expenses	-139	-322
Investment	-13	-29
Net borrowing	-6	-14
Revenue	335	779
Commonwealth payments	100	232
Illustrative GST	1 435	3 335

Note: Table may not add due to rounding.

Northern Territory

Changes in this update. The Northern Territory's fiscal capacity has deteriorated slightly. It remains the fiscally weakest State. Upward revisions to its share of population growth in the assessment years and a sharp decline in the value of property sales increased its GST share. These changes were largely offset by decreases in its share of NDIS contributions, revisions to health data and a relative decline in assessed wage costs. Despite the increase in its relativity, new population estimates for 2019-20 will see the Northern Territory's GST share fall from 4.2% to 4.1%. However, the Northern Territory's GST entitlement will rise by \$68 million, or 2.4%, mainly due to growth in the pool.

Table 26 Change in GST

	\$m	\$pc
Change due to:		
New population	-37	-148
Growth in GST available	98	396
New relativities	6	24
<i>Data revisions</i>	75	301
<i>Change in circumstances</i>	-69	-276
Total change	68	272

Note: Table may not add due to rounding. The Commonwealth will be making supplementary payments to the Northern Territory to deliver an outcome equivalent to a relativity of 4.66 (see paragraph 2).

Table 27 Main changes for the Northern Territory

\$m	Reason for change
49	Population growth. Upward revisions to ABS population growth estimates in the assessment years for the Northern Territory have increased its assessed investment needs.
-40	People with disabilities. The NDIS assessment has changed as most States will be funding NDIS under full scheme conditions in 2019-20. The Northern Territory's NDIS contributions, and therefore assessed disability expenses, are lower under the new arrangements, which has reduced its GST share.
25	Property sales. The Northern Territory's value of property sales fell between 2014-15 and 2017-18, reducing its revenue raising capacity and increasing its GST share.
-15	Use of health services. Revised data on the use of health services show that per capita spending nationally on people living in regional and remote areas has declined. All of the Northern Territory's population lives in these areas, causing a fall in its assessed spending and GST share.
-14	Wage costs. Below average growth in wage levels reduced the Northern Territory's assessed service delivery costs and its GST share.

Fiscal capacity. The Northern Territory's below average fiscal capacity is primarily due to its above average expense requirement. It has above average shares of high cost population groups, including exceptionally high proportions of Indigenous people and people living in remote areas.

These effects are reinforced by its below average capacity to raise revenue from property sales and taxable land values but are partially offset by its relatively strong mining and payroll tax bases. Its above average need for assistance is partially met through an above average share of Commonwealth payments.

Table 28 Illustrative GST, 2019-20

	\$m	\$pc
Equal per capita share	669	2 690
Effect of assessed:		
Expenses	2 672	10 744
Investment	-79	-316
Net borrowing	9	36
Revenue	48	192
Commonwealth payments	-460	-1 848
Illustrative GST	2 860	11 498

Note: Table may not add due to rounding.

CHAPTER 1

CHANGES IN THE GST DISTRIBUTION

1.1 This chapter explains in detail why the GST distribution in this update differs from the 2018 Update distribution.

MOVEMENTS IN THE GST DISTRIBUTION

1.2 Table 1-1 shows the differences between the estimated GST distribution for 2018-19 and the illustrative distribution for 2019-20 by State.

Table 1-1 Distribution of the 2018-19 GST and the illustrative 2019-20 GST distribution

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated 2018-19	18 257	17 074	14 630	3 271	6 815	2 469	1 322	2 792	66 630
Illustrative 2019-20 (a)	19 269	17 734	14 558	3 694	6 946	2 513	1 435	2 860	69 010
Change	1 012	661	-72	423	131	44	113	68	2 380
<i>Change caused by new:</i>									
Population (b)	28	119	-11	-18	-55	-27	0	-37	0
Pool (c)	653	614	522	116	241	87	47	98	2 380
Fiscal capacities (d)	331	-72	-583	324	-56	-16	66	6	0
Change (\$m)	1 012	661	-72	423	131	44	113	68	2 380
Change (\$pc)	123	99	-14	160	74	84	262	272	93

- (a) Obtained by applying the 2019 Update relativities to estimated State populations as at December 2019 and estimated GST revenue for 2019-20.
- (b) Effects on the distribution of 2018-19 GST revenue of using estimated State populations as at December 2019 instead of December 2018, with 2018 Update relativities.
- (c) Effect of applying the 2018 Update relativities to the estimated growth in GST revenue for 2019-20.
- (d) Effects on the distribution of the 2019-20 GST revenue of using the 2019 Update relativities instead of 2018 Update relativities.

Source: 2018-19 GST entitlement and 2019-20 GST revenue are taken from the *Australian Government Budget, Mid-Year Economic and Fiscal Outlook 2018-19*. December 2018 and 2019 population estimates were provided by the Commonwealth Treasury.

1.3 The two distributions differ for the following reasons.

- State populations have changed — the illustrative 2019-20 distribution is based on estimated State populations as at December 2019 whereas the 2018-19 distribution is based on populations for a year earlier. State shares of the total population differ slightly between these two dates and affect the total GST allocation for each State.

- The size of the GST pool available for distribution has changed. Any growth in the pool is distributed among States using their relativity-weighted population shares.
- The relativities used to distribute the GST have changed, reflecting changes in the assessed fiscal capacities of States. The illustrative 2019-20 distribution is based on the relativities recommended in this report whereas the 2018-19 distribution is based on relativities derived in the 2018 Update and subsequently determined by the Treasurer on 4 July 2018.²

1.4 The Commission's work affects only the changes in the relativities which the Commission derives from its assessment of State fiscal capacities.

Why State fiscal capacities change between updates

1.5 The total change in State fiscal capacities can be attributed to changes in Commonwealth payments for specific purposes, as well as changes in the Commission's assessments of each State's revenue raising capacity and its financing requirement to provide services and infrastructure. These changes occur for the following reasons.

- They reflect more recent economic and demographic circumstances of the States. The 2019 Update relativities are based on an average of data for 2015-16 to 2017-18, whereas the 2018 Update relativities were based on data for 2014-15 to 2016-17. Differences between the year brought into the three year average (2017-18 for this update) and the year deleted (2014-15) change the relativities. However, the three year averaging process means changes in circumstances have a gradual effect.
- Data used in the assessments in the 2018 Update may be revised. Revisions occur because new data become available. Revisions can also occur because data providers identify errors in their data or because of errors made by the Commission in previous inquiries.

1.6 Table 1-2 shows that data revisions and changes in State circumstances have each resulted in a redistribution of just over \$400 million. The main data revisions and changes in circumstances are discussed below.

1.7 In addition to revisions and changes in circumstances, subject to consultation with Commonwealth and State governments, the assessment approach may be varied if considered necessary to better reflect the current financial arrangements between the Commonwealth and State governments, or to overcome problems in the data used previously. In this update, the approach to assessing State NDIS contributions has changed to reflect that most States will be funding NDIS under full scheme conditions in 2019-20, the application year for this update. Details about this are in

² References to changes over time generally reflect the change over the assessment years, from dropping 2014-15 and including 2017-18. They are not intended to imply current or prospective movements.

Chapter 2. This approach to assessing NDIS expenses is in line with the Commission's proposed assessment in the 2015 Review, and follows further consultation with the Commonwealth and States in this update. Change in circumstances in Table 1-2 includes the effect of this assessment approach.

Table 1-2 Change in GST distribution by source of change, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist (a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Data revisions	324	-134	-292	-4	-8	1	39	75	438
Change in circumstances (b)	7	62	-291	328	-48	-17	27	-69	424
Total	331	-72	-583	324	-56	-16	66	6	727

(a) The redistribution is calculated as the sum of all the positive numbers in the row.

(b) Change in circumstances includes the effect of changing the method for assessing State NDIS contributions.

Source: Commission calculation.

1.8 Detailed tables on the changes resulting from each of the Commission's assessments can be found in the supporting information for this update which is available on the [Commission's website](https://www.cgc.gov.au/) (https://www.cgc.gov.au/).

DATA REVISIONS

1.9 Data revisions for the three years of the 2018 Update changed the redistribution by \$438 million in this update. The largest sources of revision are shown in Table 1-3. They relate to the following.

- **Natural disaster relief.** States have provided revised expenses for all years that exclude local government out of pocket expenses to align with the 2015 Review method. The Commission also made a one-off adjustment to correct for the previous overstatement of natural disaster relief expenses in 2015-16 and 2016-17. This reduced the GST shares of Queensland and, to a lesser extent, Western Australia due to their above average levels of local government expenses, and increased the GST shares of other States.³
- **Property sales.** New South Wales revised down the 2016-17 value of property sales data it had previously provided. This reduced its revenue raising capacity and increased its GST share. This change also affected Victoria, the other State assessed to have above average revenue raising capacity from property sales, increasing its relative revenue raising capacity and reducing its GST share.
- **Use of health services.** There have been revisions to the Independent Hospital Pricing Authority (IHPA) data used to measure the cost weighted use of

³ The Northern Territory also had above average local government expenses, but this was overshadowed by the removal of a one-off correction to natural disaster relief expenses that was made in the 2018 Update.

health services. The revisions are mainly due to the revised geography classification based on final 2016 Census data. The revised data show that, nationally, per capita spending on the population living in regional and remote areas has declined while spending in major cities has increased. As a result, assessed spending of States with a relatively high proportion of people living in regional and remote areas, including Queensland, Tasmania and the Northern Territory, has fallen; whereas the assessed spending of States with a relatively high proportion of people living in major cities, including New South Wales, Victoria, Western Australia, South Australia and the ACT, has increased.

- **Mining production.** A number of States revised value of production data they had previously provided, particularly in relation to coal seam gas. The aggregate effect of these revisions was to increase the revenue raising capacity of Victoria, reducing its GST share, while reducing (or having little effect) on the other States' revenue raising capacity.

Table 1-3 Main effects of data revisions, 2019 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Natural disaster relief	104	143	-268	-30	31	1	11	7	298
Property sales	197	-154	2	-22	-14	-5	-4	-1	199
Use of health services	11	20	-8	14	12	-29	10	-30	67
Mining production	23	-51	0	13	3	3	0	9	51
Other causes of change	-11	-93	-18	22	-41	30	20	90	162
Total	324	-134	-292	-4	-8	1	39	75	438

Source: Commission calculation.

CHANGES IN STATE CIRCUMSTANCES SINCE THE 2018 UPDATE

1.10 This section describes the main changes in circumstances since the 2018 Update — that is, the changes which occur when revised 2014-15 data are removed and replaced with 2017-18 data. Table 1-4 shows the effect of these changes across the different assessment areas. Box 1-1 provides some context by detailing the effect of the 'mining boom' on State economies and population growth.

Table 1-4 Composition of changes in State circumstances since the 2018 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	132	314	-26	-421	37	32	26	-94	540
Investment requirement	45	52	3	-40	-93	-7	3	37	140
Net borrowing	0	9	-13	8	4	-5	-3	-1	21
Revenue capacity	-414	-404	-74	772	142	-11	-11	-1	914
Commonwealth payments	244	92	-182	8	-137	-25	11	-10	354
Total	7	62	-291	328	-48	-17	27	-69	424

Note: The amounts shown in this table are the changes in the GST distribution from replacing revised 2014-15 data with 2017-18 data. They differ from the amounts shown in Table 3 in the Overview, which also include the effects of revising data. Totals may not add due to rounding.

Source: Commission calculation.

1.11 The changes shown in Table 1-4 can be further disaggregated. Table 1-5 shows the changes in individual drivers that made the largest contribution to the changes in State circumstances between the 2018 and 2019 Updates.

Table 1-5 Contribution to changes in State circumstances, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property sales	-1	-476	197	255	27	-11	-17	26	505
Mining production	20	146	-435	204	70	5	12	-23	458
Wage costs	16	214	76	-360	5	28	36	-14	374
Commonwealth payments	244	92	-182	8	-137	-25	11	-10	354
Taxable land values	-284	8	103	125	33	7	6	1	284
Taxable payrolls	-106	-72	40	156	7	-8	-13	-4	203
Investment growth	67	119	-94	-18	-38	-25	-12	1	188
Other causes of change	51	31	5	-43	-14	12	4	-46	103
Total	7	62	-291	328	-48	-17	27	-69	424

Note: The amounts shown in this table are the changes in the GST distribution from replacing revised 2014-15 data with 2017-18 data. They differ from the amounts shown in Table 4 in the Overview, which include the effect of revising data. Totals may not add due to rounding.

Source: Commission calculation.

1.12 The following sections explain the main causes of change in State circumstances.

Box 1-1 Economic developments and population movements in Australia

Earlier this century Western Australia, and to a lesser extent Queensland, experienced unprecedented growth in their mining industries, leading to a structural change in these States' fiscal circumstances. Strong royalty revenues associated with this growth are continuing, especially in Western Australia, which, in addition to its unprecedentedly strong iron ore mining royalties, is also well placed for growth in royalties from gas, lithium and other minerals.

During the investment phase of the mining boom, the effects on Western Australia's GST share due to its increased revenue strength flowing from these royalties were partially offset by the costs associated with its higher population growth and wage levels compared to the other States. Now that Western Australia no longer has above average population growth and is now experiencing declining relative wage levels, these offsetting effects are lessening. Population growth and wage levels are two important factors affecting States' costs and GST shares. These effects change as the Australian economy evolves.

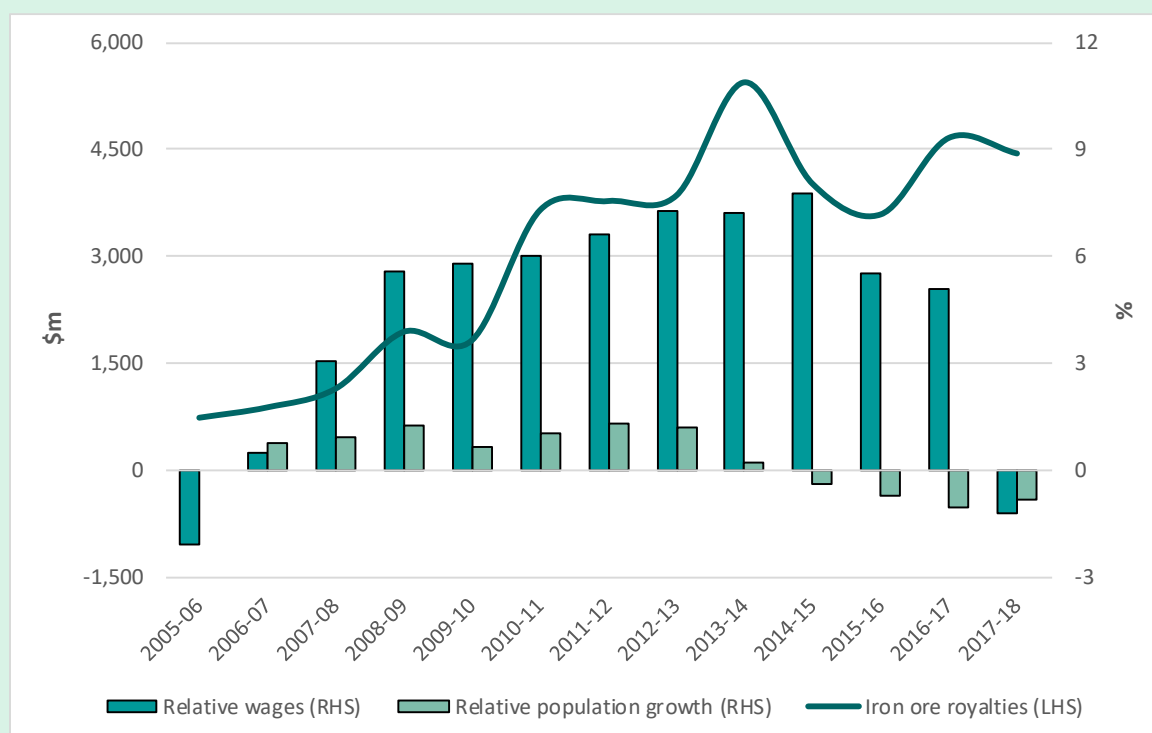
While the construction phase of the mining boom has set in place the capacity for continued high production volumes, differences between the States in population growth and wage costs are lessening, as the 'two speed' economy moves back towards more even growth.

Western Australia's relative wage levels peaked in 2014-15. As that year exits the Commission's three-year assessment window, there has been a large downward effect on Western Australia's GST share. At the same time, New South Wales and Victorian wage growth has increased. At the same time, Western Australia's population growth has fallen from levels that were consistently well above average, to below average.

The same methodology outlined in the 2015 Review is used in this Update. Changes in GST shares reflect new data, in particular State data on mining activity and, in the case of population growth and wage levels, ABS data. The updated GST shares reflect the inclusion of these new data, which are showing the persisting strength in Western Australia mining revenue capacity and the convergence or reversal of other measures affecting the cost of service delivery, to levels similar to the eastern States.

Figure 1-1 shows the continuing strength in Western Australia's iron ore royalties, along with its changing relative wage levels and relative population growth since the commencement of the mining boom in the mid-2000s.

Figure 1-1 Iron ore royalties, relative wage levels and relative population growth, Western Australia, 2005-06 to 2017-18



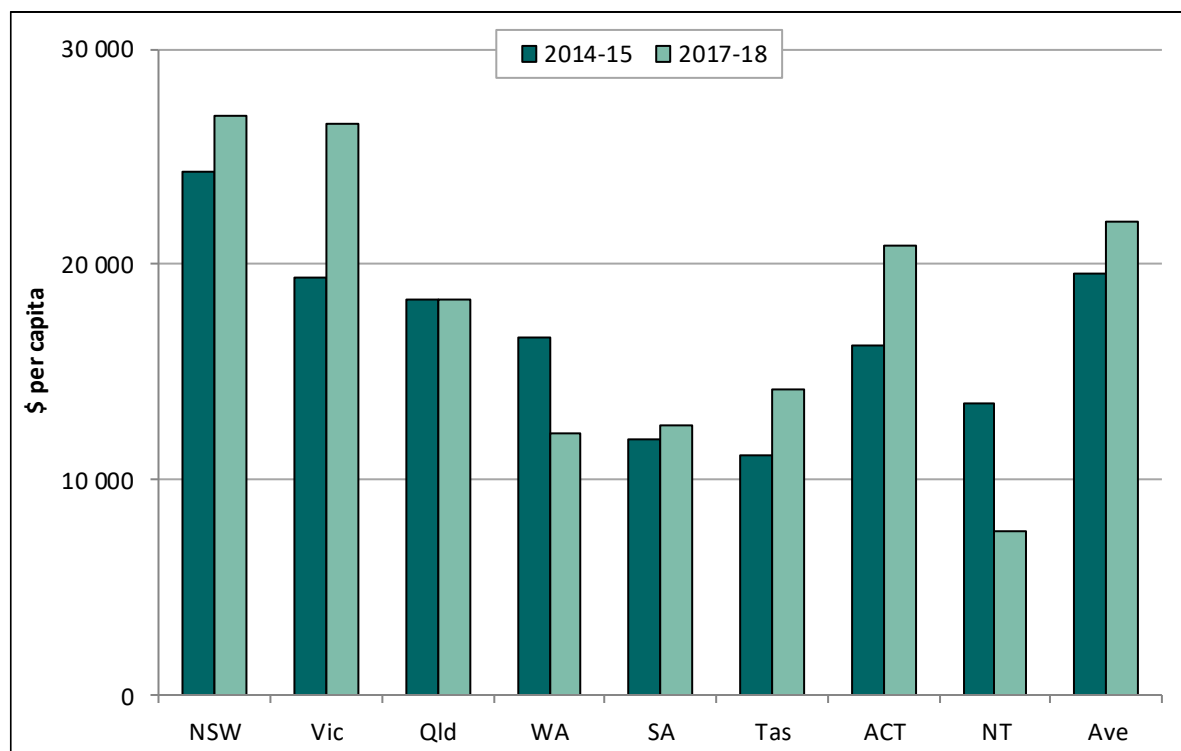
Note: Relative wage levels and relative population growth refer to the percentage point difference in assessed wage and population growth between Western Australia and the national average.
Source: ABS Cat. No. 3101.0, Australian Demographic Statistics; Commission calculation using ABS CoES data and State provided revenue data.

Revenue

Property sales

- 1.13 Stamp duties raised from the transfer of property are volatile. Cycles in property markets can lead to substantial changes across years and States, which can have marked effects on assessed revenue capacities.
- 1.14 Between 2014-15 and 2017-18, the value of property transferred nationally grew by 17%. Victoria, Tasmania and the ACT experienced above average growth, New South Wales experienced average growth and four States experienced below average growth — Queensland (5%), Western Australia (-26%), South Australia (7%) and the Northern Territory (-43%). As a result, \$505 million has been redistributed to these States, primarily from Victoria. Figure 1-2 shows the change in States' per capita value of property transferred between 2014-15 and 2017-18.

Figure 1-2 Value of property transfers per capita by State, 2014-15 and 2017-18



Note: Total value of taxable property transfers in a State divided by the resident population in that State. Data are adjusted to account for differences between States in the scope of conveyances.

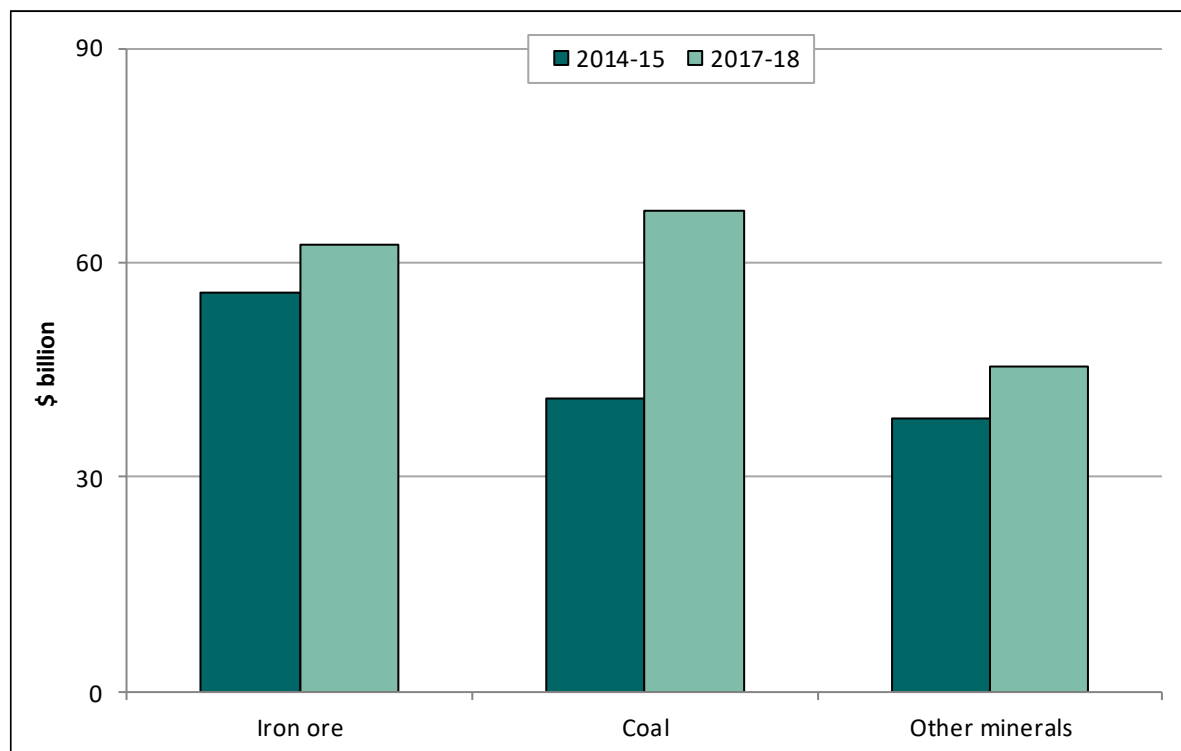
Source: State data returns.

Mining production

1.15 The uneven distribution between States of resource endowments and mining activity, together with commodity price changes, can produce large movements in the value of mining production from year to year. Thus, the mining revenue assessment can give rise to significant redistributions in GST revenue. Compared with the 2018 Update, \$435 million was redistributed from Queensland and \$204 million to Western Australia following changes in the value of mining production.

1.16 Figure 1-3 shows the increase in the value of iron ore, coal and other minerals production between 2014-15 and 2017-18. It shows the biggest increase was for coal, which largely explains the increase in Queensland's mining revenue capacity. In addition, Western Australia's share of North West Shelf royalties declined between 2014-15 and 2017-18, reducing its assessed mining revenue. The net effect of both changes was to increase Queensland's fiscal capacity and reduce Western Australia's. In turn, this reduced Queensland's share of GST and increased Western Australia's share.

Figure 1-3 Mining value of production, dollars billion, selected minerals, 2014-15 and 2017-18



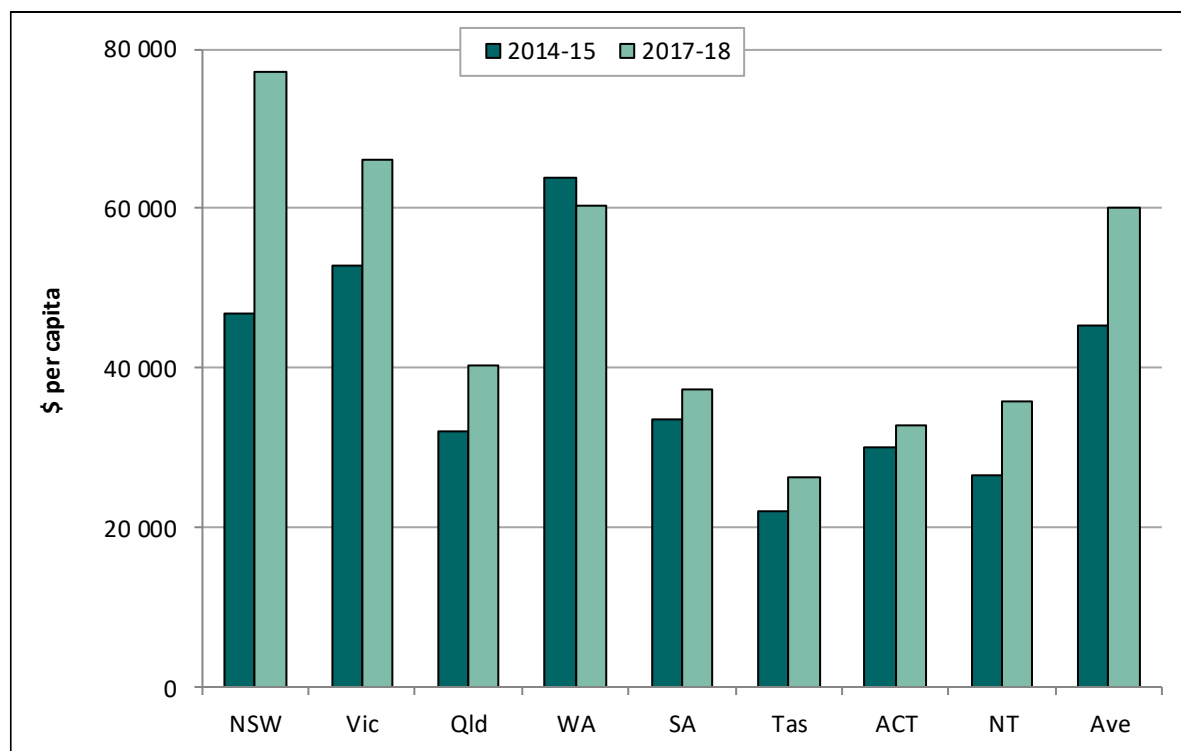
Source: State data returns.

- 1.17 **Coal.** Between 2014-15 and 2017-18 the value of coal production in Australia increased by 64% to \$67 billion. As Queensland accounts for more than 60% of the value of Australia's coal production, this increase affected its fiscal capacity the most.
- 1.18 **Iron ore.** Between 2014-15 and 2017-18 the value of iron ore production in Australia grew by 12% to \$63 billion. As Western Australia accounts for around 98% of the value of Australia's iron ore production, the increase affected its fiscal capacity the most.
- 1.19 **North West Shelf royalties.** Between 2014-15 and 2017-18, North West Shelf royalties declined 28%. These royalties are paid only to Western Australia, so the decline reduced its revenue capacity and increased its GST share.

Taxable land values

- 1.20 Property market cycles can lead to year on year changes in State land values. These cycles have changed State land tax capacities in this update.
- 1.21 Between 2014-15 and 2017-18, most States experienced growth in the value of their taxable land. Only New South Wales (72%) experienced growth in excess of the average (39%). As a result, its fiscal capacity rose relative to other States and its GST fell by \$284 million.
- 1.22 Figure 1-4 shows the change in States' per capita taxable land values between 2014-15 and 2017-18.

Figure 1-4 Total taxable land values per capita by State, 2014-15 and 2017-18



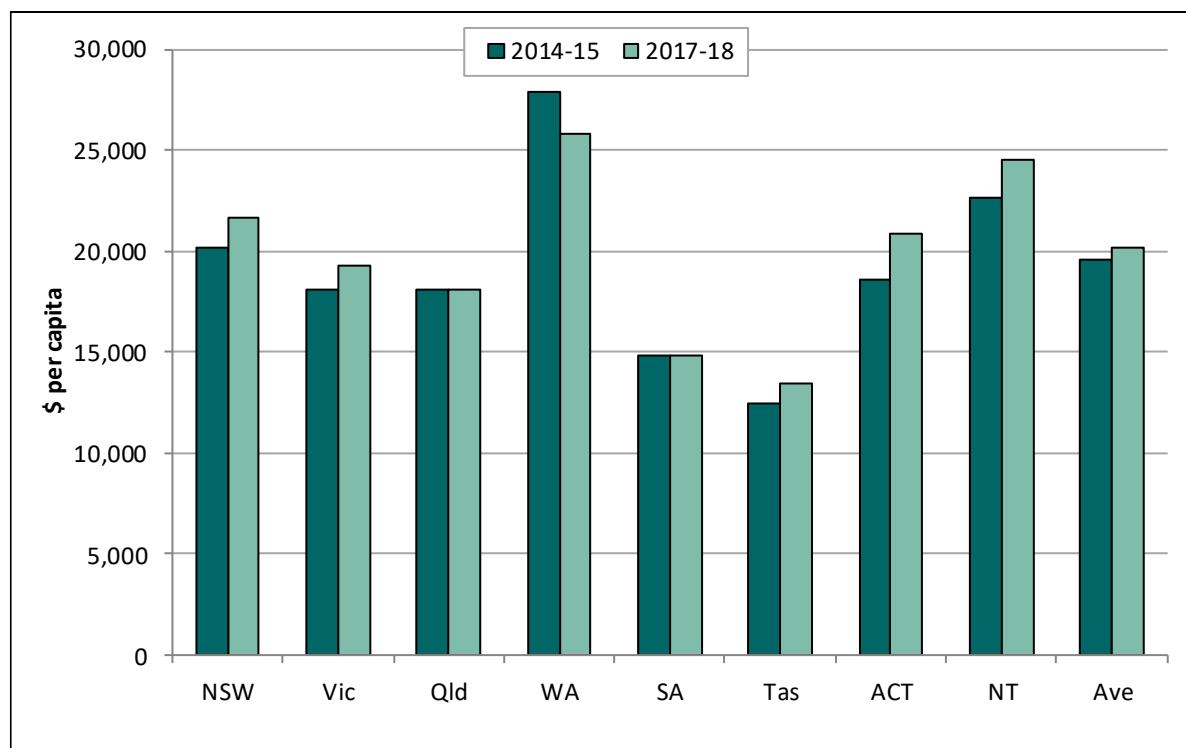
Note Total value of taxable land in a State divided by the resident population in that State.

Source: State data returns.

Taxable payrolls

- 1.23 Changes in States' capacities to raise payroll tax redistributed \$203 million in GST revenue. The redistribution was driven by differences across States in the rate of growth of taxable payrolls between 2014-15 and 2017-18. These differences are shown in Figure 1-5.
- 1.24 The Commission uses ABS Compensation of Employees (CoE) data to measure States' payroll tax bases. National average growth in taxable CoE per capita between 2014-15 and 2017-18 was 3%. New South Wales, Victoria, Tasmania, the ACT and the Northern Territory had above average growth in CoE over the period, increasing their capacities to raise payroll tax and reducing their GST shares.
- 1.25 The Commission's measure of taxable CoE per capita remained essentially unchanged between 2014-15 and 2017-18 in Queensland and South Australia, while falling in Western Australia, resulting in a reduction in these States' ability to raise payroll tax and an increase in their GST shares. Western Australia's per capita taxable CoE for 2017-18 was 7.6% lower than in 2014-15. Western Australia still has the highest taxable CoE of any State, but the gap between Western Australia and other States has substantially reduced since 2014-15.

Figure 1-5 Compensation of employees per capita by State, 2014-15 and 2017-18



Source: Commission calculation based on ABS data.

Commonwealth payments

- 1.26 As well as the GST, the Commonwealth makes other payments to the States for specific purposes (PSPs). Equalising the fiscal capacity of the States to provide services requires the Commission to take account of the total expenditure and investment each State would incur to provide the average level of services and the revenue they have available to finance it. This includes the revenue they can collect from their own tax bases under average policies and, consistent with the terms of reference, the revenue they receive through PSPs.⁴ To the extent that a State receives above average per capita amounts of PSPs, less GST is required to equalise its fiscal capacity. Conversely, if a State receives below average amounts of PSPs, it requires more GST.
- 1.27 Between 2014-15 and 2017-18, there were changes in the amounts paid and the interstate distribution of some PSPs, particularly payments for road and rail infrastructure, National health reform and Quality schools government education, which have had flow on effects for the GST distribution.
- 1.28 The main payments causing changes in the GST distribution in this update are shown in Table 1-6.

⁴ The Commission excludes revenue received through PSPs under certain circumstances, including when directed to do so by the terms of reference. Commonwealth payments that have no impact on the relativities are discussed in Chapter 2.

Table 1-6 Changes in GST distribution due to changes in Commonwealth payments, 2019 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
National health reform funding	102	20	-123	4	19	-2	2	-24	148
Road infrastructure	55	-1	-49	40	-47	-10	9	3	107
Rail infrastructure	19	3	67	-10	-71	-4	-2	-1	88
Quality schools - government	-24	43	-36	7	11	4	4	-11	71
Health infrastructure	45	-13	-9	-7	-6	-10	-4	4	49
Infrastructure growth package - new investment	22	16	-32	7	-17	1	1	2	49
Infrastructure investment program - Maintenance	6	11	13	-33	-11	-2	0	16	46
Sustainable rural water use and infrastructure program	3	34	-8	-6	-8	-3	-13	0	37
Remote Indigenous housing	20	1	-5	-3	4	1	0	-17	25
Other	-4	-22	0	8	-12	-1	12	18	38
Total	244	92	-182	8	-137	-25	11	-10	354

Source: Commission calculation.

1.29 More information on the changes arising from the assessment of individual Commonwealth payments is in the supporting information for this update available on the [Commission's website](https://www.cgc.gov.au/) (https://www.cgc.gov.au/).

Expenditure

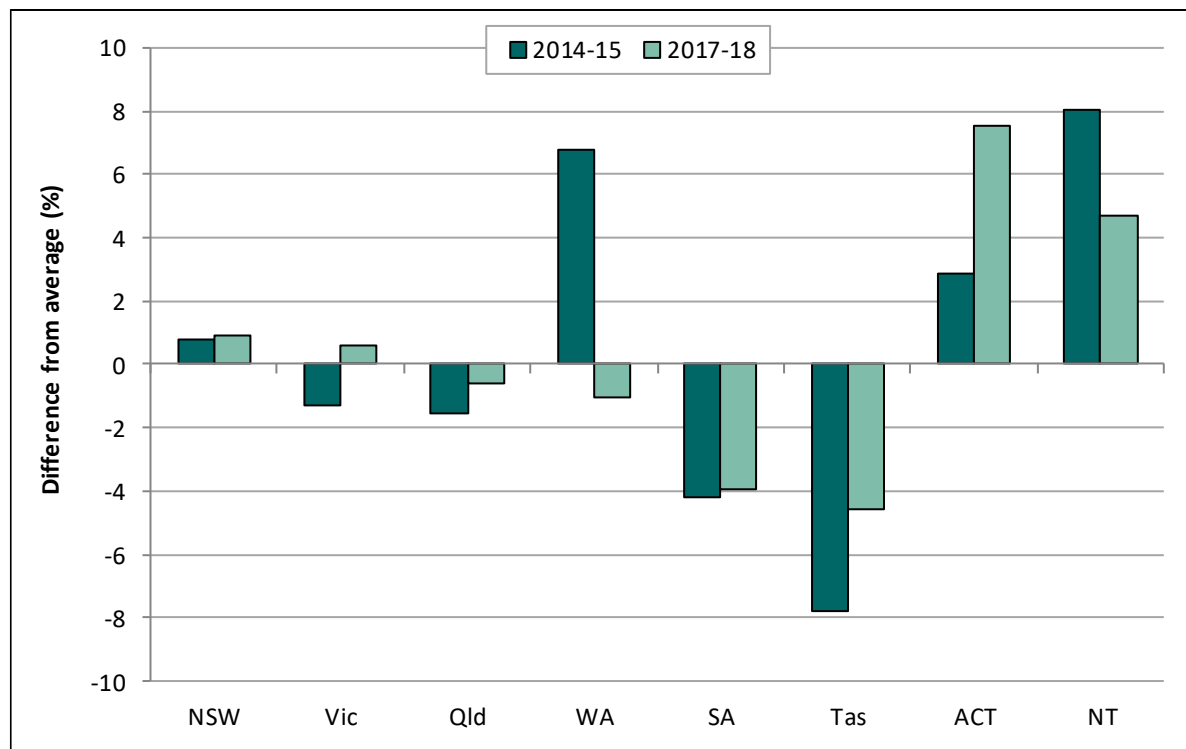
Wage costs

1.30 Variations in wage levels outside the control of States drive differences between States in the cost of delivering the average level of services. One of the main drivers of the redistribution in this update was the substantial reduction in the 2017-18 relative wage levels for Western Australia flowing from the latest ABS CoES data. In this update, 2014 CoES data have been replaced by 2017 data. The CoES shows that relative wage levels peaked in Western Australia in 2014-15 and fell below average in 2017-18, reducing its GST distribution by \$360 million. This reduced the total amount redistributed to Western Australia by this assessment from \$738 million to \$375 million (see Table 1-8). Relative wage levels also fell over this period in the Northern Territory.

1.31 Wage levels have increased faster than average in New South Wales, Victoria, Queensland, South Australia, Tasmania and the ACT over the years 2014-15 to 2017-18, increasing the GST required by these States to fund average service provision. The change is notable for Victoria, which has moved from having below average wage levels in 2014-15 to having above average wage levels in 2017-18.

1.32 Figure 1-6 shows the change in relative wage levels between 2014-15 and 2017-18.

Figure 1-6 Change in wage cost differentials between 2014-15 and 2017-18



Source: Commission calculation based on Characteristics of Employment Survey (CoES) results.

Investment growth

1.33 Investment growth has increased the relative significance of investment spending in the assessment of State fiscal capacities. This has resulted in a further redistribution of \$188 million in this update. Notably, total urban transport investment was 232% higher in 2017-18 compared with 2014-15, increasing the GST shares of New South Wales and Victoria.

WHY STATE FISCAL CAPACITIES DIFFER

1.34 Differences between the States in economic, social and demographic characteristics affect their expenditures and revenues, and contribute to differences in GST distributions. Table 1-7 shows how these differences contribute to differences in the recommended GST distribution.

Table 1-7 Difference from an equal per capita distribution of GST, 2019-20

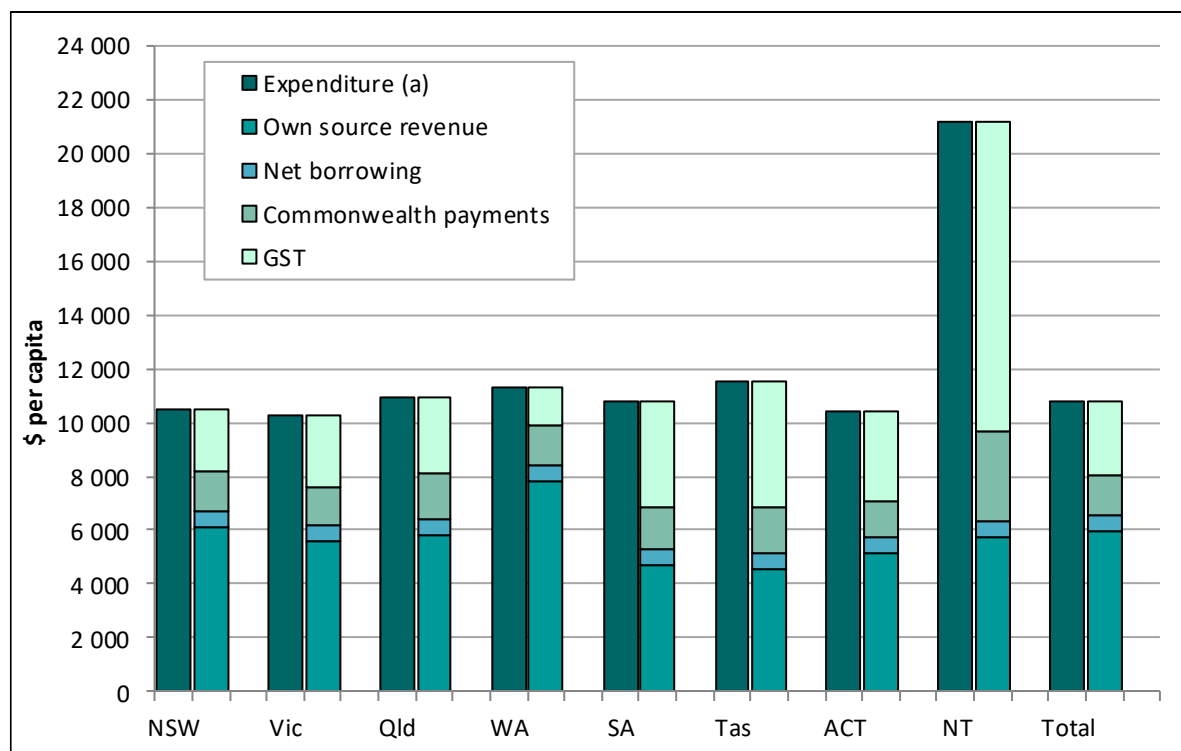
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	-2 278	-4 791	1 406	1 994	548	587	-139	2 672	7 208
Investment requirement	379	1 303	-455	-529	-442	-164	-13	-79	1 682
Net borrowing	7	-176	20	77	53	17	-6	9	183
Revenue raising capacity	-1 206	2 432	510	-4 972	2 122	731	335	48	6 178
Commonwealth payments (a)	263	953	-714	12	-67	-86	100	-460	1 327
Total difference from EPC	-2 836	-279	767	-3 419	2 215	1 084	278	2 191	6 534

(a) Includes the impact on the revenue side only. The impact on the expense side is incorporated in the expense requirement line.

Source: Commission calculation.

- 1.35 Western Australia's above average revenue raising capacity drives its fiscal strength, despite its higher than average costs of providing services. Its fiscal strength means that it needs considerably less than its population share of GST to provide an average standard of services. The below average cost of providing services in New South Wales and Victoria is the main reason for their fiscal strength, although this is mitigated partially for Victoria by its below average strength in revenue raising. The relatively low fiscal capacities of South Australia, Tasmania and the ACT arise mostly from below average capacities to raise revenue, while Queensland and the Northern Territory face high costs of providing services.
- 1.36 Figure 1-7 shows this from a slightly different perspective. In the figure, the per capita GST requirement for each State is shown as the difference between a State's total assessed expenditure (expenses and investment) and the sum of its assessed own source revenue, net borrowing and Commonwealth payments. While Western Australia has the third highest assessed expenditure (expenses plus investment) per capita, a large proportion of this expenditure is covered by its very high capacity to raise revenue. This leaves a relatively small requirement for GST revenue to give it the capacity to deliver an average standard of service.
- 1.37 The Northern Territory has such a high cost of delivering services that even with its significantly higher than population share of Commonwealth payments and only slightly below average capacity to raise revenue, it still requires a relatively large share of the GST to have the capacity to deliver an average standard of service.

Figure 1-7 Illustrative assessed budgets per capita, 2019-20



(a) Includes expenses and investment.

Source: Commission calculation.

1.38 The main economic and demographic factors causing differences in State fiscal capacities are shown in Table 1-8. It shows, for example, that Victoria needs an additional \$3 045 million in GST above an EPC share to recognise its below average capacity to raise revenue from mining, while Western Australia needs \$4 894 million in GST less than its EPC share largely because of its high capacity to raise mining revenue.

1.39 In this update, the Commission again observes significant differences in the innate fiscal capacities of States, which warrant a distribution of GST revenue that differs significantly from one based on State population shares. Further information on why State fiscal capacities differ is provided in Chapter 3, Volume 1 of *Report on GST Revenue Sharing Relativities, 2015 Review*, which is available on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>).

Table 1-8 Drivers of difference from an equal per capita distribution of GST, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue raising capacity									
Mining production	2 091	3 045	-1 144	-4 894	572	191	209	-71	6 108
Property sales	-2 044	-878	669	1 057	803	235	20	138	2 922
Taxable payrolls	-669	378	540	-874	483	199	-5	-51	1 599
Taxable land values	-742	-233	513	-52	308	106	74	27	1 028
Other revenue	157	121	-69	-209	-43	0	37	5	321
Total revenue	-1 206	2 432	510	-4 972	2 122	731	335	48	6 178
Expenditure requirements									
Socio-demographic characteristics									
Remoteness and regional costs	-1 207	-1 009	732	413	86	395	-146	736	2 362
Indigenous status	32	-1 721	762	215	-128	120	-70	790	1 919
Socio-economic status	84	-129	117	-187	441	59	-249	-135	700
Other SDC (a)	-68	-733	361	144	156	24	14	102	801
Total	-1 159	-3 592	1 971	585	555	598	-451	1 493	5 202
Urban centre size (b)	510	1219	-832	-107	-270	-296	-84	-140	1 729
Administrative scale	-479	-326	-182	52	135	253	260	286	986
Wage costs	183	-195	-160	375	-245	-166	141	68	767
Population growth	-86	659	-26	-322	-228	-67	-14	85	744
Small communities	-247	-231	87	137	46	19	-15	205	494
Economic activity	-157	-144	83	156	71	17	-52	26	353
Non-State sector	-163	-85	-72	233	8	64	44	-29	350
Other expenses	-297	-968	102	432	87	18	16	609	1264
Total expense and investment (c)	-1 893	-3 664	971	1 541	159	440	-157	2 603	5 714
Commonwealth payments	263	953	-714	12	-67	-86	100	-460	1 327
TOTAL	-2 836	-279	767	-3 419	2 215	1 084	278	2 191	6 534

Note: For explanations of what each effect includes see the supporting information to this report located on the [Commission's website](https://www.cgc.gov.au/) (https://www.cgc.gov.au/).

- (a) Other SDC refers to other socio-demographic composition, it includes effects of age, people with disabilities and household size, as well as the full effect of SDC in Commonwealth funded government schools, where the individual elements of SDC cannot be separately identified.
- (b) This includes the effect of urban centre size on both investment needs and recurrent expenditure. It differs from the concept in the State tables (Table 5 to Table 23), which include only investment growth in transport.
- (c) This includes the effect of net borrowing.

Source: Commission calculation.

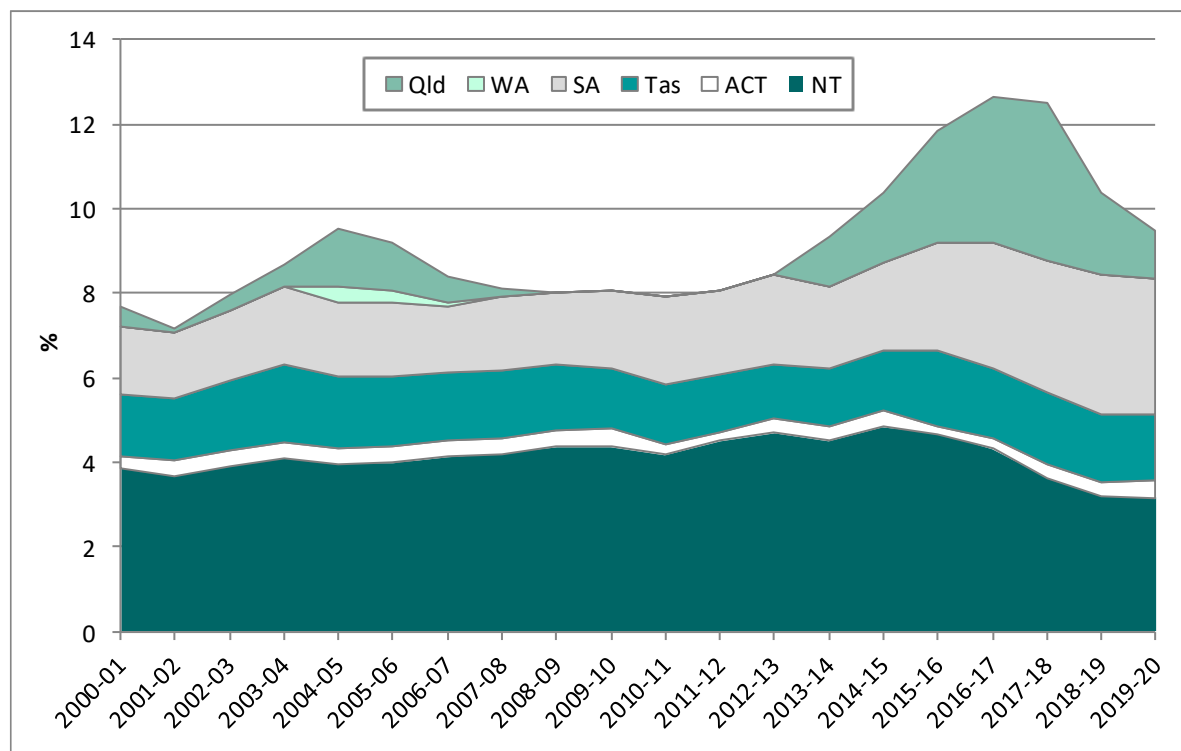
SIZE OF THE EQUALISATION TASK

1.40 States have different fiscal capacities at the beginning of the equalisation process.

The distribution of GST revenue both increases and equalises those capacities for all States. The size of the equalisation task is determined by the variation in their initial fiscal capacities. As they diverge, more GST is required to achieve equalisation.

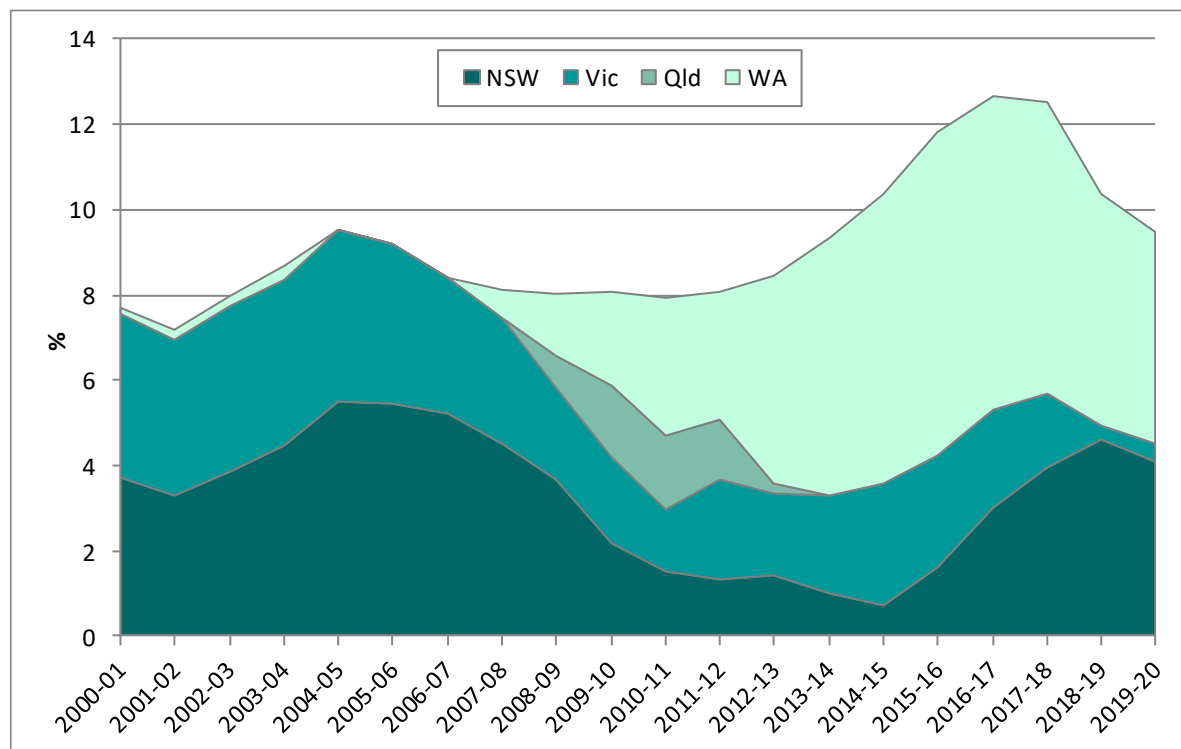
- 1.41 The process of distributing GST revenue can be thought of in two different ways.
- GST revenue is first distributed on a population basis, raising the fiscal capacity of all States equally. Then there is a redistribution to achieve equalisation – from States with above average capacity to those with below average capacity. The size of this redistribution is one measure of the equalisation task.
 - GST revenue is first distributed to bring the initial fiscal capacities of all States to that of the strongest. The remaining GST is then distributed equally among all States. The GST required to achieve the first step is an alternative measure of the equalisation task.
- 1.42 These two measures, which can be expressed in dollars or as a proportion of GST revenue, highlight different aspects of the equalisation task. The first identifies the aggregate transfer from an EPC distribution for States with above average fiscal capacities to States with below average fiscal capacities. The second identifies the difference between the strongest State and the average of the others.
- 1.43 However, note that these are conceptual illustrations of equalisation only and do not reflect what the Commission does in practice. For example, to take the second approach described above, the Commission's objective is not in fact to 'level up' seven States to the fiscal capacity of the fiscally strongest State; rather, it seeks to ensure that every State, including the fiscally strongest, has the same capacity to provide the average standard of State services.
- 1.44 In relation to the first measure, Figure 1-8 shows that the proportion of GST redistributed to the States with below average fiscal capacities increased between 2010-11 and 2016-17, mainly due to the deterioration in Queensland's assessed fiscal capacity. Since that time, the proportion has decreased. In this update, 9.5% of the GST pool is redistributed to the four less populous States and Queensland to achieve fiscal equalisation, down from 10.4% in last year's update, reflecting the improvement in Queensland's assessed fiscal capacity.
- 1.45 In this update, the redistribution in 2019-20 to the four less populous States accounts for 88% of the \$6.5 billion GST redistribution shown in Figure 1-8. These States have about 11.6% of Australia's population and receive 19.9% of the GST, which is similar to the long-term average proportion of 20.4%. Redistribution to these States is mostly the result of weaker revenue bases and higher service delivery costs.
- 1.46 Figure 1-9 shows the contribution of States with above average fiscal capacities to the GST redistribution. Western Australia's assessed fiscal capacity fell in this update for the fourth year in a row, following an increase in all but one of the nine preceding years. New South Wales' assessed fiscal capacity has also fallen in this update. This follows an increase in its assessed fiscal capacity in the previous four years. In contrast, Victoria's assessed fiscal capacity has increased in this update, albeit marginally, following a decrease in the previous four years.

Figure 1-8 Proportion of the GST redistributed to States with below average fiscal capacities, 2000-01 to 2019-20



Source: Commission calculation.

Figure 1-9 Proportion of the GST redistributed from States with above average fiscal capacities, 2000-01 to 2019-20



Source: Commission calculation.

1.47 The second measure of the equalisation task reveals a different aspect of the equalisation task. Table 1-9 shows the size of the equalisation requirement in 2019-20. All States, except Western Australia, require different per capita amounts of GST to achieve the same fiscal capacity as Western Australia, the State with the strongest fiscal capacity. The remainder of the GST revenue is shared equally between all States, including Western Australia, so that all States have the capacity to provide the same (average) level of service. In 2019-20, about 48% of the GST revenue will be needed for all States to achieve the same fiscal capacity as Western Australia.

Table 1-9 Illustrative distribution of GST, 2019-20

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Equal per capita	1 397	1 397	1 397	1 397	1 397	1 397	1 397	1 397	1 397
Equalisation requirement	948	1 251	1 442	0	2 552	3 334	1 938	10 101	1 293
Per capita allocation	2 344	2 648	2 839	1 397	3 949	4 731	3 335	11 498	2 690

Source: Commission calculation.

1.48 This measure of the size of the equalisation task increased rapidly prior to 2017-18. From 2000-01 to 2007-08, it fluctuated between 14% and 17% of GST revenue, as first Victoria and then New South Wales became the fiscally strongest State. In 2008-09, Western Australia became the fiscally strongest State. As Western Australia's fiscal capacity became progressively stronger, this measure of the size of the equalisation task increased from 14% of the pool in 2008-09 to 70% in 2016-17. With the recent decline in Western Australia's fiscal capacity, it fell to 53% in 2018-19 and 48% in 2019-20. Where the fiscally strongest State has a relatively small population, it will necessarily mean a large share of the pool is required to achieve equalisation (and vice versa). Population differences between the fiscally strongest and other States affect the size of the equalisation task.

1.49 Neither measure perfectly captures the totality of how the equalisation task has evolved over time. Taken together they show:

- the equalisation task required for the less populous States together has been greater in recent years but fell in the three most recent updates
- because Queensland's fiscal capacity fluctuates around the average, it sometimes adds to, and sometimes moderates, the equalisation task
- the task of 'catching up' with Western Australia grew significantly prior to 2017-18 (reflecting the unprecedented increase in that State's own-source revenues, largely driven by the global commodities boom), but has since eased.

1.50 A time series of per capita relativities since the introduction of the GST in 2000-01 is available in the supporting information for this update on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>). An overview of Commonwealth-State financial relations in Australia, including a discussion of horizontal and vertical fiscal imbalances, is also available on the Commission's website.

CHAPTER 2

NEW ISSUES IN THIS UPDATE

- 2.1 In each update, the Commission identifies a range of new issues that might affect the GST distribution. New issues can be grouped into the following types:
- data issues, concerning how the latest available data, or changes to data availability, are incorporated into assessments
 - assessment issues, relating to how changed circumstances are incorporated into assessments
 - treatment of Commonwealth payments, including new payments and major changes in payment arrangements
 - other issues.
- 2.2 Before deciding how new issues should be resolved, the Commission consults the States.¹ The issues that arose in this update and the Commission's decisions on them are explained in this chapter. The discussion paper and State submissions can be viewed on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>).

DATA ISSUES

Incorporating 2016 Census data

- 2.3 Final 2016 Census data from the ABS, including sub-State estimates of the Indigenous population, became available in 2018. All States supported using these data for all category assessments.
- 2.4 The Commission has used final 2016 Census based data for the 2019 Update.² This is consistent with the requirement of the Commission's terms of reference (ToR) 'where possible, [to] use the latest available data'.

¹ Commission staff sent the discussion paper *CGC 2018-04-S New issues for the 2019 Update* to the States and asked for comments. This paper is referred to in this chapter as the New issues paper.

² There is one minor exception. Medicare data, which are used in the Health assessment, are still based on 2011 Census based classifications. Revised data were not available in time for the update.

Health data

- 2.5 This update includes revised data from IHPA for 2014-15 to 2016-17 in the Health assessment. IHPA data for 2017-18 were not available for the update. Therefore, the Commission has used 2016-17 IHPA data for the 2017-18 assessment year, which is the latest available data.

ASSESSMENT ISSUES

Mining revenue assessment

Treatment of lithium royalties

- 2.6 **Background.** In the 2015 Review, the Commission decided to assess mining capacity using a mineral by mineral assessment. In its report the Commission said:
- Our intention is to keep this structure until the next review. However, if there is a major change in circumstances, such that another mineral becomes material or one of the material minerals becomes immaterial, the Commission will exercise its judgment on whether HFE would be improved by changing the structure of the assessment.³
- 2.7 In its 2018-19 Budget Papers⁴, Western Australia forecasts its lithium royalties to exceed \$100 million by 2018-19, by which time this would exceed its nickel royalties for two consecutive years (see Table 2-1). Currently, nickel royalties are separately assessed, but lithium royalties are not. These are assessed as part of the Other minerals component of Mining revenue.
- 2.8 As lithium has not been separately assessed, States have not been providing data on lithium royalties and value of production. However, based on Western Australia's budget estimates (and a Commission estimate for 2015-16), a separate assessment of lithium royalties would not be material in the 2019 Update. Data provided by States on nickel royalties and production for the 2019 Update also indicate that a separate assessment of nickel royalties would not be material in this inquiry.

³ Commonwealth Grants Commission, *Report on GST revenue sharing relativities, 2015 Review, Volume 2 Assessment of State fiscal capacities*, page 106, paragraph 14.

⁴ *Western Australia, State Budget 2018-19, Budget Paper No 3, Economic and Fiscal Outlook*, Table 7, page 85.

Table 2-1 Western Australian nickel and lithium royalties, 2015-16 to 2021-22

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Nickel	46	43	65	71	71	70	63
Lithium	6	24	89	131	131	109	117

Source: 2015-16 nickel royalties were obtained from *Western Australia, State Budget 2017-18, Budget Paper No 3, Economic and Fiscal Outlook*, page 95. 2015-16 lithium royalties were estimated by the Commission. All other data were obtained from *Western Australia, State Budget 2018-19, Budget Paper No 3, Economic and Fiscal Outlook*, page 85.

- 2.9 **State views.** All States agreed the Commission should not make a separate assessment of lithium royalties because it is not material to do so in this update.
- 2.10 Western Australia said any further disaggregation of the Mining revenue assessment would be undesirable as it would increase the policy sensitivity of that assessment. The ACT said that separately assessing lithium royalties in the 2019 Update would represent a method change.
- 2.11 **Commission decision.** The Commission does not consider separately assessing lithium royalties constitutes a method change. In the 2015 Review, the Commission said it would exercise judgment on whether to change the structure of the mining revenue assessment if another mineral became material or one of the material minerals became immaterial. The purpose of this was to allow for the option to recognise structural change within the mining sector, as particular minerals became more (or less) important.
- 2.12 A separate nickel assessment is not material in this update. However, if State budget projections prove accurate, it may become material again in future updates. With lithium, while the projections suggest there may be a structural change in the importance of lithium in the future, that point has not been reached in this update. Therefore, the Commission has decided not to change the Mining revenue assessment in this update.

Treatment of transfer pricing of minerals

- 2.13 **Background.** In 2018, Queensland settled a case against BHP in relation to the transfer pricing of minerals. BHP paid royalties to Queensland based on the price it sold coal to its Singapore trading subsidiary (BHP Billiton Marketing). Its subsidiary then sold the coal to an end-user for a higher price. The case related to a seven and a half year period ending 31 December 2012. The settlement comprised a 'back royalties' payment and an interest penalty payment.
- 2.14 Commission staff consulted States on how the Commission should assess both payments.

- 2.15 **State views.** Most States said the Commission should not differentially assess the payments as they fell outside the assessment period and an assessment of them would not be material. New South Wales disagreed.
- 2.16 New South Wales acknowledged differentially assessing revenue relating to a prior period would create issues for the Commission. However, it believed the question was whether the inclusion of the back royalties in 2017-18 would result in GST outcomes that were materially different than had the back royalties been assessed in the relevant assessment years of prior inquiries. New South Wales said HFE would be best achieved by including the back royalties in 2017-18.
- 2.17 Western Australia said the payments were unknown to Queensland at the time and it would be inappropriate to differentially assess them using the current coal revenue base. It also said materiality was not a relevant consideration.
- 2.18 **Commission decision.** Any interest penalty payments would be expected to be included in Other revenue and assessed equal per capita (EPC), therefore not affecting the GST redistribution. The issue for the Commission is the treatment of any back royalties.
- 2.19 The Commission's revenue approach is to include activity in the revenue base when it is taxed by States. If there is a dispute and a State subsequently provides a refund, the Commission includes the refund in the year it is provided (not in the year of the original transaction). If the Commission applied this approach, it would differentially assess the back royalties payment in the Mining revenue assessment. This would be consistent with New South Wales' view.
- 2.20 However, the refunds approach might not be appropriate in this particular case. This was a complex legal case about tax evasion, involving confidential settlement outcomes. Queensland had to prove BHP engaged in transfer pricing. Had Queensland not pursued the case, the revenue would have been lost. In addition, the recovered amounts relate to years far removed from the current assessment window. For both reasons, the Commission concludes the refunds approach is not applicable to Queensland's back royalties.
- 2.21 The Commission agrees with Western Australia that the payments were unknown to Queensland at the time.
- 2.22 The Commission has decided the back royalties should also be assessed EPC as they relate to years well outside the 2019 Update assessment years and it is State policy choice whether to pursue back royalties.
- 2.23 However, in order to assess the payments EPC, the Commission sought information from Queensland on the amounts paid, the year in which they were paid and where Queensland had classified them. Queensland said it was unable to provide this

information as the settlement was confidential. Accordingly, the Commission has not been able to identify the amounts to ensure they are assessed EPC.⁵

Natural disaster relief expenses

- 2.24 **Background.** The natural disaster relief expenses assessment recognises the net costs States incur due to natural disaster events under a common arrangement. Commission staff recently became aware that some States are recording local government out of pocket costs as part of their natural disaster relief net expenses.
- 2.25 In this update, Commission staff asked States to report revenue and expenses for local government separately to determine the extent to which local government net expenses are included. Before receiving the data from States, Commission staff proposed to retain the 2015 Review method for calculating natural disaster relief expenses for the 2019 Update and investigate the expenses for local government as part of the 2020 Review. At that time, Commission staff presumed the quantum of natural disaster relief expenses relating to local government would be small.
- 2.26 **State views.** Queensland, Tasmania and the Northern Territory supported retaining the current method for the 2019 Update and removing local government expenses in the 2020 Review. New South Wales, Victoria, South Australia and the ACT said the local government expenses should be removed in the 2019 Update.
- 2.27 New South Wales further suggested that if a State cannot reliably estimate its local government net expenses, their total net expenses should be discounted.
- 2.28 Western Australia did not comment on this matter in its submissions to the New issues paper, or to the 2020 Review draft assessment paper. However, in response to a draft data request sent to States in 2018 seeking data on local government expenses, Western Australia said that States may ultimately fund some of the local government out of pocket costs.
- 2.29 **Commission decision.** States report expenses for natural disaster relief under a common framework developed by the Commonwealth, which allows States to include local government expenses and does not distinguish between State expenses and local government expenses.⁶
- 2.30 Data received from States show that local government net expenses can be substantial and may vary considerably from year to year.

⁵ The Commission notes that if the amounts are of the order reported in the media at the time, they would not be big enough to have had a material effect on Queensland's GST share.

⁶ Australian Government, Disaster Assist, [Disaster Recovery Funding Arrangements 2018](https://www.disasterassist.gov.au/Pages/related-links/disaster-recovery-funding-arrangements-2018.aspx), (<https://www.disasterassist.gov.au/Pages/related-links/disaster-recovery-funding-arrangements-2018.aspx>), [accessed December 2018].

- 2.31 In the 2015 Review, the Commission's intention was to recognise State out of pocket costs. To continue to include local government expenses, now that the Commission is aware they are being included, would be inconsistent with the 2015 Review methodology. As such, in this update, the Commission has excluded local government out of pocket expenses from the natural disaster relief expenses assessment for all assessment years. The Commission has also made an adjustment to fully correct for the overstatement of expenses in current assessment years. It has not corrected for any overstatement of State expenses in assessment years no longer included in this update. This is consistent with the Commission's revisions policy for this assessment.⁷
- 2.32 Western Australia said that some States might ultimately fund some local government out of pocket costs. Informal feedback from States suggests that most local governments fund their out of pocket costs from own source revenue (for example, rates). If this is the case, local government net costs have no effect on State fiscal capacities. The Commission will further investigate the funding arrangements between States and local governments as part of the 2020 Review.

Treatment of National Disability Insurance Scheme (NDIS)

- 2.33 **Background.** Seven States are scheduled to have reached full implementation of the NDIS by July 2019 and to fund NDIS contributions on a full implementation basis in 2019-20, which is the application year of the 2019 Update.
- 2.34 In the 2015 Review, the Commission foreshadowed how it intended to assess State disability expenses during the transition to the NDIS and at full implementation.⁸
- During transition, the Commission said it would make dual assessments of State expenses on existing disability services (non-NDIS) and NDIS contributions because States would be funding both. The Commission said each service would be assessed using State shares of the total number of people eligible to be covered by NDIS when fully operational. Other disabilities (regional costs, wage costs and cross-border) would continue to be recognised for non-NDIS services but not in relation to the NDIS contributions. The dual assessment came into effect in the 2016 Update.
 - After full implementation, the Commission said State NDIS contributions would be assessed on an actual per capita (APC) basis because all States were expected to contribute to the scheme based on State population shares at census time (initially, the 2011 Census). Consequently, States' policies would have no influence on their NDIS expenses.⁹ The assessment of non-NDIS expenses would continue until they were no longer material.

⁷ The Commission's policy is described in the 2017 Update report, page 38.

⁸ See *Report on GST Revenue Sharing Relativities, 2015 Review, Volume 1 — Main Report*, pp 54-57.

⁹ An APC assessment would have the additional benefit of addressing differential population growth between censuses.

- 2.35 In the 2015 Review, the Commission said that if NDIS arrangements were to change, it might need to adapt its proposals, after consultation with the States and Commonwealth.
- 2.36 In the New issues paper, Commission staff said that from 2019-20, despite slippages for some States, most States would be operating on a full implementation basis and it would be appropriate to change from the transition assessment to the full implementation assessment as foreshadowed in the 2015 Review report. However, staff said an APC assessment would no longer be policy neutral because of slippages for some States that are affecting their NDIS contributions. In addition, there are temporary discounts for some States to recognise in-kind contributions.¹⁰ To overcome this difficulty, staff proposed to assess States' NDIS expenses using 2011 Census population shares (including for Western Australia). This approach could apply in future inquiries on the basis that census populations will determine State contributions going forward.¹¹ The assessment proposed by staff would deliver the same intended outcome as the APC assessment foreshadowed by the Commission in the 2015 Review but ensure policy neutrality.
- 2.37 Commission staff also proposed to retain the current non-NDIS disability assessment for the 2019 Update whether or not it becomes immaterial. Staff said the assessment of these expenses would be considered in the 2020 Review.
- 2.38 **State views.** All States, except Queensland, supported the assessment of NDIS expenses using the 2011 Census population shares, and supported the retention of the current non-NDIS disability assessment.
- 2.39 Queensland said it is experiencing significant slippage in take up and it is likely to be several years before its participant numbers reflect expected estimates. Queensland recommended an APC assessment until a time when full implementation of the NDIS has been achieved for Queensland and other States, in accordance with bilaterally agreed estimates.
- 2.40 Going forward, for 2020-21 and beyond, when slippages in transition and associated State discounts will have run their course, Tasmania argued that the NDIS assessment should revert to an APC basis.
- 2.41 **Commission decision.** There are two main issues for the NDIS assessment in this update:
- whether to switch from the transition assessment to the full implementation assessment of NDIS contributions

¹⁰ In-kind contributions refer to State disability spending on education, health and other functions that substitute for NDIS services.

¹¹ 2021 Census data will be available in June 2023. The December 2021 population will be used to determine State funding contributions from 2023-24 to 2027-28.

- the assessment approach for NDIS contributions.

2.42 The Commission understands that in 2019-20:

- New South Wales, South Australia and the ACT will be contributing on a full scheme basis without any adjustments for slippages required.
- Victoria, Queensland, Tasmania and the Northern Territory will also be contributing on a full scheme basis, but with some adjustments for slippages. Based on New South Wales' and South Australia's experience, these slippages are expected to be small and addressed within the 2019-20 financial year – although the slippage could extend beyond 2019-20 in the case of Queensland.
- Western Australia will be contributing on a transition basis.

2.43 Despite some slippages, including for Queensland, the majority of States will be contributing on a full implementation basis at some point during 2019-20, the application year for the 2019 Update. State data indicate that NDIS contributions will account for over 90% of total State disability expenses in 2019-20. The Commission considers that it is appropriate to switch from the transition assessment of State NDIS expenses to the full implementation assessment in this update.

2.44 The Commission foreshadowed in the 2015 Review report that when the scheme became fully operational it would assess State NDIS contributions on an APC basis. When this was proposed, the Commission expected all States to be contributing based on State population shares at the 2011 Census. However, slippage adjustments to NDIS contributions negotiated by some States for 2019-20, and discounts for in-kind contributions, mean there are some small variations to State contributions. Under these circumstances, an APC assessment would not be policy neutral. The Commission considers an assessment of State NDIS expenses based on 2011 Census populations to be policy neutral. This also retains the benefit of addressing differential population growth between censuses. When States have addressed all slippages, there should be no difference between an assessment based on census population shares and an APC assessment. Therefore, there will be no need to revert to an APC assessment as proposed by Tasmania.

2.45 The Commission has assessed State NDIS expenses based on 2011 Census populations in this update.

2.46 The Commission has retained the transition assessment of non-NDIS disability services in this update. It will consider the treatment of these expenses in the 2020 Review.

2.47 Currently the Commission uses State expense projections for the application year to split NDIS and non-NDIS expenses and backcast this split into the assessment years. The Commission will continue to backcast the application year splits until it is confident that the expenses in the three assessment years reflect the full implementation of the NDIS.

Treatment of Snowy Hydro Limited transfer

- 2.48 **Background.** In March 2018, New South Wales and Victoria agreed to sell their shares of Snowy Hydro Limited to the Commonwealth Government for \$4.154 billion and \$2.077 billion respectively. The transaction occurred in 2017-18. Commission staff consulted the States on the treatment of the transfer before the Commission received the ToR.
- 2.49 **State views.** States that commented agreed that the transfer should not affect the relativities.
- 2.50 **Commission decision.** The ToR direct the Commission to ensure the payments to New South Wales and Victoria do not directly affect the relativities. As such, these payments do not affect the relativities in this update.
- 2.51 Even without this direction, for New South Wales and Victoria, the sale of Snowy Hydro to the Commonwealth is an exchange of one financial asset (equity in Snowy Hydro) for another (cash), which has no direct effect on the States' fiscal capacities.
- 2.52 The sale has come with the condition that the States use the proceeds to acquire 'productive infrastructure'. When States spend an additional \$6 billion on infrastructure, the investment will affect State expenditure and consequently GST shares. The second round effects will depend on the type of assets States acquire and the timing. Consistent with its usual practice, the Commission considers it will be impractical to remove this expenditure from the adjusted budget to eliminate second round effects.

Rural road length

- 2.53 **Background.** New South Wales noted that Commission staff had re-estimated the 2015 Review rural road length measure as part of the development of a new rural road length measure for the 2020 Review. It argued that the updated measure should be used in the 2019 Update because the information on which it is based is more up-to-date and that the incorporation in recent years of the revised data used for Queensland land revenue provides a directly analogous precedent.
- 2.54 **Commission decision.** Commission staff have undertaken this work as part of the 2020 Review and the Commission considers that it is not appropriate to start implementing piecemeal changes in this update. In addition, the new rural road length estimates are incomplete because the amount of sealed and unsealed roads is still to be estimated. The Commission has not updated the rural road length data in this update.
- 2.55 New South Wales said the revisions to Queensland land data establish a precedent for including the revised rural road lengths. The circumstances for the revision of Queensland land revenue data were different. In that case, Queensland itself revised

its revenue estimation process and hence provided what it advised were more accurate data.

National redress scheme

- 2.56 A National redress scheme, to run for 10 years, was established on 1 July 2018 in response to the Royal Commission into Institutional Responses to Child Sexual Abuse. The scheme will provide, among other things, monetary compensation, counselling and psychological support. All States and Territories have agreed to join this scheme.
- 2.57 Queensland has established a provision of \$494.6 million in 2017-18 as a present value estimate of the cost of its participation in the scheme. The \$494.6 million is recorded as an administered expense under the Department of Child Safety, Youth and Women. This expense is classified as family and child welfare expenses in 2017-18. The Commission did not identify similar expenses for other States in 2017-18.
- 2.58 The Commission considered that these expenses should not be assessed as part of the family and child expenses component of the Welfare category because they are not comparable to those normally assigned to that component and needs for them are not assessed. This is compensation instead of child protection expenses.
- 2.59 For the 2019 Update, the Commission decided to assess Queensland's expenses EPC.
- 2.60 For the 2020 Review, the Commission will seek information from States on expenses associated with the scheme and their timing, and views on how the Commission should treat these expenses.

TREATMENT OF COMMONWEALTH PAYMENTS

Terms of reference (ToR) requirements

- 2.61 The 2019 Update ToR require the Commission to prepare its assessments on the basis that the following payments should not directly affect the relativities:
- payments to New South Wales and Victoria relating to the sale of Snowy Hydro Ltd to the Commonwealth (paid in 2017-18)
 - payments relating to the Project Agreement for the Health Innovation Fund – Stage 1
 - payments to South Australia relating to the Project Agreement for the Proton Beam Facility
 - payments to Tasmania relating to the Project Agreement for Queensland Fruit Fly Response in Tasmania (paid in 2017-18)

- payments to the Australian Capital Territory relating to the Project Agreement for the expansion of Clare Holland House
- payments relating to the Project Agreement for the Western Australian Hospital Infrastructure Package (paid in 2017-18)
- \$259.6 million in additional General Revenue Assistance to the Northern Territory to offset the reduction in its GST share (paid in 2017-18)
- payments to the Northern Territory of up to \$110 million per annum for five years for Remote Indigenous Housing commencing in 2018-19
- additional General Revenue Assistance relating to GST transitional support and top-up payments under the Commonwealth's HFE reform package:
 - to the Northern Territory to effectively lift its GST relativity to 4.66
 - to any other State or Territory to effectively lift their GST relativities to 0.7
 - to any State or Territory under subsection 5(3) of the *Federal Financial Relations Act 2009* (the cumulative 'no worse off' guarantee).

2.62 Accordingly, the payments made in 2017-18 have been treated in a way such that they do not affect the relativities. Payments made in years after 2017-18 will not affect the relativities when they are paid in the assessment years of future updates.

2.63 In addition, as directed by the 2019 Update ToR, the Commission has continued excluding those payments quarantined by previous ToR.

2.64 The following 2017-18 payments were quarantined by the 2018 Update ToR. They have been treated in a way that they do not affect the relativities.

- \$1.42 billion to Victoria relating to the Regional Rail Revival program
- \$1.2 billion to Western Australia relating to the re-allocated Perth Freight Link Infrastructure funding.

2.65 As is generally the case, the 2019 Update ToR also direct the Commission to prepare assessments on the basis that national partnership facilitation payments and reward payments should not affect the relativities.¹²

2.66 The list of quarantined payments and the amounts relevant to this update are available on the [Commission's website](https://cgc.gov.au/) (https://cgc.gov.au/).

Treatment of new Commonwealth payments

2.67 Apart from payments for which the ToR have requested special treatment, all Commonwealth payments which support State services and for which expenditure

¹² Clause 6(d) of the terms of reference also says the Commission may determine to treat particular (facilitation) payments differently, reflecting the nature of the payment and the role of State governments in providing particular services. It has no discretion in the treatment of reward payments, which the 2012 Update ToR quarantined. The Australian Treasury provides the Commission with advice on which payments qualify as reward payments.

needs are assessed, have an impact on the relativities. This is in accordance with the guideline adopted in the 2015 Review.

- 2.68 Table 2-2 provides a summary of the treatment the Commission has applied to payments which commenced in 2017-18. The Commission has not backcast any other payments commencing in 2018-19 or 2019-20 because they do not represent a major change in federal financial arrangements.

Table 2-2 Treatment of Commonwealth payments commencing in 2017-18

Payment	\$m	Treatment	Reason for 'no impact'
HEALTH			
Western Australia Hospitals Infrastructure Package	188.9	No impact	2019 Update ToR requirement
Electronic recording and reporting of controlled drugs	0.8	Impact	
Encouraging more clinical trials in Australia	2.5	Impact	
SKILLS AND WORKFORCE DEVELOPMENT SERVICES			
Skilling Australians Fund	237.3	Impact	
COMMUNITY SERVICES			
Payment from the DisabilityCare Australia Fund	129.9	No impact	2015 Review ToR requirement
INFRASTRUCTURE			
Infrastructure investment — Developing Northern Australia — Improving cattle supply chains	5.6	Impact	
Infrastructure investment — Rail investment component — Victorian Regional Rail Revival program	33.4	No impact	2018 Update ToR requirement
Infrastructure investment — Road and rail investment components — re-allocation of Perth Freight Link infrastructure funding (\$30m – roads; \$513.3m – rail)	543.3	No impact	2018 Update ToR requirement
WiFi and mobile coverage on trains	2.0	Impact	
ENVIRONMENT			
Hydrogen energy supply chain pilot project	10.0	No impact	For a Commonwealth priority (Commonwealth will receive a share of any IP rights arising from the project)
Kamay 250 th anniversary project	25.0	Impact	
National fire danger rating system	0.5	No impact	For a trial program and needs are not assessed
Queensland Fruit Fly Response in Tasmania (a)	20.0	No impact	2019 Update ToR requirement
Water Infrastructure Development Fund — capital component	26.5	Impact	
OTHER PURPOSES			
North Queensland Strata Title Inspection Scheme	0.8	Impact	
South Sydney Rabbitohs' Centre of Excellence	4.0	No impact	New South Wales acts as an intermediary and the payment does not affect its fiscal capacity
GENERAL REVENUE ASSISTANCE			
Commonwealth assistance to the Northern Territory	259.6	No impact	2019 Update ToR requirement

(a) Project agreement paid under Pest and disease preparedness and response programs.

Source: Commonwealth of Australia's *Final Budget Outcome 2017-18* and Commission decisions.

2.69 The following sections explain the treatment of payments where States raised issues.

Skilling Australians Fund

2.70 **Background.** In June 2018, the Australian Government provided \$187.3 million from the Skilling Australians Fund (SAF) to support additional apprentices, trainees, pre-apprentices, pre-trainees and employment-related training, ahead of the commencement of the new National Partnership Agreement for the Skilling of Australians Fund (NPSAF) in 2018-19.

2.71 The NPSAF is seeking to increase the number of apprenticeships and traineeships. States that signed the agreement on or before 7 June 2018 received an EPC share of an additional \$50 million in Commonwealth funding.

2.72 Table 2-3 shows the funding arrangement for the NPSAF in 2017-18.

Table 2-3 Skilling Australians Fund payments, 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
SAF	63.4	52.2	39.4	9.8	11.2	5.3	4.2	1.9	187.3
EPC share of additional funding (a)	36.5	0.0	0.0	0.0	7.9	2.4	1.9	1.2	50.0
Total (b)	99.9	52.2	39.4	9.8	19.1	7.7	6.1	3.1	237.3

(a) States that signed the NPSAF on or before 7 June 2018 received an EPC share of an additional \$50 million provided by the Commonwealth.

(b) Total in this table matches the amount published in the Commonwealth of Australia's *Final Budget Outcome 2017-18*.

Source: Department of Education and Training, [Skilling Australians Fund: 2017-18 Factsheet](https://docs.education.gov.au/node/51466) (https://docs.education.gov.au/node/51466), [accessed 29/01/19].

2.73 Commission staff proposed the payment should affect the relativities because needs are assessed in Post-secondary education.

2.74 **State views.** States either supported this treatment or did not comment. Queensland said it has not signed the NPSAF at this stage.

2.75 New South Wales said part of the payment in 2017-18 is a sign-on bonus, which is effectively a reward payment. The ToR specify that reward payments should not affect the relativities.

2.76 **Commission decision.** The Commission's approach to determine which payments are reward payments is to rely on the Australian Treasury's advice. Treasury has advised that 'there are no reward payments under this agreement; they are just ordinary National Partnership project payments'. As such, the Commission has treated the full amount of the payment as having an impact on the relativities.

Remote Housing payment

- 2.77 **Background.** In the 2016 Update, the Commission decided to treat 25% of the payments under the National Partnership Agreement on Remote Indigenous Housing (NPARIH) as not affecting the relativities because it considered that part of the funding was to address past under-investment by the Commonwealth in remote Indigenous housing and needs were not assessed.
- 2.78 The Commission said it would review the treatment of Commonwealth payments for remote Indigenous housing when a replacement program for NPARIH had been negotiated. It expected that the Commonwealth legacy issues would be resolved by 2017-18. In this case, future Commonwealth funding would be treated as having an impact on the relativities.
- 2.79 In its 2018 Update report, the Commission noted that funding arrangements for 2018-19 were still being negotiated. It would wait for the agreement to be finalised before considering changes to the assessment.
- 2.80 The re-negotiated agreement — the National Partnership Agreement on Remote Housing (NPARH) — provides funding of \$550 million over five years from 2018-19 to the Northern Territory only. Based on advice from the Australian Treasury, the Commission expected the payment to be quarantined in the 2019 Update ToR.
- 2.81 **State views.** The Northern Territory confirmed that it expected the payment to be quarantined in the 2019 Update ToR.
- 2.82 The Northern Territory considered that the new payment and its quarantining are major changes in Commonwealth-State financial relations. It expected the Commission to backcast the no impact treatment to the payments made under NPARIH in the assessment years of the 2019 Update.
- 2.83 **Commission decision.** The Commission does not agree that the new payment and its treatment are major changes in Commonwealth-State financial relations. The NPARIH payments were relatively small, varying between \$350 and \$500 million per year. The difference between the old agreement and the new one is essentially the cessation of funding to Queensland, Western Australia and South Australia (worth \$300 to \$400 million).
- 2.84 The 2019 Update ToR directs the Commission to exclude the NPARH payment from its calculation of relativities. The payment will not affect the relativities when it is paid in 2018-19.

Infrastructure investment program related payments

Re-allocation of Perth Freight Link infrastructure funding

- 2.85 **Background.** The 2018 Update ToR quarantined payments relating to the re-allocation of the Perth Freight Link infrastructure funding. In the New issues paper, Commission staff quoted the Final Budget Outcome (FBO) amount for the rail component of \$509.0 million paid in 2017-18. While the payment for the re-allocated Perth Freight Link was \$513.3 million, there was an offset payment of \$4.3 million made in the previous year.
- 2.86 **State views.** Western Australia said that the amount quarantined should be \$513.3 million.
- 2.87 **Commission decision.** The Commission uses the data published in FBO to compile its adjusted budget Commonwealth payments. However, based on Western Australia's submission and information from the Department of Infrastructure, Regional Development and Cities (DIRDC), it has used \$513.3 million in its calculations.

Rail investment component to South Australia

- 2.88 **Background.** In 2017-18, South Australia received funding of \$170.4 million for the grade separation of the Australian Rail Track Corporation's (ARTC) interstate rail line and commuter rail lines at the Goodwood and Torrens rail junctions.
- 2.89 This project is determined to be off the National Rail Network (NRN) by DIRDC. As such, Commission staff proposed the full amount of payment should affect the relativities.
- 2.90 **State views.** South Australia noted that the purpose of this project is to improve the efficiency of a key freight route on the NRN. Without the grade separation, trains on the ARTC line have to give way to passenger trains. Furthermore, separating the freight from the commuter network increases the average speed and length of the trains using the freight corridor, thus facilitating inter-State commerce.
- 2.91 It argued that only 50% of the payment should affect the relativities because it is an NRN-related construction project.
- 2.92 **Commission decision.** In the 2015 Review Report, the Commission said it would rely on advice from the (then) Department of Infrastructure and Regional Development (DIRD) to decide which projects were national network projects.
- 2.93 Commission staff have consulted DIRDC on the treatment of this payment. DIRDC said this payment was determined to be 'off-network' because the works involved in this project were primarily on the commuter rail line, despite the fact that there may be

flow on benefits for the freight rail network. The assignment of this project as 'off-network' was a ministerial decision, and South Australia has not made any formal submissions to the minister regarding the treatment of this payment. Based on the advice from DIRDC, the Commission has treated the full amount of this payment as having an impact on the relativities.

Wi-Fi and mobile coverage on trains

- 2.94 **Background.** The purpose of this payment is to establish continuous internet connectivity on station platforms, and mobile coverage in trains, for the train route between Hornsby and Wyong. The Commonwealth will contribute \$12 million and New South Wales will contribute \$4 million towards the project. Funds will be used to subsidise the provision of internet capacity by telecommunications companies along the route with the assets constructed being the property of the telecommunications companies. \$2 million was paid to New South Wales in 2017-18.
- 2.95 Commission staff proposed this payment should affect the relativities.
- 2.96 **State views.** New South Wales argued that the payment should not affect the relativities because the arrangements are of a telecommunications nature, do not fund State-like services and are outside the scope of the Commission's assessments, and the assets created are not the property of the New South Wales government.
- 2.97 **Commission decision.** This program covers the implementation of Wi-Fi on a specific train line and the improvement of mobile coverage in the Central Coast area.
- 2.98 States typically provide Wi-Fi services on their bus and train networks. Spending on these services would be recorded in urban transport expenses and needs are assessed.
- 2.99 Spending on mobile communication are included in the Other expenses category¹³ and assessed with a regional costs factor. This is a reasonable broad assessment of needs. The ownership of assets is not relevant.
- 2.100 The Commission has treated this payment as having an impact on the relativities because the payment supports State services and needs are assessed.

Hydrogen energy supply chain pilot project

- 2.101 **Background.** The payment is for a Hydrogen Energy Supply Chain (HESC) pilot project to demonstrate the feasibility of a hydrogen energy supply chain based on gasification of brown coal to produce liquid hydrogen for use in Japan. The Australian

¹³ The Other expenses category includes communications expenses that cover outlays on administration, provision, construction, regulation, operation, etc of communication affairs and services including postal, telephone, telegraph, cable and wireless communication systems and communication satellites.

and Victorian governments are each providing \$50 million in funding to the \$496 million pilot project, which is co-funded by a Japanese consortium led by Kawasaki Heavy Industries (KHI), and the Japanese Government.¹⁴ The Commonwealth is providing its contribution through the Victorian Government. An Intergovernmental Steering Committee will oversee the agreement. Under the agreement, the Commonwealth will be entitled to receive intellectual property (IP) rights equivalent to any afforded to Victoria.¹⁵

2.102 Commission staff proposed this payment should not affect the relativities because it is for a trial program for which needs are not assessed.

2.103 **State views.** Western Australia presumed that this payment is classed as environmental protection, therefore needs are not assessed. It said this payment should be classified as business development, for which the Commission has a deliberative EPC assessment. Hence, this payment should affect the relativities.

2.104 **Commission decision.** This payment is classified as business development in the Services to industry category. These expenses are assessed EPC because population is considered the appropriate driver.

2.105 The Commonwealth and Victoria are collaborating with industry to demonstrate the feasibility of a HESC based on gasification of brown coal to produce liquid hydrogen for use in Japan. Although one of the stated benefits of the project is to create more jobs in the LaTrobe Valley, the Commonwealth contribution supports its own priority to diversify Australia's energy sources. Under the agreement, the Commonwealth will receive IP rights equivalent to any afforded to Victoria. The Commission has treated this payment as having no impact on the relativities because the payment is to support a Commonwealth priority and its contribution entitles it to receive a share of any IP rights arising from the project.

Kamay 250th anniversary project

2.106 **Background.** The Commonwealth and New South Wales are providing equal shares of funding (\$25 million each in 2017-18) for the construction of a new commemorative monument and upgrade of infrastructure as part of the Kamay Botany Bay National Park, Kurnell Master Plan, to commemorate the 250th anniversary of Captain James Cook's landing at Kurnell. Commission staff proposed

¹⁴ Media release, Ministers for the Department of Industry, Innovation and Science, 12 April 2018, [Department of Industry website](https://www.minister.industry.gov.au/ministers/cash/media-releases/local-jobs-and-new-energy-industry-latrobe-valley), (https://www.minister.industry.gov.au/ministers/cash/media-releases/local-jobs-and-new-energy-industry-latrobe-valley, [accessed 10 January 2019].

¹⁵ [Project Agreement for Hydrogen Energy Supply Chain Pilot Project](http://www.federalfinancialrelations.gov.au/content/npa/environment/project-agreement/HESC_Project_Agreement_PDF.pdf), (http://www.federalfinancialrelations.gov.au/content/npa/environment/project-agreement/HESC_Project_Agreement_PDF.pdf, [accessed 10 January 2019].

this payment should affect the relativities because it supports a normal State function and needs are assessed.

2.107 **State views.** Queensland argued that this payment should be classified as a national parks and wildlife expense and should therefore be treated as having no impact on the relativities because needs are not assessed. New South Wales and other States did not comment.

2.108 **Commission decision.** This is considered cultural and recreation expenditure. States regularly provide support for culture and recreation services, including commemorative art. The Commission has treated the payment as having an impact on the relativities as spending on culture and recreation is a normal State function for which needs are assessed in the Other expenses category.

South Sydney Rabbitohs' Centre of Excellence

2.109 **Background.** This program supports the Centre of Excellence, which houses a community and administration centre, as well as a football development department with elite facilities. The Commonwealth is contributing \$10 million over three years. The total cost of the project is \$17 million. The Randwick City Council and the South Sydney Members Rugby League Football Club Limited will provide the balance of funds for the project.

2.110 Commission staff proposed this payment should affect the relativities because it supports a normal State function and needs are assessed.

2.111 **State views.** New South Wales said it had limited roles under the agreement and made no financial contribution to the project. The purpose of the payment was to give effect to Commonwealth priorities and did not relate to the provision of State-like services. It argued this payment should be treated as having no impact on the relativities.

2.112 **Commission decision.** States regularly provide support for the construction of sporting facilities within their jurisdictions. However, the agreement for this payment specifies that the New South Wales government's role is to pass on the Commonwealth's financial contribution, monitor and report on the delivery of outputs. On this occasion, the State is simply acting as an intermediary. For this reason, the Commission has treated the payment as not having an impact on the relativities.

CHANGES IN THE ADJUSTED BUDGET

Use of new Government Finance Statistics (GFS) classification data

2.113 **Background.** In July 2017, the ABS moved to a new GFS framework — the Australian System of Government Finance Statistics 2015 (AGFS15). The new framework includes changes to the classification of revenue, expenses and type of assets and liabilities. AGFS15 replaces the previous framework, AGFS05, developed in 2005.

2.114 Commission staff proposed to continue using AGFS05 data supplied by the ABS to compile the adjusted budget for the first two assessment years of the 2019 Update (2015-16 and 2016-17), and AGFS15 data supplied by States for 2017-18. The proposal was based on advice from the ABS and its concerns about the reliability of preliminary remapped AGFS15 data for 2015-16 and 2016-17.¹⁶

2.115 **State views.** Most States supported the Commission's proposal.

2.116 The ACT and the Northern Territory anticipated that the remapped GFS data under AGFS15 would be utilised across all assessment years of the 2020 Review and future updates to maximise the consistency of data, provided that the remapped data are reliable.

2.117 **Commission decision.** The Commission has used AGFS05 supplied by the ABS to compile the adjusted budget for 2015-16 and 2016-17, and AGFS15 supplied by States for 2017-18. It has been necessary to smooth some estimates for 2017-18 to improve comparability between AGFS05 and AGFS15 data after consulting with the States.

2.118 Commission staff have been working closely with the ABS to assure the quality of AGFS15 time series data with an aim to use these data for all assessment years in the 2020 Review.

State review of preliminary adjusted budget data

2.119 **Background.** In updates and reviews, the Commission sends each State its preliminary adjusted budget for comment. Most States usually provide comments and, in some cases, data are revised based on State feedback. However, the revisions are typically small.

2.120 Commission staff proposed to cease sending the preliminary adjusted budget to States for comments from the 2019 Update onwards because the process involves

¹⁶ The ABS advised that final remapped data will be available in 2019.

considerable work by all parties but it does not result in material changes to the data used in the assessments.

- 2.121 **State views.** Tasmania and the ACT supported the proposal. Tasmania said the nature of the work to check the preliminary adjusted budget data is resource intensive and experience has demonstrated that the revisions to Tasmania's data have typically been small and usually due to rounding differences. The ACT said it is satisfied with the quality of data it submits to the Commission, which are reviewed by the Commission staff to address minor classification issues.
- 2.122 Most other States said the Commission should continue its practice of providing the States with an opportunity to comment on the preliminary adjusted budget. They consider this is a necessary step to ensure the accuracy and integrity of the adjusted budget, which is consistent with maintaining transparency. It also provides an opportunity for them to identify any potential errors.
- 2.123 South Australia and the Northern Territory considered the proposed timing (with the transition to AGFS15) inappropriate and there would appear to be a greater requirement for the States to review their data in this update.
- 2.124 **Commission decision.** Previous experience indicates that data revisions arising from this practice, which is resource intensive, have been small. However, the Commission understands State concerns about the accuracy and integrity of the adjusted budget, particularly in the transition from AGFS05 to AGFS15 in the 2019 Update.
- 2.125 All States except Tasmania and the ACT expressed an interest in reviewing their data. Based on feedback, the Commission has sent the preliminary adjusted budget to States for comments on an 'opt in' basis.
- 2.126 Commission staff will record the workload and data revisions as a result of State comments, and share this information with States. The Commission will review this process in the 2020 Review.

ATTACHMENT A

QUALITY ASSURANCE

- A.1 This attachment reports on the quality assurance procedures applied in this update. These procedures aim to ensure the data used in the Commission's assessments are fit for purpose and of the best possible quality, the analysis is accurate and the reporting of the Commission's findings and reasons for decisions leading to them is accurate and transparent.

DATA QUALITY IMPROVEMENT

- A.2 Improving data quality is an important aspect of the Commission's quality assurance processes. To this end, data use guidelines and a data protocol were agreed with the States in 2005¹ and have been followed since.
- A.3 In this update, the Commission, together with the States, worked to improve the comparability of State provided data used in the assessments.
- A.4 The data collection protocol requires the Commission to send a draft copy of requests for new data or information to the States for comment. This is to ensure new requests clearly and accurately specify the data required from the States. In this update, Commission staff sent a draft request to the States that asks for natural disaster relief revenue and expenses that relate to local government.
- A.5 The ABS has moved to a new Government Finance Statistics (GFS) framework from 2017-18. Staff sent a draft copy of the adjusted budget data collection tool to the States based on the new framework for comments. Staff also told the States that all requests that asked for data with GFS classifications would be based on the new framework.
- A.6 Commission staff included the previous year's data in all on-going data requests to help data providers identify the information sought and to assist State and Commission staff to identify abnormal movements in the data between the current and the previous years. Staff also checked the data on receipt and sought to clarify any unexpected changes with State Treasury officers.

¹ See *Report on GST Revenue Sharing Relativities – 2010 Review, Volume 2, Attachment A*.

- A.7 Commission staff also asked the States to clearly identify which datasets used in assessments could be provided to other State agencies and/or to other third parties to provide as much access to data as possible but also to ensure confidentiality requirements were satisfied.
- A.8 Although no formal agreements on data collection were made with other data providers, Commission staff have followed the same approach to ensure the data used in calculations were of the best quality.

CALCULATION AUDIT PROCESSES

- A.9 The Commission completed a rigorous internal audit of all calculations. For each assessment, internal checks were performed and formally signed off by the assessment officer, the assessment team leader and another officer not involved in the original calculation.
- A.10 The Commission also engaged external consultants to check calculations for the assessments of Administrative scale, Cross-border, Land tax, Regional costs, Schools, Services delivery scale, Services to industry, Transport and Wage costs.

REPORTING OF METHODS, DECISIONS AND RESULTS

- A.11 Transparency and accuracy in reporting the assessment methods, decisions and results are important parts of providing high quality outputs.
- A.12 The Commission consulted the States on new issues arising in this update that might affect the relativities. A staff discussion paper on new issues was sent to the States for comment. Commission decisions are set out in *Chapter 2 New issues in this update*. The decisions were made using the assessment and Commonwealth payments guidelines developed in the 2015 Review.
- A.13 The Commission undertook a comprehensive program of proof-reading and checking of tables and results to ensure they aligned with the original calculations.
- A.14 The Commission continued to post additional material on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>) to help explain the Commission's work more simply and transparently. This material aims to help the public, as well as the staff of the Commonwealth and State Treasuries, understand the Australian fiscal equalisation system and the Commission's work.

COMMISSION TERMINOLOGY

This glossary provides a list of the main terms that have a meaning specific to the Commission. The term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

GLOSSARY

actual per capita (APC) assessment method

The assessed expense or revenue for each State is set equal to its actual expense or revenue. It is used when, in the Commission's judgment, the policies of all States are the same and any differences in expenses or revenue per capita are due to differences in State circumstances.

adjusted budget

A representation of State budgets used by the Commission to calculate the average per capita revenue and expenditures. The scope of the adjusted budget covers all transactions of the State general government sector and urban transport and housing public non-financial corporations, which are in whole or part financed by GST revenue.

administrative scale disability

A disability that measures differences in costs which States incur in providing the minimum level of administration and policy development required to deliver services. It relates to core head office functions and to specialised State wide services provided centrally.

application year

The year in which the average of the assessed GST distributions for each assessment year (expressed as relativities) is to be used to distribute the GST revenue. For example, in the 2019 Update the year of application is 2019-20.

assessed differences (also known as needs)

The financial impact on a State's budget of its disabilities. They are measured, for example, as the difference between assessed expenses and average expenses, assessed revenue and average revenue. Assessed differences can be either positive or negative.

assessed expenses

The expenses a State would incur if it were to follow average expense policies, allowing for the disabilities it faces in providing services, and assuming it provides services at the average level of efficiency. Assessed expenses exclude differences from the average due to policy choices under the control of a State.

assessed GST requirement

A State's requirement for funds from GST revenue in an assessment year. It is measured as its assessed expenses, plus its assessed investment, less its assessed revenue, less assessed Commonwealth payments and less assessed net borrowing.

assessed investment

The expenditure on new infrastructure a State would incur if it were to follow average policies, allowing for disabilities it faces in providing infrastructure, and assuming it requires the average level of infrastructure to deliver the average level of services. Assessed investment excludes differences from the average due to policy choices under the control of that State.

assessed net lending/borrowing

The transaction-based change in net financial worth that a State would require to achieve the average net financial worth at the end of each year. The Commission's method for calculating assessed net lending/borrowing assumes that each State has the average net financial worth at the start of each year.

assessed revenue

The revenue a State would raise if it were to apply the average policies to its revenue base, and raise revenue at the average level of efficiency. Assessed revenue excludes differences from the average due to policy choices under the control of that State, for example a higher or lower tax rate applied by a State compared to the average.

assessment years

The financial years used in a review or an update to calculate the assessed GST requirement, from which an annual relativity is calculated. The Commission uses data for three assessment years (where each assessment year corresponds to a financial year). For example, the GST distribution recommended in the 2019 Update (for the application year 2019-20) is based on the average of three assessment year annual relativities calculated for the most recent completed financial years at the time the relativities are released (2015-16 to 2017-18 assessment years).

average (or Australian average)

The benchmark against which the performance or characteristics of a State are assessed. It is an average derived from the policies or financial data of all States, and hence may be a financial average or a policy average.

average expenses

The average per capita expense, in a category, a group of categories or in total. It is calculated as the sum of expenses of all States, divided by the Australian population.

average revenue

The average per capita revenue, in a category, a group of categories or in total. It is calculated as the sum of State revenues, divided by the Australian population.

backcasting

Changes made to data for assessment years to reflect current or future Commonwealth or State policies. Backcasting is mainly used to reflect major changes in federal financial arrangements. Where required by the Commission's terms of reference, it has also been used to reflect other changes, such as the replacement of one tax with another tax or the abolition of a tax. In effect, backcasting produces notional financial data that simulate a changed distribution of a Commonwealth payment or State revenue collection before they may have actually changed. Actual data for the assessment period are adjusted to reflect what is reliably known to be happening in the application year.

capital assessments

In this report, the term capital refers to the Investment, Depreciation and Net borrowing assessments.

category

A classification of in scope transactions relating to distinct services or revenue sources, used for analytical purposes. In the 2019 Update, the adjusted budget is divided into Commonwealth payments, seven revenue categories, thirteen expenditure categories and net borrowing.

category factor

The combined result of all the disability factors in a category, or where the category is made up of multiple components, the combined disability factors for all of those components. The category factor is expressed as a ratio to the average. For example in an expense category, a category factor of 1.05 means that the State's disabilities require it to spend 5% more than the average to follow the average expense policy at the average level of efficiency.

Commonwealth payments

Payments to States made by the Australian Government, including general revenue grants (other than GST revenue), payments for specific purposes (PSPs) and Commonwealth own purpose expenses. The Commission examines the purpose of each payment using established guidelines to decide whether the payment has an impact on State fiscal capacities.

component

A part of an expense or revenue category that is separated from others in the category because different disability factors apply to it.

cross-border factor

A disability factor that measures the net effects on a State's costs of the use of its services by residents of other States and vice versa.

disability

An influence beyond a State's control that requires it:

- to spend more (or less) per capita than the average to provide the average level of service, or
- to make a greater (or lesser) effort than the average to raise the average amount of revenue per capita.

disability factor

A measure of a State's use, cost or revenue raising disability, expressed as a ratio of the State's assessed expense or assessed revenue over the corresponding average figure. Policy differences between States are specifically excluded when calculating disability factors. The population weighted average of a disability factor is 1.0.

discounting

Where a case for including a disability in a category is established by the Commission, but the measure of that disability is affected by imperfect data or methods, the Commission may decide to apply a discount. When an assessment is to be discounted, a uniform set of discounts is used (12.5%, 25% or 50%), with higher discounts being applied where there is less confidence in the outcome of the assessment or more concern attached to the data.

distribution

State shares of GST revenue based on the principle of horizontal fiscal equalisation.

distribution model

A formulation, mathematical or otherwise, of the way in which State GST shares (and relativities) are calculated. A mathematical presentation of the model is provided on the [Commission's website](https://www.cgc.gov.au/) (<https://www.cgc.gov.au/>).

equal per capita (EPC) assessment method

Each State's assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. It is typically used when there are judged to be no material disabilities between the States, or no reliable assessments could be developed due to data or other limitations. Such an assessment means that no needs are assessed for any State and that there is no impact on the GST distribution.

equalisation

See horizontal fiscal equalisation (HFE).

expenditure

This term is used to refer to expenses and capital expenditure.

expenses

Operating outlays under an accrual budgeting framework.

fiscal capacity

The fiscal capacity of a State is a measure of its ability to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average rates and received its actual Commonwealth payments, excluding the GST. Once the GST

has been distributed using the Commission's recommendations, State fiscal capacities should be equal.

The relative capacity of each State is a comparison of its fiscal capacity with the average capacity.

Goods and Services Tax (GST) revenue or GST pool

The funds made available by the Australian Government for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation.

grant design inefficiency

A flaw in a method of assessment which would allow a State to influence its relativity by changing its expense or revenue policies (apart from any effect of these policies on the average).

horizontal fiscal equalisation (equalisation)

A distribution of GST revenue to State governments such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

impact on relativities (previously called inclusion), see also no impact on relativities

Treatment applied to a Commonwealth payment that provides budget support for State services for which expenditure needs are assessed. The expenses funded by payments that affect the relativities are assessed in relevant categories and the revenue is assessed on an actual per capita basis.

infrastructure

Infrastructure refers to the stock of physical assets owned by a State's general government sector and its urban public transport and housing public non-financial corporations for the purpose of delivering services. It includes buildings, non-building construction (such as roads) and plant and equipment for economic and social purposes.

investment

Investment refers to capital expenditure less depreciation expenses. It is conceptually equivalent to 'net acquisition of non-financial assets' that appears in the Australian Bureau of Statistics Government Finance Statistics State operating statement.

material, materiality

A test used to assist decisions about whether a separate assessment of disabilities should be undertaken or data adjusted. The materiality levels are defined in terms of the amount of GST redistributed per capita for any State. Different thresholds are used for each. An assessment or adjustment is said to be material if it exceeds the threshold set for it. (See the Assessment Guidelines, Chapter 1 of the 2015 Review Report, Volume 2.)

national capital disability

A disability that measures the additional costs that the ACT incurs because of Canberra's status as the national capital.

national partnership payments (NPPs)

Commonwealth payments to States that support the delivery of specified projects, facilitate reforms, or reward those jurisdictions that deliver on nationally-significant reforms.

National specific purpose payments (SPPs)

Commonwealth payments to States for specific purposes that enable national policy objectives to be achieved in areas that may be administered by States.

native title and land rights disability

A disability that measures differences in costs that States incur because of the operation of the Australian Government's Native Title Act 1993 or the additional and unique costs that the Northern Territory incurs because of the operation of the Australian Government's Aboriginal Land Rights (Northern Territory) Act 1976.

needs

See assessed differences.

net financial worth

Net financial worth is the sum of financial assets minus the sum of liabilities.

net borrowing

The outcome of an operating budget calculated as expenses and expenditure on non-financial assets less State own source revenues and revenues received from the Australian Government.

no impact on relativities (previously called exclusion or out of scope)

Treatment applied to a Commonwealth payment that does not provide budget support for State services or for which expenditure needs are not assessed. Both the payment and the expenses relating to it have no impact on a State's fiscal capacity. Occasionally the terms of reference instruct the Commission to ensure a particular payment has no impact on relativities. (See quarantine.)

payments for specific purposes (PSPs)

Australian government payments to the States for specific purposes in policy areas for which the States have primary responsibility. These payments cover most functional areas of State (and local government) activity, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment. PSPs include SPPs, National Health Reform funding, Students First funding and NPPs.

policy average

The average policies as reflected in the practices of the States in the collection of revenue and the provision of services. These averages are usually weighted according to the size of the user or revenue bases in each State.

policy neutral assessment

An assessment in which the policy average is applied to every State. The resultant assessment is, therefore, unaffected by the policies of individual States, other than through the influence of those policies on the averages.

quarantine

The treatment of a Commonwealth payment, and where possible the expense for which it is used, in such a way as to have no impact on the relativities. Quarantining always results from instructions given directly to the Commission in its terms of reference and the term is used only in this context.

ratio of actual expenses to assessed expenses

A ratio that reflects how a State's policies on the level of services provided and the relative efficiency with which they are provided vary from the average policies. It is measured by dividing actual expense per capita by assessed expense per capita.

ratio of actual investment to assessed investment

A ratio that reflects how a State's policies on the level of capital provided varies from average policies. It is measured by dividing actual expense per capita by assessed expense per capita.

ratio of actual revenue to assessed revenue

A ratio which indicates the actual effort made by a State to raise revenue relative to the average effort. It is primarily a measure of the deviation of a State's tax rates and effort put into ensuring compliance from average rates and average compliance efficiency. It is measured by dividing actual revenue per capita by assessed revenue per capita.

ratio of assessed expenses to average expenses

A ratio of a State's assessed per capita cost of providing services at average standards, relative to average per capita cost. It is calculated by dividing per capita assessed expenses by per capita average expenses.

ratio of assessed capital to average capital

A ratio of a State's assessed capital requirements per capita to the Australian average capital requirement per capita. The assessed capital requirements are what a State would have needed to invest or lend/borrow to have the Australian average level of capital. It is measured by dividing per capita assessed capital by per capita average capital.

ratio of assessed revenue to average revenue

A ratio which indicates the capacity of a State to raise revenue relative to the average. It reflects the size of a State's revenue base per capita relative to the average and is measured by dividing assessed revenue per capita by average revenue per capita.

redistribution

The difference between an equal per capita distribution of GST revenue and one based on the principle of horizontal fiscal equalisation.

regional costs disability

A disability that measures cost differences within a State due to differences in the wages paid and in the price and quantity of other inputs to State services.

relativity

A per capita weight assessed by the Commission for use by the Commonwealth Treasury in calculating the share of the GST revenue a State requires to achieve horizontal fiscal equalisation.

revenue base

A measure of the transactions, activities, or assets that are taxed by the States. Differences between the revenue bases of each State are used by the Commission to determine the relative capacities of each to raise a particular type of revenue.

revenue effort

The intensity of use of a revenue base (the implied tax rate) measured as actual revenue divided by the assessed revenue. It is influenced by the rate of tax or charge, the exemptions, and concessions provided, actual scope of the revenue base in a State, and the effort it put into ensuring compliance.

review

The process in which the Commission reconsiders the methods used to calculate the GST distribution, according to terms of reference given to it. From 1988 onwards, reviews have usually been done every five years. By contrast, an update is conducted every year other than a review year and updates the GST distribution using the methods determined in the last review and the latest financial data.

service delivery scale disability

A disability that measures the additional costs of providing a service where it needs to be delivered but where the delivery is more costly because the population served is small and isolated from other points of service delivery.

socio-demographic composition disability

A disability that measures differences in both the average use and cost of providing services due to differences between States in the relative size of various socio-demographic groups.

It can reflect differences between States in some or all population characteristics such as age sex structure, socio-economic status, Indigenous status and location.

State(s)

Unless the context indicates otherwise, the term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

tax base

See revenue base.

update

The annual assessment of the GST distribution undertaken by the Commission between reviews. Update assessments incorporate new budgetary developments and the most recent available data. In general, the methods used to calculate the GST distribution are those adopted in the most recent review.

user charges

Fees and charges raised by States through the provision of goods or services. In the adjusted budget, user charges for health, post-secondary education, electricity, water and protection of the environment, mining regulation and public transport are deducted from related expenses. Housing user charges are assessed in a separate component in the Housing category. Other user charges are included in the Other revenue category.

wage costs disability

A disability that recognises that otherwise comparable public sector employees in different States are paid different wages, in large part due to differences in labour markets beyond the control of State governments.

ACRONYMS

ABS	Australian Bureau of Statistics
APC	Actual per capita
ARTC	Australian Rail Track Corporation
CGC	Commonwealth Grants Commission
CoE	Compensation of Employees
CoES	Characteristics of Employment Survey
DIRDC	Department of Infrastructure, Regional Development and Cities
EPC	Equal per capita
ERP	Estimated Resident Population
FBO	Final Budget Outcome
GFS	Government Finance Statistics
GST	Goods and Services Tax
HFE	Horizontal fiscal equalisation
HESC	Hydrogen Energy Supply Chain
IHPA	Independent Hospital Pricing Authority
NDIS	National Disability Insurance Scheme
NPARH	National Partnership Agreement on Remote Housing
NPARIH	National Partnership Agreement on Remote Indigenous Housing
NPP	National partnership payment
NPSAF	National Partnership Agreement for the Skilling of Australians Fund
PSP	Payments for specific purposes
SDC	Socio-demographic composition
SPP	Specific purpose payment
ToR	Terms of Reference