

Report on   
GST Revenue Sharing Relativities

2021 Update

GST revenue sharing  
relativities for 2021‑22

Canberra

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A copy of this report can be obtained from the [Commission’s website](http://www.cgc.gov.au) (https://www.cgc.gov.au).

## Letter of transmittal

Text, letter of transmittal, signed 24 February 2021

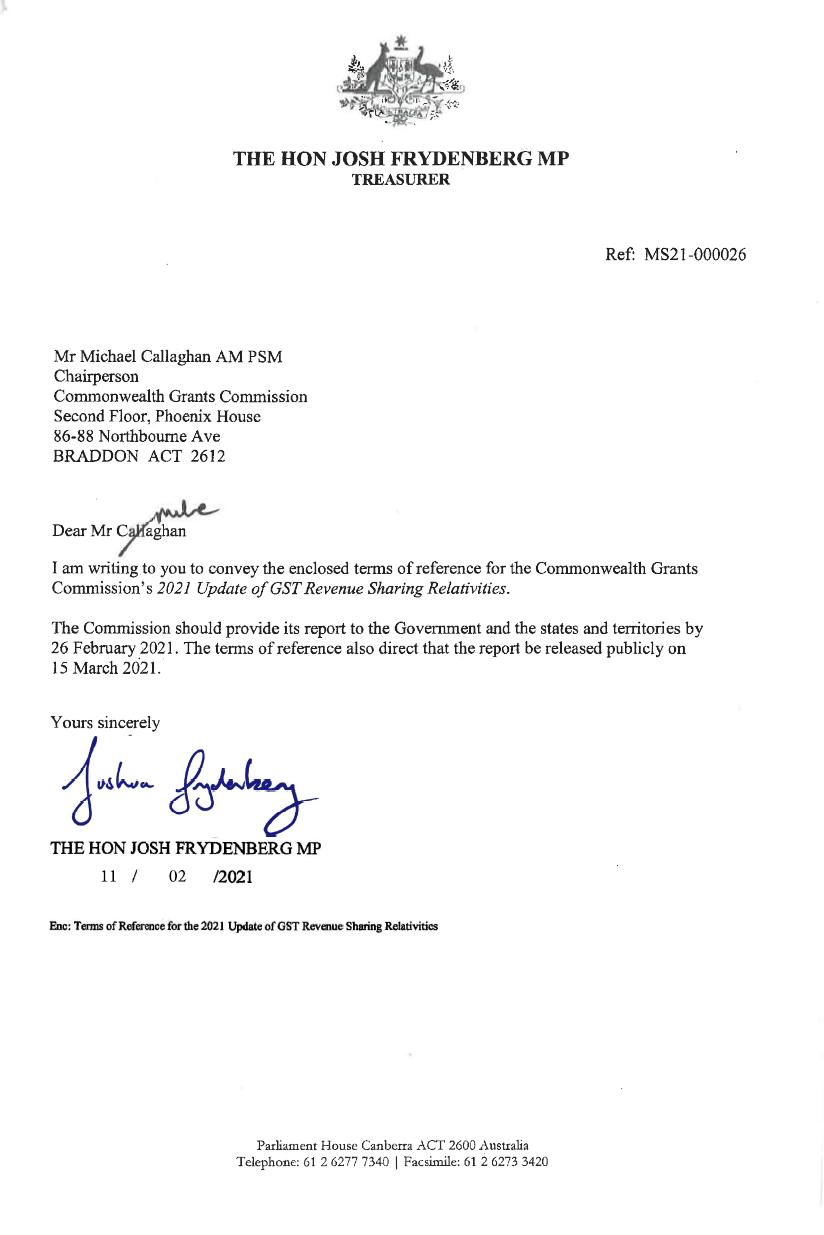


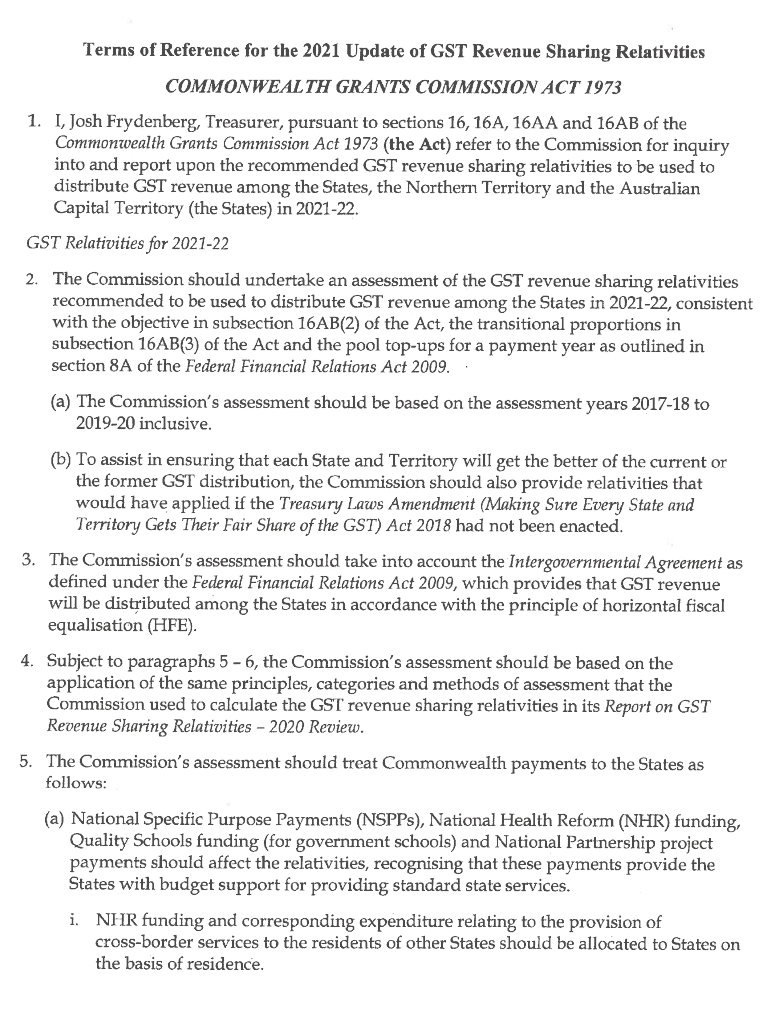
## Acknowledgements

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

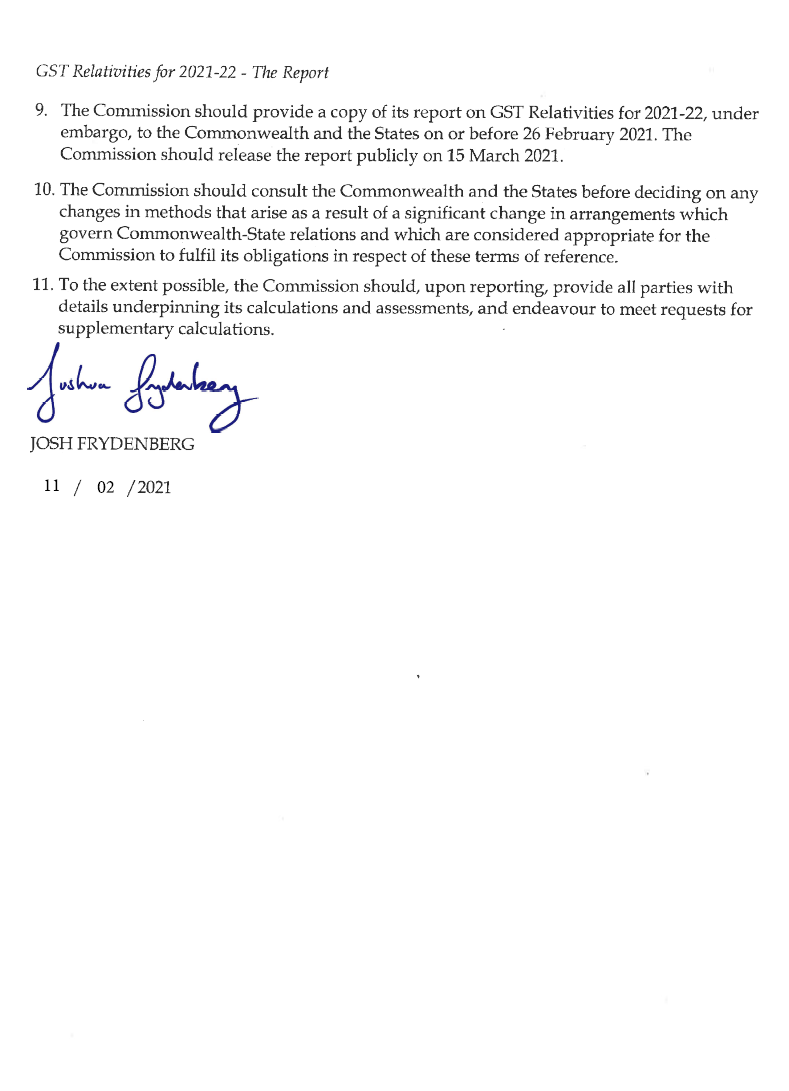
The Commission also acknowledges the commitment and excellent contribution of its staff.

## Terms of reference









## List of acronyms

|  |  |
| --- | --- |
| ABS | Australian Bureau of Statistics |
| ACT | Australian Capital Territory |
| EPC | Equal per capita |
| GST | Goods and Services Tax |
| HFE | Horizontal fiscal equalisation |
| NDIS | National Disability Insurance Scheme |
| SDC | Sociodemographic composition |
| SDS | Service delivery scale |

## Purpose of this report

|  |
| --- |
| This report contains the Commission’s response to the Commonwealth Treasurer’s terms of reference for the 2021 Update dated 11 February 2021.  The Commission has been asked to advise how Goods and Services Tax (GST) revenue should be distributed among the States and Territories (States) in 2021-22. As directed in the terms of reference the Commission has:   * used the same principles and methods used in the 2020 Review * used the latest available reliable data for the 3 years 2017-18 to 2019-20 * followed the guidance contained in the 2020 Review on the treatment of Commonwealth payments and the Treasurer’s direction on how some payments should be treated.   Details of the Commission’s task, and principles used in undertaking it, are in Chapter 2 of the *Report on GST Revenue Sharing Relativities, 2020 Review*, Volume 2. The report is available on the Commission’s website (https://www.cgc.gov.au/). An overview of the Commission’s update processes is also available on the website. |

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## Executive summary

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| Horizontal fiscal equalisation and the distribution of GST This report presents the Commission’s recommendations from its 2021 Update for the distribution of the GST pool among the States and Territories (States) in 2021-22. This provides States the capacity to deliver services at a similar level (referred to as horizontal fiscal equalisation). It takes account of States’ different abilities to raise revenue and their different costs of service provision. The GST pool comprises GST revenue and the top-up payment, which is $600 million in 2021-22.  Drivers of revenue differences include mineral royalties, land values and property transactions, and payroll taxes. States also receive different levels of Commonwealth payments. Costs can vary by State for a range of reasons, including sociodemographic characteristics, wage pressures, population dispersion or density, and rates of population growth.  The Commission finalised its 5-yearly review of the methods for quantifying the relative fiscal requirements of the States in February 2020 (2020 Review). The 2021 Update applied the methods from the 2020 Review and assessed the changes in States’ relative GST requirements over 2017-18, 2018-19 and 2019-20. The rolling 3-year assessment period was updated with the addition of the latest year for which data were available (2019-20).  Changes in States’ relative GST requirements, as outlined in this update, can be driven by changes in States’ *circumstances* (such as increased iron ore royalties, growth in the value of property transfers, growth in a State’s share of Commonwealth payments); or *data revisions* (such as improved data on the value of taxable payrolls). Transition to new equalisation arrangements Under legislated changes to equalisation arrangements, 2021-22 will be the first year in a 6-year transition away from distributing the GST pool based solely on the Commission’s assessment of States’ relative fiscal capacities.[[1]](#footnote-2) Over these 6 years, the Commission’s assessment will be adjusted to new arrangements where no State will have a per capita GST share lower than the fiscally stronger of New South Wales or Victoria. The transition will be completed in 2026-27.  The GST relativities for 2021-22 to 2025-26 will be blends of the previous approach (providing States with the same ability to provide services) and the new approach (ensuring no State has a per capita GST share less than the lower of New South Wales or Victoria). For 2021-22, the GST relativities are a weighted average of the former (5/6ths) and the latter (1/6th).  The biggest effect of the transition to the new arrangements in this update was to increase Western Australia’s GST distribution by $629 million, partially offsetting other developments, such as strong growth in iron ore royalties, which reduced its relative GST requirement. Under the new arrangements, the Commonwealth will make supplementary payments outside the GST pool to Western Australia to give it an outcome equivalent to a relativity of 0.70.[[2]](#footnote-3) This is the third year of this approach. From 2022-23, any such payment to a State will be funded from within the GST pool. The transition includes a ‘no worse off’ guarantee to ensure that no State receives less GST than it would have received in the absence of the new arrangements. The guarantee starts in 2021-22 and runs until 2026-27. Any ‘no worse off’ amounts will be calculated in accordance with the legislation and funded by the Commonwealth. Overview of the 2021 Update The table below shows the impact of the recommended changes in this update on the State distribution of the estimated GST pool from 2020-21 to 2021-22. The change between years includes the impact of changes in States’ circumstances, data revisions and the introduction of the new arrangements.  Change in distribution of GST from 2020-21 to 2021-22   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total | |  | $m | $m | $m | $m | $m | $m | $m | $m | $m | | Estimated 2020-21 distribution | 18,453 | 15,876 | 13,387 | 2,941 | 5,906 | 2,530 | 1,222 | 2,835 | 63,150 | | Estimated 2021-22 distribution | 20,347 | 16,220 | 14,411 | 2,918 | 6,207 | 2,783 | 1,310 | 2,984 | 67,180 | | Change ($m) | 1,894 | 344 | 1,023 | -23 | 301 | 253 | 89 | 149 | 4,030 | | Change ($pc) | 232 | 51 | 196 | -9 | 170 | 464 | 205 | 626 | 156 |   Note: The final amount of the GST pool will be determined by the Commonwealth of Australia’s Final Budget Outcome 2020‑21.  Source: Commission calculation.  The main driver of change in States’ GST shares in this update was the strong growth in the value of mining production in Western Australia, principally due to historically high iron ore prices. Given the concentration of iron ore deposits in Western Australia, this substantially bolstered its capacity to raise revenue through mining royalties, reducing its GST share and increasing those of the other States. In the case of the Northern Territory, this impact was offset by growth in royalties from other minerals. Overall, the boost in iron ore royalties was shared across all States. For Western Australia, the rise in the value of iron ore production may have a range of flow on effects; for example, a possible increase in property values and capital investment, which would have further impacts on its relative GST pool requirements over time.  The consequences of the COVID-19 pandemic on States’ revenue and expenses had little direct effect on this update. This is because the pandemic affected only the last few months of the Commission’s 3 assessment years (2017-18 to 2019-20).[[3]](#footnote-4) State budget papers indicated that States expect to see the largest budget effect of the pandemic in 2020-21, and that year will enter the Commission’s assessment period in its 2022 Update.  The estimated impact of the recommendations in the 2021 Update on States’ GST relativities and their share of the GST pool in 2021-22, compared with 2020-21, is outlined in the table below.  GST relativities and State shares of the GST pool, 2020-21 and 2021-22   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total | | Relativities 2020-21 | 0.91808 | 0.95992 | 1.04907 | 0.44970 | 1.35765 | 1.89742 | 1.15112 | 4.76893 | 1.00000 | | Relativities 2021-22 | 0.95617 | 0.92335 | 1.05918 | 0.41967 | 1.34719 | 1.96067 | 1.16266 | 4.79985 | 1.00000 | |  | % | % | % | % | % | % | % | % | % | | Share in 2020-21 | 29.2 | 25.1 | 21.2 | 4.7 | 9.4 | 4.0 | 1.9 | 4.5 | 100.0 | | Share in 2021-22 | 30.3 | 24.1 | 21.5 | 4.3 | 9.2 | 4.1 | 2.0 | 4.4 | 100.0 | | Population share in 2021-22 | 31.7 | 26.1 | 20.3 | 10.4 | 6.9 | 2.1 | 1.7 | 0.9 | 100.0 |   Source: Commission calculation. |
| *Key drivers of change in each State*  Compared with 2020-21, **Victoria**, **Western Australia** and **South Australia** will have a reduced requirement (in relative terms) for GST distribution in 2021-22. Strong property transfer values over the assessment period increased the revenue raising capacity of **Victoria**. This influence was compounded by Victoria’s below average expense needs and data revisions that increased its assessed capacity to raise payroll tax.[[4]](#footnote-5) The strong growth in iron ore royalties was the main driver of **Western Australia**’s declining GST requirement in this update. **South Australia** experienced a small reduction in its GST requirement, mainly due to above national average growth in property sales and taxable payrolls, and data revisions in the wage costs assessment.  **Major drivers of change in GST distribution, 2020-21 to 2021-22**   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist | |  | $m | $m | $m | $m | $m | $m | $m | $m | $m | | Changes in fiscal capacities |  |  |  |  |  |  |  |  |  | | Changes in mining | 499 | 389 | 75 | -1,061 | 59 | 28 | 26 | -16 | 1,077 | | Changes in property sales | 387 | -210 | 53 | -59 | -122 | -48 | 5 | -6 | 445 | | Changes in capital requirements | -187 | -46 | 84 | 196 | 19 | -1 | -33 | -33 | 300 | | Changes in taxable land values | -206 | -33 | 97 | 94 | 31 | 11 | 6 | 0 | 238 | | Growth in expenses4 | 52 | -194 | 12 | 57 | -13 | 20 | -19 | 85 | 226 | | Changes in Commonwealth payments | 77 | 58 | -92 | -72 | 31 | 1 | -8 | 6 | 173 | | Other revenue effects (a) | 213 | -248 | 49 | -67 | -2 | 2 | 38 | 15 | 317 | | Other expense effects (a) | 143 | -221 | -36 | 67 | -18 | 87 | 7 | -29 | 304 | | Total change in fiscal capacities | 978 | -507 | 243 | -846 | -13 | 100 | 22 | 23 | 1,366 | | New arrangements | -218 | -179 | -142 | 629 | -51 | -17 | -12 | -11 | 629 | | Change in pool and population | 1,134 | 1,029 | 922 | 194 | 365 | 170 | 79 | 138 | (b) 4,030 | | Total change in GST | 1,894 | 344 | 1,023 | -23 | 301 | 253 | 89 | 149 | (b) 4,030 |   (a) The other revenue and expense effects largely reflect revisions to data and other changes in State circumstances. See the discussion in Chapters 2 to 4 for details of the other revenue and expense effects.  (b) Total increase in GST and top-up payment pool.  Source: Commission calculation.  The other States experienced an increased requirement for distribution of the GST pool in this update. A decrease in **New South Wales**’ share of property sales increased its GST requirements. **Queensland**’s increase was mainly due to below average growth of taxable land values and property sales, and higher investment requirements. These changes were partly offset by downward revisions to natural disaster relief expenses. **Tasmania**‘s increased GST distribution mainly reflected an increase in its relative wage costs, and its above average expense needs.4 These influences were partly offset by above national average growth in property sales. The **ACT**’s share of the GST pool increased because of below average growth in taxable payrolls, as well as revisions to payrolls data. Revisions to natural disaster relief expenses also contributed to the **ACT**’s relative increase in GST requirements. Partially offsetting this was the impact of the **ACT**’s below average expense needs. The **Northern Territory**’s increased requirement for GST distribution was mainly driven by its above average expense needs.4  For all States other than **Western Australia**, strong growth in the value of mining production in **Western Australia** led to a reduction in their relative ability to raise mining revenue. This contributed to increasing their relative GST shares. For **Victoria** and **South Australia**, this partially offset the other factors that reduced their shares. For **New South Wales**, **Queensland**, **Tasmania** and the **ACT**, this accentuated growth in their GST shares. In the case of the **Northern Territory**, the impact on its relative ability to raise mining revenue was offset by growth in the value of other minerals produced in the Northern Territory. |

## Recommended GST pool distribution

### Key points

* The key drivers of changes in GST distribution in 2021-22 were:
* expected growth in the GST pool of around $4 billion
* strong iron ore royalties and changes in States’ ability to raise revenue from property values and transactions
* the new equalisation arrangements
* changes in States’ capital requirements.
* The recommended proportion of the GST pool redistributed in 2021-22 is 9.4 % ($6.3 billion) compared with 9.2% ($5.8 billion) in 2020-21. The biggest driver of this redistribution was the large increase in iron ore royalties.
* 2021-22 is the first year of transition to the new arrangements of equalisation based on the fiscally stronger of New South Wales and Victoria. The main effect of the transition in 2021-22 is to increase Western Australia’s GST share by $629 million.

### Recommended GST pool distribution

1. Table 1‑1 provides the GST pool sharing relativities the Commission recommends for distributing the pool of funds comprising GST revenue and the $600 million top-up in 2021‑22.[[5]](#footnote-6)
2. The relativities incorporate the first year of the transition from equalising based on State relative fiscal capacities (previous arrangements) to equalising to the fiscally stronger of New South Wales and Victoria (referred to as the standard State capacities), consistent with the new equalisation arrangements (new arrangements).[[6]](#footnote-7) Table 1‑1 also shows State shares of the GST pool implied by the Commission’s 2021‑22 recommendations and an estimated GST pool distribution. The table compares these with the results for 2020‑21.
3. Before deriving its recommended GST pool sharing relativities for 2021-22, the Commission first calculated the relative fiscal capacities of States. This is the amount each State requires from the GST pool to ensure it has the fiscal capacity to provide the (national) 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. The relative fiscal capacities are the relativities that would have applied had the new arrangements not been enacted. They are also referred to as the ‘no worse off’ relativities.

Table 1‑1 Relativities, shares and estimated GST distributions, 2020-21 and 2021‑22

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Relativities | | GST shares | | GST distribution | |
|  | 2020-21 | 2021-22 | 2020-21 | 2021-22 | 2020-21 | 2021-22 |
|  |  |  | % | % | $m | $m |
| New South Wales | 0.91808 | 0.95617 | 29.2 | 30.3 | 18,453 | 20,347 |
| Victoria | 0.95992 | 0.92335 | 25.1 | 24.1 | 15,876 | 16,220 |
| Queensland | 1.04907 | 1.05918 | 21.2 | 21.5 | 13,387 | 14,411 |
| Western Australia | 0.44970 | 0.41967 | 4.7 | 4.3 | 2,941 | 2,918 |
| South Australia | 1.35765 | 1.34719 | 9.4 | 9.2 | 5,906 | 6,207 |
| Tasmania | 1.89742 | 1.96067 | 4.0 | 4.1 | 2,530 | 2,783 |
| Australian Capital Territory | 1.15112 | 1.16266 | 1.9 | 2.0 | 1,222 | 1,310 |
| Northern Territory | 4.76893 | 4.79985 | 4.5 | 4.4 | 2,835 | 2,984 |
| Total | 1.00000 | 1.00000 | 100.0 | 100.0 | 63,150 | 67,180 |

Note: The estimated GST pool distribution for 2021‑22 was calculated by applying 2021 Update relativities to estimated State populations (as of December 2021) and the estimated GST pool for 2021‑22 (which includes the $600 million top-up).

Source: Commission calculation.

1. Under the new arrangements, the Commonwealth will make supplementary payments outside the GST pool to Western Australia to give it an outcome equivalent to a relativity of 0.70. From 2022‑23, this supplementary payment will be funded from the GST pool. No supplementary payment will be required for the Northern Territory in 2021-22 as its recommended relativity will be greater than its 4.66 guarantee.
2. The relative fiscal capacities for 2021-22 were derived using the methods set out in Volume 2 of the 2020 Review report and using data for 2017-18, 2018-19 and 2019‑20. The calculations also took account of additional Commonwealth support States received and data on State populations.[[7]](#footnote-8)
3. Table 1-2 shows how the GST relativities were derived from the relative fiscal capacities. In line with the new arrangements, an adjustment was made to each State’s relative fiscal capacity to ensure that no State has a fiscal capacity in any assessment year below that of the stronger of New South Wales or Victoria. These are referred to as the standard State fiscal capacities.[[8]](#footnote-9) This increased the GST share for States whose fiscal capacity was above the standard State, and decreased the share of all other States, including the standard State.
4. The Commission then blended these two approaches as prescribed in the legislation. For 2021-22, this was 5/6th relative fiscal capacities (previous arrangements) and 1/6th standard State capacities (new arrangements).[[9]](#footnote-10) The next stage, which will be applicable from 2022-23, will be to ensure that no State is below the prescribed relativity floor, being 0.7.[[10]](#footnote-11) In the event that moving a State’s relativity to this floor is required, it would result in other States’ relativities falling to compensate.
5. There is a ‘no worse off’ guarantee to ensure that no State receives less GST than it would have received in the absence of the new arrangements. The guarantee starts in 2021-22 and runs until 2026-27. Any ‘no worse off’ amounts will be calculated in accordance with the legislation.

Table 1-2 Fiscal capacities and GST relativities, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Relative fiscal capacities (a) |  | Standard State capacities (b) |  | Blended  capacities (c) |  | Implement floor (d) |  | GST relativities |
| NSW | 0.96451 |  | 0.90258 |  | 0.95617 |  | n/a |  | 0.95617 |
| Vic | 0.93169 |  | 0.86976 |  | 0.92335 |  | n/a |  | 0.92335 |
| Qld | 1.06753 |  | 1.00559 |  | 1.05918 |  | n/a |  | 1.05918 |
| WA | 0.32852 |  | 0.86359 |  | 0.41967 |  | n/a |  | 0.41967 |
| SA | 1.35554 |  | 1.29360 |  | 1.34719 |  | n/a |  | 1.34719 |
| Tas | 1.96901 |  | 1.90707 |  | 1.96067 |  | n/a |  | 1.96067 |
| ACT | 1.17101 |  | 1.10907 |  | 1.16266 |  | n/a |  | 1.16266 |
| NT | 4.80820 |  | 4.74626 |  | 4.79985 |  | n/a |  | 4.79985 |
| Total | 1.00000 |  | 1.00000 |  | 1.00000 |  |  |  | 1.00000 |

(a) Relative fiscal capacities refer to the previous arrangements.

(b) Standard State capacities refer to the new arrangements (equalising to the stronger of New South Wales or Victoria). Victoria was fiscally stronger than New South Wales in two assessment years. New South Wales was fiscally stronger than Victoria in one assessment year. For this reason, Western Australia’s standard State capacity is not equal to that of either New South Wales or Victoria.

(c) The blended capacities are 5/6th relative fiscal capacities and 1/6th standard State fiscal capacities.

(d) No internal floor applies to 2021-22.

n/a not applicable.

Source: Commission calculation.

1. Figure 1‑1 outlines the outcomes of the blending of the previous and new arrangements for 2021-22. 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, Commonwealth payments and funding under the transition arrangements.[[11]](#footnote-12)
2. Figure 1‑1 shows that increasing Western Australia’s GST relativity under the new arrangements to above the Commission’s measure of its relative fiscal capacity means that, with average revenue raising effort, it would have slightly more total revenue per capita than it requires to provide services and investment at the average level. All other States would have slightly less revenue than they require as estimated in accordance with the Commission’s assessments.

Figure 1‑1 Estimated assessed budgets per capita, 2021‑22

Bar chart showing NT has the highest estimated assessed budget per capita, at over $20,000. All others are between $10,000 and $15,000.

Note: These are assessed expenditures, own-source revenue, net borrowing, Commonwealth payments and GST.

1. Includes expenses and investment.

Source: Commission calculation.

1. The recommended proportion of the GST pool redistributed in 2021-22 from the fiscally strongest States (New South Wales, Victoria and Western Australia) to the others is 9.4% ($6.3 billion), compared with 9.2% ($5.8 billion) in 2020-21. The biggest driver of this redistribution was the large increase in iron ore royalties. Other drivers were growth in taxable land values, revisions to total state spending on urban transport, and the effect of expenses growing faster than the pool.

### Movements in the GST distribution

1. Table 1‑3 shows the change in distribution of the GST pool from 2020‑21 to 2021‑22 by State. The distributions applied the Commission’s published 2020 Review and 2021 Update relativities to the latest State population shares and GST pool estimates from the Commonwealth’s *Mid-Year Economic and Fiscal Outlook 2020‑21*.[[12]](#footnote-13)

Table 1‑3 Change in distribution of GST from 2020-21 to 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Estimated 2020-21 distribution | 18,453 | 15,876 | 13,387 | 2,941 | 5,906 | 2,530 | 1,222 | 2,835 | 63,150 |
| Estimated 2021-22 distribution | 20,347 | 16,220 | 14,411 | 2,918 | 6,207 | 2,783 | 1,310 | 2,984 | 67,180 |
| Change | 1,894 | 344 | 1,023 | -23 | 301 | 253 | 89 | 149 | 4,030 |
| Change caused by new: |  |  |  |  |  |  |  |  |  |
| Population (a) | -41 | 15 | 64 | 6 | -11 | 8 | 1 | -41 | 0 |
| Pool (b) | 1,175 | 1,014 | 858 | 188 | 376 | 162 | 78 | 178 | 4,030 |
| GST relativities (c) | 761 | -685 | 101 | -217 | -64 | 83 | 10 | 12 | 0 |
| Change ($m) | 1,894 | 344 | 1,023 | -23 | 301 | 253 | 89 | 149 | 4,030 |
| Change ($pc) | 232 | 51 | 196 | -9 | 170 | 464 | 205 | 626 | 156 |

(a) Effects on the distribution of 2021-22 GST pool of using estimated State populations as of December 2021 instead of December 2020, with 2020 Review relativities.

(b) Effects of applying the 2020 Review relativities to the estimated 2021-22 GST pool.

(c) Effects on the distribution of the 2021‑22 GST pool of using the 2021 Update relativities instead of 2020 Review relativities.

Sources: 2020-21 and 2021‑22 GST pool estimates were taken from the Commonwealth Budget, *Mid‑Year Economic and Fiscal Outlook 2020-21*. December 2020 and 2021 population estimates were provided by the Australian Treasury from the same source.

1. The distributions in 2020-21 and 2021-22 differed for the following reasons.

* State populations differed. The estimated 2021‑22 distribution was based on estimated State populations as of December 2021, whereas the 2020‑21 distribution was based on populations for a year earlier. State shares of the total population differed slightly between these two dates and affected the total GST allocation for each State.
* The size of the GST pool available for distribution was different. Any growth in the pool was distributed among States using their relativity-weighted population shares.
* The relativities used to distribute the GST differed, mainly reflecting changes in the relative fiscal capacities of the States. The estimated 2021‑22 distribution was based on the relativities recommended in this report whereas the 2020‑21 distribution was based on the 2020 Review relativities.

#### Contribution to change in distribution of GST from 2020-21 to 2021-22

1. In this update, the GST relativities were influenced by:

* States’ relative fiscal capacities
* introduction of the transition arrangements.

1. The States’ relative fiscal capacities changed due to data revisions and changes in State circumstances.
2. Table 1-4 divides the change in relativities between the change in assessed fiscal capacities and changes due to the transition arrangements. Changes in relative fiscal capacities accounted for most of the change in relativities. These changes do not include the ‘no worse off’ arrangements, which are presented in Attachment A.

Table 1-4 Contribution to change in distribution of GST from 2020-21 to 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Relative fiscal capacity (a) | 978 | -507 | 243 | -846 | -13 | 100 | 22 | 23 | 1,366 |
| Transition (b) | -218 | -179 | -142 | 629 | -51 | -17 | -12 | -11 | 629 |
| Implement floor (c) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total change | 761 | -685 | 101 | -217 | -64 | 83 | 10 | 12 | 966 |

(a) Effects on the distribution of the 2021-22 GST pool of using the 2021 Update relative fiscal capacities instead of 2020 Review relativities.

(b) Difference in the effects on the distribution of 2021-22 GST pool of using the 2021 Update blended capacities in place of the 2021 Update relative fiscal capacities.

(c) In this update, the floor of 0.7 is funded from outside the GST pool. It will be funded from within the GST pool from the next update.

n/a Not applicable.

Source: Commission calculation.

## Changes since the 2020 Review

### Key points

* States’ fiscal capacities can change because of data revisions, or because of changes in their circumstances affecting their revenue raising capacity or their cost of service provision.
* Data revisions in taxable payrolls, natural disaster relief, urban transport and wage costs resulted in the redistribution of $356 million in this update.
* Changes in State circumstances (economic and demographic) resulted in the redistribution of $1,236 million in this update.
* Key changes in revenue raising capacity included strong growth in iron ore royalties and increases in the value of property sales and land values.
* Strong growth in iron ore royalties redistributed $1,061 million in GST from Western Australia to other States in this update. Western Australia accounted for more than half of the GST pool redistribution to fiscally weaker States in 2021-22.
* New South Wales’ GST pool requirement per capita was higher than Victoria’s for the first time in 6 years. New South Wales’ GST pool requirement increased due to a decline in its revenue capacity, influenced by its softening property market and the mining boom in Western Australia. Compared to New South Wales, Victoria’s lower GST pool requirement reflected lower growth in its assessed expense requirement and higher growth in its assessed revenue raising capacity.

### Why State fiscal capacities changed

1. This chapter focuses primarily on the changes in relative fiscal capacities. These measure each State’s relative requirement for revenue from the GST pool under full equalisation (the previous arrangements).
2. The total change in State fiscal capacities can be attributed to changes in the Commission's assessments of each State's revenue raising (and net borrowing) capacity and its expenditure requirement to provide the average level of services and infrastructure, as well as to changes in Commonwealth payments for specific purposes.
3. Table 2‑1 shows that changes in States’ estimated revenue raising capacities had the greatest effect in this update.
4. Detailed tables on the changes resulting from each of the Commission’s assessments can be found in the supporting data for this update, which is available on the [Commission's website](https://www.cgc.gov.au/) (https://www.cgc.gov.au).

Table 2‑1 Composition of estimated changes in GST distribution, 2020-21 to 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | 68 | -199 | 9 | 45 | -21 | 106 | 1 | -10 | 230 |
| Investment requirement | -152 | -191 | 87 | 299 | -6 | -2 | -54 | 19 | 405 |
| Net borrowing | 93 | -72 | -35 | -25 | 16 | 1 | 8 | 14 | 132 |
| Revenue raising capacity | 894 | -103 | 275 | -1,094 | -34 | -7 | 75 | -7 | 1,244 |
| Commonwealth payments | 76 | 58 | -93 | -72 | 31 | 1 | -8 | 6 | 173 |
| Total | 978 | -507 | 243 | -846 | -13 | 100 | 22 | 23 | 1,366 |

Notes: The total change from 2020-21 to 2021‑22 is equivalent to the change caused by new relative fiscal capacities shown in Table 1-4.

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

Source: Commission calculation.

1. Changes in States’ assessed fiscal capacities occurred for the following reasons.

* Some data used in the assessments in the 2020 Review were revised. Revisions occur because new data become available.[[13]](#footnote-14)
* States’ economic and demographic circumstances changed. The 2021 Update fiscal capacities were based on an average of data for 2017‑18 to 2019‑20, whereas the 2020 Review fiscal capacities were based on data for 2016‑17 to 2018‑19. Differences between the year brought into the 3-year average (2019‑20 for this update) and the year removed (2016‑17) changed the assessment of fiscal capacities. However, the 3-year averaging process means changes in circumstances have a gradual effect on GST distributions.

1. Table 2‑2 shows the GST redistribution due to data revisions and changes in circumstances. The main data revisions and changes in circumstances are discussed below.

Table 2‑2 Change in the estimated GST distribution by source of change, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Data revisions | 269 | -184 | -129 | 11 | 25 | 11 | 40 | -43 | 356 |
| Changes in State circumstances | 709 | -323 | 372 | -857 | -39 | 89 | -19 | 66 | 1,236 |
| Total | 978 | -507 | 243 | -846 | -13 | 100 | 22 | 23 | 1,366 |

Note: The redistribution is calculated as the sum of all the positive numbers in the row. Totals may not add due to rounding.

Source: Commission calculation.

#### Data revisions

1. Data revisions for the assessment years used in the 2020 Review changed the redistribution by $356 million in this update. The largest revisions are shown in Table 2‑3.

Table 2‑3 Major effects of data revisions, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Taxable payrolls | 211 | -189 | -10 | -46 | 28 | -4 | 20 | -9 | 259 |
| Natural disaster relief | 81 | 102 | -174 | -46 | 35 | 1 | 10 | -9 | 229 |
| Urban transport | -144 | -25 | 77 | 27 | 27 | 22 | 7 | 9 | 169 |
| Wage costs | 109 | -47 | -33 | 52 | -62 | -18 | -1 | 0 | 161 |
| Other revisions | 13 | -25 | 11 | 24 | -3 | 9 | 5 | -33 | 61 |
| Total | 269 | -184 | -129 | 11 | 25 | 11 | 40 | -43 | 356 |

Source: Commission calculation.

##### Taxable payrolls

1. The Australian Bureau of Statistics (ABS) revised its Compensation of Employees data, which are used by the Commission to measure States’ payroll tax capacities.
2. The largest revisions were to the data for New South Wales and Victoria. Revisions reduced the revenue capacities of New South Wales, South Australia and the ACT, which increased their GST shares. Revisions increased the revenue capacity of other States, reducing their GST shares.

##### Natural disaster relief

1. The large revisions in the natural disaster relief assessment can be attributed mostly to the removal of a one-off adjustment to State expenses that was made in the 2020 Review.
2. Information provided to the Commission during the 2020 Review showed all States provide support to local governments to meet the costs of natural disaster recovery. The Commission therefore decided that local government expenses for natural disaster relief should continue to be included in the assessment and these expenses were added to all 3 assessment years for the 2020 Review.[[14]](#footnote-15) However, incomplete information received by the Commission for the 2019 Update had led to some expenses not being included in the Commission’s assessment. Therefore, a one-off extra $1.8 billion, equivalent to the amount States spent on local government natural disaster expenses during the assessment years for the 2019 Update, was added to State natural disaster expenses in the 2020 Review, to correct for the exclusion of these expenses in the 2019 Update.
3. This adjustment redistributed GST in 2020‑21 to the States with the largest local government expenses on natural disasters during 2015-16 to 2017‑18, namely Queensland, Western Australia and the Northern Territory.
4. For the 2021 Update, actual State contributions to local government natural disaster relief expenses were included in all assessment years. Consequently, the previous one-off $1.8 billion adjustment to natural disaster expenses was removed. The effect of removing the one-off adjustment is shown as a data revision that has, along with other State data revisions and the change to the data used for concessional loans discussed in Chapter 4, redistributed $229 million to New South Wales, Victoria, South Australia, Tasmania and the ACT, and away from other States.

##### Urban transport

1. A review of data for consolidated expenses and user charges for urban transport has resulted in more reliable estimates. This is discussed further in Chapter 4.
2. Net expenses on urban transport were revised down, which redistributed GST away from New South Wales and Victoria to the other States.

##### Wage costs

1. The ABS revised its data from the Characteristics of Employment Survey. The revisions increased assessed wage costs in New South Wales and Western Australia, which increased their GST pool shares. The revisions decreased the assessed wage costs in Victoria, Queensland, South Australia, and Tasmania, which decreased their GST pool shares.

#### Changes in State circumstances

1. This section describes the main changes in State circumstances since the 2020 Review — that is, the changes that occurred when revised 2016-17 data were removed and replaced with 2019‑20 data. Table 2‑4 shows the effect of these changes across different assessment areas.

Table 2‑4 Composition of changes in State circumstances since the 2020 Review

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | -3 | -248 | 142 | 6 | -18 | 98 | -26 | 48 | 294 |
| Investment requirement | -152 | -151 | 93 | 240 | 14 | 0 | -45 | 1 | 348 |
| Net borrowing | 90 | -64 | -36 | -27 | 15 | 1 | 8 | 14 | 128 |
| Revenue raising capacity | 697 | 83 | 266 | -1,004 | -81 | -10 | 53 | -4 | 1,099 |
| Commonwealth payments | 77 | 58 | -92 | -72 | 31 | 1 | -8 | 6 | 173 |
| Total | 709 | -323 | 372 | -857 | -39 | 89 | -19 | 66 | 1,236 |

Source: Commission calculation.

1. Table 2‑5 shows a further disaggregation of the drivers that made the largest contribution to the changes in State circumstances between the 2020 Review and the 2021 Update.

Table 2‑5 Change to GST distribution due to changes in State circumstances, 2021‑22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Mining | 499 | 389 | 75 | -1,061 | 59 | 28 | 26 | -16 | 1,077 |
| Property sales | 387 | -210 | 53 | -59 | -122 | -48 | 5 | -6 | 445 |
| Capital requirement | -187 | -46 | 84 | 196 | 19 | -1 | -33 | -33 | 300 |
| Taxable land values | -206 | -33 | 97 | 94 | 31 | 11 | 6 | 0 | 238 |
| Growth in expenses | 52 | -194 | 12 | 57 | -13 | 20 | -19 | 85 | 226 |
| Commonwealth payments | 77 | 58 | -92 | -72 | 31 | 1 | -8 | 6 | 173 |
| Net borrowing | 90 | -64 | -36 | -27 | 15 | 1 | 8 | 14 | 128 |
| Other changes in circumstances | -3 | -222 | 179 | 16 | -59 | 77 | -3 | 15 | 287 |
| Total | 709 | -323 | 372 | -857 | -39 | 89 | -19 | 66 | 1,236 |

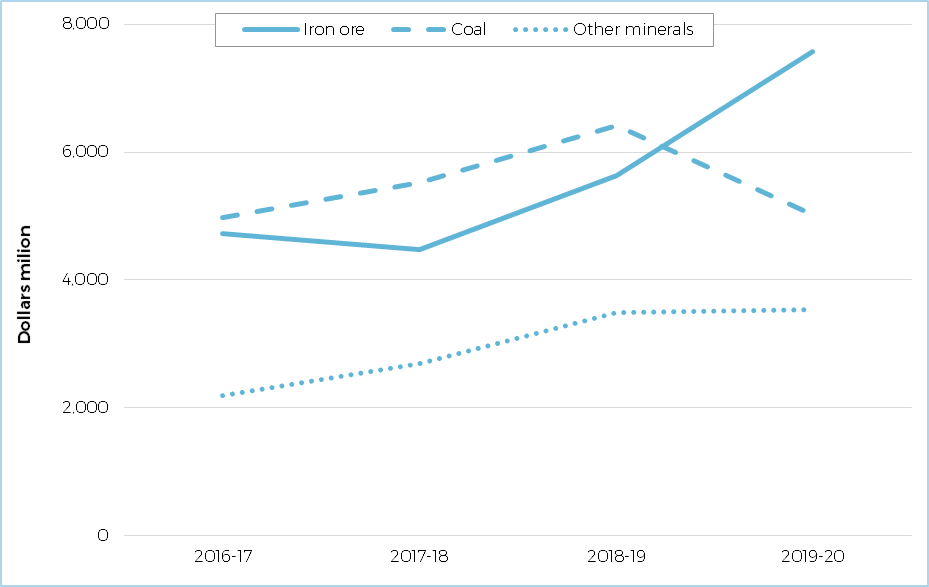
Source: Commission calculation.

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

##### Drivers of change in revenue raising capacity

1. Mining. Resource endowments are unevenly distributed across States and changes in mining activity and commodity prices can produce large annual movements in the value of mining. Consequently, the mining revenue assessment can give rise to large GST pool redistributions. In this update, it redistributed $1,061 million in GST from Western Australia to other States (particularly New South Wales and Victoria). The biggest change was growth in iron ore royalties, which pushed down Western Australia’s GST pool share and pushed up those of all other States. Growing royalties across a number of the Northern Territory’s mineral bases pushed down its GST pool share. For the Northern Territory, the impact on its GST pool share of the growth in these royalties outweighed the impact of the growth in iron ore royalties. The net effect was a fall in its GST pool share.
2. Figure 2‑1 shows the change in royalties from iron ore, coal and other minerals between 2016-17 and 2019-20. Due to price effects, iron ore royalties increased more than other minerals. Under a mineral by mineral assessment, this increased Western Australia’s mining revenue capacity, reducing its GST pool share. It reduced the revenue capacity of most other States, increasing their GST pool shares.

Figure 2‑1 Mining royalties, selected minerals, 2016-17 and 2019-20



Source: State provided data.

|  |
| --- |
| Iron ore and Western Australia’s revenue raising capacity The mining assessment was the major contributor to changed GST pool redistribution outcomes in the 2021 Update. The composition of mining revenue has changed following a strong rise in iron ore royalties and a fall in coal royalties (see Figure 2‑1). The changed composition led to an increase in Western Australia’s revenue raising capacity and a fall in the revenue raising capacities of coal producing States (New South Wales and Queensland). The importance of iron ore royalties to Western Australia’s assessed fiscal capacity is not new. Over recent decades, its changing fiscal capacity has tracked its changing iron ore royalties.  Figure 2-2 shows how rapidly Western Australia’s iron ore royalties have grown since the early 2000s. They have risen from $300 million to $7.6 billion over that period, strengthening its revenue raising capacity and driving its GST relativity (and so its GST pool share) lower.  Western Australia’s assessed GST requirement in this update was the lowest since the 2015 Review. That review was the first time the previous peak of iron ore royalties (2013-14) was included in the assessment period. While international iron ore prices were higher in 2013-14, the domestic price received was higher in 2019-20, largely because of a lower exchange rate.  Whenever iron ore prices are high, Western Australia’s revenue raising capacity is strong. In these circumstances, the Commission assesses it as requiring a lower GST pool share than States that do not have access to this royalty stream. There may be flow on effects from the rise in the value of mining production in Western Australia, for example it may lead to an increase in property values and an increased need for capital investment, generating further impacts on its relative GST pool requirements over time.  Figure 2-2 Iron ore royalties, Western Australia, 2000-01 to 2019-20  Line graph showing the sharp rise in iron ore royalties to Western Australia from 2009-10 to 2019-20.  Sources: Government of Western Australia, Department of Treasury, *Overview of State taxes and royalties*, various issues.  Western Australia, State Budget, *Budget Paper No 3*, various issues. |

1. Property sales. Stamp duties raised from the transfer of property are volatile. Cycles in property markets can lead to substantial changes across years and States and can have marked effects on States’ assessed revenue capacities.
2. Between 2016-17 and 2019-20, the per capita value of property transferred fell nationally by 15%. New South Wales (-24%) and Queensland (-21%) experienced declines that exceeded the average, reducing their revenue raising capacity. The decline in the ACT was about average. As a result, $414 million was redistributed to these States from other States.
3. Figure 2‑3 shows the change in States’ per capita value of property transferred between 2016-17 and 2019-20.

Figure 2‑3 Value of property transfers per capita, 2016-17 and 2019-20

Bar chart showing the change in value of property sales by state. There was a fall in all states except SA and Tasmania.

Note: Total value of taxable property transfers in a State divided by the resident population in that State.

Source: State provided data.

1. Taxable land values. Land tax revenues grew strongly between 2016-17 and 2019-20. This reduced the GST pool requirement of States assessed to have above average land tax revenue capacity (New South Wales and Victoria) and increased the GST pool requirement of other States.
2. Figure 2-4 shows the change in States’ per capita taxable land values between 2016-17 and 2019-20. Most States experienced growth in their per capita taxable land values, with average growth nationally of 12%. New South Wales (23%) experienced well above average growth, causing its revenue raising capacity to rise and its GST pool requirement to fall. In contrast, Victoria (7%) and Queensland (11%) experienced below average growth and Western Australia experienced a decline (-15%). This caused the revenue capacities of these States to fall and their GST pool requirements to grow.
3. Overall, the GST pool requirements of New South Wales and Victoria fell, redistributing $238 million to the other States.

Figure 2‑4 Taxable land values per capita by State, 2016-17 and 2019-20

Bar chart showing change in taxable land values by state. There was a rise in all states except WA.

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

Source: State provided data.

1. Commonwealth payments. As well as the GST pool, the Commonwealth makes other payments to the States for specific purposes. Equalising the fiscal capacity of the States to provide services requires that the Commission take account of the revenue they receive from this source.[[15]](#footnote-16)
2. To the extent that a State receives above average per capita amounts of these payments, less GST per capita is required to equalise its fiscal capacity. Conversely, if a State receives below average amounts, it requires more GST per capita.
3. Between 2016-17 and 2019-20, there were changes in the amounts paid and the interstate distribution of some payments for specific purposes, particularly payments for road and rail infrastructure and national health reform.[[16]](#footnote-17) This had flow-on effects for the GST pool distribution. New and ceased payments in 2019-20 also affected the GST distribution.
4. The main payments causing changes in the GST pool distribution in this update are shown in Table 2‑6.

Table 2‑6 Changes in the estimated GST distribution due to changes in Commonwealth payments, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Road infrastructure – National Network | 151 | -125 | -35 | -14 | 37 | -5 | -5 | -4 | 188 |
| National Health Reform funding | -4 | 116 | -132 | 23 | 6 | 8 | -7 | -11 | 154 |
| Road infrastructure – other roads | 80 | -3 | 3 | -50 | 2 | 7 | 2 | -41 | 94 |
| Rail infrastructure – National Network | -33 | 16 | 45 | -8 | -18 | -1 | -1 | -1 | 61 |
| Investment Growth Package – new investments | -28 | -15 | 24 | -4 | 23 | -1 | -1 | 2 | 49 |
| Sustainable Rural Water Use and Infrastructure Program | -16 | 38 | -14 | -10 | -7 | 4 | 6 | -1 | 48 |
| Remote Indigenous housing | -21 | -17 | 3 | 3 | -2 | -1 | -1 | 37 | 43 |
| Infrastructure Growth Package – Asset Recycling Fund - Western Sydney Infrastructure Plan | -33 | 13 | 10 | 5 | 3 | 1 | 1 | 0 | 33 |
| Skilling Australians Fund | -19 | 17 | 13 | -5 | -3 | -1 | -1 | 0 | 30 |
| Quality Schools – government | -2 | 24 | 1 | -17 | -7 | 2 | 1 | -2 | 27 |
| Other | 2 | -6 | -12 | 4 | -3 | -11 | -1 | 26 | 33 |
| Total | 77 | 58 | -92 | -72 | 31 | 1 | -8 | 6 | 173 |

Source: Commission calculation.

##### Drivers of change in spending requirements

1. Growth in expenses. States with above average expense needs — Queensland, Western Australia, South Australia, Tasmania and the Northern Territory — require more of the GST pool per capita, while those with below average expense needs — New South Wales, Victoria and the ACT — require less of the GST pool per capita (see Table 2‑7 in the section below).
2. In this update, between 2016-17 and 2019-20, expenses grew, on average, significantly faster than the GST pool — 18% and 1%, respectively. Because of the relatively slow growth in the GST pool[[17]](#footnote-18), differential State expense requirements became larger as a proportion of the GST pool.
3. New South Wales has below average needs in most expense components, and most components grew faster than the GST pool. Excluding urban transport, this redistributed $48 million away from New South Wales. However, urban transport, for which New South Wales has well above average needs, grew much faster than most other expense components at 30% between 2016‑17 and 2019‑20.
4. The growth in urban transport expense redistributed $101 million towards New South Wales. As such, the overall effect of the growth in expenses for New South Wales was a GST pool redistribution towards it of $52 million. South Australia has this situation in reverse, with above average expense needs but low requirements for urban transport.The faster growth in urban transport expenses explains the redistribution *away* from South Australia due to growth in expenses, although this was not a large driver for this State.
5. Capital requirements. The Commission assesses States with faster growth in service user populations to need more of the GST pool per capita. Between 2016‑17 and 2019‑20, the ACT and the Northern Territory’s population growth slowed considerably. This translated into much slower growth, or even decline, in user populations for most services. Consequently, their assessed capital requirements were lower in 2019‑20 than in 2016‑17. New South Wales and Victoria also had slowing population growth. Other States, especially Western Australia, experienced increasing population growth, and hence increased growth in service user populations and in capital requirements.
6. Capital requirements in relation to urban transport investment also changed between 2016‑17 and 2019-20. New South Wales had a slight decline in its share of urban transport investment needs over the period because of a relatively slow increase in Sydney’s population density. Victoria’s GST pool share grew because of a strong increase in Melbourne’s population density, and Queensland’s GST pool share grew because of relatively strong population growth.
7. Net borrowing. Between 2016-17 and 2019-20, total State net debt increased more than threefold, from $86 billion to over $300 billion. This increased the amount of borrowing required to achieve the same net financial worth per capita, assuming States began the year with the average value of net financial worth. This reduced the GST pool shares of States with above average population growth (Victoria and Queensland).
8. Western Australia’s increasing, but still below average, population growth meant the redistribution toward it was less in 2019-20 than in 2016-17. This reduced Western Australia’s GST pool share.

### Why State fiscal capacities differ from each other

1. Differences between the States in terms of economic, social and demographic characteristics affect their expenditures and revenues, and contribute to differences in fiscal capacities.[[18]](#footnote-19) Table 2‑7 shows how these differences contributed to differences between the recommended GST pool distribution and an equal per capita allocation of the GST pool.

Table 2‑7 Difference from an equal per capita distribution of GST, 2021‑22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | -1,068 | -4,848 | 1,302 | 1,469 | 159 | 834 | -191 | 2,342 | 6,107 |
| Investment requirement | -59 | 73 | 105 | 164 | -411 | -131 | -144 | 403 | 745 |
| Net borrowing | 114 | -245 | -50 | 62 | 76 | 13 | 2 | 28 | 295 |
| Revenue raising capacity | -153 | 2,650 | 564 | -6,287 | 2,031 | 752 | 447 | -5 | 6,445 |
| Commonwealth payments (a) | 450 | 1,201 | -974 | -71 | -204 | -88 | 81 | -395 | 1,733 |
| Total | -715 | -1,168 | 947 | -4,664 | 1,650 | 1,381 | 195 | 2,374 | 6,547 |

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

Source: Commission calculation.

1. The main drivers of the economic and demographic factors causing differences in State fiscal capacities are shown in Table 2‑8. For example, Victoria required an additional $3,913 million in GST above an equal per capita share to recognise its below average capacity to raise revenue from mining, while Western Australia required $6,417 million less than an equal per capita share of GST due to its high capacity to raise mining revenue. On the other hand, Western Australia’s dispersed population means it required $538 million more than an equal per capita share of GST to fund services, while Victoria required $1,395 million less to fund services given its less dispersed population.

Table 2‑8 Drivers of difference from an equal per capita distribution of GST, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| EFFECTS OF REVENUE RAISING CAPACITY | |  |  |  |  |  |  |  |  |
| Mining | 2,852 | 3,913 | -1,534 | -6,417 | 743 | 254 | 266 | -77 | 8,029 |
| Property sales | -1,517 | -928 | 799 | 830 | 553 | 163 | 8 | 91 | 2,444 |
| Taxable land values | -1,139 | -536 | 829 | 159 | 417 | 154 | 100 | 16 | 1,676 |
| Taxable payrolls | -472 | 79 | 532 | -753 | 427 | 192 | 37 | -42 | 1,266 |
| Other revenue effects | 123 | 122 | -61 | -107 | -109 | -11 | 36 | 7 | 288 |
| TOTAL REVENUE | -153 | 2,650 | 564 | -6,287 | 2,031 | 752 | 447 | -5 | 6,445 |
| EFFECTS OF EXPENSE REQUIREMENTS |  |  |  |  |  |  |  |  |  |
| Sociodemographic composition (SDC) |  |  |  |  |  |  |  |  |  |
| Population dispersion | -1,573 | -1,395 | 891 | 538 | 93 | 506 | -222 | 1,162 | 3,190 |
| Indigenous status | 118 | -1,879 | 818 | 227 | -160 | 139 | -73 | 810 | 2,112 |
| Non-Indigenous disadvantage | 27 | -193 | 209 | -204 | 392 | 140 | -259 | -112 | 768 |
| Age | 180 | -66 | -148 | -64 | 169 | -6 | -18 | -46 | 349 |
| Other SDC (a) | -33 | -249 | 142 | 87 | 55 | -29 | -24 | 51 | 336 |
| Total SDC | -1,282 | -3,784 | 1,912 | 584 | 550 | 750 | -596 | 1,865 | 5,661 |
| Urban centre characteristics | 1,153 | 459 | -734 | -281 | -263 | -195 | -59 | -81 | 1,612 |
| Administrative scale | -587 | -411 | -230 | 69 | 173 | 322 | 323 | 341 | 1,228 |
| Wage costs | 421 | -203 | -220 | 349 | -393 | -158 | 119 | 85 | 975 |
| Student populations (b) | -367 | -231 | 184 | 310 | -19 | 35 | 100 | -13 | 630 |
| Other expenses | -407 | -678 | 391 | 437 | 111 | 80 | -79 | 145 | 1,164 |
| TOTAL EXPENSES | -1,068 | -4,848 | 1,302 | 1,469 | 159 | 834 | -191 | 2,342 | 6,107 |
| INVESTMENT |  |  |  |  |  |  |  |  |  |
| Capital requirement | -257 | 1,085 | 33 | -363 | -349 | -55 | -20 | -74 | 1,118 |
| Capital improvements | 86 | -495 | 84 | 187 | -33 | -31 | -137 | 338 | 696 |
| Cost of construction | 112 | -517 | -12 | 340 | -30 | -44 | 12 | 139 | 603 |
| Net borrowing | 114 | -245 | -50 | 62 | 76 | 13 | 2 | 28 | 295 |
| TOTAL INVESTMENT | 55 | -171 | 55 | 225 | -336 | -118 | -142 | 432 | 767 |
| Total expense and investment | -1,013 | -5,019 | 1,358 | 1,694 | -176 | 716 | -333 | 2,773 | 6,542 |
| Commonwealth payments | 450 | 1,201 | -974 | -71 | -204 | -88 | 81 | -395 | 1,733 |
| Total effect of fiscal capacities | -715 | -1,168 | 947 | -4,664 | 1,650 | 1,381 | 195 | 2,374 | 6,547 |
| Effect of new HFE arrangements (c) | -218 | -179 | -142 | 629 | -51 | -17 | -12 | -11 | 629 |
| TOTAL | -933 | -1,346 | 805 | -4,035 | 1,600 | 1,363 | 183 | 2,363 | 6,314 |

Note: For further explanation of what each effect includes see the supporting information on the Commission’s website.

(a) Other sociodemographic composition (SDC) includes the effects of age, Indigenous disadvantage, household size, State contributions to the NDIS and the full effect of SDC in Commonwealth funding for government schools.

(b) Student populations include both the size of the school student population and the government/non-government mix of students in each State.

(c) Includes the effect of net borrowing.

Source: Commission calculation.

|  |
| --- |
| New South Wales’ GST requirement is higher than Victoria’s In this update, New South Wales’ GST pool requirement per capita was higher than Victoria’s for the first time in 6 years and for the twelfth time (out of 22) since the introduction of the GST in 2000‑01.  New South Wales’ GST pool requirement increased over the assessment years (2017-18 to 2019‑20) due to its declining revenue capacity (in relative terms). This was driven by the twin effects of its softening property market and the mining boom in Western Australia.  Overall, the increase in New South Wales’ GST pool requirement in 2019‑20 led to it having a relative fiscal capacity in that assessment year nearing one, a level it last approached in the 2011‑12 year of the 2014 Update. In contrast, Victoria’s decreased GST pool requirement for 2019‑20 led to it having a relative fiscal capacity in that assessment year below 0.9, a frequent occurrence since the introduction of the GST.  Compared to New South Wales, Victoria experienced lower growth in its assessed expense requirement and higher growth in its assessed revenue raising capacity and other Commonwealth payments it received. All 3 factors combined to reduce its GST pool requirement below that of New South Wales. The decline in its requirement was accelerated by the fall in GST revenue in 2019‑20, as explained in paragraphs 32 to 34. A fall in the GST pool moves the GST pool requirements of all States further from one as the equalisation task becomes greater.  Figure 2‑5 shows the relative fiscal capacities of New South Wales and Victoria since the GST was introduced.  Figure 2‑5 Relative fiscal capacities for New South Wales and Victoria, 2000‑01 to 2021‑22  Line graph showing fiscal capacities of New South Wales and Victoria. Both have increased on average over time. There is some variation, but both always remain between 0.8 and 1.  Notes: The relative fiscal capacities were derived on the basis of a pool comprising GST only.  The relative fiscal capacities in 2004-05, 2010-11, 2015-16 and 2020-21 included the impacts of methodology reviews.  Source: Commission calculation. |

### Size of the fiscal equalisation task

1. The size of the equalisation task changed from previous years due to the transition to the new arrangements, commencing in 2021-22. Overall, the redistribution will be 9.4%.[[19]](#footnote-20)
2. Figure 2‑6 shows that the proportion of the GST pool redistributed to States with above average GST requirements increased in this update for the first time since 2016-17. In this update, 9.4% of the GST pool will be redistributed to the 4 less populous States and Queensland to achieve fiscal equalisation, up from 9.2% in the previous year, largely driven by the effects of the large increase in iron ore royalties in Western Australia.
3. In this update, the GST redistribution to the 4 less populous States accounted for 87.2% of the $6.3 billion GST redistribution shown in Figure 2‑6. These States have 11.6% of Australia’s population and receive 19.8% of the GST pool, which is similar to the long-term average proportion of 20.3%. Redistribution to these States is mostly the result of their relatively weaker revenue bases and higher service delivery costs.

Figure 2‑6 Proportion of the GST redistributed to States with above average GST requirements, 2000‑01 to 2021-22

Area chart showing GST redistribution. NT has consistently received the most redistribution, then SA, Tasmania and the ACT. Queensland varies widely, peaking in 2017-18 when it received the most. 

Source: Commission calculation.

1. Figure 2‑6 shows that, since the introduction of the GST, the 4 smaller States have had relatively stable above average GST requirements every year. Queensland has had above average GST requirements in 17 years out of 22 years. Its high GST requirements in the mid‑2010s were mainly due to Queensland’s natural disaster relief expenses. Western Australia had above average GST requirements in 2004-05, 2005-06 and 2006-07.
2. Figure 2‑7 shows the proportion of GST redistributed from the States with below average GST requirements. Growing iron ore royalties mean that Western Australia has been playing an increasingly prominent role in fiscal equalisation. The respective redistributions from New South Wales and Victoria have varied over time. Taken together, their contribution to redistribution has decreased considerably since 2004-05.

Figure 2‑7 Proportion of the GST redistributed from States with below average GST requirements, 2000-01 to 2021-22

Area chart showing GST redistribution. On average more GST is redistributed from New South Wales than from Victoria. Those State’s contributions peaked in 2004-5, peak overall redistribution came in 2016-17, predominantly from WA.

Western Australia has had below average GST requirements in all years, except 2004-05, 2005-06 and 2006-07.

Source: Commission calculation.

1. A time series of GST revenue sharing relativities since the introduction of the GST in 2000-01 is available in the supporting data 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.

## State by State changes

### Key points

* Since 2010, the GST pool requirements of most States have been broadly steady. The exceptions are Western Australia, whose requirements have been trending down, and the Northern Territory, whose GST pool requirement has varied but whose relativity has consistently been above 4 (its per capita GST pool requirement is at least quadruple the average requirement).
* In this update, almost all States were estimated to receive more revenue from the GST pool than in 2020-21. Because of its strong iron ore royalties, Western Australia was estimated to receive slightly less (a reduction of $9 per capita, or $23 million in total).
* In per capita terms, the Northern Territory distribution would increase by $626, Tasmania by $464, New South Wales by $232, the ACT by $205, Queensland by $196, South Australia by $170, and Victoria by $51.
* The total increases in State distribution from the GST pool in 2021-22 would be: New South Wales $1,894 million; Queensland $1,023 million; Victoria $344 million; South Australia $301 million; Tasmania $253 million; the Northern Territory $149 million; and the ACT $89 million.

1. This chapter sets out the major causes of change in each State’s relativity since the 2020 Review. Changes in the Commission’s assessment of State relative fiscal capacities resulted from revisions to some of the data used in the assessments, and changes in States’ economic and demographic circumstances.
2. The change in GST pool distribution had several drivers. In addition to changes in assessed needs, the State relativities (and hence shares of the GST pool) were affected by:

* changes in State populations
* changes in the size of the GST pool (including top-up payments).[[20]](#footnote-21)

1. Figure 3‑1 shows the changes in States’ relative fiscal capacities since 2010‑11. Chapter 2 explains why States’ relative fiscal capacities differ.

Figure 3‑1 Relative fiscal capacities, 2010-11 to 2021-22

Line graph showing relative fiscal capacities. The NT varies between 4 and 6, Tasmania between 1.5 and 2, SA and the ACT between 1 and 1.5, while Queensland has been above 1 since 2013-14. The three fiscally stronger states are consistently below 1.

Notes: The relative fiscal capacities were derived on the basis of a pool comprising GST only.

The relative fiscal capacities in 2010‑11, 2015‑16 and 2020‑21 included the impacts of methodology reviews.

Source: Commission calculation.

1. Starting in this update, there is also the transition from relativities based upon relative fiscal capacities to relativities based upon equalising States to the fiscally stronger of New South Wales and Victoria.
2. Section 5(3) of the amended *Federal Financial Relations Act 2009* allows for additional financial assistance to be made to a State should the revenue from the GST pool it receives be less than what it would have received had the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* not been enacted (referred to as the ‘no worse off’ provisions).
3. Any additional financial assistance that States may require would be funded by the Commonwealth. More information about the ‘no worse off’ payments is in Attachment A.

### New South Wales

Under the new GST relativities, which include the transition arrangements, New South Wales’ GST pool share would increase from 29.2% to 30.3%, increasing its GST entitlement in 2021‑22 by an estimated $1,894 million, or 10.3%.

Western Australia’s increase in mining royalties contributed to this, by reducing other States’ relative capacity to raise mining revenue. Below average growth in the value of property sales and revisions to taxable payrolls also increased assessed needs. These changes were partially offset by above average growth in taxable land values, and revisions to urban transport expenses.

Table 3‑1 Change in estimated GST distribution from 2020-21 to 2021-22, New South Wales

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | -41 | -5 |
| Growth in GST pool | 1,175 | 144 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | 269 | 33 |
| State circumstances | 709 | 87 |
| Total | 978 | 120 |
| Transition to new arrangements (a) | -218 | -27 |
| Total change | 1,894 | 232 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑2 Main changes for New South Wales, 2021 Update

Data Revisions: Taxable payrolls $211m; Urban centre characteristics -$144; Wage costs $109m. Changes in circumstances: Mining $499; Property sales $387m; Taxable land values -$206; Capital requirement -$187

Source: Commission calculation.

### Victoria

Under the new GST relativities, which include the transition arrangements, Victoria’s GST pool share would fall from 25.1% to 24.1%. Due to an increase in the pool, its GST entitlement in 2021‑22 would rise by an estimated $344 million, or 2.2%.

Victoria’s GST pool requirement decreased. Above average growth in property sales and revisions to taxable payrolls contributed to this. Expenses growing faster than the GST pool meant that expense disabilities became more important. As Victoria has below average expense disabilities, this reduced its GST pool share. These changes were partly offset by Western Australia’s increase in mining royalties, which led to a reduction in Victoria’s relative capacity to raise mining revenue.

Table 3‑2 Change in estimated GST distribution from 2020-21 to 2021-22, Victoria

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | 15 | 2 |
| Growth in GST pool | 1,014 | 151 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | -184 | -27 |
| State circumstances | -323 | -48 |
| Total | -507 | -75 |
| Transition to new arrangements (a) | -179 | -27 |
| Total change | 344 | 51 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑3 Main changes for Victoria, 2021 Update

Data revisions: Taxable payrolls -$189; Natural disaster relief $102. Changes in circumstances: Mining $389; Property sales -$210; Growth in expenses -$194; Net borrowing -$64; Taxable payrolls -$62

Source: Commission calculation.

### Queensland

Under the new GST relativities, which include the transition arrangements, Queensland’s GST pool share would increase slightly from 21.2% to 21.5%, increasing its GST entitlement in 2021‑22 by an estimated $1,023 million, or 7.6%.

Queensland’s GST pool requirement increased. Western Australia’s increase in mining royalties contributed to this, by reducing Queensland’s relative capacity to generate mining revenue. Below average growth in the value of property sales and higher growth in national land tax revenue also increased its assessed needs. These changes were partly offset by revisions to State natural disaster relief expenses and above average growth in Commonwealth payments.

Table 3‑3 Change in estimated GST distribution from 2020-21 to 2021-22, Queensland

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | 64 | 12 |
| Growth in GST pool | 858 | 165 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | -129 | -25 |
| State circumstances | 372 | 71 |
| Total | 243 | 47 |
| Transition to new arrangements (a) | -142 | -27 |
| Total change | 1,023 | 196 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑4 Main changes for Queensland, 2021 Update

Data revisions: Natural disaster relief -$174m; Urban centre characteristics $77m. Changes in circumstances: Taxable land values $97m; Commonwealth payments -$92m; Capital requirement $84m; Mining $75m; Property sales $53m

Source: Commission calculation.

### Western Australia

Western Australia’s GST pool requirement decreased due to a further increase in iron ore royalties and above average growth in Commonwealth payments. These changes were partly offset by below average growth in taxable land values and higher expense and investment requirements.

Table 3‑4 Change in estimated GST distribution from 2020-21 to 2021-22, Western Australia

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | 6 | 2 |
| Growth in GST pool | 188 | 71 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | 11 | 4 |
| State circumstances | -857 | -321 |
| Total | -846 | -317 |
| Transition to new arrangements (a) | 629 | 236 |
| Total change | -23 | -9 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool.

Source: Commission calculation.

Figure 3‑5 Main changes for Western Australia, 2021 Update

Data revisions: Wage costs $52m. Changes in circumstances: Mining -$1,061m; Capital requirement $196m; Taxable land values $94m; Commonwealth payments -$72m; Property sales -$59m; Growth in expenses $57m

Source: Commission calculation.

### South Australia

Under the new GST relativities, which include the transition arrangements, South Australia’s share of the GST pool decreased from 9.4% to 9.2%. With pool growth, its GST pool entitlement in 2021‑22 would rise by an estimated $301 million, or 5.1%.

South Australia’s GST pool requirement decreased. This was due to above average growth in the value of property sales and taxable payrolls, and revisions to wage costs. These changes were partly offset by Western Australia’s increase in mining royalties, which reduced South Australia’s relative capacity to generate mining revenue.

Table 3‑5 Change in estimated GST distribution from 2020-21 to 2021-22, South Australia

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | -11 | -6 |
| Growth in GST pool | 376 | 213 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | 25 | 14 |
| State circumstances | -39 | -22 |
| Total | -13 | -8 |
| Transition to new arrangements (a) | -51 | -29 |
| Total change | 301 | 170 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑6 Main changes for South Australia, 2021 Update

Data revisions: Wage costs -$62m; Natural disaster relief $35m. Changes in circumstances: Property sales -$122m; Mining $59m; Taxable payrolls -$35m; Commonwealth payments $31m; Taxable land values$31m

Source: Commission calculation.

### Tasmania

Under the new GST relativities, which include the transition arrangements, Tasmania’s GST pool share would rise from 4.0% to 4.1%. Combined with pool growth, its GST entitlement in 2021‑22 would rise by an estimated $253 million, or 10.0%.

Tasmania’s GST pool requirement increased. This was due to higher wage costs and Western Australia’s increase in mining royalties, which reduced Tasmania’s relative capacity to generate mining revenue. These changes were partly offset by above average growth in the value of property sales.

Table 3‑6 Change in estimated GST distribution from 2021 to 2021-22, Tasmania

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | 8 | 14 |
| Growth in GST pool | 162 | 298 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | 11 | 20 |
| State circumstances | 89 | 164 |
| Total | 100 | 184 |
| Transition to new arrangements (a) | -17 | -32 |
| Total change | 253 | 464 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑7 Main changes for Tasmania, 2021 Update

Data revisions: Urban centre characteristics $22m; Wage costs -$18m. Changes in circumstances: Wage costs $57m; Property sales -$48m; Mining $28m; Population dispersion $25m; Growth in expenses $20m

Source: Commission calculation.

### Australian Capital Territory

Under the new GST relativities, which include the transition arrangements, the ACT’s GST pool share would rise from 1.9% to 2.0%. Combined with pool growth, its GST entitlement in 2021‑22 would rise by an estimated $89 million, or 7.3%.

The ACT’s GST pool requirement increased. This was due to Western Australia’s increase in mining royalties, which reduced the ACT’s relative capacity to generate mining revenue, and below average growth in taxable payrolls. These changes were partly offset by reduced investment needs, and expenses growing faster than the GST pool, which has meant that expense disabilities have become more important. As the ACT has below average expense disabilities, this reduced its GST share.

Table 3‑7 Change in estimated GST distribution from 2020-21 to 2021-22, ACT

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | 1 | 2 |
| Growth in GST pool | 78 | 181 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | 40 | 93 |
| State circumstances (a) | -19 | -43 |
| Total | 22 | 50 |
| Transition to new arrangements (b) | -12 | -28 |
| Total change | 89 | 205 |

Note: Table may not add due to rounding.

(a) Numerous small changes to the ACT’s circumstances more than offset the increase in its GST share due to mining in other States (shown in Figure 3‑8).

(b) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑8 Main changes for the ACT, 2021 Update

Data revisions: Taxable payrolls $20m; natural disaster relief $10m. Changes in circumstances: Capital requirement -$33m; Mining $26m; Growth in expenses -$19m; Taxable payrolls $15m; Capital improvements -$11m

Source: Commission calculation.

### Northern Territory

Under the new GST relativities, which include the transition arrangements, the Northern Territory’s GST pool share would fall from 4.5% to 4.4%. Combined with pool growth, its GST pool entitlement would rise by an estimated $149 million, or 5.3%.

The Northern Territory’s GST pool requirement increased. This was due to expenses growing faster than the GST pool, which meant that expense disabilities became more important. The Northern Territory also has well above average expenses. Increases in its GST pool requirement were partly offset by a decrease in relative wage costs and revisions to the costs of providing some health and welfare services in more remote areas. While the growth in Western Australia’s iron ore royalties contributed to increasing the GST pool share of other States, this influence was offset in the Northern Territory because of increases in royalties from other mineral resources.

Table 3‑8 Change in estimated GST distribution from 2021 to 2021-22, Northern Territory,

|  |  |  |
| --- | --- | --- |
|  | $m | $pc |
| Change in population | -41 | -171 |
| Growth in GST pool | 178 | 748 |
| Changes in relative fiscal capacity |  |  |
| Data revisions | -43 | -181 |
| State circumstances | 66 | 276 |
| Total | 23 | 95 |
| Transition to new arrangements (a) | -11 | -46 |
| Total change | 149 | 626 |

Note: Table may not add due to rounding.

(a) This represents the difference between applying the GST relativities and relative fiscal capacities to the GST pool. It is not the basis of the ‘no worse off’ calculation, which is a State’s relative fiscal capacity applied to the GST pool without the top-up.

Source: Commission calculation.

Figure 3‑9 Main changes for the Northern Territory, 2021 Update

Data revisions: Population dispersion: -$49m; Indigenous status -$17m. Changes in circumstances: Growth in expenses $85m; Wage costs -$55m; Capital improvements $34m; Capital requirement -$33m; Indigenous status $21m

Source: Commission calculation.

## New issues in this update

### Key points

* In each update, the Commission consults with the States about new issues that might affect GST distribution.
* The COVID-19 pandemic affected States’ revenue raising and spending priorities, and hence their fiscal capacities. The assessment period for this update covers July 2017 to June 2020, so only the last 4 months were affected by the pandemic. The impact of the pandemic may be more pronounced in the 2022 Update.
* The issues arising from the pandemic for resolution in this update included the appropriate treatment of tax waivers, rebates and deferrals, the implications of JobKeeper payments for the payroll tax assessment, and the appropriate treatment of revenue and spending under the Commonwealth-State cost sharing arrangements of the National Partnership on COVID-19 Response.
* There were grounds to suggest that the current health assessment was unlikely to sufficiently capture the drivers of COVID-19 related health spending, but data were not yet available to show changing patterns in service use as a result of the pandemic. The Commission followed its 2020 Review guidelines to determine the appropriate treatment of Commonwealth payments. The guideline is that payments which support State services and for which expenditure needs are assessed, will affect States’ fiscal capacities. In keeping with this guideline, the Commission concluded that because Commonwealth payments under the National Partnership on COVID-19 Response had not been assessed, they should have no effect on the assessment of State fiscal capacities in this update.

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 categories:

* assessment issues, relating to how changed circumstances are incorporated into assessments
* data issues, concerning how the latest available data, data corrections or changes to data availability are incorporated into assessments
* treatment of Commonwealth payments, including new payments and major changes in payment arrangements.

1. The COVID-19 pandemic presented a range of issues across these categories, and these are discussed together at the beginning of the chapter.
2. There were also several data issues requiring consultation and resolution.
3. In addition, this update marked the beginning of the transition to new arrangements for distributing the GST pool based on the fiscally stronger of New South Wales or Victoria.[[21]](#footnote-22) This is addressed at the end of the chapter.
4. Before it decides how to treat new issues, the Commission consults with States. Relevant discussion papers and State responses are available on the Commission’s website (<https://www.cgc.gov.au/inquiries/2021-update>).
5. This chapter describes how the Commission decided to address each of these issues.

### Response to the COVID-19 pandemic

1. The COVID-19 pandemic has led to significant economic and social changes. These, in turn, have affected what States do with respect to revenue raising and spending priorities, and hence their fiscal capacities.
2. The issue for the Commission was to what extent these changes affected the relative fiscal capacities of the States (that is, whether the pandemic had a differential impact on State fiscal capacities), and to what extent any such changes were captured by the methods developed during the 2020 Review.
3. State circumstances for the 36 months from July 2017 to June 2020 contributed to this update, with only the last 4 of these months being significantly affected by the pandemic.
4. The Commission consulted with States on the broader implications of COVID-19 for the 2020 Review methods before the terms of reference for the 2021 Update were issued.
5. Most States considered that State responses to the pandemic during the assessment period were sufficiently comparable to be largely accommodated by the existing assessment methods. Any differences in responses were likely to reflect differences in State circumstances rather than different policy choices.
6. Western Australia disagreed. It considered there were differences among State policies and efficiencies in responding to COVID-19, providing as examples its policies in relation to the mining industry and support for residential construction. Western Australia argued that because of its policy response to the pandemic, some of its revenue bases were higher than they would have been had its response been in line with the approach adopted by most States. It proposed reducing its revenue bases by some proportion to reflect the impact of this above average effort.
7. State budget papers indicated that 2020-21 is the year States expect to see the largest budgetary effect of their responses to the COVID-19 pandemic. That year will enter the Commission’s assessment period from the 2022 Update.
8. The Commission will again include consideration of the implications of the pandemic in its consultation for the 2022 Update. This consultative process will provide input for setting the terms of reference for the 2022 Update. The Commission will keep the Council on Federal Financial Relations updated as it progresses this work. The scope for the Commission to change its assessment methods in response to the COVID-19 pandemic will depend on the terms of reference for the 2022 Update.

#### Commission approach to COVID-19 for this update

1. The Commission concluded that State policy responses to the economic impact of the COVID‑19 pandemic in the assessment period for this update were broadly comparable, and any differences primarily reflected differences in State circumstances rather than differences in policy settings. This means the Commission determined that existing revenue assessments would largely capture the pandemic’s effects on State revenue raising capacity.
2. The Commission consulted States on how to address the following revenue issues:

* the handling of State decisions regarding the introduction of tax waivers, rebates and deferrals
* the effect of JobKeeper payments on the payroll tax assessment.

1. States announced new spending initiatives in response to the COVID-19 pandemic in all expense categories. In addition, in some categories the service delivery arrangements changed significantly (for example, delivering school education remotely). In other categories, the sociodemographic make-up of service users may have changed (for example, the profile of people interacting with the health system or the police).
2. Although pandemic related spending was relatively small in the assessment period for this update, the issue the Commission needed to consider was whether the drivers of need for this spending had changed significantly and whether it was appropriate to apply the 2020 Review methods to this additional spending. Prior to receiving terms of reference, the Commission consulted with States on the approach for assessing spending in health and services to industry. Their treatment is discussed below.

#### COVID-19 — Treatment of tax waivers and rebates

##### Issue

1. States announced decisions to waive, in whole or in part, tax liabilities for the 2019-20 year. Some States processed their waivers as rebates. The issue for the Commission was whether to apply the same treatment to rebates as waivers, for example by introducing adjustments to remove rebates from the relevant expenses and offset them against the appropriate revenue category.

##### State views

1. All States supported applying the same treatment to waivers and rebates. Most agreed they should be treated as reduced revenue raising effort. Tasmania disagreed, saying they should be treated as COVID-19 related support to business.
2. Victoria said that if materiality were assessed, the Commission should test the materiality of waivers and rebates jointly.

##### Commission decision

1. The policy intent of the waivers and rebates was the same — to provide COVID-19 related support to business. Their effect was also the same, to reduce State revenue effort. Consequently, the Commission decided that applying the same treatment to rebates as waivers was appropriate and consistent with past Commission practice.
2. The Commission introduced these adjustments for the 2019-20 assessment year. Although they are not necessarily material for this update, this approach foreshadows their treatment in the 2022 Update, where they may be material.

#### COVID-19 — Treatment of tax deferrals

##### Issue

1. States announced the deferral of tax liabilities for the 2019-20 year. Deferrals affect the timing of revenue collections rather than the amount collected. The issue was whether the Commission should treat deferrals on either:

* an accrual basis — that is, assess them in the year the tax liability arose
* a cash basis — that is, assess them in the year the revenue was collected.

##### State views

1. All States supported treating deferrals on an accrual basis and provided information to assist the Commission to make the adjustments needed.

##### Commission decision

1. Staterevenue bases are volatile and assessing revenues using a base from a different period can affect States’ assessed fiscal capacity. Under accrual accounting, revenues and expenses are recorded when a transaction occurs rather than when the payment is made.
2. The Commission already calculates its adjusted budget on an accrual basis and for this update decided to apply this approach to tax deferrals as well. For deferrals treated on a cash basis, this involved using information provided by States to move the tax deferral from the date of payment to the date of the transaction giving rise to the payment.
3. Similar to its treatment of tax waivers and rebates, the Commission introduced adjustments for deferrals in the 2019-20 assessment year. Although not necessarily material for this update, it foreshadows their treatment in the 2022 Update, when they may be material.

#### COVID-19 — Treatment of JobKeeper payments

##### Issue

1. TheJobKeeper Payment scheme is a Commonwealth funded wage subsidy to eligible employers significantly affected by the COVID-19 pandemic. For the period considered in this update, the scheme provided an amount of $1,500 per fortnight, before tax, for each eligible employee to assist businesses to retain their employees. The payments were made directly to eligible employers, who were responsible for passing them on to eligible employees through their payroll systems.
2. Most States exempted JobKeeper payments from payroll tax. New South Wales and Victoria exemptedonly ‘top-up payments’ (amounts above an employee’s standard salary).
3. The Australian Bureau of Statistics (ABS) classified these payments as wages and salaries and was unable to separate them from other wages and salaries. The States were consulted on whether the Commission should attempt to remove JobKeeper payments from its payroll tax base.

##### State views

1. On practicality grounds and in the absence of a reliable dataset that would allow the Commission to make accurate adjustments, most States accepted assessing JobKeeper payments as part of the payroll tax revenue base.
2. Some States questioned the materiality of making an adjustment to remove the payments.

##### Commission decision

1. Sincethe ABS was unable to identify JobKeeper payments separately, the Commission could not reliably remove them from its assessment of the payroll tax revenue base.
2. In addition**,** there are features of the payments that suggested an adjustment would not be material. For example:

* the payments were only made for 13 weeks of the assessment period of 156 weeks
* eligibility requirements meant only a proportion of businesses received the payment
* many eligible businesses would have had a payroll below the threshold and so would not be represented in the payroll tax base
* New South Wales and Victoria, which appeared to account for nearly two-thirds of JobKeeper payments, exempted only part of the payment from payroll tax.

1. After considering these issues, the Commission decided, on practicality grounds, not to adjust the payroll tax base for JobKeeper payments**.**

#### COVID-19 — Treatment of revenue and spending under the National Partnership on COVID-19 Response

##### Issue

1. In support of the national response to the pandemic, the National Partnership on COVID-19 Response was established. The agreement includes a Commonwealth-State cost-sharing arrangement for specific COVID-19 related public hospital and public health expenditure incurred after 21 January 2020. In 2019-20, $1.8 billion[[22]](#footnote-23) was provided by the Commonwealth to the States under this agreement.[[23]](#footnote-24)
2. The issue for the Commission was how to treat these Commonwealth payments — specifically, whether they should be included in assessing State fiscal capacities. The effect of including the payments would be to assess States’ needs for these payments using the drivers in the current health assessment. The health assessment uses the most recently available administrative data to determine the drivers of health spending. Based on the currently available data, Indigeneity and remoteness are key drivers.
3. Alternatively, the Commonwealth payments could be excluded from affecting fiscal capacities. The effect of excluding them is that they would not affect the distribution of GST.
4. The Commission’s 2020 review of methods endorsed a set of guidelines to assist in making decisions on a case-by-case basis on the treatment of Commonwealth payments for specific purposes. The guidelines say, ‘Payments that support State services, and for which expenditure needs are assessed, will have an impact on State fiscal capacities.’ Consequently, the issue to be decided is whether the Commonwealth payments under the National Partnership on COVID-19 Response support State services and whether expenditure needs are assessed, having regard to the main purpose or driver of the payments.
5. While half of the spending under this agreement was funded by the Commonwealth, the other half ($1.8 billion) was funded by the States. Prior to receiving the terms of reference for this update, the States were consulted on the appropriate treatment of COVID-related health spending. Specifically, the States were asked to consider whether it was appropriate to continue to use the existing methods for assessing all health expenditure, or whether to consider COVID-related health spending along the same lines as natural disaster spending (where the full amount is assessed on an actual per capita basis).
6. An actual per capita assessment of this spending would have involved a change in the method of assessment and, given that the terms of reference required the application of 2020 Review methods, this approach was precluded in this update. Nevertheless, the States raised several points relevant to the Commission’s decision on how to treat the Commonwealth payments and these were considered in that context.

##### State views

1. Some States considered the 2020 Review methods would capture the drivers of COVID-19 related health expenditure. The ACT and Western Australia considered that the existing disabilities adequately captured the average sociodemographic profile of COVID-19 health service users, particularly for hospital services. Western Australia, South Australia and Queensland were concerned that State spending was influenced by policy considerations (that is, that individual State policies varied from an average policy). These views suggested that it would be appropriate to include all of the Commonwealth payments and apply the health assessment to the spending.
2. New South Wales, Victoria and Tasmania considered that the policy differences in spending covered by the National Partnership on COVID-19 Response were either negligible or much smaller than the non-policy differences. In addition, these states considered that the drivers of state COVID-19 spending were not adequately captured by the current health assessment. This suggested that it would be appropriate to exclude the Commonwealth payments on the basis that needs had not been assessed.

##### Commission decision

1. With respect to the guidelines from the 2020 Review on the treatment of Commonwealth payments for specific purposes, the Commission considered that this payment supported State services. This left the question of whether needs are assessed.
2. The Commission noted that the pattern of spending covered by the agreement may differ from the pattern of assessed health needs based on the 2020 Review methods. The health assessment currently recognises higher service use rates among Indigenous people and people living in remote areas. This may not be the case with COVID-19 related health expenditure, as the pandemic has had a bigger impact in cities.
3. The Commission does not yet have access to health administrative data for 2019-20 that would show the emergence of changing patterns of service use. These data for health services undertaken in a hospital setting will flow through into the health assessment from the 2022 Update.
4. However, as noted, there are grounds to suggest that the current health assessment is unlikely to sufficiently capture the drivers of COVID-19 related health spending.
5. Given this uncertainty, the Commission considered it appropriate that the needs for the expenditure supported by this payment had not been assessed. Accordingly, the Commission decided that Commonwealth payments under the National Partnership on COVID-19 Response should have no effect on its assessments of State fiscal capacities in this update. This was achieved by excluding these payments from States’ assessed revenue and making an equivalent reduction in States’ spending.
6. For State funded spending under the National Partnership on COVID-19 Response, the Commission considered that the only available approach in line with the terms of reference for this update was to apply the 2020 Review health assessment, notwithstanding the uncertainty as to whether it adequately captured the drivers of COVID-related expenditure.
7. The Commission acknowledged that this meant that half of the spending under this agreement was assessed under the 2020 Review health assessment, while half was excluded from the assessment of State fiscal capacities (effectively, applying an actual per capita assessment, or upholding the Commonwealth’s funding allocation pattern). While the treatment of expenditure funded by the Commonwealth differed from that funded by the States, given the uncertainty involved and the absence of data to assess the drivers of COVID‑related health expenditure, the Commission considered this is an appropriate outcome.
8. As future health data will incorporate spending patterns influenced by the pandemic, the health assessment will evolve over time to consider the drivers of COVID-19 health spending. This will be captured in future updates.

#### COVID-19 — Treatment of funding for infection control training and legal assistance services

##### Issue

1. The $8.4 million National Infection Control Training Fund provides free or low fee training on infection control, delivered through training packages endorsed by the Australian Industry and Skills Committee. Primary recipients are workers in industry including retail, tourism, hospitality cleaning, security, transport and logistics.
2. There was $27.9 million funding for legal assistance services to help address the impact of COVID-19.
3. The issue for the Commission was whether the needs these payments are seeking to address are currently assessed.

##### State views

1. Western Australia considered legal assistance funding and the National Infection Control Fund should affect relativities. It noted that these payments affected fiscal capacities, the experiences of States were not policy neutral, and payments were not distributed on average needs.
2. The ACT considered that training delivered under the fund was not likely to be appreciably different from courses delivered in any other priority training area, nor were the sociodemographic characteristics of training recipients substantially different to those already considered in the post-secondary school assessment. Given the absence of evidence indicating a material differential impact in the distribution of students in training places funded under this initiative, the payment should affect fiscal relativities.
3. The ACT also considered there was no clear evidence to indicate the drivers of COVID-19 legal assistance funding were materially different to the current legal services assessment drivers. Additionally, the terms of the project required at least 40% of funds be allocated to domestic violence matters. As domestic violence is a criminal matter, the expenditure would be related to criminal courts, which are assessed differentially under the 2020 Review methodology.
4. Tasmania argued that COVID-19 related payments were driven by specific needs that arose out of the pandemic and not by the same needs faced by States prior to the pandemic, so the payments should have no impact on the assessment of States’ capacity.

##### Commission decision

1. The Commission acknowledged Western Australia’s argument that the payments do not reflect policy neutral measures of need. Policy neutrality is not, however, a criterion determining the treatment of Commonwealth payments. Similarly, for the ACT argument regarding materiality, while the distribution of payments may not be dramatically different to the pattern of assessed needs, there is no threshold for how different these needs must be. As the disabilities affecting this payment are not assessed, the Commission’s guidelines indicate the payment should be excluded.
2. While the Commission accepted that the payments supported State services, it considered that these payments were seeking to address particular challenges arising from the COVID-19 pandemic that are not reflected in the current assessments. Therefore, it is appropriate that the payments did not affect relativities.

#### COVID-19 — Treatment of business support spending

##### Issue

1. States announced new spending measures to support businesses in response to the COVID‑19 pandemic. Some of the additional business support spending has been classified in the services to industry category, which covers State spending on the regulation and development of businesses and industries. In addition, responses to the summer bushfires and drought contributed to an increase in business development spending in 2019-20.
2. In the 2020 Review, the Commission decided to apportion spending between business development and regulation in each of the services to industry components — agriculture, mining and other industries — based on State provided data from 2015-16 to 2017-18 (the best available at the time). Based on this data, the apportionment is: 50% regulation/50% business development for agriculture; 80% regulation/20% business development for mining; and 53% regulation/47% business development for the other industries component.
3. States were consulted on whether the split remained appropriate for the other industries component given the increase in spending to support business in the context of the pandemic. If the split was considered to under-estimate spending on other industries business development in 2019-20, the issues for the Commission were whether the implications of such an outcome were material and whether any adjustment would constitute a method change.

##### State views

1. States agreed that additional spending recorded in the other industries component should be considered as additional business development spending rather than any additional spending on regulation expenses.
2. All States agreed with the principle that the Commission should adjust the split between regulation and business development spending for the 2019-20 assessment year if the actual additional business development spending was sufficiently large to make a material difference to the distribution of GST pool.
3. However, there was disagreement about whether it would be a method change or a data issue. Tasmania and the Northern Territory considered it to be a method change, while Victoria and the ACT argued that it would be a data change.

##### Commission decision

1. While the Commission acknowledged that extra spending in this area likely reflected business development rather than regulation, re-estimated splits between regulation and business development spending suggested the effect would not result in a material change to relative fiscal capacities.[[24]](#footnote-25)
2. The Commission’s 2020 Review report (Volume 2, Part B, Chapter 22 Services to industry) states that ‘The proportions [regulation vs business development] will apply in all updates using 2020 Review methods.’ This indicates that a change in the split would be a method change. That is, if the impact were material in the 2022 Update, the terms of reference would need to allow calculation of a new split.

### Data issues

1. This section covers several data issues for this update, involving new sources of data, revised data, data corrections, and the treatment of data.

#### Natural disaster relief

##### Issue

1. The issue for the Commission was whether to stop assessing needs for the full value of concessional loans and assess needs only for the value of interest rate subsidies. Needs are assessed on an actual per capita basis.
2. The natural disaster relief expenses assessment recognises the net costs States incur due to natural disasters. The Disaster Recovery Funding Arrangements 2018 determine the specific expenses for which costs will be shared and the share of costs that the Commonwealth and States will fund.
3. The arrangements support relief for businesses, charities, and individuals in the form of concessional loans. Concessional loans provided by States to businesses, charities, and individuals are repayable. As such, the net cost to States is the subsidy States provide on interest attached to the loans. The Commission had intended to assess needs for this service.
4. However, the Commission’s previous assessments used data on the total value of the loan rather than the value of the interest rate subsidy.
5. States were consulted on the Commission’s intention to correct this in the 2021 Update.

##### State views

1. Most States supported the Commission correcting this error. Western Australia did not oppose the correction but noted the expenses involved are small and the reporting burden is disproportionate. It stated this change should not be made as the impact is immaterial. Queensland did not support the correction.
2. Several States suggested that the Commission standardise its measure of the State cost of borrowing.

##### Commission decision

1. The Commission decided that the measurement of natural disaster relief should only assess the value of interest rate subsidies when States provide concessional interest rate loans to businesses, charities, and individuals.
2. Regarding the issue of a standard cost of borrowing measure, the Commission will work with States ahead of the 2022 Update to agree on a standardised measure to improve the consistency and simplicity of the natural disaster relief assessment.

#### Health assessment — non-admitted patient data

##### Issue

1. The issue for the Commission was whether to start using national weighted activity unit data for the assessment of non-admitted patients. It currently uses proxy data.
2. The Commission’s assessment of needs for health spending relies mainly on data from the Independent Hospital Pricing Authority. The assessment of the admitted patients and emergency department health components uses the Independent Hospital Pricing Authority’s national weighted activity unit data.
3. Up to and including the 2020 Review, the Commission did not use national weighted activity unit data for the assessment of non-admitted patient expenses as the data were still developing. Instead, the assessment used admitted patient separations as a proxy indicator to measure service use by non-admitted patients. Regional cost and service delivery scale adjustments, derived using emergency department separations, were applied to admitted patient separations to measure the cost weighted use of non-admitted hospital services.
4. The Commission said in its 2020 Review report that during 2020 it would review the 2018-19 non-admitted patient national weighted activity unit data and consult with States on whether to use these data from 2021. The Independent Hospital Pricing Authority advised that the 2018-19 non-admitted patient data are more reliable and may now be sufficiently robust for use in the health assessment.

##### State views

1. New South Wales, Victoria and the ACT supported using 2018-19 national weighted activity unit data for non-admitted patients instead of the Commission’s previous proxy data, for all 3 assessment years in this update.
2. Queensland and Western Australia supported the proposal in principlebut had some concerns with the quality of the existing data. South Australia, Tasmania and the Northern Territory supported the continued use of the proxy data. The concerns raised by these States can be grouped into two categories, discussed below.

###### Scope/reliability of non-admitted patient data

1. Tasmania considered that the non-admitted patient national weighted activity unit data are not comprehensive, as some activity falls outside the scope of the National Health Reform Agreement. For example, general practice and primary care clinics in public hospitals are excluded from the national weighted activity unit data for non-admitted patients, even though they are included in Government Finance Statistics outpatient expense data. Tasmania suggested that the Commission apply adjustments to the data to account for underrepresentation of non-admitted patient services.
2. South Australia raised concerns about the comprehensiveness of the data at the patient level, pointing out that there are often discrepancies in record counts between patient level data and aggregate data.
3. Queensland advised that the non-admitted patient data classify service usage based on the characteristics of clinics but do not capture patient specific information. Queensland proposed the Commission defer the use of these data until the Independent Hospital Pricing Authority implements its Australian Non-Admitted Care Classification, which will describe services according to patient characteristics and the complexity of care required.

###### Remoteness adjustments

1. The Independent Hospital Pricing Authority has not applied remoteness adjustments to the 2018-19 non-admitted patient data, even though it does so for the 2018-19 admitted patient and emergency department national weighted activity unit data. The Northern Territory noted that in the 2020 Review the Commission accepted the conceptual case that remoteness has an impact on the use and cost of delivering non-admitted patient services, as has the Independent Hospital Pricing Authority, evidenced by its inclusion of remoteness adjustments from 2019-20[[25]](#footnote-26).
2. Western Australia and the Northern Territory proposed the Commission apply remoteness adjustments to the 2018-19 non-admitted patient national weighted activity unit data based on the adjustments used by the Independent Hospital Pricing Authority for admitted patients.

##### Commission decision

###### Scope/reliability of non-admitted patient data

1. The Commission acknowledged that further improvements to the quality of non-admitted patient data are desirable but delaying the use of this data until improvements are made must be weighed against the quality of alternative data, which to date have been admitted patient separations.
2. A comparison of non-admitted patient national weighted activity unit data with the proxy indicator shows that the proxy considerably overestimates spending for high-cost groups. On the other hand, analysis of Australian Institute of Health and Welfare data suggested that the non-admitted patient activity not eligible for National Health Reform Agreement funding constituted only about 9.5% of total separations in 2017-18 and 5.0% in 2018-19. In addition, to compensate for patient level reporting being below aggregate level reporting, the Commission scaled up patient level separations in line with the user profile of hospitals in the same remoteness region with the same funding type.
3. Regarding Queensland’s concern about the current non-admitted patient classification being based on the type of clinic and clinician providing the service (rather than patient specific information), non-admitted patient services are less diverse than other hospital services, so costs for different procedures (and therefore national weighted activity unit values) vary less from the average. Therefore, the Commission considered this simpler classification to be sufficient until the Australian Non-Admitted Care Classification is implemented.

###### Remoteness adjustments

1. The Commission agreed with the point raised by several States that remoteness has an impact on the cost of delivering non-admitted patient services.
2. One way to incorporate the impact of remoteness on per episode service cost would be to apply a remote cost loading to the 2018-19 national weighted activity unit data, as suggested by Western Australia and the Northern Territory. Some double counting may occur as the higher costs associated with remoteness are implicitly contained in the other cost weights embedded in the unadjusted 2018-19 national weighted activity unit.
3. An alternative approach would be to use non-admitted patient separations, rather than national weighted activity unit data, and apply a remoteness loading to the separations data. The downside of this approach is that the differences in service costs associated with complexity and Indigeneity (which are contained in the national weighted activity unit), would not be captured. However, the exclusion of these factors does not make a material difference to the assessed expenses of any state.
4. On balance, the Commission considered that using 2018-19 non-admitted patient separations for each assessment year, adjusted for additional service costs associated with remoteness, is the appropriate basis for assessment in this update. This proxy takes account of the key driver of differences in per unit service costs, without overestimating its impact. In future updates, the Commission will use non-admitted patient national weighted activity unit data in the assessment because the Independent Hospital Pricing Authority will provide remoteness loadings for non-admitted patients from the 2019-20 financial year.

#### Health assessment — data on Indigenous grants in community health

##### Issue

1. The Commission adjusts the assessed expenses for community health to recognise that State spending is affected by the availability of Commonwealth funding through the Indigenous Australians’ Health Program (Indigenous grants) for health services provided by Aboriginal Community Controlled Health Services.

* Aboriginal Community Controlled Health Services provide clinical care and health education, promotion, screening, immunisation and counselling, as well as specific programs such as hearing health, sexual health, substance use and mental health.
* If a State’s share of the actual Indigenous grants is higher than its share of the sociodemographic groups that, on average, such grants serve, then it would be assessed as needing less GST compared to the other States.

1. In its 2020 Review, the Commission allocated these services based on the remoteness area and Indigenous socioeconomic status (SES) quintile of the site location of the service.
2. However, site location information was not collected for 2018-19. Organisations with multiple sites were assigned the remoteness area and SES quintile of the organisation’s address.
3. States were consulted on whether, for this update, the Commission should allocate Indigenous grants using the site distribution information from the 2017-18 financial year, or instead use the 2018-19 grants data based on the Aboriginal Community Controlled Health Service organisation address.

##### State views

1. Victoria, Queensland, Western Australia, South Australia, Tasmania and the ACT supported the use of site distribution information from the 2017‑18 financial year to allocate grant funding for the 2021 Update. Western Australia recommended the Commission seek site information data directly from Aboriginal Community Controlled Health Services in future if it is not available from the Australian Institute of Health and Welfare. The Northern Territory did not support the use of site distribution information from the 2017‑18 financial year to allocate grant funding for the 2021 Update.

##### Commission decision

1. The Commission decided to allocate Indigenous grants using the site distribution information from the 2017-18 financial year as this more closely aligns the distribution of Aboriginal Community Controlled Health Services spending with the population groups that benefit from the services.

#### Health assessment — service delivery scale adjustment in community health

##### Issue

1. The Commission bases its assessment of the sociodemographic composition for community health on emergency department triage categories 4 and 5 national weighted activity unit data. It then adjusts the national weighted activity unit data to reflect the higher cost of providing services in remote locations due to the lack of scale efficiencies.
2. For the 2020 Review, the Commission applied a service delivery scale adjustment to these emergency department national weighted activity unit data from block funded hospitals, but not from activity based funded hospitals. Therefore, only a subset of the relevant national weighted activity units was adjusted to recognise the higher cost of providing services in remote locations. The States were not consulted on this matter as it was a correction of an error.
3. The impact of applying service delivery scale (SDS) more broadly is shown in Table 4‑1.

Table 4‑ Illustrative impact on GST distribution in 2021-22 of applying service delivery scale to all activity

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
| Broad application of SDS $m | 2,910 | 2,312 | 2,164 | 1,164 | 705 | 331 | 157 | 206 | 9,950 |
| Narrow application of SDS $m | 2,930 | 2,336 | 2,151 | 1,156 | 704 | 326 | 160 | 188 | 9,950 |
| Difference $m | -21 | -24 | 13 | 8 | 1 | 5 | -3 | 18 | 0 |
| Difference $pc | -3 | -4 | 2 | 3 | 1 | 10 | -6 | 75 | 0 |

Source: Commission calculation.

##### Commission decision

1. The Commission applied the service delivery scale adjustment to all relevant national weighted activity units in this update. It had a material positive impact on the distribution of GST for the Northern Territory.

#### Stamp duty and land tax

##### Issue

1. State Revenue Offices provide transaction data that support the Commission’s land tax, stamp duty on conveyances and mining assessments.
2. At times, the State Revenue Offices revise data they provided in a prior update. In recent years, the size of revisions has increased markedly. Large revisions increase the volatility of State relativities and negatively affect State budget management. Large revisions also raise concerns over the reliability of State provided data.
3. The Commission consulted States on whether, where there are large revisions in future years, it should seek additional information on the reason for the revision from the relevant State and share it with other States.

##### State views

1. While States noted some revenue revisions are unavoidable, they supported the proposal to provide additional information to explain large revisions.

##### Commission decision

1. The Commission acknowledged the efforts States are making to improve the consistency of the data they provide. Where relevant, the Commission will seek additional information from States in future to include in its reports explaining the reason for large revisions.

#### Duties on sale of major State assets

##### Issue

1. In the 2020 Review, the Commissiondecided the following stamp duties should not affect State assessed fiscal capacities:

* the sale of major State assets
* corporate reconstructions
* non-real property transactions.

1. On the presumption they were classified as conveyance revenue, the Commission removed them from the conveyances category and put them in the other revenue category.
2. The Commission sought data on these duties from the States and used that data to reclassify them. However, data for the first two assessment years are sourced from the ABS and the issue that arises is whether the ABS includes the duties as conveyance revenue. The issue only arises in relation to duties on the sale of major State assets.
3. The ABS at times classifies duties on the sale of major State assets as conveyance revenue and as non-conveyance revenue at other times. The duties only need to be reclassified if the ABS classifies them as conveyance revenue.
4. As it appeared the ABS classified most duties on the sale of major State assets as non-conveyance revenue, and therefore no adjustment was required, the Commission consulted States on whether, for simplicity, it should cease the adjustment to the ABS data.

##### State views

1. States agreed with the principle that, if these duties were misclassified, they should be reclassified. However, some queried whether ceasing the adjustment was appropriate. States noted that while the ABS classified most of these duties as non-conveyance revenue in the 2020 Review, that might not be the case in future inquiries.

##### Commission decision

1. The Commission’s view was that duties on the sale of major State assets should not affect a State’s assessed fiscal capacity. It achieves this by reclassifying them from the conveyance category to the other revenue category. This reclassification is only required when the ABS classifies these duties as conveyance revenue.
2. The Commission compared the State provided data on duties on the sale of major State assets with ABS data to determine whether the ABS had classified these duties as conveyance revenue. If it had, the Commission made an adjustment to reclassify them to the other revenue category so that they did not affect States’ assessed fiscal capacities.

#### Wage costs assessment

##### Issue

1. The issue for the Commission was whether to use the latest available data for this assessment. This would involve incorporating ABS data revisions in the previous two assessment years.
2. In its 2020 Review report the Commission noted that the ABS had revised the Characteristics of Employment survey data used in the calculation of wages costs modelled outcomes. The Commission’s view was that, in line with the terms of reference direction to use the latest available data, it should re-run its model for earlier years which would involve incorporating data revisions. However, since the Commission had not had time to consult States on the issue, it decided to retain the previously modelled outcomes for 2016-17 and 2017-18 and consult with States in this update on any changes resulting from revisions to ABS data.
3. Since the 2016 Update, the Commission has used data from the Characteristics of Employment survey as a proxy for labour market pressures on public sector wages in its wage costs assessment. The ABS advised that the revisions primarily relate to the definition of employees and changes to its imputation and process for considering outliers. The revisions also included new benchmarks to reflect the latest revisions to estimated resident population data.
4. As the ABS had not previously revised these data, the usual practice for the Commission had been to bring in the modelled outcomes for the latest assessment year and retain the outcomes from the previous inquiry for the earlier two years.
5. The Commission re-estimated its econometric model using the revised data for 2017‑18 and 2018‑19.[[26]](#footnote-27) Table 4-2 shows the change in relative private sector wage levels after applying the (low) 12.5% discount. The Commission applied a discount because of some uncertainty about the accuracy of the assessment.

Table 4-2 Relative private sector wages, original and revised data, 2017-18 and 2018-19

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT |
| Original |  |  |  |  |  |  |  |  |
| 2017-18 | 0.9% | 0.6% | -0.6% | -1.1% | -4.0% | -4.6% | 7.6% | 4.7% |
| 2018-19 | 1.0% | -0.9% | -0.7% | 2.8% | -3.4% | -4.4% | 3.0% | 4.6% |
| Revised |  |  |  |  |  |  |  |  |
| 2017-18 | 1.3% | 0.0% | -0.3% | -0.2% | -5.6% | -5.5% | 7.5% | 4.7% |
| 2018-19 | 1.4% | -0.9% | -1.4% | 3.2% | -3.8% | -5.1% | 2.9% | 4.7% |
| Difference |  |  |  |  |  |  |  |  |
| 2017-18 | 0.4% | -0.6% | 0.4% | 0.8% | -1.6% | -0.9% | 0.0% | 0.0% |
| 2018-19 | 0.4% | 0.0% | -0.7% | 0.4% | -0.4% | -0.7% | -0.1% | 0.1% |

Note: The modelled outcomes are expressed relative to the national average wage level.

Source: Commission modelling based on Characteristics of Employment survey data.

##### State views

1. New South Wales, Victoria, Queensland, Western Australia, Tasmania and the ACT all supported the use of revised data in the wage costs assessment.
2. South Australia raised concerns about the volatility and conceptual validity of the model, noting there was sufficient uncertainty to warrant the Commission increasing the discount.

##### Commission decision

1. The Commission acknowledged in the 2020 Review that there was uncertainty with the survey data, and this was part of the reason the Commission applied a 12.5% discount. The Commission considered that while the regression results can be volatile, with the 12.5% discount applied and the effect of 3-year averaging, volatility was within reasonable bounds. The Commission considered that the new data had not changed the level of uncertainty attached to the assessment and, therefore, the 12.5% discount remained appropriate.
2. In line with its terms of reference, the Commission decided to use the latest available data to measure the differences in wage cost pressures between States.

#### Adjusted budget

##### Issue

1. The issuesfor the Commission were whether to:

* implement the proposed changes to how it derived consolidated expenses, user charges and investment for urban transport and housing
* reclassify urban water transport freight services
* treat part of V/Line as urban transport services
* reallocate part of Queensland Rail expenses to the non-urban transport component.

1. The Commission proposed changes to how it derives consolidated expenses, user charges and investment for urban transport and housing. The aim was to simplify the derivation process and improve the reliability of the Commission’s estimates.

* For assessment years up to and including the second last year, user charges, expenses and investment for the urban transport and housing assessments would be based on ABS Government Finance Statistics data for the non‑financial public sector. This sector consolidates data from general government and public non-financial corporations.
* For the last assessment year, because ABS data are not available, the Commission would continue to use preliminary data from States for general government expenses and public non-financial corporations.
* Because of the preliminary nature of the State Government Finance Statistics data, the Commission would undertake additional checks to validate the last assessment year data for transport using published State financial reports from relevant transport agencies and additional information from States. There were no similar issues with the housing transactions.

1. In addition, the Commission consulted States on adjustments to the transport data to improve comparability.

* Urban water transport freight services would be reclassified from the urban transport component to non-urban transport component because most transactions relate to port services and not urban transport.
* Victoria’s general government expense subsidies to V/Line would be recorded in the non-urban transport components. V/Line expenses are recorded as urban transport by Victoria and the ABS, however, the Commission considered V/Line services to be non‑urban transport.
* Queensland Rail’s non-urban transport expenses would be allocated to the non‑urban transport component. The amounts can be identified from the ABS Government Finance Statistics general government data and the State unit record data. The equivalent user charges would not be re-allocated because they could not be identified, and the amounts are small.

##### State views

1. States generally supported the proposals or did not comment. However, New South Wales and Victoria expressed some concerns.
2. New South Wales and Victoria would have liked to have been provided with the amounts involved in the reclassification. Victoria wanted a materiality assessment of the reclassification. In addition, Victoria noted that it was not clear whether the expenses were included in the regression model for urban transport expenses.
3. Victoria said V/Line services were not exclusively non-urban transport, but a mix of urban and non-urban services. Using V/Line trip kilometres and boarding data, it argued that V/Line expenses should be split 44% urban and 56% non-urban and user charges should be split 36% urban and 64% non-urban.
4. Victoria also argued that Geelong should be treated as having heavy rail.
5. Victoria noted that not making an adjustment to remove Queensland Rail non-urban transport user charges from the urban transport user charges would under-estimate net urban transport expenses. Victoria would prefer that the outcome of discussions between Commission staff and Queensland officials be presented to the other States before forming a view on this proposal.
6. Finally, Victoria was concerned that the Commission did not identify the issues relating to the classification of urban and non-urban transport at the time of undertaking the 2020 Review.

##### Commission decision

1. The Commission decided to:

* implement the changes to the derivation of user charges, expenses and investment for urban transport and housing, as described above
* reclassify urban water transport freight services from the urban transport component to non-urban transport component because the expenses do not relate to urban public transport. This was a reclassification of expenses from non-urban to urban, rather than a data adjustment. Total expenses were $124 million in 2019-20. They were not included in the regression model.

1. In regard to the split of V/Line subsidies between urban and non-urban transport, the Commission noted that the issue of what services should be recognised as urban transport was extensively discussed in the last review and is outside the scope of an update as it canvasses a method change.
2. The Commission reviewed the case of treating Geelong as having urban heavy rail transport. Geelong has 8 train stations within its boundaries. In comparison, the Gold Coast, which is treated as having heavy rail, has 6. In addition, analysis of the 2016 Census journey to work data suggests that Geelong and the Gold Coast have similar proportions of workers using heavy rail to commute within their urban areas.
3. The Commission decided to treat Geelong as having heavy rail passenger transport for consistency of treatment with the Gold Coast. Consequently, the Commission treated 8% of V/Line expenses as urban transport expenses. Census journey to work data indicate that heavy rail commuter trips within Geelong represent 8% of all Victorian heavy rail commuter trips, excluding heavy rail trips within Melbourne. This change was accommodated within the current urban transport assessment method.
4. Queensland supported the adjustment to Queensland Rail expenses and the amounts involved. No adjustments were made to user charges because they could not be split reliably between urban and non-urban transport. States were informed of the size of the adjustments.
5. Table 4-3 shows the effects on the GST distribution of the above changes.

Table 4-3 GST redistribution, Transport assessment and adjusted budget

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|  | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Reclassify data on urban water transport  freight services | -22 | -7 | 13 | 5 | 5 | 3 | 1 | 1 | 29 |
| Heavy rail in Geelong | -11 | 18 | -3 | -2 | -1 | 0 | 0 | 0 | 18 |
| 8% of V/Line expenses as urban transport | 4 | 1 | -2 | -1 | -1 | -1 | 0 | 0 | 5 |
| Queensland Rail expenses | -29 | -11 | 18 | 7 | 7 | 5 | 1 | 2 | 40 |
| Total | -58 | 1 | 26 | 8 | 10 | 8 | 2 | 3 | 58 |
|  | $pc | $pc | $pc | $pc | $pc | $pc | $pc | $pc | $pc |
| Reclassify data on urban water transport  freight services | -3 | -1 | 3 | 2 | 3 | 6 | 2 | 6 | 1 |
| Heavy rail in Geelong | -1 | 3 | -1 | -1 | -1 | 0 | 1 | 0 | 1 |
| 8% of V/Line expenses as urban transport | 0 | 0 | 0 | 0 | 0 | -1 | 0 | -1 | 0 |
| Queensland Rail expenses | -4 | -2 | 4 | 2 | 4 | 9 | 3 | 9 | 2 |
| Total | -7 | 0 | 5 | 3 | 6 | 14 | 6 | 13 | 2 |

Source: Commission calculation.

1. Victoria expressed concern that the Commission did not identify the issues relating to the classification of urban and non-urban transport at the time of undertaking the 2020 Review. Following the publication of the 2020 Review report, the Commission conducted a detailed analysis of State published information, such as budget papers and annual reports, against the Government Finance Statistics data. This analysis uncovered some classification issues between urban and non-urban components.

### Treatment of Commonwealth payments

#### Commission’s approach

1. The Commission used the following guideline, developed in the 2020 Review, to determine the treatment of new Commonwealth payments in this update:

payments which support State services, and for which expenditure needs are assessed[[27]](#footnote-28), will have an impact on State fiscal capacities.

1. The treatment of Commonwealth payments that commenced in 2019-20, as listed in the *Commonwealth of Australia’s Final Budget Outcome 2019-20*, are shown in Table 4-4.
2. States were consulted on the appropriate treatment of all payments. Where States raised issues with the proposed treatment of payments or made specific comments, these are discussed below. New South Wales did not comment on the treatment of Commonwealth payments.

Table 4-4 Treatment of Commonwealth payments

| Commonwealth payment | 2019-20 $m |  | Treatment | Reason for treatment |
| --- | --- | --- | --- | --- |
| Health |  |  |  |  |
| COVID-19 public health response | 2955.2 |  | No Impact | Payment supports State services. However, the health assessment does not currently assess needs for the drivers of spending under this agreement (COVID-19). See earlier discussion at paragraphs 45-52. |
| Achieving better health outcomes | 0.3 |  | Impact | Payment supports State services for which needs are assessed. |
| Additional assistance for public hospitals | 4.1 |  | Impact | Payment supports State services for which needs are assessed. |
| Adult Mental Health Centres | 2.0 |  | No impact | Payment supports State services for which needs are assessed. However, the adult mental health centre is one of 8 centres across the country being established as part of a Commonwealth trial. The trials in other States are being funded by payments outside the scope of the Commission’s assessments. All payments for this purpose should be treated consistently. |
| Comprehensive palliative care across the life course | 3.9 |  | No impact | Needs are not assessed for aged care, which is a Commonwealth responsibility. |
| Grace’s Place | 4.1 |  | Impact | This is a payment to a third party providing a service for which needs are assessed. |
| CCTV trial in aged care facilities | 0.5 |  | No impact | Needs are not assessed for aged care, which is a Commonwealth responsibility. |
| Lymphoedema garments and allied health therapy | 2.0 |  | Impact | Payment supports State services for which needs are assessed. |
| Veteran Wellbeing Centre Program | 5.0 |  | No impact | Needs are not assessed for veterans’ services, which are a Commonwealth responsibility. |
| Education |  |  |  |  |
| Local Schools Community Fund | 30.2 |  | Split | Needs are assessed for government schools. They are not assessed for non-government schools. |
| Skills and workforce development |  |  |  |  |
| National Infection Control Training Fund | 8.4 |  | No impact | Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) may be influenced by factors not assessed in the Commission’s Post-secondary category assessment. |
| Skills for Tasmania | 2.3 |  | Impact | Vocational education training is a normal State-type function and needs are assessed. |
| Community services |  |  |  |  |
| COVID-19 Domestic violence support | 32.5 |  | No impact | Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) are influenced by factors not assessed in the Commission’s Welfare category assessment. |
| NDIS Strategic Investment in Queensland | 3.5 |  | No Impact | NDIS transition payments historically have been treated as no impact. |
| Infrastructure |  |  |  |  |
| Major projects Business Case Fund | 13.5 |  | Impact | Business case development for road and rail infrastructure projects is a normal State-type function and needs are assessed. |
| Urban congestion fund | 148.1 |  | Split | Infrastructure spending on the National Network is treated as 50% ‘no impact’ (as per the 2020 Review Commission decision). Off network payments are treated as having an impact on the relativities. |
| Adelaide City Deal | 3.2 |  | Split | This payment includes numerous sub-payments, treatment of each of these is considered separately (a). |
| Barkly Regional Deal | 1.3 |  | Split | This payment includes numerous sub-payments, treatment of each of these is considered separately (a). |
| Darwin City Deal | 25.0 |  | Split | This payment includes numerous sub-payments, treatment of each of these is considered separately (a). |
| Geelong City Deal | 1.5 |  | Split | This payment includes numerous sub-payments, treatment of each of these is considered separately (a). |
| Launceston City Deal | 2.5 |  | Split | This payment includes numerous sub-payments, treatment of each of these is considered separately (a). |
| Environment |  |  |  |  |
| Bushfire Wildlife and Habitat Recovery | 13.0 |  | No impact | Payment supports State services but needs for environmental protection are not assessed. |
| Lindenow Valley water security scheme | 1.0 |  | No impact | Payment supports State services but needs for drought assistance are not assessed. |
| Water efficiency program | 0.3 |  | No impact | Payment supports State services but needs for environmental protection are not assessed. |
| Water for fodder program | 28.0 |  | No impact | Payment supports State services but needs for drought assistance are not assessed. |
| Yellow crazy ant control | 3.0 |  | No impact | Payment supports State services but needs for environmental protection are not assessed. |
| Other purposes |  |  |  |  |
| Bushfire legal assistance funding | 3.0 |  | No impact | Payment supports State services. However, the drivers of Commonwealth funding under this agreement (bushfires) are influenced by factors not assessed in the Commission’s Justice category assessment. |
| COVID-19 legal assistance funding | 28.0 |  | No impact | Payment supports State services. However, the drivers of Commonwealth funding under this agreement (COVID-19) are likely to be influenced by factors not assessed in the Commission’s Justice assessment. |
| Family law information sharing | 3.0 |  | No impact | Funding is for a trial placement to support collaboration between the federal family law system and State agencies; the funding predominantly supports a Commonwealth function. |
| Household resilience program | 10.0 |  | No Impact | Payment supports State services but needs for environmental disaster mitigation are not assessed. |
| National tourism icons package | 5.0 |  | Impact | Payment supports State services for which needs are assessed. |

(a) City and regional deals include a mix of sub-payments. For the treatment of payments made in 2019-20, see Table 4-5.

### Issues raised by States on Commonwealth payments

#### Adult Mental Health Centres

##### Issue

1. The purpose of this national partnership payment is to establish an Adult Mental Health Centre in Adelaide. The centre will provide a range of mental health support services. The South Australian centre is one of 8 centres (one in each State) being established as part of a Commonwealth trial designed to improve accessibility to mental health services for adults. In all states except South Australia the Adult Mental Health Centres have been funded via Commonwealth own-purpose expenses payments.
2. The Commission’s methods assess needs for mental health services. The issue for the Commission was whether this payment should also be treated as having no impact on the relativities.

##### State views

1. Both the ACT and Tasmania supported consistent treatment across jurisdictions. However, they questioned why the payment is assessed as ‘no impact’ given that mental health services are assessed. To that effect, they considered that all funding related to the development of mental health centres should be treated as an impact payment, whether by Commonwealth own-purpose expenses or national partnership.
2. South Australia supported ‘no impact’ treatment noting that funding for centres in other jurisdictions has been provided as a Commonwealth own-purpose expenses payment.

##### Commission decision

1. Where Commonwealth own-purpose expenses affect a State’s fiscal capacity, they should be included in the Commission’s assessment. However, most States could not provide detailed information on this type of revenue, and Government Finance Statistics data do not have a classification code to identify function of government for revenue from Commonwealth grants.[[28]](#footnote-29)
2. Given the lack of detailed information and the need for consistent treatment across jurisdictions, the Commission treated the payment as not having an impact on State fiscal capacities.

#### Local Schools Community Fund

##### Issue

1. The 2019-20 Budget provided $30.2 million for the Local Schools Community Fund to provide all schools — government, Catholic and independent — with funding for small scale projects to meet priorities identified by schools and their communities.
2. The issue for the Commission was whether the funding supports State services, and whether its methods assess needs for these services.

##### State views

1. The ACT and Tasmania supported a ‘no impact’ treatment for independent and Catholic schools, but not for government schools. They said that a portion of the Local School Community funding is for government schools (36% in 2019-20 as noted by the ACT).
2. The two States said government school services are an assessed State provided service and associated payments should have an impact on the relativities.

##### Commission decision

1. The Commission accepted the arguments of the ACT and Tasmania that funding for government schools supports State services for which needs are assessed.
2. Given that government schools make up a measurable proportion of the funding, it considered the payments should be split, with funding for government schools having an impact on the relativities and funding for non-government schools having no impact. This was because the Commission assesses needs for government schools.

#### National Disability Insurance Scheme investment in Queensland

##### Issue

1. The National Disability Insurance Scheme (NDIS) project agreement will support the delivery of the scheme in Queensland by increasing the number of participants.
2. The issue for the Commission was whether this funding supports State services, and whether its methods assess needs for these services.

##### State views

1. Tasmania noted that the payment relates to specific projects to assist with, or research, issues relating to accessing NDIS services, and to support organisations and individuals in becoming providers. It concluded that funding is not related directly to providing NDIS services to participants.
2. Tasmania argued that if project funding is delivering functions similar to those that are normally provided by States, and those functions are captured by the welfare assessment, then the payment should be treated as having an impact on State relativities.

##### Commission decision

1. The Commission recognised the NDIS as a Commonwealth responsibility. In the past, the Commission has either quarantined all Commonwealth payments related to the National Disability Insurance Scheme or assessed them as having no impact.
2. The Commission decided to continue this practice and treated this payment as having no effect on relativities.

#### Grace’s Place residential trauma recovery centre

##### Issue

1. This program provides funding to New South Wales to assist with the construction of a residential trauma recovery centre for children and young people aged between 3 and 18 years affected by homicide. The payment is disbursed to the Homicide Victims Support Group (a non-government organisation) through the New South Wales government
2. The issue for the Commission was whether the project will improve New South Wales’ fiscal capacity. Ordinarily, a payment to a third party would be treated as having no impact on relativities but this is not the case if needs are assessed for the policy issue being addressed, in this case mental health.

##### State views

1. Queensland and Tasmania said this payment should affect relativities as it is for mental health services, for which needs are assessed. They argued that the primary consideration should be the purpose of the payment and not how the payment is structured or dispersed.

##### Commission decision

1. The payment supports the construction of facilities that provide mental health services, for which needs are assessed. While the payment is provided to a third party, the services provided will have an impact on the demand for State services. The Commission treated the payment as having an impact on relativities consistent with its treatment of other mental health services.

#### City Deals

##### Issue

1. The Commonwealth provides funding to various city and regional areas to support a range of projects in the Commonwealth, State, local and non-government sectors.
2. The issue for the Commission was whether its methods assess needs for these payments, given that City deals encompass payments for multiple purposes.

##### State views

1. Queensland noted that the city deals involve multiple sub-projects. Therefore, it said the Commission should assess these projects individually.
2. South Australia said there should not be a blanket determination for all funding under a program. It noted that some funding will be passed to non-government entities and cited the example of the Western Sydney City Deal, which has split treatment according to the ultimate recipient of the funding.
3. The ACT noted that the development of an Education and Community Precinct in the Darwin Central Business District is a major objective of the Darwin City Deal. It said several projects, including the relocation of the Northern Territory Library, development of an art gallery and construction of associated infrastructure, including roads, are not directly related to the Charles Darwin University. Therefore, the ACT considered that there should be further investigation into this deal, with payments having an impact on relativities where funds are used for State and Territory service delivery for which needs are normally assessed.
4. The ACT considered that some of the funds used for the Launceston City Deal, including the development of the Launceston Creative Precinct and new bus interchange, relate to expenditure where needs are assessed. Therefore, the funds for these projects should affect relativities.

##### Commission decision

1. The Commission used data on each payment provided by the Department of Infrastructure, Transport, Regional Development and Communications. If the payment was for investment in State type services for which needs are assessed, the payment affected relativities. If the payment reflects a Commonwealth responsibility or was provided for non-State services, the payment did not affect relativities. Table 4-5 shows the treatment in 2019‑20.

Table 4-5 Treatment of city and regional deals

|  |  |  |  |
| --- | --- | --- | --- |
| City Deal | State | Spending in 2019-20 | Proportion of spending affecting relativities |
|  |  | $m | % |
| Adelaide City Deal | South Australia | 3.2 | 100 |
| Barkly Regional Deal | Northern Territory | 1.3 | 0 |
| Darwin City Deal | Northern Territory | 25.0 | 0 |
| Geelong City Deal | Victoria | 1.5 | 100 |
| Launceston City Deal | Tasmania | 2.5 | 0 |
| Western Sydney City Deal | New South Wales | 6.3 | 0 |

Source: Commission decision based on data from the Department of Infrastructure, Transport, Regional Development and Communications.

### Implementation of new equalisation arrangements

##### Issue

1. In 2018, the Australian parliament enacted the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*, which amends the *Commonwealth Grants Commission Act 1973* and the *Federal Financial Relations Act 2009*. The new arrangements will see a gradual transition from comprehensive to reasonable equalisation. Reasonable equalisation involves equalising to a standard State, being the fiscally stronger of New South Wales and Victoria. The transition to reasonable equalisation will be completed in 2026–27.
2. The first phase of the new arrangements commenced in 2019-20 and involved the Commonwealth making supplementary payments (if required) to deliver an outcome at least equivalent to a relativity of 0.70 to Western Australia and 4.66 to the Northern Territory. Only Western Australia required the supplementary payment.
3. The second phase of the new arrangements starts in 2021-22. This involves commencing the transition of the Commission’s recommended GST pool sharing relativities from being based on State relative fiscal capacities to being based on equalising State fiscal capacities to at least the fiscally stronger of New South Wales and Victoria.
4. In its 2020 Review report the Commission described how it intended to implement the new arrangements and provide sufficient information for States to understand the effects of each element.[[29]](#footnote-30) In particular, the Commission said that it would apply the same approach for the new arrangements as it does for the previous arrangements. That is, the standard State capacities would be calculated as the simple average of the 3 assessment year outcomes, in the same way that the relative fiscal capacities are calculated as the simple average of the 3 assessment years.
5. The Commission asked for feedback on the proposed implementation and presentation of the new arrangements.

##### State views

1. Most States supported the proposed presentation. Some asked for elements of the new arrangements to be shown separately.
2. Queensland said the calculations to equalise to the standard State should be undertaken in the application year, as is the case for the relativity floor.
3. Western Australia suggested it would be helpful to develop a glossary of terms relating to the new arrangements.
4. The ACT said that in principle there was a case for backcasting the top-up pool, but accepted the amounts are too small to have a significant effect on grant distributions.

##### Commission decision

1. The Commission will show each element of the new arrangements separately.
2. In regard to Queensland’s comments, the arrangements for equalising the standard State and implementing a relativity floor are expressed in different pieces of legislation.
3. The amended *Commonwealth Grants Commission Act 1973* describes the transition approach of blending the results of the previous arrangements (equalising State relative fiscal capacities) with the results of the new arrangements (equalising to the fiscally stronger between New South Wales and Victoria). Given this, the Commission considered it appropriate to apply the same approach to the new arrangements as for the previous arrangements. That is, the Commission would derive fiscal capacity measures as the average of the results from 3 assessment years.
4. The amended *Federal Financial Relations Act 2009* specifies the minimum relativity (or floor) for distributing the GST pool. This legislation also provides that from 2022-23 an adjustment may be required if the blending process results in a relativity that is less than the minimum. The Commission considered it appropriate to make this adjustment to the year in which the recommended relativities will be used to distribute the GST pool (the application year).
5. The glossary on the Commission’s website (and in this report) has been updated to include terms relating to the new equalisation arrangements.

## Attachment A: ‘No worse off’ relativities

1. As required by clause 2(b) of the 2021 Update terms of reference, Table A-1 shows the relativities that would have applied had the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* not been enacted (referred to as the ‘no worse off’ relativities). These relativities are the State relative fiscal capacities, which are shown in the first column of Table 1-2. This is the first step in the process of deriving the GST relativities under the new arrangements.
2. The ‘no worse off’ relativities are to be used in determining whether there is a requirement for additional financial assistance consistent with sections 5(2) and 5(3) of the amended *Federal Financial Relations Act 2009*’. They reflect the Commission’s most recent assessment of States’ needs. The relativities will be applied to the GST pool, without including the top-up payments. Throughout the report these relativities are referred to as relative fiscal capacities.
3. The ‘no worse off’ entitlements of States will be funded by the Commonwealth.

Table A-1 ‘No worse off’ relativities, 2021-22

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
| ’No worse off’ relativities | 0.96451 | 0.93169 | 1.06753 | 0.32852 | 1.35554 | 1.96901 | 1.17101 | 4.80820 | 1.00000 |

Source: Commission calculation.

## Attachment B: Quality assurance

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. The procedures are consistent with the 2020 Review Quality Assurance Strategic Plan, which is available on the [Commission’s website](https://www.cgc.gov.au/) (https://www.cgc.gov.au).

### Checking calculations

1. 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.
2. The Commission also engaged officers from the Australian Treasury with relevant technical expertise to check the calculations. These checks were done after internal checks were completed.

### Reporting of methods, decisions and results

1. Transparency and accuracy in reporting the assessment methods, decisions and results are important in ensuring high quality outputs.
2. The Commission undertook a comprehensive program of proofreading and checking of tables and results to ensure they aligned with the original calculations.
3. The Commission posted all its discussion papers, State submissions on those papers, draft and final reports on the [Commission’s website](https://www.cgc.gov.au/) (https://www.cgc.gov.au).

## Glossary

This glossary includes terms used in this report that have a meaning specific to the Commission. A full list of Commission terminology is available on the website at [www.cgc.gov.au](http://www.cgc.gov.au). The term ‘State(s)’ includes the Australian Capital Territory and the Northern Territory.

**actual per capita 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 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.

**administrative scale**

A measurement of the differences in costs that 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 recommended relativities are to be used to distribute the GST pool. For example, for the 2021 Update the application year is 2021‑22.

**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 a State’s policy choice.

**assessed investment**

The expenditure on new and replacement 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. The Commission’s method for calculating assessed investment assumes that each State has the average per capita stock of infrastructure at the start of each year. Assessed investment excludes differences from the average due to a State’s policy choice.

**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 Commission uses data for 3 assessment years to calculate the States’ GST distribution. For the 2021 Update the assessment years are 2017-18, 2018-19 and 2019-20.

**average expense/ revenue**

A per capita measure derived as the total spending, or revenue collected, divided by the total population across Australia. The average represents the experience of the average Australian, so that the more populous States generally have a greater effect on the average than the less populous States.

**backcasting**

Changes made to assessment year data to reflect application year Commonwealth or State policies. Backcasting is mainly used to reflect major changes in federal financial arrangements. In effect, backcasting produces notional financial data that simulate a changed distribution of a Commonwealth payment, State revenue or expense. Actual data for the assessment period are adjusted to reflect what is reliably known to be happening in the application year.

**blending**

During transition to full application of the new arrangements, the Commission will blend the previous and the new arrangements (referred to as relative fiscal capacities and standard State capacities respectively) in proportions specified in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*, to derive the blended fiscal capacities.

**category**

A classification of in scope transactions relating to distinct services or revenue sources, used for assessment purposes. In this review, the adjusted budget is divided into Commonwealth payments, 7 own‑source revenue categories, 11 expense categories, investment and net borrowing.

**Commonwealth payments**

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

**component**

A sub-set of an expense or revenue category that the Commission has assessed differently from the rest of the category because the drivers of States’ expense requirements or revenue raising capacity are different.

**disabilities**

Influences beyond a State’s control that require it to:

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

**discount**

Where the Commission establishes a case for including disabilities in a category, but the measure of those disabilities is affected by imperfect data or methods, the Commission may decide to apply a discount. When the Commission discounts an assessment, it uses a uniform set of discounts — 12.5%, 25% or 50% — applying higher discounts where there is more concern about the data or method.

**distribution**

State shares of the GST pool based on the recommended pool sharing relativities.

**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. The Commission typically uses this when it judges there to be no material disabilities between the States, or where it cannot develop reliable assessments due to data or other limitations. This type of assessment means that no needs are assessed for any State and that there is no impact on the GST pool distribution.

**equalisation**

See horizontal fiscal equalisation.

**expenditure**

Refers to expenses and investment.

**expenses**

Operating outlays under an accrual budgeting framework as defined in Government Finance Statistics.

**GST pool**

The funds made available by the Commonwealth for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation. From 2021–22 it comprises Good and Services Tax (GST) revenue plus pool top-up payments.

**GST pool requirement**

A State’s requirement for GST, relative to the needs of other States.

**horizontal fiscal equalisation (HFE)**

A central government policy that seeks to reduce fiscal disparities between sub-central governments. Australia gives effect to HFE by distributing the GST pool to States in a way that aims to ensure that each of Australia’s States has a similar fiscal capacity, under average policies, to provide services and the associated infrastructure to its communities. From 2021-22 the horizontal fiscal equalisation system in Australia will begin to transition to new arrangements that will ensure States have the capacity to provide services at the standard of New South Wales or Victoria, whichever is higher. Separate equalisation arrangements apply to local government in Australia.

**impact on relativities (in reference to Commonwealth payments)**

Treatment applied to a Commonwealth payment that provides budget support for State services for which expenditure needs are assessed. The expenditure funded by payments that affect the relativities is assessed in relevant categories and the revenue (or payment) is included in State revenue.

**indexation amount**

An adjustment made to the pool top-up payments under the new arrangements. The indexation amount is equal to the growth in the GST pool.

**infrastructure**

Refers to the stock of fixed 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 railways) and plant and equipment for economic and social purposes.

**investment**

The acquisition of produced assets less disposals of produced assets, before depreciation is deducted. This mainly comprises the acquisition less disposals of fixed produced assets. Fixed produced assets are goods and services that are used in production for more than one year.

**material, materiality**

A test the Commission uses in making decisions about whether to undertake separate assessments of disabilities, or to make data adjustments. The Commission defines materiality levels in terms of the amount of the GST pool redistributed per capita for any State. Different thresholds are used for disabilities and data adjustments. An assessment or adjustment is said to be material if it exceeds the materiality threshold (see the assessment guidelines in the 2020 Review report).

**national partnership payments**

Payments from theCommonwealth to States to support the delivery of specified projects, facilitate reforms, or reward jurisdictions that deliver nationally significant reforms. A subset of payments for specific purposes.

**national specific purpose payments**

Payments from theCommonwealth to States, to be spent in key service delivery sectors. A subset of payments for specific purposes.

**natural disaster relief**

Expenses incurred by States under the Disaster Recovery Funding Arrangements 2018. These are assessed on an actual per capita basis.

**net financial worth**

The sum of financial assets minus the sum of liabilities.

**net borrowing**

The outcome of an operating budget calculated as the sum of expenses and investment less the sum of State own source revenues and revenues received from the Commonwealth. Negative net borrowing is referred to as net lending.

**new arrangements**

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* specifies that, when fully implemented, no State will receive a per capita GST share less than the lower of New South Wales or Victoria. For an explanation of how this is being implemented, see *Report on GST Revenue Sharing Relativities 2020 Review*, Volume 2, Chapter 4.

**no impact on relativities (in reference to Commonwealth payments)**

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 are removed from the adjusted budget to ensure they 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).

**no worse off**

A concept to explain the provisions of section 5(3) of the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018.* Under those provisions, over the transition years (2021-22 to 2026-27), a State will be entitled to additional financial assistance if it receives a lower GST pool grant under the new arrangements than it would have received if the legislative changes had not been enacted. This additional financial assistance will be funded by the Commonwealth.

**payments for specific purposes**

Payments from the Commonwealthto the States relating to policy areas for which the States have primary responsibility. They 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. They include national specific purpose payments and national partnership payments.

**pool top-up payments**

Additional funds provided by the Commonwealth, along with GST revenue, to form the GST pool, as specified in section 8A(1) of the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018.*

**previous arrangements**

The process for equalisation that applied prior to the commencement of new legislative arrangements from 2021.

**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.

**redistribution**

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

**relative fiscal capacity**

A State’s relative fiscal capacity is a measure used to inform the distribution of the GST pool. Relative fiscal capacities are determined for each State such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own-sources and operated at the same level of efficiency. The measure is designed so that the higher a State’s GST requirement, the higher the value of the measure.

**relativity**

A per capita weight used to calculate the share of the GST pool a State will receive. From the 2021 Update, it is derived by blending the relative fiscal capacities with the standard State capacities to transition to the new arrangements.

**relativity floor**

A minimum GST pool sharing relativity, with an initial value of 0.7 to apply from 2022–23, then raised to 0.75 to apply from 2024-25. For 2021-22, the Northern Territory will have a GST pool share at least equivalent to a relativity of 4.66.

**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 revenue.

**revenue effort**

The intensity of use of a revenue base (the implied tax rate) measured as actual revenue divided by 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 puts 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 occurred every 5 years. By contrast, an update is conducted every year other than a review year and updates the distribution using the methods determined in the last review and the latest data.

**service delivery scale**

Service delivery scale (SDS) is ameasurement of the additional costs of providing a service because the population served is small and isolated from other points of service delivery.

**sociodemographic composition**

Sociodemographic composition (SDC) is ameasurement of differences in both the average use and cost of providing services due to differences between States in the relative size of various sociodemographic groups. It can reflect differences between States in some or all population characteristics such as age, socioeconomic status, Indigenous status and location.

**standard State**

The fiscally stronger of New South Wales and Victoria, used in the context of the new arrangements.

**standard State capacity**

A measure of a State’s ability, benchmarked to the standard state, to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average effort taking account of its actual other Commonwealth payments. Collectively for all States, these are referred to as standard State capacities.

**State(s)**

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

**transition year**

Refers to the transition to the new arrangements. The transition years are 2021–22 to 2026–27. These are the payment, or application, years not the assessment years.

**update**

The annual assessment of the GST pool distribution undertaken by the Commission between reviews. Updates incorporate new budgetary developments and the most recent available data. In general, the methods used are those adopted in the most recent review. From the 2021 Update, the recommended relativities also reflect the transition to the new arrangements.

**user charges**

Fees and charges raised by States through provision of goods or services. In the adjusted budget, user charges for some functions or categories are deducted from related expenses. Other user charges are included in the other revenue category and have no effect on a State’s fiscal capacity.

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1. *Treasury Laws Amendment (Making sure every State and Territory gets their Fair Share of GST) Act 2018.* [↑](#footnote-ref-2)
2. A relativity is a per capita weight calculated by the Commission. It is used to allocate States’ shares of the GST pool. [↑](#footnote-ref-3)
3. However, the Commission consulted with States on COVID-19 and this will inform its assessments in future years. [↑](#footnote-ref-4)
4. The reduction in GST revenue in 2019-20, along with high growth in States’ spending, has meant that States with expense needs below average (such as Victoria and the ACT) were assessed as requiring a lower share of the GST pool than otherwise. States with expense needs above average (such as the Northern Territory and Tasmania) were assessed as requiring a larger share of the GST pool than otherwise. This is because the proportion of the GST pool required to enable States to cover their assessed expenses and equalise their fiscal capacities increased, with the result that less can be distributed on an equal per capita basis. [↑](#footnote-ref-5)
5. From here on, GST pool means GST revenue plus any pool top-ups as per the amended *Federal Financial Relations Act 2009.* [↑](#footnote-ref-6)
6. *Commonwealth Grants Commission Act 1973*, section 16(AB). [↑](#footnote-ref-7)
7. Some payments were excluded because they did not meet the Commission’s Commonwealth payments guidelines or were excluded by the terms of reference. See Chapter 5 of Volume 2 of the 2020 Review report for details. [↑](#footnote-ref-8)
8. In this update, New South Wales is the standard State for two assessment years and Victoria for one. This resulted in the standard State relativity for Western Australia being lower than those for New South Wales and Victoria. [↑](#footnote-ref-9)
9. Ibid. Schedule 1, section 1, paragraph 16AB(3). [↑](#footnote-ref-10)
10. Ibid. Schedule 1, section 4. [↑](#footnote-ref-11)
11. The terms used in the paragraph are defined in the glossary. [↑](#footnote-ref-12)
12. State population shares and the GST pool amount for 2020-21 will be finalised later in 2021 in the Commonwealth of Australia’s *Final Budget Outcome 2020-21*. For 2021-22, they will be finalised in 2022 in the Commonwealth of Australia’s *Final Budget Outcome 2021-22*. [↑](#footnote-ref-13)
13. Revisions can also occur because data providers identify errors in their data, or because of errors made by the Commission in previous inquiries. [↑](#footnote-ref-14)
14. The Commission considered this does not amount to local government equalisation (which would exceed the Commission’s terms of reference) but that it recognises an unavoidable cost that all States fund. [↑](#footnote-ref-15)
15. The Commission does not include all payments for specific purposes in its calculations of State fiscal capacities. It uses a set of guidelines to decide whether a payment should be included. The terms of reference also direct the Commission to exclude some payments (known as ‘quarantining’). [↑](#footnote-ref-16)
16. The changes related to the National Health Reform funding included only funding changes to hospital services and public health under the National Health Reform agreement. They did not include the Commonwealth component of funding for the COVID-19 public health response as these payments were excluded from having any impact on the relativities (see Chapter 4 for further discussion of COVID-19 related health funding). [↑](#footnote-ref-17)
17. This slow growth in the GST pool was due to a range of factors, including slower economic growth (intensified by COVID-19) and changing consumption patterns. [↑](#footnote-ref-18)
18. The previous sections explained how the Commission’s assessment of State fiscal capacities changed between the 2020 Review and the 2021 Update. This section describes the underlying sources of difference in States’ fiscal capacities causing the GST to deviate from an equal per capita distribution. [↑](#footnote-ref-19)
19. If relative fiscal capacities had been applied to the GST pool, 9.7% of the pool would have been redistributed. [↑](#footnote-ref-20)
20. Pool top-up payments are described in section 8A of the amended *Federal Financial Relations Act 2009*. [↑](#footnote-ref-21)
21. As detailed in section 16AB of the *Commonwealth Grants Commission Act 1973*. From 2021-22, the GST pool comprises GST revenue as well as top-up payments, as detailed in section 8A of the *Federal Financial Relations Act, 2009.* [↑](#footnote-ref-22)
22. The National Partnership on COVID-19 Response payments were sourced from the National Health Funding Body and aligned with the aggregates published in the Commonwealth of Australia’s *Final Budget Outcome 2019-20*. Entitlements for 2019-20 will be finalised following reconciliation of activity data by the Administrator of the National Health Funding Pool, and a subsequent Determination by the Treasurer. [↑](#footnote-ref-23)
23. **There was also a $1.2 billion private hospital viability payment, which was 100% Commonwealth funded. This payment did not affect State fiscal capacities, or GST shares.** [↑](#footnote-ref-24)
24. In 2019‑20, State spending in the other industries component increased by 46% (growth had averaged 16% per annum over the previous 3 years). Assuming unchanged spending on regulation, the split between regulation and business development changes from 53% regulation/47% business development in assessment years 1 and 2 to 36% regulation/64% business development in assessment year 3. [↑](#footnote-ref-25)
25. The Independent Hospital Pricing Authority cost and pricing models for each year, including the remoteness adjustments, are calculated based on data from 3 years earlier. Within this constraint, the Independent Hospital Pricing Authority has been expanding the scope of remoteness disabilities progressively, with the remoteness adjustments for non-admitted patients to commence in 2019-20. [↑](#footnote-ref-26)
26. The 2018 **Characteristics of Employment survey** data, used to model relative wage costs for 2018-19, were also revised after the modelled outcomes were provided to the Commission for the 2020 Review. [↑](#footnote-ref-27)
27. Some expenses are assessed EPC because population is considered the driver. This is referred to as a deliberative EPC assessment. In these cases, the Commission considers that needs are assessed. [↑](#footnote-ref-28)
28. This information is necessary if a Commonwealth own-purpose expenses payment is to receive a ‘no impact’ treatment. Without it, the Commission is unable to identify the expense related to the payment. [↑](#footnote-ref-29)
29. See Chapter 4, *Report on GST Revenue Sharing Relativities 2020 Review — Volume 2, available* at www.cgc.gov.au. [↑](#footnote-ref-30)