



Overview of the 2020 Review

This fact sheet provides an overview of the 2020 Review, including a summary of the main changes to the Commission’s assessment of State fiscal capacities.

2020 Review in context

The Commission, in response to terms of reference, provides advice to the Commonwealth Treasurer on a distribution of goods and services tax (GST) revenue among the States and Territories (the States), in accordance with the principle of horizontal fiscal equalisation (HFE).

The transfer of fiscal resources under HFE aims to offset differences in fiscal capacities, to allow Australia’s States to provide similar standards of public services at a similar tax burden.

Since the introduction of the GST in 2000-01, the GST distribution methodology has been reviewed four times — 2004, 2010, 2015 and 2020. These reviews provide an opportunity for the Commission, in consultation with the States, to introduce changes to the data and methods for measuring fiscal capacities. Changes have been adopted where State circumstances have changed, better data have become available, or where other evidence supported the need for a change.

This review, which began in late 2016, will apply to the GST distribution from 2020-21. The review report provides the Commission’s recommended per capita relativities for distributing GST revenue in 2020-21 and describes revised methods that will be used to calculate relativities in future.

Why fiscal capacities have changed

The following table shows the relativities used to distribute GST in 2019-20 and those recommended by the Commission for 2020-21, with the resulting change in the GST distribution (\$1.5 billion).

Relativities and changes to the GST distribution due to changes in fiscal capacity

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Relativity									
2019-20	0.87013	0.98273	1.05370	0.51842	1.46552	1.75576	1.23759	4.26735	1.00000
2020-21	0.91808	0.95992	1.04907	0.44970	1.35765	1.89742	1.15112	4.76893	1.00000
Change to GST distribution due to changes in fiscal capacity (a)									
\$million	1,031	-410	-67	-475	-499	200	-99	320	1,551

(a) Changes to GST revenue and State populations also affect the GST distribution but these effects are not shown here. Table 1-2 in Volume 1 of the report shows all three effects. The change in the GST distribution is illustrative and is the difference between the estimated 2019-20 distribution and illustrative 2020-21 distribution that is attributed to changes in State circumstances.

Source: Commission calculation.

Changes to relativities reflect changes in the Commission’s measures of relative fiscal capacity. Movements in the relativities (and fiscal capacities) between 2019-20 and 2020-21 were due to:

- changes to the methods used by the CGC for measuring State fiscal capacities
- revisions to data used to measure fiscal capacities
- changes in the economic and demographic circumstances of individual States.

The Commission uses data for three assessment years to calculate the average relativities. For example, the relativities recommended in this review for 2020-21 are based on the relativities for 2016-17, 2017-18 and 2018-19. Under this three year averaging of data, changes in circumstances of individual States arise when the latest year is incorporated and the oldest year is deleted.



Key factors affecting the change in the distribution

- A range of **method changes** have had an impact on the change in the distribution.
 - The introduction of a new urban public transport assessment that measures the high costs associated with providing public transport services and infrastructure in Australia’s large capital cities, particularly Sydney and Melbourne. The new assessment recognises the influence of population density, passenger numbers by mode (e.g. train, bus, light rail) and other urban centre characteristics on urban public transport expenditure.
 - Changes to the assessment of rural roads, including the measurement of rural road length using new geospatial data to remap rural road networks.
 - Updated information on the minimum costs faced by States in preparing to deliver services (referred to as Administrative scale costs) provided a new benchmark estimate of the minimum costs per State.
 - Changes in the assessment of stamp duty due to changes in the activity taxed by States.
- The main **data revisions** related to a change to the scope of eligible State natural disaster relief expenses and revised State data on the value of property sales and taxable land. New data on the effects of remoteness on service delivery costs were incorporated into several assessments.
- The main change in **State circumstances** related to changes in the value of coal and iron ore production in Queensland and Western Australia respectively, which increased their revenue raising capacity and reduced their GST requirement.

Changes to the assessment of urban transport expenditure tended to increase the GST distribution for the two most populous States. The effects of these changes tended to be offset by changes to the assessments of remoteness costs, rural roads and State minimum costs, which increased the GST distribution of the less populous, more dispersed States.

In this review, the Commission also reverted to the pre-2019 Update practice of recognising the part of local government natural disaster expenses that is funded by States.

The table below shows the contribution of the three key factors to the change in the GST distribution between 2019-20 and 2020-21.

Change in the GST distribution due to changes in fiscal capacity by source, 2020-21

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Method changes	711	-802	139	-114	-274	141	-74	272	1,264
Data revisions	-275	113	271	-31	-53	14	-19	-18	397
State circumstances	595	279	-477	-330	-172	45	-6	66	985
Total fiscal capacity changes	1,031	-410	-67	-475	-499	200	-99	320	1,551

Source: Commission calculation

Further information about why State fiscal capacities differ and how they have changed in the most recent review is available in separate fact sheets, including summaries for each State. Detailed analysis is included in Volume 1 of the 2020 Review final report.

For more information about the 2020 Review, see the Commission website.