



Executive summary

On 28 November 2016, the Commission received terms of reference to review the fiscal equalisation methodologies that inform the goods and services tax (GST) distribution and to recommend the per capita relativities for distributing GST revenue among the States in 2020-21. Supplementary terms of reference were also received providing additional guidance on matters relevant to the 2020 Review.

The 2020 Review report presents the per capita relativities that the Commission recommends be used to distribute GST revenue among the States and Territories (the States) in 2020-21, following an assessment of States' revenue raising capacities and costs of providing services. It also presents the results of the Commission's review of the methods used to measure State relative fiscal capacities.

The terms of reference asked the Commission to undertake a comprehensive review of the methods that underlie its recommendations. In doing so, the Commission was asked to take into account the *Intergovernmental Agreement on Federal Financial Relations* (IGA), which provides that GST revenue will be distributed in accordance with the principle of horizontal fiscal equalisation (HFE). This principle ensures that each of Australia's States has the same fiscal capacity, under average policies, to provide services and the associated infrastructure to their communities.

The Commission was also asked to consider whether its supporting principles remain appropriate. After considering States' submissions, the Commission has taken the view that its existing principles remain relevant and appropriate for supporting its work in assessing State fiscal capacities.

In this review, the Commission has developed a new urban transport assessment, with the help of transport consultants, which better captures the influence of population density, passenger numbers and urban centre characteristics on States' costs. Other assessment methodology changes that have had noteworthy effects on the GST distribution are largely evolutionary. For example, recognising changes to the taxation of property transfer activity, the Commission has changed the scope of those revenues that it differentially assesses. Improved data for electricity and water subsidies and Indigenous community development expenses have affected assessments, as has a comprehensive review of the minimum costs faced by States in delivering services. Changes to methods in the expense assessments, in particular urban transport, changes to the measurement of rural road length and the introduction of an assessment of bridges and tunnels, have also resulted in significant changes to assessed infrastructure requirements.

As a result of these method changes, as well as incorporating the latest available data and State circumstances, the assessed fiscal capacities of Victoria, Queensland, Western Australia, South Australia and the ACT have strengthened in this review, reducing those States' GST shares. Lower assessed costs of providing transport services and infrastructure have increased **Victoria's** fiscal capacity. **Queensland's** and **Western Australia's** improved fiscal capacities were mainly driven by an increase in the value of coal and iron ore production, respectively. **South Australia's** stronger fiscal capacity was driven by an increase in its share of Commonwealth payments, and a fall in its assessed costs of providing transport services. A reduced investment requirement has strengthened the **ACT's** fiscal capacity.

The assessed fiscal capacities of the other three States have fallen, increasing their GST shares. **New South Wales'** weaker fiscal capacity is due to an increase in its assessed cost of urban transport services and below average growth in property sales. **Tasmania's** weaker fiscal capacity is due to increases in its assessed cost of policing and minimum fixed costs in providing services. An increased investment requirement has reduced the **Northern Territory's** fiscal capacity.