Australian Government
Commonwealth Grants Commission

# Report on GST Revenue Sharing Relativities

# 2020 Review

## Volume 1 — GST revenue sharing relativities for 2020-21

Canberra

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# Internet

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

Australian Government

Commonwealth Grants Commission

# Letter of transmittal

26 February 2020

The Hon Josh Frydenberg
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

As members of the Commonwealth Grants Commission appointed under the *Commonwealth Grants Commission Act 1973*, we respond in this report to the original terms of reference received on 28 November 2016 from the Hon Scott Morrison MP, as well as supplementary terms of reference subsequently received from you.

The Commission was asked to review the methods used to derive the per capita relativities for distributing the Goods and Services Tax revenue among the States and Territories and to provide the relativities considered appropriate for use in 2020-21.

In accordance with those terms of reference, we are also providing the results of the review to the States and Territories on 28 February 2020, under embargo.

Yours sincerely

G J Smith
Chairperson

J D Petchey
Member

L S Williams AM
Member

P W Hendy
Member

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# Acknowledgements

The Commission appreciates the ready co-operation extended to the Commission and its staff, throughout the review, by the Australian, State and Territory governments and their officials across a range of departments and agencies.

We are particularly grateful for the efforts of the State Treasuries in organising submissions to the inquiry, participating in conferences and responding to our many requests for information. Staff of the Australian Bureau of Statistics, the Independent Hospital Pricing Authority, the Australian Institute of Health and Welfare, the Australian Curriculum, Assessment and Reporting Authority and other Commonwealth agencies have been most helpful in providing the data needed to complete the necessary calculations. We also acknowledge the help of other research and data gathering agencies.

The Commission expresses its special thanks to all Commission staff whose professionalism and dedication have been essential to the completion of the review.

# Terms of reference

TREASURER

Mr Greg Smith
Chairperson
Commonwealth Grants Commission
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr ~~Smith~~ Greg

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2017 Update of GST Revenue Sharing Relativities* (2017 Update) and *2020 Methodology Review of GST Revenue Sharing Relativities* (2020 Methodology Review).

The terms of reference for the 2017 Update require the Commission to report by 24 March 2017, with an advance copy of the report to be provided to the Commonwealth and the States and Territories, under embargo, by 10 March 2017.

The terms of reference for the 2020 Methodology Review require the Commission to undertake a comprehensive review of all of the methodologies underpinning its calculation of the GST relativities. The final report for the review should be provided to the Commonwealth and the States and Territories by 28 February 2020. This will give the Commission more than three years to complete a wide-ranging review of its methods.

I expect the Commission to consult closely with the Commonwealth and the States and Territories, both in developing a work program to guide your methodology review as well as throughout the review process.

Yours sincerely

The Hon Scott Morrison MP

14 / 11 / 2016

Parliament House Canberra ACT 2600 Australia
Telephone: 61 2 6277 7340 | Facsimile: 61 2 6273 3420

**Terms of Reference for the 2020 Methodology Review**

***COMMONWEALTH GRANTS COMMISSION ACT 1973***

I, Scott John Morrison, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon:

a) the methodological approach used to calculate the per capita relativities to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2020-21 (*Methodology Review*); and

b) the per capita relativities recommended to be used to distribute GST revenue among the States in 2020-21 (*GST relativities for 2020-21*).

*Methodology Review*

2. The Commission should undertake a comprehensive review of all the methods that underlie its assessments to calculate the per capita relativities used to distribute GST revenue among the States (the GST relativities).

3. The Commission will consult with the Commonwealth and the States on:

   a) the development of a work program for the methodology review, including the provision of a draft report in 2019; and

   b) any substantive changes to the revised methodology following the draft report.

4. The outcome of the review will be a revised methodology for calculating the GST relativities, which the Commission will apply to its assessments of GST relativities from 2020-21. The revised methodology should be described in the final report for this inquiry.

5. In undertaking the review, the Commission should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation.

6. The Commission should also consider whether the supporting principles it uses to guide its work remain appropriate, including whether different weights should be given to different supporting principles. State views should be sought on the importance of each existing principle and any others considered important to the States and the appropriate balance between them.

7. In reviewing the methodology underlying its assessments, the Commission should:

   a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;

   c) use the latest available data consistent with this; and

   d) ensure robust quality assurance processes.

8. In reviewing the methodology underlying its assessments, the Commission should treat Commonwealth payments to the States as follows:

   a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Students First funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state services.

   b) National Partnership facilitation and reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation process.

   c) General revenue assistance, excluding GST payments, will affect the relativities, recognising that these payments are available to provide untied general budget support to a State.

   d) Notwithstanding subparagraphs 8(a) – (c), the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of the State governments in providing particular services.

   e) Those payments which, prior to its assessment of the 2020-21 relativities, the Commission had been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 8(a) – (d), unless otherwise directed.

*GST relativities for 2020-21*

9. The Commission should undertake an assessment of the per capita relativities to be used to distribute GST revenue among the States in 2020-21.

10. This assessment should be made on the basis of the revised methodology from the Commission's review of its methodological approach.

*The Report*

11. The Commission will provide the final report for this inquiry, including both the revised methodology and the recommended relativities for 2020-21, to the Commonwealth and the States by 28 February 2020.

12. The Commission will consult regularly with the Commonwealth and the States as it considers these terms of reference.

13. Supplementary terms of reference may be provided prior to finalisation of the inquiry outcomes.

SCOTT JOHN MORRISON

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

Ref: MS19-001798

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

Dear Mr Smith

I am writing to you to convey the enclosed supplementary terms of reference for the *2020 Methodology Review of GST Revenue Sharing Relativities* (2020 Methodology Review), which formalises my decision referred to in my letter of 22 November 2018 relating to the Commission's mining revenue assessment.

Thank you for the ongoing and considerable work of the Commonwealth Grants Commission on the 2020 Methodology Review.

Yours sincerely

THE HON JOSH FRYDENBERG MP

6 / 10 /2019

Enc: 2020 Methodology Review – Supplementary Terms of Reference

Parliament House Canberra ACT 2600 Australia
Telephone: 61 2 6277 7340 | Facsimile: 61 2 6273 3420

## 2020 Methodology Review – Supplementary Terms of Reference

### *COMMONWEALTH GRANTS COMMISSION ACT 1973*

I, Josh Frydenberg, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973,* hereby provide supplementary terms of reference for the Commission's 2020 Methodology Review.

**Background**

2. On 28 November 2016, the former Treasurer, the Hon Scott Morrison MP, issued terms of reference for the 2020 Methodology Review (initial terms of reference) directing the Commission to inquire into and report upon:

    a) the methodological approach used to calculate the per capita relativities to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2020-21 (*Methodology Review*); and

    b) the per capita relativities recommended to be used to distribute GST revenue among the States in 2020-21.

**Supplementary terms of reference**

3. These supplementary terms of reference are to be read in conjunction with the initial terms of reference.

4. In undertaking the Methodology Review, the Commission should not change the mining revenue assessment methodology.

THE HON JOSH FRYDENBERG MP

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

Ref: MS20-000230

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

Dear Mr Smith

I am writing to you to convey the enclosed final supplementary terms of reference for the *2020 Methodology Review of GST Revenue Sharing Relativities* (2020 Methodology Review), regarding my decisions on exemptions from the Commonwealth Grants Commission's assessment of the GST revenue sharing relativites. The terms of reference also direct that the 2020 Methodology Review final report be released publicly on 16 March 2020.

Thank you again for the considerable work of the Commonwealth Grants Commission on the 2020 Methodology Review. I look forward to receiving the final report.

Yours sincerely

THE HON JOSH FRYDENBERG MP
25 / 2 /2020

Enc: 2020 Methodology Review – Final Supplementary Terms of Reference

Parliament House Canberra ACT 2600 Australia
Telephone: 61 2 6277 7340 | Facsimile: 61 2 6273 3420

## 2020 Methodology Review – Final Supplementary Terms of Reference

***COMMONWEALTH GRANTS COMMISSION ACT 1973***

I, Josh Frydenberg, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973,* hereby provide final supplementary terms of reference for the Commission's 2020 Methodology Review.

**Background**

2. On 28 November 2016, the former Treasurer the Hon Scott Morrison MP issued terms of reference for the 2020 Methodology Review (initial terms of reference) directing the Commission to inquire into and report upon:

   a) the methodological approach used to calculate the per capita relativities to distribute Goods and Services Tax (GST) revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) from 2020-21 (*Methodology Review*); and

   b) the per capita relativities recommended to be used to distribute GST revenue among the States in 2020-21.

3. On 6 October 2019 the Treasurer the Hon Josh Frydenberg MP issued supplementary terms of reference directing the Commission as follows:

   a) in undertaking the Methodology Review, the Commission should not change the mining revenue assessment methodology.

**Final supplementary terms of reference**

4. These final supplementary terms of reference are to be read in conjunction with the initial terms of reference and the supplementary terms of reference.

5. The Commission should prepare its assessment on the basis that the following Commonwealth payments should not directly impact the per capita relativities:

   a) Payment to South Australia of up to $37.5 million relating to Remote Indigenous Housing;

   b) Payment to South Australia of $80 million relating to the SAiGEN Cancer Institute;

   c) Payment to Tasmania of $56 million relating to the Marinus Link project;

   d) Payment to the Northern Territory of $70 million relating to the Kakadu roads upgrade; and

   e) Payment to Western Australia of $121 million relating to remote housing.

6. The Commission should prepare its assessment on the basis that the waiver of $157.6 million in 2019-20 of Tasmania's housing related debt should not impact the per capita relativities.

7. The Commission should prepare its assessment on the basis that up to $10 million of the proceeds from the sale of water under the Water for Fodder program that is used to establish a Drought Resilience Fund should not impact the per capita relativities.

8. The Commission's final report will be released publicly on 16 March 2020.

JOSH FRYDENBERG

25 /2 /2020

# List of acronyms

## Volume 1

| | |
|---|---|
| ABS | Australian Bureau of Statistics |
| CoE | Compensation of Employees |
| CoES | Characteristics of Employment Survey |
| EPC | Equal per capita |
| GFS | Government finance statistics |
| GST | Goods and Services Tax |
| HFE | Horizontal fiscal equalisation |
| IGA | Intergovernmental Agreement on Federal Financial Relations |
| MYEFO | Mid-Year Economic and Fiscal Outlook |
| NDIS | National Disability Insurance Scheme |
| PSPs | Payments for Specific Purposes |
| QA | Quality assurance |

# Purpose of this report

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. This report responds to the requirement that the Commission provides a final report to governments by 28 February 2020.

This volume sets out the recommended relativities for 2020-21 and the principal reasons, both collectively and for each State, why they differ from the 2019-20 relativities. It also describes the main drivers of the differences in fiscal capacities between the States, including the main drivers within each State, leading to a recommended distribution of GST revenue that differs from equal per capita.

This volume also describes the processes adopted by the Commission in order to comply with the terms of reference requirement to 'ensure robust quality assurance processes' are adopted in preparing its assessments.

Volume 2 of the report presents the results of the review of methods used to determine State fiscal capacities. It describes the processes, methods and data sources adopted by the Commission in arriving at its recommendations.

Volume 2 also outlines the Commission's preliminary understanding of the requirements for its future work in relation to the Commonwealth's new equalisation arrangements enacted in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*.

# Contents

# Executive summary

This 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.

# 1 Recommended GST distribution

## Recommended GST distribution

1 Table 1-1 shows the per capita relativities the Commission recommends for use in distributing the GST revenue among the States in 2020-21. It also shows State shares of the GST revenue implied by the Commission's 2020-21 recommendations and an illustrative GST revenue distribution. The table compares these with the results for 2019-20.

Table 1-1 Relativities, shares and illustrative GST distributions, 2019-20 and 2020-21

| | Relativities | | GST shares | | GST distribution | |
|---|---|---|---|---|---|---|
| | 2019-20 | 2020-21 | 2019-20 | 2020-21 | 2019-20 | 2020-21 |
| | | | % | % | $m | $m |
| New South Wales | 0.87013 | 0.91808 | 27.8 | 29.3 | 18,192 | 19,832 |
| Victoria | 0.98273 | 0.95992 | 25.7 | 25.2 | 16,798 | 17,068 |
| Queensland | 1.05370 | 1.04907 | 21.2 | 21.1 | 13,868 | 14,286 |
| Western Australia | 0.51842 | 0.44970 | 5.3 | 4.6 | 3,489 | 3,105 |
| South Australia | 1.46552 | 1.35765 | 10.1 | 9.3 | 6,592 | 6,259 |
| Tasmania | 1.75576 | 1.89742 | 3.7 | 4.0 | 2,417 | 2,688 |
| Australian Capital Territory | 1.23759 | 1.15112 | 2.1 | 2.0 | 1,368 | 1,319 |
| Northern Territory | 4.26735 | 4.76893 | 4.1 | 4.5 | 2,685 | 3,053 |
| **Total** | **1.00000** | **1.00000** | **100.0** | **100.0** | **65,410** | **67,610** |

Note: The illustrative GST distribution for 2020-21 was obtained by applying 2020 Review relativities to estimated State populations as at December 2020 and estimated GST revenue for 2020-21.

Source: Commission calculation.

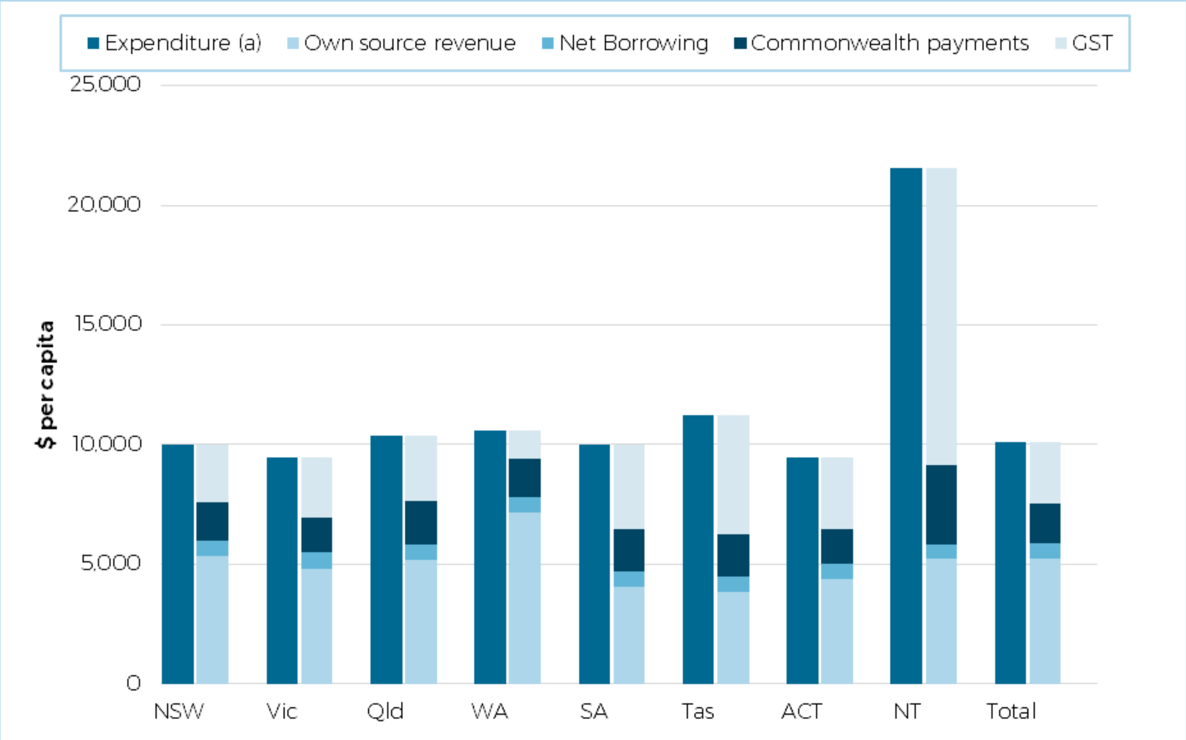
2 In addition to GST revenue, the Commonwealth will be making supplementary payments under its horizontal fiscal equalisation (HFE) reform package to deliver an outcome equivalent to a relativity of 0.70 to Western Australia. No supplementary payments will be required for the Northern Territory as its recommended relativity is greater than its 4.66 guarantee.

3 The methods used to derive these results for 2020-21 are set out in Volume 2 of this report. Using these methods, and data for 2016-17, 2017-18 and 2018-19, the Commission has measured how the economic, social, demographic and other characteristics of the States affect the relative expenses States need to incur to provide the average level of services (including infrastructure) and capacity of States to raise their own revenue. The expense and revenue assessments are combined with the additional Commonwealth support States receive and data on State populations to calculate each State's share of the GST.[1] These shares aim to give each State, in 2020-21, 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.

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

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

Figure 1-1 Illustrative assessed budgets per capita, 2020-21




Note: These are assessed expenditures, own-source revenue, net borrowing, Commonwealth payments and GST.
(a) Includes expenses and investment.
Source: Commission calculation.

5 Differences in States' assessed fiscal capacities have decreased in this review, resulting in a decline in the proportion of GST revenue recommended to be redistributed away from equal per capita (EPC) to the States with below average fiscal capacities. The proportion of GST revenue redistributed in this review fell from 9.5% ($6.19 billion) in 2019-20 to 9.2% ($6.21 billion) in 2020-21. The magnitude of the improvements in the assessed fiscal capacities of Western Australia, South Australia and the ACT are such that, even taking into account the growth in the GST pool, their recommended GST entitlements are lower in 2020-21 than in 2019-20.

## Movements in the GST distribution

6 Table 1-2 shows the differences between the estimated GST distribution for 2019-20 and the illustrative distribution for 2020-21 by State.

Table 1-2 Distribution of the 2019-20 GST and illustrative 2020-21 GST distribution

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Estimated 2019-20 | 18,192 | 16,798 | 13,868 | 3,489 | 6,592 | 2,417 | 1,368 | 2,685 | 65,410 |
| Illustrative 2020-21 (a) | 19,832 | 17,068 | 14,286 | 3,105 | 6,259 | 2,688 | 1,319 | 3,053 | 67,610 |
| Change | 1,640 | 269 | 418 | -385 | -332 | 271 | -49 | 368 | 2,200 |
| Change caused by new: | | | | | | | | | |
| Population (b) | -3 | 111 | 18 | -26 | -53 | -10 | 5 | -42 | 0 |
| Pool (c) | 612 | 569 | 467 | 116 | 220 | 81 | 46 | 89 | 2,200 |
| Fiscal capacities (d) | 1,031 | -410 | -67 | -475 | -499 | 200 | -99 | 320 | 0 |
| *Method changes* | *711* | *-802* | *139* | *-114* | *-274* | *141* | *-74* | *272* | *0* |
| *Data revisions* | *-275* | *113* | *271* | *-31* | *-53* | *14* | *-19* | *-18* | *0* |
| *State circumstances* | *595* | *279* | *-477* | *-330* | *-172* | *45* | *-6* | *66* | *0* |
| **Change ($m)** | **1,640** | **269** | **418** | **-385** | **-332** | **271** | **-49** | **368** | **2,200** |
| **Change ($pc)** | **198** | **39** | **80** | **-145** | **-188** | **497** | **-110** | **1,495** | **85** |

(a) Obtained by applying 2020 Review relativities to estimated State populations as at December 2020 and estimated GST revenue for 2020-21.

(b) Effects on the distribution of 2019-20 GST revenue of using estimated State populations as at December 2020 instead of December 2019, with 2019 Update relativities.

(c) Effects of applying the 2019 Update relativities to the estimated growth in GST revenue for 2020-21.

(d) Effects on the distribution of the 2020-21 GST revenue of using the 2020 Review relativities instead of 2019 Update relativities.

Source: 2019-20 GST entitlement and 2020-21 GST revenue are taken from the *Australian Government Budget*, *Mid-Year Economic and Fiscal Outlook (MYEFO) 2019-20*. December 2019 and 2020 population estimates were provided by the Commonwealth Treasury.

7 The two distributions differ for the following reasons.

- State populations have changed — the illustrative 2020-21 distribution is based on estimated State populations as at December 2020, whereas the 2019-20 distribution is based on populations for a year earlier. State shares of the total population differ slightly between these two dates and affect the total GST allocation for each State.
- The size of the GST pool available for distribution has changed. Any growth in the pool is distributed among States using their relativity-weighted population shares.
- The relativities used to distribute the GST have changed, reflecting changes in the assessed fiscal capacities of the States. The illustrative 2020-21 distribution is based on the relativities recommended in this report whereas the 2019-20 distribution is based on the 2019 Update relativities, which were subsequently determined by the Treasurer on 14 March 2019.

8 The Commission's work affects only the last factor — changes resulting from its assessment of State fiscal capacities. The largest changes are due to changes in methods, closely followed by changes in circumstances. It is usual in methodology reviews for changes to fiscal capacities, and hence relativities, to be greater than in updates, since any new methods are applied to all three assessment years, without phasing. Past reviews, for example the 2015 Review, have resulted in a range of recommended movements for individual States broadly comparable to this review. The Commission has not addressed the scale of adjustments in past reviews or updates since the current arrangements began in 1989 and is not doing so in this review.

# 2 Changes since the 2019 Update

## Why State fiscal capacities have changed

1 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. Table 2-1 shows that changes in States' estimated expense requirements have been the largest change in this review.

Table 2-1 Composition of illustrative changes in GST distribution, 2019-20 to 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | 817 | -567 | -6 | -208 | -259 | 167 | -94 | 152 | 1,136 |
| Investment requirement | -44 | -443 | 362 | 56 | -75 | 9 | -44 | 178 | 606 |
| Net borrowing | 15 | -1 | -35 | 11 | 8 | -6 | 0 | 7 | 41 |
| Revenue raising capacity | 120 | 385 | -212 | -324 | -4 | 33 | 46 | -44 | 583 |
| Commonwealth payments | 123 | 216 | -176 | -10 | -170 | -3 | -8 | 27 | 367 |
| **Total fiscal capacity changes** | **1,031** | **-410** | **-67** | **-475** | **-499** | **200** | **-99** | **320** | **1,551** |

Notes: The total change shown here from 2019-20 to 2020-21 is equivalent to the change caused by new fiscal capacities shown in Table 1-2.

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

Source: Commission calculation.

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

3 Changes in States' assessed fiscal capacities occur for the following reasons.

- Some of the methods used by the Commission to determine State fiscal capacities in this review differ from those used in the 2019 Update.
- Some data used in the assessments in the 2019 Update have been revised. Revisions occur because new data become available.[2]
- States' economic and demographic circumstances change. The 2020 Review relativities are based on an average of data for 2016-17 to 2018-19, whereas the 2019 Update relativities were based on data for 2015-16 to 2017-18. Differences between the year brought into the three year average (2018-19 for this inquiry) and the year removed (2015-16) change the relativities. However, the three year averaging process means changes in circumstances have a gradual effect.

4 Table 2-2 shows that method changes have had the largest effect on the change in assessed fiscal capacities, closely followed by changes in circumstances. Data revisions have had the

[2] Revisions can also occur because data providers identify errors in their data, or because of errors made by the Commission in previous inquiries.

least effect. The main method changes, data revisions and changes in circumstances are discussed below.

Table 2-2 Change in the illustrative GST distribution by source of change, 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** |

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.

5 The method changes in Table 2-2 (and subsequent tables) include the effects of revising average expenses and revenue between the 2019 Update and 2020 Review.[3]

# Method changes

6 The terms of reference for the 2020 Review asked the Commission to review the methods it uses to calculate the relativities. Method changes in this review changed the redistribution by $1,264 million. The method changes that have had the largest redistributive effects are shown in Table 2-3 and are described below.[4] Further details on the changes and the reasons for them can be found in the relevant chapters of Volume 2.

Table 2-3 Effects of major changes in methods on the illustrative GST distribution, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Transport | 896 | -261 | -340 | -230 | -103 | 9 | 11 | 18 | 933 |
| Investment | 73 | -485 | 287 | 54 | -70 | -6 | -30 | 176 | 591 |
| Stamp duty on conveyances | -232 | 95 | 165 | 33 | -41 | -2 | -12 | -5 | 292 |
| Services to communities | 128 | 117 | -45 | -23 | -23 | -11 | 8 | -150 | 252 |
| Administrative Scale | -109 | -74 | -41 | 12 | 32 | 60 | 64 | 56 | 224 |
| Other method changes | -45 | -193 | 114 | 40 | -68 | 90 | -115 | 178 | 421 |
| **Total method changes** | **711** | **-802** | **139** | **-114** | **-274** | **141** | **-74** | **272** | **1,264** |

Note: The redistribution is calculated as the sum of the positive (or negative) items in the row. Totals may not add due to rounding.
Source: Commission calculation.

## Transport

7 The Commission has developed a new urban transport assessment, based on an econometric model, with the help of transport consultants. The model captures the effects of population density, passenger numbers and other urban centre characteristics on the cost of providing urban public transport. The model recognises that larger, more densely populated cities need to spend more per capita to deliver public urban transport services because

3 It was not possible to separate these effects due to the interaction between method changes and the structure of the adjusted budget.

4 The effects of method changes are determined at the category level, with the exception of the Other expenses category (for which method changes have been further disaggregated), and, therefore, cannot be provided for the individual drivers shown in the subsequent sections on data revisions and change in circumstances.

greater proportions of commuters use public transport and transport systems are more complex, such as rail networks.

8 In addition, the Commission has assessed non-urban transport expenses EPC, except for adjustments for regional and wage costs. The Commission investigated policy neutral indicators but has been unable to find an appropriate broad indicator.

9 The method changes in the urban and non-urban transport assessments redistributed $933 million, mainly to New South Wales, and away from Victoria, Queensland, Western Australia and South Australia.

## Investment

10 In this review, the Commission has made several changes to the Investment assessment. The changes have had varying effects on States. For some States, changes in investment for one service area were offset by changes to other areas. The main method and data changes, detailed in Table 24-13 of Volume 2, are described below.

- Changes to the investment assessment method, such as adopting a gross assessment and removing averaging, reduced the investment needs of New South Wales (-$116 million) and Victoria (-$89 million).
- Changes to the level of investment expenditure arising from new data sources, which particularly affected urban transport and to a lesser extent health and housing, reduced the investment needs of New South Wales (-$115 million) and Victoria (-$145 million).
- Changes to methods in the expense assessments have resulted in significant changes to user populations and other factors used to assess infrastructure requirements, with the largest effects arising from the new urban transport assessment, changes to the measurement of rural road length and capital costs, and the introduction of an assessment of bridges and tunnels.
  - Changes to the urban transport investment method were significant for New South Wales (a redistribution of $389 million), Victoria ($108 million), Queensland (-$194 million), Western Australia (-$171 million) and South Australia (-$81 million).
  - Changes to the rural roads assessment were also significant, and for most States the effects of these changes offset the urban transport method changes, particularly for Victoria (-$281 million), Queensland ($251 million) and the Northern Territory ($70 million). However, for South Australia, changes to the rural roads assessment (-$28 million) reinforced the effects of the urban transport method change.
  - Investment needs for the ACT were reduced by $20 million due to method changes across several expense assessments including Health, Justice, rural roads and urban transport.

11 Overall, compared with the previous distribution, the method changes have redistributed $591 million away from Victoria, South Australia, Tasmania and the ACT to the other States.

## Stamp duty on conveyances

12 As a consequence of changes in the activity taxed by States, the Commission has changed the scope of the revenue that is differentially assessed. It decided to assess EPC duty on non-real property transactions, as it is imposed by only three States (Queensland, Western Australia and the Northern Territory) making it difficult to reliably estimate a tax base for those States

not imposing this duty.[5] Previously, that revenue had been differentially assessed. The Commission has decided to differentially assess duty on land rich transactions by listed companies[6], since seven States now impose this duty. Previously, that revenue was assessed EPC. The Commission has also removed two data adjustments. A change to the basis on which Victoria provides its transaction data means that an adjustment for its off-the-plan concession is no longer required, while an increasing alignment of tax policy across States means that downward adjustments to Queensland, Western Australia and South Australia in recognition of the treatment of unit trusts are also no longer required. The change to an EPC assessment of duty on non-real property transactions has caused the biggest change.

13 New South Wales, Victoria and Queensland are most affected by these changes. Together, the changes redistribute $292 million away from New South Wales, South Australia, Tasmania, the ACT and the Northern Territory to the other States.

## Services to communities

14 The assessment of Services to communities has changed mostly because of improved data for electricity and water subsidies and Indigenous community development expenses. These changes redistributed $252 million away from Queensland, Western Australia, South Australia, Tasmania and the Northern Territory, to New South Wales, Victoria and the ACT.

15 Electricity and water subsidies are now separately assessed, as the disabilities affecting these subsidies are different. Previously, the assessment of these expenses used the population in remote and very remote communities sized between 50 and 1,000 people to assess State needs.

- Electricity subsidies for remote communities are now assessed using the population in remote and very remote communities. The definition of remote communities includes all communities of more than 50 people.
- Water subsidies for small communities are now assessed using the population in small communities outside major cities, and the definition of small communities has been broadened to include communities of more than 50 but less than 3,000 people.

16 Assessed electricity subsidies for remote communities and water subsidies for small communities both have wage costs applied. The effects of regional costs, which have been derived using service specific State data, are also recognised. The split between electricity subsidies for remote communities and other electricity subsidies, and the split between water subsidies for small communities and other water subsidies, have been updated based on State data. The expense data will be updated on an annual basis.

17 The broadening of the definitions of communities receiving electricity subsidies and water subsidies was the main source of change. Broadening the definitions captures more communities in more States. Previously, service populations were more concentrated in Queensland, Western Australia, South Australia, Tasmania and the Northern Territory.

18 Indigenous community development expenses are sourced from State data and include general revenue assistance grants to Indigenous local governments. Despite including these grants, average spending on Indigenous community development fell by one third. This

[5] While New South Wales has abolished duties on most non-real property, it still imposes duty on plant and equipment.

[6] Most States impose duty on the acquisition of an interest in a company or trust with landholdings exceeding a specified value threshold, where that acquisition gives the acquirer an interest in the landholdings exceeding a specified proportion.

reduced the GST distribution to States with a relatively large proportion of their Indigenous population in discrete Indigenous communities, particularly the Northern Territory.

### Administrative scale

19 In this review, the Commission undertook a comprehensive review of its assessment of the minimum costs faced by States in preparing to deliver services, referred to as administrative scale.

20 The Commission has increased the administrative scale amounts across all categories. This reflects increasing levels of collaboration between the Commonwealth and State governments in several spheres, greater legislative and reporting requirements, and changes in the nature and use of information and communications technology.

21 The changes to the administrative scale amounts redistributed $224 million to the five least populous States and away from the more populous States.

### Other method changes

22 These redistributions reflect a range of changes (each of which individually has a relatively small impact) across other assessment categories. The effects for specific categories are described in the relevant chapters of Volume 2. Collectively these other method changes have redistributed $421 million, largely from Victoria and the ACT to Queensland and the Northern Territory.

## Data revisions

23 Data revisions for the three assessment years of the 2019 Update changed the redistribution by $397 million in this review. The largest revisions are shown in Table 2-4 and are described below.

Table 2-4 Major effects of data revisions, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Natural disaster relief | -173 | -207 | 342 | 103 | -68 | 1 | -21 | 23 | 468 |
| Property sales | -78 | 205 | 17 | -110 | -22 | -7 | -1 | -4 | 222 |
| Taxable land values | 101 | -41 | -20 | -37 | -3 | 0 | 0 | 0 | 101 |
| Other revisions | -125 | 155 | -68 | 13 | 39 | 20 | 3 | -37 | 230 |
| **Total data revision changes** | **-275** | **113** | **271** | **-31** | **-53** | **14** | **-19** | **-18** | **397** |

Source: Commission calculation.

### Natural disaster relief

24 The large revision in the natural disaster relief assessment is due to new information received by the Commission relating to funding arrangements between States and local government.

25 In the 2019 Update, the Commission removed local government expenses from the assessment because the Commission became aware that, while States were reporting large local government out of pocket expenses, it was unclear that the States were the ultimate funder of these expenses. In addition, an adjustment was made to correct for the previous inclusion of local government expenses in the 2015-16 and 2016-17 assessment years.

26 Information provided during this review showed that all States support local governments to fund natural disaster recovery, although the amounts may vary. The Commission decided that local government expenses for natural disaster relief should remain in the assessment, as States fund most of these expenses and they represent an unavoidable cost for States.

27 In this review, the Commission has unwound fully the adjustment to the assessment in the 2019 Update to remove local government net expenses. This unwinding has ensured that all eligible local government expenses are included in the assessment for three inquiries. For more information, see Chapter 23 Other expenses of Volume 2 of this report.

28 These changes have redistributed $468 million to Queensland, Western Australia, Tasmania and the Northern Territory, and away from the other States. This offset an adjustment in the 2019 Update that provided additional GST revenue in 2019-20 to New South Wales, Victoria, South Australia and the ACT.

### Property sales

29 Some States revised the value of transactions data they had previously provided. Victoria and Queensland revised their values down. New South Wales revised its values down in some years and up in others. The collective revisions redistributed $222 million to Victoria and Queensland from the other States.

### Taxable land values

30 Some States revised the value of taxable land data they had previously provided. New South Wales and Western Australia revised their values down. However, proportionally more of the revised transactions in Western Australia occurred in higher value ranges, increasing its relative revenue raising capacity. The revisions redistributed $101 million to New South Wales from other States.

## Changes in State circumstances

31 This section describes the main changes in circumstances since the 2019 Update — that is, the changes that occur when revised 2015-16 data are removed and replaced with 2018-19 data. Table 2-5 shows the effect of these changes across the different assessment areas.

Table 2-5 Composition of changes in State circumstances since the 2019 Update

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | 67 | -36 | 41 | -115 | -17 | 32 | -29 | 57 | 197 |
| Investment requirement | -44 | -8 | 100 | -22 | -31 | 6 | -12 | 11 | 117 |
| Net borrowing | 13 | 25 | -39 | 0 | 2 | -8 | 1 | 6 | 47 |
| Revenue capacity | 443 | 90 | -416 | -180 | 48 | 16 | 33 | -34 | 630 |
| Commonwealth payments | 116 | 209 | -164 | -13 | -174 | -1 | 1 | 27 | 352 |
| **Total circumstances changes** | **595** | **279** | **-477** | **-330** | **-172** | **45** | **-6** | **66** | **985** |

Source: Commission calculation.

32 The changes shown in Table 2-5 can be further disaggregated. Table 2-6 shows the individual drivers that made the largest contribution to the changes in State circumstances between the 2019 Update and the 2020 Review.

Table 2-6 Contribution to changes in State circumstances, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Mining production | 320 | 509 | -485 | -515 | 117 | 30 | 35 | -11 | 1,011 |
| Property sales | 348 | -179 | -70 | 48 | -84 | -24 | -12 | -27 | 396 |
| Taxable land values | -200 | -172 | 139 | 157 | 49 | 16 | 10 | 1 | 372 |
| Commonwealth payments | 116 | 209 | -164 | -13 | -174 | -1 | 1 | 27 | 352 |
| Wage costs | 126 | 45 | -44 | -88 | -41 | 17 | -12 | -2 | 188 |
| Capital requirement | -95 | 80 | 70 | -31 | -12 | 10 | 1 | -23 | 162 |
| Taxable payrolls | -12 | -60 | -4 | 108 | -32 | -3 | 0 | 3 | 111 |
| Other causes of change | -9 | -154 | 82 | 5 | 5 | 0 | -29 | 99 | 191 |
| **Total circumstances changes** | **595** | **279** | **-477** | **-330** | **-172** | **45** | **-6** | **66** | **985** |

Source: Commission calculation.

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

## Revenue including Commonwealth payments

### Mining production

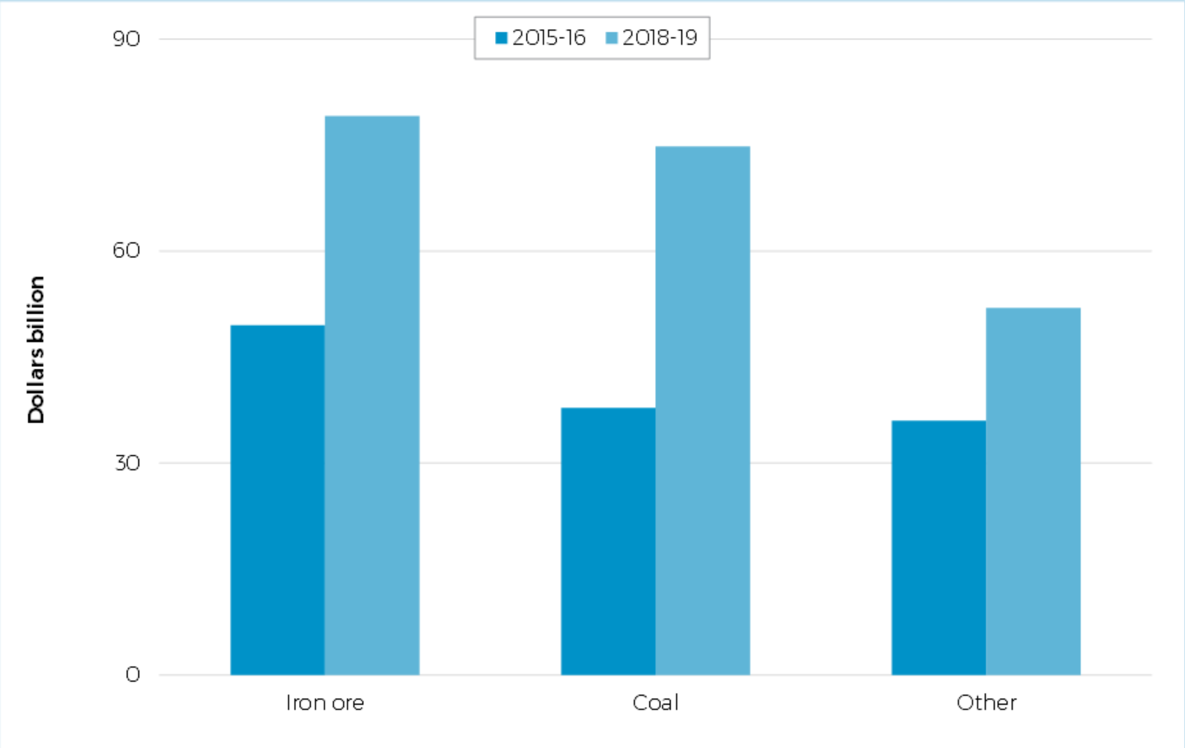
34 The uneven distribution between States of resource endowments and mining activity, together with price differences for different commodities, can produce large movements in the value of mining production from year to year. This can give rise to significant changes in relative fiscal capacities. Increases in the value of production for both coal and iron ore have increased the revenue raising capacities of Queensland and Western Australia, reducing their GST requirements by $485 million and $515 million, respectively. The changes increased the GST requirements of the other States, particularly those of New South Wales ($320 million) and Victoria ($509 million).

35 Between 2015-16 and 2018-19, States' value of mining production grew 67%. Figure 2-1 shows that iron ore and coal experienced bigger increases than other mineral production over the period.

36 ***Coal.*** Between 2015-16 and 2018-19, the value of coal production in Australia almost doubled, from $38 billion to $75 billion. As Queensland accounts for more than 60% of the value of Australia’s coal production, this affected its revenue raising capacity most.

37 ***Iron ore.*** Between 2015-16 and 2018-19, the value of iron ore production in Australia grew by 60%, from $50 billion to $79 billion. As Western Australia accounts for 99% of the value of Australia's iron ore production, this affected its revenue raising capacity most.

Figure 2-1 Mining value of production, selected minerals, 2015-16 and 2018-19




Source: State provided data.

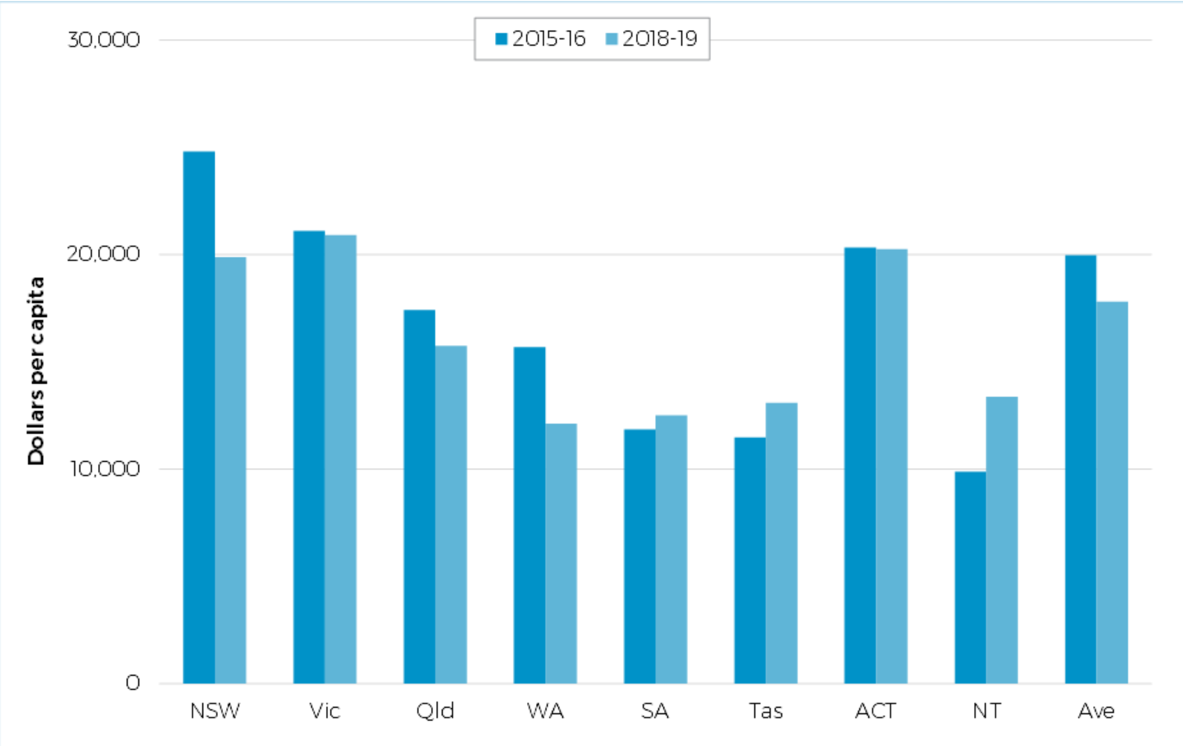
## Property sales

38 Stamp duties raised from the transfer of property are volatile. Property market cycles can lead to big changes across years and States, which can substantially affect their relative fiscal capacities. The Commission uses data on the per capita value of taxable property transfers as its measure of States' capacities to raise revenue from stamp duty on conveyances.

39 Figure 2-2 shows the change in States' per capita value of property transferred between 2015-16 and 2018-19. Over that period, the per capita value of property transferred fell nationally by 11%. The per capita value of property transferred in New South Wales and Western Australia fell by more than the average. Per capita values in Queensland fell by slightly less than the average and the per capita values in the other States fell by less than the average or grew.

40 These differences in per capita growth rates reduced the revenue raising capacities of New South Wales and Western Australia, increasing their GST requirements by $348 million and $48 million, respectively. Conversely, the revenue raising capacities of other States increased, leading to a reduction in the GST requirements of Victoria ($179 million), Queensland ($70 million), South Australia ($84 million) and Tasmania ($24 million).

Figure 2-2 Value of property transfers per capita, 2015-16 and 2018-19

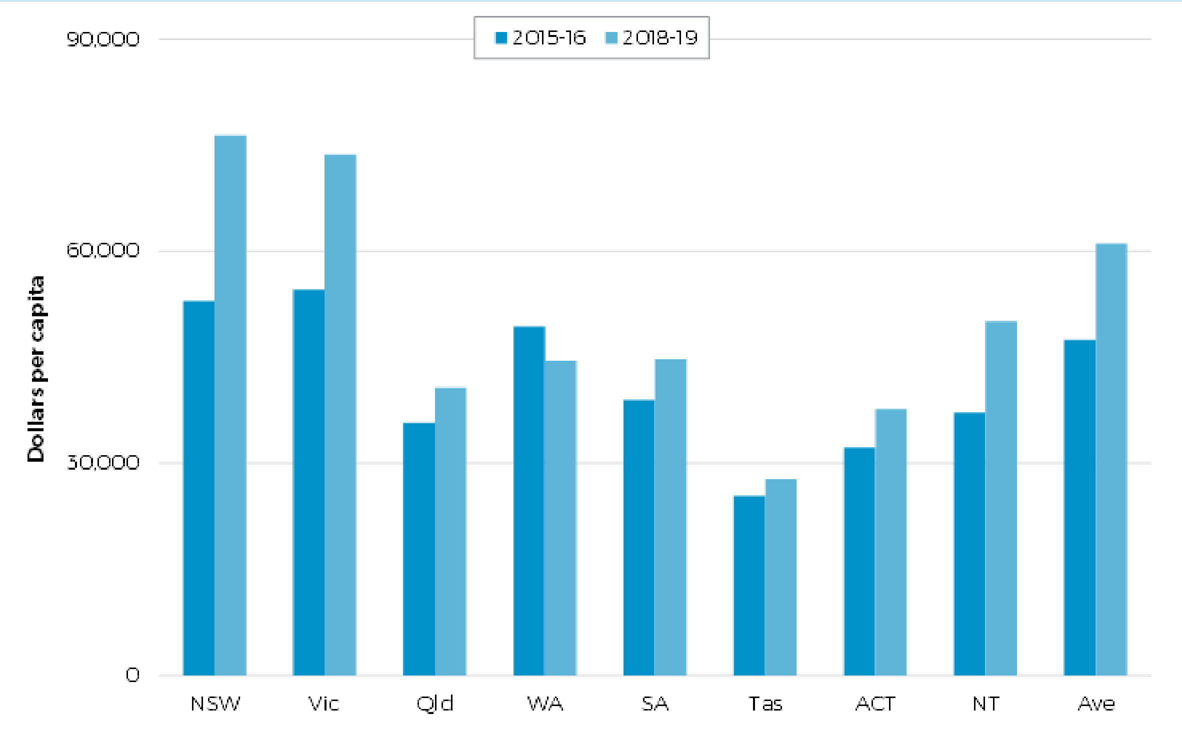



Note: Total value of taxable property transfers in a State divided by the resident population in that State.
Source: State provided data.

## Taxable land values

41 Property market cycles change State land values and their land tax capacities. Figure 2-3 shows the change in States' per capita taxable land values between 2015-16 and 2018-19. Over that period, most States experienced growth in the per capita value of their taxable land. New South Wales (44%) and Victoria (35%) experienced growth in excess of the average (29%), increasing their revenue raising capacities. Consequently, the GST requirements of New South Wales and Victoria were reduced by $200 million and $172 million, respectively. The GST requirements of the other States rose, particularly Queensland ($139 million) and Western Australia ($157 million). Overall, the changes redistributed $372 million.

Figure 2-3 Taxable land values per capita by State, 2015-16 and 2018-19




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

Source: State provided data.

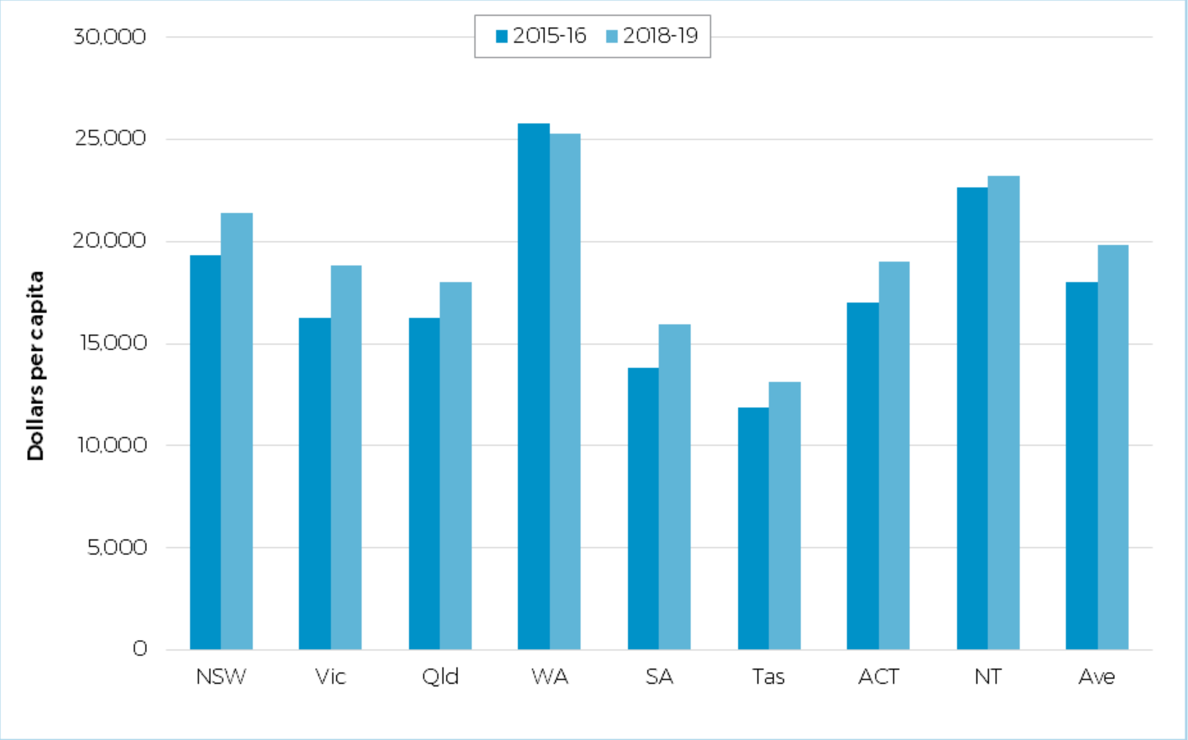
## Taxable payrolls

42 Changes in States' capacities to raise payroll tax redistributed $111 million in GST revenue. The redistribution was driven by differences across States in the rate of growth of taxable payrolls between 2015-16 and 2018-19. These differences are shown in Figure 2-4.

43 The Commission uses Australian Bureau of Statistics (ABS) Compensation of Employees (CoE) data to measure States' payroll tax bases. National average growth in taxable CoE per capita between 2015-16 and 2018-19 was 10%. New South Wales, Victoria, Queensland, South Australia, Tasmania and the ACT had above average growth in CoE over the period, increasing their capacities to raise payroll tax and reducing their GST shares.

44 Western Australia and the Northern Territory's taxable CoE per capita changed little between 2015-16 to 2018-19, reducing their relative capacity to raise payroll tax and increasing their GST shares. While Western Australia had the highest per capita taxable CoE of any State, the difference between Western Australia and the other States declined over the period.

Figure 2-4 Taxable compensation of employees per capita by State, 2015-16 and 2018-19




Source: Commission calculation based on Australian Bureau of Statistics (ABS) data.

## Commonwealth payments

45 As well as the GST, the Commonwealth makes other payments to the States for specific purposes (PSPs). Equalising the fiscal capacity of the States to provide services requires that the Commission take account of the total expenditure and investment each State would incur to provide the average level of services and the revenue available to finance it. This includes the revenue States can collect from their own tax bases under average policies and the revenue they receive through PSPs.[7] To the extent that a State receives above average per capita amounts of PSPs, less GST is required to equalise its fiscal capacity. Conversely, if a State receives below average amounts of PSPs, it requires more GST.

46 Between 2015-16 and 2018-19, there were changes in the amounts paid and the interstate distribution of some PSPs, particularly payments for road and rail infrastructure, National health reform and Quality schools (government schools component), which had flow-on effects for the GST distribution. In addition, new and ceased payments in 2018-19 also affect the GST distribution, such as the cessation of the payment under the National Partnership on Remote Indigenous Housing.[8]

47 The main payments causing changes in the GST distribution in this review are shown in Table 2-7.

Table 2-7 Changes in the illustrative GST distribution due to changes in Commonwealth payments, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| National Health Reform funding | 72 | 134 | -267 | 0 | 61 | 13 | 1 | -14 | 281 |
| Road infrastructure - National Network | 108 | 14 | 13 | -15 | -123 | 2 | 1 | 0 | 138 |
| Rail infrastructure - National Network | 7 | 11 | 51 | 5 | -78 | 2 | 1 | 0 | 78 |
| Remote Indigenous housing | -21 | -29 | 20 | 20 | -2 | -2 | -2 | 17 | 57 |
| Quality Schools - government | -22 | 37 | -15 | 0 | 3 | 3 | 2 | -8 | 45 |
| Road infrastructure - Other Roads | 1 | 31 | 8 | -19 | -19 | -4 | 0 | 0 | 41 |
| Health and hospital fund | -16 | 22 | -12 | -2 | -3 | -5 | -1 | 17 | 38 |
| Investment Growth Package - new investments | -15 | -12 | 26 | -2 | -3 | 0 | 1 | 5 | 32 |
| Skilling Australians Fund | -16 | 13 | 10 | -1 | -3 | -1 | -1 | 0 | 23 |
| Sustainable Rural Water Use and Infrastructure Program | 8 | -17 | 10 | 3 | 1 | -2 | -3 | 0 | 23 |
| Other | 10 | 3 | -8 | -2 | -8 | -8 | 2 | 10 | 25 |
| **Total** | **116** | **209** | **-164** | **-13** | **-174** | **-1** | **1** | **27** | **352** |

Source: Commission calculation.

[7] Not all PSPs are included in the Commission's 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').

[8] The National Partnership Agreement on Remote Indigenous Housing finished in 2017-18. In 2018-19, some States received one-off payments to assist the transition of responsibilities for funding remote housing to them. Payments to these States were excluded from the Commission's calculations, as directed by the terms of reference and the Commission's decisions.

# Expenditure

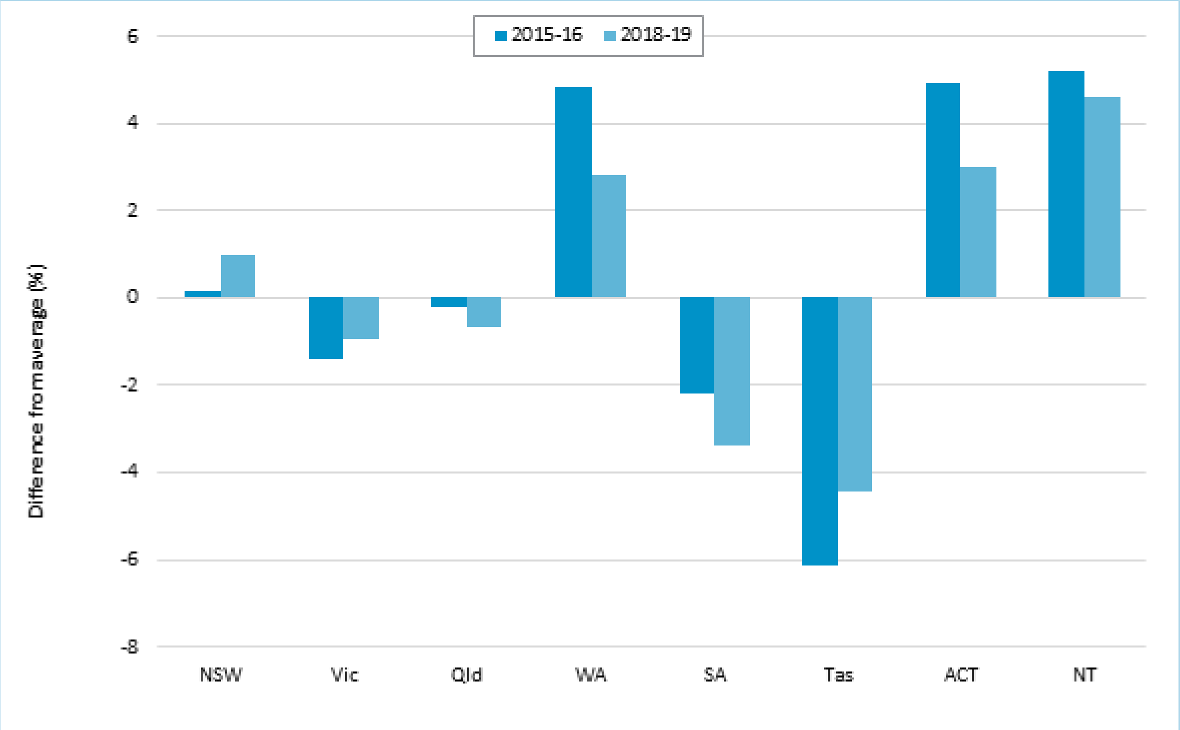
## Wage costs

48 Variation in wage levels outside the control of States drives differences between States in the cost of delivering the average level of services. The Commission measures the relative wage levels in each State using an econometric model based on private sector data from the ABS Characteristics of Employment survey (CoES). The model controls for differences between States in industry and occupation structure, as well as employee characteristics known to affect wages.

49 Between 2015-16 and 2018-19, relative wage levels increased in New South Wales, Victoria and Tasmania, increasing their GST requirements. Relative wage levels declined in the other States over the period, reducing their GST requirements.

50 Figure 2-5 shows the change in relative wage levels between 2015-16 and 2018-19.

Figure 2-5 Change in relative wage levels between 2015-16 and 2018-19




Source: Commission calculation based on the Characteristics of Employment survey (CoES).

## Capital requirement

51 Between 2015-16 and 2018-19, the Northern Territory's population growth slowed. This translated into much slower growth, or even decline, in user populations for most services. Consequently, its assessed capital requirements were considerably lower in 2018-19 than in 2015-16.

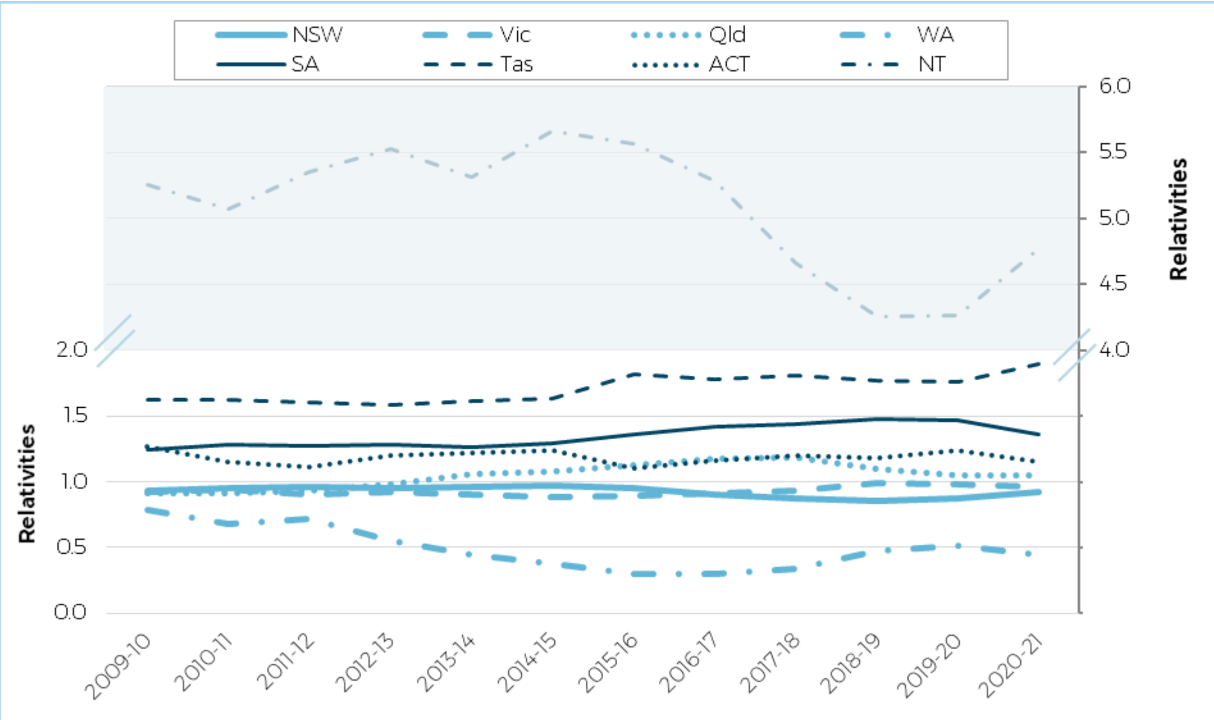
52 Capital requirements in relation to urban transport investment also changed between 2015-16 and 2018-19. New South Wales had a slight decline in its share of urban transport needs over the period, while Victoria's and Queensland's shares grew.

# 3 State by State changes

1 This chapter sets out the major causes of change in each State's relative fiscal capacity since the 2019 Update. As mentioned in the previous chapter, changes in assessed fiscal capacities have resulted from changes in some of the assessment methods used by the Commission, revisions to some of the data used in the assessments, and changes in States' economic and demographic circumstances.

2 Figure 3-1 shows the changes in States' relative fiscal capacities since 2009-10. Chapter 4 provides detailed explanations for why States' relative fiscal capacities differ.

Figure 3-1 Relativities used for distributing the GST, 2009-10 to 2020-21




Notes: The relativities are derived on the basis of a pool comprising GST only.
The relativities in 2010-11, 2015-16 and 2020-21 included the impacts of methodology reviews.

Source: Commission calculation.

# New South Wales

New South Wales' fiscal capacity has weakened due to an increase in its assessed costs of providing urban public transport services, as well as below average growth in the value of property sales and a fall in its relative capacity to raise mining revenue due to growth in the value of mining production in other States. These changes were partially offset by changes to the scope of the stamp duty assessment, above average growth in its taxable land values, and revisions to State natural disaster relief expenses. New South Wales' reduced fiscal capacity will see its GST share increase from 27.8% to 29.3%. Combined with pool growth, its GST entitlement in 2020-21 will rise by $1,640 million, or 9.0%.

Table 3-1 Change in illustrative GST distribution since the 2019 Update, New South Wales

| | $m | $pc |
|---|---|---|
| New population | -3 | 0 |
| Growth in GST available | 612 | 74 |
| Changes in relative fiscal capacity | 1,031 | 124 |
| Method changes | 711 | 86 |
| Data revisions | -275 | -33 |
| State circumstances | 595 | 72 |
| **Total change** | **1,640** | **198** |

Note: Table may not add due to rounding.
Source: Commission calculation.

Figure 3-2 Main changes for New South Wales, 2020 Review

### Method changes

**$896m** — **Transport.** A revised assessment that better captures the influences of population density and other characteristics on urban public transport expenses has increased New South Wales' GST share.

**−$232m** — **Stamp duty on conveyances.** Changes to the scope of property transfers included in the category reduced New South Wales' GST share.

**$128m** — **Services to communities.** Improved data for electricity and water subsidies and for Indigenous community development expenses reduced the influence of this assessment, increasing New South Wales' GST share.

### Data revisions

**−$173m** — **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has reduced New South Wales' GST share in 2020-21, offsetting a similar increase in 2019-20.

### Changes in State circumstances between 2015-16 and 2018-19

**$348m** — **Property sales.** Below average growth in property sales reduced New South Wales' revenue raising capacity and increased its GST share.

**$320m** — **Mining production.** Growth in the value of mining production in other States reduced New South Wales' relative revenue raising capacity, increasing its GST share.

**−$200m** — **Taxable land values.** Above average growth in taxable land values increased New South Wales' revenue raising capacity and reduced its GST share.

Source: Commission calculation.

## Victoria

Victoria's fiscal capacity has strengthened due to reduced investment needs, lower assessed costs of providing urban public transport, revisions to State natural disaster relief expenses, and above average growth in property sales. These changes were partly offset by a fall in its relative capacity to raise mining revenue, a lower share of Commonwealth payments and downward revisions to the value of property sales in earlier years. Victoria's increased fiscal capacity will reduce its GST share from 25.7% to 25.2%. Combined with pool growth, its GST entitlement in 2020-21 will rise by $269 million, or 1.6%.

Table 3-2 Change in illustrative GST distribution since the 2019 Update, Victoria

| | $m | $pc |
|---|---|---|
| New population | 111 | 16 |
| Growth in GST available | 569 | 83 |
| Changes in relative fiscal capacity | -410 | -60 |
| Method changes | -802 | -117 |
| Data revisions | 113 | 16 |
| State circumstances | 279 | 41 |
| **Total change** | **269** | **39** |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-3 Main changes for Victoria, 2020 Review

### Method changes

**−$485m** **Investment.** A reduction in Victoria's assessed investment needs for rural roads, and bridges and tunnels, has reduced its GST share.

**−$261m** **Transport.** A revised assessment that better captures the influences of population density and other characteristics on urban public transport expenses has reduced Victoria's GST share.

### Data revisions

**−$207m** **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has reduced Victoria's GST share in 2020-21, offsetting a similar increase in 2019-20.

**$205m** **Property sales.** Downward revisions to Victoria's property sales, along with revisions in other States, collectively reduced Victoria's revenue raising capacity and increased its GST share.

### Changes in State circumstances between 2015-16 and 2018-19

**$509m** **Mining production.** Growth in the value of mining production in other States reduced Victoria's relative revenue raising capacity, increasing its GST share.

**$209m** **Commonwealth payments.** Victoria's share of payments was lower in 2018-19 than in 2015-16, mainly due to lower shares of payments for health and schools. This increased its GST share.

**−$179m** **Property sales.** Above average growth in property sales increased Victoria's revenue raising capacity and reduced its GST share.

Source: Commission calculation.

# Queensland

Queensland's fiscal capacity has strengthened due to an increase in its capacity to raise coal royalties, lower assessed costs of providing urban public transport services and a greater share of Commonwealth payments. These changes were partly offset by revisions to State natural disaster relief expenses, an increase in assessed rural road investment, and changes to the scope of the stamp duty assessment. Compared with 2019-20, the State's GST share will fall slightly from 21.2% to 21.1%. Combined with pool growth, its GST entitlement in 2020-21 will rise by $418 million, or 3.0%.

Table 3-3 Change in illustrative GST distribution since the 2019 Update, Queensland

| | $m | $pc |
|---|---|---|
| New population | 18 | 3 |
| Growth in GST available | 467 | 89 |
| Changes in relative fiscal capacity | -67 | -13 |
| Method changes | 139 | 27 |
| Data revisions | 271 | 52 |
| State circumstances | -477 | -91 |
| **Total change** | **418** | **80** |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-4 Main changes for Queensland, 2020 Review

### Method changes

**−$340m** **Transport.** A revised assessment that better captures the influences of population density and other characteristics on urban public transport expenses has reduced Queensland's GST share.

**$287m** **Investment.** An increase in Queensland's assessed investment needs for rural roads has increased its GST share.

**$165m** **Stamp duty on conveyances.** Changes to the scope of property transfers included in the category has increased Queensland's GST share.

### Data revisions

**$342m** **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has increased Queensland's GST share in 2020-21, offsetting a similar reduction in 2019-20.

### Changes in State circumstances between 2015-16 and 2018-19

**−$485m** **Mining production.** Growth in the value of coal production increased Queensland's relative revenue raising capacity, reducing its GST share.

**−$164m** **Commonwealth payments.** Queensland's share of payments was greater in 2018-19 than in 2015-16, mainly due to higher shares of payments for health and schools, partially offset by its lower share of payments for rail infrastructure. Overall, this reduced Queensland's GST share.

**$139m** **Taxable land values.** Below average growth in taxable land values reduced Queensland's revenue raising capacity and increased its GST share.

Source: Commission calculation.

## Western Australia

Western Australia's fiscal capacity has strengthened due to a further increase in its capacity to raise iron ore royalties, lower assessed costs of providing urban public transport services, and revised data on the value of property sales. These changes were partly offset by below average growth in taxable land values and taxable payrolls, revisions to State natural disaster relief expenses and above average mining regulation expenses. Western Australia's stronger fiscal capacity will reduce its GST share from 5.3% to 4.6%. Growth in the GST pool does not offset the impact of the State's improved fiscal capacity, and its GST entitlement will fall by $385 million, or 11.0%. (The Commonwealth will be making supplementary payments to Western Australia to deliver an outcome equivalent to a relativity of 0.7. See Chapter 1, paragraph 2).

Table 3-4 Change in illustrative GST distribution since the 2019 Update, Western Australia

| | $m | $pc |
|---|---|---|
| New population | -26 | -10 |
| Growth in GST available | 116 | 44 |
| Changes in relative fiscal capacity | -475 | -179 |
| Method changes | -114 | -43 |
| Data revisions | -31 | -12 |
| State circumstances | -330 | -124 |
| **Total change** | **-385** | **-145** |

Note: Table may not add due to rounding.
Source: Commission calculation.

Figure 3-5 Main changes for Western Australia, 2020 Review

**Method changes**

**−$230m** **Transport.** A revised assessment that better captures the influences of population density and other characteristics on urban public transport expenses has reduced Western Australia's GST share.

**$117m** **Services to industry.** A separate assessment of mining regulation expenses and discontinuation of the assessment of major project regulation increased Western Australia's GST share.

**Data revisions**

**−$110m** **Property sales.** Revised data on the value of property sales showing a higher proportion of sales in higher value ranges, along with downward revisions by other States, reduced Western Australia's GST share.

**$103m** **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has increased Western Australia's GST share in 2020-21, offsetting a similar reduction in 2019-20.

**Changes in State circumstances between 2015-16 and 2018-19**

**−$515m** **Mining production.** Growth in the value of iron ore production increased Western Australia's relative revenue raising capacity, reducing its GST share.

**$157m** **Taxable land values.** Below average growth in taxable land values reduced Western Australia's revenue raising capacity and increased its GST share.

**$108m** **Taxable payrolls.** Below average growth in taxable payrolls reduced Western Australia's revenue raising capacity and increased its GST share.

Source: Commission calculation.

## South Australia

South Australia's fiscal capacity has strengthened due to an increase in its share of Commonwealth payments, lower assessed costs of providing urban public transport and school services, a lower investment requirement, revisions to State natural disaster relief expenses and above average growth in property sales. These changes were partially offset by a reduced capacity to raise mining revenue relative to other States. Compared with 2019-20, the State's share of GST will decrease from 10.1% to 9.3%. Growth in the GST pool does not offset the impact of South Australia's improved fiscal capacity, and its GST entitlement will fall by $332 million, or 5.0%.

Table 3-5 Change in illustrative GST distribution since the 2019 Update, South Australia

| | $m | $pc |
|---|---|---|
| New population | -53 | -30 |
| Growth in GST available | 220 | 124 |
| Changes in relative fiscal capacity | -499 | -282 |
| Method changes | -274 | -154 |
| Data revisions | -53 | -30 |
| State circumstances | -172 | -97 |
| **Total change** | **-332** | **-188** |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-6 Main changes for South Australia, 2020 Review

**Method changes**

**−$103m** **Transport.** A revised assessment that better captures the influences of population density and other characteristics on urban public transport expenses has reduced South Australia's GST share.

**−$81m** **School education.** Changes from an area based measure to a student based measure of socio-economic disadvantage have reduced South Australia's GST share.

**−$70m** **Investment.** A decrease in South Australia's assessed investment needs for urban transport has reduced its GST share.

**Data revisions**

**−$68m** **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has reduced South Australia's GST share in 2020-21, offsetting a similar increase in 2019-20.

**Changes in State circumstances between 2015-16 and 2018-19**

**−$174m** **Commonwealth payments.** South Australia's share of payments was higher in 2018-19 than in 2015-16, mainly due to higher shares of payments for road and rail infrastructure. This reduced its GST share.

**$117m** **Mining production.** Growth in the value of mining production in other States reduced South Australia's relative revenue raising capacity, increasing its GST share.

**−$84m** **Property sales.** Above average growth in property sales increased South Australia's revenue raising capacity and reduced its GST share.

Source: Commission calculation.

# Tasmania

Tasmania's fiscal capacity has weakened due to higher assessed administrative scale costs, an increase in the cost of admitted patient, police and other services in regional areas, and a lower relative capacity to raise mining revenue and land tax. These changes were partly offset by above average growth in the value of property sales. Tasmania's weaker fiscal capacity will see its GST share rise from 3.7% to 4.0%. Combined with pool growth, its GST entitlement in 2020-21 will rise by $271 million, or 11.2%.

Table 3-6 Change in illustrative GST distribution since the 2019 Update, Tasmania

| | $m | $pc |
|---|---|---|
| New population | -10 | -19 |
| Growth in GST available | 81 | 149 |
| Changes in relative fiscal capacity | 200 | 367 |
| Method changes | 141 | 259 |
| Data revisions | 14 | 25 |
| State circumstances | 45 | 83 |
| **Total change** | **271** | **497** |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-7 Main changes for Tasmania, 2020 Review

**Method changes**

| | |
|---|---|
| $60m | **Administrative scale.** An increase in minimum costs faced by States in preparing to deliver services, known as administrative scale, increased Tasmania's GST share. |
| $42m | **Location adjustment.** Discontinuing the assessment of interstate non-wage costs increased Tasmania's GST share. |
| $33m | **Police.** An improved assessment of the cost of policing, better recognising the higher costs of policing in regional areas, has increased Tasmania's GST share. |
| $18m | **Land tax.** Reducing the discount reduced Tasmania's relative revenue raising capacity and increased its GST share. |

**Changes in State circumstances between 2015-16 and 2018-19**

| | |
|---|---|
| $30m | **Mining production.** Growth in the value of mining production in other States reduced Tasmania's relative revenue raising capacity, increasing its GST share. |
| −$24m | **Property sales.** Above average growth in property sales increased Tasmania's revenue raising capacity and reduced its GST share. |
| $22m | **Population dispersion.** Between 2015-16 and 2018-19, the cost of providing services in inner and outer regional areas − in particular to admitted patients − rose, increasing Tasmania's GST share. |

Source: Commission calculation.

## Australian Capital Territory

The ACT's fiscal capacity has strengthened due to lower assessed investment needs, lower assessed costs of providing health and justice services and revisions to State natural disaster relief expenses. These changes were partly offset by an increase in assessed administrative scale costs and growth in the value of mining production in other States that reduced its relative capacity to raise revenue. Compared with 2019-20, the ACT's GST share will fall from 2.1% to 2.0%. Growth in the GST pool does not offset the impact of the ACT's improved fiscal capacity, and its GST entitlement in 2020-21 will fall by $49 million, or 3.6%.

Table 3-7 Change in illustrative GST distribution since the 2019 Update, ACT

| | $m | $pc |
|---|---|---|
| New population | 5 | 11 |
| Growth in GST available | 46 | 105 |
| Changes in relative fiscal capacity | -99 | -226 |
| Method changes | -74 | -168 |
| Data revisions | -19 | -44 |
| State circumstances | -6 | -14 |
| **Total change** | **-49** | **-110** |

Notes: Table may not add due to rounding.
Numerous small changes to the ACT's circumstances more than offset the increase in its GST share due to mining production in other States (shown in Figure 3-8).

Source: Commission calculation.

Figure 3-8 Main changes for the ACT, 2020 Review

**Method changes**

**$64m** **Administrative scale.** An increase in minimum costs faced by States in preparing to deliver services, known as administrative scale, increased the ACT's GST share.

**−$42m** **Location adjustment.** Discontinuing the assessment of interstate non-wage costs reduced the ACT's GST share.

**−$30m** **Investment.** Method changes across a range of expense areas reduced the ACT's investment requirement.

**−$30m** **Health.** Changes to the measurement of remoteness and a reduction in the cross-border allowance for community health reduced the ACT's relative health costs and its GST share.

**−$23m** **Police.** An improved assessment of the cost of policing, better recognising the higher costs of policing in regional areas, has reduced the ACT's GST share.

**Data revisions**

**−$21m** **Natural disaster relief.** Including State-funded local government natural disaster relief expenses has reduced the ACT's GST share in 2020-21, offsetting a similar increase in 2019-20.

**Changes in State circumstances between 2015-16 and 2018-19**

**$35m** **Mining production.** Growth in the value of mining production in other States reduced the ACT's relative revenue raising capacity, increasing its GST share.

Source: Commission calculation.

## Northern Territory

The Northern Territory's fiscal capacity has weakened due to higher assessed investment needs for health and rural roads, an increase in assessed administrative scale costs and a relative increase in the cost of providing services to Indigenous people. These changes were partly offset by a decrease in its assessed utility subsidies and Indigenous community development expenses. The Northern Territory's weaker fiscal capacity will see its GST share increase from 4.1% to 4.5%. Combined with pool growth, its GST entitlement will rise by $368 million, or 13.7%.

Table 3-8 Change in illustrative GST distribution since the 2019 Update, Northern Territory

| | $m | $pc |
|---|---|---|
| New population | -42 | -169 |
| Growth in GST available | 89 | 361 |
| Changes in relative fiscal capacity | 320 | 1,302 |
| Method changes | 272 | 1,108 |
| Data revisions | -18 | -73 |
| State circumstances | 66 | 268 |
| **Total change** | **368** | **1,495** |

Notes: Table may not add due to rounding.
The change in GST shown here does not take into account supplementary payments made to the Northern Territory by the Commonwealth in 2019-20.

Source: Commission calculation.

Figure 3-9 Main changes for the Northern Territory, 2020 Review

### Method changes

**$176m** — **Investment.** An increase in the Northern Territory's assessed investment needs for health and rural roads increased its GST share.

**−$150m** — **Services to communities.** Improved data for electricity and water subsidies and Indigenous community development expenses reduced the Northern Territory's GST share.

**$79m** — **Health.** Changes to the measurement of the effects of remoteness on hospital and community health services increased the Northern Territory's assessed health costs and its GST share.

**$67m** — **Location adjustment.** Discontinuing the assessment of interstate non-wage costs increased the Northern Territory's GST share.

**$56m** — **Administrative scale.** An increase in minimum costs faced by States in preparing to deliver services, known as administrative scale, increased the Northern Territory's GST share.

### Changes in State circumstances between 2015-16 and 2018-19

**$35m** — **Indigenous status.** A relative increase in the cost of providing justice, health and welfare services to Indigenous people increased the Northern Territory's GST share.

**$35m** — **Capital improvements.** An increase in the level of investment in rural roads increased the Northern Territory's GST share.

Source: Commission calculation.

# 4 Why State relative fiscal capacities differ

## Differences in State fiscal capacities

1 Differences between the States in economic, social and demographic characteristics affect their expenditures and revenues, and contribute to differences in fiscal capacities.[9] Table 4-1 shows how these differences contribute to differences in the recommended GST distribution.

Table 4-1 Difference from an equal per capita distribution of GST, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Expense requirement | -1,144 | -4,689 | 1,295 | 1,412 | 181 | 725 | -195 | 2,415 | 6,028 |
| Investment requirement | 89 | 263 | 15 | -136 | -405 | -129 | -92 | 394 | 762 |
| Net borrowing | 22 | -174 | -14 | 86 | 60 | 11 | -6 | 15 | 194 |
| Revenue capacity | -1,079 | 2,763 | 276 | -5,149 | 2,057 | 755 | 376 | 1 | 6,229 |
| Commonwealth payments (a) | 376 | 1,152 | -882 | 0 | -236 | -89 | 91 | -412 | 1,619 |
| **Total** | **-1,736** | **-685** | **690** | **-3,788** | **1,656** | **1,274** | **175** | **2,414** | **6,208** |

(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.

2 The main economic and demographic factors causing differences in State fiscal capacities are shown in Table 4-2. It shows, for example, that Victoria needs an additional $3,531 million in GST above an EPC share to recognise its below average capacity to raise revenue from mining, while Western Australia needs $5,319 million less than an EPC share of GST due to its high capacity to raise mining revenue. This chapter describes the main influences that cause differences in States' relative fiscal capacities.

[9] Chapter 2 and Chapter 3 explained how the Commission's assessment of State fiscal capacities changed between the 2019 Update and the 2020 Review. This chapter describes the underlying sources of difference in States' fiscal capacities causing the GST to deviate from an equal per capita distribution.

Table 4-2 Drivers of difference from an equal per capita distribution of GST, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| **EFFECTS OF REVENUE RAISING CAPACITY** | | | | | | | | | |
| Mining production | 2,346 | 3,531 | -1,629 | -5,319 | 675 | 224 | 241 | -69 | 7,017 |
| Property sales | -1,926 | -730 | 749 | 934 | 665 | 206 | 3 | 98 | 2,656 |
| Taxable payrolls | -705 | 334 | 501 | -710 | 434 | 193 | 2 | -49 | 1,464 |
| Taxable land values | -919 | -493 | 718 | 65 | 378 | 140 | 94 | 16 | 1,412 |
| Other revenue effects | 125 | 121 | -64 | -119 | -96 | -8 | 35 | 5 | 287 |
| **TOTAL REVENUE** | **-1,079** | **2,763** | **276** | **-5,149** | **2,057** | **755** | **376** | **1** | **6,229** |
| **EFFECTS OF EXPENSE REQUIREMENTS** | | | | | | | | | |
| Socio-demographic characteristics | | | | | | | | | |
| Population dispersion | -1,559 | -1,339 | 824 | 547 | 86 | 452 | -211 | 1,199 | 3,108 |
| Indigenous status | 114 | -1,802 | 782 | 208 | -155 | 131 | -71 | 792 | 2,028 |
| Non-Indigenous disadvantage | 24 | -172 | 196 | -188 | 360 | 134 | -247 | -107 | 714 |
| Other SDC (a) | 184 | -378 | -41 | 46 | 247 | -15 | -46 | 4 | 480 |
| **Total SDC** | **-1,237** | **-3,691** | **1,761** | **613** | **538** | **703** | **-574** | **1,888** | **5,503** |
| Urban centre characteristics | 1,217 | 393 | -720 | -284 | -270 | -193 | -64 | -81 | 1,611 |
| Administrative scale | -565 | -391 | -217 | 64 | 163 | 305 | 313 | 328 | 1,173 |
| Wage costs | 293 | -152 | -217 | 304 | -295 | -186 | 115 | 137 | 849 |
| Non-State sector | -341 | -218 | 171 | 279 | -17 | 40 | 95 | -8 | 585 |
| Other expenses | -512 | -630 | 517 | 435 | 62 | 57 | -80 | 151 | 1,222 |
| **TOTAL EXPENSES** | **-1,144** | **-4,689** | **1,295** | **1,412** | **181** | **725** | **-195** | **2,415** | **6,028** |
| **INVESTMENT** | | | | | | | | | |
| Capital requirement | -45 | 956 | -58 | -487 | -298 | -47 | 16 | -36 | 972 |
| Capital improvements | 101 | -430 | 49 | 150 | -24 | -31 | -125 | 310 | 610 |
| Cost of construction | 55 | -437 | 10 | 287 | -23 | -39 | 13 | 135 | 500 |
| **TOTAL INVESTMENT (b)** | **111** | **89** | **1** | **-50** | **-345** | **-118** | **-97** | **409** | **610** |
| **TOTAL EXPENSE AND INVESTMENT** | **-1,033** | **-4,600** | **1,295** | **1,361** | **-164** | **608** | **-292** | **2,825** | **6,089** |
| Commonwealth payments | 376 | 1,152 | -882 | 0 | -236 | -89 | 91 | -412 | 1,619 |
| **TOTAL** | **-1,736** | **-685** | **690** | **-3,788** | **1,656** | **1,274** | **175** | **2,414** | **6,208** |

Note: For further explanation of what each effect includes see Volume 2 of this report.

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

(b) Includes the effect of net borrowing.

Source: Commission calculation.

# Drivers of fiscal differences

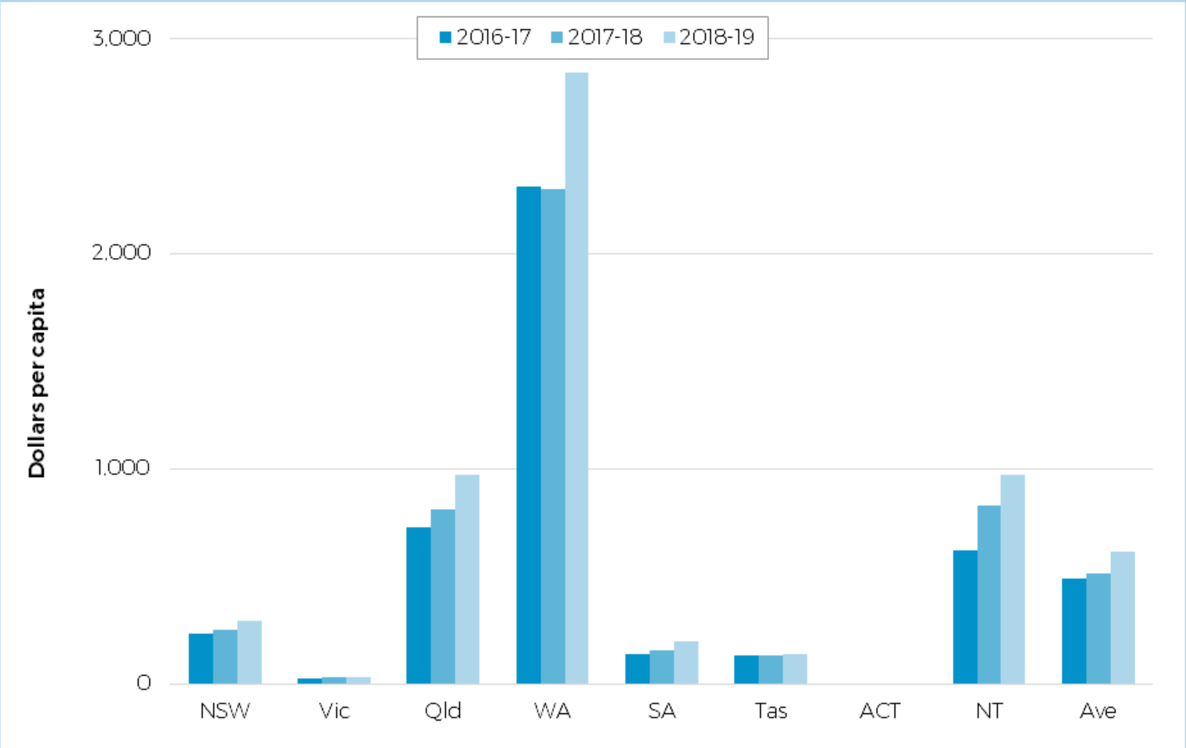
## Revenue

### Mining revenue

3 Mining activity is unevenly distributed across the States, much more than other revenue bases. It is responsible for $7 billion being redistributed due to differences in States' capacity to raise mining revenue. It is the largest single driver of differences in State capacities. States raised $15.5 billion from mining royalties in 2018-19.

4 Given the value of mining production in 2016-17 to 2018-19 and the royalty rates States typically apply to different minerals, Western Australia is assessed to be able to raise 48% of the revenue States raised from this source, even though it had only 10% of the Australian population. Queensland and the Northern Territory are also assessed to have the capacity to earn above average per capita revenue from mining. Figure 4-1 shows the difference in States' assessed mining capacity.

Figure 4-1 Assessed mining revenue per capita by State, 2016-17 to 2018-19



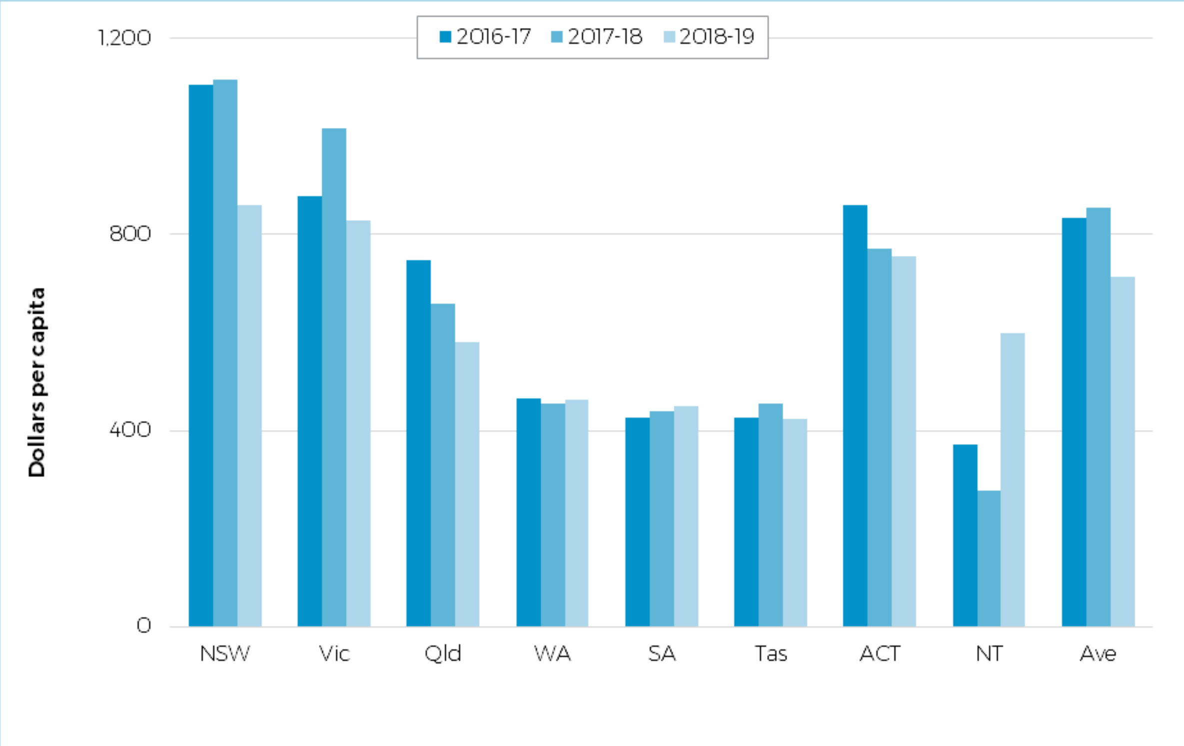

Source: Commission calculation.

## Property sales

5 Differences in State property market cycles and values affect the revenue they raise from conveyance duty. Differences in the capacity to raise conveyance duty redistributed $2.7 billion. States raised $17.9 billion from conveyance duty in 2018-19.

6 Despite a decline in the latest assessment year, New South Wales and Victoria have higher per capita values of property transferred than other States. Consequently, they were assessed to be able to raise 69% of the revenue raised from this source, even though they have only 58% of the Australian population. The ACT is also assessed to have the capacity to earn above average per capita revenue from conveyance duty in both 2016-17 and 2018-19. Figure 4-2 shows the difference in States' per capita assessed conveyance revenue capacity.

Figure 4-2 Assessed conveyance revenue per capita by State, 2016-17 to 2018-19



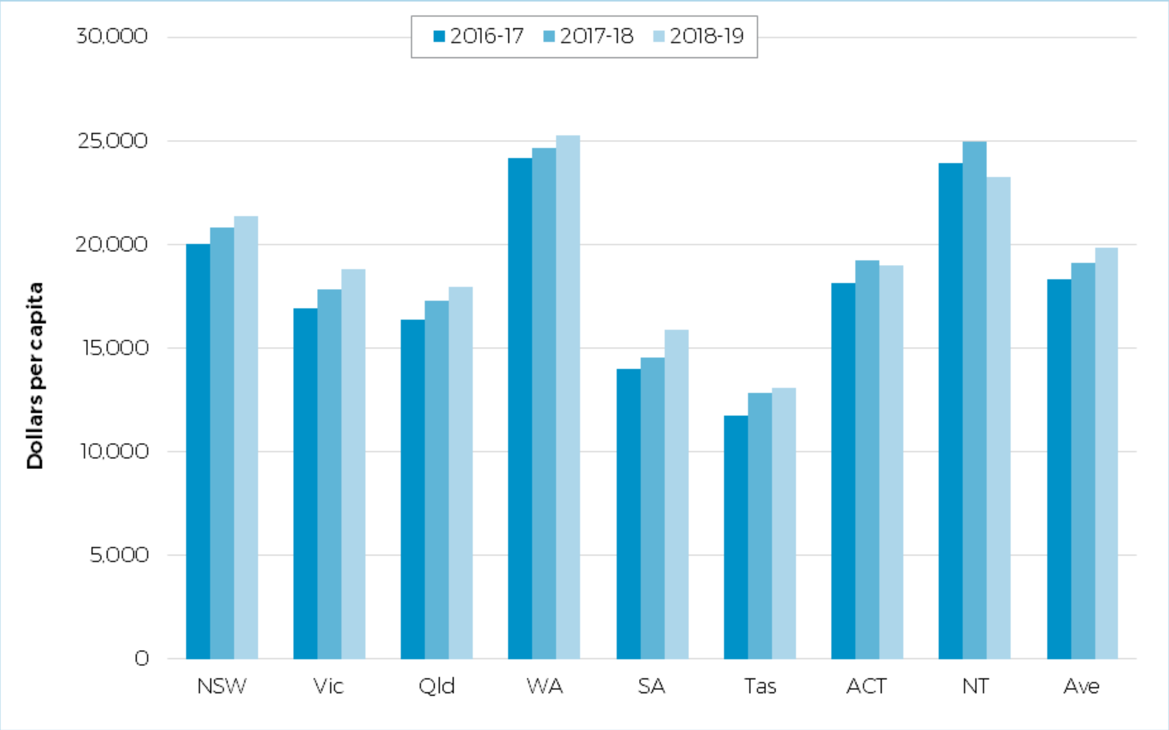

Source: Commission calculation.

## Taxable payrolls

7 Differences between States in the total value of wages, salaries and other remuneration paid by employers, and in the proportion of small businesses with payrolls that are below an average tax-free threshold, affect States' capacities to raise revenue from payroll tax. Differences in taxable payrolls redistributed $1.5 billion. States raised $25.7 billion from Payroll tax in 2018-19, making it the largest State revenue source differentially assessed by the Commission.

8 Figure 4-3 shows that, in the three assessment years for this review, New South Wales, Western Australia and the Northern Territory had above average per capita taxable remuneration[10] and, therefore, above average capacity to raise payroll tax. Victoria and the ACT had close to average taxable remuneration in the most recent assessment year, while Queensland, South Australia and Tasmania had below average taxable remuneration.

Figure 4-3 Payrolls — assessed taxable remuneration per capita, 2016-17 to 2018-19



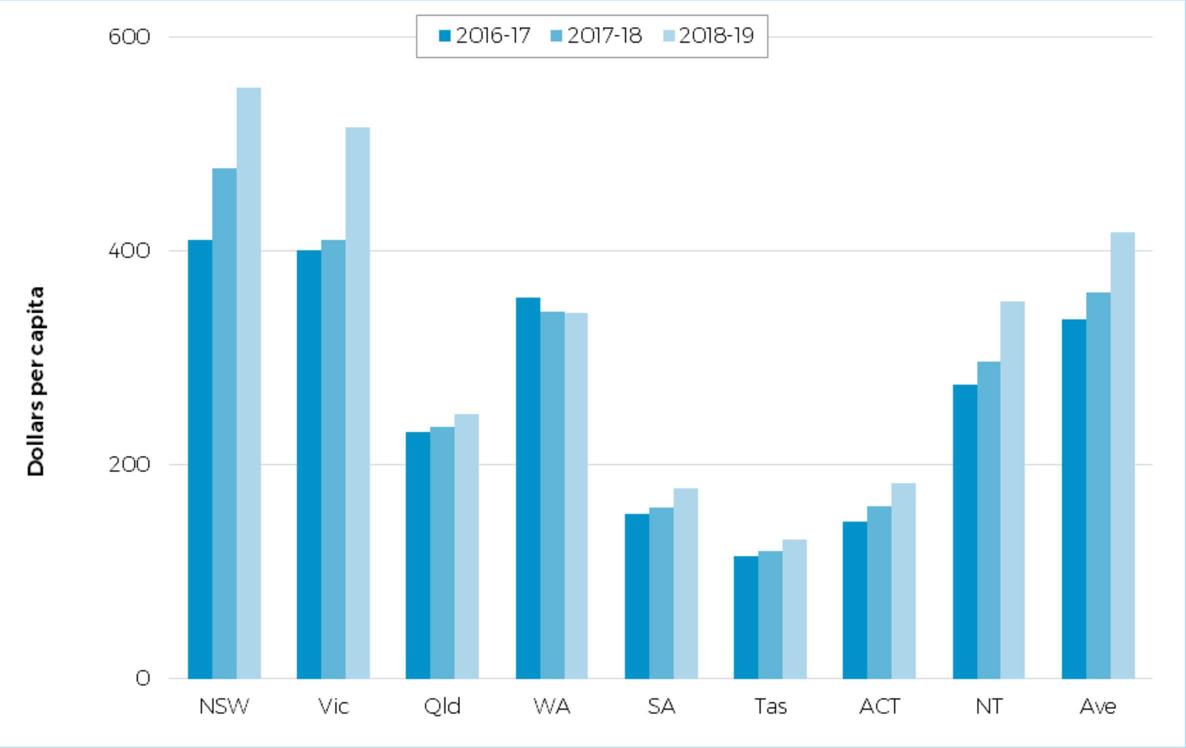

Source: Commission calculation.

[10] Taxable remuneration is the total remuneration above an average tax-free threshold, paid by private sector employers, public sector corporations and higher education institutions.

## Taxable land values

9 New South Wales and Victoria have the highest value of taxable land per capita. They are assessed to be able to raise almost three quarters of the revenue raised from this source, despite only having 58% of the Australian population. Figure 4-4 shows the difference in States' per capita assessed land tax capacity.

Figure 4-4 Assessed land tax per capita by State, 2016-17 to 2018-19




Source: Commission calculation.

## Commonwealth payments

10 Payments from the Commonwealth affect State GST shares because they are available to fund State expenses and investment.[11] States with above average per capita receipts need less GST to fund their services and States with below average per capita receipts require more. Table 4-3 shows that payments for infrastructure (primarily road and rail), health, schools and environmental protection have the greatest impact on the GST distribution.

11 New South Wales, Victoria and the ACT require more GST because of their below average receipts from a range of payments. For Victoria, the main contributors are payments for road and rail infrastructure, health and schools.

12 Queensland, South Australia, Tasmania and the Northern Territory need less GST because of their above average receipts from Commonwealth payments. The main contributors are payments for health for Queensland, schools for Tasmania and infrastructure for other States. For the Northern Territory, the main contributors are payments for schools, health and infrastructure.

[11] Not all Commonwealth payments are included in the Commission's calculations of State fiscal capacities. The Commission 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').

13 Commonwealth payments in aggregate had little effect on Western Australia's GST share. It received an above average share of payments related to health and welfare, while this was offset by its below average share of payments related to schools and services to communities.

Table 4-3 Revenue effect of Commonwealth payments, by category, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Schools | 48 | 224 | -214 | 75 | 21 | -41 | 24 | -138 | 392 |
| Post-secondary education | -28 | 22 | 10 | 5 | -4 | -4 | -1 | -1 | 37 |
| Health | 167 | 345 | -407 | -91 | 87 | -7 | 31 | -124 | 629 |
| Housing | 5 | 1 | -2 | -2 | -1 | 0 | 0 | -2 | 6 |
| Welfare | 47 | -2 | -21 | -21 | 2 | -3 | 1 | -2 | 50 |
| Services to communities | 59 | -93 | 44 | 30 | -8 | -14 | -21 | 3 | 136 |
| Justice | 4 | 4 | -7 | 0 | -2 | 0 | 0 | 0 | 9 |
| Roads | 11 | 33 | -17 | -14 | -4 | 0 | 5 | -14 | 49 |
| Transport | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Services to industry | 5 | 4 | -5 | -1 | -2 | 0 | 0 | -1 | 9 |
| Other expenses | 4 | 11 | -14 | 3 | 1 | 1 | 0 | -7 | 20 |
| Investment | 53 | 605 | -249 | 15 | -326 | -22 | 52 | -127 | 724 |
| **Total** | **376** | **1,152** | **-882** | **0** | **-236** | **-89** | **91** | **-412** | **1,619** |

Source: Commission calculation.

14 The payments with the largest impact are shown in Table 4-4.

Table 4-4 Revenue effect of Commonwealth payments, by payment, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| National Health Reform funding | 143 | 319 | -422 | -91 | 98 | 1 | 28 | -77 | 590 |
| Road infrastructure - National Network | -136 | 394 | -174 | 34 | -157 | -4 | 28 | 15 | 471 |
| Quality Schools - government | 23 | 219 | -204 | 78 | 24 | -40 | 24 | -125 | 369 |
| Road infrastructure - Other Roads | 78 | 80 | -39 | -60 | -17 | -5 | 14 | -52 | 173 |
| Rail infrastructure - National Network | 78 | 30 | -20 | 29 | -125 | 1 | 5 | 3 | 145 |
| Sustainable Rural Water Use and Infrastructure Program | 59 | -93 | 46 | 30 | -8 | -14 | -21 | 3 | 137 |
| Remote Indigenous housing | 66 | 54 | -25 | -36 | 7 | 4 | 3 | -73 | 135 |
| Investment Growth Package - new investments | 49 | 38 | -50 | 14 | -50 | 3 | 3 | -6 | 107 |
| Other | 16 | 110 | 7 | 1 | -8 | -35 | 7 | -99 | 141 |
| **Total** | **376** | **1,152** | **-882** | **0** | **-236** | **-89** | **91** | **-412** | **1,619** |

Source: Commission calculation.

# Expenditure

## Socio-demographic features

### *Population dispersion*

15 Some services are more expensive to deliver in regional and remote areas. People in those areas also tend to use State provided services more intensively than people in more accessible areas, often due to a lack of alternative providers. Services delivered in small isolated communities are unable to achieve the economies of scale available in larger centres. Subsidies to water and electricity providers are primarily associated with small, more remote communities. About half of the redistribution attributable to population dispersion relates to health expenses, recognising the higher cost of operating hospitals and clinics in more remote locations.

16 States with a greater proportion of their population in remote areas, especially Queensland, Western Australia and the Northern Territory, have higher than average service delivery costs. Tasmania, with its relatively large regional population, also has higher than average costs.

### *Indigenous status*

17 On average, States spend more than twice as much per Indigenous person than per non-Indigenous person, particularly in delivering health, justice and child welfare services. States with relatively large Indigenous populations therefore require additional GST to meet these higher costs. This leads to a redistribution from Victoria, South Australia and the ACT towards New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory.

### *Non-Indigenous disadvantage*

18 States spend relatively more providing services to socio-economically disadvantaged people compared with less disadvantaged people, especially in schools, justice and health. This leads to a redistribution from States with relatively low levels of non-Indigenous disadvantage (such as the ACT and the Northern Territory) towards States with an above average level of disadvantage among their non-Indigenous populations (such as South Australia and Tasmania).

## Urban transport — urban centre characteristics

19 Data show that States spend more providing urban transport services and infrastructure in larger cities with high population density. In larger, more densely populated cities, commuters are more likely to use public transport in response to road congestion, and public transport networks tend to be more complex. The modal mix tends to change as cities get bigger. In Australia, the five largest capital cities provide heavy rail services in addition to other modes, such as buses and light rail. Further, individual city geographical characteristics also influence the cost of providing public transport.

20 Table 4-2 shows that New South Wales and Victoria, each with a very large capital city and several other larger cities, require more GST ($1.6 billion) to deliver urban transport services, including infrastructure, at average levels. Other States require less than an equal per capita amount of GST to be able to deliver equivalent services.

## Administrative scale

21 States with small populations have intrinsically higher per capita costs because the minimum functions of government are spread over a smaller number of residents. The administrative cost that would be incurred independent of population size has been estimated at $353 million per State in 2018-19.[12] This includes costs associated with:

- core head office functions of departments (for example, corporate services, policy and planning functions, but not all staffing and other resources delivering these functions)
- services provided for the whole of the State (for example, the legislature, the judiciary, the Treasury, the revenue office and a State museum, but not all staffing and other resources delivering these services).

22 These minimum costs represent $44 per capita in New South Wales but $1,446 per capita in the Northern Territory. This results in a redistribution of about $1.2 billion in GST from New South Wales, Victoria and Queensland to the other States, as shown in Table 4-2.

## Investment and Depreciation

### *Capital requirement*

23 States with faster growing service user populations, such as Victoria, require more investment to maintain their standard of infrastructure than States with slower growth, such as Western Australia, South Australia and the Northern Territory.

24 Victoria's user populations are growing faster than average in most service areas, and the State has above average needs for investment in most areas of service delivery. This is particularly apparent for urban transport. The concentration of Victoria's population growth in Melbourne means that Victoria is assessed as requiring nearly 60% of growth-related investment in urban transport infrastructure, or $615 million more than an EPC distribution.[13]

### *Capital improvements*

25 Growth in the average level of State rural road, urban transport, health and justice assets result in higher infrastructure needs for States with above average user populations.

### *Cost of construction*

26 Western Australia and the Northern Territory have longer rural road networks per capita, particularly in higher cost remote regions. As a result, they face above average rural road construction costs and require more GST than other States to construct their rural road networks to the average standard.

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[12] The ACT's scale costs were reduced by $11.3 million to reflect its lower spending needs in some areas. The Northern Territory's scale costs were increased by $2.0 million to reflect the costs associated with a higher level of engagement with Indigenous communities by the Northern Territory's central agencies.

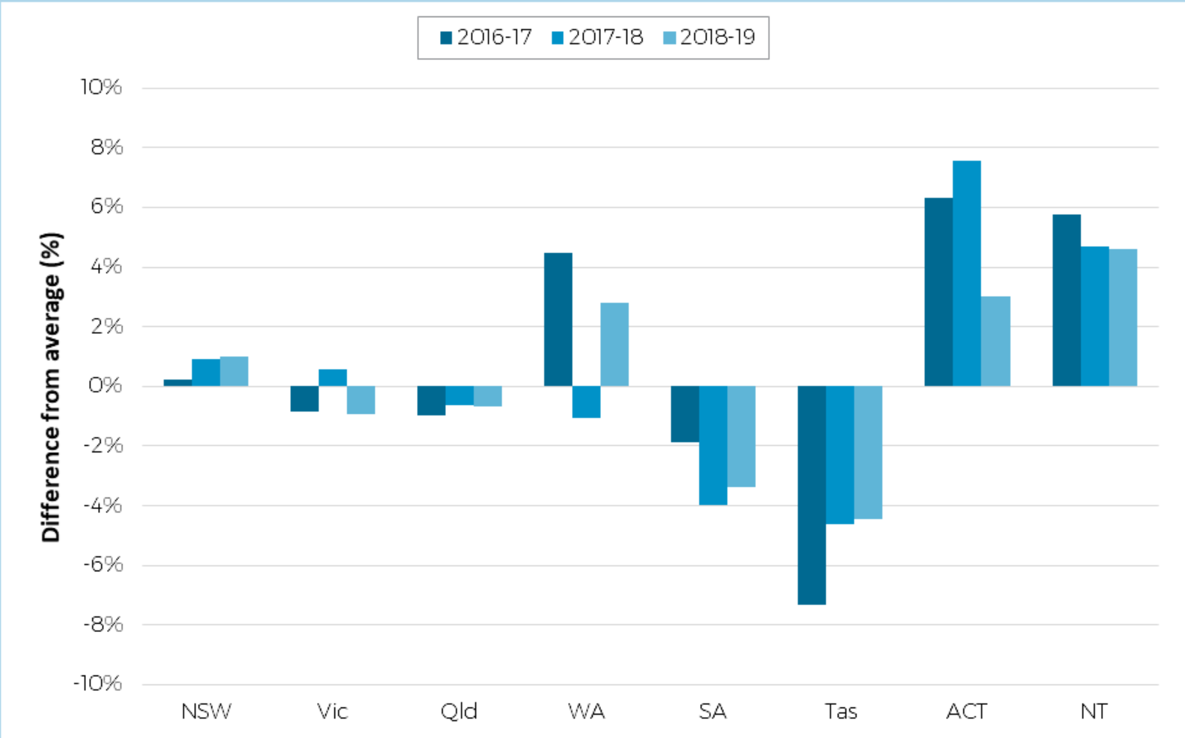
[13] Chapter 24, Volume 2, Part B provides more detail on the GST effects of the Investment assessment.

## Wage costs

27 Wages and salaries represent the largest component of recurrent State expenses and account for a significant share of expenses in nearly every service area. Comparable public sector employees in different States are paid different wages, partly due to differences in labour markets beyond the control of State governments.

28 The Commission measures the relative wage levels in each State using an econometric model based on private sector data from the ABS Characteristics of Employment survey (CoES). The model controls for differences between States in industry and occupation structure, as well as employee characteristics known to affect wages. The modelled outcomes show substantial differences between States in relative wage levels, with New South Wales, Western Australia, the ACT and the Northern Territory generally having above average wage levels. These States require more GST than other States to provide the average level of services. Figure 4-5 shows the relative wage levels across the assessment years.

Figure 4-5 Relative wage levels, 2016-17 to 2018-19




Note: The results shown here are after the Commission has applied a 12.5% discount.

Source: Commission calculation based on CoES data.

## Non-State service provision

29 The non-State sector provides some health and education services like those provided by State governments. For example:

- people can visit a general practitioner for conditions that might otherwise be treated in an emergency department
- private hospital birthing services alleviate the need for such services in public hospitals
- school students attending private schools impose a lower cost on State governments than students attending public schools.

30 If a State has above average non-State sector service provision, this reduces the call on State services and improves the fiscal capacity of the State.

31 Victoria, Western Australia, South Australia, Tasmania and the ACT have lower than average levels of non-State government health provision, given their socio-demographic profile. This places greater pressure on their public health systems, requiring more GST, as shown in Table 4-5.

32 New South Wales, Victoria and South Australia have higher levels of private schooling, and so lower government school enrolments, requiring less GST. Conversely, the other States have relatively less private schooling, particularly Queensland, Western Australia and the Northern Territory, resulting in higher government school enrolments, and hence those States require more GST.

Table 4-5 Illustrative impact of non-State service provision, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Redist |
|---|---|---|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| Health | | | | | | | | | |
| Admitted patients | 30 | 115 | -161 | 15 | -17 | -21 | 47 | -7 | 206 |
| Emergency departments | -15 | 5 | -7 | 7 | 3 | 3 | 4 | -1 | 23 |
| Non-admitted patients | -129 | 37 | -10 | 74 | 11 | 6 | 8 | 2 | 139 |
| Community and other health | -83 | 18 | -20 | 59 | 9 | 32 | 25 | -41 | 143 |
| **Total Health** | **-197** | **175** | **-197** | **155** | **6** | **20** | **84** | **-46** | **441** |
| **Schools** | **-144** | **-393** | **368** | **124** | **-24** | **20** | **11** | **38** | **560** |
| **Total** | **-341** | **-218** | **171** | **279** | **-17** | **40** | **95** | **-8** | **585** |

Source: Commission calculation.

# State fiscal circumstances

## New South Wales

33 New South Wales is the State with the second strongest fiscal capacity. Its below average expense requirement reflects a below average share of people living in more remote areas, economies of scale in administration and above average non-State provision of health services. New South Wales also has an above average capacity to raise revenue, with a high value of property sales and taxable land values, and above average taxable payrolls.

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

Table 4-6 Illustrative GST, New South Wales, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 21,567 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | -1,144 | -138 |
| Investment | 89 | 11 |
| Net borrowing | 22 | 3 |
| Revenue | -1,079 | -130 |
| Commonwealth payments | 376 | 45 |
| **Illustrative GST** | **19,832** | **2,389** |

Note: Table may not add due to rounding.

Source: Commission calculation.

## Victoria

35 Victoria has the third highest fiscal capacity. Its well below average expense requirement reflects its below average shares of government school enrolments, Indigenous people and people living in remote areas, as well as economies of scale in administration.

36 Expense effects on Victoria's fiscal capacity are partly offset by its below average revenue raising capacity, mainly due to below average mining production, and an above average urban transport investment requirement, reflecting above average population growth in Melbourne.

Table 4-7 Illustrative GST, Victoria, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 17,752 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | -4,689 | -686 |
| Investment | 263 | 38 |
| Net borrowing | -174 | -25 |
| Revenue | 2,763 | 404 |
| Commonwealth payments | 1,152 | 169 |
| **Illustrative GST** | **17,068** | **2,498** |

Note: Table may not add due to rounding.

Source: Commission calculation.

## Queensland

37 Queensland has the fourth strongest fiscal capacity. Its above average expense requirement reflects above average shares of Indigenous people and people living in regional and remote areas, and above average natural disaster relief expenses. Queensland also has below average revenue raising capacity due to below average values of property sales, taxable land and taxable payrolls.

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

Table 4-8 Illustrative GST, Queensland, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 13,597 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | 1,295 | 247 |
| Investment | 15 | 3 |
| Net borrowing | -14 | -3 |
| Revenue | 276 | 53 |
| Commonwealth payments | -882 | -169 |
| **Illustrative GST** | **14,286** | **2,730** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## Western Australia

39 Western Australia has the strongest fiscal capacity among the States, mainly due to its above average capacity to raise mining revenue and payroll tax.

40 These effects on its fiscal capacity are partly offset by high expense requirements due to above average shares of Indigenous people and people in remote areas, above average wage costs and below average non-State provision of health and school services.

Table 4-9 Illustrative GST, Western Australia, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 6,893 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | 1,412 | 532 |
| Investment | -136 | -51 |
| Net borrowing | 86 | 32 |
| Revenue | -5,149 | -1,941 |
| Commonwealth payments | 0 | 0 |
| **Illustrative GST** | **3,105** | **1,170** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## South Australia

41 South Australia's fiscal capacity is the third weakest. It has below average capacity to raise revenue from mining production, property sales, taxable payrolls and taxable land values. It also has above average expense requirements, reflecting its above average level of non-Indigenous disadvantage and diseconomies of scale in administration.

42 Those effects on its fiscal capacity are partially offset by an above average share of Commonwealth payments and its below average investment requirement due to below average growth in service user populations.

Table 4-10 Illustrative GST, South Australia, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 4,603 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | 181 | 102 |
| Investment | -405 | -229 |
| Net borrowing | 60 | 34 |
| Revenue | 2,057 | 1,161 |
| Commonwealth payments | -236 | -133 |
| **Illustrative GST** | **6,259** | **3,533** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## Tasmania

43 Tasmania is the State with the second weakest fiscal capacity. It has well below average revenue raising capacity, with well below average mining production, value of property sales, taxable payrolls and taxable land values. In addition, it faces above average service delivery costs due to above average shares of people in regional areas, above average level of non-Indigenous disadvantage and diseconomies of scale in administration.

44 These effects on its fiscal capacity are partially offset by a below average investment requirement due to below average growth in service user populations.

Table 4-11 Illustrative GST, Tasmania, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 1,414 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | 725 | 1,332 |
| Investment | -129 | -237 |
| Net borrowing | 11 | 21 |
| Revenue | 755 | 1,387 |
| Commonwealth payments | -89 | -163 |
| **Illustrative GST** | **2,688** | **4,937** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## Australian Capital Territory

45 The ACT has the fourth weakest fiscal capacity among the States. It has below average capacity to raise revenue across most revenue bases. The ACT is unable to levy taxes on Commonwealth agencies, including on payrolls and land, and has no mining industry. The ACT also receives a below average share of Commonwealth payments.

46 These effects on the ACT's fiscal capacity are partly offset by its below average expense requirement, which reflects its highly urbanised population with a below average share of Indigenous people and a low level of non-Indigenous disadvantage, and its below average investment requirement.

Table 4-12 Illustrative GST, ACT, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 1,144 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | -195 | -442 |
| Investment | -92 | -208 |
| Net borrowing | -6 | -13 |
| Revenue | 376 | 854 |
| Commonwealth payments | 91 | 206 |
| **Illustrative GST** | **1,319** | **2,995** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## Northern Territory

47 The Northern Territory is the fiscally weakest State. This primarily reflects its well above average expense requirement due to above average shares of high cost population groups, including exceptionally high proportions of Indigenous people and people living in remote areas. It also faces diseconomies of scale in administration. These effects are reinforced by its above average investment requirement, mainly for rural roads.

48 The Northern Territory's above average need for assistance is partially met through an above average share of Commonwealth payments.

Table 4-13 Illustrative GST, Northern Territory, 2020-21

| | $m | $pc |
|---|---|---|
| Equal per capita share | 639 | 2,598 |
| **Effect of assessed:** | | |
| Expenses | 2,415 | 9,817 |
| Investment | 394 | 1,603 |
| Net borrowing | 15 | 61 |
| Revenue | 1 | 6 |
| Commonwealth payments | -412 | -1,675 |
| **Illustrative GST** | **3,053** | **12,410** |

Note: Table may not add due to rounding.
Source: Commission calculation.

## Size of the equalisation task

49 States have different fiscal capacities prior to equalisation. The distribution of GST revenue both increases and equalises those capacities for all States. The size of the equalisation task is determined by the variation in their initial fiscal capacities. The larger the divergence in State fiscal capacities, the more GST is required to achieve equalisation.

50 The process of distributing GST revenue can be thought of in two different ways.

- GST revenue is first distributed on a population basis, raising the fiscal capacity of all States equally. Then there is a redistribution of a proportion of this revenue to achieve equalisation – from States with above average capacity to those with below average capacity. The size of this redistribution is one measure of the equalisation task.
- GST revenue is first distributed to bring the initial fiscal capacities of all States to that of the strongest. The remaining GST is then distributed equally among all States. The GST required to achieve the first step is an alternative measure of the equalisation task.

51 These two measures, which can be expressed in dollars or as a proportion of GST revenue, highlight different aspects of the equalisation task. The first identifies the aggregate transfer from an EPC distribution from States with above average fiscal capacities to States with below average fiscal capacities. The second identifies the difference between the strongest State and the average of the others.

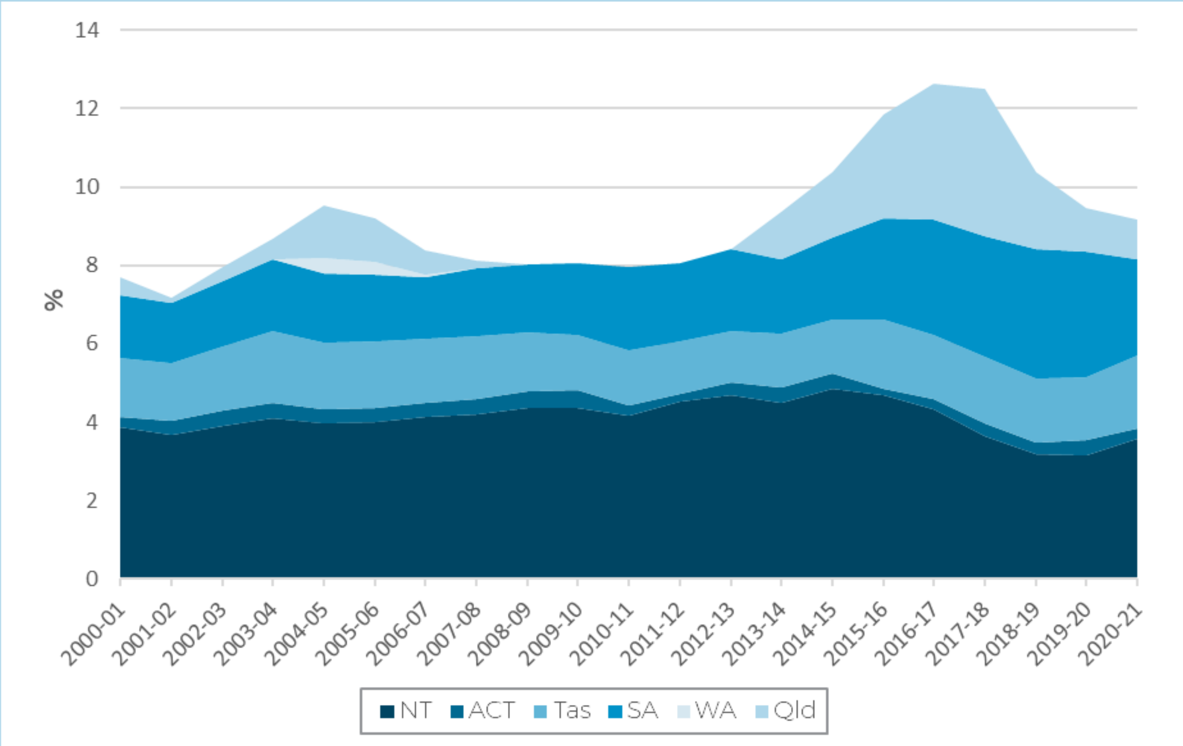
52 However, note that these are conceptual illustrations of equalisation only and do not reflect what the Commission does in practice. For example, to take the second approach described above, the Commission's objective is not in fact to 'level up' seven States to the fiscal capacity of the fiscally strongest State; rather, it seeks to ensure that every State, including the fiscally strongest, has the same capacity to provide the average standard of State services.

53 In relation to the first measure, Figure 4-6 shows that the proportion of GST redistributed to the States with below average fiscal capacities increased between 2010-11 and 2016-17, mainly due to the deterioration in Queensland's assessed fiscal capacity.[14] Since that time, the proportion has decreased. In this review, 9.2% of the GST pool is redistributed to the four less populous States and Queensland to achieve fiscal equalisation, down from 9.5% in last year's update, reflecting the improvement in Queensland's assessed fiscal capacity.

54 In this review, the redistribution in 2020-21 to the four less populous States accounts for 89% of the $6.2 billion GST redistribution shown in Figure 4-6. These States have about 11.5% of Australia's population and receive 19.7% of the GST, which is similar to the long-term average proportion of 20.4%. Redistribution to these States is mostly the result of weaker revenue bases and higher service delivery costs.

[14] Queensland and Western Australia have had both below average and above average fiscal capacities at different times since the GST was introduced in 2000-01.

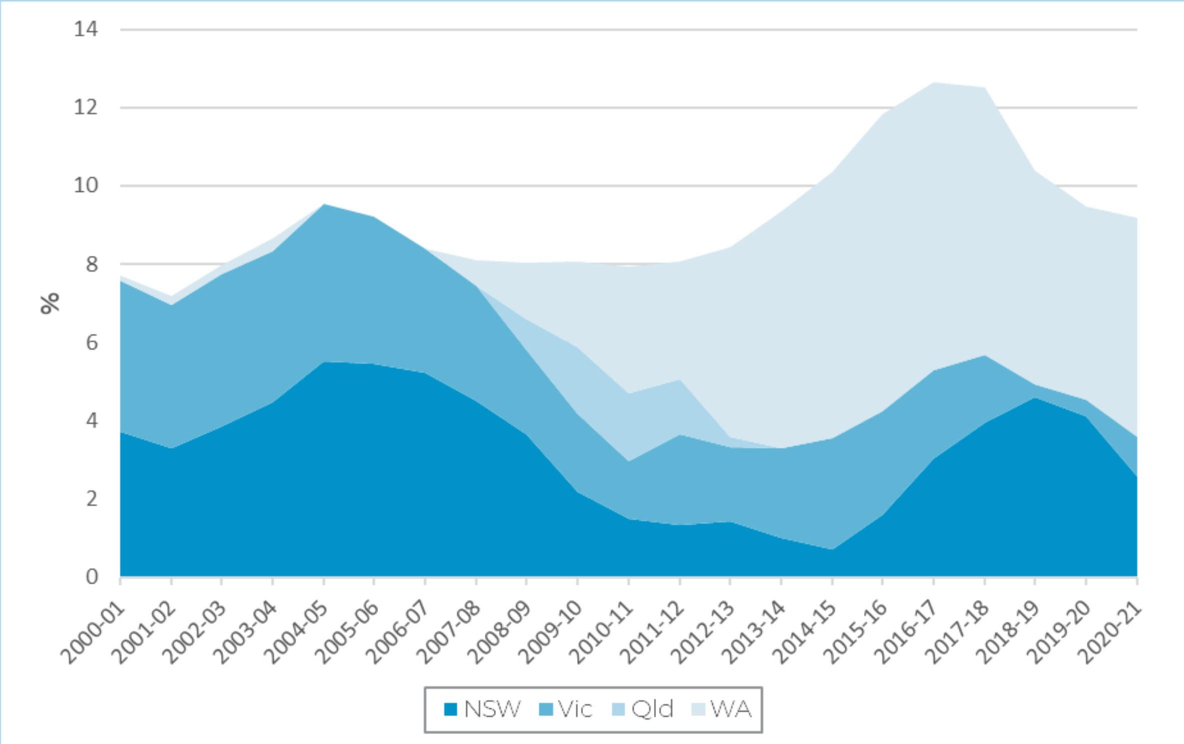
Figure 4-6 Proportion of the GST redistributed to States with below average fiscal capacities, 2000-01 to 2020-21




Source: Commission calculation.

55 Figure 4-7 shows the contribution of States with above average fiscal capacities to the GST redistribution. Western Australia's assessed fiscal capacity increased in this review, after having fallen in the previous four updates. Prior to that, Western Australia's assessed fiscal capacity increased in all but one of the nine preceding years. New South Wales' assessed fiscal capacity has fallen for the second year in a row, in this review. This follows an increase in its assessed fiscal capacity in the preceding four years. In contrast, Victoria's assessed fiscal capacity has increased for the second year in a row, following decreases in the preceding four years.

Figure 4-7 Proportion of the GST redistributed from States with above average fiscal capacities, 2000-01 to 2020-21




Source: Commission calculation.

56 The second measure of redistribution reveals a different aspect of the equalisation task. Table 4-14 shows the size of the equalisation requirement in 2020-21. All States, except Western Australia, require different per capita amounts of GST to achieve the same fiscal capacity as Western Australia, the State with the strongest fiscal capacity. The remainder of the GST revenue is shared equally between all States, including Western Australia, so that all States have the capacity to provide the same (average) level of service. In 2020-21, about 55% of the GST revenue will be needed for all States to achieve the same fiscal capacity as Western Australia.

Table 4-14 Illustrative distribution of GST, 2020-21

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Ave |
|---|---|---|---|---|---|---|---|---|---|
| | $pc | $pc | $pc | $pc | $pc | $pc | $pc | $pc | $pc |
| Equal per capita | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 |
| Equalisation requirement | 1,219 | 1,328 | 1,560 | 0 | 2,363 | 3,767 | 1,825 | 11,239 | 1,428 |
| Per capita allocation | 2,389 | 2,498 | 2,730 | 1,170 | 3,533 | 4,937 | 2,995 | 12,410 | 2,598 |

Source: Commission calculation.

57 This measure of the size of the equalisation task increased rapidly prior to 2017-18. From 2000-01 to 2007-08, it fluctuated between 14% and 17% of GST revenue, as first Victoria and then New South Wales became the fiscally strongest State. In 2008-09, Western Australia became the fiscally strongest State. As Western Australia's fiscal capacity became progressively stronger, this measure of the size of the equalisation task increased from 14% of the pool in 2008-09 to 70% in 2015-16. With the relative decline in Western Australia's fiscal capacity, it fell to 48% in 2019-20, but has risen to 55% in this review as Western Australia's fiscal capacity has strengthened.

58 The greater the difference between relative fiscal capacity and population share, the greater the equalisation requirement. For example, where a fiscally stronger State has a relatively large population (such as New South Wales or Victoria), it will mean a smaller share of the pool is required to achieve equalisation. Conversely, where the fiscally stronger State has a relatively small population, it will necessarily mean a larger share of the pool is required to achieve equalisation. Put simply, population differences between the fiscally strongest and other States affect the size of the equalisation task.

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

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

60 A time series of per capita relativities since the introduction of the GST in 2000-01 is available in the supporting information for this update on the Commission's website (https://www.cgc.gov.au). 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.

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# 5 Quality assurance

1 The terms of reference (clause 7(d)) for the 2020 Review ask the Commission to 'ensure robust quality assurance processes' are adopted in preparing assessments. This chapter sets out the quality assurance (QA) processes the Commission applied in this review to comply with this requirement.

## Approach

2 The QA approach used in this review is described in the QA Strategic Plan, which is available on the Commission's website (http://www.cgc.gov.au). The approach for this review was based on the 2015 Review plan, which the Commission revised after consulting with the States. The plan seeks to ensure:

- Commission decisions are evidence-based and transparent
- the data used in assessments are fit for purpose and of good quality
- the data and methods used in assessments reflect Commission decisions
- calculations are simple and accurate
- the relativities are reported in a transparent and verifiable manner.

3 The main elements of the 2020 Review QA approach were to:

- develop and implement a comprehensive work program in consultation with States
- establish equalisation principles and assessment guidelines consistent with the terms of reference to provide a consistent decision-making framework[15]
- use external experts and consultants as appropriate to provide input into the Commission's assessment approach and methods
- use a reliable and auditable calculation system
- perform internal checks of calculations to detect errors and engage external parties to audit the calculations
- consult States throughout the review on the development of assessments and processes
- report staff proposals, Commission decisions, methods and results in a transparent way, including through the release to States of all calculations contributing to the final relativities.

## Implementation

4 The Commission commenced implementing some aspects of the QA plan before it was finalised in October 2018. These included the development of a clear work program, and the establishment of the principles and guidelines for the conduct of the review.

5 Table 1-2 in Chapter 1 of Volume 2 shows the timing of key consultations during the review, which are an important element of the QA process. Chapter 33, Volume 2, Part B provides

[15] The assessment guidelines are in Chapter 3, Volume 2, Part A.

details of all discussion papers, position papers and reports issued by the Commission. Submissions from States are available on the [Commission's website](http://www.cgc.gov.au) (http://www.cgc.gov.au).

6 The final checking of calculations and validation of results for the 2020 Review occurred during January and February 2020. This included checking of the calculations by external auditors covered in paragraph 16.

7 Transparency in reporting the assessment methods, decisions and results are important parts of the QA process. The final report, supporting information and a full copy of the calculation workbooks were released to States on 28 February 2020, supporting full transparency of Commission decisions and calculations.

8 The Commission considers these QA activities comply with the requirements of the QA Strategic Plan and the terms of reference. This includes compliance with the requirement in the plan to provide advice to States on any significant method changes in assessments between the draft and the final report and the requirement in clause 3(b) of the terms of reference to consult with States on them.

9 The rest of this chapter provides information on the outcomes of the main QA activities.

## Use of external experts

10 The Commission engaged consultants to advise on methodological issues for the urban transport assessment and elasticity adjustments for revenue assessments. The Commission consulted the States during the conduct of these consultancies. The consultants' reports were provided to the States for comment. The reports are available on the Commission's website (http://www.cgc.gov.au).

11 The Commission used the outcome of the urban transport consultancy to develop the new urban transport assessment, which it considers a significant improvement to the 2015 Review assessment. It did not implement elasticity adjustments for the revenue assessments because it was unclear that equalisation is improved by applying single adjustments to often significantly divergent tax rates in some parts of assessments but not others.

## The Commission's decision making processes

12 The Commission is satisfied it has undertaken due processes in reaching its decisions on assessments. It has:

- followed the work program
- applied the assessment guidelines when developing assessment methods
- used the best data available for the assessments
- applied discounting or adjustments consistently across assessments and provided reasons for application of specific discounts to assessments in its report
- provided opportunities for States to provide inputs at appropriate stages of the review
- considered State comments in submissions and other materials provided by States including during State visits
- recorded Commission meeting minutes that document Commission discussion and decisions.

## Checking calculations

13 The Commission completed a series of rigorous checks of all its calculations used to generate the GST relativities. All calculations were checked by Commission staff and external auditors, and covered the entire chain of the calculations leading to the relativities.

14 The Commission has a checking plan that provides guidance on the scope and nature of checks. All staff followed the checking plan. All calculations were checked three times internally — by the assessment officer, the assessment team leader and another officer not involved in the original calculation. In addition, calculations using 2020 Review methods were built twice. This 'double coding' provided an additional level of assurance about the accuracy of the calculations.

15 Following an internal review of checking processes, Commission staff introduced new processes for specifying the scope and nature of checks for each assessment, and a new automated system for recording progress and outcomes from the checking process.

16 The Commission also engaged officers from the Commonwealth Treasury with relevant technical expertise to check the calculations. These checks were done after internal checks were completed. No major errors were found during this process.

## Reporting of methods, decisions and results

17 Transparency and accuracy in reporting the assessment methods, decisions and results are important in ensuring high quality outputs.

18 The Commission undertook a comprehensive program of proofreading and checking of tables and results to ensure they aligned with the original calculations.

19 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). It continued to post additional material on the website to help explain the Commission's work more simply and transparently. This material aims to help the public, as well as staff of the Commonwealth and State treasuries, understand the Australian fiscal equalisation system and the Commission's work.

## Conclusion

20 The Commission considers that, in preparing assessments, it has used robust quality assurance processes as required by the terms of reference. However, no quality assurance process can guarantee 100% accuracy in outcomes. Despite the diligent use of the procedures and processes set out in the QA Strategic Plan, there may still be undetected errors in calculations or unintended omissions in transparently explaining Commission decisions.

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