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GST distribution to states and territories in 2023–24

Summary

- The Commonwealth Grants Commission (the Commission) has released its report to the Commonwealth Treasurer – referred to as the 2023 Update – which outlines its recommended relativities for GST distribution to the states and territories (states) in 2023–24.
- These recommended relativities are used to provide states with a share of GST that would give them a similar fiscal capacity to provide services. The Commission calculates the relativities by taking into account states' different abilities to raise revenue and their different costs in providing services.
- Each year the Commission updates the GST relativities to reflect developments influencing states' fiscal capacities, and in turn their needs for GST.
- Key drivers of change in the recommended distribution of GST in 2023–24, compared with 2022–23, include strong growth in iron ore and coal royalties, changing rates of population growth among states, revisions to population estimates following the 2021 Census, uneven growth in states' capacities to raise stamp duty revenue, increased investment in urban transport, and the ongoing transition to the GST distribution arrangements legislated in 2018, particularly the effect of the GST relativity floor.
- The GST relativity floor increases Western Australia's GST share in 2023–24, while lowering the shares of other states. The Commonwealth Government's top-up to the GST pool and transitional no worse off payments ameliorate this impact on the other states.
- The GST pool is estimated to grow by more than $3 billion in 2023–24 to around $86 billion. Consequently, all states are expected to receive more GST in 2023–24, despite some having a lower GST relativity.

Introduction

Each year, the Commonwealth Treasurer asks the Commission to recommend how to distribute the Goods and Services Tax (GST) pool among the states, consistent with the objectives outlined in the *Commonwealth Grants Commission Act 1973*.

The Commission has released its report to the Treasurer with its recommended GST relativities for the distribution of the GST pool in 2023–24. This report is referred to as the 2023 Update.

The distribution of the GST pool seeks to provide states with a similar fiscal capacity to provide services. In addition to population size, it takes account of states' different capacities to raise revenue and the different costs they face in providing services.

States' economic, social and demographic characteristics differ, and this affects their relative expenditure needs and revenue raising capacities. This in turn affects the amount of GST each state needs to be able to provide similar services – referred to as a state's 'assessed GST needs'. Drivers of differences in states' revenue capacities include differences in their mineral endowments, land values, property transactions and payroll taxes. States also receive different levels of Commonwealth payments. A state with an above-average revenue raising capacity has lower assessed GST needs than a state with a below-average revenue raising capacity. The cost of services can vary by state for a range of reasons, including socio-demographic characteristics, wage pressures, population dispersion, population density and rates of population growth. A state with above-average expense needs has higher assessed GST needs than a state with below-average expense needs.

The recommended distribution of the GST pool is expressed in terms of 'GST relativities'. A state with a GST relativity higher than one (the average) will receive an above-average amount of GST per person. A state with a GST relativity less than one will receive a below average amount of GST per person.

The Commission updates the GST relativities every year to take account of changes in the relative fiscal capacities of the states. To smooth the effects of volatility, the Commission uses a moving 3-year average of data in its assessments. The 3 years covered in the 2023 Update are 2019–20, 2020–21 and 2021–22. These are the most recent years for which robust and reliable data are available.

Under the changes to the GST distribution arrangements legislated in 2018, 2023–24 is the halfway point in a 6-year transition away from distributing the GST pool based solely on the Commission's assessment of states' relative fiscal capacities. The arrangements now include a relativity floor, where no states can have a relativity below that floor. For the 2023 Update, the relativity floor is 0.70. When the transition is complete, no state will be able to have a GST relativity lower than the fiscally stronger of New South Wales or Victoria (referred to as the 'standard state') in any assessment year.

This paper provides an overview of the 2023 Update of recommended GST relativities for the distribution of GST in 2023–24.

Recommended GST relativities for 2023–24

Table 1 shows the Commission's recommended GST relativities for the distribution of the GST pool in 2023–24, as outlined in the 2023 Update.

Table 1 GST relativities, shares and estimated GST distribution, 2022–23 and 2023–24

	GST relativities		GST shares		GST distribution		
	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24	Difference
			%	%	$m	$m	$m
New South Wales	0.95065	0.92350	29.7	28.8	24,717	24,870	152
Victoria	0.85861	0.85169	21.9	21.8	18,175	18,796	621
Queensland	1.03377	1.03118	21.1	21.1	17,547	18,220	673
Western Australia	0.70000	0.70000	7.5	7.5	6,228	6,482	254
South Australia	1.28411	1.39463	9.0	9.8	7,477	8,420	943
Tasmania	1.85360	1.79080	4.1	4.0	3,404	3,409	5
Australian Capital Territory	1.09250	1.19540	1.9	2.1	1,609	1,831	223
Northern Territory	4.86988	4.98725	4.8	4.9	3,965	4,219	255
Total	**1.00000**	**1.00000**	**100.0**	**100.0**	**83,122**	**86,248**	**3,126**

Note: The estimated GST pool distribution for 2023–24 was calculated by applying 2023 Update relativities to estimated state populations (as of December 2023) and the estimated GST pool for 2023–24.

Source: Commission calculation.

At the time of its Budget in October 2022, the Commonwealth anticipated an increase in the GST pool from around $83 billion in 2022–23 to around $86 billion in 2023–24. As a result, it is estimated that all states would receive a larger payment from the GST pool in 2023–24 than in 2022–23, despite some having a lower GST relativity.

Key developments affecting GST distribution

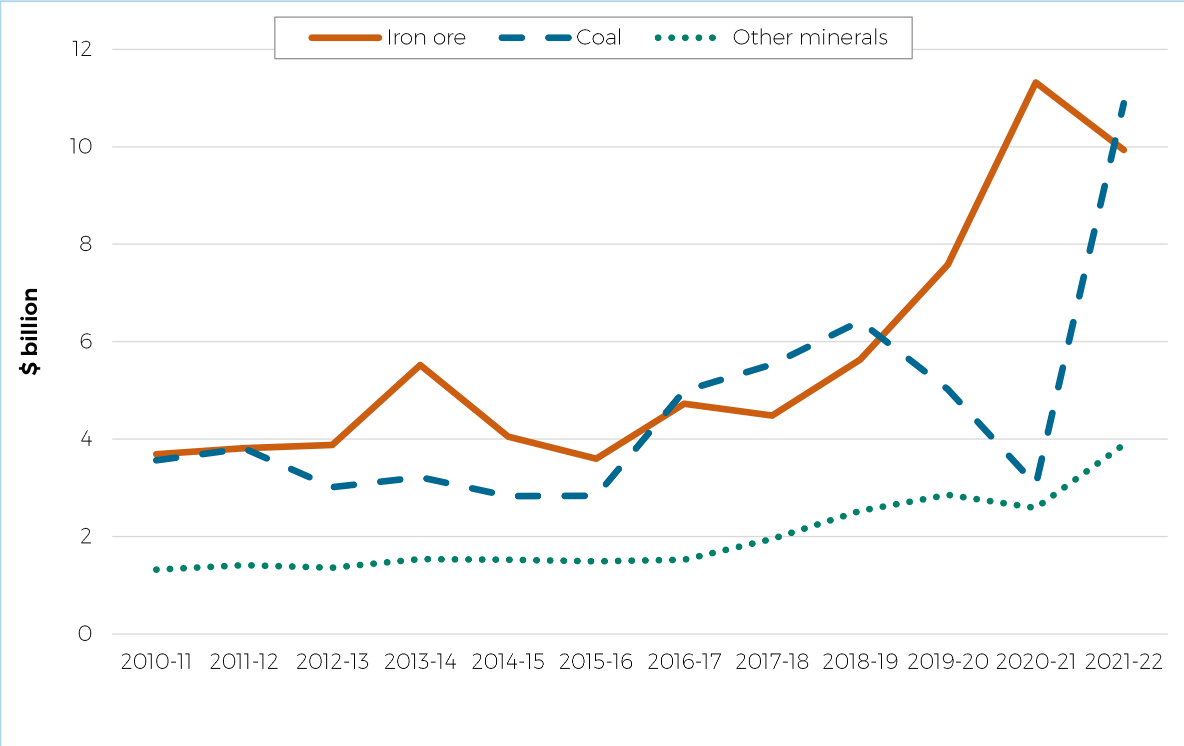
The 2023 Update contains a detailed outline of the factors influencing GST distribution in 2023–24, along with a state-by-state breakdown of the changes. The following is a summary of some of the key developments.

Increasing value of mining production

Mining royalties are a major source of revenue for some states and are a significant factor in influencing relative state fiscal capacities, and therefore GST distribution. For example, iron ore resources are concentrated in Western Australia, while black coal is mined predominantly in Queensland and New South Wales. In recent years, increases in commodity prices have had a big influence on the value of mining activity, and in turn the revenue raising capacity of some states, particularly Western Australia.

In the 2023 Update, total mining revenues grew strongly between 2018–19 and 2021–22 (see Figure 1). This reduced the assessed GST needs of states with above-average capacities to raise royalties, particularly Western Australia for iron ore and Queensland for coal, and increased the assessed GST needs of other states. While New South Wales' assessed GST needs were reduced due to the increase in coal royalties, this was offset by the fall in its capacity to raise iron ore royalties relative to Western Australia.

Figure 1 **Royalty revenue by mineral, 2010–11 to 2021–22**



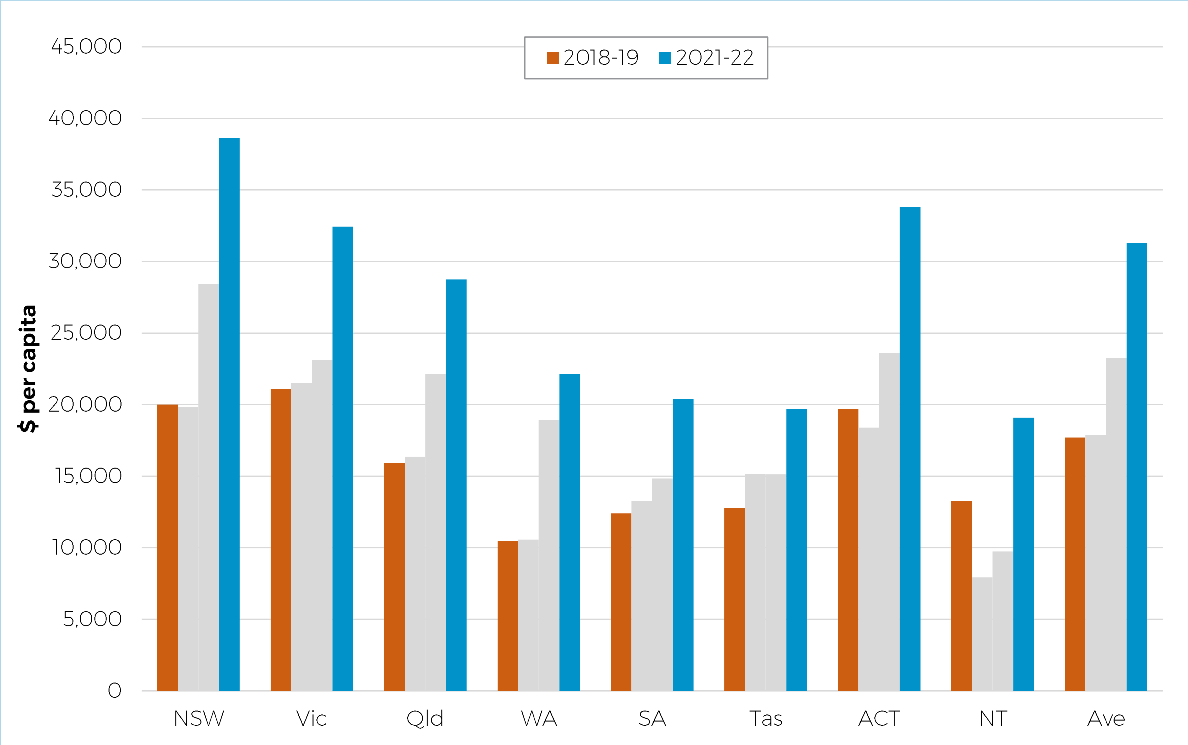
Source: Commission calculation based on annual data provided by states.

Uneven property sales

Stamp duties raised from the transfer of property are volatile, depending on the value and number of property transactions. Property market cycles can vary across years and states. This can have marked effects on states' revenue raising capacities and in turn their assessed GST needs.

While the value of property transferred (per person) grew in all states between 2018–19 and 2021–22, growth in New South Wales was well above average (see Figure 2). This significantly reduced New South Wales' assessed GST needs and increased the assessed GST needs of the other states.

Figure 2 Value of property transfers per capita, 2018–19 to 2021–22



Source: Commission calculation based on annual data provided by states.

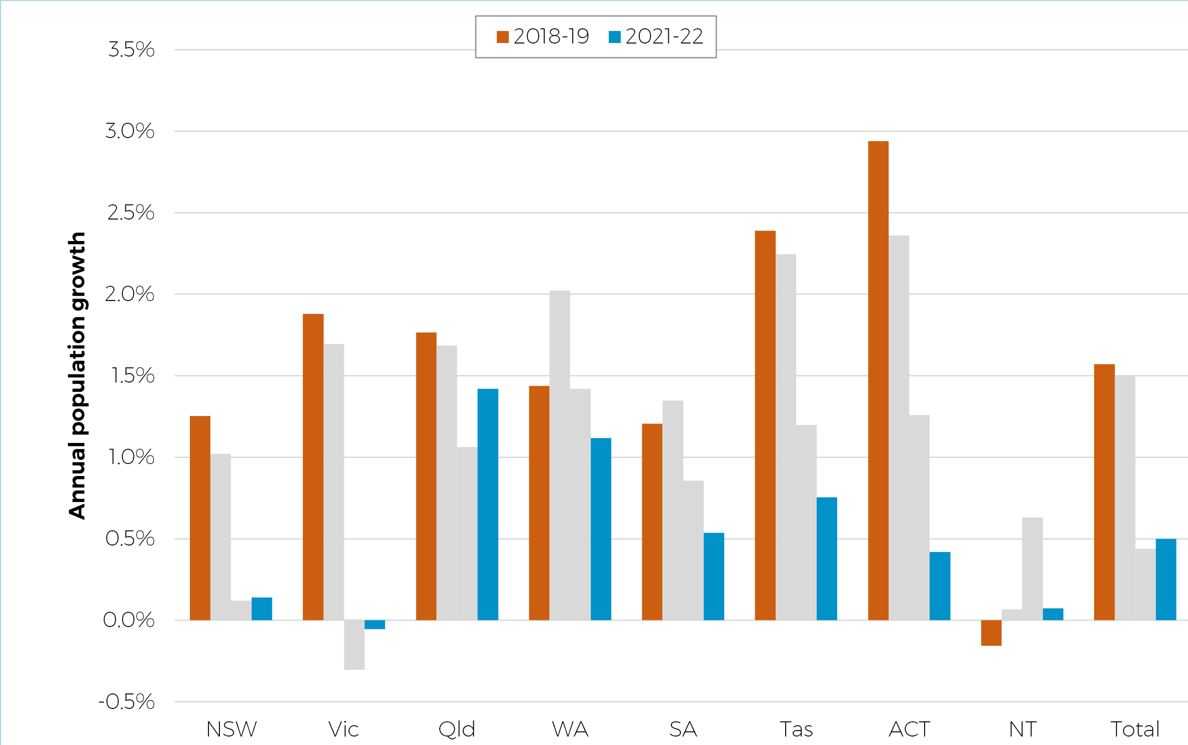
Changing state population growth

As state populations grow, states require more infrastructure to deliver services. The Commission's assessment of a state's need to invest in a particular type of infrastructure is largely based on the population that uses that type of infrastructure (referred to as the 'user-population') and how that user-population changes. For example, a state's need to invest in new school infrastructure is assessed with reference to the number of government school students.

The reduction in population growth between 2018–19 and 2021–22 in New South Wales, Victoria, Tasmania and the ACT was greater than the reduction in the national average population growth (see Figure 3), resulting in reduced investment needs for these states compared with the 2022 Update.

A large driver of the user-population for urban transport is the population living in densely populated suburbs. The population data used by the Commission in the 2023 Update reflects revisions made by the Australian Bureau of Statistics flowing from the 2021 Census. The census revealed that the population in densely populated inner city suburbs, particularly in Melbourne and Sydney, was lower than previously thought. In addition to this revision, there was significant population change in inner Melbourne. In 2020–21, the population growth in Melbourne's densely populated suburbs was much lower than it had been in 2018–19 (population declined in these areas in 2020–21). This meant that Victoria's share of investment for the growth in urban transport users was less than it had been in the 2022 Update.

Figure 3 **Population growth rates, 2018–19 to 2021–22**



Source: Commission calculations based on ABS data.

Capital improvements

There have been significant changes to the GST distribution from capital improvements mainly due to a doubling ($10.9 billion increase) in the amount states collectively invested in urban transport between 2018–19 and 2021–22. Urban transport investment increased in most states over this period. In particular, it more than tripled in Victoria, Western Australia and South Australia. In total, New South Wales and Victoria contributed 91% of the increased investment.

The more than doubling in investment in urban transport between 2018–19 and 2020–21, increased the assessed GST needs of New South Wales and Victoria, which have above-average investment needs in this area, and decreased the assessed GST needs of the other states.

Changes in state investment needs due to capital improvements are distinct from changes related to population growth. States with growing user-populations require more infrastructure. Where there is a collective increase in spending on capital improvements, such as in urban transport, states with an above-average share of the population using that public asset will have increased investment needs. Both changes in capital improvements and population growth affect the level of investment each state is assessed as requiring and in turn its GST distribution.

2018 legislated changes to GST distribution arrangements

The 2018 legislated changes to the GST distribution arrangements included the introduction of a GST relativity floor. For 2023–24, the floor is 0.70. In the absence of the relativity floor, Western Australia's very strong relative fiscal capacity would result in it receiving a relativity well below the floor. Increasing Western Australia's relativity to 0.70 significantly increases its GST distribution compared with the previous GST distribution arrangements. As the GST is distributed from a fixed pool, this reduces the distribution to all other states. However, the Commonwealth has guaranteed to make additional payments over the 6-year transition period to 2026–27 so that no state will be worse off compared with the payments it would have received before the 2018 legislated arrangements (the 'no worse off guarantee').

Estimated total payments to the states

Based on its recommendations in the 2023 Update, the Commission has provided indicative estimates of total payments from the GST pool (based on the Commission's recommended GST relativities) and no worse off payments to the states in 2023–24 (see Table 2).

The indicative estimates are provided for illustrative purposes. Final GST distributions and no worse off payments for 2023–24 will be calculated by the Commonwealth and will be based on the actual GST pool, pool top-ups and population for 2023–24, which will not be determined until after the end of that year.

Table 2 Estimated total payments to the states from GST distribution and no worse off payments

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
2022-23									
Total GST distribution	24,717	18,175	17,547	6,228	7,477	3,404	1,609	3,965	83,122
No worse off payments	1,474	1,213	953	0	318	89	82	12	4,141
Total	**26,192**	**19,388**	**18,501**	**6,228**	**7,795**	**3,493**	**1,691**	**3,976**	**87,263**
2023-24									
Total GST distribution	24,870	18,796	18,220	6,482	8,420	3,409	1,831	4,219	86,248
No worse off payments	1,722	1,427	1,117	0	373	113	96	37	4,886
Total	**26,592**	**20,223**	**19,337**	**6,482**	**8,794**	**3,522**	**1,928**	**4,256**	**91,134**
Difference									
GST distribution	152	621	673	254	943	5	223	255	3,126
No worse off payments	248	214	163	0	56	25	14	25	745
Total ($m)	**400**	**835**	**836**	**254**	**999**	**29**	**237**	**280**	**3,871**
Total ($pc)	**48**	**123**	**154**	**89**	**539**	**50**	**503**	**1,076**	**146**

Source: Commission calculation.

Conclusion

The Commission has provided the Commonwealth Treasurer its recommended GST relativities for 2023–24. Given the forecast growth in the GST pool in 2023–24, all states are expected to receive higher overall payments from the GST pool compared with 2022–23, notwithstanding that the recommended relativity for some states has fallen.

Among the factors influencing changes in the Commission's recommendations for the distribution of the GST pool in 2023–24 are the strong growth in mining revenue, which has particularly increased the revenue capacities of Western Australia and Queensland; very strong growth in the value of property transferred in New South Wales that has increased its capacity to raise revenue from stamp duty on conveyances; differing population growth rates across states which have affected investment needs and the more than doubling in investment in urban transport between 2018–19 and 2020–21, which increased the assessed GST needs of New South Wales and Victoria.

Another important influence on the distribution of GST is the ongoing transition to the 2018 GST legislated arrangements, particularly the introduction of a GST relativity floor, which is 0.70 in 2023–24. This will significantly increase Western Australia's GST share, while lowering the shares of the other states. The Commonwealth Government's top-up and transitional no worse off payments will ameliorate this impact on the other states.