



**Australian Government**  

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**Commonwealth Grants Commission**

**CHANGES IN STATE BUDETS  
2000-01 TO 2014-15**

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## SUMMARY OF FINDINGS

Over the period 2000-01 to 2014-15, we observed the following.

- The States as a whole recorded an operating surplus in each year except for 2012-13.
- As a share of State economies<sup>1</sup>, Commonwealth payments and State expenses remained relatively stable, reaching their peak in 2009-10 and gradually decreasing thereafter; State own-source revenues have fallen since 2007-08 but started to increase in 2012-13 to peak in 2014-15. Investment increased rapidly after 2004-05 — it more than tripled between 2005-06 and 2010-11 but started to fall in 2011-12.
- States moved from being net lenders in most of the early part of the period, to being net borrowers in 2007-08 and thereafter.
- States became borrowers because they increased their investment and the growth in their total expenditure<sup>2</sup> exceeded the growth in their revenues.
- Commonwealth payments contributed the most to total revenue growth until 2010-11; after that, State own-source revenue contributed the most to total revenue growth.
- GST has been the most important source of Commonwealth payments for most years except those between 2008-09 and 2011-12 when payments for specific purpose (PSPs)<sup>3</sup> grew rapidly and their share of Commonwealth payments became higher than the GST share.
- Sales of goods and services and payroll tax were the most important own-source revenues (apart from other revenues) over the period, but mining revenue grew the fastest and became more important to State own-source revenue, especially after 2007-08.
- Education and health were the most important services, with health expenditure contributing most to the growth in operating expenses.
- In 2014-15, most investment in all States was on roads and transport services but the proportions varied enormously over the period and by State.

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<sup>1</sup> Gross State Product (GSP) is used to measure the size of State economies.

<sup>2</sup> Expenses plus investment.

<sup>3</sup> Commonwealth payments for specific purposes include National Specific Purpose payments, National Health Reform funding, Students First funding, and National Partnership payments.

## INTRODUCTION

- 1 This paper explores the changes in State budgets between 2000-01 (when the Goods and Services Tax (GST) was introduced) and 2014-15. It shows:
  - the changes in State budget positions
  - the most important State revenues, expenses and investment
  - the changes in the relative importance of different revenues and expenses
  - the main contributors to growth in State budgets.
- 2 The analysis in this paper covers the State general government sector only. It uses data from the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) and Taxation Revenue publications, unpublished ABS GFS data, some ABS National Accounts data and Commonwealth and State budget data. As with all comparisons, there are some caveats. Differences between States mean some interstate comparisons must be made with care; for example, the ACT data cover both State and local government responsibilities.<sup>4</sup> Further, different decisions on whether services are delivered by the general government or the public corporations sector can affect the way revenues and expenditures are recorded.<sup>5</sup>

## CHANGES IN STATE BUDGET POSITIONS

- 3 Table 1 and Figure 1 show the budget positions of the States as a whole for 2000-01 to 2014-15. Table 1 shows States had an operating surplus throughout the period except in 2012-13, reflecting a reduction in Commonwealth payments in that year.
- 4 Overall, State budgets moved from a net borrowing position in 2001-02 to a net lending position in 2002-03. They remained in that position between 2002-03 and 2006-07 before States became net borrowers in 2007-08. They have remained net borrowers since.
- 5 Table 1 shows how State own-source revenues, Commonwealth payments, expenses and investment have tracked as a share of State economies (Gross State Product (GSP)) over the period.
  - State own-source revenues have fluctuated between 7% and 8% of GSP over the period but fell from 7.7% in 2006-07 to just over 7% in 2007-08. They

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<sup>4</sup> Unlike other States, GFS do not show a separate local government sector for the ACT.

<sup>5</sup> For example, public housing services are delivered by the general government sector in Queensland, Tasmania and the Northern Territory and by public non-financial corporations (PNFCs) in the other States. As a result, the housing data for Queensland, Tasmania and the Northern Territory include gross housing expenses and user charges (called 'sales of goods and services' in GFS terms), but the housing data for the other States include subsidies to housing PNFCs.

remained at that level for a few years, then started to increase in 2012-13, reaching 7.9% in 2014-15.

- State revenue from Commonwealth payments was steady at between 6% and 7% of GSP over the period but experienced a peak of 7.7% in 2009-10, falling back to the normal range after that.
- State expenses remained relatively stable over the period at between 13.5% and 14.5% of GSP, peaking in 2009-10 at 14.8% but falling back to 14% after that.
- State investment<sup>6</sup> has increased from a low of 0.3% of GSP in the early 2000s to a high of 1.4% in 2009-10. It reduced to more normal levels of 0.5% in 2014-15.

6 The big increases in State revenue from Commonwealth payments and State expenses and investment in 2009-10 were largely as a result of the Commonwealth's economic stimulus package in response to Global Financial Crisis (the GFC).

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<sup>6</sup> Referred to as 'Net acquisition of non-financial assets' in Table 1.

**Table 1 State budget positions (GFS), 2000-01 to 2014-15**

|  | 2000-01       | 2001-02      | 2002-03      | 2003-04      | 2004-05      | 2005-06      | 2006-07      | 2007-08       | 2008-09        | 2009-10        | 2010-11        | 2011-12        | 2012-13        | 2013-14       | 2014-15       |
|--|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|
|  | \$m           | \$m          | \$m          | \$m          | \$m          | \$m          | \$m          | \$m           | \$m            | \$m            | \$m            | \$m            | \$m            | \$m           | \$m           |
| <b>Total State revenue (a)</b>                     | 101 311       | 106 706      | 113 782      | 124 097      | 132 019      | 142 558      | 153 883      | 161 338       | 173 920        | 194 559        | 200 383        | 210 001        | 207 588        | 225 034       | 236 037       |
| comprised of:                                      |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| Own-source revenue (b)                             | 54 152        | 53 639       | 58 875       | 66 663       | 70 078       | 75 857       | 83 616       | 84 236        | 88 465         | 93 203         | 102 438        | 107 683        | 113 727        | 121 458       | 127 496       |
| Commonwealth payments                              | 47 111        | 52 884       | 54 452       | 57 082       | 61 422       | 65 559       | 69 166       | 76 012        | 84 089         | 100 020        | 96 626         | 101 163        | 92 758         | 102 371       | 107 115       |
| Grants and subsidies from other sources            | 48            | 183          | 455          | 352          | 519          | 1 142        | 1 101        | 1 090         | 1 366          | 1 336          | 1 319          | 1 155          | 1 102          | 1 205         | 1 426         |
| less   |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| <b>Total State expenses (a)</b>                    | 99 907        | 104 499      | 109 590      | 117 471      | 125 519      | 134 994      | 146 246      | 157 392       | 173 817        | 191 331        | 198 277        | 209 190        | 214 747        | 221 101       | 230 791       |
| equals   |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| <b>Net Operating Balance</b>                       | <b>1 403</b>  | <b>2 207</b> | <b>4 192</b> | <b>6 626</b> | <b>6 500</b> | <b>7 564</b> | <b>7 637</b> | <b>3 946</b>  | <b>103</b>     | <b>3 228</b>   | <b>2 106</b>   | <b>811</b>     | <b>-7 159</b>  | <b>3 933</b>  | <b>5 246</b>  |
| less   |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| <b>Net acquisition of non-financial assets (c)</b> | 3 158         | 3 077        | 2 380        | 2 234        | 2 745        | 4 602        | 6 548        | 8 297         | 10 739         | 17 532         | 17 363         | 14 213         | 10 990         | 10 265        | 8 433         |
| equals   |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| <b>Net Lending(+)/Borrowing(-)</b>                 | <b>-1 755</b> | <b>- 870</b> | <b>1 811</b> | <b>4 393</b> | <b>3 755</b> | <b>2 962</b> | <b>1 088</b> | <b>-4 351</b> | <b>-10 635</b> | <b>-14 304</b> | <b>-15 257</b> | <b>-13 402</b> | <b>-18 149</b> | <b>-6 333</b> | <b>-3 187</b> |
|  | %             | %            | %            | %            | %            | %            | %            | %             | %              | %              | %              | %              | %              | %             | %             |
| <b>Proportion of Gross State Product</b>           |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| Total State revenue                                |               |              |              |              |              |              |              |               |                |                |                |                |                |               |               |
| Own-source revenue                                 | 7.7           | 7.1          | 7.4          | 7.7          | 7.6          | 7.6          | 7.7          | 7.2           | 7.0            | 7.2            | 7.3            | 7.2            | 7.5            | 7.7           | 7.9           |
| Commonwealth payments                              | 6.7           | 7.0          | 6.8          | 6.6          | 6.7          | 6.6          | 6.4          | 6.5           | 6.7            | 7.7            | 6.9            | 6.8            | 6.1            | 6.5           | 6.7           |
| <b>Total</b>                                       | <b>14.4</b>   | <b>14.2</b>  | <b>14.2</b>  | <b>14.4</b>  | <b>14.3</b>  | <b>14.3</b>  | <b>14.2</b>  | <b>13.7</b>   | <b>13.8</b>    | <b>15.0</b>    | <b>14.2</b>    | <b>14.1</b>    | <b>13.6</b>    | <b>14.2</b>   | <b>14.7</b>   |
| Total State expenses                               | 14.2          | 13.9         | 13.7         | 13.6         | 13.6         | 13.5         | 13.5         | 13.4          | 13.8           | 14.8           | 14.1           | 14.0           | 14.1           | 14.0          | 14.3          |
| Net acquisition of non-financial assets (c)        | 0.4           | 0.4          | 0.3          | 0.3          | 0.3          | 0.5          | 0.6          | 0.7           | 0.9            | 1.4            | 1.2            | 1.0            | 0.7            | 0.6           | 0.5           |
| <b>Total</b>                                       | <b>14.6</b>   | <b>14.3</b>  | <b>14.0</b>  | <b>13.9</b>  | <b>13.9</b>  | <b>14.0</b>  | <b>14.1</b>  | <b>14.1</b>   | <b>14.7</b>    | <b>16.1</b>    | <b>15.3</b>    | <b>15.0</b>    | <b>14.8</b>    | <b>14.6</b>   | <b>14.9</b>   |

(a) The GFS revenue and expenses in this table are the totals of State general government sector. They are the consolidated outcomes after removing the transactions between States, which do not equal to the sums of State totals used in Table 2 and Table 6.

(b) Revenue from State taxes, charges, royalties etc.

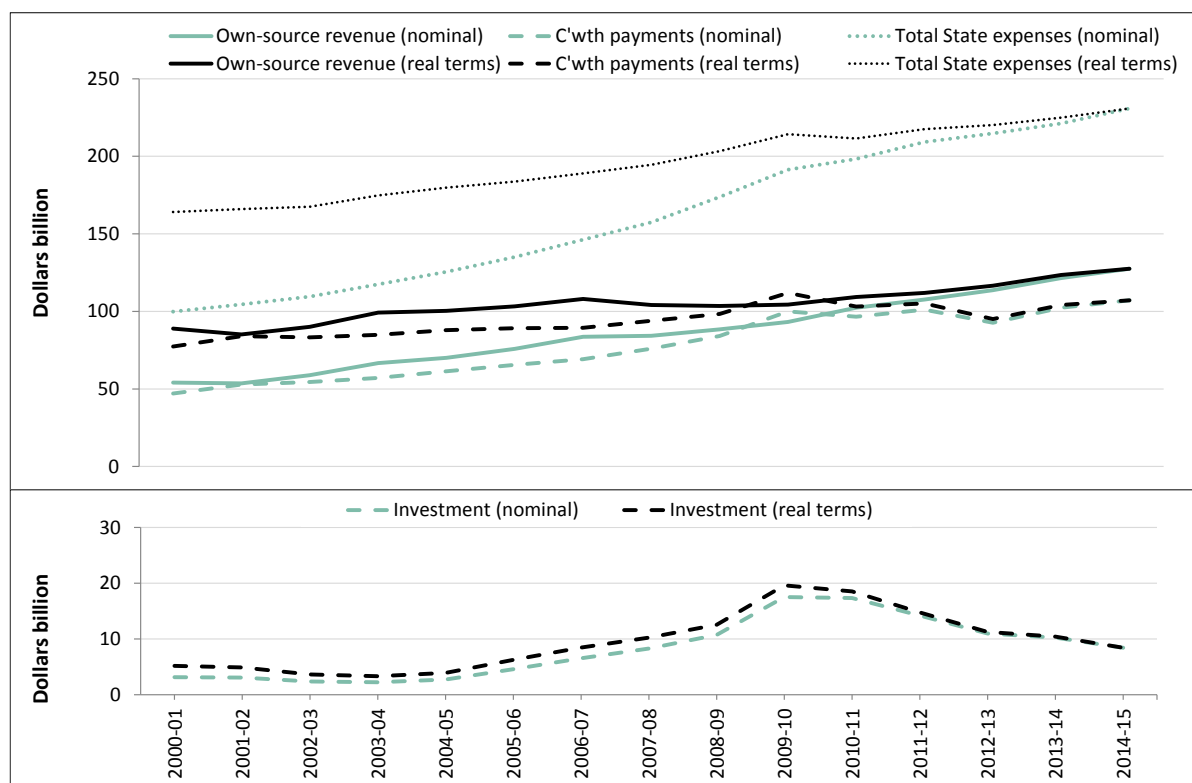
(c) Investment in new assets, excluding assets funded from depreciation.

Source: 1. ABS GFS (5512.0), 2009-10 and 2014-15.

2. ABS Australian National Accounts (5220.0), 2014-15.

- 7 Figure 1 shows changes in State revenue and expenses in nominal and real terms (2014-15 prices). It shows that in real terms:
- own-source revenue of all States increased steadily for the whole period, except for a slight fall between 2007-08 and 2009-10
  - Commonwealth payments increased slightly over the period, peaking in 2009-10, then falling
  - State expenses increased steadily over the period, with growth slowing slightly in 2009-10 and 2012-13
  - investment increased markedly until peaking in 2009-10 before falling.
- 8 In the rest of this paper, our analysis is based on nominal revenues and expenditures.

**Figure 1 Change in revenue and expenditure, all States, 2000-01 to 2014-15**



Note: The real terms figures are based on 2014-15 prices.

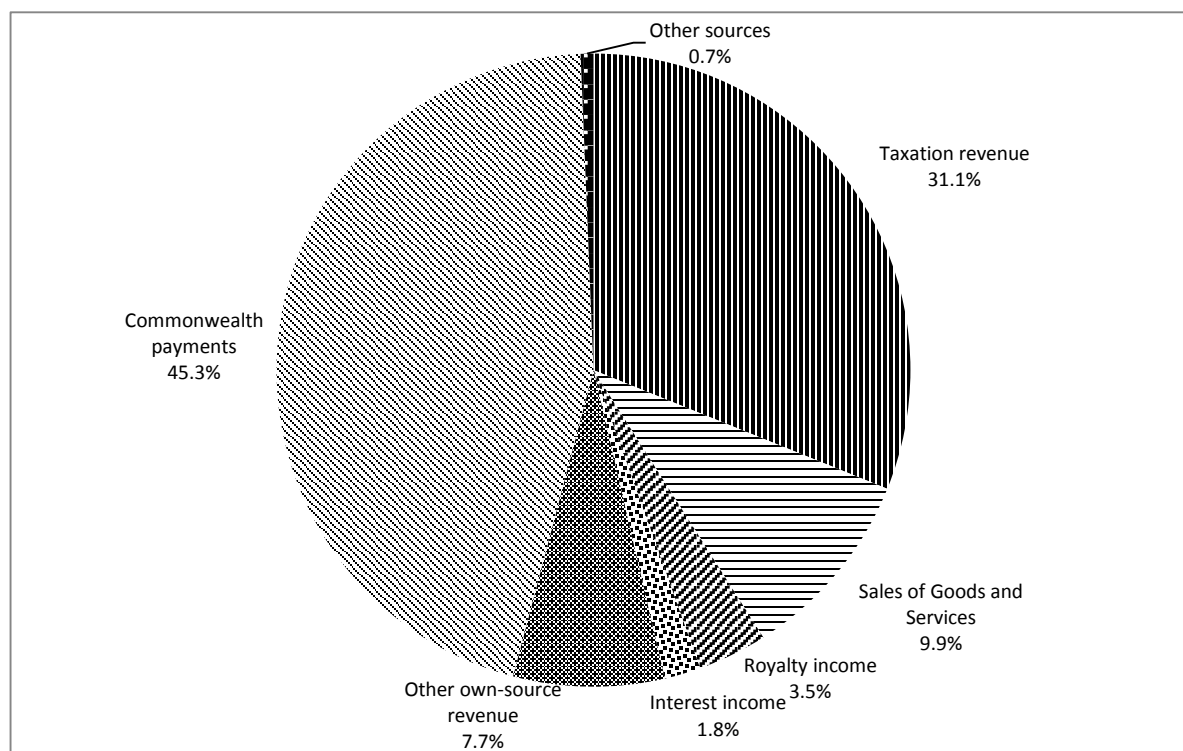
Source: Commission analysis of ABS GFS (5512.0) and Final Consumption Expenditure (5206.0).

## REVENUE FROM ALL SOURCES

- 9 Figure 2 shows the sources of State revenue for all States in 2014-15. It shows State own-source revenue and Commonwealth payments were 54.0% and 45.3%

respectively of total State revenue.<sup>7</sup> Taxation revenue was the largest own-source revenue, representing 31.1% of total State revenue.

**Figure 2 Revenue by source, all States, 2014-15**



Notes:

- (1) Other own-source revenue includes: dividend income, fines, income from PNFCs, asset acquired below fair value and other revenue not elsewhere classified.
- (2) Revenue from other sources includes grants and subsidies from sources other than the Commonwealth.

Source: Commission analysis of ABS GFS (5512.0) and ABS unpublished data.

10 Table 2 shows total State revenue by source for each State and the proportion each revenue represents of total State revenue in 2014-15. It shows State own-source revenue was the most important revenue source for New South Wales, Victoria, Queensland, Western Australia, and the ACT<sup>8</sup> (representing over 50% of their total State revenues).

- The relative importance of State own-source revenues to State budgets varied.
- It was more important for Western Australia and the ACT than the other States. For Western Australia and the ACT, State own-source revenue was 65.9% and 56.3% respectively of total State revenue in 2014-15.

<sup>7</sup> The remaining 0.7% was revenue from other sources, which includes grants and subsidies from sources other than from the Commonwealth.

<sup>8</sup> The own-source revenue for the ACT includes municipal rates.



**Table 2 Total State revenue by source, 2014-15**

|                              | NSW           | Vic           | Qld           | WA            | SA            | Tas          | ACT          | NT           | Total          |
|------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|----------------|
|                              | \$m           | \$m           | \$m           | \$m           | \$m           | \$m          | \$m          | \$m          | \$m            |
| <b>Revenues</b>              |               |               |               |               |               |              |              |              |                |
| Own-source revenue           |               |               |               |               |               |              |              |              |                |
| Taxation revenue             | 26 197        | 18 600        | 12 575        | 8 772         | 4 393         | 1 012        | 1 377        | 715          | 73 641         |
| Sales of goods and services  | 5 975         | 6 482         | 5 250         | 2 105         | 2 329         | 438          | 475          | 335          | 23 389         |
| Royalty income               | 1 254         | 44            | 2 059         | 4 597         | 237           | 27           | 0            | 162          | 8 381          |
| Interest income              | 630           | 807           | 2 470         | 185           | 39            | 15           | 140          | 89           | 4 375          |
| Other (a)                    | 5 862         | 3 637         | 3 908         | 2 312         | 1 223         | 538          | 570          | 184          | 18 233         |
| <b>Total</b>                 | <b>39 918</b> | <b>29 570</b> | <b>26 262</b> | <b>17 971</b> | <b>8 221</b>  | <b>2 030</b> | <b>2 562</b> | <b>1 485</b> | <b>128 019</b> |
| Commonwealth payments        |               |               |               |               |               |              |              |              |                |
| Current grants and subsidies | 30 798        | 23 547        | 20 781        | 8 051         | 8 017         | 3 072        | 1 931        | 4 128        | 100 325        |
| Capital grants               | 1 737         | 824           | 2 408         | 1 263         | 202           | 56           | 61           | 239          | 6 790          |
| <b>Total</b>                 | <b>32 535</b> | <b>24 371</b> | <b>23 189</b> | <b>9 314</b>  | <b>8 219</b>  | <b>3 128</b> | <b>1 992</b> | <b>4 367</b> | <b>107 115</b> |
| Other sources (b)            | 860           | 122           | 315           | 0             | 237           | 0            | 0            | 4            | 1 538          |
| <b>Total</b>                 | <b>73 313</b> | <b>54 063</b> | <b>49 766</b> | <b>27 285</b> | <b>16 677</b> | <b>5 158</b> | <b>4 554</b> | <b>5 856</b> | <b>236 672</b> |
|                              | %             | %             | %             | %             | %             | %            | %            | %            | %              |
| <b>Proportions</b>           |               |               |               |               |               |              |              |              |                |
| Own-source revenue           |               |               |               |               |               |              |              |              |                |
| Taxation revenue             | 35.7          | 34.4          | 25.3          | 32.1          | 26.3          | 19.6         | 30.2         | 12.2         | 31.1           |
| Sales of goods and services  | 8.1           | 12.0          | 10.5          | 7.7           | 14.0          | 8.5          | 10.4         | 5.7          | 9.9            |
| Royalty income               | 1.7           | 0.1           | 4.1           | 16.8          | 1.4           | 0.5          | 0.0          | 2.8          | 3.5            |
| Interest income              | 0.9           | 1.5           | 5.0           | 0.7           | 0.2           | 0.3          | 3.1          | 1.5          | 1.8            |
| Other (a)                    | 8.0           | 6.7           | 7.9           | 8.5           | 7.3           | 10.4         | 12.5         | 3.1          | 7.7            |
| <b>Total</b>                 | <b>54.4</b>   | <b>54.7</b>   | <b>52.8</b>   | <b>65.9</b>   | <b>49.3</b>   | <b>39.4</b>  | <b>56.3</b>  | <b>25.4</b>  | <b>54.1</b>    |
| Commonwealth payments        |               |               |               |               |               |              |              |              |                |
| Current grants and subsidies | 42.0          | 43.6          | 41.8          | 29.5          | 48.1          | 59.6         | 42.4         | 70.5         | 42.4           |
| Capital grants               | 2.4           | 1.5           | 4.8           | 4.6           | 1.2           | 1.1          | 1.3          | 4.1          | 2.9            |
| <b>Total</b>                 | <b>44.4</b>   | <b>45.1</b>   | <b>46.6</b>   | <b>34.1</b>   | <b>49.3</b>   | <b>60.6</b>  | <b>43.7</b>  | <b>74.6</b>  | <b>45.3</b>    |
| Other sources (b)            | 1.2           | 0.2           | 0.6           | 0.0           | 1.4           | 0.0          | 0.0          | 0.1          | 0.7            |
| <b>Total</b>                 | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>   |

(a) Includes dividend income, fines, income from PNFCs, assets acquired below fair value and other revenue not elsewhere classified.

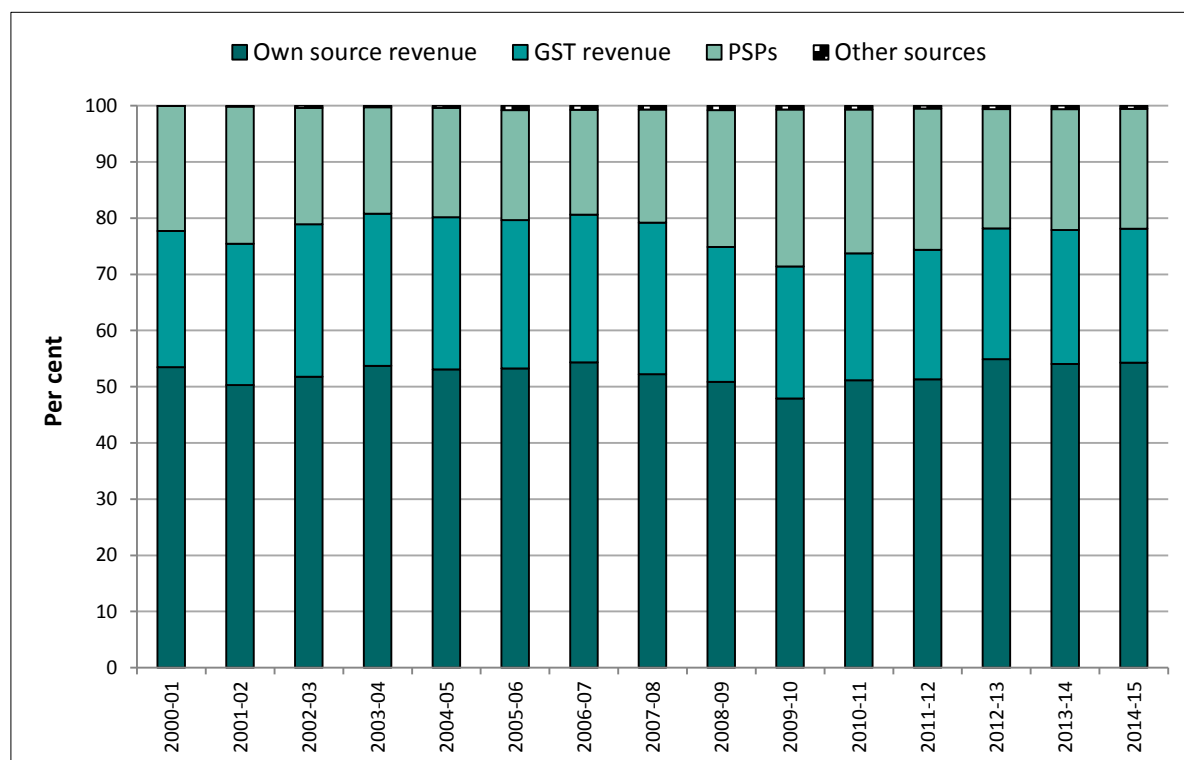
(b) Includes current grants and subsidies, and capital grants from sources other than from the Commonwealth.

Source: Commission analysis of ABS GFS (5512.0) and ABS unpublished data.

11 Table 2 shows Commonwealth payments were the most important revenue source for Tasmania and the Northern Territory. The Northern Territory, in particular, relied heavily on Commonwealth payments. They were 74.6% of its total State revenue in 2014-15.

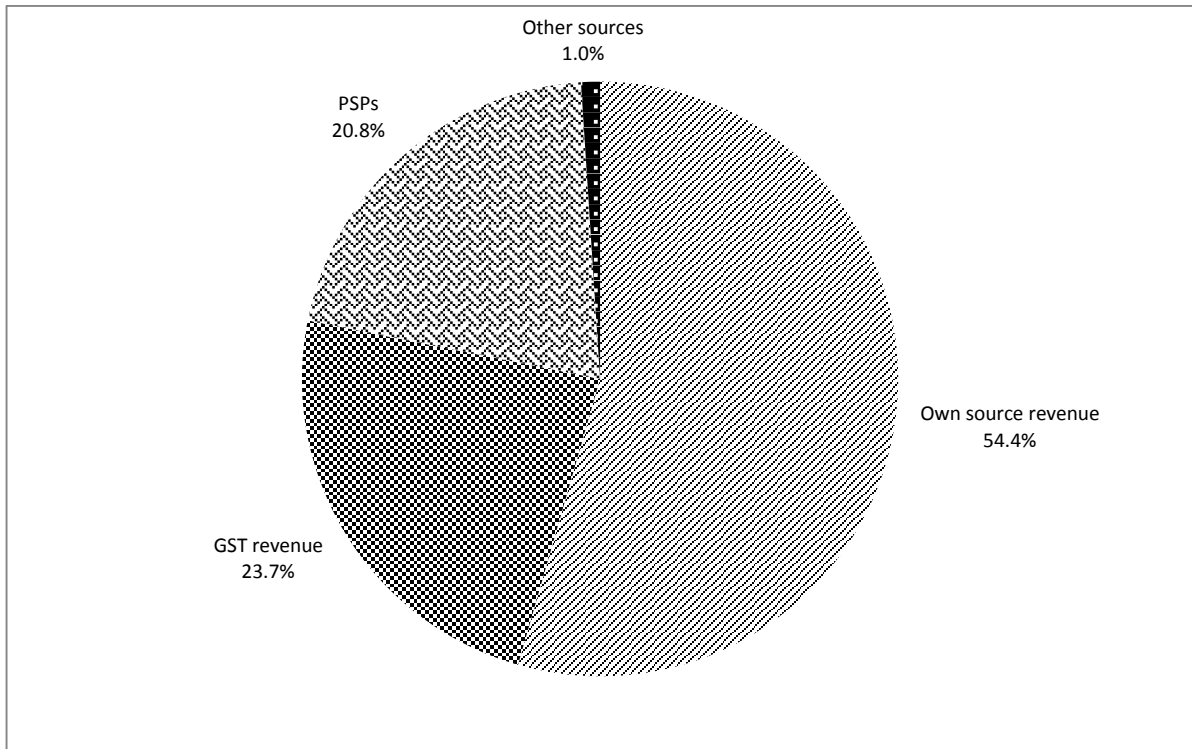
- 12 Figure 3 shows the relative importance of State own-source revenues and Commonwealth payments to State budgets fluctuated between 2000-01 and 2014-15. Own source revenues were about 50% of revenue over the entire period, GST was about 30% and Commonwealth payments for specific purposes (PSPs) were about 20% until 2007-08. Between 2007-08 and 2010-11, the relative importance of GST decreased and the relative importance of PSPs increased. This pattern has reversed since 2011-12.
- 13 Figure 4 shows State own-source revenue (54.4%) contributed more to the growth in total State revenue than Commonwealth payments (44.5%) for the period between 2000-01 and 2014-15.
- 14 However, because of the fluctuations in the relative importance of State own-source revenue and Commonwealth payments to State budgets, their contributions to the growth of total State revenue varied markedly over the period being considered.
- 15 Figure 5 illustrates that between 2007-08 and 2010-11, PSPs contributed 48.2% of State revenue growth but their contribution to growth fell sharply to negative for the period of 2010-11 to 2014-15. On the contrary, the contribution to growth of State own source revenues increased from 46.6% to 70.3% between the two time periods. The contribution of GST to revenue growth also increased significantly from 4.6% to 31.4% between the two time periods.

**Figure 3 Composition of State revenue, all States, 2000-01 to 2014-15**



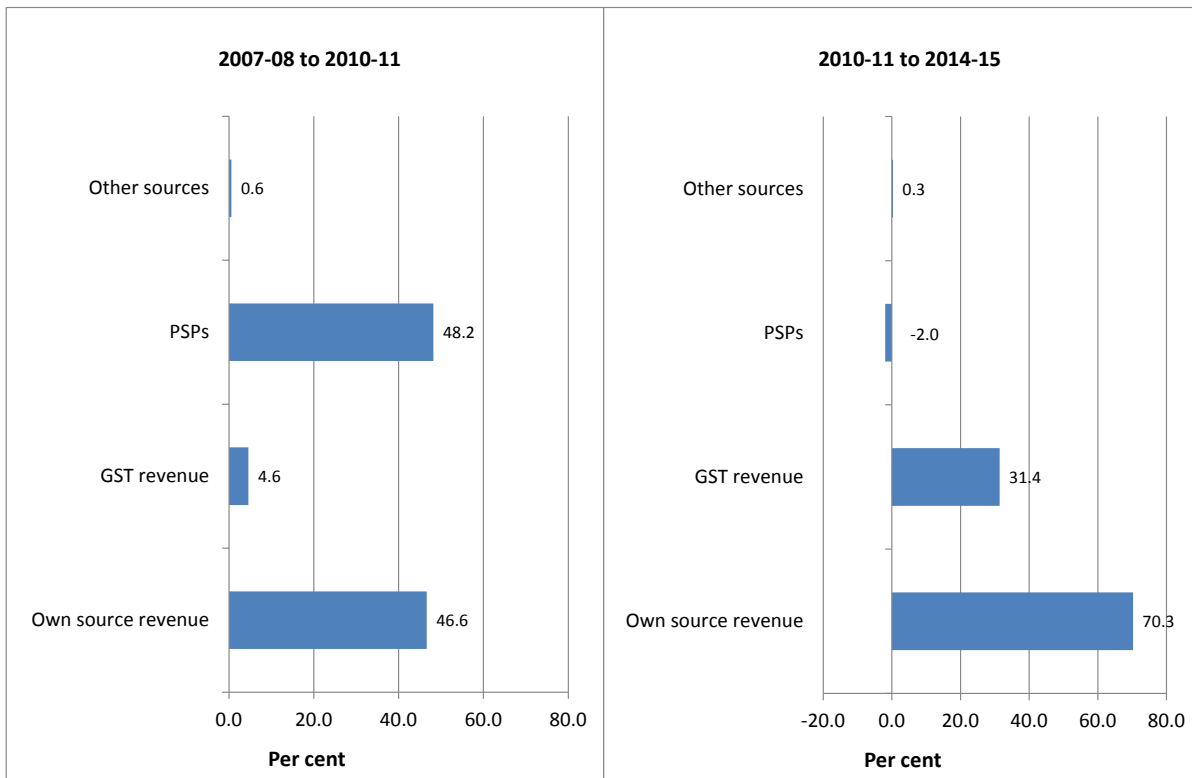
Source: Commission analysis of ABS GFS (5512.0) and Final Budget Outcomes of the Commonwealth (FBOs).

**Figure 4 Contribution to State revenue growth, all States, 2000-01 to 2014-15**



Source: Commission analysis of ABS GFS (5512.0) and the Commonwealth FBOs.

**Figure 5 Contribution to State revenue growth by time period, all States**



Source: Commission analysis of ABS GFS (5512.0) and the Commonwealth FBOs.

## STATE OWN-SOURCE REVENUE

- 16 **Taxation revenue.** Taxation revenue accounted for around 57.5% of total State own-source revenue in 2014-15 (Table 3).
- 17 Payroll taxation was the largest single State tax, representing an average of 17.4% of State own-source revenue. It was relatively more important for New South Wales, Western Australia and the Northern Territory (18.9%, 20.0% and 18.1% of total own-source revenue, respectively) than other States.
- 18 Stamp duty on conveyances was the second largest State tax, contributing 14.4% to total State own-source revenue. It was relatively more important for New South Wales, Victoria and the Northern Territory (18.5%, 17.1% and 17.8% of total own-source revenue, respectively) than other States.

**Table 3 Composition of own-source revenue by State, 2014-15**

|                                 | NSW          | Vic          | Qld          | WA           | SA           | Tas          | ACT          | NT           | Total        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | %            | %            | %            | %            | %            | %            | %            | %            | %            |
| <b>Taxation revenue</b>         |              |              |              |              |              |              |              |              |              |
| Payroll Tax                     | 18.9         | 17.9         | 14.4         | 20.0         | 13.3         | 15.3         | 14.0         | 18.1         | 17.4         |
| Land Tax                        | 6.2          | 5.9          | 3.7          | 4.1          | 6.8          | 4.1          | 3.7          | 0.0          | 5.2          |
| Stamp duty on conveyances       | 18.5         | 17.1         | 10.3         | 9.4          | 11.0         | 9.5          | 8.4          | 17.8         | 14.4         |
| Insurance Tax                   | 5.0          | 3.7          | 3.3          | 3.5          | 5.4          | 4.0          | 2.1          | 3.0          | 4.1          |
| Motor Tax                       | 7.6          | 7.2          | 7.8          | 7.1          | 7.3          | 8.3          | 5.5          | 4.6          | 7.4          |
| Gambling Tax                    | 5.2          | 6.0          | 4.1          | 1.3          | 4.7          | 4.7          | 2.0          | 4.6          | 4.5          |
| Other taxation (a)              | 4.2          | 5.0          | 4.2          | 3.5          | 4.9          | 3.9          | 18.0         | 0.0          | 4.6          |
| <b>Total</b>                    | <b>65.6</b>  | <b>62.9</b>  | <b>47.9</b>  | <b>48.8</b>  | <b>53.4</b>  | <b>49.9</b>  | <b>53.8</b>  | <b>48.1</b>  | <b>57.5</b>  |
| <b>Mining Revenue</b>           | <b>3.1</b>   | <b>0.1</b>   | <b>7.8</b>   | <b>25.6</b>  | <b>2.9</b>   | <b>1.3</b>   | <b>0.0</b>   | <b>10.9</b>  | <b>6.5</b>   |
| <b>Other revenue</b>            |              |              |              |              |              |              |              |              |              |
| Sales of good and services      | 15.0         | 21.9         | 20.0         | 11.7         | 28.3         | 21.6         | 18.5         | 22.6         | 18.3         |
| Interest income                 | 1.6          | 2.7          | 9.4          | 1.0          | 0.5          | 0.7          | 5.5          | 6.0          | 3.4          |
| Other own source revenue (b)    | 14.7         | 12.3         | 14.9         | 12.9         | 14.9         | 26.5         | 22.2         | 12.4         | 14.2         |
| <b>Total</b>                    | <b>31.2</b>  | <b>36.9</b>  | <b>44.3</b>  | <b>25.6</b>  | <b>43.7</b>  | <b>48.8</b>  | <b>46.2</b>  | <b>40.9</b>  | <b>35.9</b>  |
| <b>Total own-source revenue</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

(a) Other taxation revenue for the ACT includes municipal rates.

(b) Other own-source revenue in this table includes: dividend income, fines, income from PNFCs, assets acquired below fair value and other revenue not elsewhere classified.

Source: 1. ABS Taxation Revenue (5506.0), 2014-15.  
2. Commission analysis of ABS GFS and unpublished data.

- 19 **Mining revenue.** The relative importance of mining revenue<sup>9</sup> as a State own-source revenue was very different among the States. This is due to the uneven distribution of mineral resources.
- 20 Mining revenue was 6.5% of total State own-source revenue in 2014-15. Table 3 shows it contributed 7.8%, 25.6% and 10.9% respectively to State own-source revenues in Queensland, Western Australia and the Northern Territory. The mining revenue contributions to State own-source revenues for other States were relatively small.
- 21 **Other revenue.** This group<sup>10</sup> represented 35.9% of total State own-source revenue in 2014-15. Income from sales of goods and services was the largest item in the group, representing 18.3% of total State own-source revenue. For most States, user charges from health services was the most important source for the revenue from sales of goods and services.<sup>11</sup>
- 22 Revenue from sales of goods and services was particularly important for Victoria, South Australia, Tasmania and the Northern Territory, representing 21.9%, 28.3%, 21.6% and 22.6% respectively of their own-source revenues in 2014-15. Apart from health service user charges, these revenues came mainly from transport user charges in Victoria and South Australia, and housing user charges in Tasmania and the Northern Territory.<sup>12</sup>

## Changes in own-source revenue

- 23 Figure 6-a and Figure 6-b show the changes in the size and proportion of important State own-source revenues from 2000-01 to 2014-15. They show the following.
- Payroll tax, stamp duty on conveyances, revenue from sales of goods and services were the most important own-source revenues over the period, although the relative importance of stamp duty on conveyances has reduced since 2007-08.

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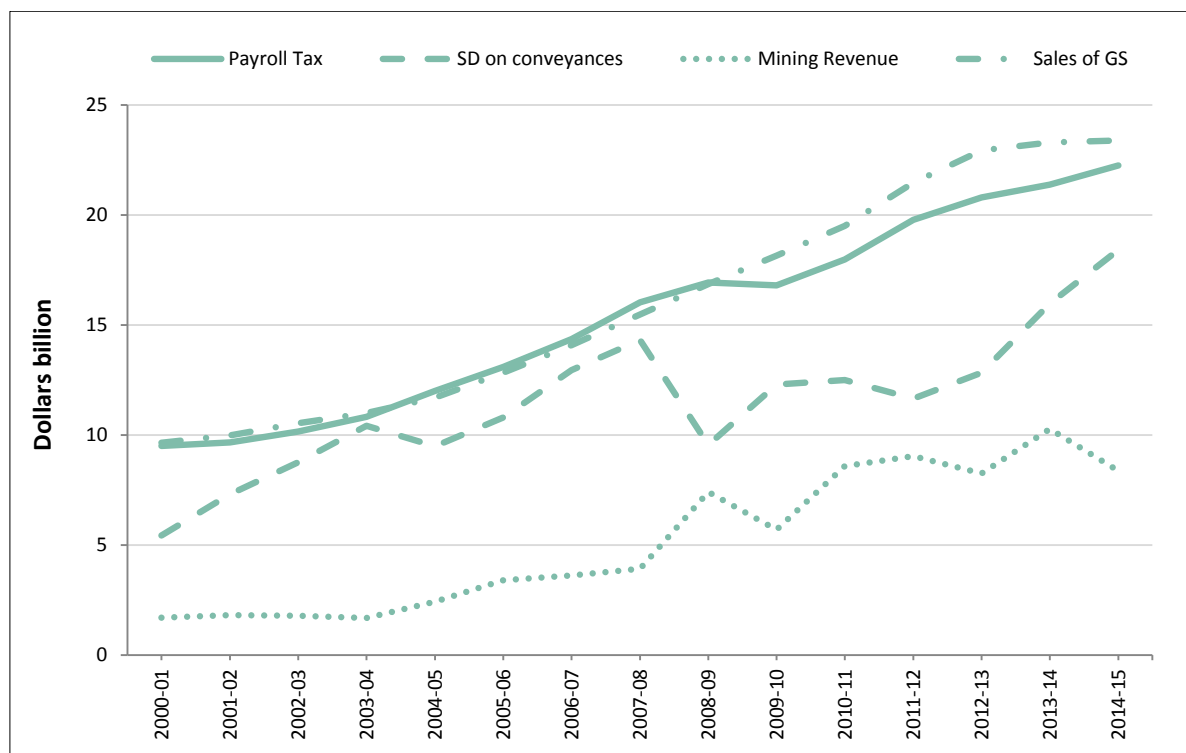
<sup>9</sup> In this analysis, mining revenue excludes royalties paid to States through Commonwealth payments.

<sup>10</sup> This group includes revenue from: sales of goods and services, interest income, dividend income, fines, income from PNFCs, assets acquired below fair value and other revenue not elsewhere classified.

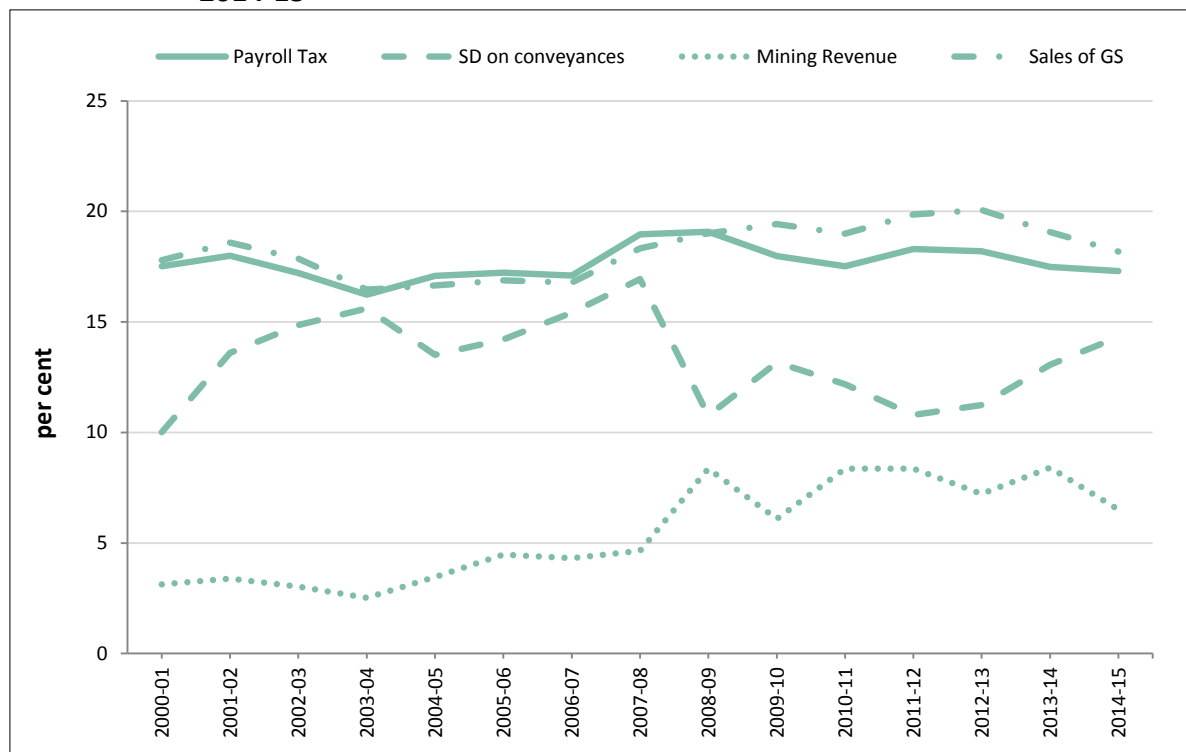
<sup>11</sup> Health user charges include fees and charges from hospital services, outpatient, patient transportation and community health services. This revenue represented an average of 28% of total income from sales of goods and services for all States for the period of 2000-01 to 2014-15.

<sup>12</sup> The high proportion of revenue from sales of goods and services in these States is due to the way they organise service delivery. Transport services in South Australia are delivered by its general government sector while these services are delivered by PNFCs or private operators in other States. Victoria's general government sector receives transport user charges (mainly charges on capital assets) from its PNFC which collects the charges from private contractors. Tasmania's and Northern Territory's housing services are delivered by their general government sector.

**Figure 6-a Important own-source revenue, all States, 2000-01 to 2014-15**



**Figure 6-b Proportion of important own-source revenue, all States, 2000-01 to 2014-15**



Note: SD on conveyances stands for 'Stamp duty on conveyances', Sales of GS stands for 'Sales of Goods and Services'.

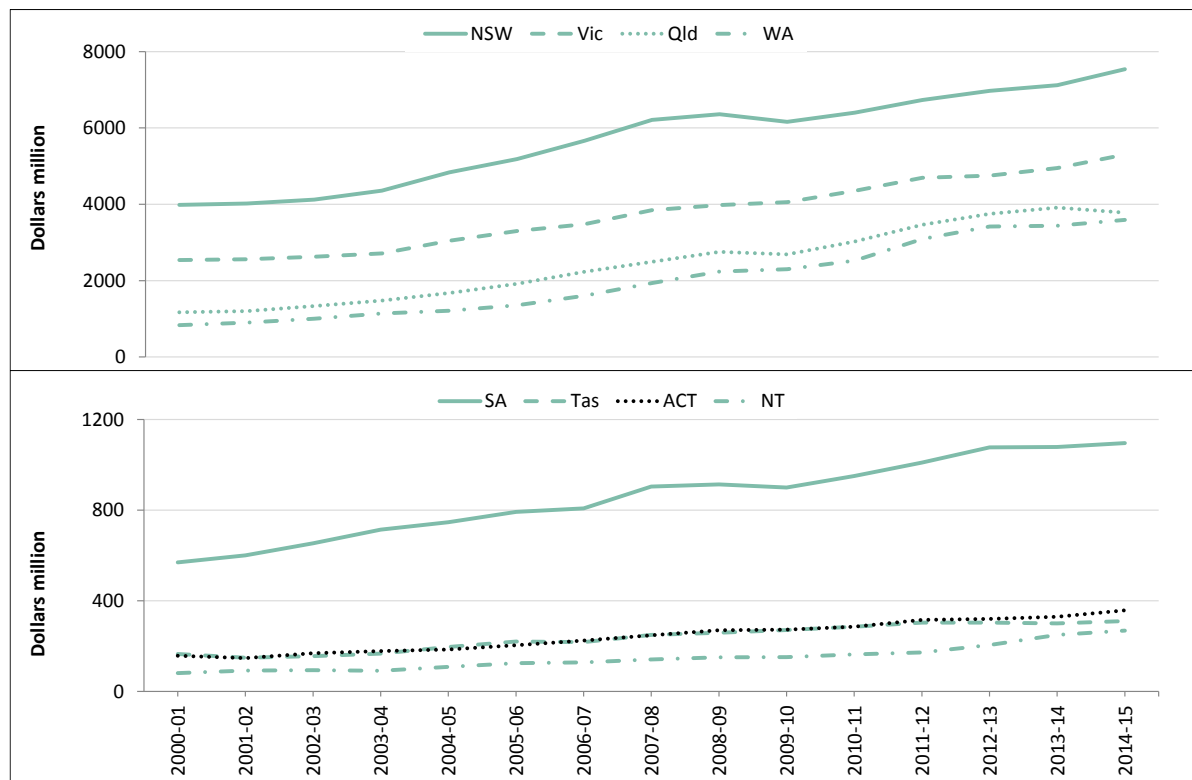
Source: Commission analysis of ABS GFS (5512.0) and ABS Taxation Revenue (5506.0).

- Mining revenue has become increasingly important to State own-source revenue, especially for years since 2007-08. However, it started to fall in 2014-15.<sup>13</sup>
- 24 **Payroll tax.** This tax raised an average of 17.7% of State own-source revenue for the period of 2000-01 to 2014-15. Figure 7 shows there has been steady increase in payroll tax for each State throughout the period. However, the growth in payroll tax has been uneven across States.
  - 25 Payroll tax grew at an average of around 6% each year for the States as a whole over the period being considered. It grew much faster in Queensland, Western Australia and the Northern Territory (averaged at 9%, 11%, and 9% respectively).
  - 26 Queensland's payroll tax has had above average growth since 2001-02 (except for 2009-10), due to its strong key industries such as construction, mining, property and business services. This tax has also been fast growing in Western Australia since 2006-07 due to the State's strong economy. The growth in payroll tax revenue for these two States has slowed since 2012-13 and is expect to slip further due to the weakened construction and mining industries for Queensland and mining industry for Western Australia.
  - 27 The Northern Territory experienced fast growth in payroll tax, particularly in 2012-13 and 2013-14 (around 20% for both years). This is a reflection of the growth in employment and average weekly earnings, particularly among larger employers forming the Territory's payroll tax base. The growth of payroll tax for the Northern Territory slowed in 2014-15 and is expected to return to more historic levels, off the peak growth of 2012-13 and 2013-14.

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<sup>13</sup> Mineral prices fell sharply in 2014-15, particularly the iron ore price, which has almost halved. While there were increases in production volumes for iron ore and coal, these increases have been more than offset by lower commodity prices. Meanwhile, the outlook for demand for iron ore has softened, although there has been slight increases in mineral prices this year, the value of mining production is expected to fall further.

**Figure 7 Total value of payroll tax, 2000-01 to 2014-15**



Source: ABS Taxation Revenue (5506.0), 2009-10 and 2014-15.

- 28 **Stamp duty on conveyances.** This tax raised an average 13.3% of State own-source revenue for the period 2000-01 to 2014-15. However, the value of stamp duty on conveyances has experienced dramatic changes since 2000-01 (Figure 8).
- 29 The total revenue from stamp duty on conveyances has been increasing for most States since 2000-01. It dropped sharply in 2008-09 for every State, largely due to the impact of the GFC on Australia’s housing market.
- 30 Figure 8 shows the total value of stamp duty on conveyances has gradually been recovering for most States<sup>14</sup> since 2009-10. For New South Wales and Victoria in particular, in 2014-15, their revenues from this source have fully recovered and far exceeded those before the GFC. However, the fall of stamp duty on conveyances in 2008-09 was so sharp in Queensland, Western Australia, South Australia and Tasmania that their revenues from this source have not recovered.<sup>15</sup>
- 31 The ACT’s revenue from stamp duty on conveyances recovered in 2009-10 and peaked in 2010-11 but fell again after that. This is partly due to the tax reforms

<sup>14</sup> Except for the Northern Territory, whose revenue from stamp duty on conveyances has been flattened out between 2005-06 and 2011-12, and increased substantially after 2011-12.

<sup>15</sup> South Australia and Tasmania’s revenue from stamp duty on conveyances for 2014-15 were still below but close to their peak values in 2007-08.



introduced in 2012-13 which aim to gradually phase out stamp duty on conveyances over the next twenty years.<sup>16</sup>

**Figure 8 Total value of stamp duty on conveyances, 2000-01 to 2014-15**



Source: ABS Taxation Revenue (5506.0), 2009-10 and 2014-15.

- 32 **Mining revenue.** Figure 9 shows the value of mining revenue for States between 2000-01 and 2014-15.
- 33 Mining revenue in Western Australia made up more than a half of the total State mining revenue, representing 54.9% of total State mining revenue in 2014-15.<sup>17</sup> Western Australia's mining revenue has grown since 2000-01, and at a faster speed since 2005-06 when its collections became greater than those of Queensland. Western Australia's mining revenue growth has further accelerated since 2009-10 but started to fall in 2014-15.
- 34 In contrast, mining revenue fell substantially in Queensland and New South Wales in 2009-10, mainly because of a large drop in the price of export coal. Their mining

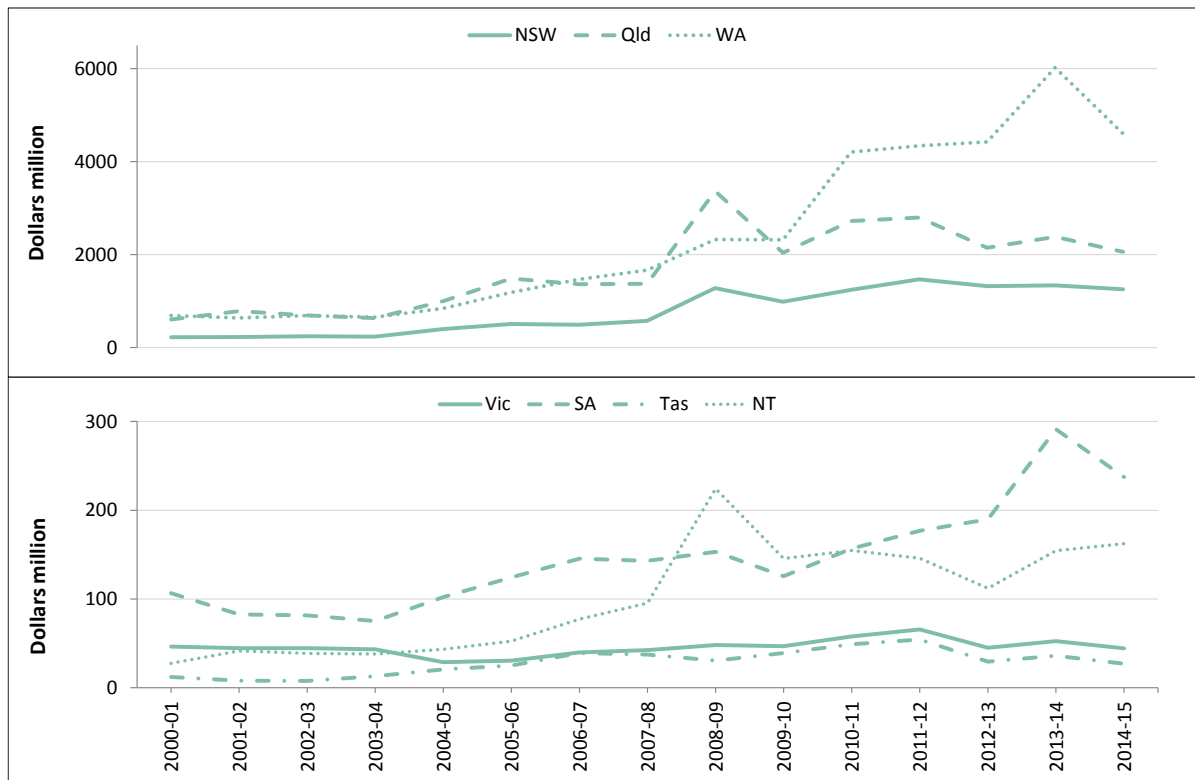
<sup>16</sup> The ACT government introduced a major reform of the Territory's taxation system in its 2012-13 Budget. One of the key elements of the reform commencing in 2012-13 was to adopt General rates as a broad based land tax for revenue replacement, by taking measures to abolish duty on insurance over five years, phase out conveyance duty over longer period (20-25 years), abolish commercial land tax and some other measures.

<sup>17</sup> This share was 58.6% in 2013-14. Although the volume of mineral production of Western Australia has increased, the value of mining production dropped due to the sharp fall in mineral prices in 2014-15. Based on economic outlook, the mining revenue is expected to fall further.

revenues, while higher than in the early 2000s, have not yet recovered to the peak reached in 2008-09.

- 35 Mining revenues in South Australia and the Northern Territory have been growing with a similar pattern to those of Western Australia. However, their mining revenues are relatively small.

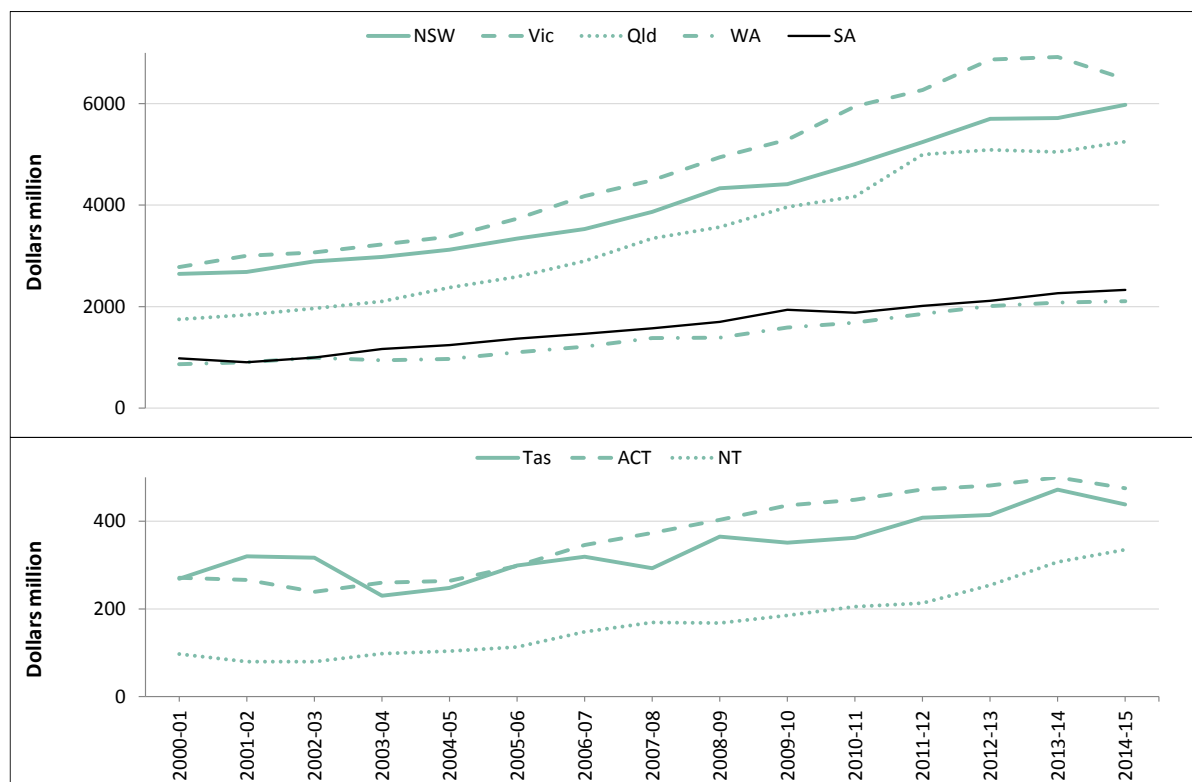
**Figure 9 Total value of mining revenue, 2000-01 to 2014-15**



Source: Commission analysis of ABS unpublished data.

- 36 **Sales of goods and services.** Figure 10 shows revenue from sales of goods and services has increased substantially in most States since 2000-01. For most States, the increase in the revenue from sales of goods and services was mainly from user charges from health services, housing and transport services.
- 37 The increase in the value of sales of goods and services was particularly large for Victoria, Queensland and the Northern Territory. It has more than doubled between 2000-01 and 2014-15. Further, this revenue source exhibits much less volatility than other major revenue sources.

**Figure 10 Revenue from sales of goods and services, 2000-01 to 2014-15**



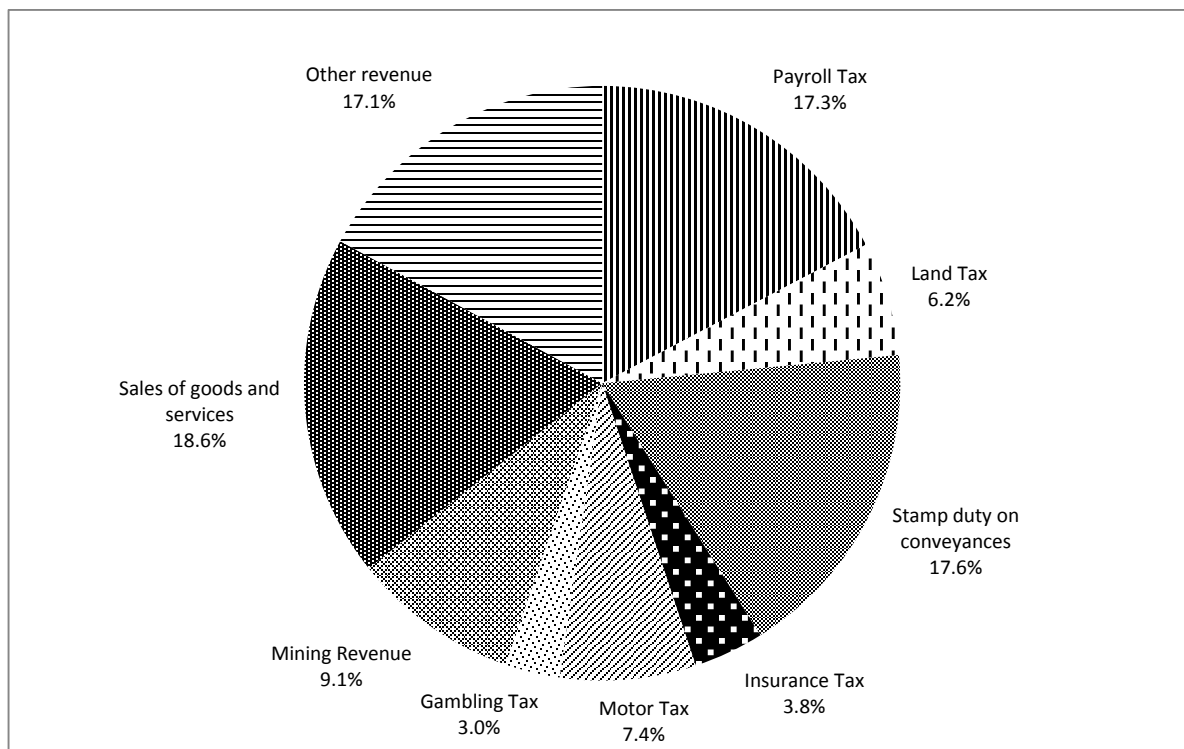
Source: ABS GFS (5512.0), 2009-10 and 2014-15.

## Contribution to the growth of State own-source revenue

38 From 2000-01 to 2014-15, total State own-source revenue has more than doubled. It has increased by 136% for that period, from \$54 billion in 2000-01 to \$128 billion in 2014-15. Figure 11 shows the contribution of the main State revenue sources to that growth. It and Table A-1 show the following.

- Stamp duty on conveyances represented 13.3% of total own-source revenue, but contributed 17.6% to the growth.
- Mining revenue represented 5.5% of revenue, but contributed 9.1% to the growth.
- Land tax represented 5.1% of revenue, but contributed 6.2% to the growth
- Revenue from sales of goods and services represented 18.3% of revenue over the period, and contributed 18.6% to the growth.
- Payroll tax represented 17.7% of revenue, and contributed 17.3% to the revenue growth.

**Figure 11 Contribution to own-source revenue growth, all States, 2000-01 to 2014-15**



Note: Other revenue includes: other taxation revenue, interest income, fines, income from PNFCs, assets acquired below fair value and other revenue not elsewhere classified. For the ACT, it also includes municipal rates.

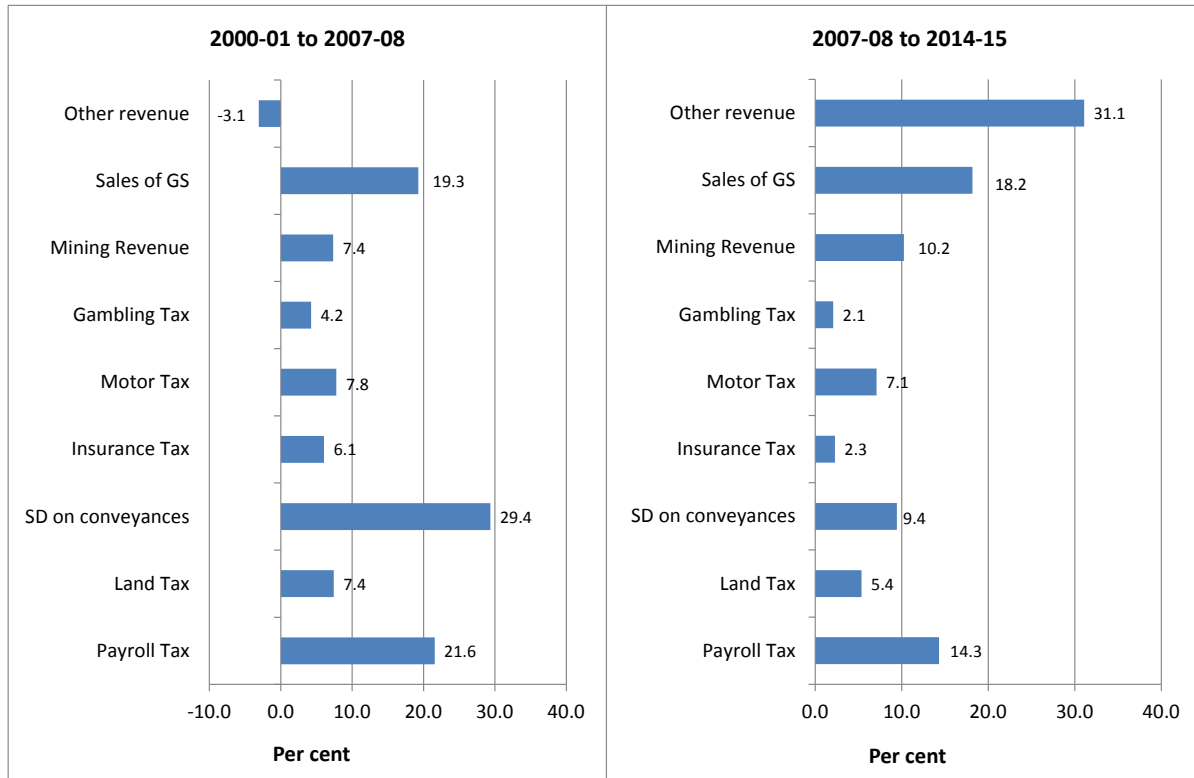
Source: 1. ABS GFS (5512.0), 2009-10 and 2014-15.  
 2. ABS Taxation Revenue (5506.0), 2009-10 and 2014-15.  
 3. Commission analysis of ABS unpublished data.

39 Because the drivers of own-source revenue growth differed over time, the contributions to growth of different sources also differed. Figure 12 shows the contributions to growth by source for the periods of 2000-01 to 2007-08, and 2007-08 to 2014-15.

- Stamp duty on conveyances contributed 29.4% of the growth between 2000-01 and 2007-08; its contribution reduced to 9.4% between 2007-08 and 2014-15.
- Mining revenue contributed 7.4% of the growth between 2000-01 and 2007-08; it contributed 10.2% between 2007-08 and 2014-15.
- Payroll tax contributed 21.6% of the growth between 2000-01 and 2007-08; its contribution reduced to 14.3% between 2007-08 and 2014-15.
- Revenue from sales of goods and services contributed 19.3% of the growth between 2000-01 and 2007-08; its contribution decreased to 18.2% between 2007-08 and 2014-15.

- Other revenue contributed a negative 3.1% of growth between 2000-01 and 2007-08; its contribution increased to 31.1% between 2007-08 and 2014-15.<sup>18</sup>

**Figure 12 Contribution to own-source revenue growth by time period, all States**



Note: SD on conveyances stands for 'Stamp duty on conveyances', Sales of GS stands for 'Sales of Goods and Services'.

Source: 1. ABS GFS (5512.0), 2009-10 and 2014-15.  
 2. ABS Taxation Revenue (5506.0), 2009-10 and 2014-15.  
 3. Commission analysis of ABS unpublished data.

## COMMONWEALTH PAYMENTS

40 As seen earlier, Commonwealth payments are important to State budgets. In 2014-15, they were 45.3% of State revenue, of which 93.7% were current grants and subsidies and the other 6.3% were capital grants (refer to Table 2 and Table 4).

41 Commonwealth payments take two main forms:

- transfers of general revenue funds (mostly GST revenue)
- payments for specific purposes (PSPs), including National Specific Purpose payments, National Health Reform funding, Students First funding, and National Partnership payments.

<sup>18</sup> The increased contribution to growth from other revenue for the period between 2007-08 and 2014-15 was mainly driven by higher than average growth in interest income, dividend income, fines and other revenue not elsewhere classified.

42 Table 4 shows over time, GST comprised around 53% and PSPs comprised around 47% of total Commonwealth payments. Current grants and subsidies were around 93% and capital grants were around 7% of total Commonwealth payments.

**Table 4 Commonwealth payments over time, 2000-01 to 2014-15**

|                | By payment type |             | By transaction type          |                |
|----------------|-----------------|-------------|------------------------------|----------------|
|                | GST revenue     | PSPs        | Current grants and subsidies | Capital grants |
|                | %               | %           | %                            | %              |
| 2000-01        | 52.1            | 47.9        | 94.5                         | 5.5            |
| 2001-02        | 50.8            | 49.2        | 94.8                         | 5.2            |
| 2002-03        | 56.7            | 43.3        | 95.3                         | 4.7            |
| 2003-04        | 58.9            | 41.1        | 95.8                         | 4.2            |
| 2004-05        | 58.1            | 41.9        | 95.6                         | 4.4            |
| 2005-06        | 57.4            | 42.6        | 95.4                         | 4.6            |
| 2006-07        | 58.4            | 41.6        | 94.6                         | 5.4            |
| 2007-08        | 57.3            | 42.7        | 93.9                         | 6.1            |
| 2008-09        | 49.6            | 50.4        | 91.6                         | 8.4            |
| 2009-10        | 45.7            | 54.3        | 84.5                         | 15.5           |
| 2010-11        | 46.9            | 53.1        | 87.8                         | 12.2           |
| 2011-12        | 47.7            | 52.3        | 86.4                         | 13.6           |
| 2012-13        | 52.3            | 47.7        | 95.3                         | 4.7            |
| 2013-14        | 52.6            | 47.4        | 91.5                         | 8.5            |
| 2014-15        | 52.8            | 47.2        | 93.7                         | 6.3            |
| <b>Average</b> | <b>53.2</b>     | <b>46.8</b> | <b>92.7</b>                  | <b>7.3</b>     |

Source: 1. ABS GFS (5512.0), 2009-10 and 2014-15.  
2. Commission analysis of Commonwealth and State budgets.

43 Table 5 provides information on tied Commonwealth payments<sup>19</sup> by area of State spending in 2014-15. It shows payments for education and health services were the largest categories of payments (36.2% and 34.0% of total Commonwealth payments respectively). Payments for infrastructure (capital grants in the table), and welfare and housing represented 10.3% and 7.7% respectively of total Commonwealth payments.

44 The proportions of Commonwealth payments by areas of spending varied across States. For example,

- 21.7% of the Northern Territory's Commonwealth payments were for health but this proportion was much higher in other States (over 32%)
- 20.3% of the Western Australia's Commonwealth payments were for infrastructure compared to that for Victoria and South Australia of 4.0%.

<sup>19</sup> Those that are not general revenue type of payments.

45 Table 5 also shows that Queensland, South Australia, Tasmania, the ACT and the Northern Territory received more than their population shares of Commonwealth payments while the other States received less in 2014-15.

**Table 5 Tied Commonwealth payments by area of State spending, 2014-15**

|   | NSW   | Vic   | Qld   | WA    | SA    | Tas   | ACT   | NT    | Total |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Current grants (a)</b>                                 | %     | %     | %     | %     | %     | %     | %     | %     | %     |
| Education   | 36.6  | 38.8  | 36.3  | 29.2  | 39.8  | 37.2  | 35.6  | 29.6  | 36.2  |
| Health  | 35.1  | 35.9  | 31.7  | 32.0  | 37.3  | 37.3  | 34.4  | 21.7  | 34.0  |
| Welfare and housing                                       | 6.2   | 10.3  | 6.3   | 8.4   | 6.5   | 6.2   | 6.2   | 14.3  | 7.7   |
| Services to communities                                   | 0.5   | 2.3   | 0.3   | 0.0   | 1.0   | 1.4   | 0.6   | 0.4   | 0.9   |
| Justice services  | 0.4   | 0.4   | 0.4   | 0.4   | 0.6   | 0.6   | 0.6   | 0.9   | 0.4   |
| Roads   | 0.8   | 0.6   | 1.0   | 0.9   | 1.2   | 0.8   | 1.3   | 1.8   | 0.9   |
| Transport services  | 0.0   | 0.0   | 2.5   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.5   |
| Services to industry                                      | 0.1   | 0.0   | 0.2   | 0.0   | 1.6   | 0.0   | 0.0   | 0.8   | 0.2   |
| Other expenses  | 7.4   | 7.6   | 11.8  | 8.8   | 8.0   | 11.8  | 14.6  | 12.4  | 8.9   |
| <b>Capital grants (all services)</b>                      | 12.9  | 4.0   | 9.5   | 20.3  | 4.0   | 4.5   | 6.8   | 18.2  | 10.3  |
| <b>Total</b>  | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Amount received by State relative to Australian total (b) | 30.7  | 22.4  | 21.1  | 8.8   | 7.9   | 2.9   | 1.9   | 4.2   | 100.0 |
| State population shares                                   | 32.0  | 25.0  | 20.1  | 10.9  | 7.1   | 2.2   | 1.6   | 1.0   | 100.0 |

Note: Figures in this table show the payments received by each State (and all States in total) for each service type as a proportion of the State's total Commonwealth payments.

(a) Excludes grants for general purposes.

(b) The Commonwealth payments received by each State as a proportion of the total Commonwealth payments (including general revenue).

Source: 1. Commission analysis of Commonwealth and State budgets.  
2. ABS Australian Demographic Statistics (3101.0), 2014-15.

46 **Changes in Commonwealth payments.** Over time, Commonwealth payments comprised slightly less than half of total State revenue (Figure 3). There was a large increase in the amount of Commonwealth payments to the States, and an increase in Commonwealth payments as a proportion of total State revenue, between 2007-08 and 2011-12. The large increase in Commonwealth payments in 2009-10 saw the proportion rise to 51.4% of total State revenue.

47 The increase in Commonwealth payments was mainly caused by the large increases in PSPs provided to States in response to the GFC, particularly in 2009-10. Since then PSPs have been decreasing. This is illustrated in Figure 3.

48 Capital grants have been an increasing proportion of Commonwealth payments since 2008-09. Table 4 shows the proportion of Commonwealth payments that were for capital purposes reached a high of 15.5% in 2009-10 and remained at high levels in 2010-11 and 2011-12. This proportion has fallen significantly since then.

- 49 **Contribution to the growth of Commonwealth payments.** Between 2000-01 and 2014-15, Commonwealth payments increased by 120%. GST revenue and PSPs contributed 53.3% and 46.7% respectively of the growth. They contributed roughly the proportions they represented of total Commonwealth payments.
- 50 However, their contributions to growth were very different for the period between 2008-09 and 2011-12.
- GST revenue, representing 47.5% of total Commonwealth payments, provided 36.0% of the growth.
  - PSPs, representing 52.5% of total Commonwealth payments, provided 64.0% of the growth.

## OPERATING EXPENSES

- 51 Figure 13 shows the relative importance of State expenses.<sup>20</sup> Health and education were the most important State services. They were about 27.4% and 24.2% respectively of total State expenses in 2014-15. The next most important areas were other expenses (12.1% of State expenses)<sup>21</sup> and welfare and housing (10.5% of State expenses).
- 52 The relative importance of State expenses by purpose showed similar patterns across States (Table 6). However, compared with other States in 2014-15:
- Victoria, South Australia and Tasmania spent relatively larger proportions of their budgets on education
  - Western Australia, South Australia and Tasmania spent relatively larger proportions of their budgets on health
  - Western Australia and the Northern Territory spent relatively larger proportions of their budgets on justice services<sup>22</sup>

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<sup>20</sup> Table 4 of ABS GFS (5512.0) – General government expenses by purpose for each State is used to analyse State operating expenses. We have mapped them into major functions. The expenses by functions include depreciation expenditure.

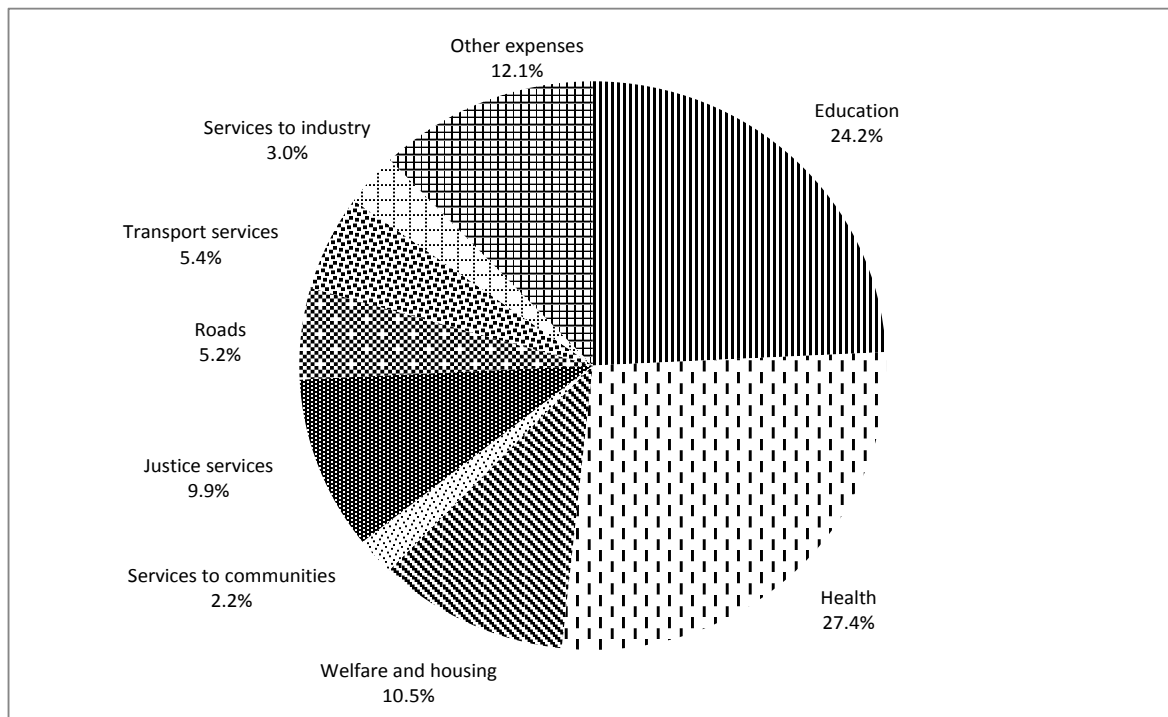
<sup>21</sup> Other expenses include the remaining State general government services in addition to those listed separately in Table 6. For example, services on State parliaments and treasuries, as well as debt charges, emergency and natural disaster relief, recreation and culture and national park services.

<sup>22</sup> GFS expenses on Public order and safety, including police, fire protection, law courts and legal services, prison and corrective services, and other public order and safety.



- New South Wales, Victoria and Queensland spent considerably larger proportions of their budgets on transport services<sup>23</sup>
- the Northern Territory spent a larger proportion on welfare and housing while Queensland and the ACT spent smaller proportions of their budgets on welfare and housing services
- Queensland also spent a relatively larger proportion on roads while the ACT spent a larger proportion on other expenses.<sup>24</sup>

**Figure 13 Expenses by purpose, all States, 2014-15**



Source: ABS GFS (5512.0), 2014-15.

- 53 The relative importance of State spending by purpose has been similar over time. Figure 14 shows the proportions of expense by purpose for all States for 2000-01 to 2014-15.
- 54 Further information in Table A-2 shows education and health were the most important services for all States over time. Both services together accounted for 50.8% of State expenses for the period being considered. Victoria and South Australia were the States with the highest proportion of expenses on education and health (53.2% and 53.7% respectively of State expenses), whereas the Northern Territory

<sup>23</sup> GFS expenses on transport and communications include expenses on water transport, rail transport, air transport and communications and other transport. We cannot disaggregate communication expenses from other transport, so this category includes expenses on communication services.

<sup>24</sup> Debt charges, the majority is in the form of nominal interest on unfunded superannuation, were a large proportion (40%) of the ACT's other expenses in 2014-15.

had the lowest proportion of expenses on education and health (42.0% of State expenses).

**Table 6 Total State expense by purpose by State, 2014-15**

|                                     | NSW    | Vic    | Qld    | WA     | SA     | Tas   | ACT   | NT    | Total   |
|-------------------------------------|--------|--------|--------|--------|--------|-------|-------|-------|---------|
|                                     | \$m    | \$m    | \$m    | \$m    | \$m    | \$m   | \$m   | \$m   | \$m     |
| <b>Expenses</b>                     |        |        |        |        |        |       |       |       |         |
| Education                           | 17 230 | 13 251 | 11 262 | 6 690  | 4 257  | 1 341 | 1 021 | 1 029 | 56 081  |
| Health                              | 18 323 | 14 274 | 13 501 | 7 942  | 5 301  | 1 511 | 1 362 | 1 276 | 63 490  |
| Welfare and housing                 | 6 981  | 6 181  | 4 190  | 3 155  | 1 931  | 613   | 386   | 874   | 24 311  |
| Services to communities             | 1 095  | 686    | 977    | 1 358  | 569    | 34    | 85    | 174   | 4 978   |
| Justice services                    | 6 551  | 5 561  | 4 329  | 3 203  | 1 671  | 435   | 388   | 676   | 22 814  |
| Roads                               | 3 997  | 2 204  | 3 302  | 1 349  | 432    | 241   | 285   | 200   | 12 010  |
| Transport services (a)              | 4 878  | 3 449  | 2 942  | 665    | 512    | 27    | 73    | 59    | 12 605  |
| Services to Industry                | 1 621  | 1 401  | 1 641  | 1 209  | 502    | 199   | 86    | 297   | 6 956   |
| Other Expenses (b)                  | 9 029  | 5 589  | 6 961  | 2 143  | 1 593  | 850   | 1 123 | 785   | 28 073  |
| Total                               | 69 705 | 52 596 | 49 105 | 27 714 | 16 768 | 5 251 | 4 809 | 5 370 | 231 318 |
|                                     | %      | %      | %      | %      | %      | %     | %     | %     | %       |
| <b>Proportion to total expenses</b> |        |        |        |        |        |       |       |       |         |
| Education                           | 24.7   | 25.2   | 22.9   | 24.1   | 25.4   | 25.5  | 21.2  | 19.2  | 24.2    |
| Health                              | 26.3   | 27.1   | 27.5   | 28.7   | 31.6   | 28.8  | 28.3  | 23.8  | 27.4    |
| Welfare and housing                 | 10.0   | 11.8   | 8.5    | 11.4   | 11.5   | 11.7  | 8.0   | 16.3  | 10.5    |
| Services to communities             | 1.6    | 1.3    | 2.0    | 4.9    | 3.4    | 0.6   | 1.8   | 3.2   | 2.2     |
| Justice services                    | 9.4    | 10.6   | 8.8    | 11.6   | 10.0   | 8.3   | 8.1   | 12.6  | 9.9     |
| Roads                               | 5.7    | 4.2    | 6.7    | 4.9    | 2.6    | 4.6   | 5.9   | 3.7   | 5.2     |
| Transport services (a)              | 7.0    | 6.6    | 6.0    | 2.4    | 3.1    | 0.5   | 1.5   | 1.1   | 5.4     |
| Services to Industry                | 2.3    | 2.7    | 3.3    | 4.4    | 3.0    | 3.8   | 1.8   | 5.5   | 3.0     |
| Other Expenses (b)                  | 13.0   | 10.6   | 14.2   | 7.7    | 9.5    | 16.2  | 23.4  | 14.6  | 12.1    |
| Total                               | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0 | 100.0 | 100.0 | 100.0   |

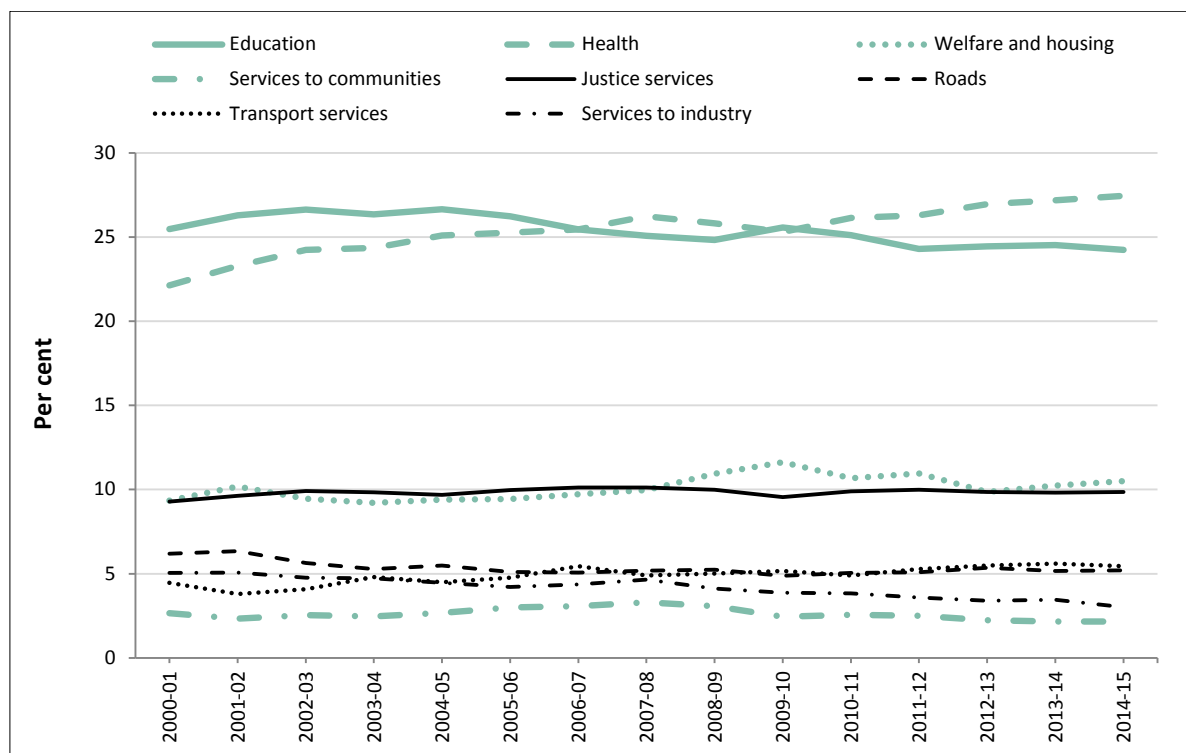
Note: Figures in this table were gross State expenses, user charges were not netted off. Depreciation was included in the expenses by purposes.

(a) This group also includes expenses on communications.

(b) This group includes the remaining State general government services, such as State parliaments and treasuries, as well as debt charges, emergency services and natural disaster relief, recreation and culture and national park services.

Source: ABS GFS (5512.0), 2014-15.

**Figure 14 Proportion of expenses, by purpose, all States, 2000-01 to 2014-15**



Source: Commission analysis of ABS GFS (5512.0).

## Changes in State expense patterns

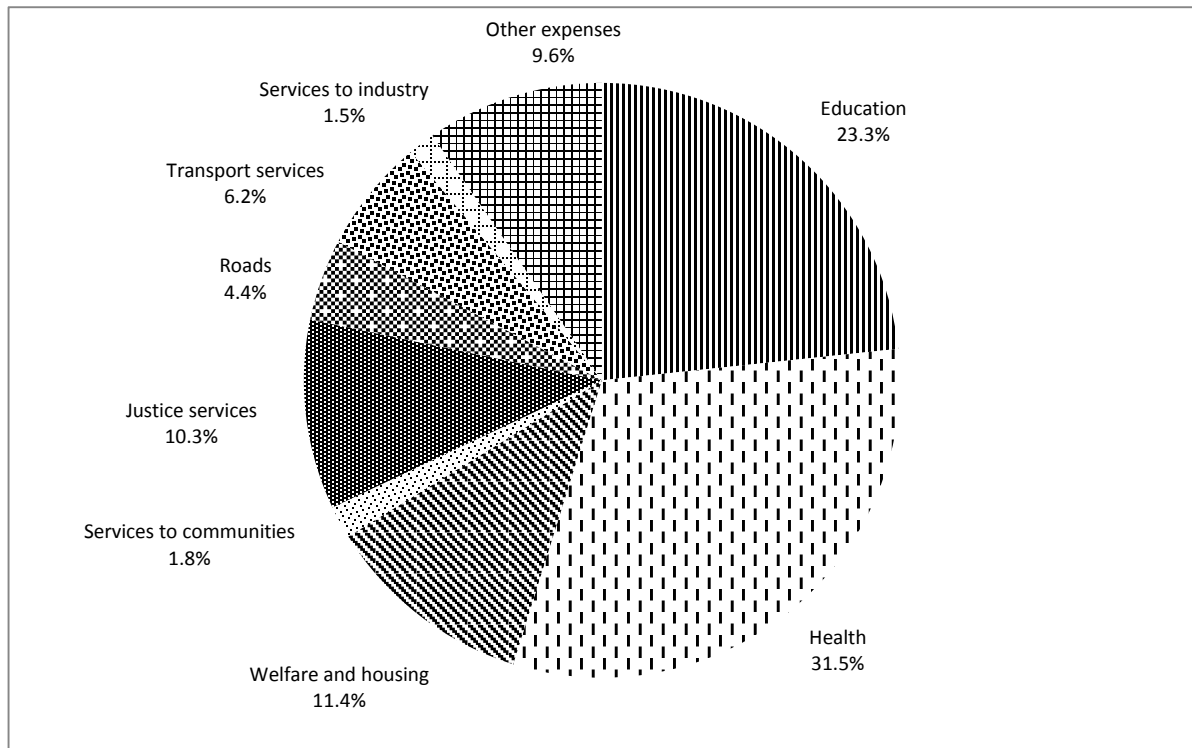
- 55 Health service expenses as a proportion of total State expenses increased by 5.3 percentage points between 2000-01 and 2014-15. Across the States, the proportions of health service expenses to total State expenses have all increased over the period. However, this proportion has increased the most in the ACT (10.7%) followed by Western Australia (9.6%), South Australia (8.6%) and Queensland (8.4%).
- 56 Apart from health services, States have focused on different priorities since 2000-01:
- in New South Wales and Victoria, the proportion of expenses on transport services has increased substantially
  - in Western Australia and Northern Territory, the proportion of expenses on welfare and housing, and on justice services have increased substantially
  - in the ACT, the proportion of expenses on roads has increased markedly
  - in the South Australia and Queensland, the proportion of expenses on welfare and housing has increased considerably
  - in Queensland, the proportions of expenses on services to communities and on roads have decreases substantially; while in South Australia and Tasmania, the proportion of expenses on services to industry has decreased markedly.

## Contribution to expense growth

57 Between 2000-01 and 2014-15, total State expenses increased by 131.3%. The main contributors (Figure 15 and Table A-2) were:

- health expenses, which were 25.4% of total State expenses over the period but contributed 31.5% to the growth
- education expenses, which were 25.4% of expenses and contributed 23.3% to the growth
- welfare and housing expenses, which were 10.1% of expenses and contributed 11.4% to the growth
- transport services, which were 4.9% of expenses and contributed to 6.2% to the growth
- justice services, which were 9.8% of expenses, provided 10.3% to the growth
- services to communities, roads, services to industry and other expenses contributed to the growth less than the proportion they represented of total expenses.

**Figure 15 Contribution to expense growth, all States, 2000-01 to 2014-15**

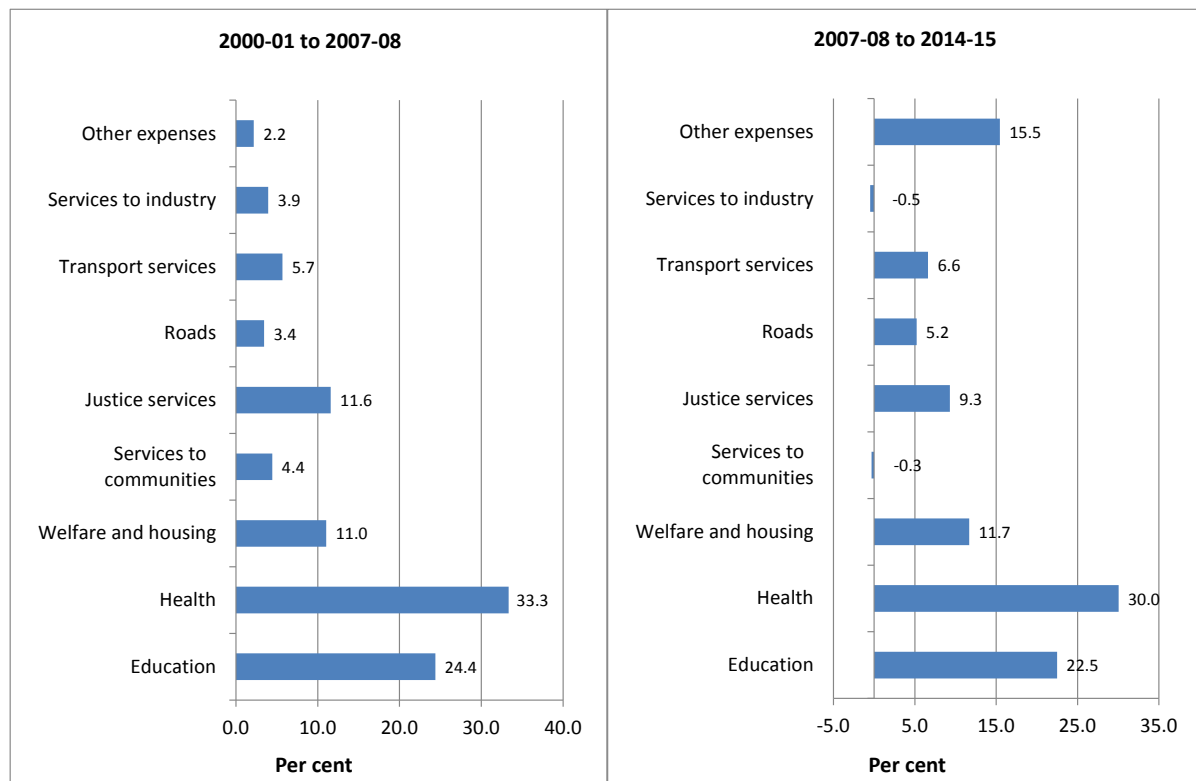


Source: Commission analysis of ABS GFS (5512.0).

58 Figure 16 shows the contribution of each service to total expense growth changed in the two periods of time. It shows:

- education contributed 24.4% of the growth between 2000-01 and 2007-08 but its contribution fell to 22.5% between 2007-08 and 2014-15
- health contributed 33.3% of the growth between 2000-01 and 2007-08 but its contribution fell to 30.0% between 2007-08 and 2014-15
- roads contributed 3.4% of the growth between 2000-01 and 2007-08 and its contribution increased to 5.2% between 2007-08 and 2014-15
- other expenses contributed 2.2% of the growth between 2000-01 and 2007-08 and its contribution rose to 15.5% between 2007-08 and 2014-15
- for services to communities and services to industry, their contributions to growth fell significantly between the two periods.

**Figure 16 Contribution to expense growth by time period, all States**

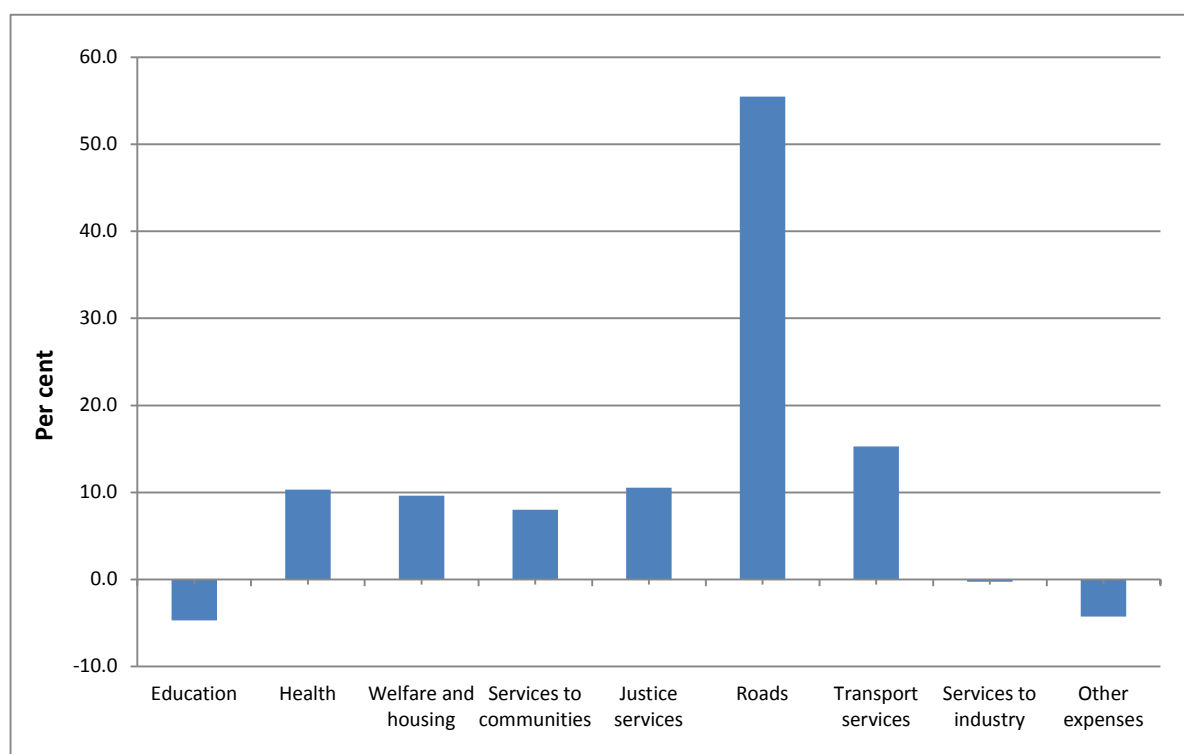


Source: Commission analysis of ABS GFS (5512.0).

## INVESTMENT

- 59 State investment<sup>25</sup> has varied by purpose and across States over time. It has also been volatile across States. For this reason, care must be taken in interpreting patterns in the all-State average or in data for one year.
- 60 Figure 17 shows that in 2014-15, 55.5% of State investment was for roads, 15.3% was for transport services, and 10.3% was for health. However, investment on different functions differed across States. For example, in 2014-15:
- more than half of investment by New South Wales, Victoria, Queensland, Western Australia and South Australia was on roads
  - by contrast, two-third of ACT's investment was on other general public services.

**Figure 17 Investment by purpose, all States, 2014-15**



Note: Negative investment arises because depreciation is higher than acquisition of new assets.

Source: Commission analysis of unpublished ABS data and State data.

<sup>25</sup> In this analysis, investment includes net acquisition of produced and non-produced assets, which excludes assets funded from depreciation. Capital grants are included in State operating expenses, but capital injections to PNFCs are excluded from both State operating expenses and State investment.

61 **Impact of Commonwealth payments on investment.** State investment is heavily influenced by funds from the Commonwealth. To illustrate the impact, we have removed Commonwealth payments for capital purposes from State investment (denoted by the term ‘own account’ hereafter).<sup>26</sup> Figure 18 shows the differences in investment after removing Commonwealth payments.

- Between 2000-01 and 2004-05, State own account investment was close to zero or even negative. It increased since 2005-06 but has remained small relative to the size of total State investment.
- There were big gaps between total State investment and own account investment for years between 2008-09 and 2011-12. It is possible that during those years, State total investment was mainly driven by the large Commonwealth capital grants paid to the States and the States did not invest commensurately from their own sources, although there was some increase. However, because we deducted the full amount of the Commonwealth capital payments in the year they were paid (and we know some States spend the payments over an extended period of time), the ‘own account’ investment might not be as low as we see in Figure 18.

**Figure 18 Total State investment and own account investment, 2000-01 to 2014-15**



Note: We assume Commonwealth recurrent grants are spent in the year of receipt.

Source: Commission analysis of ABS GFS and ABS unpublished data.

<sup>26</sup> We have assumed the Commonwealth funds are used in the year of receipt. However, we understand this is not always the case, therefore we need to interpret the investment data with care.

62 **Changes in investment.** State investment patterns have changed substantially over time. The following are some examples.

- Between 2008-09 and 2010-11, there was a significant increase in the proportion of investment on education in most States (except the ACT and the Northern Territory).<sup>27</sup> This proportion has decreased sharply for every State since 2011-12 and it was negative for a number of States in 2013-14 and 2014-15.<sup>28</sup>
- Between 2010-11 and 2014-15, there has been a gradual but substantial increase in the proportion of investment on health services in most State.<sup>29</sup>
- Investment on roads has been high for most years. However, in 2009-10 and 2010-11, there was a sharp decline in the proportion of investment on roads in almost every State. The proportion of investment on roads has increased for most States since 2011-12, although this proportion has shown a volatile pattern across States and over time.

63 Figure 19 shows State investment exhibits a volatile pattern over time. It shows:

- for most States, total investment was relatively steady between 2000-01 and 2006-07 while total investment increased significantly between 2007-08 and 2010-11 (corresponding to the increases in PSPs paid through capital grants as discussed in the Commonwealth payments section of this paper)
- for most States, total investment peaked in 2009-10 and 2010-11. Since then, investment for most States has been decreasing.

64 **Contribution to investment growth.** Figure 20 shows the contributions to investment growth by purpose between 2000-01 and 2014-15.

65 For all States together, roads contributed 62.0% of the total increase in investment while transport services and services to communities contributed 15.8% and 13.8% respectively to investment growth. On the other hand, education contributed a negative 9.7% to investment growth.

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<sup>27</sup> As part of the Commonwealth's Economic Stimulus Plan, \$16 billion has been invested in primary and secondary school infrastructure through the Building the Education Revolution (BER) program since 2008-09. The increase in school education share of investment partly reflected the impact of BER on State overall investment.

<sup>28</sup> Negative investment arises because depreciation is higher than acquisition of new assets.

<sup>29</sup> A \$5 billion Health and hospital funding (HHF, with four funding rounds) was established on 1 January 2009 by the Australian Government as part of its broader nation-building infrastructure program. The increase in the share of investment in health services reflected the impact of HHF on State investment.

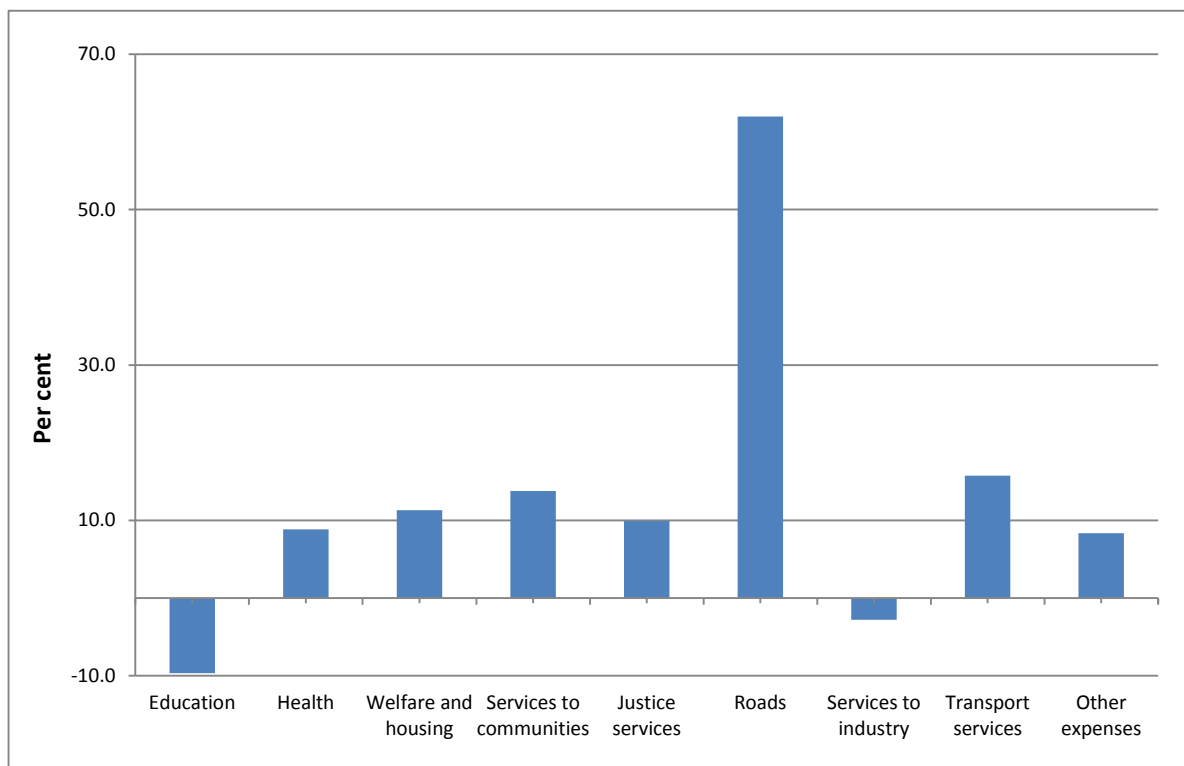


**Figure 19 Investment by States, 2000-01 to 2014-15**



Source: Commission analysis of ABS GFS (5512.0).

**Figure 20 Contribution to investment growth, all States, 2000-01 to 2014-15**



Source: Commission analysis of unpublished ABS data and State data.

## CONCLUSION

- 66 States have recorded operating surpluses in all years but one since 2000-01. They have become net borrowers over the period but only to fund investment expenditure, and mainly following the GFC to provide a stimulus. Net borrowing has declined rapidly in the last two years of the period and States are predicting it will decline further in the future.
- 67 State own source revenues have fluctuated between 7% and 8% of GSP over the period, reaching their highest level at 7.9% in 2014-15. Payroll tax and sales of goods and services have been the most important sources although royalties from mining have been the fastest growing revenue, particularly in recent years (despite the recent fall). Payments from the Commonwealth have been maintained at between 6% and 7% of GSP, except in 2009-10 when they reached 7.7%, again due to GFC stimulus. The GST has been the most important source of the Commonwealth revenue for most of the period and payments for health and education have been the most important payments for specific purposes.
- 68 State expenses have fluctuated between 13% and 14% of GSP for most of the period although they reached 14.8% in 2009-10, again due to the GFC which saw extra spending and a slowing in the growth of GSP. State spending is currently at 14.3% of GSP compared with total State revenue sitting at 14.7 % of GSP. Education and health spending has comprised over 50% of State budgets, with health expenses growing the fastest.
- 69 Investment in new assets has averaged about 0.5% of GSP, although it was at a low of about 0.3% in the early 2000s, reaching a high of 1.4% in 2009-10. Most investment has been on roads and transport services, a trend that is likely to continue.
- 70 Most State budgets are predicting only modest growth in both expenses and own source revenues in the future. Many States have introduced policies to restrain wages growth and most are concerned that Commonwealth payments for specific purposes are not as large as States consider they need to be to fund the necessary growth in education and health expenses. Nonetheless, many have increased thresholds for payroll tax and abolished other taxes (such as insurance taxes, taxes on non-real property). GST revenues are predicted to grow by 6%, much faster than State own-source revenues or expenses. Only the future will tell the final outcomes.

## ATTACHMENT A: ADDITIONAL TABLES

**Table A-1 Annual average proportion of State own-source revenue by State, 2000-01 to 2014-15**

|                                 | NSW          | Vic          | Qld          | WA           | SA           | Tas          | ACT          | NT           | Total        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | %            | %            | %            | %            | %            | %            | %            | %            | %            |
| <b>Taxation revenue</b>         |              |              |              |              |              |              |              |              |              |
| Payroll Tax                     | 20.9         | 18.4         | 13.5         | 17.8         | 14.2         | 15.8         | 13.2         | 18.5         | 17.7         |
| Land Tax                        | 6.7          | 5.1          | 3.5          | 4.0          | 6.1          | 4.0          | 3.8          | 0.0          | 5.1          |
| Stamp Duty                      | 14.5         | 14.8         | 11.1         | 13.6         | 10.8         | 9.1          | 11.0         | 12.1         | 13.3         |
| Insurance Tax                   | 6.1          | 5.6          | 2.7          | 3.8          | 5.3          | 4.2          | 2.6          | 3.4          | 4.8          |
| Motor Tax                       | 7.9          | 6.8          | 7.8          | 7.9          | 7.3          | 8.6          | 5.7          | 5.9          | 7.5          |
| Gambling Tax                    | 5.9          | 7.8          | 5.0          | 1.6          | 6.6          | 5.8          | 2.8          | 7.1          | 5.6          |
| Other taxation (a)              | 5.0          | 3.9          | 4.8          | 4.3          | 4.9          | 4.4          | 13.5         | 1.6          | 4.8          |
| <b>Total</b>                    | <b>67.1</b>  | <b>62.4</b>  | <b>48.3</b>  | <b>53.1</b>  | <b>55.1</b>  | <b>51.8</b>  | <b>52.5</b>  | <b>48.5</b>  | <b>58.8</b>  |
| <b>Mining Revenue</b>           | 2.6          | 0.2          | 9.1          | 18.8         | 2.4          | 1.8          | 0.0          | 11.6         | 5.5          |
| <b>Other revenue</b>            |              |              |              |              |              |              |              |              |              |
| Sales of good and services      | 14.7         | 22.7         | 18.8         | 13.2         | 26.0         | 23.0         | 20.0         | 20.5         | 18.3         |
| Interest income                 | 2.3          | 2.2          | 10.0         | 2.0          | 2.6          | 2.5          | 7.0          | 6.1          | 4.1          |
| Other own source revenue (b)    | 13.3         | 12.5         | 13.8         | 12.9         | 14.0         | 20.8         | 20.4         | 13.3         | 13.4         |
| <b>Total</b>                    | <b>30.3</b>  | <b>37.4</b>  | <b>42.6</b>  | <b>28.1</b>  | <b>42.5</b>  | <b>46.3</b>  | <b>47.5</b>  | <b>39.8</b>  | <b>35.7</b>  |
| <b>Total own-source revenue</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

(a) Other taxation revenue for the ACT comprises of municipal rates.

(b) Other own-source revenue in this table includes: dividend income, fines, income from PNFCs, assets acquired below fair value and other revenue not elsewhere classified.

Source: 1. ABS Taxation Revenue (5506.0), 2009-10 and 2014-15.  
2. Commission analysis of ABS GFS and unpublished data.

**Table A-2 Annual average proportion of State expenses by purpose, by State, 2000-01 to 2014-15**

|                         | NSW   | Vic   | Qld   | WA    | SA    | Tas   | ACT   | NT    | Total |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                         | %     | %     | %     | %     | %     | %     | %     | %     | %     |
| Education               | 25.8  | 26.7  | 23.9  | 26.0  | 25.5  | 26.1  | 21.6  | 20.7  | 25.4  |
| Health                  | 25.4  | 26.5  | 24.0  | 24.9  | 28.2  | 25.0  | 23.8  | 21.3  | 25.4  |
| Welfare and housing     | 10.1  | 11.5  | 8.3   | 9.8   | 10.7  | 10.8  | 9.4   | 11.8  | 10.1  |
| Services to communities | 1.8   | 1.7   | 3.4   | 4.7   | 4.1   | 0.8   | 1.4   | 4.2   | 2.6   |
| Justice services        | 10.0  | 10.0  | 8.9   | 11.2  | 9.8   | 8.8   | 8.4   | 11.3  | 9.8   |
| Roads                   | 5.7   | 4.8   | 6.5   | 5.5   | 2.9   | 5.5   | 5.7   | 3.7   | 5.4   |
| Transport services      | 5.8   | 5.9   | 5.5   | 3.2   | 3.0   | 0.4   | 0.5   | 1.1   | 4.9   |
| Services to industry    | 3.8   | 2.7   | 5.5   | 5.7   | 4.2   | 5.9   | 1.9   | 6.3   | 4.2   |
| Other expenses (a)      | 11.7  | 10.3  | 14.0  | 9.1   | 11.6  | 16.7  | 27.4  | 19.6  | 12.2  |
| Total                   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Note: Gross State expenses, user charges were not netted off. Depreciation was included in the expenses by purposes.

(a) This group includes the remaining State general government services, such as those on State parliaments and treasuries, as well as emergency services and natural disaster relief, recreation and culture and national park services.

Source: ABS GFS (5512.0), 2009-10 and 2014-15.