Australian Government

Commonwealth Grants Commission

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MEDIA RELEASE

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REPORT ON REVENUE SHARING RELATIVITIES 2010

The Commonwealth Grants Commission has released its advice on how GST revenue should be distributed among the States and Territories in 2010-11. (A copy of the Overview, including the main reasons for the changes for each State and Territory is attached).

Under the Commission's recommendations for 2010-11, Victoria and New South Wales, and to a lesser extent Queensland and South Australia, receive larger shares of GST revenue compared to 2009-10, while Western Australia, and to a lesser extent the Northern Territory and the ACT, receive smaller shares. The share of Tasmania would stay unchanged.

The Chairman of the Commission, Alan Morris, said, "This review takes into account the significant changes in the fiscal circumstances of the States since the Commission's last review in 2004. At the time of that review, New South Wales and Victoria were fiscally stronger than the other States. While their fiscal capacities are still above average, those of Western Australia and Queensland have strengthened quite dramatically over recent years as a result of strong increases in their revenue raising capacities, principally from mining royalties. The fiscal capacities of these two States are now the strongest. These four States now share the cost of raising the fiscal capacities of the four weaker States to the average.

"Fiscal equalisation is designed so that, as a State's own capacity to raise revenue, or its cost of delivering services, diverges from the national average, there are compensating adjustments to its GST revenue", Mr Morris said. "That is what has happened in recent updates, and in this review."

In this review, the Commission is recommending that the relativities should be more up-to-date by shortening the assessment period from an average of five past years to three years. "This provides relativities that are more appropriate, particularly when State fiscal circumstances diverge quite markedly, as has been the case over recent years", Mr Morris said. "The reduction in the averaging period has a significant — though one-off — impact on States' GST revenue."

We have also changed the way we deal with State infrastructure investment to have the GST distribution respond more quickly to changing State circumstances. "Our new approach to recognising State needs for infrastructure and other assets better recognises the needs of States with faster population growth by giving the same prominence to their growing revenue capacities and their investment needs", Mr Morris said.

"Consistent with our terms of reference, we have also sought to achieve equalisation using simpler, more robust methods, and using data consistent with their quality. That means that some of our methods have changed, that some of the small influences captured in the past have not been continued, and that some influences now carry less weight."

BACKGROUND

Table 1 Sources of change in the GST distribution between 2009-10 and 2010-11

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Estimated 2009-10	12 774.1	9 644.4	7 839.2	3 413.0	3 908.5	1 573.0	862.5	2 285.4	42 300.0
Illustrative 2010-11	13 843.7	10 516.4	8 384.0	3 190.1	4 265.3	1 664.4	832.6	2 363.4	45 060.0
Change	1 069.6	872.1	544.8	-222.9	356.9	91.4	-29.9	77.9	2 760.0
Change caused by:									
Shortening review period	579.0	186.1	-388.0	-490.2	65.2	-12.4	13.5	46.9	0.0
Other method changes	-701.1	-35.3	878.6	107.5	21.1	-1.4	-83.8	-185.6	0.0
Total method changes	-122.1	150.9	490.6	-382.7	86.2	-13.8	-70.3	-138.8	0.0
State circumstances	399.5	72.1	-510.4	-60.2	32.2	14.4	-9.5	61.8	0.0
Total relativities	277.3	223.0	-19.8	-442.9	118.4	0.6	-79.8	-76.9	0.0
Population	-55.6	5.0	51.0	24.6	-22.8	-11.1	-1.2	10.1	0.0
Pool	848.0	644.1	513.5	195.4	261.3	101.9	51.0	144.8	2 760.0
Change	1 069.6	872.1	544.8	-222.9	356.9	91.4	-29.9	77.9	2 760.0
Total change ($pc)	150.00	159.71	122.33	-98.52	218.92	181.07	-84.76	344.26	125.33

Table 2 Shares of the 2009-10 GST and illustrative 2010-11 GST

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
Estimated 2009-10 share	30.2	22.8	18.5	8.1	9.2	3.7	2.0	5.4	100.0
Illustrative 2010-11 share	30.7	23.3	18.6	7.1	9.5	3.7	1.8	5.2	100.0
Difference	0.5	0.5	0.1	-1.0	0.2	0.0	-0.2	-0.2	0.0

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OVERVIEW

This review recognises that the equalisation landscape has been radically transformed. At the time of the 2004 Review, the two most populous States — New South Wales and Victoria — had above average fiscal capacities and together shared the cost of equalisation, while other States' capacities were below average, and the Northern Territory well below average. Now the two most populous States lie close to average and the two faster growing States — Queensland and Western Australia — have seen their fiscal capacities strengthen relative to the other States at unprecedented rates and to historically high levels. These four now share the cost of equalisation. The other four States — South Australia, Tasmania, the ACT and the Northern Territory — remain below average, with the Northern Territory still well below average.

We have made our recommendations to recognise these shifts.

Achieving equalisation in this environment, which sees the strong and growing revenue capacities of Western Australia and Queensland effectively shared with other States, requires a clearer recognition that this level of, and growth in, revenue capacity also increases the need for those States to spend to build the infrastructure required and acquire other assets in keeping with their population growth. Both have to be adequately recognised at the same time for equalisation to be achieved.

We also recognise that to achieve equalisation when State fiscal circumstances are rapidly changing requires that the distribution of GST revenue should be as relevant as possible to the circumstances of the year in which our recommendations are to be applied. We consider this can most practically be achieved by shortening the assessment period so that the distribution reflects the most recent representative data.

We have also set out to achieve equalisation using simpler, more robust methods, using data consistent with their quality. We believe that we have done so. That means that some of our methods have changed, that some of the small influences captured in the past have not been continued, and that some influences now carry less weight. We consider this is consistent with our terms of reference.

We believe the new methodologies we have used to recommend the distribution of GST revenue are responding to changing State circumstances and will be more responsive to future change than those developed in 2004.

THE TERMS OF REFERENCE[1]

1 The Intergovernmental Agreement on Federal Financial Relations 2008 states that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation. This aims to give each State the same per capita fiscal capacity. The Commission has been asked to recommend an appropriate distribution of GST revenue to best achieve this outcome. Formally we have been asked for relativities which are appropriate to use for this purpose after 2009-10.

2 The Commission has also been asked, consistent with achieving equalisation, to simplify its methodology, including through the aggregation of expense and revenue categories, the use of broader indicators of differences among the States and the application of materiality thresholds. The Commission is also asked to improve the quality of data used in reaching its conclusions.

RECOMMENDATIONS

3 Table 1 shows the relativities we regard as appropriate for use in distributing the GST revenue among the States in 2010-11 and compares them with those used in 2009-10. It also shows shares of GST revenue in those years.

Table 1 Relativities recommended for use in 2010-11 compared with 2009-10

	Relativities used for 2009-10	Relativities recommended for 2010-11	2009-10 share	2010-11 share
			%	%
New South Wales	0.93186	0.95205	30.2	30.7
Victoria	0.91875	0.93995	22.8	23.3
Queensland	0.91556	0.91322	18.5	18.6
Western Australia	0.78485	0.68298	8.1	7.1
South Australia	1.24724	1.28497	9.2	9.5
Tasmania	1.62040	1.62091	3.7	3.7
Australia Capital Territory	1.27051	1.15295	2.0	1.8
Northern Territory	5.25073	5.07383	5.4	5.2

4 If States had the same fiscal capacities, we would recommend each State receive its population share of GST revenue. However State fiscal capacities differ — that is, their per capita revenue raising capacities and expenditure needs differ — and our recommended per capita relativities correspondingly differ. Our recommendations imply a redistribution of 8.0 per cent away from an equal per capita allocation; this compares with 8.1 per cent for 2009-10.

[1] A copy of the terms of reference is at the front of this report.

5 Our recommendations relate to 2010-11. We consider the appropriate distribution in subsequent years should be determined using the methodology we have developed, modified if necessary to reflect significant changes in federal financial relations, and using the most recent data as they become available. We have identified data that should be updated for this purpose.

WHY THE 2010 REVIEW DIFFERS FROM THE 2009 UPDATE

6 Table 2 shows the distributions of GST in 2009-10 and 2010-11 and how the difference arises.

Table 2 Distribution of the 2009–10 GST and the illustrative 2010-11 GST[2]

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Estimated 2009-10 (a)	12 774.1	9 644.4	7 839.2	3 413.0	3 908.5	1 573.0	862.5	2 285.4	42 300.0
Illustrative 2010-11 (b)	13 843.7	10 516.4	8 384.0	3 190.1	4 265.3	1 664.4	832.6	2 363.4	45 060.0
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Total method changes	-122.1	150.9	490.6	-382.7	86.2	-13.8	-70.3	-138.8	0.0
State circumstances	399.5	72.1	-510.4	-60.2	32.2	14.4	-9.5	61.8	0.0
Total relativities (c)	277.3	223.0	-19.8	-442.9	118.4	0.6	-79.8	-76.9	0.0
Population (d)	-55.6	5.0	51.0	24.6	-22.8	-11.1	-1.2	10.1	0.0
Pool (e)	848.0	644.1	513.5	195.4	261.3	101.9	51.0	144.8	2 760.0
Change	1 069.6	872.1	544.8	-222.9	356.9	91.4	-29.9	77.9	2 760.0
Total change ($pc)	150.0	159.7	122.3	-98.5	218.9	181.1	-84.8	344.3	125.3

(a) From the Commonwealth of Australia *Mid-Year Economic and Fiscal Outlook 2009-10,* p 76.
(b) Obtained by applying the 2010 Review relativities to estimated State populations for December 2010 and estimated GST revenue for 2010-11.
(c) Effects on the distribution of the 2009-10 estimated GST revenue of using the 2010 Review relativities instead of 2009 Update relativities.
(d) Effects on the distribution of the 2009-10 estimated GST revenue of using estimated State populations for December 2010 instead of December 2009.
(e) Effect of applying the 2010 Review relativities to estimated growth in GST revenue for 2010-11.
Source: GST revenue and the December 2009 and 2010 populations are taken from the *Mid-Year Economic and Fiscal Outlook 2009-10*.

7 Our recommendations have impacts solely on changes to State relativities. The actual distribution States receive will also depend on changes in the amount of revenue to be distributed and in State populations, but these impacts are outside the ambit of our review.

2 In this and many other tables in this report the columns may not add due to rounding.

8 The relativities we have recommended change for two broad reasons: first, because we recommend changes in methodology; and second, because we incorporate data for 2008-09 in our 2010 recommendations.

Method changes

9 We are recommending a shortening of the averaging period for assessments from five to three years to better reflect current conditions. This has a significant, but one-off impact on the recommended relativities. Because Queensland and Western Australia have been enjoying relatively stronger economic conditions in recent years on the back of expansion in their mining industries, this change redistributes GST revenue away from them in 2010-11, primarily to New South Wales. This occurs because these more recent years have greater weight in our calculations.

10 Differential population growth has an immediate impact on State budgets, including on infrastructure spending, which we better recognise in our proposed assessments. Queensland and Western Australia, which are experiencing relatively high population growth, benefit as a result.

11 Because we have adopted new materiality and data quality guidelines we have recommended smaller impacts in a range of areas including location, cultural and linguistic diversity and urbanisation.

12 Overall, method changes will see some $728m distributed differently among the States, compared with 2009-10. This is distributed away from Western Australia, the Northern Territory, New South Wales, the ACT and Tasmania, and to Queensland, Victoria and South Australia. Queensland loses from the move to three-year averaging, but that is more than offset by other changes including allowing population growth to more quickly impact on a State's assessed capital transactions.

Update effects

13 Our 2010 recommendations capture the effect of replacing an earlier year's data with those for 2008-09. Overall, updating changes the way some $580m is distributed among the States, primarily away from Queensland and to a lesser extent Western Australia and the ACT, and towards New South Wales in particular. As in other updates this occurs largely because the ability of States to raise their own revenue from mining royalties and property related taxes has diverged. Western Australia remains the State with the strongest fiscal capacity, while Queensland's capacity increased the most to make it clearly the State with the second strongest capacity.

14 The main impacts of updating have occurred in:

- Mining revenue. The stronger growth in export coal and iron ore royalties has strengthened Queensland and Western Australia's ability to raise their own revenue, thus reducing their GST shares;

- Stamp duty. Western Australia's property market has cooled, reducing its ability to raise this tax and increasing its GST share;
- Commonwealth payments. The changed distribution has favoured Queensland, reducing its GST share; and
- Infrastructure investment. Strong population growth has increased what both Queensland and Western Australia are assessed to need to invest, relative to other States, increasing their GST share.

15 The impact of our recommendations for individual States is captured in State summaries at the end of this Overview.

OUR APPROACH

16 We have undertaken this review using a clean slate, top down approach to develop a methodology which captures measureable and material differences between the States. We have applied a set of assessment guidelines to support the development of simpler methods and to ensure consistency in our approach, including the use of data in a way which is consistent with their quality.

17 Throughout this review we have consulted fully with the States and adapted our approach in the light of evidence they have provided.

18 In deciding what distribution of GST would be appropriate, we have adopted several assessment principles. The distribution should:

- reflect State practice. We do not seek to determine the best or appropriate policy; rather we observe what States do and let each play its role in determining the average policy and practice, which forms the basis of the assessment;
- be policy neutral in that an individual State should not be able, by its own actions, to directly influence its own share of the GST distribution;
- reflect, as closely as reliable data will allow, the conditions in the States in the year the GST is distributed; and
- be derived in a practical way, as simply as possible, consistent with achieving fiscal equalisation and the quality of the available data.

19 We have sought to develop a methodology that will be resilient to changing State circumstances, contemporary, and which will continue to be relevant and appropriate as State policies change and as their economic and social circumstances change.

20 An important role of the Commission is the exercise of judgment in deciding what differences among the States should influence the GST and how that influence should be measured. We have used our judgment where we are satisfied that to do so improves the appropriateness of our recommendations in delivering fiscal

equalisation. We have also sought to exercise that judgment conservatively, consistent with the evidence and data available to us.

KEY ISSUES IN THE REVIEW

21 This section summarises our approach to the following major issues:

- ensuring the relativities are contemporary;
- the assessment of State infrastructure requirements;
- the assessment of State financial assets;
- the effects of Indigenous status and cultural and linguistic diversity;
- the effect of location (including urbanisation);
- the treatment of Commonwealth payments; and
- simplification.

The timeliness of recommendations

22 Because our recommendations can have a significant impact on the revenue States have to deliver services to their residents, they should reflect, as closely as possible, conditions in the States in the year they impact on the distribution of GST revenue.

23 Under the previous methodology, the data used in making the assessments was an average of five years' historical data. While the use of five year averaging reduces volatility that might be found in some of the data, when State circumstances change quite quickly, it produces relativities which are inconsistent with observed State fiscal circumstances in the year the relativities are to be applied. We recommend a shortening of the averaging period to three years, believing this strikes a better balance between capturing current developments and smoothing data volatility.

Infrastructure

24 We have observed that different rates of population growth are having a significant impact on State fiscal capacities, particularly through their impact on infrastructure spending for State services (such as hospitals, schools and roads). We believe this impact should be reflected in the GST distribution as quickly and comprehensively as possible. Our recommendations do this by assessing how much States would need to invest to give them comparable levels of such infrastructure in a year and having that reflected in the GST distribution in that year.

25 We are confident that this is an appropriate way of capturing differential needs for infrastructure, noting that States can use GST revenue for any purpose, including the acquisition of new infrastructure, and that apart from recent years when the global financial crisis impacted on their finances, this was average State practice.

Financial assets

26 Different rates of population growth also impact on State holdings of financial assets per capita and on State capacity to earn income from these assets. We consider the simplest way of accommodating this impact is to equalise States' net financial worth per capita, and assess them to have an equal income earning capacity from these assets.

27 To give effect to these recommendations we have broadened our measure of a State's fiscal capacity, from its operating budget outcome to its net financial worth. Our recommendations give States the capacity to equalise these holdings when population growth rates diverge. We determine what net lending a State would need to keep its net financial worth per capita at average levels, and incorporate that into our recommended GST distribution.

28 We see the approach as more comprehensive and it allows us to give greater prominence to differential population growth in our recommendations, so strengthening the intent of equalising the fiscal capacity of the States.

Indigeneity and cultural and linguistic diversity

29 The data and evidence presented by the States, and our own observations, make it clear that a major difference across States arises because of the uneven distribution of Indigenous Australians (particularly in more remote locations), and the higher expenditure States incur in providing services to these residents. We estimate that the Northern Territory needs to spend $5441 per capita more than average because of this, and Victoria $257 per capita less than average. Overall some $2.1bn is redistributed because of the impact of Indigeneity on State service delivery expenses.

30 The wider multicultural nature of Australian society and how that diversity differs among States also has an impact on State fiscal conditions. States argued that cultural diversity had an impact and, while we accept it may, it was not possible to reliably estimate the costs of cultural diversity and we have made no allowance for it in our recommendations. However, the evidence for the overall impact on State per capita expenditure of linguistic diversity, and particularly lack of fluency in English, was stronger and we have incorporated a modest allowance for this in our recommendations.

Location

31 Where people live in Australia has a clear impact on the services they receive and the cost of those services. Costs vary between States (for example because wage costs differ) and within States (more remote regions experience higher costs) and we recognise both. On average, the cost of delivering services to more remote regions is higher than the average cost and we have recognised this differential cost in our recommendations.

32 In this review incorporating the impact of location in a meaningful and reliable way has been difficult. We have used our judgment to incorporate the impact of interstate freight costs because data identifying this impact were difficult to obtain. In this and other areas we have discounted the impact of the available data to reflect our concerns about their quality. This conservative approach — consistent with the requirement in the terms of reference on data quality — means that location is a smaller driver of the GST distribution than in past years. It redistributes some $1.0bn, from the more centralised States and those with manufacturing capacity to States with more dispersed populations removed from centres of production. It also redistributes revenue from States with below average wage costs to those with above average costs.

33 Some States argued that large urban areas experience higher costs of service delivery per capita. Data supported this case for State expenditure on urban transport and in this category we have accepted the argument and included an explicit allowance for this influence. However, in other areas, data supporting the case were not convincing and as a result we have not incorporated an urban influences allowance in other assessments.

Commonwealth payments

34 We have treated Commonwealth payments on a case-by-case basis to assess their impact on State fiscal capacities. Most will have an impact on State fiscal capacities and, as envisaged by the Intergovernmental Agreement, these should have an impact on the GST distribution. Where we are directed by our terms of reference that any Commonwealth payments should not impact on the distribution, or where the payments are related to Commonwealth purchases from the States, or they flow through State Budgets with no State discretion and thus have no impact on their fiscal capacities, these are excluded from our assessments.

35 We have also taken this approach to major Commonwealth support for infrastructure used for State purposes where we see Commonwealth support differentially impacting on what States themselves need to spend.

Simplification

36 As required by our terms of reference, we have kept our methodology as simple as possible, consistent with achieving appropriate fiscal equalisation. The importance of capturing the inherent complexity of delivering services to a wide range of residents living in very different circumstances as well as differing abilities to raise revenue has constrained the extent to which simplification could be achieved.

37 We have captured the full range of State expenses and revenue in our assessments, but have done so in fewer, broader aggregates and using broad indicators of differences among the States. We have reduced the overall number of categories from 59 to 22. We also believe that by recognising State needs for infrastructure as

they arise, and equalising their financial assets, we have simplified the treatment of capital transactions and their impact on expenses and revenue.

38 A considerable part of the current methodology has been preserved in our recommendations where rigorous scrutiny has found no better approaches to deliver appropriate equalisation. However, even in these areas some simplification has been possible because, judged against our new materiality guidelines, some things currently done are no longer warranted.

39 There is always pressure to introduce greater complexity in an effort to more accurately reflect State differences. It will be important to maintain a careful balance between a comprehensive assessment of State fiscal capacities and an approach which is as simple and practical as possible. We consider that the focus on simplification required by the terms of reference for this review should be maintained in any future reviews and that in any future updates, methodology changes be restricted to those essential to capture major changes in average State policy, federal relations or data.

GOING FORWARD

40 We consider that our recommendations are appropriate to use in distributing GST to equalise State fiscal capacities, within the bounds of what is known about the differing circumstances States face in delivering services, raising revenue and providing for their capital requirements both in terms of infrastructure and financial assets.

41 We acknowledge that in many areas data improvements have facilitated our work, and we commend the efforts of States who worked to improve the quality of data available to the Commission through the course of the review. But data limitations remain in many areas and we consider that further efforts should be made to improve the data, particularly data that are comparable across States, in any future review of methodology.

NEW SOUTH WALES

New South Wales has the fourth highest assessed fiscal capacity due to its below average assessed costs of providing services and below average assessed requirements for infrastructure and net lending.

Those below average expenditure requirements reflect the State's below average shares of Indigenous people, people living in remote areas and below average population growth. Above average private provision of community health services and an ability to achieve economies of scale in administration also contribute, but above average wages increase its spending.

Those effects are partly offset by the State's below average revenue raising capacity, which is mainly due to its below average mining production and motor vehicle registrations, although it does have above average taxable payrolls.

Table 3 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	14 523.2	2 013.0
Effect of assessed		
Expenses	-1 089.1	-151.0
Investment	-315.5	-43.7
Net lending	-178.7	-24.8
Revenue	846.7	117.4
Commonwealth payments	62.2	8.6
Assessed GST	13 843.7	1 918.8

Note: The table may not add due to rounding.

Table 4 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	579.0
Other method changes	-701.1
Updated circumstances	399.5
New population	-55.6
Growth in GST available	848.0
Total change	1 069.6

Compared with 2009-10, the State's share of the GST revenue will rise from 30.2 per cent to 30.7 per cent, partly because of its lower revenue raising capacity in recent years. Those effects were, however, partly offset by the effects of new methods, especially the new investment and net lending assessments, and below average population growth. When combined with the growth in GST available, its assessed GST will rise by $1070 million (see Table 4).

Table 5 Major changes in methods and circumstances, New South Wales

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	-525.1	Its below average assessed service use and population growth implied below average requirements for investment and net lending.
Community health	-334.9	Better recognition of the effects on State expenses of the State's below average share of the Indigenous population and its above average non-State provision of services.
Justice services	-95.0	Allowances for use of services by Indigenous people (who are a below average share of the State's population) have increased and previous allowances for big city effects were found to be too unreliable.
Welfare and housing	-94.0	Better recognition of the effects of Indigenous people (who are a below average share of the State's population).
Land tax	181.2	Revenue office data better measure its relative revenue raising capacity.
Services to industry	153.2	Fewer interstate differences in spending on agricultural and mining industries have been assessed.
Changes in circumstances		
Mining revenue	166.9	The effects of its below average mining production were magnified by the 95% increase in average revenue between 2005-06 and 2008-09.
Land tax	153.0	Its revenue base share fell from 42.3% in 2005-06 to 31.4% in 2008-09.

VICTORIA

Victoria has the third highest assessed fiscal capacity because of its well below average assessed costs of providing services and infrastructure requirements.

Those below average expenditure requirements are due to its below average shares of government school enrolments, Indigenous people, people in areas of low socio-economic status and people in remote areas. It also has below average wage levels and can achieve economies of scale in administration.

Those effects on its fiscal capacity are partly offset by its below average revenue raising capacity and below average Commonwealth payments, especially for road construction. Its low revenue capacity reflects well below average mining production and a below average value of property transfers.

Table 6 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	11 174.7	2 013.0
Effect of assessed		
Expenses	-2 740.9	-493.7
Investment	-320.6	-57.8
Net lending	9.2	1.6
Revenue	1 875.9	337.9
Commonwealth payments	528.5	95.2
Assessed GST	10 516.4	1 894.5

Note: The table may not add due to rounding.

Table 7 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	186.1
Other method changes	-35.3
Updated circumstances	72.1
New population	5.0
Growth in GST available	644.1
Total change	872.1

Compared with 2009-10, Victoria's share of the GST revenue will rise from 22.8 per cent to 23.3 per cent. This is because the relativities have been made more up-to-date by reducing the review period to three years and including 2008-09 conditions. Those effects were partly offset by other method changes. When combined with the growth in GST available, its assessed GST will rise by $872 million (see Table 7).

Table 8 Major changes in methods and circumstances, Victoria

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
Land tax	-162.5	Revenue office data better measured its relative revenue raising capacity.
New investment and net lending assessments	-160.0	Its below average assessed service use implied below average requirements for investment.
Justice services	-152.8	Allowances for use of services by Indigenous people (who are a below average share of the State's population) have increased and previous allowances for big city effects were found to be too unreliable.
Roads	158.7	The effect of road use was increased and that of length reduced.
Transport services	156.9	There has been better recognition of the effects of city size on transport subsidies.
Services to communities	143.8	Allowances for the costs of water services and assistance to Indigenous communities in remote areas have been reduced in other States.
Changes in circumstances		
Mining revenue	290.6	The effects of its below average mining production were magnified by the 95% increase in average revenue between 2005-06 and 2008-09.
Commonwealth payments	231.0	Mainly due to below average growth in revenue from payments for road construction.
Conveyances	-158.4	Its revenue base share rose from 20.3% in 2005-06 to 24.1% in 2008-09.

QUEENSLAND

Queensland has the second highest assessed fiscal capacity because of its high revenue raising capacity and above average Commonwealth payments, especially for road construction.

Its high revenue capacity reflects well above average production of export coal and above average property transfers and motor vehicle registrations, although there is a partial offset from below average payrolls.

Those effects are partly offset by its above average assessed service delivery expenses and infrastructure and net lending requirements. Its high expenditure requirements are due to above average shares of government school enrolments, Indigenous people, people living in remote areas and road use, and above average population growth. Those effects are partly offset by its below average wages.

Table 9 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	9 169.5	2 013.0
Effect of assessed		
Expenses	286.2	62.8
Investment	537.9	118.1
Net lending	147.8	32.4
Revenue	-1 439.9	-316.1
Commonwealth payments	-321.8	-70.7
Assessed GST	8 384.0	1 840.6

Note: The table may not add due to rounding.

Table 10 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	-388.0
Other method changes	878.6
Updated circumstances	-510.4
New population	51.0
Growth in GST available	513.5
Total change	544.8

Compared with 2009-10, Queensland's share of the GST revenue will rise from 18.5 per cent to 18.6 per cent. The large effects of better recognising the State's high revenue raising capacity in recent years are more than offset by those of other method changes (such as allowing for its high investment and net lending requirements) and population growth. That, plus the increase in the GST available, leads to a $545 million increase in its assessed GST (see Table 10).

Table 11 Major changes in methods and circumstances, Queensland

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	591.4	Its above average population growth and service use implied above average needs for investment and net lending.
Services to communities	112.3	Allowances for populations in small communities in remote areas and poor water areas have been increased.
Justice services	112.2	Allowances for use of services by Indigenous people (who are an above average share of the State's population) have increased and previous allowances for big city effects were found to be too unreliable.
Roads	66.6	Road use received more emphasis and it is above average in the State.
Changes in circumstances		
Mining revenue	-314.6	Its capacity to raise revenue from export coal and bauxite increased.
Commonwealth payments	-245.4	Mainly due to above average growth in revenue from payments for road construction.
Land tax	-71.0	Its share of the revenue base rose from 15.6% in 2005-06 to 20.7% in 2008-09.

WESTERN AUSTRALIA

Western Australia has the highest assessed fiscal capacity due to its very high revenue raising capacity.

That high capacity is due to above average mining production, property transfers, payrolls, motor vehicle registrations and land values.

Those effects on its fiscal capacity are partly offset by its above average assessed service delivery expenses, above average infrastructure and net lending requirements and below average Commonwealth payments, especially for health care and transport infrastructure.

Its high expenditure requirements are due to above average shares of government school pupils, Indigenous people, people in remote areas and road use, and above average population growth. Above average wage levels and below average non-State provision of health services also contributed.

Table 12 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	4 665.1	2 013.0
Effect of assessed		
Expenses	1 086.9	469.0
Investment	272.1	117.4
Net lending	96.1	41.5
Revenue	-2 994.0	-1 291.9
Commonwealth payments	54.8	23.6
Assessed GST	3 190.1	1 376.6

Note: The table may not add due to rounding.

Table 13 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	-490.2
Other method changes	107.5
Updated circumstances	-60.2
New population	24.6
Growth in GST available	195.4
Total change	-222.9

Compared with 2009-10, Western Australia's share of the GST revenue will fall from 8.1 per cent to 7.1 per cent, resulting in a decrease in assessed GST of $223 million (see Table 13). The large effects of better recognising the State's high revenue raising capacities of recent years more than offset the effects of other method changes (such as allowing for its above average investment and net lending requirements), other changes in 2008-09 conditions, population growth and the growth in GST available for distribution.

Table 14 Major changes in methods and circumstances, Western Australia

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	264.3	Above average population growth and service use implied above average needs for investment and net lending.
Community health	187.4	Better recognition of the effects of below average non-State provision.
Services to communities	-113.3	Allowances for the effects of low water quality and availability on State expenses have been reduced.
Roads	-90.5	The effect of rural road length on expenses was reduced.
Other expenses	-88.7	Disabilities for national parks, culture and recreation were not assessed.
Mining revenue	-83.2	Lump iron ore was grouped with the other highly taxed minerals.
Changes in circumstances		
Conveyances	215.4	Its revenue base share fell from 15.4% in 2005-06 to 10.6% in 2008-09.
Mining revenue	-268.2	Its capacity to raise mining revenue rose in 2008-09.
Land tax	-110.4	Its revenue base share rose from 9.6% in 2005-06 to 15.5% in 2008-09.

SOUTH AUSTRALIA

South Australia has the third lowest assessed fiscal capacity, mainly because of its below average revenue raising capacity for all State taxes, especially conveyance duty, payroll tax and mining revenue.

Those effects are reinforced by its above average assessed expenses, which reflect its above average shares of older people, people with low socio-economic status (including recipients of Commonwealth social security benefits), residents of small communities in poor water areas, rural road use and rural road length.

However, its below average population growth means it has below average investment and net lending requirements.

It also received above average revenue from Commonwealth payments, such as the National specific purpose payments for healthcare, schools, disability, and skills and workforce development.

Table 15 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	3 315.4	2 013.0
Effect of assessed		
Expenses	226.2	137.3
Investment	-155.5	-94.4
Net lending	-50.5	-30.7
Revenue	1 075.6	653.1
Commonwealth payments	-143.7	-87.3
Assessed GST	4 265.3	2 589.9

Note: The table may not add due to rounding.

Table 16 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	65.2
Other method changes	21.1
Updated circumstances	32.2
New population	-22.8
Growth in GST available	261.3
Total change	356.9

Compared with 2009-10, South Australia's share of the GST revenue will rise from 9.2 per cent to 9.5 per cent. This is because the effects of making the relativities more up-to-date and those of other method changes (such as better recognising the effects of people in low socio-economic areas and allowing for its below average investment and net lending requirements) more than offset those of its below average population growth. That, plus the growth in the GST available, leads to a $357 million increase in its assessed GST (see Table 16).

Table 17 Major changes in methods and circumstances, South Australia

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	-171.3	Its below average population growth implied below average investment and net lending requirements.
Services to communities	-66.3	Allowances for the effects of low water quality and availability on State expenses have been reduced.
Welfare and housing	144.5	The effects on expenses of its above average share of low income people were better recognised.
Justice services	56.5	Allowances for the higher costs of low socio-economic status people (who are an above average share of the State's population) were increased and previous allowances for big city effects were removed.
Roads	49.6	Better recognition of needs for national network roads and bridges.
Changes in circumstances		
Mining revenue	83.1	The effects of its below average mining production were magnified by the 95% increase in average revenue between 2005-06 and 2008-09.
Payroll and land tax	32.5	Its revenue bases increased at below average rates between 2005-06 and 2008-09.
Conveyances	-64.0	Its revenue base share rose from 4.3% in 2005-06 to 5.4% in 2008-09.
Commonwealth grants	-29.7	Above average growth in payments for education, health and water.

TASMANIA

Tasmania has the second lowest assessed fiscal capacity. It has below average revenue capacity for the major taxes (such as payroll tax, conveyance duty and mining revenue) and above average expenses in providing the major services (including schools, health, welfare, housing and justice).

The high service delivery costs reflect the State's above average share of people in areas with low socio-economic status, older people and government school students, and below average non-State provision of community health services. It also incurs diseconomies of small scale in administration but it has below average wage levels.

A below average population growth is the main reason for below average assessed investment and net lending requirements.

Table 18 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	1 025.6	2 013.0
Effect of assessed		
Expenses	308.1	604.8
Investment	-64.3	-126.2
Net lending	-23.3	-45.7
Revenue	420.6	825.5
Commonwealth payments	-2.1	-4.2
Assessed GST	1 664.4	3 266.9

Note: The table may not add due to rounding.

Table 19 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	-12.4
Other method changes	-1.4
Updated circumstances	14.4
New population	-11.1
Growth in GST available	101.9
Total change	91.4

Compared with 2009-10, Tasmania's share of the GST revenue remains constant at 3.7 per cent. The introduction of our new methods, such as allowing for its below average investment and net lending requirements, and the State's below average population growth reduce its share. Making the relativities more up-to-date slightly increases its share because the effects of the shorter review period are less than those of the lower revenue raising capacity in 2008-09. The growth in the GST available leads to a $91 million increase in its assessed GST (see Table 19).

Table 20 Major changes in methods and circumstances, Tasmania

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	-68.7	Tasmania's below average population growth implied below average needs for investment and net lending.
Services to communities	-29.6	Tasmania has a below average proportion of its population living in small communities in poor water areas.
Land tax	-27.6	Revenue office data better measure its relative revenue raising capacity.
Welfare and housing	65.6	The effects on expenses of its above average share of low income people were better recognised.
Community health	42.6	Better recognition of the effects of the State's above average share of the elderly population and below average non-State provision.
Changes in circumstances		
Mining revenue	30.3	The effects of its below average mining production were magnified by the 95% increase in average revenue between 2005-06 and 2008-09.
Land tax	7.7	Its revenue base share fell from 1.1% in 2005-06 to 1.0% in 2008-09.
Conveyances	-16.3	Its share of the revenue base share rose from 1.3% in 2005-06 to 1.5% in 2008-09.

AUSTRALIAN CAPITAL TERRITORY

The ACT has the fifth highest assessed fiscal capacity. It has below average capacity to raise revenue in all areas, particularly mining where there is no industry, and below average revenue from Commonwealth payments, because it received low road building payments.

Those effects are partly offset by below average assessed costs of providing services, especially for admitted patients, welfare, public housing, roads and services to communities. This is because the impact of the relatively young, affluent population, the lack of remote centres and the small rural road network is greater than the higher unit costs caused by above average wage levels and diseconomies of small scale in administration.

Its below average population growth is a major reason for below average assessed investment and net lending requirements.

Table 21 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	721.3	2 013.0
Effect of assessed		
Expenses	-74.8	-208.6
Investment	-51.5	-143.9
Net lending	-4.0	-11.1
Revenue	173.8	485.0
Commonwealth payments	68.4	190.8
Assessed GST	832.6	2 323.8

Note: The table may not add due to rounding.

Table 22 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	13.5
Other method changes	-83.8
Updated circumstances	-9.5
New population	-1.2
Growth in GST available	51.0
Total change	-29.9

Compared with 2009-10, the ACT's share of the GST revenue will fall from 2.0 per cent to 1.8 per cent. This is mainly due to changes in the methods for deriving the relativities (such as recognising its below average investment and net lending requirements) and the inclusion of 2008-09 conditions, which include a sharp increase in its capacity to raise payroll tax. Those effects more than offset the growth in GST available, reducing the ACT's assessed GST by $30 million.

Table 23 Major changes in methods and circumstances, the ACT

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
New investment and net lending assessments	-35.9	Recognising the effects of its below average population growth implied below average needs for investment and net lending.
Justice services	-35.6	Reduced assessment of use by New South Wales residents and greater influence of Indigenous people of whom the ACT has a low share.
Payroll tax	-32.1	Data on compensation of employees were revised up and higher education payrolls, where the ACT has an above average share, are included in the tax base.
Welfare and housing	-31.2	Better recognition of the expenses of providing services to people with low socio-economic status and Indigenous people, who are a below average share of its population.
Community and other health	39.0	Better recognition of the cost disadvantages of the ACT's below average provision of services by general practitioners and other private providers.
Changes in circumstances		
Commonwealth grants	25.4	Below average growth in road building and schools payments.
Mining revenue	20.6	Rapid growth in average revenue magnified the effects of its below average capacity to raise revenue.
Payroll tax	-13.0	Above average growth in private sector payrolls between 2005-06 and 2008-09.
Conveyances	-11.0	Its revenue base share rose from 1.3% in 2005-06 to 1.6% in 2008-09.

NORTHERN TERRITORY

The Northern Territory has the lowest assessed fiscal capacity due to its above average assessed expenses, infrastructure requirements and net lending and below average revenue raising capacity.

Its high expenditure requirements are due to above average shares of government school pupils, Indigenous people, young males and people in remote areas, and above average population growth. It also has below average non-State provision of health services, above average wage levels and diseconomies of scale in administration.

The effects of its above average mining production are more than offset by those of the below average bases for all other State taxes.

Those effects are partly offset by its above average revenue from Commonwealth payments (such as the National specific purpose payments for remote Indigenous and affordable housing, schools, healthcare, substance abuse and Indigenous welfare).

Table 24 Assessed GST, 2010-11

	$m	$pc
Equal per capita share	465.2	2 013.0
Effect of assessed		
Expenses	1 997.4	8 642.6
Investment	97.4	421.5
Net lending	3.5	14.9
Revenue	41.4	179.0
Commonwealth payments	-246.1	-1 065.1
Assessed GST	2 363.4	10 226.3

Note: The table may not add due to rounding.

Table 25 Changes in GST 2009-10 to 2010-11

	$m
Change due to	
New relativities	
Shorter review period	46.9
Other method changes	-185.6
Updated circumstances	61.8
New population	10.1
Growth in GST available	144.8
Total change	77.9

Compared with 2009-10, its share of the GST revenue will fall from 5.4 per cent to 5.2 per cent. The combined effects of making the relativities more up-to-date, recognising its above average infrastructure requirements and its population growth are more than offset by other method changes which reduced the assessed effects of location on costs and removed unreliable assessments. Its assessed GST will rise by $78 million due to growth in the GST available.

Table 26 Major changes in methods and circumstances, the Northern Territory

	Change ($m)	Reason for change
Changes in methods (other than shortening the review period)		
Investment and net lending assessments	105.4	Its above average population growth and service use implied above average needs for investment and net lending.
Roads	-97.8	Road use was shown to have more effect on expenses than length.
Services to communities	-89.2	Allowances for the effects of community size on Indigenous community development could not be justified nor could differential subsidies for water and electricity services in Indigenous communities.
Other expenses	-73.1	Disabilities for national parks, culture and recreation were not assessed.
Welfare and housing	-46.8	Previous allowances for extra costs arising from people with low English fluency and remote Indigenous people could not be justified.
Changes in circumstances		
Welfare and housing	80.9	Costs of services to Indigenous people who are a large proportion of its population rose between 2005-06 and 2008-09.
Schools education	18.5	An above average increase in enrolments and wage levels.
Commonwealth grants	-58.4	Above average growth in payments for Indigenous welfare and housing.
Conveyances	-16.8	Its share of the revenue base rose from 0.6% in 2005-06 to 1.1% in 2008-09.
Admitted patients	15.5	The 34% increase in average expenses magnified the Territory's needs.