



**Australian Government**  

---

**Commonwealth Grants Commission**

**Report on  
GST Revenue Sharing Relativities  
2017 Update**

**Canberra**

## Copyright

© Commonwealth of Australia 2017

ISBN: 978-0-9923954-5-2

With the exception of the Commonwealth Coat of Arms, all material presented in this document is provided under an [Attribution 4.0 \(CC BY 4.0\) licence](http://creativecommons.org/licenses/by/4.0) (<http://creativecommons.org/licenses/by/4.0>).



## Attribution

This document should be attributed as: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2017 Update*.

## Licence conditions

The details of the relevant licence conditions are available on the [Creative Commons website](http://creativecommons.org) (<http://creativecommons.org>), as are the [CC BY 4.0 licence deed](http://creativecommons.org/licenses/by/4.0) (<http://creativecommons.org/licenses/by/4.0>) and [full legal code](http://creativecommons.org/licenses/by/4.0/legalcode) (<http://creativecommons.org/licenses/by/4.0/legalcode>).

## Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the [It's an Honour website](http://www.itsanhonour.gov.au/coat-arms/) (<http://www.itsanhonour.gov.au/coat-arms/>).

## CONTACT US

Inquiries regarding the licence and any use of this document should be directed to:

Director, Corporate Services  
Commonwealth Grants Commission  
First Floor, Phoenix House  
86-88 Northbourne Avenue  
BRADDON ACT 2612  
Telephone (02) 6229 8825  
Facsimile (02) 6229 8821  
Email [phil.parkins@cgc.gov.au](mailto:phil.parkins@cgc.gov.au)

## INTERNET

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

# LETTER OF TRANSMITTAL

---



**Australian Government**  
**Commonwealth Grants Commission**

LETTER OF TRANSMITTAL

10 March 2017

The Hon Scott Morrison MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

As members of the Commonwealth Grants Commission appointed under the *Commonwealth Grants Commission Act 1973*, and in response to the terms of reference provided by you on 29 November 2016, we have prepared this report to provide updated per capita relativities for use in distributing GST revenue among the States and Territories in 2017-18.

In accordance with those terms of reference, we are also providing the results of the update to the States and Territories today.

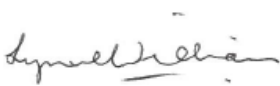
Yours sincerely



G J Smith  
Chairperson



J D Petchey  
Member



L S Williams AM  
Member

---

Phoenix House  
First Floor  
86-88 Northbourne Avenue  
BRADDON ACT 2612

Tel: 61 2 6229 8800  
Fax: 61 2 6229 8821  
Email: [secretary@cgc.gov.au](mailto:secretary@cgc.gov.au)  
Internet: <http://www.cgc.gov.au>

## ACKNOWLEDGMENTS

---

The Commission appreciates the ready co-operation extended to it and its staff during this update by Commonwealth, State and Territory Treasury officers and by staff of Commonwealth and other agencies.

The Commission also acknowledges the commitment and capable contribution of its staff.

# TERMS OF REFERENCE

---



TREASURER

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

Dear Mr Smith

A handwritten signature in blue ink that reads 'Greg'.

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

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

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

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

Yours sincerely

A handwritten signature in blue ink that reads 'Scott Morrison'.

The Hon Scott Morrison MP

21/11/2016

## Terms of Reference for the 2017 Update of GST Revenue Sharing Relativities

### COMMONWEALTH GRANTS COMMISSION ACT 1973

I, Scott John Morrison, Treasurer, pursuant to sections 16, 16A and 16AA of the *Commonwealth Grants Commission Act 1973*, refer to the Commission for inquiry into and report upon, by 24 March 2017, the recommended per capita relativities to be used to distribute GST revenue among the States, the Northern Territory and the Australian Capital Territory (collectively referred to as the States) in 2017-18. The Commission should provide an advance copy of its report, under embargo, to the Commonwealth and the State Treasuries by 10 March 2017.

2. The Commission should undertake an assessment of the per capita relativities recommended to be used to distribute GST revenue among the States in 2017-18 (the GST relativities).
3. The Commission's assessment should take into account the *Intergovernmental Agreement on Federal Financial Relations* (as amended), which provides that GST revenue will be distributed among the States in accordance with the principle of horizontal fiscal equalisation.
4. The Commission's assessment should be based on the review period 2013-14 to 2015-16 inclusive. Where possible, the Commission should use the latest available data.
5. Subject to paragraphs 6 – 7, the Commission's assessment should be based on the application of the same principles, categories and methods of assessment that the Commission used to calculate the per capita relativities in its *Report on GST Revenue Sharing Relativities – 2016 Update*.
6. The Commission's assessment should treat Commonwealth payments to the States as follows:
  - (a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, Students First funding (for government schools) and National Partnership project payments should affect the relativities, recognising that these payments provide the States with budget support for providing standard state services.
    - i. NHR funding and corresponding expenditure relating to the provision of cross-border services to the residents of other States should be allocated to States on the basis of residence.
  - (b) National Partnership facilitation and reward payments should not affect the relativities, so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States through the horizontal fiscal equalisation process.
  - (c) General revenue assistance, excluding GST payments, will affect the relativities, recognising that these payments are available to provide untied general budget support to a State.

- (d) Notwithstanding subparagraphs 6(a) – (c), the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of State governments in providing particular services.
  - (e) Those payments which the Commission has previously been directed to treat as having no direct influence on the relativities, including payments for which the Commission has been directed to apply a 50 per cent discount, should continue to be treated in that way. Where those payments are replaced, the treatment of the new payment should be guided by subparagraphs 6(a) – (d), unless otherwise directed.
7. If data problems necessitate changes, the Commission should proceed on the basis that:
- (a) new, more reliable data would be used in the first possible update, if method changes were not required; or
  - (b) if overcoming the data problems necessitated method changes, revised methods would be used in the first possible update, subject to consultation with the States during that update.
8. The Commission should consult the Commonwealth and the States before deciding on any changes in methods that arise as a result of a significant change in arrangements which govern Commonwealth-State relations and which are considered appropriate for the Commission to fulfil its obligations in respect of these terms of reference.
9. To the extent possible, the Commission should, upon reporting, provide all parties with details underpinning its calculations and assessments, and endeavour to meet requests for supplementary calculations.



SCOTT JOHN MORRISON

## THE TASK

---

This report contains the Commission's response to the terms of reference for the 2017 Update received from the Commonwealth Treasurer on 29 November 2016.

The Commission has been asked in the terms of reference to advise how GST (Goods and Services Tax) revenue should be distributed among the States in 2017-18. As directed in the terms of reference the Commission has:

- used the same principles and methods used in the 2016 Update
- used the latest available reliable data for 2013-14 to 2015-16
- followed the guidance on the treatment of Commonwealth payments and direction on how some payments should be treated.

Details of the Commission's task are in Chapter 1 of the *Report on GST Revenue Sharing Relativities, 2015 Review, Volume 1* and the principles used in undertaking it are in Chapter 1 of Volume 2 in the same report. These documents are available on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au). An overview of the Commission's update processes is also available on the website.



# CONTENTS

---

<b>OVERVIEW</b>	<b>1</b>
<b>Executive summary</b>	<b>1</b>
<b>Recommended GST distribution</b>	<b>2</b>
<b>Illustrative GST distribution</b>	<b>3</b>
<b>Why State fiscal capacities have changed</b>	<b>3</b>
<b>State by State changes since the 2016 Update</b>	<b>6</b>
New South Wales	7
Victoria	8
Queensland	9
Western Australia	10
South Australia	11
Tasmania	12
Australian Capital Territory	13
Northern Territory	14
<b>CHAPTER 1 – CHANGES IN THE GST DISTRIBUTION</b>	<b>15</b>
<b>How has the GST distribution changed?</b>	<b>15</b>
Why State fiscal capacities change between updates	16
<b>Data revisions</b>	<b>17</b>
<b>Changes in State circumstances since the 2016 Update</b>	<b>18</b>
Revenue	19
Property sales	19
Mining production	20
Taxable payrolls	21
Taxable land values	22
Commonwealth payments	23
Expenditure	25
Population growth	25
Wage costs	27
Other	28
<b>Why State fiscal capacities differ</b>	<b>31</b>
<b>Size of the equalisation task</b>	<b>34</b>
<b>CHAPTER 2 – NEW ISSUES IN THIS UPDATE</b>	<b>37</b>
<b>Data issues</b>	<b>37</b>
Natural Disaster Relief and Recovery Arrangements (NDRRA) net expenses	37
Independent Hospital Pricing Authority (IHPA) data	39
Preliminary and final data	39

Revisions to 2014-15 IHPA data	39
Changes to coverage of emergency department (ED) data	39
Land tax data	41
<b>Assessment issues</b>	<b>46</b>
Wage costs assessment	46
The variables in the econometric model	46
The CSS adjustment	47
A State-specific adjustment for Tasmania	48
Discounting the modelled outcomes	50
Results and GST impact	51
National Disability Insurance Scheme (NDIS)	52
Community health non-State sector adjustment	53
<b>Treatment of Commonwealth payments</b>	<b>54</b>
Terms of reference requirements	54
Treatment of Commonwealth payments	54
Zika response teams	56
Infrastructure Investment Programme — Bridges renewal	58
Established pest and weed management	58
Mechanical fuel load reduction trial	59
<b>Other issues</b>	<b>61</b>
Timing of data requests	61
Sharing of confidential data	61
Timeliness of terms of reference	62
Protocols for correcting errors	63
<b>ATTACHMENT A</b>	<b>65</b>
<b>Quality assurance</b>	<b>65</b>
Data quality improvement	65
Calculation audit processes	66
External audit of staff compliance with Quality Assurance processes	66
Reporting of methods, decisions and results	67
<b>Commission Terminology</b>	<b>68</b>
<b>Acronyms</b>	<b>77</b>

# OVERVIEW

## EXECUTIVE SUMMARY

This report recommends a distribution of GST revenue among the States in 2017-18 designed to give each of them the fiscal capacity to deliver services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

The GST distribution is based on the same methods applied in the 2016 Update, as required by the Commission's terms of reference. It also incorporates 2015-16 data for the first time while 2012-13 data drop out.

The States' assessed fiscal capacities continue to reflect trends in their economies and other key influences on their circumstances. These trends show a shift in economic activity across Australia. Mining and population growth have slowed in Western Australia, Queensland and the Northern Territory. New South Wales and Victoria experienced strong activity in the property sector and strong population growth, especially for Victoria. In combination, these changes have had a marked impact on the States' capacity to raise revenue and on their requirements for investment.

Falls in commodity prices, particularly for iron ore, have reduced Western Australia's capacity to raise mining royalties, increasing its GST share and reducing the GST shares of the other States. This effect has been partly offset by a fall in Western Australia's share of national population growth, which reduced its need to invest in new infrastructure, along with falls in its costs of service delivery. Overall, Western Australia's share of GST revenue has increased from 3.3% to 3.8%.

The assessed fiscal capacities of New South Wales and the Northern Territory have increased markedly, reducing those States' GST shares. New South Wales' stronger fiscal capacity was driven by an increased revenue capacity, principally because of its strong property market. The stronger fiscal capacity of the Northern Territory was partly driven by a fall in its relative population growth, which reduced its need to invest in new infrastructure. It also experienced a fall in its costs of providing services across most functions, notably schools, health and rural roads.

The assessed fiscal capacities of the other States have fallen, increasing those States' GST shares. Victoria's increased GST share is largely due to an increase in its share of national population growth, which increased its need to invest in infrastructure, and a relative increase in its costs of service delivery. For Queensland, its increased GST share is largely due to a fall in its capacity to raise revenue from property, land and payrolls. For South Australia and Tasmania, relative increases in their shares of national population growth acted to maintain their GST shares. The ACT's GST share increased, mainly due to an increase in its assessed disability services expenses.

## RECOMMENDED GST DISTRIBUTION

- 1 Table 1 shows the per capita relativities the Commission recommends for use in distributing the GST revenue among the States in 2017-18. It also shows State shares of the GST revenue implied by the Commission's 2017-18 recommendations and an illustrative total GST revenue distribution. It compares these with the results for 2016-17.

**Table 1 Relativities, shares and illustrative GST distribution, 2016-17 and 2017-18**

	Relativities		GST shares		GST distribution	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
			%	%	\$m	\$m
New South Wales	0.90464	0.87672	29.1	28.2	17 369	17 680
Victoria	0.90967	0.93239	23.0	23.6	13 717	14 829
Queensland	1.17109	1.18769	23.6	23.8	14 075	14 963
Western Australia	0.30330	0.34434	3.3	3.8	1 976	2 354
South Australia	1.41695	1.43997	10.0	10.1	6 000	6 360
Tasmania	1.77693	1.80477	3.8	3.8	2 278	2 403
Australian Capital Territory	1.15648	1.19496	1.9	2.0	1 136	1 230
Northern Territory	5.28450	4.66024	5.3	4.7	3 190	2 921
Total	1.00000	1.00000	100.0	100.0	59 740	62 740

Source: Commission calculation.

- 2 The methods used to derive these results for 2017-18 are set out in the *Report on GST Revenue Sharing Relativities, 2015 Review* and the *Report on GST Revenue Sharing Relativities, 2016 Update*. Using these methods and data for 2013-14, 2014-15 and 2015-16, the Commission has measured how the economic, social, demographic and other characteristics in the States affect the relative expenses States need to incur to provide services (including infrastructure) and the relative capacity of States to raise their own revenue. The expense and revenue assessments are then combined with the additional Commonwealth support States receive and State populations, to calculate State shares of the GST.<sup>1</sup> These shares aim to give each State in 2017-18 the fiscal capacity to provide the average standard of services and associated infrastructure for its population, if it makes the average effort to raise revenue and operates at the average level of efficiency.
- 3 The proportion of GST revenue redistributed away from equal per capita (EPC) to the States with below average fiscal capacities fell slightly in this update, to 12.6% from 12.7%. It is the first fall in the proportion of GST redistributed since the 2010 Review.

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

## ILLUSTRATIVE GST DISTRIBUTION

4 Table 2 shows the differences between the estimated GST distribution for 2016-17 and the illustrative distribution for 2017-18. Changes have occurred for a number of reasons:

- State populations between 2016-17 and 2017-18 have changed
- the amount of GST revenue available for distribution has increased
- the relative fiscal capacities of the States have changed mainly because of changes in State circumstances.

5 The Commission's work relates to the assessment of these changes in fiscal capacities.

**Table 2 Distribution of the 2016-17 GST and the illustrative 2017-18 GST distribution**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated 2016-17	17 369	13 717	14 075	1 976	6 000	2 278	1 136	3 190	59 740
Illustrative 2017-18	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Change	311	1 112	889	378	360	125	94	-269	3 000
<i>Change caused by new:</i>									
Population	22	75	-9	1	-33	-23	-1	-32	0
Pool	873	693	706	99	300	113	57	159	3 000
Fiscal capacities	-585	344	191	278	94	34	38	-395	0
Change (\$m)	311	1 112	889	378	360	125	94	-269	3 000
Change (\$pc)	39	178	180	141	208	239	233	-1 094	122

Source: See source and notes to Table 1-1.

## WHY STATE FISCAL CAPACITIES HAVE CHANGED

6 In this update, the Commission added data for 2015-16 to its calculations and removed data for 2012-13. The differences between these years are the major influence on changes in measured State fiscal capacities and therefore the recommendations. Revisions to data used in the 2016 Update were also made.

7 The Commission has recommended a changed distribution because new data reveal changes in fiscal capacities in all areas of State budgets, as shown in Table 3. Changes in States' estimated revenue raising capacity have been much more significant than changes in other aspects of State budgets.

**Table 3 Change in GST distribution by source of change, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist (a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	151	349	-15	-344	13	-10	22	-166	535
Investment requirement	380	373	-140	-525	29	36	7	-161	825
Net borrowing	-27	-50	18	41	10	3	0	6	77
Revenue capacity	-1 037	-519	462	1 099	36	-13	2	-30	1 598
Commonwealth payments	-52	191	-132	5	6	19	7	-44	228
<b>Total</b>	<b>-585</b>	<b>344</b>	<b>191</b>	<b>278</b>	<b>94</b>	<b>34</b>	<b>38</b>	<b>-395</b>	<b>980</b>

Note: The total change shown here is equivalent to the change caused by new fiscal capacities shown in Table 2.

(a) The redistribution is calculated as half the absolute sum of the items in the row.

Source: Commission calculation.

8 Table 4 shows the main causes of the change in the GST distribution. They are listed in order of importance.

**Table 4 Causes of change in the GST distribution, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property sales	-488	-198	125	402	104	23	9	23	686
Population growth	282	205	-103	-391	37	40	7	-77	570
Mining production	-107	-264	-80	542	-36	-16	-16	-24	542
Taxable land values	-257	-27	281	3	2	-2	-1	0	286
Community health	200	34	-10	-157	9	4	-28	-53	247
Taxable payrolls	-163	-17	112	118	-27	-13	15	-26	245
Commonwealth payments	-52	191	-132	5	6	19	7	-44	228
Wage costs	-110	74	151	-87	-2	-16	0	-10	225
Natural disaster relief	-89	107	-94	25	22	13	4	12	183
Other causes of change (a)	198	237	-59	-182	-21	-17	40	-197	475
<b>Total</b>	<b>-585</b>	<b>344</b>	<b>191</b>	<b>278</b>	<b>94</b>	<b>34</b>	<b>38</b>	<b>-395</b>	<b>980</b>

(a) Refer to Chapter 1 for explanation of other changes.

Source: Commission calculation.

9 The most important changes were the following.

- **Property sales.** Between 2012-13 and 2015-16, New South Wales and Victoria's share of taxable property sales increased from 36% to 41%, and from 24% to 27%, respectively. This increased those States' revenue raising capacities, reducing their GST shares and increasing the GST shares of the other States.
- **Population growth.** The pattern of population growth has changed between 2012-13 and 2015-16 leading to a change in the pattern of investment requirements among the States. The rate of population growth in some States has declined, particularly Western Australia and the Northern Territory, while in others it has increased, particularly New South Wales and Victoria.

- **Mining production.** Between 2012-13 and 2015-16, the value of mining production fell across a number of minerals, particularly iron ore. Western Australia's share of North West Shelf royalties also declined. Together, these reduced the fiscal capacity of Western Australia, increasing its GST share and reducing the GST shares of the other States.
- **Taxable land values.** Between 2012-13 and 2015-16, New South Wales' share of taxable land values increased from 31% to 41%. This increased its revenue raising capacity, reducing its GST share. In contrast, Queensland's share of taxable land values decreased from 18% to 14% over the same period. This decreased its revenue raising capacity, increasing its GST share.
- **Community health.** Differential growth between 2012-13 and 2015-16 in bulk billed general practice (GP) services has affected assessed State community health spending. States which increased their share of national bulk billed GP services during this period reduced their relative cost of providing community health services. In addition, a decline nationally in remote community health service use between 2012-13 and 2015-16 resulted in a decrease in the GST shares of States with relatively more people living in these areas. The correction of an error in the community health assessment also contributed to the change. (See Chapter 2 for details about the effect of the error on the GST distribution.)
- **Taxable payrolls.** Differences between States in the rate of growth of taxable private sector payrolls between 2012-13 and 2015-16 have affected States' revenue raising capacities. States whose taxable payrolls increased by more than average – New South Wales, Victoria, South Australia, Tasmania and the Northern Territory – had their revenue raising capacity increase, reducing their GST shares. Taxable payrolls in Queensland, Western Australia and the ACT grew by less than the average over the period, resulting in a decrease in their revenue raising capacities and an increase in their GST shares.<sup>2</sup>
- **Commonwealth payments.** There were significant changes in the size and distribution of the payments among the States in 2015-16 compared with 2012-13. For Victoria, a reduction in its share of funding for national health reform and infrastructure payments for road and rail over this period increased its GST share. In contrast, New South Wales and Queensland's shares of these payments increased over the same period, reducing their GST shares. The Northern Territory's share of Commonwealth payments increased over the period, particularly for roads off the national network. This resulted in a reduction in its GST share.
- **Wage costs.** Relative wage costs outside the control of State governments have increased faster than average in Victoria, Queensland and the ACT over the years 2012-13 to 2015-16, requiring more GST revenue to fund average service

---

<sup>2</sup> Taxable payrolls in the private sector declined in Queensland, Western Australia and the ACT between 2012-13 and 2015-16. While total private sector payrolls increased in Queensland and Western Australia over the period, the taxable proportion declined. Total private sector payrolls declined in the ACT.

provision. Conversely, below average wage growth in the other States reduced their relative cost of providing services.

- **Natural disaster relief.** The net expenses of New South Wales and Queensland were significantly lower in 2015-16 compared with 2012-13, resulting in a decline in their GST shares and increases for other States.
- **Other causes of change.** There were a number of other changes affecting State GST shares. Slow growth in expenses across most functions has reduced the size of the equalisation task (see Box 1-2). This redistributed GST revenue from States with above average expense requirements (mainly Western Australia and the Northern Territory) to States with below average requirements (mainly New South Wales and Victoria). This slow growth in expenses was particularly notable for rural roads and local roads in unincorporated areas, expenses on which actually fell between 2012-13 and 2015-16. For the Northern Territory, the decline in GST was further accentuated by a fall in school enrolments and the cost of remote students. These decreased its service delivery costs for schools. For the ACT, there was an increase in its estimated National Disability Insurance Scheme (NDIS) full-scheme participant numbers, increasing its disability services costs.

## STATE BY STATE CHANGES SINCE THE 2016 UPDATE

- 10 Changes that have had important effects on the assessed fiscal capacity of each State are summarised in this section. These changes can occur because more recent economic and demographic circumstances are now being reflected in States' GST shares (referred to as changes in circumstances) or because historical data used in assessments have been revised (referred to as revisions). For all States except Queensland, the largest causes of change in GST shares in this update have been changes in circumstances. Chapter 1 provides more detail.
- 11 In this update there has also been a relative change in the ranking of States' fiscal capacities. In the 2016 Update, Queensland was assessed as having the fifth highest fiscal capacity; it now has the fourth. It has overtaken the ACT, which is now assessed as having the fifth highest fiscal capacity.



## New South Wales

**Changes in this update.** New South Wales has the second highest fiscal capacity. Its fiscal capacity has strengthened, mainly due to strong growth in property sales, land values and payrolls. This improved New South Wales' revenue raising capacity and reduced its GST share. These changes were partially offset by a relative increase in New South Wales' population growth, which led to an increase in its investment requirement, and changes in community health services. While New South Wales' increased fiscal capacity will see its GST share fall from 29.1% to 28.2%, its GST entitlement in 2017-18 will rise by \$311 million, or 1.8%, due to growth in the pool.

**Table 5 Change in GST**

	\$m	\$pc
Change due to		
New population	22	3
Growth in GST available	873	110
New relativities	-585	-74
<i>Data revisions</i>	147	19
<i>Change in circumstances</i>	-732	-93
<b>Total change</b>	<b>311</b>	<b>39</b>

Note: Table may not add due to rounding.

**Table 6 Main changes for New South Wales**

\$m	Reason for change
-488	<b>Property sales.</b> Above average growth in New South Wales' property sales increased its capacity to raise revenue from conveyance duty and reduced its GST share.
282	<b>Population growth.</b> New South Wales' share of national population growth was higher in 2015-16 compared with 2012-13, increasing its investment requirement and its GST share.
-257	<b>Taxable land values.</b> Above average growth in land values increased the State's share of taxable land values from 31% in 2012-13 to 41% in 2015-16, reducing its GST share. New Queensland data showing it has a smaller proportion of high value land holdings also contributed.
200	<b>Community health.</b> Below average growth in non-State community health services in New South Wales and an increase nationally in inner and outer regional community health service use between 2012-13 and 2015-16 increased New South Wales' GST share. The correction of an error in this assessment also contributed to the change.
-163	<b>Taxable payrolls.</b> New South Wales' taxable private sector payrolls grew at above average rates between 2012-13 and 2015-16, leading to an increase in its revenue raising capacity and a decrease in its GST share.

**Fiscal capacity.** New South Wales' strong fiscal capacity is due to its below average assessed costs of providing services, reflecting the State's below average shares of Indigenous people and people living in remote areas, above average non-State provision of health services, and economies of scale in administration. It also has an about average capacity to raise revenue, with a high volume of property sales, but a low mining capacity.

Those effects on its fiscal capacity are partly offset by the State's above average requirement for investment and net borrowing, and a below population share of Commonwealth payments.

**Table 7 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	20 111	2 543
Effect of assessed:		
Expenses	-2 583	-327
Investment	45	6
Net borrowing	14	2
Revenue	-10	-1
Commonwealth payments	103	13
<b>Assessed GST</b>	<b>17 680</b>	<b>2 235</b>

Note: Table may not add due to rounding.

## Victoria

**Changes in this update.** Victoria's assessed fiscal capacity has fallen but remains the third highest. Its expenditure requirement is higher due to an increase in its investment requirements, driven by population growth, and a relative increase in natural disaster relief expenses. A smaller share of Commonwealth payments also increased its GST requirements. Its disadvantage in mining royalties has been reduced by falls in the value of mining production in other States. It also experienced strong property sales, which further reduced its GST requirement. Compared with 2016-17, the State's share of the GST will rise from 23.0% to 23.6%. Its GST entitlement will rise by \$1 112 million or 8.1%, mostly due to growth in the pool.

**Table 8 Change in GST**

	\$m	\$pc
Change due to		
New population	75	12
Growth in GST available	693	111
New relativities	344	55
<i>Data revisions</i>	57	9
<i>Change in circumstances</i>	287	46
<b>Total change</b>	<b>1 112</b>	<b>178</b>

Note: Table may not add due to rounding.

**Table 9 Main changes for Victoria**

\$m	Reason for change
-264	<b>Mining production.</b> A fall in the value of mining production reduced revenue raising capacity for the major mining States. This reduced Victoria's share of GST.
205	<b>Population growth.</b> Victoria's share of national population growth was higher in 2015-16 than in 2012-13 and this increased its investment requirement and its GST share.
-198	<b>Property sales.</b> An above average growth in Victoria's property sales increased its capacity to raise revenue from conveyance duty and reduced its GST share.
191	<b>Commonwealth payments.</b> A reduced share of Commonwealth payments, particularly in relation to road and rail infrastructure payments, increased its GST share.
107	<b>Natural disaster relief.</b> Victoria's net natural disasters expenses under Natural Disaster Relief and Recovery Arrangements (NDDRA) were revised up resulting in an increase in its GST share. Lower net expenses for New South Wales and Queensland in 2015-16 compared with 2012-13 also contributed to the change.

**Fiscal capacity.** Victoria's strong fiscal capacity is due to its well below average assessed expenses on providing services, reflecting its below average shares of government school enrolments, Indigenous people and people living in remote areas. This is reduced further by economies of scale in administration and below average wage expenses.

Those effects on its fiscal capacity are partly offset by its below average revenue raising capacity, which is mainly due to its well below average mining production and taxable payrolls, and by its above average investment requirements due to above average population growth.

**Table 10 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	15 862	2 543
Effect of assessed:		
Expenses	-4 835	- 775
Investment	586	94
Net borrowing	-86	-14
Revenue	3 031	486
Commonwealth payments	272	44
<b>Assessed GST</b>	<b>14 829</b>	<b>2 377</b>

Note: Table may not add due to rounding.

## Queensland

**Changes in this update.** Queensland now has the fourth highest fiscal capacity. However, there has been weakening in its assessed fiscal capacity due mainly to deterioration in its assessed revenue raising capacity across most revenue bases and an increase in its relative wage costs. These changes were partially offset by an increase in Queensland's share of Commonwealth payments. Queensland's reduced relative fiscal capacity will see its GST share rise from 23.6% to 23.8%. This change, combined with pool growth, will see its GST entitlement rise by \$889 million or 6.3%.

**Table 11 Change in GST**

	\$m	\$pc
Change due to		
New population	-9	-2
Growth in GST available	706	143
New relativities	191	39
<i>Data revisions</i>	97	20
<i>Change in circumstances</i>	95	19
<b>Total change</b>	<b>889</b>	<b>180</b>

Note: Table may not add due to rounding.

**Table 12 Main changes for Queensland**

\$m	Reason for change
281	<b>Taxable land values.</b> New Queensland data show that it has a lower proportion of its total land value as high value holdings. This reduced its assessed land tax capacity and increased its share of GST.
151	<b>Wage costs.</b> The Commission's measure of wage pressures beyond the control of State governments shows Queensland's relative wage costs increased between 2012-13 and 2015-16, increasing its GST share.
-132	<b>Commonwealth payments.</b> Queensland's share of payments was greater in 2015-16 than 2012-13 because of large payments for rail and road infrastructure, such as works on the Bruce Highway and the construction of the Moreton Bay Rail Link. This reduced its share of GST.
125	<b>Property sales.</b> A below average increase in Queensland's property sales reduced its capacity to raise revenue from conveyance duty and increased its GST share.
112	<b>Taxable payrolls.</b> Queensland's taxable private sector payrolls declined between 2012-13 and 2015-16, leading to a decrease in its revenue raising capacity and an increase in its GST share.

**Fiscal capacity.** Queensland's below average fiscal capacity is due to above average assessed expenses and below average revenue raising capacity which reflects below average taxable payrolls, property sales and taxable land values. This is partly offset by its above average mining production, and above average shares of motor taxes and Commonwealth payments.

Its high expense requirements are due to above average shares of government school enrolments, Indigenous people and people living in remote areas. In addition, Queensland's share of natural disaster relief net expenses is well above average. Those effects are partly offset by its below average wage expenses and costs of providing urban transport.

**Table 13 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	12 565	2 543
Effect of assessed:		
Expenses	1 948	394
Investment	-196	-40
Net borrowing	10	2
Revenue	879	178
Commonwealth payments	-242	-49
<b>Assessed GST</b>	<b>14 963</b>	<b>3 028</b>

Note: Table may not add due to rounding.

## Western Australia

**Changes in this update.** Western Australia remains the State with the strongest fiscal capacity. However, its assessed fiscal capacity is declining, resulting in its share of GST revenue in 2017-18 increasing from 3.3% to 3.8%. This was the result of two significant but partially offsetting changes. There was a decline in its revenue raising capacity due to a fall in the value of iron ore production and below average growth in property sales and taxable payrolls. This was partly offset by a decline in its share of national population growth that reduced its investment requirement and by changes in community health services. Compared with 2016-17, the State's GST will rise by \$378 million or 19.1%.

**Table 14 Change in GST**

	\$m	\$pc
Change due to		
New population	1	0
Growth in GST available	99	37
New relativities	278	104
<i>Data revisions</i>	-251	-94
<i>Change in circumstances</i>	528	197
<b>Total change</b>	<b>378</b>	<b>141</b>

Note: Table may not add due to rounding.

**Table 15 Main changes for Western Australia**

\$m	Reason for change
542	<b>Mining production.</b> A fall in the value of mining production, notably iron ore and a decline in grants in lieu of royalties, reduced Western Australia's revenue raising capacity and increased its share of GST.
402	<b>Property sales.</b> A below average increase in Western Australia's property sales reduced its capacity to raise revenue from conveyance duty and increased its share of GST.
-391	<b>Population growth.</b> Western Australia's share of national population growth was considerably smaller in 2015-16 compared with 2012-13. This reduced its investment requirement and its GST share.
-157	<b>Community health.</b> Strong growth in non-State community health services in Western Australia and a decline nationally in remote service use between 2012-13 and 2015-16 reduced Western Australia's assessed community health spending and its GST share. The correction of an error in this component also contributed to the change.
118	<b>Taxable payrolls.</b> Western Australia's taxable private sector payrolls declined between 2012-13 and 2015-16, leading to a decrease in its revenue raising capacity and an increase in its GST share.

**Fiscal capacity.** Western Australia's high fiscal capacity is due to above average capacity in all revenue streams except insurance taxes, but especially high capacity in mining production, and to a lesser extent, taxable payrolls. Those effects on its fiscal capacity are partly offset by its having the third highest assessed expenses and second highest investment need per capita.

Its high expenditure requirements are due to above average shares of Indigenous people and people in remote areas. Above average wage levels and below average non-State provision of health services also contribute significantly to its relatively high assessed expense needs.

**Table 16 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	6 818	2 543
Effect of assessed:		
Expenses	2 134	796
Investment	136	51
Net borrowing	-13	-5
Revenue	-6 740	-2 514
Commonwealth payments	17	6
<b>Assessed GST</b>	<b>2 354</b>	<b>878</b>

Note: Table may not add due to rounding.

## South Australia

**Changes in this update.** South Australia's fiscal capacity, which remains the third lowest, has deteriorated slightly, mainly due to slow growth in property sales. In addition, relative increases in population growth and natural disaster relief net expenses have further increased its GST requirement. This was partly offset by a fall in the value of mining production in other States and slightly above average growth in taxable payrolls, which reduced South Australia's GST. Compared with 2016-17, the State's share of GST will rise from 10.0% to 10.1% and, combined with pool growth, its GST entitlement will rise by \$360 million or 6.0%.

**Table 17 Change in GST**

	\$m	\$pc
Change due to		
New population	-33	-19
Growth in GST available	300	173
New relativities	94	54
<i>Data revisions</i>	-16	-9
<i>Change in circumstances</i>	110	64
<b>Total change</b>	<b>360</b>	<b>208</b>

Note: Table may not add due to rounding.

**Table 18 Main changes for South Australia**

\$m	Reason for change
104	<b>Property sales.</b> A below average increase in South Australia's property sales reduced its capacity to raise revenue from conveyance duty and increased its share of GST.
37	<b>Population growth.</b> South Australia's share of national population growth increased between 2012-13 and 2015-16. This increased its investment requirement and GST share.
-36	<b>Mining production.</b> A fall in the value of mining production reduced revenue raising capacity for the major mining States. This reduced South Australia's share of GST.
-27	<b>Taxable payrolls.</b> South Australia's taxable private sector payrolls had above average growth between 2012-13 and 2015-16, leading to an increase in its revenue raising capacity and a decrease in its GST share.
22	<b>Natural disaster relief.</b> Queensland's natural disaster relief net expenses in 2015-16 fell from historically high levels, leading to an increase in GST for most of the other States including South Australia.

**Fiscal capacity.** South Australia's below average fiscal capacity is mainly due to its below average revenue raising capacity from mining royalties, taxable payrolls, property sales and land tax. It also receives below average revenue from Commonwealth payments. Those effects are reinforced by its above average expense requirement, which reflects its above average shares of older people and people of low socio-economic status, offset partially by below average wage expenses and assessed transport costs.

Its above average requirement for GST is partially offset by its below average population growth, leading to below average assessed investment.

**Table 19 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	4 405	2 543
Effect of assessed:		
Expenses	334	193
Investment	-262	-151
Net borrowing	43	25
Revenue	1 694	978
Commonwealth payments	146	84
<b>Assessed GST</b>	<b>6 360</b>	<b>3 671</b>

Note: Table may not add due to rounding.

## Tasmania

**Changes in this update.** Tasmania remains the State with the second lowest fiscal capacity. Its GST requirement increased mainly because a below average increase in Tasmania's property sales reduced its capacity to raise revenue from conveyance duty, and an increase in its share of population growth increased its investment requirements. In addition, its share of Commonwealth payments fell, which increased its GST requirement. These changes were partially offset by a fall in the value of mining production in other States and a decline in Tasmania's relative wage costs. Compared with 2016-17, the State's share of GST remains at 3.8%. Its GST entitlement will rise by \$125 million or 5.5%, mostly reflecting growth in the pool.

**Table 20 Change in GST**

	\$m	\$pc
Change due to		
New population	-23	-43
Growth in GST available	113	217
New relativities	34	66
<i>Data revisions</i>	3	6
<i>Change in circumstances</i>	31	59
<b>Total change</b>	<b>125</b>	<b>239</b>

Note: Table may not add due to rounding.

**Table 21 Main changes for Tasmania**

\$m	Reason for change
40	<b>Population growth.</b> Tasmania's share of national population growth increased between 2012-13 and 2015-16 and this increased its investment requirement and GST share.
23	<b>Property sales.</b> A below average increase in Tasmania's property sales reduced its capacity to raise revenue from conveyance duty and increased its share of GST.
19	<b>Commonwealth payments.</b> Tasmania's share of payments was smaller in 2015-16 than 2012-13 mainly because it received smaller shares of payments for government schools and Water for the Future. This increased its GST share.
-16	<b>Wage costs.</b> The Commission's measure of wage pressures beyond the control of State governments shows Tasmania's relative wage costs decreased between 2012-13 and 2015-16, reducing its GST share.
-16	<b>Mining production.</b> A fall in the value of mining production reduced revenue raising capacity for the major mining States. This reduced Tasmania's share of GST.

**Fiscal capacity.** Tasmania has the weakest revenue capacity in most tax bases, with well below average taxable payrolls and property sales. In addition, it has the second highest per capita assessed expenses for schools education, health and welfare.

These high service delivery costs reflect the State's above average shares of people in regional areas and people of low socio-economic status, older people and government school students, compounded by diseconomies of small scale in administration.

This is partly offset by its below average population growth, leading to below average investment requirements, and by above average revenue from Commonwealth payments.

**Table 22 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	1 328	2 543
Effect of assessed:		
Expenses	499	956
Investment	-162	-311
Net borrowing	22	42
Revenue	740	1 418
Commonwealth payments	-24	-46
<b>Assessed GST</b>	<b>2 403</b>	<b>4 601</b>

Note: Table may not add due to rounding.

## Australian Capital Territory

**Changes in this update.** The ACT's fiscal capacity has fallen from the fourth to the fifth highest. The ACT's GST requirements have increased mainly because of an increase in its number of estimated full-scheme NDIS participants, which increases its requirement for disability services expenses. Weak growth in taxable private sector payrolls reduced its revenue raising capacity. This was offset by changes in community health services and relatively lower administration costs, which reduced its GST share. Compared with 2016-17, the ACT's share of GST will increase from 1.9% to 2.0% and, combined with pool growth, its GST entitlement will rise by \$94 million or 8.3%.

**Table 23 Change in GST**

	\$m	\$pc
Change due to		
New population	-1	-3
Growth in GST available	57	141
New relativities	38	95
<i>Data revisions</i>	6	15
<i>Change in circumstances</i>	32	80
<b>Total change</b>	<b>94</b>	<b>233</b>

Note: Table may not add due to rounding.

**Table 24 Main changes for the ACT**

\$m	Reason for change
35	<b>People with disabilities.</b> An increase in the ACT's estimated numbers of NDIS participants at full implementation increased the ACT's GST share.
-28	<b>Community health.</b> The correction of an error in this assessment and above average growth between 2012-13 and 2015-16 in non-State community health services in the ACT reduced the ACT's assessed community health spending and its GST share.
-21	<b>Administrative scale.</b> As administrative scale expenses grew more slowly than the GST pool, it has become a less significant driver of the GST. States like the ACT with a greater than equal per capita expenditure requirement received less GST as a consequence.
-16	<b>Mining production.</b> A fall in the value of mining production reduced revenue raising capacity of the major mining States. This shifted GST away from the ACT.
15	<b>Taxable payrolls.</b> The ACT's taxable private sector payrolls declined between 2012-13 and 2015-16, leading to a decrease in its revenue raising capacity and an increase in its GST share.

**Fiscal capacity.** The ACT's below average fiscal capacity is due to its below average capacity to raise revenue across all revenue bases. It has no mining industry and very low revenue raising capacity from land values, stamp duty and taxable payrolls. It also receives below average revenue from Commonwealth payments.

The ACT's assessed cost of providing services is also below average, partially offsetting its low revenue raising capacity. The low cost of its relatively young, urbanised, higher socio-economic status population more than offsets the impact of diseconomies of scale in administration and above average wage costs.

**Table 25 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	1 026	2 543
Effect of assessed:		
Expenses	- 190	- 470
Investment	-52	-128
Net borrowing	2	5
Revenue	381	943
Commonwealth payments	62	155
<b>Assessed GST</b>	<b>1 230</b>	<b>3 046</b>

Note: Table may not add due to rounding.

## Northern Territory

**Changes in this update.** The Northern Territory's fiscal capacity has strengthened markedly but it remains the fiscally weakest State. The Territory's share of national population growth declined, reducing its investment requirement. Declining relative costs in remote areas, mainly in community health and education, also contributed. With almost all expenditure categories growing more slowly than the GST pool, the equalisation task is decreased, redistributing \$94 million less to the Territory (see Box 1-2). The Northern Territory's increased fiscal capacity will see its GST share in 2017-18 fall from 5.3% to 4.7%. Its GST entitlement will fall by \$269 million or 8.4%.

**Table 26 Change in GST**

	\$m	\$pc
Change due to		
New population	-32	-132
Growth in GST available	159	645
New relativities	-395	-1 608
<i>Data revisions</i>	-45	-181
<i>Change in circumstances</i>	-351	-1 427
<b>Total change</b>	<b>-269</b>	<b>-1 094</b>

Note: Table may not add due to rounding.

**Table 27 Main changes for the Northern Territory**

\$m	Reason for change
-77	<b>Population growth.</b> The Northern Territory's share of national population growth was much lower in 2015-16 compared with 2012-13 and this reduced its investment requirement and its GST share.
-53	<b>Community health.</b> A decline nationally in remote service use and an increase in non-State sector service provision in the Northern Territory between 2012-13 and 2015-16 has reduced the Northern Territory's assessed community health spending and its GST share.
-44	<b>Commonwealth payments.</b> The Northern Territory's share of payments was greater in 2015-16 than 2012-13 across a numbers of payments such as Remote Indigenous Housing and road maintenance under the Infrastructure investment program. This reduced its GST share.
-31	<b>Schools.</b> New data show remote schools to be less expensive than in the past, reducing the need for GST by the Northern Territory. In addition to this, growth in Indigenous enrolments has been slower than nationally, and while Northern Territory government enrolments fell between 2012-13 and 2015-16, non-government enrolments grew by 11%. Both these factors reduced its GST share.
-28	<b>Road length.</b> Compared with 2012-13, States spent less in 2015-16 on rural roads (particularly on expenses affecting the length disability) and local roads (particularly on council managed local access roads). Because the Northern Territory has higher than average rural and local road lengths, its GST share fell significantly.

**Fiscal capacity.** The Northern Territory's below average fiscal capacity is primarily due to its above average assessed expenses which arise from its above average shares of a range of high cost population groups, including exceptionally high proportions of Indigenous people and people in remote areas.

The Northern Territory has below average revenue raising capacity for all revenue streams except mining and payrolls. Its considerably above average need for assistance is partially met through well above average Commonwealth payments.

**Table 28 Assessed GST, 2017-18**

	\$m	\$pc
Equal per capita share	625	2 543
Effect of assessed:		
Expenses	2 693	10 952
Investment	-95	-388
Net borrowing	8	32
Revenue	25	104
Commonwealth payments	-335	-1 361
<b>Assessed GST</b>	<b>2 921</b>	<b>11 881</b>

Note: Table may not add due to rounding.



## CHAPTER 1

### CHANGES IN THE GST DISTRIBUTION

- 1 This chapter explains why the GST distribution in this update differs from the 2016 Update distribution.

#### HOW HAS THE GST DISTRIBUTION CHANGED?

- 2 Table 1-1 shows the differences between the estimated GST distribution for 2016-17 and the illustrative distribution for 2017-18.

**Table 1-1 Distribution of the 2016-17 GST and the illustrative 2017-18 GST distribution**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated 2016-17	17 369	13 717	14 075	1 976	6 000	2 278	1 136	3 190	59 740
Illustrative 2017-18 (a)	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Change	311	1 112	889	378	360	125	94	-269	3 000
<i>Change caused by new:</i>									
Population (b)	22	75	-9	1	-33	-23	-1	-32	0
Pool (c)	873	693	706	99	300	113	57	159	3 000
Fiscal capacities (d)	-585	344	191	278	94	34	38	-395	0
Change (\$m)	311	1 112	889	378	360	125	94	-269	3 000
Change (\$pc)	39	178	180	141	208	239	233	-1 094	122

- (a) Obtained by applying the 2017 Update relativities to estimated State populations for December 2017 and estimated GST revenue for 2017-18.
- (b) Effects on the distribution of 2016-17 GST revenue of using projected State populations for December 2017 instead of December 2016, with 2016 Update relativities.
- (c) Effect of applying the 2016 Update relativities to the estimated growth in GST revenue for 2017-18.
- (d) Effects on the distribution of the 2017-18 GST revenue of using the 2017 Update fiscal capacities instead of 2016 Update fiscal capacities.

Source: 2016-17 GST entitlement and 2017-18 GST revenue are taken from the *Australian Government Budget, Mid-Year Economic and Fiscal Outlook 2016-17*. December 2016 and 2017 population estimates were provided by the Commonwealth Treasury.

- 3 The two distributions differ for the following reasons.
  - State populations have changed — the illustrative 2017-18 distribution is based on projected State populations as at December 2017 whereas the 2016-17 distribution is based on populations for a year earlier. State shares of the total

population differ slightly between these two dates and affect the total GST allocation for each State.

- The size of the GST pool available for distribution has changed. Any growth in the pool is distributed among States using their relativity weighted population shares.
- The relativities used to distribute the GST have changed, reflecting changes in the assessed fiscal capacities of States — the illustrative 2017-18 distribution is based on the relativities recommended in this report whereas the 2016-17 distribution is based on relativities derived in the 2016 Update and subsequently adopted by the Treasurer on 21 April 2016.<sup>1</sup>

4 The Commission’s work affects only the changes in the relativities which the Commission derives from its assessment of State fiscal capacities.

## Why State fiscal capacities change between updates

5 The total change in State fiscal capacities can be attributed to changes in the assessments for individual revenues, Commonwealth payments for specific purposes (PSPs), services and infrastructure. These changes occur for the following reasons.

- They reflect more recent economic and demographic circumstances of the States. The 2017 Update relativities are based on an average of data for 2013-14 to 2015-16, whereas the 2016 Update relativities were based on data for 2012-13 to 2014-15. Differences between the year brought into the three year average (2015-16 for this update) and the year deleted (2012-13) change the relativities. However, the three year averaging process means changes in circumstances have a gradual effect.
- Data used in the assessments in the 2016 Update may be revised. Revisions occur because new data become available. Revisions can also occur because data providers identify errors in their data or because of errors made by the Commission in previous inquiries.

6 Table 1-2 shows that changes in State circumstances have been the major cause of the change in the redistribution for all States except Queensland. The main data revisions and changes in circumstances are discussed below.

7 In addition to revisions and changes in circumstances, subject to consultation with Commonwealth and State governments, the assessment methods may be varied if considered necessary to better reflect the current financial arrangements between the Commonwealth and State governments, or to overcome problems in the data used previously. In this update, in the Wage costs assessment, removal of the

---

<sup>1</sup> References to changes over time generally reflect the change over the assessment years, from dropping 2012-13 and including 2015-16. They are not intended to imply current or prospective movements.

Commonwealth Superannuation Scheme (CSS) adjustment to wage costs was a method change.

**Table 1-2 Change in GST distribution by source of change, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT Redist (a)	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Data revisions	147	57	97	-251	-16	3	6	-45	311
Change in circumstances	-732	287	95	528	110	31	32	-351	1 083
<b>Total</b>	<b>-585</b>	<b>344</b>	<b>191</b>	<b>278</b>	<b>94</b>	<b>34</b>	<b>38</b>	<b>-395</b>	<b>980</b>

(a) The redistribution is calculated as half the absolute sum of the items in the row.

Source: Commission calculation.

- 8 Detailed tables on the changes resulting from each of the Commission's assessments can be found in the supporting information for this update which is available on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au).

## DATA REVISIONS

- 9 Data revisions for the three years of the 2016 Update redistributed \$311 million in this update. The largest sources of revision are shown in Table 1-3. They relate to the following.
- **Taxable land values.** For the first time since 2009, Queensland has revised its distribution of land values. The Commission has chosen to transition from Queensland's 2009 distribution to its 2016 distribution, affecting the three assessment years of the 2016 Update. The change increased Queensland's share of GST by \$208 million.
  - **Community health.** Revisions to the community health assessment were the net effect of correcting an error in the calculation of the non-State sector adjustment and including new national activity data for 2014-15 from the Independent Hospital Pricing Authority (IHPA). Correcting the error reduced the GST share of Western Australia, Tasmania, the ACT and the Northern Territory. (See Chapter 2 for details about the effect of the error on the GST distribution.) The national activity data for 2014-15 showed inner and outer regional cost weighted service use grew more quickly than major city and remote use. This reduced the GST shares of Victoria, Western Australia, ACT and the Northern Territory. The effects of the two changes for Victoria were offsetting.
  - **Natural disaster relief expenses.** A number of States revised their natural disasters data in this update. However, the main reason for the revision to the natural disasters assessment is the removal of an adjustment to Victoria's 2013-14 net expenses. The adjustment was made in the 2015 Review and 2016 Update to ensure that Natural Disaster Relief and Recovery Arrangements (NDRRA) revenue relating to eligible natural disaster expenses reported

between 2008-09 and 2012-13 remained in the assessment for three years. Subsequent revisions to Victoria's natural disaster expenses mean that the adjustment is no longer required. Removing the adjustment increased Victoria's net expenses in 2013-14 and increased its GST share by \$65 million.

- **Mining production.** Queensland revised its 2014-15 value of coal production up by 22.8%. This change increased its revenue capacity and reduced its share of GST by \$54 million.

**Table 1-3 Main effects of data revisions, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Taxable land values	-75	-72	208	-51	-7	-1	-1	0	208
Community health	128	15	3	-106	2	-1	-24	-19	149
Natural disaster relief	-61	65	16	-10	-6	-2	-1	-1	81
Mining production	57	-6	-54	-7	9	1	0	1	67
Other revisions	99	55	-76	-77	-14	6	32	-25	192
<b>Total</b>	<b>147</b>	<b>57</b>	<b>97</b>	<b>-251</b>	<b>-16</b>	<b>3</b>	<b>6</b>	<b>-45</b>	<b>311</b>

Source: Commission calculation.

## CHANGES IN STATE CIRCUMSTANCES SINCE THE 2016 UPDATE

10 This section describes the main changes in circumstances since the 2016 Update, that is, the changes which occur when revised 2012-13 data are removed and replaced with 2015-16 data. Table 1-4 shows the effect of these changes across the different areas of State budgets.

**Table 1-4 Composition of changes in State circumstances since the 2016 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	44	255	1	-200	23	-10	16	-128	339
Investment requirement	321	337	-95	-487	38	35	7	-155	738
Net borrowing	-32	-44	16	48	6	0	0	6	76
Revenue capacity	-1 013	-451	305	1 161	38	-13	2	-29	1 506
Commonwealth payments	-52	191	-132	5	6	19	7	-44	228
<b>Total</b>	<b>-732</b>	<b>287</b>	<b>95</b>	<b>528</b>	<b>110</b>	<b>31</b>	<b>32</b>	<b>-351</b>	<b>1 083</b>

Note: The amounts shown in this table are the changes in the GST distribution from replacing 2012-13 data with 2015-16 data. They differ from the amounts shown in Table 3 in the Overview, which also include the effect of revising data. Totals may not add due to rounding.

Source: Commission calculation.

11 The changes shown in Table 1-4 can be further disaggregated. Table 1-5 shows the changes in individual drivers that made the largest contribution to the changes in State circumstances between the 2016 and 2017 Updates.

**Table 1-5 Contribution to changes in State circumstances, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Property sales	-486	-198	122	402	104	23	9	24	684
Mining production	-163	-258	-26	549	-45	-16	-16	-24	549
Population growth (a)	260	188	-82	-367	34	36	4	-73	522
Taxable payrolls	-160	-22	111	120	-23	-14	14	-26	245
Commonwealth payments	-52	191	-132	5	6	19	7	-44	228
Wage costs (b)	-111	70	147	-84	-4	-17	6	-8	223
Taxable land values	-181	46	73	54	9	-1	1	0	183
Other causes of change	162	270	-118	-152	29	1	8	-200	471
<b>Total</b>	<b>-732</b>	<b>287</b>	<b>95</b>	<b>528</b>	<b>110</b>	<b>31</b>	<b>32</b>	<b>-351</b>	<b>1 083</b>

Note: The amounts shown in this table are the changes in the GST distribution resulting from replacing 2012-13 data with 2015-16 data. They differ from the amounts shown in Table 4 in the Overview, which include the effect of revising data. Totals may not add due to rounding.

- (a) Net borrowing contributes to this total; however, in this update the change in the impact of population growth in the net borrowing assessment partially offsets its impact in the investment assessment. This is because States with a smaller share of population growth in 2015-16 compared with 2012-13 require more GST because their net liabilities are being diluted at a slower rate.
- (b) Excludes impacts in the Investment assessment.

Source: Commission calculation.

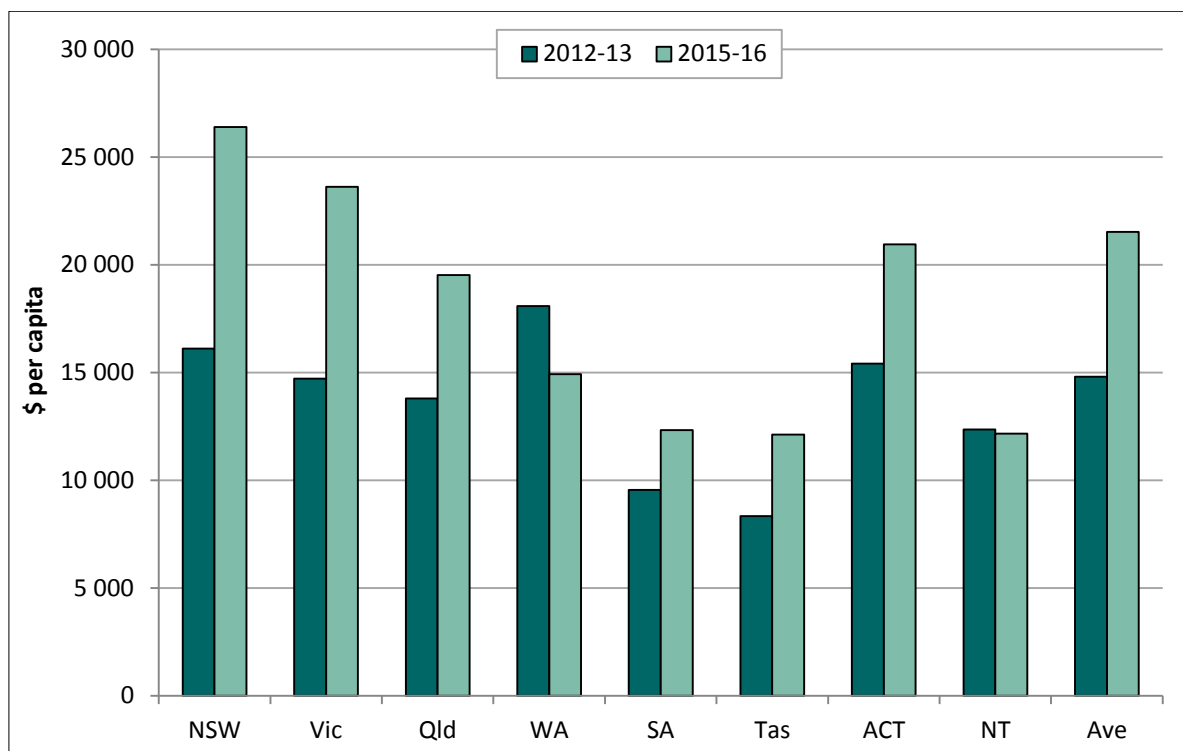
12 The following sections explain the main causes of change in State circumstances.

## Revenue

### Property sales

- 13 Stamp duties raised from the transfer of property are volatile. Cycles in property markets can lead to substantial changes across years and States, which can have marked impacts on State revenue capacities. The current update has been no exception.
- 14 Between 2012-13 and 2015-16, most States experienced growth in the value of property transferred. The property booms in New South Wales and Victoria have been larger than in other States. The growth in the value of property transfers in New South Wales (71%) and Victoria (69%) exceeded the average growth in values (51%) and, as a result, \$684 million has been redistributed from New South Wales and Victoria to the other States. Figure 1-1 shows the change in States' per capita value of property transferred between 2012-13 and 2015-16.

**Figure 1-1 Conveyance transactions by State, 2012-13 and 2015-16**



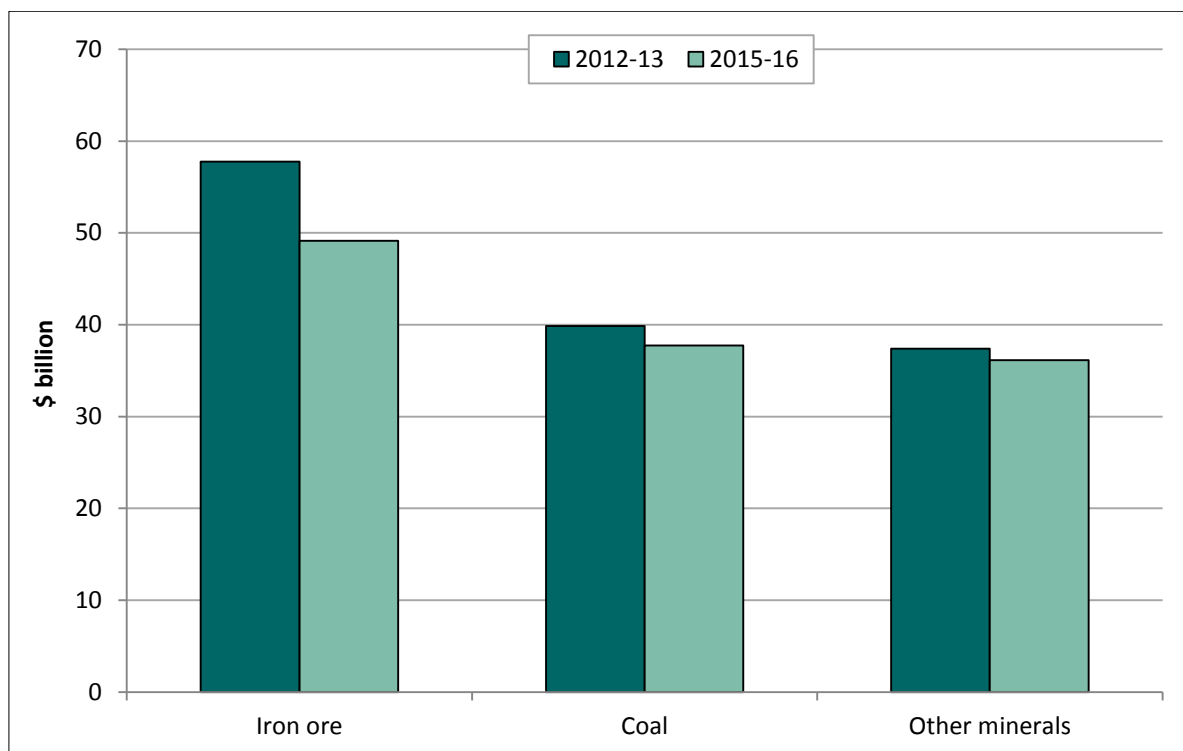
Note: Data are adjusted to account for differences between States in the scope of conveyances.

Source: Commission calculation.

### **Mining production**

- 15 Due to the uneven distribution of mining activity between States and the large movements in the value of mining production that can occur from year to year, the mining revenue assessment typically produces significant redistributions in GST revenue. Compared with the 2016 Update, \$549 million has been redistributed to Western Australia and away from the other States.
- 16 Figure 1-2 shows the value of production for iron ore decreased substantially between 2012-13 and 2015-16. While there were increases in production volumes for most commodities, particularly iron ore, these increases have been more than offset by lower commodity prices. Western Australia’s share of North West Shelf royalties also decreased significantly between 2012-13 and 2015-16. Together, these changes have reduced the assessed capacity of the biggest mining State — Western Australia — and increased its GST share.

**Figure 1-2 Mining value of production, selected minerals, 2012-13 and 2015-16**



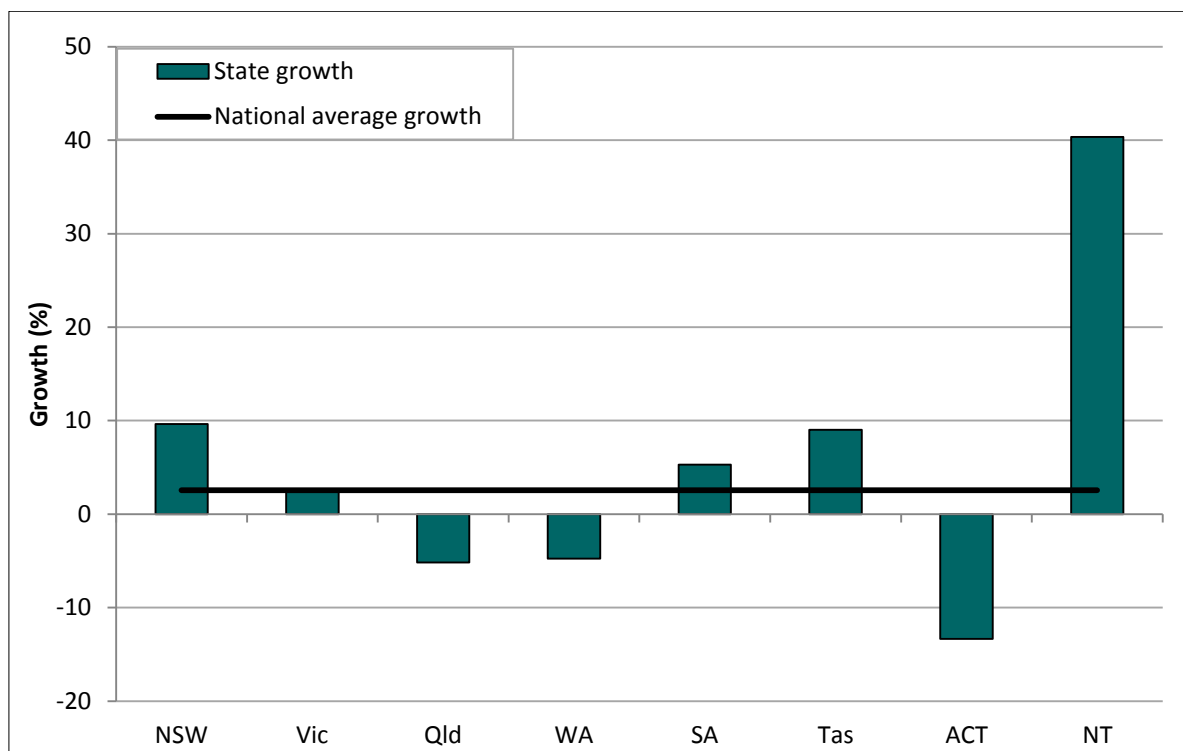
Source: State and Australian Bureau of Statistics (ABS) data.

- 17 **Iron ore.** Between 2012-13 and 2015-16 the value of iron ore production in Australia decreased by 15% to \$49 billion. Available data suggest production increased by 53% over the same period, but this was more than offset by reductions in the Australian dollar price of iron ore. As Western Australia accounts for around 97% of the value of Australia’s iron ore production, this fall in the value of iron ore production has affected its fiscal capacity the most.

### **Taxable payrolls**

- 18 Changes in State capacities to raise payroll tax redistributed \$245 million in GST revenue. The redistribution was driven by differences across States in the rate of growth of taxable private sector payrolls between 2012-13 and 2015-16. These differences are shown in Figure 1-3 on a per capita basis.
- 19 Taxable private sector payrolls grew most strongly in the Northern Territory as a result of growth in employment and wages among larger employers. This increased its ability to raise payroll tax and reduced its GST share. New South Wales, South Australia and Tasmania also had above average growth. Per capita taxable private sector payrolls fell between 2012-13 and 2015-16 in Queensland (-5.2%), Western Australia (-4.8%) and the ACT (-13.3%), which resulted in a significant reduction in their ability to raise payroll tax. As a result, GST revenue was redistributed towards them.

**Figure 1-3 Growth in per capita taxable private sector payrolls, 2012-13 to 2015-16**



Source: Commission calculation.

- 20 Queensland and Western Australian private sector compensation of employees (CoE), used to measure the payroll tax base, have increased slightly since 2012-13. However, the proportion that is taxable has fallen in both States and they are assessed as being able to raise lower levels of payroll tax.
- 21 The ACT private sector CoE has been trending down since 2012-13, meaning that its 2015-16 CoE was 10.7% lower than the level in 2012-13. The Commission has compared these trends with related data series. ACT private sector average weekly earnings and total employment both peaked in 2012-13. However, their decline thereafter was not as severe as those of the CoE.
- 22 Private sector CoE in the Northern Territory has grown significantly since 2012-13, consistent with the strong growth in private sector average weekly earnings and total employment over the period.

### **Taxable land values**

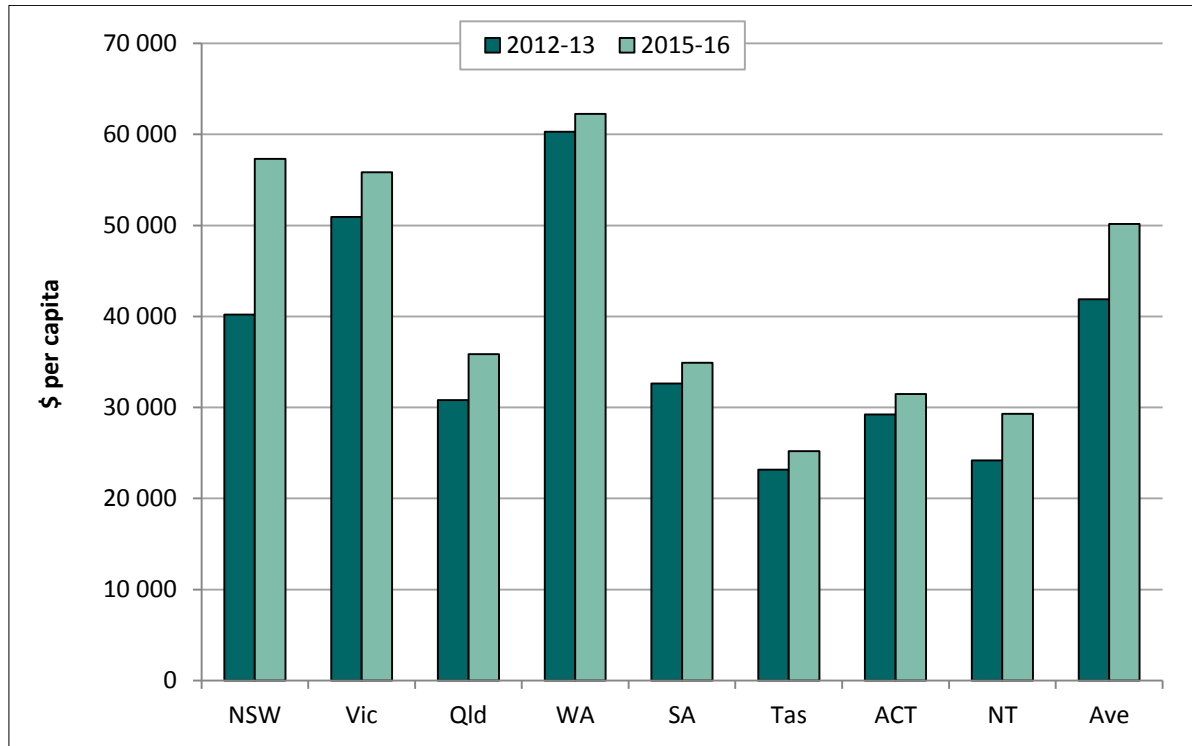
- 23 Property market cycles can lead to changes in State land values from year to year. These cycles have changed State land tax capacities in this update.
- 24 Between 2012-13 and 2015-16, all States experienced growth in the value of their taxable land. Only New South Wales (49%) experienced growth in excess of the average (25%). As a result, \$142 million has been redistributed from New South



Wales to the other States.<sup>2</sup> The growth in taxable land values mirrors growth in total land values. National accounts data show that, between June 2013 and June 2016, State land values increased 31%, with only New South Wales (44%) and Victoria (35%) experiencing above average growth.<sup>3</sup>

25 Figure 1-4 shows the change in States' per capita land values between 2012-13 and 2015-16.

**Figure 1-4 Total taxable land values by State, 2012-13 and 2015-16**



Source: State data returns.

## Commonwealth payments

26 As well as the GST, the Commonwealth makes other payments to the States for specific purposes (PSPs). Equalising the fiscal capacity of the States to provide services requires the Commission to take account of the total expenditure each State would incur to provide the average level of services and the revenue they have available to finance it. This includes the revenue they collect from their own tax bases under average policies and, consistent with the terms of reference, the revenue they

<sup>2</sup> In addition to this change, changes in other States resulted in \$181 million being redistributed away from New South Wales.

<sup>3</sup> ABS, *Australian System of National Accounts*, 2015-16, Cat 5204.0, Table 61.

receive through PSPs.<sup>4</sup> To the extent that a State receives above average per capita amounts of PSPs, less GST is required to equalise its fiscal capacity. Conversely, if a State receives below average amounts of PSPs, it requires more GST.

- 27 Between 2012-13 and 2015-16, there were changes in the amounts paid and the interstate distribution of some PSPs, particularly payments for transport and road infrastructure, and health services, which had repercussions for the GST distribution.
- 28 In particular, Victoria's share of payments was lower in 2015-16 because 2012-13 included a large payment from the Building Australia Fund for the Regional Rail Link. This led to an increase in its GST share. In addition, funding for roads under the Building Australia Fund program and for National health reform increased markedly for New South Wales and Queensland, which resulted in reduced GST shares for these States and, consequently, an increased GST share for Victoria.
- 29 Queensland's share of payments was greater in 2015-16 than 2012-13 because of large payments for rail and road infrastructure, such as works on the Bruce Highway and the construction of the Moreton Bay Rail Link. This resulted in a fall in its GST share. This fall was partly offset by a reduction in Queensland's share of the Health and Hospitals Fund, which increased its GST share.
- 30 Western Australia's share of the Students First (Government schools) funding payment increased, which reduced its GST share.
- 31 The Northern Territory's share of payments was higher in 2015-16 due to increased shares of funding for National health reform and the Health and Hospitals Fund. This reduced its GST share. The Northern Territory's GST share was further reduced because it received higher shares of the payments through the Remote Indigenous Housing program and Nation Building Program (road maintenance component).
- 32 The main payments causing changes in the GST distribution in this update are shown in Table 1-6.

---

<sup>4</sup> The Commission excludes revenue received through PSPs under certain circumstances, including when directed to do so by the terms of reference. Commonwealth payments that have no impact on the relativities are discussed in Chapter 2.

**Table 1-6 Changes in GST distribution due to changes in Commonwealth payments, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Rail infrastructure	-35	93	-58	9	-7	3	-3	-2	105
National health reform	-46	64	-20	16	0	-7	7	-13	87
Building Australia Fund - Roads	-27	36	-46	31	-3	-8	6	11	83
Health and Hospitals Fund	-4	-39	64	-16	10	0	0	-15	75
Students First funding (a)	-1	25	18	-62	-8	11	-1	18	73
Other	61	12	-90	28	14	19	-2	-42	134
<b>Total</b>	<b>-52</b>	<b>191</b>	<b>-132</b>	<b>5</b>	<b>6</b>	<b>19</b>	<b>7</b>	<b>-44</b>	<b>228</b>

(a) Government schools component.

Source: Commission calculation.

- 33 More information on the changes arising from the assessment of individual Commonwealth payments is in the supporting Information for this update available on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au).

## Expenditure

### Population growth

- 34 Changes in the interstate distribution of national population growth have an impact on State needs for infrastructure and financial assets.
- 35 Table 1-7 shows each State's contribution to national population growth in 2012-13 and 2015-16 and their population shares for comparison. Box 1-1 provides further information on recent trends in State population growth.
- 36 There has been a significant change in the distribution of national population growth among States between 2012-13 and 2015-16 and this has had a significant impact on the GST distribution. In 2012-13, Western Australia accounted for 22% of national population growth, well above its share of the national population. As a consequence it required a higher share of GST revenue to facilitate the infrastructure investment its population growth warranted. In 2015-16, Western Australia accounted for 9.5% of national population growth, less than its population share, and accordingly, its GST share has been reduced. Queensland and the Northern Territory have had a similar experience, while New South Wales and Victoria have experienced the reverse as population growth in these States has accelerated. Victoria is now the fastest growing State, accounting for about 33% of national population growth in 2015-16 (compared with its population share of 25.1%).

**Table 1-7 Shares of population growth, 2012-13 and 2015-16**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Shares of population growth	%	%	%	%	%	%	%	%	%
2012-13	23.8	24.4	22.5	22.0	3.8	0.1	1.7	1.6	100.0
2015-16	32.3	33.4	18.7	9.5	3.5	0.6	1.6	0.3	100.0
Population share (2015-16)	32.0	25.1	20.1	10.9	7.1	2.2	1.6	1.0	100.0

Note: Estimates based on estimated resident populations at 31 December.

Source: Commission calculation based on ABS estimated resident populations.

- 37 In this update the population growth effects in the Investment assessment were partially offset by the population growth effect in the Net borrowing assessment.
- 38 At present, States on average have more liabilities than financial assets so that they have negative net financial worth (NFW).<sup>5</sup> A State with an above average share of population growth is assessed to need less GST to maintain the national average NFW per capita (because growing population dilutes the States' NFW on a per capita basis). This effect partially offsets the investment impact, reducing the net effect of population growth on a State's GST share.

<sup>5</sup> This is because the Commission treats their equity in urban transport and housing public non-financial corporations as physical assets instead of financial assets.

### **Box 1-1      Population growth over time**

Since 2010-11, the GST distribution has taken account of the effects of population growth on State investment in infrastructure and borrowing/lending. The effect has been large because population growth rates vary considerably between the States, and population growth is the major driver of the Commission's assessment of each State's investment and borrowing requirements. Given that State investment spending can be large (\$13 billion in 2012-13) and volatile (down to \$8 billion in 2015-16), differences in State population growth rates can have large and volatile effects on each State's GST share. In this update, population growth redistributed \$419 million compared with an EPC assessment, around half its effect in the 2016 Update.

New South Wales' population grew 0.6% slower than the national average in 2003, but since then has slowly been trending back towards the national average, and has grown more rapidly in the last two years. In 2015, it grew at about the national average rate. This reversion to national average growth can also be seen in Queensland, which grew 1.4% faster than average in 2002, but in 2015 grew 0.1% slower. Western Australia peaked in 2012 at 1.9% faster than average, but by 2015 was 0.2% slower. These three States reverting to national average growth rates has led to population growth being a much less significant driver of the GST distribution in this update than it has been in the past. Population in the investment assessment redistributes about a third of what it did in the 2016 Update on a comparable basis.

While population is a much less significant driver of the GST distribution overall, for individual States it has increased in significance.

Victoria's population growth, having hovered around the national average for most of the period, in the past three years has increased faster than the national average. Population growth has increased Victoria's GST needs by \$188 million since the 2016 Update.

The Northern Territory's population growth has always been more volatile than that of other States. However, three consecutive years of below average growth with two of them about 1% below average, mean the Northern Territory's three year average growth is the lowest since 2003 when population growth was not used in the Commission's assessments. The rapid fall in the Northern Territory's investment requirements in this update reflects the removal of a year of record high relative population growth (2012-13) included in the 2016 Update and its replacement with a very low relative population growth year (2015-16).

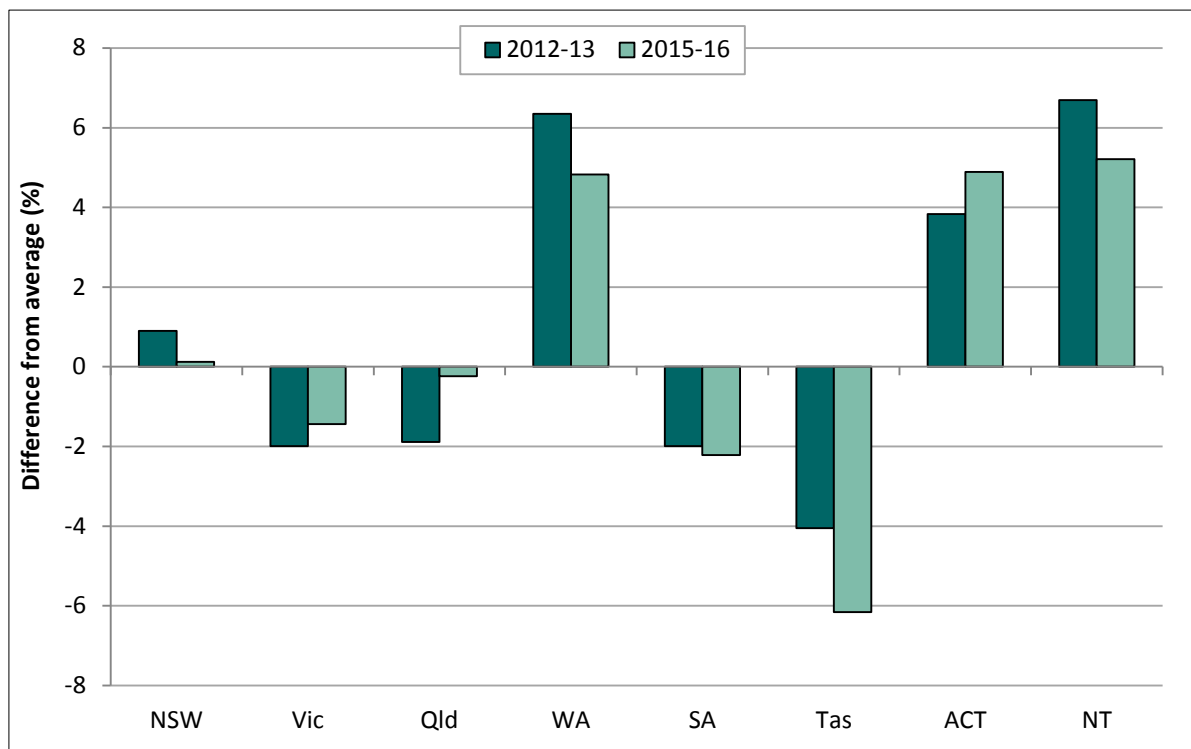
### ***Wage costs***

39 Differences in wage levels outside the control of States drive differences between States in the cost of delivering an average level of services. These wage costs have increased faster than average in Victoria, Queensland and the ACT over the years 2012-13 to 2015-16, requiring more GST revenue to fund average service provision. Conversely, below average wage growth in the other States reduced their relative cost of providing services. Figure 1-5 shows the change in relative wage differentials

between 2012-13 and 2015-16. These changes have resulted in \$223 million being redistributed to Victoria, Queensland and the ACT from the other States.

- 40 Overall, most States are moving closer to the average in the 2017 Update. Relative wages for New South Wales, Western Australia, the ACT and the Northern Territory remain above average, with only the ACT moving further from the average. Victoria, Queensland, South Australia and Tasmania have below average relative wages with only South Australia and Tasmania moving further from the average.

**Figure 1-5 Change in wage cost differentials between 2012-13 and 2015-16**



Source: Indexed Survey of Education and Training (SET) results for 2012-13. Characteristics of Employment Survey (CoES) results for 2015-16.

### Other

- 41 There were other changes in circumstances in this update which resulted in major changes in GST shares for some States. These include the following.
- Total State recurrent expenses on rural roads and roads in unincorporated areas and investment in rural roads declined between 2012-13 and 2015-16. This reduced Western Australia's and the Northern Territory's GST shares and increased Victoria's GST share. More generally, State expenses have increased slowly across most government functions. This has affected the States' GST requirements. Box 1-2 explains the impact on the GST distribution of the slow growth in State expenses.

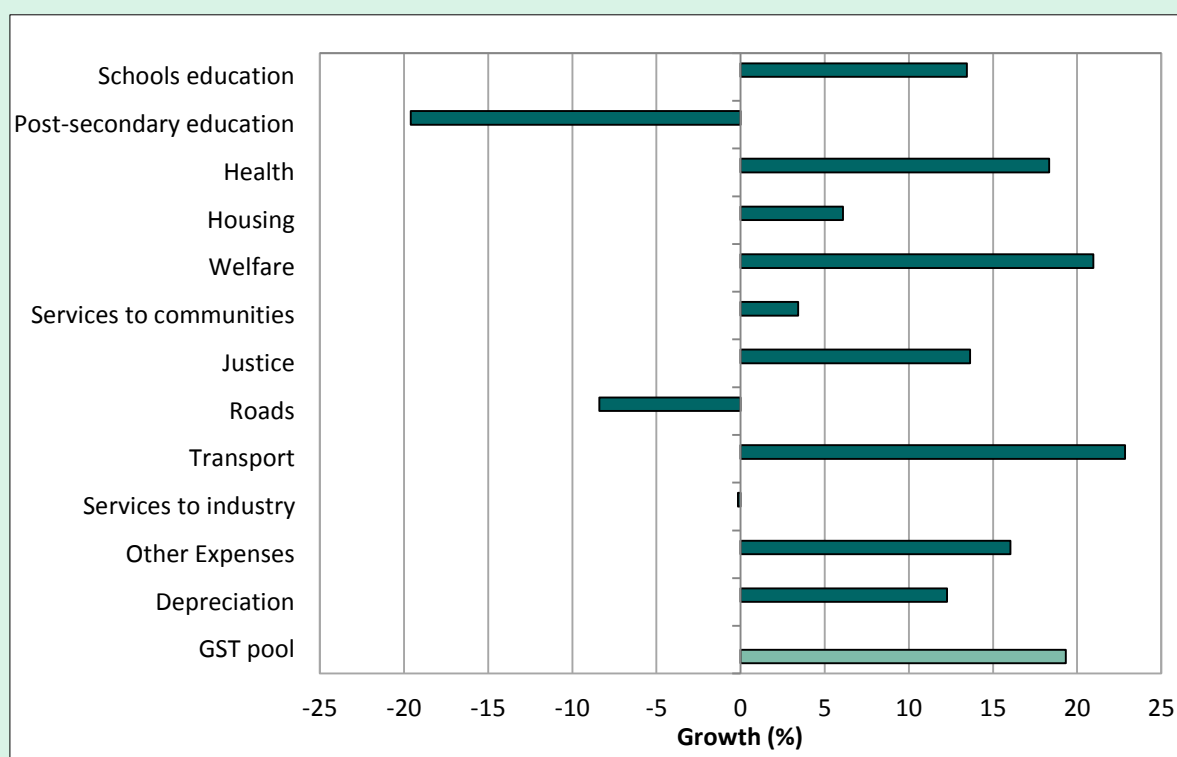
- Based on Australian Curriculum, Assessment and Reporting Authority (ACARA) data for the relevant years, a decline in the cost weights for very remote students and most disadvantaged Indigenous students between 2012-13 and 2015-16 increased Victoria's GST share and reduced those of Western Australia and the Northern Territory. These changes also affected these States' requirements for investment in school infrastructure. In addition, the Northern Territory's share of total enrolments declined between 2012-13 and 2015-16, which further reduced the Northern Territory's GST share.
- Natural disaster relief net expenses for New South Wales and Queensland were lower in 2015-16 compared with 2012-13 reflecting fewer major national disaster events in the later period. This reduced the GST shares for these States.

### Box 1-2 Impact of slow growth in expenditure

In distributing the GST, the Commission reflects what States do. When overall State spending grows faster than the GST pool, the equalisation task is increased, redistributing more GST away from an EPC distribution. In contrast, when overall State spending grows more slowly than the GST pool, the equalisation task is decreased, redistributing less GST away from EPC. The effect is largest for those States with the highest, and lowest, spending requirements.

Almost all expenditure categories grew more slowly than the 19% growth in the GST pool between 2012-13 and 2015-16, as shown in the figure below.

#### Growth in expenditure and GST pool, 2012-13 to 2015-16



Source: Commission calculation.

This relatively slow growth in overall State spending has resulted in those States with above average spending needs (Queensland, Western Australia, South Australia, Tasmania and the Northern Territory) requiring less GST revenue. This is redistributed to those States with below average spending needs (New South Wales, Victoria and the ACT), as shown in the table below.

#### Change in GST distribution from 2016-17 to 2017-18 due to national growth rate in State expenditure

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
\$m	127	152	-48	-101	-21	-14	0	-94	279
\$pc	16	24	-10	-38	-12	-27	1	-383	11

Source: Commission calculation.



## WHY STATE FISCAL CAPACITIES DIFFER

42 Differences among the States in economic, social and demographic characteristics affect their expenditures and revenues and contribute to differences in GST distributions. Table 1-8 shows how these differences contribute to differences in the recommended GST distribution.

**Table 1-8 Difference from an equal per capita distribution of GST, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Expense requirement	-2 583	-4 835	1 948	2 134	334	499	-190	2 693	7 608
Investment requirement	45	586	-196	136	-262	-162	-52	-95	767
Net borrowing	14	-86	10	-13	43	22	2	8	99
Revenue raising capacity	-10	3 031	879	-6 740	1 694	740	381	25	6 750
Commonwealth payments (a)	103	272	-242	17	146	-24	62	-335	601
<b>Total</b>	<b>-2 432</b>	<b>-1 032</b>	<b>2 399</b>	<b>-4 464</b>	<b>1 955</b>	<b>1 075</b>	<b>203</b>	<b>2 296</b>	<b>7 928</b>

(a) Includes the impact on the revenue side only. The impact on the expense side is incorporated in the expense requirement line.

Source: Commission calculation.

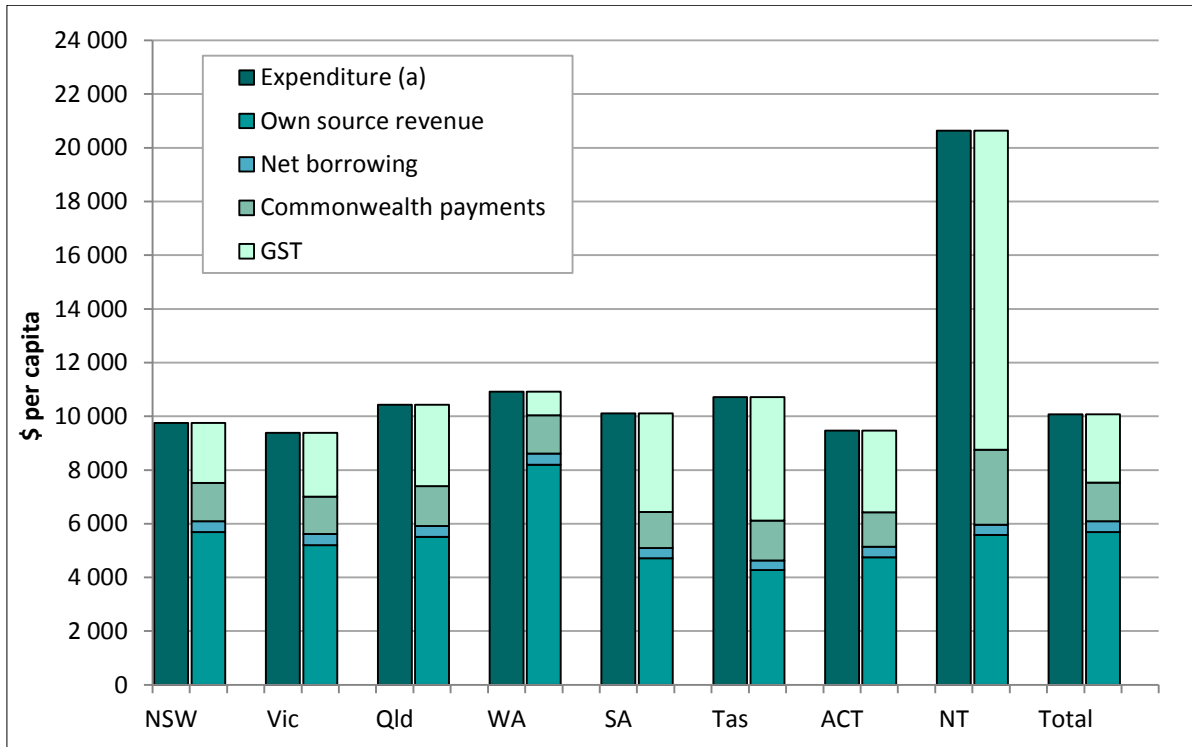
43 Western Australia's above average revenue raising capacity drives its fiscal strength, despite its higher than average costs of providing services and infrastructure. It leads to it needing considerably less than its population share of GST. The below average cost of providing services in New South Wales and Victoria is the reason for their fiscal strength, although this is mitigated somewhat for Victoria by its below average strength in revenue raising. The relatively low fiscal capacities of South Australia, Tasmania and the ACT stem mostly from below average capacities to raise revenue while Queensland and the Northern Territory face high costs of providing services.

44 Figure 1-6 shows this from a slightly different perspective.<sup>6</sup> While Western Australia has the second highest assessed expenditure per capita, this is almost covered by its very high capacity to raise revenue. This leaves a relatively small requirement for GST revenue to give it the capacity to deliver an average standard of service.

45 The Northern Territory has such a high cost of delivering services that even with its significantly higher than population share of Commonwealth payments and only slightly below average capacity to raise revenue, it still requires a very large share of the GST to have the capacity to deliver an average standard of service.

<sup>6</sup> In Figure 1-6 the per capita GST requirement for each State is shown as the difference between a State's total assessed expenditure (expenses and investment) and the sum of its assessed own source revenue, net borrowing and Commonwealth payments.

**Figure 1-6 Illustrative assessed budgets per capita, 2017-18**



(a) Includes expenses and investment.

Source: Commission calculation.

- 46 The main economic and demographic factors causing differences in State fiscal capacities are shown in Table 1-9. It shows, for example, that Victoria needs an additional \$2 770 million in GST above an EPC share to recognise its below average capacity to raise revenue from mining, while Western Australia needs \$5 530 million less than its EPC share because of its very high capacity to raise revenue from mining.
- 47 In this update the Commission again observes significant differences in the innate fiscal capacities of States, which warrant a distribution of GST revenue that differs significantly from one based on State population shares. Further information on why State fiscal capacities differ is in Chapter 3, Volume 1 of the 2015 Review Report.

**Table 1-9 Difference from an equal per capita distribution of GST, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue raising capacity</b>									
Mining production	2 165	2 770	-176	-5 530	446	191	186	-52	5 758
Property sales	-1 817	-112	483	386	698	236	47	77	1 929
Taxable payrolls	-389	510	397	-1 128	369	217	57	-33	1 550
Taxable land values	-219	-202	273	-246	229	87	55	24	668
Other revenue	250	65	-98	-222	-49	10	34	9	368
<i>Total revenue</i>	-10	3 031	879	-6 740	1 694	740	381	25	6 750
<b>Expenditure requirements</b>									
Socio-demographic characteristics									
Remoteness and regional costs	-1 098	-916	692	337	73	379	-136	669	2 150
Indigenous status	-110	-1 440	679	187	-119	101	-60	762	1 729
Socio-economic status	386	-74	-67	-312	339	39	-225	-86	764
Other SDC	-68	-522	387	-99	129	32	14	126	689
Total	-889	-2 953	1 692	113	422	552	-407	1 471	4 249
Wage costs	228	-509	-312	828	-235	-165	79	86	1 221
Urban centre size	345	849	-627	16	-166	-234	-63	-119	1 210
Administrative scale	-443	-285	-170	40	123	232	238	265	898
Natural disaster relief	-428	-228	782	-57	-66	-9	-12	18	800
Small communities	-301	-269	99	179	65	22	-19	224	588
Non-State sector	-183	-206	-17	336	-9	57	40	-16	432
Population growth	-146	231	23	113	-137	-94	-42	52	419
Other expenses	-707	-967	294	690	120	-2	-54	626	1 729
<i>Total expense and investment (a)</i>	-2 524	-4 335	1 762	2 258	115	359	-240	2 605	7 099
<b>Commonwealth payments</b>	103	272	-242	17	146	-24	62	-335	601
<b>TOTAL</b>	-2 432	-1 032	2 399	-4 464	1 955	1 075	203	2 296	7 928

Note: For explanations of what each effect includes see the supporting information to this report located on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au).

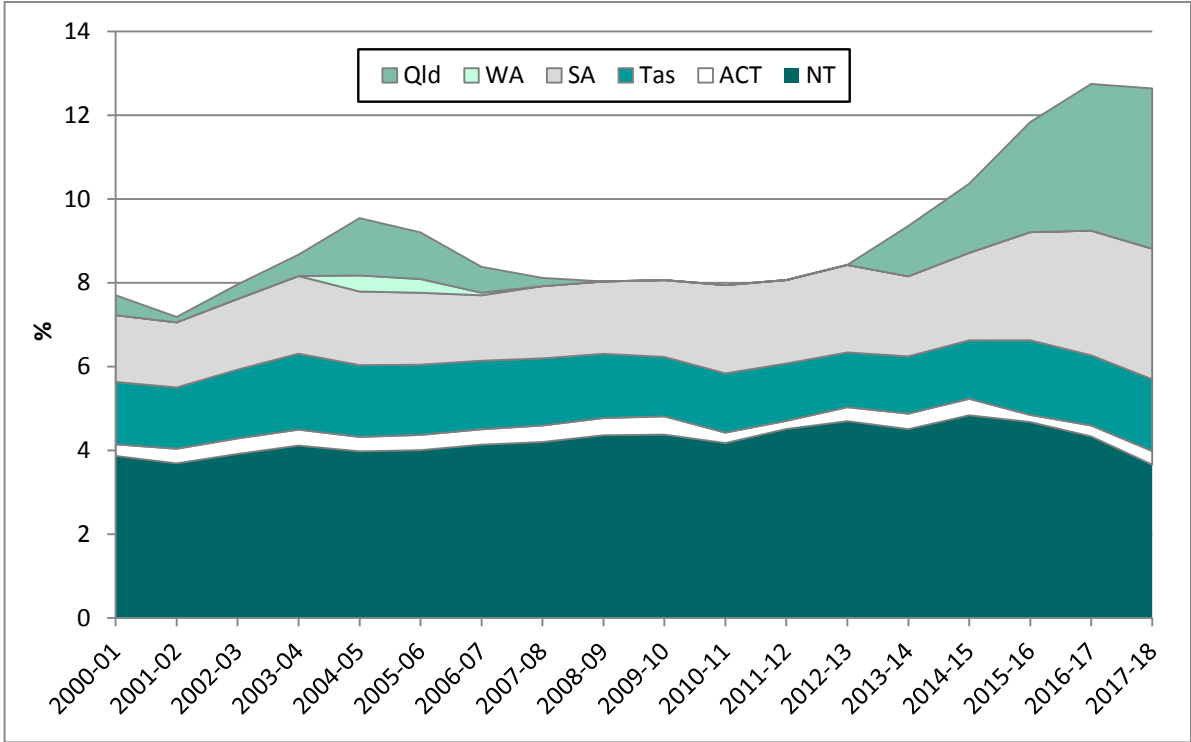
(a) This includes the impact of net borrowing.

Source: Commission calculation.

## SIZE OF THE EQUALISATION TASK

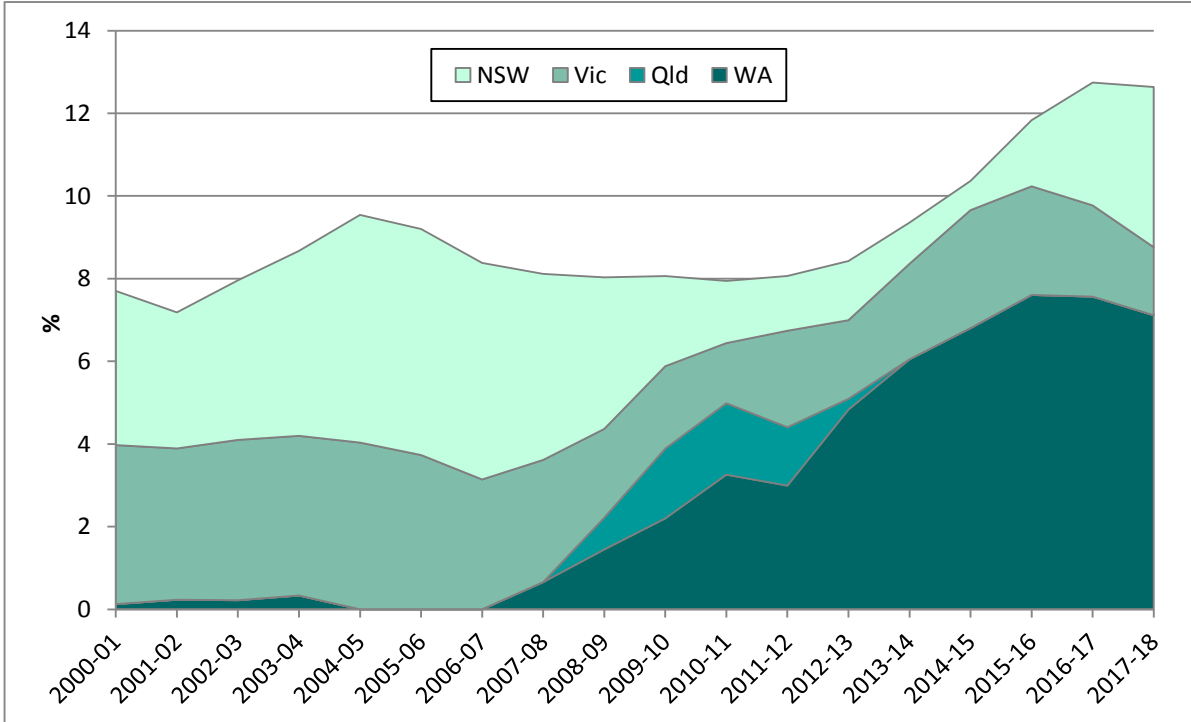
- 48 States have different fiscal capacities at the beginning of the equalisation process. The distribution of GST revenue both increases and equalises those capacities. The size of the equalisation task is determined by the variation in their initial fiscal capacities. As they diverge, more GST is required to achieve equalisation.
- 49 The process of distributing GST revenue can be thought of in either of two ways.
- GST revenue is first distributed on a population basis, raising the fiscal capacity of all States equally. Then there is a redistribution to achieve equalisation – from States with above average capacity to those with below average capacity. The size of this redistribution is one measure of the equalisation task.
  - GST revenue is first distributed to bring the initial fiscal capacities of all States to that of the strongest. The remaining GST is then distributed equally among all States. The GST required to achieve the first step is an alternative measure of the equalisation task.
- 50 These two measures, which can be expressed in dollars or as a proportion of GST revenue, highlight different aspects of the equalisation task. The first identifies the aggregate transfer from an EPC distribution for States with above average fiscal capacities to States with below average fiscal capacities. The second identifies the difference between the strongest State and the average of the others. Taken together they illustrate how the equalisation task is evolving.
- 51 In relation to the first measure, Figure 1-7 shows that, in recent years prior to this update, the proportion of GST redistributed to the States with below average fiscal capacities increased. This was mainly due to the deterioration in Queensland's assessed fiscal capacity since 2013-14. In this update, 12.6% of the GST pool is redistributed to the four less populous States and Queensland to achieve fiscal equalisation, slightly less than in last year's update. This is the first time the proportion of the pool that is redistributed has fallen since the 2010 Review.
- 52 In this update, the redistribution in 2017-18 to the four less populous States accounts for 70% of the redistribution shown in Figure 1-7. These States have about 11.8% of Australia's population and receive 20.6% of the GST which is similar to the long-term average proportion of 20.5%. Redistribution to these States is mostly the result of weaker revenue bases and higher cost of services.
- 53 Figure 1-8 shows the contribution of States with above average fiscal capacities to the GST redistribution. Western Australia's assessed fiscal capacity fell in this update for a second year in a row, after nine years of continuous increase. New South Wales' assessed fiscal capacity increased sharply in this update and the previous one.

**Figure 1-7 Proportion of the GST redistributed to States with below average fiscal capacities, 2000-01 to 2017-18**



Source: Commission calculation.

**Figure 1-8 Proportion of the GST redistributed from States with above average fiscal capacities, 2000-01 to 2017-18**



Source: Commission calculation.

54 Considering the second measure reveals a different aspect of the equalisation task. Table 1-10 shows the size of the equalisation requirement in 2017-18. All States except Western Australia require different per capita amounts of GST to achieve the same fiscal capacity as Western Australia, the State with the strongest fiscal capacity. The remainder of the GST revenue is shared equally amongst all States, including Western Australia. In 2017-18, about 65% of the GST revenue was needed for all States to achieve the same fiscal capacity as Western Australia.

**Table 1-10 Illustrative distribution of GST, 2017-18**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Equal per capita	878	878	878	878	878	878	878	878	878
Equalisation requirement	1 357	1 499	2 150	0	2 793	3 723	2 169	11 003	1 665
Per capita allocation	2 235	2 377	3 028	878	3 671	4 601	3 046	11 881	2 543

Source: Commission calculation.

55 This measure of the size of the equalisation task increased rapidly prior to 2017-18. From 2000-01 to 2007-08, it fluctuated between 14% and 17% of GST revenue, as first Victoria and then New South Wales became the fiscally strongest State. In 2008-09, Western Australia became the fiscally strongest State. As Western Australia's fiscal capacity became progressively stronger, this measure of the size of the equalisation task increased from 14% of the pool in 2008-09 to 70% in 2016-17. With the recent decline in Western Australia's fiscal capacity, it has fallen to 65% in 2017-18. Where the fiscally strongest State has a relatively small population, it will necessarily mean a large share of the pool is required to achieve equalisation (and vice versa). Population differences between the fiscally strongest and the other States affect the size of the equalisation task.

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

- the equalisation task generated by the less populous States together has been greater in recent years but fell slightly in this update
- because Queensland's fiscal capacity fluctuates around the average, it sometimes adds to, and sometimes moderates, the equalisation task
- the task of 'catching up' with Western Australia has grown significantly prior to this update, but is now decreasing.

57 A time series of per capita relativities since the introduction of the GST in 2000-01 is available on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au) in the supporting information for this update. An overview of Commonwealth-State financial relations in Australia, including a discussion of horizontal and vertical fiscal imbalances, is also available on the Commission's website.

## CHAPTER 2

---

### NEW ISSUES IN THIS UPDATE

- 1 In each update, the Commission identifies a range of new issues that might affect the GST distribution. New issues can be grouped into the following types:
  - data issues, concerning how the latest available data, or changes to data availability, are incorporated into assessments
  - assessment issues, relating to how changed circumstances are incorporated into assessments
  - the treatment of Commonwealth payments, including new payments and payments relating to national agreement arrangements
  - other issues.
- 2 In deciding how new issues should be resolved the Commission consults the States. The issues that arose in this update and the Commission's decisions on them are explained in this chapter. Discussion papers and State submissions can be viewed on the GST Inquiries – 2017 Update page accessed from the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au).

### DATA ISSUES

#### Natural Disaster Relief and Recovery Arrangements (NDRRA) net expenses for 2015-16

- 3 In April 2015, the Australian National Audit Office (ANAO) published its audit report on the *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia*. Following the ANAO report, Emergency Management Australia (EMA) commenced a review of State NDRRA expenditure claims. For a number of States, notably Victoria, Queensland and South Australia, the audit proposed examining claims extending back more than six years.
- 4 Due to the increased assurance activity, the Australian Government delayed the reimbursement of some NDRRA payments that were previously expected to be paid in 2015-16. All States with pending NDRRA payments were affected. The delayed payments for Queensland were the most significant, and amounted to \$1 billion.

- 5 Given the level of uncertainty about NDRRA claims and payments that existed at the time the *New Issues for the 2017 Update* paper was sent to the States, staff included a proposal that States should not report net expenses for natural disasters in 2015-16 unless they had been assured by the Commonwealth as being recognised under the NDRRA framework.
- 6 **State views.** Most States supported the staff proposal. A number of States added that 2015-16 net expenses would need to be included in the assessment when the Commonwealth assurance activity was completed. Tasmania said that when they are included, the data would need to remain in the assessment for three years.
- 7 Queensland strongly objected to the proposal, citing the following reasons.
- There was no conceptual case for excluding these expenses, and doing so would have negative implications for contemporaneity and volatility of GST revenue.
  - The proposed treatment of such expenses was unprecedented; to exclude these expenses would create inconsistency with previous years' assessments.
  - Even if there were a conceptual case for excluding expenses not yet assured by the Commonwealth, there was no clear definition or common understanding of what constituted assurance for Commission purposes.
- 8 Queensland's preferred treatment was to include all State expenses that had been assured by State authorities.
- 9 **Commission decision.** The Commission is concerned that the proposal to only include assured net expenses for 2015-16 would adversely affect the contemporaneity of update results and, in the short-term, introduce unnecessary volatility. Therefore, State estimates of 2015-16 net NDDRA expenses have been used in the assessment. Using unassured data continues the Commission's usual practice of accepting State NDRRA data before they have necessarily been audited by State authorities or submitted to EMA.<sup>1</sup>
- 10 The Commission will continue its practice of incorporating revisions to previously provided State data for years that are included in the current inquiry. If the revisions are material at \$10 per capita, an adjustment will be made to ensure the correct net expenses remain in the assessment for three assessment years. State provided data will continue to be closely scrutinised to ensure claims and the related payments are consistent with the current NDRRA determination.

---

<sup>1</sup> In February 2017, the Commission received advice from EMA that the review of Queensland's claims up to 2014-15 had been finalised and the related payments had been made. Assurance activity for the remaining States is continuing.



## **Independent Hospital Pricing Authority (IHPA) data**

### ***Preliminary and final data***

- 11 In June 2016, Commission staff asked for State comments on whether preliminary 2015-16 IHPA data should be used in the Health assessment for the 2017 Update. This followed a late Commission decision in the 2016 Update not to use preliminary 2014-15 data because IHPA advised that final 2013-14 data were more reliable than the preliminary 2014-15 data. In October 2016, the Commission received advice from IHPA that it will no longer be providing final data in October and in future the data released in January will be the final data for the previous year. These changes to IHPA's data release arrangements made redundant the question of whether to use preliminary 2015-16 or final 2014-15 data. The Commission has used the 2015-16 national activity data in this update.

### ***Revisions to 2014-15 IHPA data***

- 12 Despite advice that data released in January each year will be final, during the year two State health departments provided IHPA with revised data which affect national activity data for 2014-15. The revised data have been included in the Health assessment for the 2017 Update because the terms of reference specify that where possible the Commission should use the latest available data. The revised data showed higher levels of activity in inner regional and outer regional areas and for Indigenous people.

### ***Changes to coverage of emergency department (ED) data***

- 13 The primary difference between the preliminary and final data in previous years related to the inclusion of ED occasions from the National Public Hospital Establishments Database (NPHEd), which was not available in January but subsequently available by October. From 2014-15, at the request of State health authorities, the NPHEd no longer includes ED data, meaning that Public Hospital Establishments (PHE) ED data will no longer be available.
- 14 In 2013-14, the last year for which PHE ED data were available, about 5% of ED occasions were sourced from the NPHEd. Although the proportion is small, it is not uniformly distributed across different geographic regions (PHE data accounted for 0.1% of ED occasions in major cities, 11% in inner regional areas, 17% in outer regional areas, and 10% in remote and very remote areas). Therefore, ignoring these data would disproportionately exclude ED activity in all areas except major cities and this would have a material effect on the GST distribution (see Table 2-1).

**Table 2-1 GST distribution for the emergency department component, 2016 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist (a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Without PHE ED data	-3	-39	-6	28	4	6	-4	15	53
With PHE ED data (b)	-57	-99	36	42	4	25	-12	61	168
Difference (\$m)	53	60	-42	-13	-1	-19	8	-46	121
Difference (\$pc)	7	10	-9	-5	-1	-37	20	-184	5

(a) The redistribution is calculated as half the absolute sum of the items in the row.

(b) In the 2016 Update, the Commission used final 2013-14 IHPA data in the health assessment for 2013-14 and 2014-15.

Source: Commission calculation.

- 15 States were asked to comment on how the missing data should be estimated. Staff proposed using the number, instead of the proportion, of ED occasions in 2013-14 to estimate the missing activity for subsequent years. This was based on advice from IHPA that the proportion of PHE ED occasions would most likely decrease in the future as coverage of other ED data sources improves.
- 16 **State views.** Most States supported the proposal to use the number of PHE ED occasions in 2013-14 to estimate these occasions for 2014-15 and 2015-16 in the 2017 Update. New South Wales supported the proposal but said there would be some double counting of PHE ED activity as coverage of the remaining data sources improves. The Northern Territory supported the staff proposal but said the Commission should revisit the issue in the 2018 Update.
- 17 Queensland supported using the proportion, instead of the number, of PHE ED occasions in 2013-14 for estimating 2014-15 and beyond until the next methodology review. Queensland said that using the number of ED occasions in 2013-14 would risk significantly understating some PHE ED occasions in 2014-15 and beyond. Western Australia also expressed concerns that the missing data will not be escalated for growth, and suggested using the proportion of PHE ED occasions in 2013-14.
- 18 Tasmania did not support using an estimate for the missing ED occasions and suggested that the Commission ask States through a special data request to provide 2014-15 and 2015-16 ED data previously collected in the PHE data collection. Western Australia also supported a special data request. Tasmania informed staff that the National Health Information Standards and Statistics Committee would be commencing a review of the national emergency care data collections in late 2016 and the loss of these data (that is, ED data formerly collected in PHE) would be covered in the review.
- 19 **Commission decision.** At this stage there is no way of measuring improvements in coverage and the extent of possible double counting. Due to time constraints, the best available option for this update is to use the number of PHE ED occasions in 2013-14 to estimate 2014-15 and 2015-16. This is what the Commission has done.

- 20 This is because the number and proportion of PHE ED data has been decreasing in recent years (1 453 415 or 18% in 2011-12 and 411 890 or 5% in 2013-14). IHPA has advised that this trend is likely to continue in 2014-15 and 2015-16 as the coverage of other national ED datasets improves. This means that using the 2013-14 number may result in some double counting as suggested by New South Wales and the Northern Territory. The Commission does not agree with Queensland and Western Australia that using the number of ED occasions in 2013-14 would understate PHE ED occasions in 2014-15 and 2015-16. Since the number of PHE ED occasions is expected to fall, the Commission does not intend to apply a growth factor to the 2013-14 estimate.
- 21 The Commission will continue to liaise with States and IHPA on changes to the coverage of the two remaining ED collections. In the 2018 Update, it will consider whether a special data collection could be used to measure the missing activity.

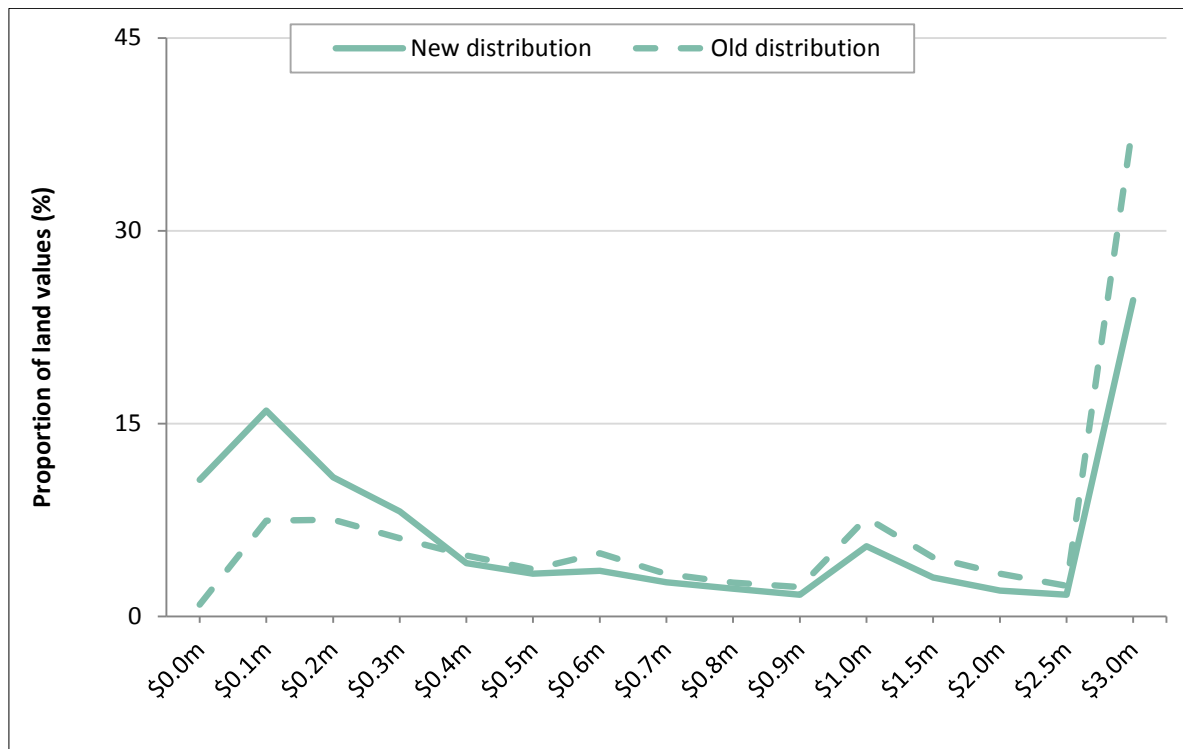
## Land tax data

- 22 States impose land tax on residential investment, commercial and industrial land. Mostly they impose the tax on a landholder's aggregated value of taxable land. The Commission's capacity measure is a State's total value of taxable land, aggregated by landholder. State Revenue Offices (SROs) provide these data disaggregated across 15 value ranges.<sup>2</sup>
- 23 In this update, Queensland has provided a new distribution of land values by value range for 2016, to replace the distribution it estimated in 2009 for the 2010 Review, also used in subsequent updates. This new distribution is very different from its old distribution (Figure 2-1). There is more value at low value ranges and less at high value ranges.
- 24 The 2009 distribution by value range was estimated. The 2016 distribution has been constructed using land value data provided by the State Valuer General's office, although some estimation is required at the lower value end as values below \$0.6 million are not taxed. These additional data have become available to the State Revenue Office as a result of a system upgrade. This approach is more consistent with that used by other States to estimate their value distributions.

---

<sup>2</sup> States impose land tax progressively. The Commission adjusts for progressivity by asking States to provide their value of taxable land across 15 value ranges. For each value range, the Commission applies the average effective rate of tax to a State's taxable land values. Compared with a single rate of tax, this approach assesses a higher taxable capacity for States with an above average proportion of values in the higher value ranges.

**Figure 2-1 Distribution of Queensland’s land values by value range, 2009 and 2016 data**



Source: State Revenue Office data.

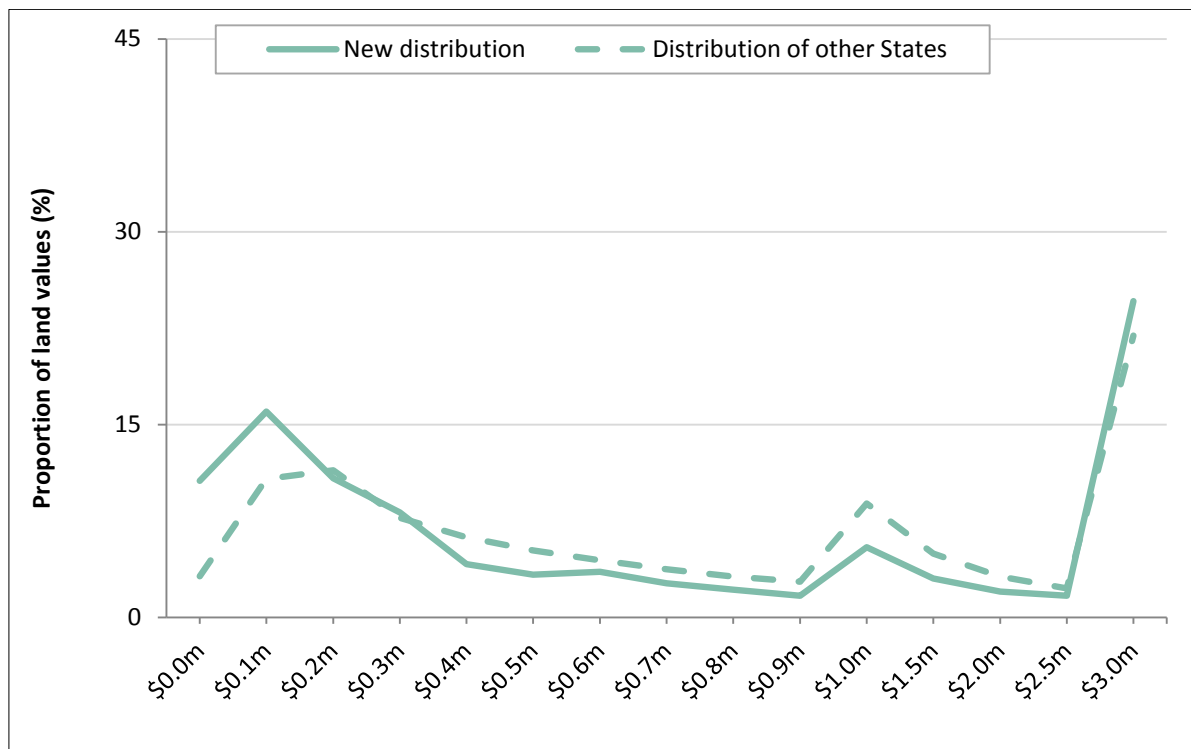
- 25 Queensland says the new distribution is mainly due to a slow shift in values that has taken place since 2009 and the availability of data on which to calculate the shares of properties in each value range.
- 26 The new distribution appears to be more representative of Queensland’s current property market than the old distribution for the following reasons.
- Applying Queensland’s legislated rates to its distribution of taxable land values using the new distribution produced a revenue raising estimate that better aligns with its actual collections.
  - Figure 2-2 shows the 2016 data are more similar to the distributional pattern of other States than the 2009 data (shown in Figure 2-3), particularly for the top band of \$3 million and above, the band with the highest effective tax rate.
  - The median value of properties in Brisbane is low compared to those in Sydney, Melbourne, Perth, Canberra and Darwin, and only above those in Adelaide and Hobart. It has moved increasingly below the average since 2013.<sup>3</sup>
  - The value distribution adjustment (VDA) for Queensland implied by the 2009 distribution would mean property values 37.9% above average — the highest of

<sup>3</sup> ABS, *Residential Property Price Indexes: Eight Capital Cities*, Cat 6416.0, Mar 2015.

any State.<sup>4</sup> Its VDA implied by the 2016 distribution is slightly below average, more consistent with its relative property values. Also, Queensland's VDA using the new distribution is more consistent with its VDA for conveyance duty.

- One of the reasons Queensland gave for the increase in the low value ranges is the increase in the proportion of apartments. The proportion of residential building approvals that are apartments increased from 18% in 2009-10 to 35% in 2015-16.<sup>5</sup>
- The last Queensland Valuer General's data by value range available to the Commission (2008 data) indicated that Queensland had nearly 50% of its property values in the ranges \$0.3 million and below. These data are not aggregated by landholder and are therefore not directly comparable with SRO data. However, the adjustments for joint owners would not be expected to substantially reduce this proportion.

**Figure 2-2 Distribution of State land values by value range, 2016 data**

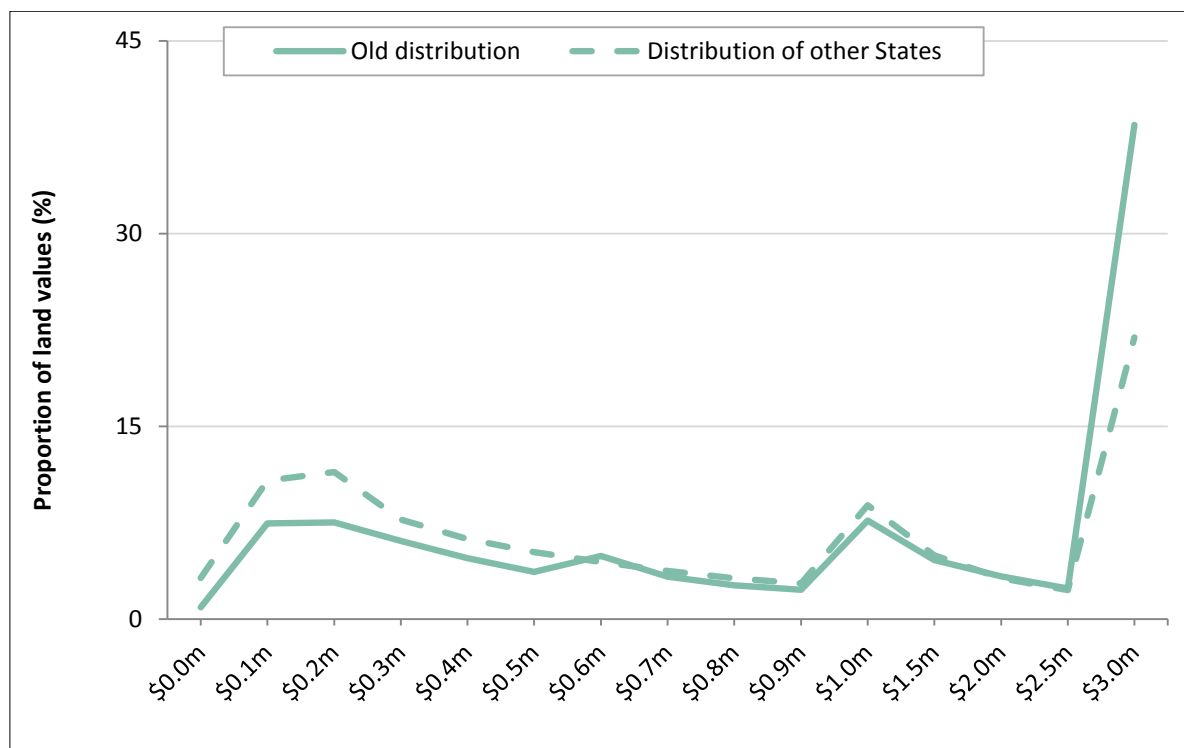


Source: State Revenue Office data.

<sup>4</sup> The VDA compares a State's actual distribution of values to the average distribution. A VDA of 37.9% means Queensland would be assessed to be able to raise an additional 37.9% of revenue than if it had the average distribution of values.

<sup>5</sup> ABS, *Building Approvals, Australia*, Cat 8731.0, Nov 2016.

**Figure 2-3 Distribution of State land values by value range, 2009 data**



Source: State Revenue Office data.

27 As Queensland’s new distribution of land values by value range for 2015-16 appears to provide a better indication of current conditions than applying its previous (2009) distribution, the issue for the Commission is the distribution to be used for the earlier two assessment years. The options for those years are:

- to retain the old distribution in both years
- to use the new distribution in both years
- to transition from the old distribution to the new distribution.

28 **State views.** Most States favoured transitioning from the old distribution to the new distribution. Queensland said a transition would reflect the gradual shift of value distribution that had taken place since 2009 and would be consistent with Australian Bureau of Statistics (ABS) conveyancing data.

29 New South Wales said there was not enough detail or sufficient time for it to consider the issue and reach a definitive conclusion. In these circumstances, it favoured retaining the old distribution for the earlier two years.

30 Tasmania said the improvement in Queensland data justified a reconsideration of the level of discount (25%) applied in the assessment.

31 **Commission decision.** The Commission has decided to use the new distribution in 2015-16 and to transition from the old 2009 distribution to the new distribution to obtain value distributions for the first two assessment years. This decision is based on

Queensland’s advice that the 2009 distribution was its best estimate for 2009-10 and the 2016 distribution is its best estimate for 2015-16 and also evidence that the Queensland market has changed substantially since 2009-10. The Commission does not believe it appropriate to retain the 2009-10 distribution for the first two assessment years, as proposed by New South Wales, as it does not reflect the changed circumstances.

- 32 The Commission does not consider the improvement in Queensland data warrants reconsideration of the level of discount applied to the assessment because there are still concerns about the comparability of the data across States because of aggregation and the degree of estimation required.
- 33 Assuming a linear transition from 2009-10 to 2015-16 (the last year of the 2017 Update), would imply the following distributions for each assessment year.

**Table 2-2 Transitioning from Queensland’s 2009 distribution of land values to its 2016 distribution**

Value range	Distribution for assessment year						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	%	%	%	%	%	%	%
\$0 to \$0.1m	0.9	2.5	4.2	5.8	7.4	9.0	10.6
\$0.1m to \$0.2m	7.4	8.9	10.3	11.7	13.2	14.6	16.0
\$0.2m to \$0.3m	7.5	8.1	8.6	9.2	9.7	10.3	10.8
\$0.3m to \$0.4m	6.1	6.4	6.8	7.1	7.5	7.8	8.2
\$0.4m to \$0.5m	4.7	4.6	4.5	4.4	4.3	4.2	4.1
\$0.5m to \$0.6m	3.7	3.6	3.6	3.5	3.4	3.4	3.3
\$0.6m to \$0.7m	4.9	4.7	4.5	4.2	4.0	3.8	3.6
\$0.7m to \$0.8m	3.3	3.2	3.1	3.0	2.9	2.8	2.7
\$0.8m to \$0.9m	2.6	2.5	2.5	2.4	2.3	2.2	2.2
\$0.9m to \$1.0m	2.3	2.2	2.1	2.0	1.9	1.8	1.7
\$1.0m to \$1.5m	7.7	7.3	6.9	6.6	6.2	5.8	5.5
\$1.5m to \$2.0m	4.6	4.3	4.1	3.8	3.6	3.3	3.0
\$2.0m to \$2.5m	3.3	3.1	2.9	2.7	2.5	2.2	2.0
\$2.5m to \$3.0m	2.4	2.3	2.2	2.0	1.9	1.8	1.7
\$3.0m plus	38.5	36.2	33.9	31.5	29.2	26.9	24.6

Source: Commission calculation using State provided data.

- 34 The change in GST for each State since the 2016 Update is shown in Table 2-3.

**Table 2-3 Change in GST distribution due to transitioning from Queensland’s 2009 distribution of land values to its 2016 distribution, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Total change (\$m)	-257	-27	281	3	2	-2	-1	0	286
Total change (\$pc)	-32	-4	57	1	1	-4	-2	-2	12

Source: Commission simulation.

## ASSESSMENT ISSUES

### Wage costs assessment

- 35 The wage costs disability recognises that comparable public sector employees in different States are paid different wages, in large part because of differences in labour markets beyond the control of State governments. The Commission undertook a comprehensive review of the Wage costs assessment in the 2016 Update.
- 36 Following its review, the Commission decided it would:
- measure the relative private sector wages paid to comparable employees in different States and use their divergence from the average as an indicator of how public sector wages in each State would diverge from their average in a policy neutral way
  - estimate these private sector wage differentials (the modelled outcomes) using an econometric model and microdata from ABS surveys
  - use the annual Characteristics of Employment Survey (CoES) as the source of its microdata for 2014-15 and subsequent years<sup>6</sup>
  - apply a low discount (12.5%) to the modelled outcomes to reflect the level of its concerns about the data and the method used in the assessment
  - apply a Commonwealth Superannuation Scheme (CSS) adjustment for the ACT and the Northern Territory in the 2016 Update, while noting that it intended to consult with States on the adjustment’s materiality during 2016.
- 37 In this update, four issues arose in relation to the Wage costs assessment. These issues are discussed in the following sections.

### *The variables in the econometric model*

- 38 **Background.** Some variables are not available in the CoES dataset every year. The educational attainment variables were not available in the 2014 CoES dataset due to an issue with ABS processing, but were available in the 2015 CoES. The ABS has

<sup>6</sup> The CoES replaced the Survey of Education of Training (SET) from 2014-15. For the 2013-14 assessment year, the Commission has continued the 2015 Review approach of modelled outcomes based on the 2009 SET, indexed forward using the wage price index.



indicated that this information will be included in all future CoES data. The trade union membership variable was not included in the 2015 CoES and will be available only every second year.

- 39 The education variables have a material effect on States' modelled outcomes, but the trade union membership variable does not. For that reason, staff proposed including the education variables but omitting the trade union membership variable from its econometric model in this and future updates.
- 40 **State views.** Most States agreed that the education variables be included and the trade union membership variable be omitted on materiality grounds.
- 41 Victoria said that if the trade union variable were to be excluded, then a further discount should be applied to account for potential bias in the result.
- 42 **Commission decision.** The Commission has decided to include the education variables but exclude the trade union membership variable from its econometric model in this and future updates. While there is a conceptual case that both sets of variables represent non-policy influences on wage levels that should be controlled for in its model, only the education variables are available every year. Including the trade union membership variable every second year may create an inconsistency between the modelled outcomes for consecutive years.
- 43 Since inclusion of the trade union membership variable does not materially affect States' GST distributions, any bias created by its removal will also be immaterial. In these circumstances, it is not necessary to apply a further discount.

### **The CSS adjustment**

- 44 **Background.** At the time of self-government, many ACT and Northern Territory government employees were members of the CSS, which was a more generous scheme than those offered by State governments. Previous Commissions adjusted the superannuation assessment, then the Wage costs assessment, for the two Territories to allow for their higher labour costs as a result of this unavoidable legacy cost.
- 45 The Commission found the adjustment was no longer material late in its comprehensive review undertaken last year. As it did not have sufficient opportunity to consult States on this issue, it left the adjustment in place in the 2016 Update.
- 46 **State views.** Most States said this adjustment should be discontinued if it were no longer material.
- 47 The ACT and the Northern Territory disagreed. They said the Commission should not remove the adjustment because:
- it would be a method change and method changes should not be made in an update

- the appropriate materiality threshold was \$10 per capita and the adjustment moved more than \$10 per capita for at least one State
- this was a legacy cost and, as such, should be allowed to run its natural course.

48 **Commission decision.** The Commission's consideration of this issue constitutes a finalisation of the review of its Wage costs assessment undertaken as part of the 2016 Update that was delayed due to the timing of the release of the new data source (CoES).

49 The Commission considers the CSS adjustment to be a disability separate from the wage costs disability. As such, it believes the appropriate threshold is the \$30 per capita disability threshold. The adjustment moves less than \$30 per capita; \$12 per capita in the case of the ACT and \$6 per capita in the case of the Northern Territory. Therefore, the adjustment is not material.

50 The Commission does not agree with the view that, as a legacy cost, the adjustment should be allowed to run its natural course. Its practice is to remove disabilities once they cease to be material. It has decided to remove the adjustment from all assessment years.

### **A State-specific adjustment for Tasmania**

51 **Background.** In the 2016 Update, Tasmania's modelled outcome for 2014-15 using 2014 CoES data suggested its relative private sector wages were 8.9% below average. This was outside the range the Commission, in the past, considered reasonable for public sector wages. The next lowest level was for Victoria, at 5.7% below average.

52 However, the Commission said using the indexed Survey of Education and Training (SET) estimates for the first two assessment years mitigated the effect of the 2014 CoES data. Tasmania's average relative private sector wages for the three assessment years was 6.2% below average. While this was below the public sector wage differential for a comparable employee in Victoria, it was not so far below as to be implausible. The Commission decided not to make an adjustment for Tasmania in the 2016 Update.

53 Tasmania's outcome for 2015-16 using 2015 CoES data is 7.0% below average, which is closer to average compared with the 2014 CoES result. Its average relative private sector wages for the three assessment years in this update is also 7.0% below average.

54 **State views.** Tasmania noted the modelled outcomes using 2015 CoES data further reduced its average relative private sector wages. It said this raised the question as to the point at which its outcome warrants a specific adjustment.

55 Tasmania provided a comparison of the average relative wage differentials derived from SET data for 2012-13 and 2013-14 and from CoES data for 2014-15 and 2015-16. It showed that its average relative wage differential across the two years based on

the SET was -4.8%, compared with -8.0% over the two years based on the CoES. It observed that the gap between the two average differentials had not widened for any other State except South Australia.

- 56 Tasmania said that the comparison with public sector wage differentials in Victoria to justify not adjusting its outcome in the 2016 Update may not be as valid for the 2017 Update. It provided ABS data on State public sector wages in 2013-14 and 2014-15 that show Victoria's relative wage differential decreased between those two years.<sup>7</sup>
- 57 Tasmania argued that its modelled outcome fell outside the bounds within which public sector wages should lie and, when considered alongside uncertainty associated with the use of CoES data, this meant a specific adjustment to its assessment was required in addition to the general discount.
- 58 **Commission decision.** The Commission is not prepared to introduce an adjustment in this update based on the analysis Tasmania has provided. The modelled outcomes for 2012-13 and 2013-14 were based on the 2009 SET indexed forward using the ABS' wage price index (WPI) for each State. The difference between an average differential of -4.8% based on SET and -8.0% based on CoES could be due to the WPI underestimating the changes for Tasmania in wage levels between 2009 (the SET survey year) and 2013-14. While the Commission has continued to use the indexed estimate as its best estimate of the circumstances that applied in 2013-14, it does not wish to compound any underestimate of the change from 2009 by introducing a specific discount for Tasmania based on a possible underestimate.
- 59 The ABS data on public sector wages reflect a range of policy and non-policy influences that the Commission is unable to separate. Those data show a fall in average wages per employee in New South Wales, for instance, which could be the result of reclassification and reorganisation of staff. As such, the Commission cannot put much credence on these numbers for its purposes and, therefore, the fall in Victoria's relative wage differential could be the result of other influences.
- 60 While the Commission recognises that the average relative wage differential for Tasmania is getting close to the limit of what may be reasonable, it observes that compared with the 2014 CoES results, the 2015 CoES has rebounded closer to the average. At this stage, the Commission does not believe Tasmania's modelled outcomes are so extreme as to warrant an adjustment in addition to the general discount in this update. However, it will continue to monitor the movement in its wage levels in each CoES.

---

<sup>7</sup> ABS, *Employment and Earnings, Public sector, Australia*, Cat 6248.0.55.002, 2015-16.

## **Discounting the modelled outcomes**

- 61 **Background.** In its comprehensive review of the assessment, the Commission decided to apply the low discount (12.5%) to States' modelled outcomes, to reflect uncertainty about how accurately the data capture differences in wage costs, how well the model controls for differences in productivity and how well private sector wages proxy wage pressures in the public sector.
- 62 **State views.** In this update, Victoria, South Australia and Tasmania said the discount was too low. They pointed to the conclusion of the consultant engaged by the Commission during its review that States compete for workers in two markets simultaneously (the local market and the national public sector market). This meant that private sector wages alone were not a good proxy for wage pressures faced by the public sector.
- 63 Victoria and South Australia also said the modelled outcome for Tasmania may reflect, to some degree, a conceptual weakness in the methodology that should be addressed in this update by increasing the general discount. Victoria pointed as well to the omission of the trade union membership variable and uncertainty due to the use of (sample) survey data as evidence that the discount should be increased.
- 64 New South Wales, Western Australia and the ACT disagreed. They said that the CoES dataset was larger, more reliable and more contemporary than the SET the Commission used previously. They said that, together with the inclusion of the education variables in the 2015 CoES, this should increase the level of confidence in the assessment and remove the need for a discount.
- 65 Western Australia said that discounting the modelled outcomes towards EPC does not produce a better equalisation outcome. It compared the 2015-16 modelled outcomes with those based on the 2013-14 data indexed forward using the WPI, and with outcomes for 2014-15 indexed forward by WPI and adjusted to include the impact of the education variables. It said that these measures were further from EPC than the 2015-16 outcomes. It proposed that, if the Commission wished to continue to apply a discount, it should discount the modelled outcomes towards one of these two measures, rather than towards EPC.
- 66 **Commission decision.** The Commission considered the level of the discount in its comprehensive review last year. It has not seen any additional evidence since that review, including on how the possible existence of a national public sector market might affect wage differentials, that supports changing the level of the discount.
- 67 In that review, the Commission noted that the move to annual CoES data improved the contemporaneity of the assessment and would offset any marginal increase in uncertainty due to the omission of the education variables in the 2014 CoES. It acknowledges that including the education variables in this update improves the specification of the model, but equally it is not able to include the trade union

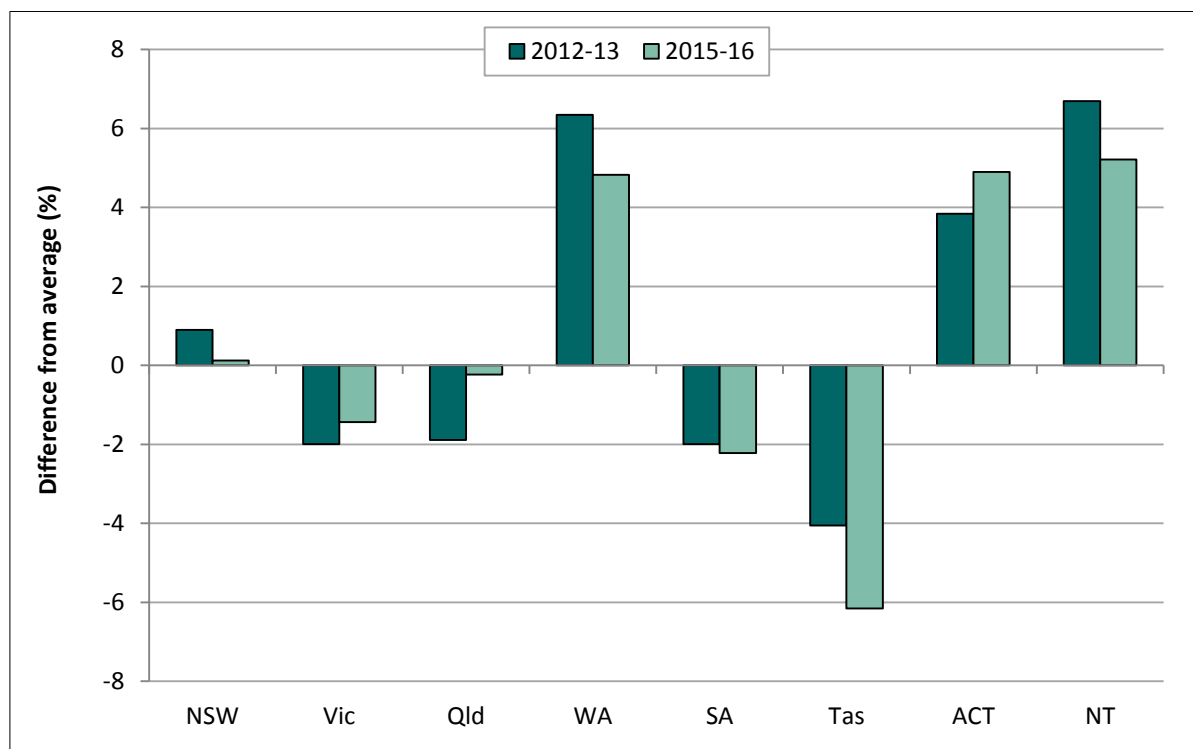
membership variable. Moreover, the Commission’s concerns as to how accurately its data and method capture public sector wage pressures remain. On balance, it has decided not to change the level of discount.

68 The Commission has not adopted Western Australia’s approach to discounting. It believes that the 2015 CoES outcomes give the best estimate of relative wage levels in 2015-16 and that the results of previous surveys will not reflect relative wage levels as accurately. The Commission uses discounting in instances where there is a conceptual case for including a disability, but where imperfect data or methods reduce its level of certainty in the assessment of that disability. In these circumstances, the Commission considers whether a better equalisation outcome will be achieved by allowing the data to influence the GST distribution in proportion to its quality or by ignoring the disability completely. The Commission’s application of the discount to this assessment is consistent with this general approach to discounting.

### Results and GST impact

69 Figure 2-4 shows the relative wage differentials for 2012-13 and 2015-16.

**Figure 2-4 Relative wage differentials for 2012-13 and 2015-16**



Source: Indexed SET results for 2012-13. CoES results for 2015-16.

70 Table 2-4 shows that changes to the wages assessment in this update have increased the GST of Victoria, Queensland and the ACT by \$225 million and reduced the GST of the other States.

**Table 2-4 Change in GST distribution due to the Wage costs assessment, 2016 Update to 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
\$ million	-110	74	151	-87	-2	-16	0	-10	225
\$ per capita	-14	12	31	-32	-1	-31	1	-42	9

Source: Commission calculation.

## National Disability Insurance Scheme (NDIS)

- 71 The Commission’s 2015 Review assessment of NDIS expenses is based on the estimated number of people eligible at full implementation. This is a policy neutral measure of needs because it reflects total eligibility. The Commonwealth Department of Social Services (DSS) provides the Commission with those numbers. The Commission is not aware of a better alternative.
- 72 **ACT’s view.** The ACT was concerned that the Commission may not be using the most accurate available estimates of NDIS participant numbers in its assessment of disability services expenses. It asked the Commission to review its approach to the assessment to ensure the most accurate available data are used.
- 73 The ACT said the Scheme Actuary’s *Report on the Sustainability of the Scheme, 1 July 2013 to 31 March 2016 (April 2016)* indicates that the ACT’s actual number of participants deemed eligible as at 31 March 2016 was 118% above the expected number, compared with a national figure of 100%.
- 74 **Commission decision.** The Commission has used the total number of people eligible in a year to be covered by NDIS when fully operational as the measure of NDIS needs during transition, consistent with the 2015 Review decision. States chose the speed at which they implement NDIS during transition. Therefore, the actual number of NDIS participants in each State in a year during transition is policy influenced and cannot be used as a policy neutral measure of needs.
- 75 The report from the Scheme Actuary does not address the number of people eligible at full implementation but rather how the actual participant numbers during transition vary from the transition numbers originally expected. The report shows that the ACT is moving through transition faster than anticipated.
- 76 However, in this update, DSS has revised upwards the full scheme implementation numbers for the ACT for 2017-18 from 5 126 to 6 928. The Commission has used them in the assessment. Other States’ estimates for 2017-18 remain unchanged. Table 2-5 shows the change in the GST distribution. The ACT’s GST revenue increases by \$39 million.

**Table 2-5 Change in GST distribution due to new ACT NDIS data, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
\$ million	-13	-9	-8	-4	-3	-1	39	-1	39
\$ per capita	-2	-2	-2	-2	-2	-2	97	-3	2

Source: Commission calculation.

## Community health non-State sector adjustment

- 77 The Commission has identified a material error in the Health assessment. The error occurred because the bulk billed GP data used to calculate the non-State sector adjustment in the community health component were not correctly discounted.
- 78 In the 2015 Review, the Commission decided a 25% discount was warranted for the non-State adjustment in the community health component because of concerns about how closely the socio-demographic profile of people using GP services reflects the profile of people using other non-State provided community health services.
- 79 The error occurred because the 25% discount was only applied to assessed benefits. Both actual and assessed benefits should have been discounted to obtain the correct non-State sector adjustment.
- 80 Table 2-6 shows the effect on the GST distribution in the 2017 Update of correcting the error.

**Table 2-6 Effect of correcting the error in community health on the GST distribution, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Health assessment (\$m)	95	9	6	-76	4	-8	-23	-6	113
Depreciation (\$m)	5	1	0	-4	0	0	-1	0	6
Investment (\$m)	-5	-1	2	4	0	0	0	1	7
Total (\$m)	95	9	8	-77	4	-9	-24	-6	115
Total (\$pc)	12	1	2	-29	2	-16	-59	-23	5

Note: The difference between the illustrative GST distribution using the correct discounting method and the incorrect discounting method used in the 2016 Update.

Source: Commission calculation.

- 81 The error occurred in the Commission's assessments for both the 2015 Review and 2016 Update. Consistent with past practice the Commission has not made any adjustments in the 2017 Update to recognise the effect of the error in those earlier inquiries.

## TREATMENT OF COMMONWEALTH PAYMENTS

### Terms of reference requirements

- 82 The terms of reference require the Commission to prepare its assessments on the basis that the following payments should not directly influence the relativities:
- national partnership facilitation and reward payments
  - payments (full amount or 50% of the amount) that the Commission has previously been directed to treat so they have no direct influences on the relativities.
- 83 Accordingly, these payments and their related expenses have been treated in a way that does not influence the relativities.
- 84 The 2015 Review terms of reference required the Commission to apply different treatments to payments made from the Asset Recycling Fund. Payments from the Fund commenced in 2014-15 and have three components. The Commission has treated each component as directed by the terms of reference:
- Asset recycling initiative — no impact
  - Western Sydney infrastructure plan — 50% impact and 50% no impact
  - New investment:
    - roads on national network and road projects identified in terms of reference — 50% impact and 50% no impact
    - other components — impact for payments to States and no impact for payments direct to local governments (treatment based on fiscal equalisation because no terms of reference requirement).
- 85 There are no additional payments that the terms of reference ask the Commission to treat in a particular way in the 2017 Update. However, as directed by the 2017 Update terms of reference, the Commission has continued to exclude those payments quarantined by the previous terms of reference.

### Treatment of Commonwealth payments

- 86 Apart from payments for which the terms of reference have requested special treatment, all Commonwealth payments which affect State fiscal capacities and for which needs are assessed have an impact on the relativities. This is in accordance with the guideline adopted in the 2015 Review.
- 87 Table 2-7 provides a summary of the treatment the Commission has applied to payments which commenced in 2015-16. The Commission has backcast the EPC distribution of the national agreement payments and the distribution of the Commonwealth payments for Students First and Health reform funding (for 2013-14 only) as set out in the 2015 Review. It has not backcast any other payments



commencing in 2016-17 or 2017-18 because they do not represent a major change in federal financial arrangements.

**Table 2-7 Treatment of Commonwealth payments commenced in 2015-16**

Payment	(\$m)	Treatment	Reason for 'no impact'
<b>HEALTH</b>			
<b>Health infrastructure</b>			
Albury-Wodonga Cardiac Catheterisation Laboratory	0.5	Impact	
Improving local access to health care on Phillip Island	0.5	Impact	
<b>Indigenous health</b>			
NT remote Aboriginal investment – Health component	5.6	No impact	2016 Update terms of reference requirement.
<b>Other health</b>			
Zika response teams	1.0	No impact	Needs are not assessed. The Commonwealth has paid for the unique services in Queensland to protect all States from the spread of the Zika virus.
<b>EDUCATION</b>			
National School for Travelling Show Children	0.2	No impact	Needs are not assessed. The Commonwealth purchases the service from NSW.
NT remote Aboriginal investment – Children and schooling component	49.0	No impact	2016 Update terms of reference requirement.
Online safety programs in schools	0.8	Government – impact; Non-government – no impact	Needs are not assessed. Non-government education – States act as an intermediary.
<b>COMMUNITY SERVICES</b>			
National outcome standards for perpetrator intervention	2.2	Impact	
NT remote Aboriginal investment – Community safety and Municipal and essential services components	225.1	No impact	2016 Update terms of reference requirement.
<b>AFFORDABLE HOUSING</b>			
NT remote Aboriginal investment – Remote Australia strategies component	56.0	No impact	2016 Update terms of reference requirement.
<b>INFRASTRUCTURE</b>			
Infrastructure investment program – Bridges renewal program	35.7	No impact	Needs for bridges cannot be assessed reliably.
Supporting drought-affected communities program	3.7	No impact	Needs are not assessed. This payment is targeting drought affected regions.

**Table 2-7 Treatment of Commonwealth payments commenced in 2015-16 (cont.)**

Payment	(\$m)	Treatment	Reason for 'no impact'
<b>ENVIRONMENT</b>			
Development of business cases for constraints measures	4.0	No impact	Needs are not assessed. This payment is part of IGA on Implementing Water Reform in the Murray-Darling Basin, protecting the environment.
Established pest and weed management	7.5	Impact	
Mechanical fuel load reduction trials	1.0	No impact	Needs are not assessed. This payment is for a trial program which is being managed by NSW on behalf of the Commonwealth.
<b>OTHER</b>			
National Register of Foreign Ownership of Land Titles	7.0	No impact	Needs are not assessed. The Commonwealth purchases the service from States.
Tasmanian horticulture market growth	0.1	Impact	
Tasmanian Regional Tourism Infrastructure and Innovation Fund	4.4	Impact	

Source: Commonwealth of Australia's *Final Budget Outcome 2015-16* and Commission decisions.

88 The following sections explain the treatment of payments in relation to which States raised issues.

### **Zika response teams**

89 The Commonwealth provides funding to Queensland to assist in enhancing the ability of the Dengue Action Response Team (DART) in Cairns and Townsville to increase surveillance and control in areas at high risk of the exotic mosquito, *Aedes aegypti*, spreading the Zika virus in Queensland.

90 In the *New issues for the 2017 Update* paper, staff proposed that this payment not affect the relativities because needs are not assessed.

91 **State views.** Most States supported the staff proposal or did not comment. New South Wales said a similar payment under the National Partnership on Torres Strait health protection strategy (mosquito control) affects the relativities. That payment provides funding to assist in mosquito detection and elimination and improve communication and coordination between Australia and Papua New Guinea to reduce the spread of communicable diseases in the Torres Strait. New South Wales suggested the reason for a no impact treatment of the Zika payment, as distinct from the impact treatment of the payment relating to mosquito control in the Torres Strait, might be more accurately expressed as being 'for a Commonwealth purchase of services for a national program on Zika virus prevention'.

- 92 **Commission decision.** The Commission has decided that the Zika response team payment to Queensland should not affect the relativities because needs are not assessed in the community health assessment.
- 93 In the 2015 Review, the Commission ceased using the criterion ‘purchase of services by the Commonwealth’ for deciding the treatment of Commonwealth payments. Now the treatment of Commonwealth payments is based on whether a payment affects State fiscal capacities and needs relating to the payment are assessed. However, as implied by New South Wales, needs are generally not assessed in relation to Commonwealth purchases or responsibilities.
- 94 This payment will support the delivery of additional activities of the DART to minimise the risks of Zika virus transmission in high risk areas. Areas of northern Australia are particularly susceptible to the mosquito borne Zika virus. The DART located in Cairns and Townsville is a specialised team responsible for inspecting potential mosquito breeding grounds and responding to dengue outbreaks should they occur. Other States are not as susceptible to the risks of Zika virus transmission. The risk of transmission to southern Queensland and other States would be substantially increased if the mosquito-borne virus became established in northern Queensland. The Commonwealth recognises this by providing additional support for the Zika response teams.
- 95 The community health assessment does not recognise these special circumstances. It recognises that States need to spend different amounts to provide public health services but assessed spending reflects the socio-demographic composition of the population including Indigenous status, remoteness, socio-economic status and age. It is also affected by the availability of non-State provided services substitutable with State provided services. No account is taken of the national benefits from the program.
- 96 As identified by New South Wales, Queensland has been receiving a similar payment since 2009-10 to facilitate a mosquito eradication program in the Torres Strait. The objectives of this ongoing payment are similar to those for the Zika response team payment.<sup>8</sup> The National Partnership on Torres Strait health protection strategy (mosquito control) has affected the relativities since the 2010 Review. The Commission has reviewed this payment and concluded that it should not affect the relativities because needs are not assessed for this service. It has changed the treatment of this payment from ‘impact’ to ‘no impact’ in this update.

---

<sup>8</sup> The objectives of the payments are the surveillance, control and elimination, if possible, of *Aedes albopictus* mosquitoes at the main population and transportation hubs of the Torres Strait, and to prevent the spread and establishment of *Aedes albopictus* from the Torres Strait to mainland Australia. (Source: Council of Australian Governments, 2014, *Project agreement for the Torres Strait health protection strategy – Mosquito control and cross border liaison in the Torres Strait protected zone.*)

### **Infrastructure Investment Programme — Bridges renewal**

- 97 The Bridges renewal programme is provided under the National Partnership on Infrastructure Investment Programme for the upgrade of bridges across the nation. The program aims to renew and replace bridges to enhance access for local communities, and facilitate higher productivity vehicle access.
- 98 Staff proposed in the *New issues for the 2017 Update* paper that this payment not affect the relativities because needs could not be assessed reliably.
- 99 **State views.** New South Wales noted that the bridge component of the Roads category is assessed EPC, given no reliable data could be found to support a differential assessment, except for an adjustment for differences in interstate wage costs. It said that, given the deliberative EPC assessment, adjusted for wage costs, and the inclusion of bridges in the infrastructure assessment, it could be argued that recurrent and capital bridge spending needs are assessed. As such the Bridges renewal programme payments should affect the relativities.
- 100 **Commission decision.** The Commission has decided that the Infrastructure Investment Programme — Bridges renewal payment should not affect the relativities because needs could not be assessed reliably.
- 101 The Commission makes a deliberative EPC assessment when it considers that an EPC distribution best reflects needs. This was not the case for the bridge recurrent and capital assessments. In the 2015 Review, no reliable assessment could be made of the specific drivers of bridge recurrent and capital expenditure. Only common drivers were assessed (wage costs in the bridge recurrent expense assessment, and population growth and capital costs in the infrastructure assessment). The Commission does not think this is enough to consider that needs are assessed for bridge recurrent and capital expenditure.

### **Established pest and weed management**

- 102 The Commonwealth provides funding to the States to support the delivery of projects to build the skills and capacity of landholders, the community and industry in managing common established pest animals and weeds.
- 103 In the *New issues for the 2017 Update* paper, staff proposed that this payment should affect the relativities as needs are broadly assessed in the agriculture component of the Services to industry assessment.
- 104 **State views.** Western Australia said the payment is for protection of the environment for which the Commission does not assess needs and, hence, the payment should not affect the relativities. No other State commented on the proposed treatment.

- 105 **Commission decision.** The Commission has decided that this payment should affect the relativities because it is mainly to help the agricultural sector and needs are assessed in the agriculture regulation component of the Services to industry category. The assessment is based on the number of farms and size of the agricultural sector in each State.
- 106 The purpose of this payment is to promote innovation and growth in the agricultural sector through sustainable resource management.<sup>9</sup> According to the white paper announcing the payment, pests (including feral animals and weeds) cost farmers more than \$4.7 billion a year in management and lost production, and assisting farmers fight pest animals and weeds protects agricultural production and the environment.
- 107 This particular program targets landholders including private owners, lease holders, Indigenous people and governments, recognising that on-ground mitigation efforts are more effective if all landholders are involved.
- 108 The program, which provides funding to all States, will be used:
- to research, develop and promote awareness of new technologies and tools for pest control (including chemical and biological control options)
  - to give landholders and communities useful information about the benefits of pest animal and weed control and the cost of inaction
  - to promote community action to build on-ground mitigation capability and skills of landholders (for example, demonstration sites)
  - through consultation, to update identified priority weeds and develop a list of priority pest animals (including feral animals) for joint government, community and industry action.
- 109 The program seeks to protect agricultural production and the environment but there is a strong focus on benefits for the agricultural sector. States are responsible for biosecurity within their borders and needs are assessed in the agriculture regulation component of the Services to industry assessment. The assessment recognises that States with large agricultural sectors face higher costs. State biosecurity expenses are included in this component. Queensland, Western Australia, South Australia and Tasmania are assessed as having above average spending requirements.

### ***Mechanical fuel load reduction trial***

- 110 The Commonwealth provides funding to the States through the National Bushfire Mitigation Program (NBMP) to implement long-term bushfire mitigation strategies and improved fuel reduction activities. As part of this program, New South Wales is receiving funding for mechanical fuel load reduction trials.

---

<sup>9</sup> Commonwealth of Australia 2015, *Agricultural Competitiveness White Paper*, Canberra, p. 95.

- 111 In the *New issues for the 2017 Update* paper, staff proposed that this payment should not affect the relativities because needs are not assessed.
- 112 **State views.** Most States supported the staff proposal or did not comment. New South Wales said it is difficult to determine the purpose of the program — whether it supports bushfire mitigation or conservation values. If it is the former, New South Wales said the payment should have the same treatment as the payment for Bushfire Mitigation, that is, the payment should affect the relativities. However, the payments could be regarded as a Commonwealth purchase of services for national fire mitigation trials and not affect the relativities.
- 113 **Commission decision.** The Commission notes that the payment will fund a trial program and needs are not assessed for the State running the trials. Therefore, it should not affect the relativities.
- 114 The NBMP is providing a \$15.0 million program over three years to States to implement long-term bushfire mitigation strategies and improved fuel reduction activities. The majority of this funding is treated as affecting relativities because it relates to the management of forest assets, which is a State responsibility for which needs are assessed in the Services to industry category.
- 115 In contrast to the majority of the funding, \$1.5 million within the \$15.0 million has been allocated to undertake mechanical fuel load reduction trials as a bushfire mitigation measure. The trials aim to establish whether mechanical thinning of forests can reduce bushfire risk in an economical, socially acceptable and environmentally sound manner around key assets, such as conservation areas or townships, where prescribed burning is undesirable for a range of reasons.
- 116 The trials will gather scientific, cost-benefit and social attitude evidence from a variety of forest types across Australia. It is anticipated that at least three trials will be funded. New South Wales has agreed to manage the trials with advice provided by an Oversight Committee comprising the Department of Agriculture and Water Resources, the New South Wales Department of Primary Industries and two national industry organisations.<sup>10</sup>
- 117 Needs for forest management are assessed in the agriculture regulation component of the Services to industry assessment. However, this is a trial program which New South Wales is conducting on behalf of the Australian forestry industry. No other State will incur any costs associated with the trial.

---

<sup>10</sup> Details of the program are available on the [Department of Agriculture and Water Resources website](http://www.agriculture.gov.au/forestry/national/nbmp) ([www.agriculture.gov.au/forestry/national/nbmp](http://www.agriculture.gov.au/forestry/national/nbmp)), accessed 6/10/2016.

## OTHER ISSUES

### Timing of data requests

- 118 During the 2016 Update, many States' data returns did not arrive by the requested date (25 September 2015) due in part to the relatively short time between the end of financial year and the reporting date. In the Secretary's letter to the States dated 25 May 2016, States were asked whether there would be any benefit in shifting back by four weeks the dispatch and return dates of data requests.
- 119 States supported the proposal. Queensland suggested maintaining the dispatch date while shifting back the return date of data requests. Some States said due to the timing of their financial reporting commitments or circumstances of agencies, some delays in data returns would still be expected.
- 120 Victoria suggested the Commission trial the process for the 2017 Update and seek the views of the States at the conclusion of the update.
- 121 For this update, the Commission has adopted Queensland's suggestion of maintaining the dispatch date and shifting back the return date by four weeks for data requests. It sent the requests to States on 22 July with a return date of 21 October.
- 122 Pushing back the deadlines by an extra four weeks resulted in an increased proportion of data returns received by the due date from about 35% to 60%. This appears to be due to a combination of some States making an effort to provide most of their data by the due date and usual return dates falling within the four weeks extension. The Commission appreciates the effort made by States to provide data by the due date.
- 123 The Commission will review the process before the dispatch of the 2018 Update data requests.

### Sharing of confidential data

- 124 Western Australia raised concerns about the sharing of confidential data among States. It said the current data sharing protocol, which prevents the sharing of any data set in which at least one State's data are confidential, is proving to be very inconvenient. It suggested relaxing the rule, by either:
- option 1 — sharing non-confidential data among all States, or
  - option 2 — sharing non-confidential data among States which have not designated their data as confidential.
- 125 Western Australia suggested the second option might provide an incentive for States to come to arrangements with their agencies for sharing the data.

- 126 In an initial request for comments following the Secretary's letter to the States dated 25 May 2016, most States preferred the second option of sharing non-confidential data among States which have not designated their data as confidential. They considered that restricting the data sharing process to only those States that are willing to share their data may provide States with an indication of the benefits of an open approach and encourage States to reconsider the need to flag data as confidential.
- 127 New South Wales and Queensland were concerned that when only one State designates its data as confidential, other States might be able to back solve the confidential data from the assessment outcome. Queensland said increased sharing would be better encouraged by advocacy than by coercion. It suggested having bilateral discussions with Western Australia on sharing Queensland's confidential data on a case-by-case basis. While this might be less convenient for Western Australia than more relaxed data sharing arrangements, Queensland considered this would better protect the genuine confidentiality concerns with some State data.
- 128 Tasmania supported the proposal but was concerned about the way data will be shared. It suggested the Commission put a data sharing tool in place which can determine what non-confidential data to share and whom to share them with.
- 129 As a result of State comments, Commission staff modified option 2 to include the amendments proposed by New South Wales and Queensland relating to the back solving of confidential data. All States supported the revised proposal.
- 130 As a result, the Commission has changed the current data sharing protocol to *'sharing non-confidential data among States which have not designated their data as confidential, provided any data designated as confidential by States cannot be back solved from the assessment outcome'*.
- 131 Non-confidential data will generally be shared in the assessment system online, except where this is not practical. Alternatively they will be placed on the Commission's cloud.

## Timeliness of terms of reference

- 132 Prior to the receipt of terms of reference (ToR) for this update and the 2020 Review, States expressed concerns about the delays in providing the Commission with them.
- 133 They considered such delays risk undermining the transparency and integrity of the Commission's processes and, in the case of the 2020 Review, put at risk the opportunity to engage in a comprehensive and unhurried review.
- 134 The Commission notes States' concerns about the late availability of the ToR. The Commission appreciates the States' efforts in developing terms of reference and their on-going contribution to the Commission's work. However, the terms of reference



are a responsibility of the Commonwealth government and the Commission has no control over their preparation and release.

- 135 The Commission has now received ToR for the 2020 Review and has sought State views on how the review should be conducted. It intends to start full engagement with States in the first half of 2017.

## Protocols for correcting errors

- 136 In its main submission to this update, the ACT noted that, in the 2016 Update, there was a downward revision to ABS Compensation of Employees (CoE) data for the ACT. This revision reduced its assessed payroll tax capacity and resulted in an increase in its GST share of \$36 million. This change reversed, almost identically, the upward revision to ABS CoE data for the ACT in the 2015 Review. This upward revision increased its payroll tax capacity and resulted in a decrease in its GST share of \$35 million (about \$90 per capita).
- 137 The ACT said the ABS made an error in compiling its CoE data for the 2015 Review, which it corrected for the 2016 Update. The \$35 million loss in GST was a substantial amount for it to absorb.
- 138 Consequently, the ACT asked the Commission:
- to revisit the update protocols for dealing with terms of reference and the release of the Commission's report
  - to provide the ACT with early advice of any data changes in the 2017 Update that may significantly affect its payroll tax assessment.
- 139 ***The update protocols.*** In 2006, the Commission and Heads of Treasuries agreed on a protocol for changes to relativities due to data revisions and identified errors in the final stages of an update. These protocols specified:
- A cut-off date for data revisions of three weeks from the reporting date specified in the relevant terms of reference. Any data changes received after this date would not be processed until the following update.
  - A cut-off date of one week before the ministerial council meeting for correcting material errors (those exceeding \$10 per capita for any State) found by States in an update report. Errors redistributing less than \$10 per capita would be fixed in the following update.
- 140 These protocols would not have assisted the ACT because the ABS revision was not made until the 2016 Update. In these circumstances, the protocols require data to be corrected in next update, which is what happened. These corrections do not extend to an adjustment for the impact on a previous inquiry. Such a retrospective adjustment would move the relativities away from those that achieve fiscal equalisation in the current fiscal year.

- 141 The Commission provided its report to the Commonwealth Treasurer and the States as per the timing specified in its terms of reference. While the Intergovernmental Agreement on Federal Financial Relations (IGA) states that the Commonwealth Treasurer will determine the GST revenue sharing relativities after consulting with States, the manner of this consultation is a matter for the Commonwealth Treasurer.<sup>11</sup>
- 142 **Providing early advice.** The Commission's practice is not to provide early advice to States of data changes, but to provide them in its report, with sufficient time for States to identify any errors before the relevant Council on Federal Financial Relations.

---

<sup>11</sup> *Intergovernmental Agreement on Federal Financial Relations 2008*, Schedule D, clause D65.

## ATTACHMENT A

---

### QUALITY ASSURANCE

- 1 This attachment reports on the quality assurance procedures applied in this update. These procedures aim to ensure the data used in the Commission's assessments are fit for purpose and of the best possible quality; the analysis is accurate; and the reporting of the Commission's findings and reasons for decisions leading to them is accurate and transparent.

### DATA QUALITY IMPROVEMENT

- 2 Improving data quality is an important aspect of the Commission's quality assurance processes. To this end, data use guidelines and a data protocol were agreed with the States in 2005 and have been followed since.
- 3 For this update, the Commission, together with the States, worked to improve the comparability of State provided data used in the assessments.
- 4 The data collection protocol requires the Commission to send a draft copy of requests for new data or information to the States for comment. This is to ensure new requests clearly and accurately specified the data required from the States. For this update, the Commission sent draft data requests for natural disaster relief expenses and National Disability Insurance Scheme (NDIS) expenses to the States.
- 5 The Commission included the previous year's data in all on-going data requests to help data providers identify the information sought and to assist State and Commission staff to identify abnormal movements in the data between the current and the previous year. Commission staff also checked the data on receipt and sought to clarify any unexpected changes with State Treasury officers.
- 6 The Commission also asked the States to clearly identify which datasets used in its assessments could be provided to other State agencies and/or to other third parties to provide as much access to data as possible but also to ensure confidentiality requirements were satisfied.

## CALCULATION AUDIT PROCESSES

- 7 The Commission completed a rigorous internal audit of all calculations. Internal checks were performed and formally signed off by the assessment officer, the assessment team leader and another officer not involved in the original calculation. As a result of this audit, the Commission identified two material errors in our calculations. A separately identified error is reported in the Community health non-State sector adjustment section of Chapter 2.
- The roads component of local government grants was incorrectly offset against the Other expenses category instead of the Roads category. The error affected the 2015 Review and 2016 Update.
  - In calculating the cost weights for different groups of students in the State, the Commission uses a regression of student attributes to explain spending in each school using Australian Curriculum, Assessment and Reporting Authority (ACARA) data. In the 2016 Update, the regression used total student numbers, rather than full-time equivalent students. The error affected the 2016 Update.

**Table A-1 Effect of correcting errors, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Local government grants	24	26	-13	-25	-6	1	4	-11	55
Schools regression	-9	-7	4	6	4	0	0	3	16
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Local government grants	3	4	-3	-9	-4	3	10	-44	2
Schools regression	-1	-1	1	2	2	-1	-1	10	1

Source: Commission calculation.

- 8 In addition, to the internal audit, the *Quality Assurance Strategic Plan* requires about 25% of all assessments be checked in four updates by external auditors. In the 2017 Update, the Commission engaged an external consultant to check calculations for the assessments of motor taxes, payroll tax, other expenses, depreciation, investment, wage costs and the adjusted budget — revenue. The external consultant did not find any major issues in the calculations.

## EXTERNAL AUDIT OF STAFF COMPLIANCE WITH QUALITY ASSURANCE PROCESSES

- 9 The *Quality Assurance Strategic Plan* also requires an external audit of staff compliance with the Commission’s quality assurance processes every second year of updates. In this update, the Commission engaged an external consultant to perform this task. The consultant found Commission staff met the requirements of the processes.

## REPORTING OF METHODS, DECISIONS AND RESULTS

- 10 Transparency and accuracy in reporting the assessment methods, decisions and results are important parts of providing high quality outputs.
- 11 The Commission consulted the States on new issues arising in this update that might affect the relativities. Staff discussion papers on new issues were sent to the States for comment. Commission decisions are set out in *Chapter 2 New issues in this update*. The decisions were made using the assessment and Commonwealth payments guidelines developed in the 2015 Review.
- 12 The Commission undertook a comprehensive program of proof-reading and checking of tables and results to ensure they aligned with the original calculations.
- 13 The Commission continued to post additional material on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au) to help explain the Commission's work more simply and transparently. This material aims to help the public, as well as the staff of the Commonwealth and State Treasuries, understand the Australian fiscal equalisation system and the Commission's work.

# COMMISSION TERMINOLOGY

This glossary provides a list of the main terms that have a meaning specific to the Commission. The term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

## GLOSSARY

### **actual per capita (APC) assessment method**

The assessed expense or revenue for each State is set equal to its actual expense or revenue. It is used when, in the Commission's judgment, the policies of all States are the same and any differences in expenses or revenue per capita are due to differences in State circumstances.

### **adjusted budget**

A representation of State budgets used by the Commission to calculate the average per capita revenue and expenditures. The scope of the adjusted budget covers all transactions of the State general government sector and urban transport and housing public non-financial corporations, which are in whole or part financed by GST revenue.

### **administrative scale disability**

A disability that measures differences in costs which States incur in providing the minimum level of administration and policy development required to deliver services. It relates to core head office functions and to specialised State-wide services provided centrally.

### **application year**

The year in which the average of the assessed GST distributions for each assessment year (expressed as relativities) is to be used to distribute the GST revenue. For example, in the 2017 Update the year of application is 2017-18.

### **assessed differences (also known as needs)**

The financial impact on a State's budget of its disabilities. They are measured, for example, as the difference between assessed expenses and average expenses, assessed revenue and average revenue. Assessed differences can be either positive or negative.

### **assessed expenses**

The expenses a State would incur if it were to follow average expense policies, allowing for the disabilities it faces in providing services, and assuming it provides services at the average level of efficiency. Assessed expenses exclude differences from the average due to policy choices under the control of a State.

**assessed GST requirement**

A State's requirement for funds from GST revenue in an assessment year. It is measured as its assessed expenses, plus its assessed investment, less its assessed revenue, less assessed Commonwealth payments and less assessed net borrowing.

**assessed investment**

The expenditure on new infrastructure a State would incur if it were to follow average policies, allowing for disabilities it faces in providing infrastructure, and assuming it requires the average level of infrastructure to deliver the average level of services. Assessed investment excludes differences from the average due to policy choices under the control of that State.

**assessed net lending/borrowing**

The transaction-based change in net financial worth that a State would require to achieve the average net financial worth at the end of each year. The Commission's method for calculating assessed net lending/borrowing assumes that each State has the average net financial worth at the start of each year.

**assessed revenue**

The revenue a State would raise if it were to apply the average policies to its revenue base, and raised revenue at the average level of efficiency. Assessed revenue excludes differences from the average due to policy choices under the control of that State, for example a higher or lower tax rate applied by a State compared to the average.

**assessment years**

The financial years used in a review or an update to calculate the assessed GST requirement, from which an annual relativity is calculated. The Commission uses data for three assessment years (where each assessment year corresponds to a financial year). For example, the GST distribution recommended in the 2017 Update (for the application year 2017-18) is based on the average of three assessment year annual relativities calculated for the most recent completed financial years at the time the relativities are released (2013-14 to 2015-16 assessment years).

**average (or Australian average)**

The benchmark against which the performance or characteristics of a State are assessed. It is an average derived from the policies or financial data of all States, and hence may be a financial average or a policy average.

**average expenses**

The average per capita expense, in a category, a group of categories or in total. It is calculated as the sum of expenses of all States, divided by the Australian population.

**average revenue**

The average per capita revenue, in a category, a group of categories or in total. It is calculated as the sum of State revenues, divided by the Australian population.

**backcasting**

Changes made to data for assessment years to reflect current or future Commonwealth or State policies. Backcasting is mainly used to reflect major changes in federal financial arrangements. Where required by the Commission's terms of reference, it has also been used to reflect other changes, such as the replacement of one tax with another tax or the abolition of a tax. In effect, backcasting produces notional financial data that simulate a changed distribution of a Commonwealth payment or State revenue collection before they may have actually changed. Actual data for the assessment period are adjusted to reflect what is reliably known to be happening in the application year.

**capital assessments**

In this report, the term capital refers to the Investment, Depreciation and Net borrowing assessments.

**category**

A classification of in-scope transactions relating to distinct services or revenue sources, used for analytical purposes. In the 2017 Update, the adjusted budget is divided into Commonwealth payments, seven revenue categories, thirteen expenditure categories and net borrowing.

**category factor**

The combined result of all the disability factors in a category, or where the category is made up of multiple components, the combined disability factors for all of those components. The category factor is expressed as a ratio to the average. For example in an expense category, a category factor of 1.05 means that the State's disabilities require it to spend 5% more than the average to follow the average expense policy at the average level of efficiency.

**Commonwealth payments**

Payments to States made by the Australian Government, including general revenue grants, payments for specific purpose (PSPs) and Commonwealth own purpose expenses. The Commission examines the purpose of each payment using established guidelines to decide whether the payment has an impact on State fiscal capacities.

**component**

A part of an expense or revenue category that is separated from others in the category because different disability factors apply to it.

**cross-border factor**

A disability factor that measures the net effects on a State's costs of the use of its services by residents of other States and vice versa.

**disability**

An influence beyond a State's control that requires it:



- to spend more (or less) per capita than the average to provide the average level of service, or
- to make a greater (or lesser) effort than the average to raise the average amount of revenue per capita.

**disability factor**

A measure of a State's use, cost or revenue raising disability, expressed as a ratio of the State's assessed expense or assessed revenue over the corresponding average figure. Policy differences between States are specifically excluded when calculating disability factors. The population weighted average of a disability factor is 1.0.

**discounting**

Where a case for including a disability in a category is established by the Commission, but the measure of that disability is affected by imperfect data or methods, the Commission may decide to apply a discount. When an assessment is to be discounted, a uniform set of discounts is used (12.5%, 25% or 50%), with higher discounts being applied where there is less confidence in the outcome of the assessment or more concern attached to the data.

**distribution**

State shares of GST revenue based on the principle of horizontal fiscal equalisation.

**distribution model**

A formulation, mathematical or otherwise, of the way in which State GST shares (and relativities) are calculated. A mathematical presentation of the model is provided on the [Commission's website](http://www.cgc.gov.au) (www.cgc.gov.au).

**equal per capita (EPC) assessment method**

Each State's assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. It is typically used when there are judged to be no material disabilities between the States, or no reliable assessments could be developed due to data or other limitations. Such an assessment means that no needs are assessed for any State and that there is no impact on the GST distribution.

**equalisation**

See horizontal fiscal equalisation (HFE).

**expenditure**

This term is used to refer to expenses and capital expenditure.

**expenses**

Operating outlays under an accrual budgeting framework.

**fiscal capacity**

The fiscal capacity of a State is a measure of its ability to provide average services, including infrastructure, to its population if it raised revenue from its own revenue bases at average rates and received its actual Commonwealth payments, excluding the GST. Once the GST

has been distributed using the Commission's recommendations, State fiscal capacities should be equal.

The relative capacity of each State is a comparison of its fiscal capacity with the average capacity.

### **Goods and Services Tax (GST) revenue or GST pool**

The funds made available by the Australian Government for transfer to the States as untied financial assistance, consistent with the principle of horizontal fiscal equalisation.

### **grant design inefficiency**

A flaw in a method of assessment which would allow a State to influence its relativity by changing its expense or revenue policies (apart from any effect of these policies on the average).

### **horizontal fiscal equalisation (equalisation)**

A distribution of GST revenue to State governments such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and their associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources, operated at the same level of efficiency and maintained the average per capita net financial worth.

### **impact on relativities (previously called inclusion), see also no impact on relativities**

Treatment applied to a Commonwealth payment that provides budget support for State services for which expenditure needs are assessed. The expenses funded by payments that impact on the relativities are assessed in relevant categories and the revenue is assessed on an actual per capita basis.

### **infrastructure**

Infrastructure refers to the stock of physical assets owned by a State's general government sector and its urban public transport and housing public non-financial corporations for the purpose of delivering services. It includes buildings, non-building construction (such as roads) and plant and equipment for economic and social purposes.

### **investment**

Investment refers to capital expenditure less depreciation expenses. It is conceptually equivalent to 'net acquisition of non-financial assets' that appears in the Australian Bureau of Statistics *Government Finance Statistics* State operating statement.

### **material, materiality**

A test used to assist decisions about whether a separate assessment of disabilities should be undertaken or data adjusted. The materiality levels are defined in terms of the amount of GST redistributed per capita for any State. Different thresholds are used for each. An assessment or adjustment is said to be material if it exceeds the threshold set for it. (See the Assessment Guidelines, Chapter 1 of the *2015 Review Report*, Volume 2.)

**national capital disability**

A disability that measures the additional costs that the ACT incurs because of Canberra's status as the national capital.

**national partnership payments (NPPs)**

Commonwealth payments to States that support the delivery of specified projects, facilitate reforms, or reward those jurisdictions that deliver on nationally-significant reforms.

**National specific purpose payments (SPPs)**

Commonwealth payments to States for specific purposes that enable national policy objectives to be achieved in areas that may be administered by States.

**native title and land rights disability**

A disability that measures differences in costs that States incur because of the operation of the Australian Government's *Native Title Act 1993* or the additional and unique costs that the Northern Territory incurs because of the operation of the Australian Government's *Aboriginal Land Rights (Northern Territory) Act 1976*.

**needs**

See assessed differences.

**net financial worth**

Net financial worth is the sum of financial assets minus the sum of liabilities.

**net borrowing**

The outcome of an operating budget calculated as expenses and expenditure on non-financial assets less State own source revenues and revenues received from the Australian Government.

**no impact on relativities (previously called exclusion or out of scope)**

Treatment applied to a Commonwealth payment that does not provide budget support for State services or for which expenditure needs are not assessed. Both the payment and the expenses relating to it have no impact on a State's fiscal capacity. Occasionally the terms of reference instruct the Commission to ensure a particular payment has no impact on relativities. (See quarantine.)

**payments for specific purposes (PSPs)**

Australian government payments to the States for specific purposes in policy areas for which the States have primary responsibility. These payments cover most functional areas of State (and local government) activity, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment. PSPs include SPPs, National Health Reform funding, Students First funding and NPPs.

**policy average**

The average policies as reflected in the practices of the States in the collection of revenue and the provision of services. These averages are usually weighted according to the size of the user or revenue bases in each State.

**policy neutral assessment**

An assessment in which the policy average is applied to every State. The resultant assessment is therefore unaffected by the policies of individual States, other than through the influence of those policies on the averages.

**quarantine**

The treatment of a Commonwealth payment, and where possible the expense for which it is used, in such a way as to have no impact on the relativities. Quarantining always results from instructions given directly to the Commission in its terms of reference and the term is used only in this context.

**ratio of actual expenses to assessed expenses**

A ratio that reflects how a State's policies on the level of services provided and the relative efficiency with which they are provided vary from the average policies. It is measured by dividing actual per capita expense by assessed expense per capita.

**ratio of actual investment to assessed investment**

A ratio that reflects how a State's policies on the level of capital provided varies from average policies. It is measured by dividing actual per capita expense by assessed expense per capita.

**ratio of actual revenue to assessed revenue**

A ratio which indicates the actual effort made by a State to raise revenue relative to the average effort. It is primarily a measure of the deviation of a State's tax rates and efficiency in ensuring compliance from average rates and compliance efficiency. It is measured by dividing actual per capita revenue by assessed revenue per capita.

**ratio of assessed expenses to average expenses**

A State's per capita cost of providing services at average standards, relative to average per capita cost. It is calculated by dividing per capita assessed expenses by per capita average expenses.

**ratio of assessed capital to average capital**

A ratio of a State's assessed capital requirements per capita to the Australian average capital requirement per capita. The assessed capital requirements are what a State would have needed to invest or lend/borrow to have the Australian average level of capital. It is measured by dividing per capita assessed capital by per capita average capital.

**ratio of assessed revenue to average revenue**

A ratio which indicates the capacity of a State to raise revenue relative to the average. It reflects the size of a State's revenue base per capita relative to the average and is measured by dividing assessed revenue per capita by average revenue per capita.

**redistribution**

The difference between an equal per capita distribution of GST revenue and one based on the principle of horizontal fiscal equalisation.

**regional costs disability**

A disability that measures cost differences within a State due to differences in the wages paid and in the price and quantity of other inputs to State services.

**relativity**

A per capita weight assessed by the Commission for use by the Commonwealth Treasury in calculating the share of the GST revenue a State requires to achieve horizontal fiscal equalisation.

**revenue base**

A measure of the transactions, activities, or assets that are taxed by the States. Differences between the revenue bases of each State are used by the Commission to determine the relative capacities of each to raise a particular type of revenue.

**revenue effort**

The intensity of use of a revenue base (the implied tax rate) measured as actual revenue divided by the assessed revenue. It is influenced by the rate of tax or charge, the exemptions, and concessions provided, actual scope of the revenue base in a State, and the effort put into ensuring compliance.

**review**

The process in which the Commission reconsiders the methods used to calculate the GST distribution, according to terms of reference given to it. From 1988 onwards, reviews have usually been done every five years. By contrast, an update is conducted every year other than a review year and updates the GST distribution using the methods determined in the last review and the latest financial data.

**service delivery scale disability**

A disability that measures the additional costs of providing a service where it needs to be delivered but where the delivery is more costly because the population served is small and isolated from other points of service delivery.

**Socio-demographic composition disability**

A disability that measures differences in both the average use and cost of providing services due to differences between States in the relative size of various socio-demographic groups. It can reflect differences between States in some or all population characteristics such as age-sex structure, socio-economic status, Indigenous status and location.

**State(s)**

Unless the context indicates otherwise, the term 'State(s)' includes the Australian Capital Territory and the Northern Territory.

**tax base**

See revenue base.

**update**

The annual assessment of the GST distribution undertaken by the Commission between reviews. Update assessments incorporate new budgetary developments and the most recent available data. In general, the methods used to calculate the GST distribution are those adopted in the most recent review.

**user charges**

Fees and charges raised by States through the provision of goods or services. In the adjusted budget, user charges for health, post-secondary education, electricity, water and protection of the environment, mining regulation and public transport are deducted from related expenses. Housing user charges are assessed in a separate component in the Housing category. Other user charges are included in the Other revenue category.

**wage costs disability**

A disability that recognises that otherwise comparable public sector employees in different States are paid different wages, in large part due to differences in labour markets beyond the control of State governments.

## ACRONYMS

ABS	Australian Bureau of Statistics
ACARA	Australian Curriculum, Assessment and Reporting Authority
ANAO	Australian National Audit Office
CoE	Compensation of employees
CoES	Characteristics of Employment Survey
CGC	Commonwealth Grants Commission
CSS	Commonwealth Superannuation Scheme
DART	Dengue Action Response Team
DSS	Department of Social Services
ED	Emergency department
EMA	Emergency Management Australia
EPC	Equal per capita
GP	General practice
GST	Goods and Services Tax
IGA	Intergovernmental Agreement on Federal Financial Relations
IHPA	Independent Hospital Pricing Authority
NBMP	National Bushfire Mitigation Program
NDIS	National Disability Insurance Scheme
NDRRA	Natural Disaster Relief and Recovery Arrangements
NFW	Net financial worth
NPHEd	National Public Hospital Establishments Database
PHE	Public Hospital Establishments
PSP	Payments for specific purpose
SET	Survey of Education and Training
SRO	State Revenue Office
ToR	Terms of reference
VDA	Value distribution adjustment
WPI	Wage price index