



Australian Government
Commonwealth Grants Commission

GST Revenue Sharing Relativities

2023 Update

GST Relativities for 2023–24

March 2023

Acknowledgement of Country

The Commonwealth Grants Commission acknowledges the Traditional Owners of Country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to Elders both past and present.

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Letter of transmittal



Australian Government
Commonwealth Grants Commission

Chairperson

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28 February 2023
The Hon Dr Jim Chalmers 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 from you, we have updated GST relativities for use in distributing GST revenue among the states and territories in 2023–24.

In accordance with those terms of reference, we are also providing the update to the states and territories on 28 February 2023, under embargo.

Yours sincerely

Mike Callaghan AM PSM
Chairperson

Dr L S Williams AM
Member

Dr A Jackson
Member

Prof. A Tiernan
Member

Acknowledgements

The Commission appreciates the co-operation extended to the Commission and its staff during this update by staff of Commonwealth and state treasuries and other agencies.

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

Terms of reference



THE HON JIM CHALMERS MP
TREASURER

09 FEB 2023

Ref: MS23-000149

Mr Michael Callaghan AM PSM
Chairperson
Commonwealth Grants Commission
GPO Box 1899
CANBERRA ACT 2601

Dear Mr Callaghan

I am writing to you to convey the enclosed terms of reference for the Commonwealth Grants Commission's *2023 Update of GST Revenue Sharing Relativities (2023 Update)* and *Report on GST Revenue Sharing Relativities 2025 Review (2025 Methodology Review)*.

The terms of reference for the 2023 Update require the Commission to report by 14 March 2023, with an embargoed copy of the report to be provided to the Commonwealth and the states and territories by 28 February 2023.

The terms of reference for the 2025 Methodology Review require the Commission to undertake a review of the methodologies underpinning its calculation of the GST relativities, with a draft report due in 2024. The final report for the review should be provided to the Commonwealth and the states and territories by 28 February 2025 and be released publicly on 14 March 2025.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'J' and 'C' followed by a long horizontal line.

The Hon Jim Chalmers MP

Enc Terms of references for the 2023 Update and the 2025 Methodology Review

Parliament House Canberra ACT 2600 Australia
Telephone: (02) 6277 7340

Terms of Reference for the 2023 Update of GST Revenue Sharing Relativities

COMMONWEALTH GRANTS COMMISSION ACT 1973

- 1) I, Jim Chalmers, Treasurer, pursuant to sections 16, 16A, 16AA and 16AB of the *Commonwealth Grants Commission Act 1973* (the Act) refer to the Commission for inquiry into and report upon the recommended GST revenue sharing relativities to be used to distribute GST revenue among the states, the Northern Territory and the Australian Capital Territory (the states) in 2023-24.

GST Relativities for 2023-24

- 2) The Commission should undertake an assessment of the GST revenue sharing relativities recommended to be used to distribute GST revenue among the states in 2023-24, consistent with the objective in subsection 16AB(2) of the Act, the transitional proportions in subsection 16AB(3) of the Act, the GST revenue sharing relativity factor in subsection 8(2A) of the *Federal Financial Relations Act 2009* and the pool top-ups for a payment year as outlined in section 8A of the *Federal Financial Relations Act 2009*.
 - (a) The Commission's assessment should be based on the assessment years 2019-20 to 2021-22 inclusive.
 - (b) To assist in ensuring that each state and territory will get the better of the current or the former GST distribution, the Commission should also provide relativities that would have applied if the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018* had not been enacted.
- 3) The Commission's assessment should take into account the *Intergovernmental Agreement* as defined under the *Federal Financial Relations Act 2009*, which provides that GST revenue will be distributed among the states in accordance with the principle of horizontal fiscal equalisation (HFE).
- 4) Subject to paragraphs 5 – 6, 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 GST revenue sharing relativities in its *Report on GST Revenue Sharing Relativities – 2022 Update*.
- 5) The Commission's assessment should treat Commonwealth payments to the states as follows:
 - (a) National Specific Purpose Payments (NSPPs), National Health Reform (NHR) funding, National Housing and Homelessness funding, Quality Schools 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.

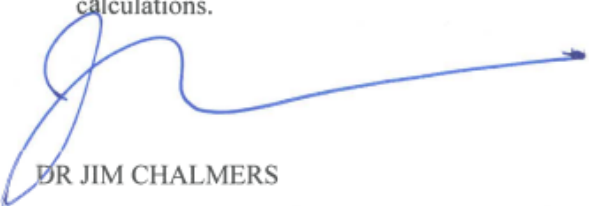
- (d) Notwithstanding subparagraphs 5(a) – (c), the Commission may determine that it is appropriate for particular payments to be treated differently, reflecting the nature of the particular payment and the role of state governments in providing particular services.
 - (e) Those payments which the Commission 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 5(a) – (d), unless otherwise directed.
- 6) The Commission should prepare its assessment on the basis that the following Commonwealth payments do not directly influence the GST revenue sharing relativities:
- a) Contribution to Hydro Tasmania’s Tarraleah Hydro Power Station Redevelopment.

GST Relativities for 2023-24 - Consultation and Data

- 7) Where possible, the Commission should:
- (a) aim to have assessments that are simple and consistent with the quality and fitness for purpose of the available data;
 - (b) use the latest available data consistent with this; and
 - (c) ensure robust quality assurance processes.
- 8) If data problems arise, subject to consultation with the states, the Commission should proceed on the basis that:
- (a) new, more reliable data that was not previously considered 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.

GST Relativities for 2023-24 - The Report

- 9) The Commission should provide a copy of its report on GST Relativities for 2023-24, under embargo, to the Commonwealth and the states on or before 28 February 2023. The Commission should release the report publicly on 14 March 2023.
- 10) 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.
- 11) 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.



DR JIM CHALMERS

9/2 /2023

List of acronyms

| | |
|------|--------------------------------------|
| ABS | Australian Bureau of Statistics |
| ACT | Australian Capital Territory |
| GST | Goods and Services Tax |
| NDIS | National Disability Insurance Scheme |
| pc | Per capita |
| SDC | Socio-demographic composition |

Notes

State(s): Unless the context indicates otherwise, the term ‘state(s)’ includes the ACT and the Northern Territory.

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Executive summary

The 2023 Update presents the recommended GST relativities for 2023–24.

Recommended GST relativities

The table below sets out the distribution of the estimated GST pool in 2023–24, based on the Commission’s recommendations. Comparing this update with 2022–23, it shows each state and territory’s (states) GST relativity and share of the GST pool, and its estimated amount of GST. The table does not include no worse off payments by the Commonwealth under the 2018 legislated changes.

GST relativities, shares and estimated GST distribution, 2022–23 and 2023–24 (excludes no worse off payments)

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

Source: Commission calculation.

Overview

Recommended GST relativities in 2023–24 reflect large changes in state circumstances in mining royalties, property sales, population growth and capital deepening. They are also driven by census population revisions and the 2018 legislated arrangements.

The GST pool (which does not include no worse off payments) is estimated to grow by more than \$3 billion in 2023–24, to around \$86 billion. Consequently, all states would be expected to receive more GST in 2023–24, despite some having a lower GST relativity.

Excluding no worse off payments, South Australia would receive the largest increase in revenue from the GST pool (\$943 million). The Northern Territory would receive the largest increase in per capita terms (\$979 per capita). Tasmania would receive the smallest increase in revenue from the GST pool (\$5 million) and in per capita terms (\$8 per capita).

Drivers of change in GST distribution

Major drivers of change in GST distribution, 2022–23 to 2023–24
(excludes no worse off payments)

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--|-------------|------------|------------|-------------|------------|-------------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Changes in fiscal capacities | | | | | | | | | |
| Changes in mining production | 332 | 779 | -417 | -1,047 | 203 | 42 | 54 | 55 | 1,465 |
| Revised populations from census | -547 | -640 | 204 | 690 | 216 | -8 | 83 | 0 | 1,194 |
| Changes in property sales | -837 | 284 | 102 | 151 | 191 | 63 | 1 | 45 | 837 |
| Changes in capital improvements | 459 | 261 | -291 | -127 | -134 | -93 | -31 | -44 | 720 |
| Changes in population growth | 33 | -603 | 272 | 234 | 82 | -36 | -12 | 30 | 651 |
| Changes in Commonwealth payments | 44 | -90 | 51 | -182 | 199 | 6 | -5 | -23 | 300 |
| Other revenue effects (a) | -120 | 84 | 68 | -25 | -30 | -7 | 11 | 19 | 183 |
| Other expense effects (a) | 135 | -39 | 118 | -228 | -8 | -70 | 70 | 24 | 346 |
| Total change in fiscal capacities | -501 | 36 | 105 | -534 | 719 | -103 | 171 | 106 | 1,138 |
| Effect of GST floor and blended relativities | -193 | -161 | -125 | 543 | -41 | -11 | -11 | -1 | 543 |
| Change in population | -80 | 60 | 31 | 10 | -16 | -9 | 2 | 0 | 104 |
| Change in pool (b) | 927 | 686 | 661 | 235 | 281 | 128 | 61 | 149 | 3,126 |
| Total change in GST | 152 | 621 | 673 | 254 | 943 | 5 | 223 | 255 | 3,126 |

(a) Includes other changes in state circumstances and revisions to data.

(b) Total increase in GST and top-up payment pool.

Source: Commission calculation.

Mining production: Strong growth in iron ore (77%) and coal (70%) royalties between 2018–19 and 2021–22 increased the revenue raising capacities of Queensland and Western Australia, reducing their assessed GST needs.

Revised populations from census: Revisions to population estimates from the 2021 Census reduced the assessed GST needs of New South Wales, Victoria and Tasmania. For the larger states, this affected assessed investment in urban transport. For Tasmania, it drove lower assessed expenses for health, in particular for admitted patients.

Changes in property sales: Uneven growth in the value of property sales was a key driver of changes in states' capacities to raise revenue from stamp duty on conveyances. New South Wales experienced very strong growth (over 95%) in the total value of properties transferred between 2018–19 and 2021–22. This significantly reduced its assessed GST needs and increased those of the other states.

Changes in population growth: Changes in relative population growth were reflected primarily in changes in relative investment needs. The decline in population growth in New South Wales, Victoria, Tasmania and the ACT was more pronounced than the average decline. This resulted in a reduction in the investment needs of these states, compared with the 2022 Update, and a partially offsetting increase in their net borrowing needs. The decline in population growth was very pronounced in Melbourne's densely populated inner suburbs. This decreased Victoria's urban transport investment needs by \$600 million, and increased needs for all other states.

Changes in capital improvements: Investment in urban transport more than doubled between 2018–19 and 2021–22, reflecting improvement in the national average level of public transport assets. This increased the assessed GST needs of New South Wales and

Victoria, which had above-average spending needs in this area.

Changes in Commonwealth payments: Increases in Commonwealth payments reduced the assessed GST needs of Victoria, Western Australia, the ACT and the Northern Territory, compared with the 2022 Update. South Australia's assessed GST needs increased by almost \$200 million due to its share of Commonwealth payments falling.

Impact of COVID-19: In keeping with the terms of reference for this update, there have been no change in assessment methods in health or business support to take account of the fiscal impacts of COVID-19, which continue to be felt. The Commission has treated Commonwealth assistance in these areas as 'no impact' so they have not affected relativities. The Commission has also adjusted data in situations where it considered the impact of COVID-19 resulted in the data not being fit for purpose.

Transition to 2018 GST legislated changes: The 2018 legislated changes include the introduction of a relativity floor, where no state can have a relativity below that floor. For the 2023 Update, the relativity floor is 0.70. Western Australia's relativity is well below the floor. Increasing Western Australia's relativity to 0.70 significantly increases its GST distribution compared with the previous arrangements, while lowering the GST share of the other states. However, the Commonwealth Government's transitional no worse off guarantee will ameliorate the impact on the other states. All states except Western Australia are estimated to receive no worse off payments in 2023–24.

Estimated total payments and no worse off payments

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

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

Source: Commission calculation.

All states are estimated to receive more GST revenue in 2023–24 than in 2022–23.

Subject to changes in the GST pool and population, a state that was worse off in 2022–23 could expect a no worse off payment from the Commonwealth in 2023–24 similar to that shown in the table above.

In determining whether a state is worse off under the 2018 legislated changes, allowance has to be made for the extent to which a state has gained from the top-up of the GST pool.

Introduction

The Commission has been asked to advise how Goods and Services Tax (GST) revenue should be distributed among the states in 2023–24, in accordance with the terms of reference provided by the Commonwealth Treasurer.

The first step in estimating the distribution of GST revenue is to estimate disparities in the fiscal capacities of states. In doing this, the Commission takes account of states' different abilities to raise revenue and their different costs in providing services.

Drivers of differences in revenue raising capacity include the value of mining production, land values and the value of property transactions, and taxable payrolls. States also receive different levels of Commonwealth payments. Costs can vary by state for a range of reasons, including socio-demographic characteristics, wage pressures, population dispersion, population density and rates of population growth.

Changes in states' relative fiscal capacities can be driven by changes in their circumstances. For example, a state could experience an increased value of property transfers, growth in its share of Commonwealth payments, or an increased share of national population growth. Changes can also be driven by data revisions, such as updated data on the value of taxable payrolls.

Under the 2018 legislated changes to GST distribution arrangements, 2023–24 is the halfway point in a 6-year transition away from distributing the GST pool based solely on the Commission's assessment of states' relative fiscal capacities. At the end of these 6 years, the Commission's assessment will be adjusted so that no state will have a GST relativity lower than the fiscally stronger of New South Wales or Victoria (referred to as the 'standard state'). In the 2023 Update, Victoria is the standard state for the first 2 assessment years (2019–20 and 2020–21) and New South Wales for the final assessment year (2021–22). For 2023–24, the blended relativities are an equal share of the previous approach and the standard state approach (see Box 1-1). The transition will be completed in 2026–27.

The 2018 legislated arrangements also formalised a GST relativity floor of 0.70, rising to 0.75 in 2024–25. Since 2022–23, the floor has been drawn from the GST pool. This means that when a state's relativity is raised to the floor, the GST relativity (and GST distribution) of the other states will be reduced on a population share basis. For 2023–24, the GST relativities reflect the application of blended state relativities and the relativity floor.

The transition to the legislated arrangements includes a guarantee that no state will be worse off under the 2018 legislated arrangements – that is, without GST pool top-up payments, a GST relativity floor or equalising to the fiscally stronger of New South Wales or Victoria. The no worse off guarantee, legislated to apply from 2021–22, will continue until 2026–27. Any no worse off payments are calculated and provided by the Commonwealth in accordance with the legislation.

Chapter 1 sets out the Commission's recommended GST revenue distribution for 2023–24. It also provides relativities for the Commonwealth Treasurer to use in calculating payments under the no worse off guarantee and explains how these are calculated. Chapter 2 explains how the Commission's assessment of each state's assessed GST needs has changed since the 2022 Update. Chapter 3 provides a snapshot of each state's circumstances. Attachment A explains the Commission's quality assurance process. The Commission consulted with states on new issues arising in this update. State views and Commission responses are outlined in [New Issues in the 2023 Update](#).

1. Recommended GST relativities

Key points

- 2023–24 represents the halfway point in the 6-year transition period under the 2018 legislated GST arrangements. The combined effect of blending relativities from the previous and 2018 legislated GST arrangements, together with the GST relativity floor of 0.70, plays a significant role in GST distribution outcomes.
- The GST pool (which does not include no worse off payments) is estimated to grow by more than \$3 billion in 2023–24. Consequently, all states are estimated to receive more GST in 2023–24, including those with a lower GST relativity.
- Excluding no worse off payments, South Australia would receive the largest increase in revenue from the GST pool (\$943 million). The Northern Territory would receive the largest increase in per capita terms (\$979 per capita). Tasmania would receive the smallest increase in revenue from the GST pool (\$5 million) and in per capita terms (\$8 per capita).
- The overall payments to the states under the GST distribution arrangements will include the no worse off guarantee under the 2018 legislated GST arrangements.
- The Commonwealth is responsible for calculating no worse off payments informed by the no worse off relativities calculated by the Commission. All states except Western Australia are estimated to receive a no worse off payment in 2023–24.
- The increase in overall payments (GST pool and no worse off payments) is estimated to be largest in dollar terms for South Australia (\$999 million) and in per capita terms the Northern Territory (\$1,076 per capita). It is estimated to be smallest in dollar terms for Tasmania (\$29 million) and in per capita terms for New South Wales (\$48 per capita).

Recommended GST relativities and estimated GST pool distribution

The Commission's recommended GST relativities for 2023–24 are presented in Table 1-1. This table also includes the states' shares of the GST pool and the estimated GST pool distribution, as well as comparisons with 2022–23. The table does not include no worse off payments.

Table 1-1 GST relativities, shares and estimated GST distribution, 2022–23 and 2023–24 (excludes no worse off payments)

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

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

Source: Commission calculation.

At the time of its Budget in October 2022, the Commonwealth anticipated an increase in the GST pool from around \$83 billion in 2022–23 to around \$86 billion in 2023–24.¹ As a result, all states would receive a larger payment from the GST pool in 2023–24 than in 2022–23.

Since 2021–22, the Commonwealth has topped up the pool of GST revenue available for distribution to the states. The top-up payment was \$600 million in 2021–22 and \$672 million in 2022–23. It is estimated to be \$698 million in 2023–24.

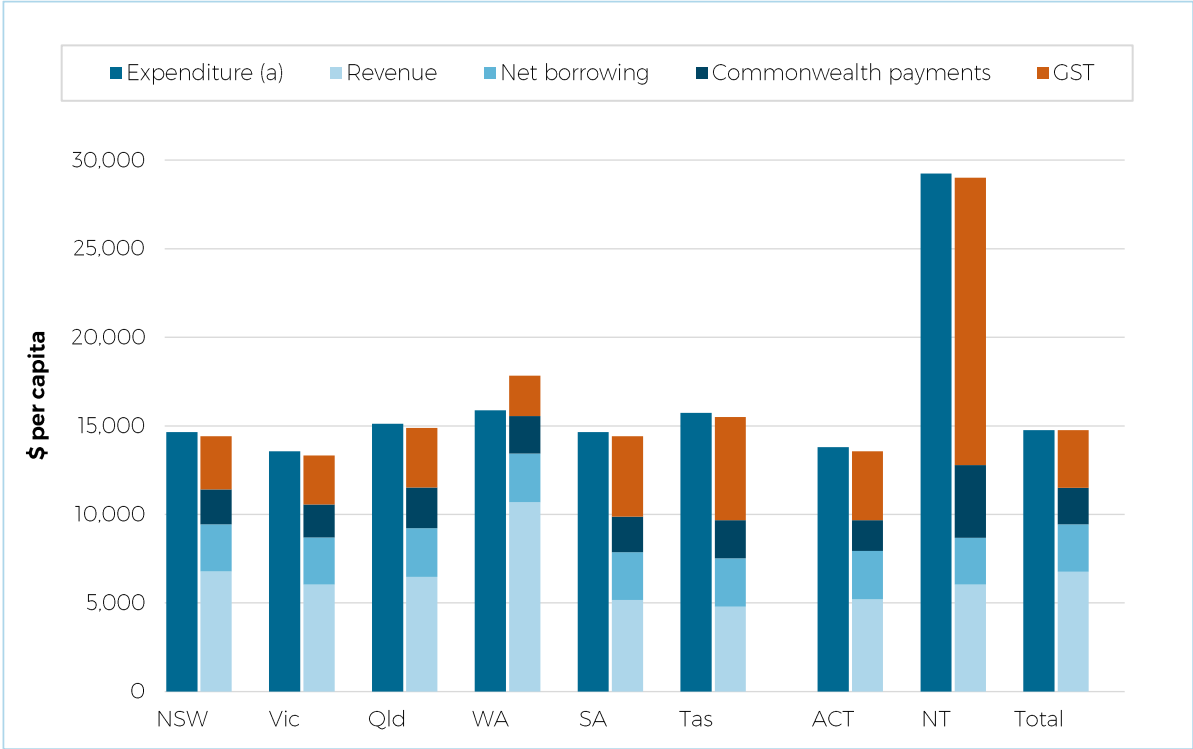
The Commonwealth supplements the GST revenue with other forms of general revenue assistance. Since 2021–22, the Commonwealth has provided a no worse off guarantee to ensure that, over the transition period, no state would receive a lower cumulative amount of financial assistance under the GST arrangements than it would have received prior to the 2018 legislated arrangements taking effect. Details on how the no worse off payments are calculated are provided later in this chapter.

¹ The GST pool consists of revenue from the GST plus a top-up payment from the Commonwealth. See Commonwealth Budget, October 2022–23, Budget Paper No 3, Part 3, Table 3.1.

Assessed state budgets

This section illustrates the assessed state budgets per capita for 2023–24. The blue bar on the left in Figure 1-1 shows the total assessed expenditure for each state. The bar on the right shows the sum of assessed revenue, assessed net borrowing, Commonwealth payments and revenue from the GST pool.²

Figure 1-1 Assessed budgets per capita (excludes no worse off payments)



(a) Expenditure includes expenses and investment.
Source: Commission calculation.

Under the previous GST distribution arrangements, each state’s GST share was calculated so that its assessed revenue (including GST distribution) equalled its assessed expenditure. After blending assessed and standard state relativities and applying the GST relativity floor of 0.70, Western Australia was assessed to have revenue per capita greater than its assessed expenditure per capita. This can be seen in Figure 1-1 by Western Australia’s revenue bar on the right being higher than its expenditure bar on the left. All other states were assessed to have slightly less assessed revenue than expenditure.

Assessed, standard state, blended and GST relativities

This section shows how GST relativities were derived from assessed relativities (see Table 1-2) and also shows how each stage of the process affects the estimated GST distribution (see Table 1-3).³

² The terms used in the paragraph are defined in the glossary.
³ See Box 1-1 for an explanation of how GST relativities are calculated.

Table 1-2 Assessed relativities to GST relativities, 2023–24 (a)

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Assessed relativities | | | | | | | | | |
| 2019-20 | 0.97359 | 0.86327 | 1.12843 | 0.23514 | 1.45855 | 1.97819 | 1.25365 | 5.18870 | 1.00000 |
| 2020-21 | 1.04885 | 0.88516 | 1.17883 | -0.03651 | 1.40534 | 1.82575 | 1.25866 | 4.81197 | 1.00000 |
| 2021-22 | 0.96484 | 1.02332 | 1.00321 | 0.10231 | 1.53748 | 1.78655 | 1.29107 | 5.18397 | 1.00000 |
| Average | 0.99560 | 0.92376 | 1.10331 | 0.10030 | 1.46688 | 1.86319 | 1.26759 | 5.06071 | 1.00000 |
| Standard state relativities (b) | | | | | | | | | |
| 2019-20 | 0.90730 | 0.79698 | 1.06214 | 0.79698 | 1.39227 | 1.91190 | 1.18737 | 5.12241 | 1.00000 |
| 2020-21 | 0.95063 | 0.78694 | 1.08061 | 0.78694 | 1.30712 | 1.72753 | 1.16044 | 4.71375 | 1.00000 |
| 2021-22 | 0.87236 | 0.93083 | 0.91073 | 0.87236 | 1.44499 | 1.69407 | 1.19859 | 5.09149 | 1.00000 |
| Average | 0.90934 | 0.83755 | 1.01698 | 0.81807 | 1.38031 | 1.77635 | 1.18114 | 4.97173 | 1.00000 |
| Blended relativities (c) | | | | | | | | | |
| 2019-20 | 0.94044 | 0.83012 | 1.09528 | 0.51606 | 1.42541 | 1.94505 | 1.22051 | 5.15555 | 1.00000 |
| 2020-21 | 0.99974 | 0.83605 | 1.12972 | 0.37521 | 1.35623 | 1.77664 | 1.20955 | 4.76286 | 1.00000 |
| 2021-22 | 0.91860 | 0.97708 | 0.95697 | 0.48733 | 1.49124 | 1.74031 | 1.24483 | 5.13773 | 1.00000 |
| Average (d) | 0.95245 | 0.88064 | 1.06013 | 0.45931 | 1.42358 | 1.81975 | 1.22435 | 5.01620 | 1.00000 |
| GST relativity (d) | 0.92350 | 0.85169 | 1.03118 | 0.70000 | 1.39463 | 1.79080 | 1.19540 | 4.98725 | 1.00000 |

- (a) See Box 1-1 for an explanation of the steps taken to calculate GST relativities using assessed relativities and the requirements of the 2018 legislated arrangements.
- (b) Victoria was the standard state in 2019–20 and 2020–21 and New South Wales in 2021–22.
- (c) In the 2023 Update, assessed relativities have a weighting of 50% and standard state relativities 50%.
- (d) The average relativity for Western Australia is below the floor of 0.70. In calculating GST relativities, it is raised to the floor of 0.70 and the relativities of other states adjusted down on a population-share basis.

Source: Commission calculation.

Table 1-3 Contribution of changes in relativities to change in GST distribution, 2022–23 to 2023–24 (excludes no worse off payments)

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|---|-------------|-------------|------------|----------|------------|-------------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Assessed relativities (a) | -501 | 36 | 105 | -534 | 719 | -103 | 171 | 106 | 1,138 |
| Blending and floor (b) | -193 | -161 | -125 | 543 | -41 | -11 | -11 | -1 | 543 |
| Change due to new GST relativities (c) | -694 | -125 | -19 | 9 | 678 | -114 | 160 | 105 | 953 |

- (a) Effects on the distribution of the estimated 2023–24 GST pool using the 2023 Update assessed relativities instead of 2022 Update assessed relativities.
- (b) Difference in the effects on the distribution of the GST pool from applying blended relativities and the floor between the 2023 and 2022 Updates.
- (c) Sum of (a) and (b).

Source: Commission calculation.

Box 1-1 Calculation of GST relativities

The Commission's recommendations on GST relativities are consistent with the *Commonwealth Grants Commission Act 1973*, the *Federal Financial Relations Act 2009* and the terms of reference issued by the Commonwealth Treasurer. The Commission undertakes several steps to produce GST relativities.

Assessed relativities

Assessed relativities are calculated for each assessment year by comparing each state's relative ability to raise revenue with its relative cost of providing services.

Drivers of differences in revenue capacity include mineral endowments, land values, property transactions, and taxable payrolls. States also receive different levels of Commonwealth payments.

Service costs can vary by state for a range of reasons, including socio-demographic characteristics of the population, wage pressures, population dispersion, population density and rates of population growth.

Standard state relativities

Standard state relativities are calculated for each assessment year by adjusting assessed relativities so that no state has a relativity that is below the lower of New South Wales or Victoria (referred to as the 'standard state').

Blended relativities

Over the 6-year transition period prescribed in the 2018 legislated GST distribution arrangements, assessed relativities are blended with standard state relativities in each assessment year. The weighting that each receives is specified in the legislation. In the 2023 Update, assessed relativities have a weighting of 50% and standard state relativities 50%.

GST relativity floor

The GST relativity floor sets a minimum relativity below which a state's per capita share of the GST pool cannot fall. In 2023–24, the floor is 0.70. If a state's blended relativity is below the floor, its GST relativity is adjusted up to the floor. To accommodate this, the relativities of other states are adjusted down on a population-share basis.

GST relativities

The final numbers are called GST relativities. The Commission recommends these to the Commonwealth Treasurer for the distribution of the GST pool.

Assessed relativities: drivers of change

The Commission uses a 3-year rolling average in its assessment of state fiscal capacities.⁴ Differences in state circumstances in the year falling out of the calculations compared with the year coming into the calculations drive change in the distribution of GST. In addition, revisions to the data also drive change.

Large differences in states' capacities to raise revenue from mining royalties had a significant impact on assessed relativities. Iron ore prices increased between 2018–19 and 2021–22, increasing Western Australia's capacity to raise mining royalties. This significantly reduced its assessed relativity and increased those of other states. The large increase in coal prices between 2018–19 and 2021–22 reduced the assessed relativities for

⁴ In the 2022 Update the assessment years were 2018–19, 2019–20 and 2020–21. In the 2023 Update the assessment years were 2019–20, 2020–21 and 2021–22.

New South Wales and Queensland and increased the assessed relativities for the other states. The net impact of increases in mining royalties was to reduce the assessed relativities of Queensland and Western Australia and increase those of other states.

The data revision that had the largest impact on assessed relativities was updating calculations with the Australian Bureau of Statistics' (ABS) 2021 Census data.⁵ Updating data with the 2021 Census-based total state and sub-state populations reduced the relativities of New South Wales, Victoria and Tasmania, and increased the relativities of other states. The main effect for New South Wales and Victoria was a downward revision to the populations in the densely populated parts of Sydney and Melbourne, which reduced their assessed GST needs for spending on urban transport investment. In addition, total population for New South Wales and Victoria was revised down, reducing their assessed GST needs across most revenue categories. Tasmania's share of population groups that have a higher use and cost of services were revised down, reducing its need for spending compared with the 2022 Update. Updating the housing assessment with the data from the 2021 Census increased the assessed relativity of Western Australia and the Northern Territory, left the ACT largely unchanged and reduced that of other states. The [New Issues for the 2023 Update](#) provides further information on how the assessments were updated with the 2021 Census data.

Variations between states in growth in property transactions was a key driver of changes in states' capacities to raise revenue from stamp duty on conveyances. New South Wales experienced very strong growth (over 95%) in the total value of properties transferred between 2018–19 and 2021–22. This significantly reduced its share of GST and increased the shares of other states.

Changes to state populations had a significant effect on assessed relativities, particularly for Victoria. In the 2023 Update, lower than national average population growth over the assessment period reduced the assessed need to invest in infrastructure for New South Wales, Victoria, Tasmania and the ACT. This increased relative needs for the other states.

Differences in relative wages growth had a significant influence on assessed relativities for some states. Relatively higher wages mean an assessed higher-than-average cost of service provision. Lower wages mean a lower-than-average cost of service provision. Relatively slow wages growth in New South Wales, Western Australia, Tasmania and the Northern Territory reduced their assessed relativities. Relatively high growth in wages in other states increased their assessed relativities. The attachment to the [New Issues for the 2023 Update](#) provides an overview of the effect of COVID-19 lockdowns on the measurement of wage levels.

Chapter 2 explains the key drivers of changes in assessed GST needs in more detail. Chapter 3 explains the implications for each state.

Standard state relativities

On full implementation of the GST distribution arrangements legislated in 2018 (that is, by 2026–27), no state's GST relativity can be less than the lower of New South Wales or Victoria. Should any state be fiscally stronger than the standard state (and have a lower assessed relativity than the standard state), its GST relativity would be increased to the relativity of the standard state. Given the GST is distributed from a fixed funding pool, other states' relativities would then be reduced on a population-share basis to accommodate this increase. In the transition to the new arrangements, standard state relativities are calculated as an input to the calculation of GST relativities.

Victoria has been assessed as the standard state in the first 2 assessment years for the 2023 Update (2019–20 and 2020–21) and New South Wales for the third (2021–22).

⁵ See Box 2-1 in Chapter 2 for an explanation of how revised population estimates from the 2021 Census affected the distribution of GST.

Western Australia was the only state with an assessed relativity below the standard state in each assessment year. Western Australia's standard state relativity was equal to Victoria's standard state relativity of 0.79698 in 2019–20 and 0.78694 in 2020–21. In 2021–22 Western Australia's standard state relativity was equal to New South Wales' standard state relativity of 0.87236.

Blended relativities and the GST relativity floor

The blending of assessed relativities with standard state relativities will result in an increased distribution in the GST pool to Western Australia and a reduced distribution to other states.

Western Australia's blended relativity of 0.45931 was below the GST relativity floor of 0.70. Consequently, Western Australia's relativity will increase to 0.70 and the blended relativities of all other states reduced. Given the GST is distributed from a fixed funding pool, other states' relativities will be reduced on a population-share basis to accommodate this increase.

Movements in the GST distribution

This section sets out the estimated change in distribution of the GST pool for each state from 2022–23 to 2023–24 (see Table 1-4). It identifies how changes in population shares, the GST pool and GST relativities contributed to the estimated change in GST distribution.

Changes in estimated GST payments between 2022–23 and 2023–24 are driven by growth in the GST pool, changes in population shares and changes in GST relativities. The 3 components can work in different directions. For example, in aggregate South Australia would experience the largest growth in GST payments. This is due to changes in GST relativities and growth in the GST pool, which would more than offset a reduction in GST payments due to lower-than-average population growth.

- Changes in state populations differ. The estimated 2023–24 distribution is based on the October 2022–23 Commonwealth Budget estimates of state populations for 2023–24. It reflects forecast population changes between 2022–23 and 2023–24.
 - Slower forecast population growth between these dates in New South Wales, South Australia and Tasmania would reduce their estimated GST payments compared with states with relatively faster population growth, such as Victoria, Queensland, Western Australia and the ACT.
- The size of the estimated GST pool available for distribution is different. Any growth in the pool would be distributed among states using their population shares weighted by their GST relativity.
 - All states would benefit from the anticipated growth in the GST pool in 2023–24. States with a higher relativity, in particular the Northern Territory but also Tasmania and South Australia, would benefit more (on a per capita basis) than states with a lower relativity.
- The relativities used to distribute the GST are different. The estimated 2023–24 distribution is based on the relativities recommended in the 2023 Update, whereas the 2022–23 distribution is based on the 2022 Update relativities.
 - The contribution from updating GST relativities would increase the GST payments to South Australia, the ACT and the Northern Territory in 2023–24 compared with 2022–23.

Overall, all states would receive an increase in GST payments (excluding no worse off payments). South Australia would receive the largest increase in GST payments (\$943 million). The Northern Territory would receive the largest increase in per capita terms (\$979 per capita). Tasmania would receive the smallest increase in GST payments (\$5 million, \$8 per capita).

Table 1-4 Change in GST distribution from 2022–23 to 2023–24 (excludes no worse off payments)

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|--------------------------------|------------|------------|------------|------------|------------|----------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Estimated 2022-23 distribution | 24,717 | 18,175 | 17,547 | 6,228 | 7,477 | 3,404 | 1,609 | 3,965 | 83,122 |
| Estimated 2023-24 distribution | 24,870 | 18,796 | 18,220 | 6,482 | 8,420 | 3,409 | 1,831 | 4,219 | 86,248 |
| Change | 152 | 621 | 673 | 254 | 943 | 5 | 223 | 255 | 3,126 |
| Change caused by new: | | | | | | | | | |
| Population (a) | -80 | 60 | 31 | 10 | -16 | -9 | 2 | 0 | 0 |
| Pool (b) | 927 | 686 | 661 | 235 | 281 | 128 | 61 | 149 | 3,126 |
| GST relativities (c) | -694 | -125 | -19 | 9 | 678 | -114 | 160 | 105 | 0 |
| Change (\$m) | 152 | 621 | 673 | 254 | 943 | 5 | 223 | 255 | 3,126 |
| Change (\$pc) | 18 | 92 | 124 | 89 | 509 | 8 | 473 | 979 | 118 |

- (a) Effects on the distribution of 2022–23 GST pool of using estimated state populations as at December 2023 instead of December 2022, with 2022 Update relativities.
- (b) Effects of applying the 2022 Update relativities to the estimated 2023–24 GST pool.
- (c) Effects on the distribution of the 2023–24 GST pool using the 2023 Update relativities instead of 2022 Update relativities. While Western Australia's GST relativity has not changed, remaining at 0.7, the relativities of other states have changed. This has changed the national total weighted population, and hence Western Australia's share of the national weighted population. This has had a relatively minor effect of increasing Western Australia's GST share by \$9 million.
- Source: 2022–23 and 2023–24 GST pool estimates were taken from the Commonwealth Budget, October 2022. December 2022 and 2023 population estimates were provided by the Australian Treasury from the same source.

Relativities to determine no worse off payments

The 2023 Update Terms of Reference ask the Commission to provide the relativities that would have applied had the 2018 legislated arrangements not been enacted. These relativities are used by the Commonwealth to determine whether there is a requirement for it to make no worse off payments to a state under the transitional arrangements.

The no worse off relativities are shown in Table 1-5.

Table 1-5 No worse off relativities, 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2023-24 | 0.99550 | 0.92382 | 1.10331 | 0.09786 | 1.46834 | 1.86532 | 1.26838 | 5.07207 | 1.00000 |

Source: Commission calculation.

The 2023–24 no worse off relativities include adjustments to remove the impact of the Commonwealth's legislated top-ups to the GST pool. This includes removing the impact of top-up payments from state budgets. In the 2021 and 2022 Updates, there were no pool top-ups in the relevant assessment years, so no adjustments were required. For this reason, assessed relativities and no worse off relativities were the same in those years. This is not the case in the 2023 Update. A pool top-up of \$600 million was available to states in 2021–22, the last year of the assessment period for the 2023 Update.

Each year over the transition period, the total amount of financial assistance a state has received since 2021–22 (including GST distributions from the topped-up pool and previous no worse off payments) is compared with the total amount of GST it would have received based on no worse off relativities applied to a GST revenue only pool. The Commonwealth will make a no worse off payment equal to any cumulative shortfall. Where a state is better off in a year, this is taken into account in calculating a no worse off payment in a subsequent year. This arrangement will remain in place until 2026–27.

By the end of 2026, the Productivity Commission will report on the fiscal implications of the 2018 legislated arrangements and whether they are operating efficiently, effectively and as intended.

Impact of the 2018 legislated GST distribution arrangements

All states are estimated to receive higher overall payments in 2023–24 than they did in 2022–23.

This section compares the estimated distribution from the GST pool (including pool top-ups) in 2023–24 with the Commission’s estimate of what each state would have received if the 2018 legislated arrangements had not been introduced (see Table 1-6).

Western Australia is estimated to receive \$5.6 billion in additional GST payments in 2023–24 and all others less than under the previous arrangements. The difference between total estimated distribution in 2023–24 and the estimated distribution under the previous arrangements (i.e. \$698 million) reflects the Commonwealth top-up to the GST pool.

Table 1-6 Impact of 2018 legislated arrangements on the distribution of the GST pool, 2023–24 (excludes no worse off payments)

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|--|---------------|---------------|---------------|--------------|-------------|-------------|------------|------------|------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Estimated GST pool distribution | 24,870 | 18,796 | 18,220 | 6,482 | 8,420 | 3,409 | 1,831 | 4,219 | 86,248 |
| Distribution under previous arrangements | 26,592 | 20,223 | 19,337 | 899 | 8,794 | 3,522 | 1,928 | 4,256 | 85,550 |
| Difference | -1,722 | -1,427 | -1,117 | 5,583 | -373 | -113 | -96 | -37 | 698 |

Source: Commission calculation.

The Commission has provided indicative estimates of total payments from the GST pool and no worse off payments (see Table 1-7). The increase is estimated to be largest in dollar terms for South Australia (\$999 million) and in per capita terms the Northern Territory (\$1,076 per capita). It is estimated to be smallest in dollar terms for Tasmania (\$29 million) and in per capita terms for New South Wales (\$48 per capita).

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

Table 1-7 Estimated total payments to the states from GST distribution and no worse off payments

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

Source: Commission calculation.

2. Drivers of GST distribution

Key points

- Changes in state revenue raising capacities had the largest influence on assessed GST needs in 2023–24 compared with 2022–23. An increase in the value of iron ore production reduced the assessed GST needs of Western Australia and increased those of other states. Increases in the value of coal production reduced the assessed GST needs of New South Wales and Queensland and increased those of other states. Well above-average growth in the value of property transfers in New South Wales reduced its assessed GST needs.
- Changing rates of population growth among states, including revisions to population estimates following the 2021 Census, had a significant impact on assessed GST needs in 2023–24 compared with 2022–23. Changes to states' relative population growth mainly affected the investment assessments, in particular investment in urban transport. New South Wales and Victoria were assessed to need less GST revenue for urban transport investment due to population revisions in this update, with all other states assessed to need more.
- Total state investment in urban transport more than doubled between 2018–19 and 2021–22, reflecting an improvement in the national average level of public transport assets. New South Wales and Victoria were assessed to have an above-average need for such assets and therefore an increased need for GST to fund these capital improvements.
- Under the 2018 legislated arrangements, this is the third year in which the blending of assessed and standard state relativities was used to calculate GST relativities. It is the second year in which the GST relativity floor of 0.70 has operated within the GST pool. The effect of blending relativities from the previous and current arrangements, together with the floor of 0.70, continues to play a significant role in GST distribution outcomes.

Why GST shares have changed

In this update, the Commission has used the latest available data to estimate the fiscal circumstances of states. It has applied the methods developed in the 2020 Review and continued the phased implementation of the 2018 legislated arrangements.

Changes in states' assessed GST needs mainly related to changes in revenue raising capacity, which tends to be more volatile than expenditure needs (see Table 2-1). Revisions to population data following the 2021 Census also resulted in significant changes in assessed GST needs.

Blended relativities and the GST floor would move \$543 million more to Western Australia in 2023–24 than they did in 2022–23. This is because Western Australia's assessed needs for 2023–24 are lower, so the gap between its assessed relativity and the GST floor of 0.70 has increased.

Table 2-1 Composition of estimated changes in GST distribution, 2022–23 to 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--|-------------|-------------|------------|-------------|------------|-------------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Expense needs | 63 | -19 | 114 | -202 | -3 | -82 | 48 | 82 | 307 |
| Investment needs | 551 | -477 | 101 | 114 | -50 | -129 | -42 | -67 | 766 |
| Net borrowing | 14 | 115 | -118 | -33 | -6 | 12 | 22 | -5 | 162 |
| Revenue raising capacity | -626 | 1,145 | -248 | -921 | 366 | 98 | 65 | 120 | 1,794 |
| Commonwealth payments | 44 | -88 | 51 | -182 | 196 | 6 | -5 | -24 | 298 |
| Updated census populations | -547 | -640 | 204 | 690 | 216 | -8 | 83 | 0 | 1,194 |
| Change in assessed relativities | -501 | 36 | 105 | -534 | 719 | -103 | 171 | 106 | 1,138 |
| Blended relativities and GST floor | -193 | -161 | -125 | 543 | -41 | -11 | -11 | -1 | 543 |
| Change in GST relativities | -694 | -125 | -19 | 9 | 678 | -114 | 160 | 105 | 953 |

Source: Commission calculation.

Changes in states' GST shares occurred for 3 reasons.

- Some data used in the 2022 Update were revised when more recent data became available. Most notably, data revisions in this update included revised Estimated Resident Population data from the 2021 Census for each assessment year.
- States' economic and socio-demographic characteristics change over time. The 2023 Update assessed states' needs using an average of data for the 3 years 2019–20 to 2021–22. The 2022 Update used data for 2018–19 to 2020–21. Differences between the year brought into the 3-year average (2021–22) and the year removed (2018–19) changed states' relative needs.
- Legislated arrangements for GST distribution are also being phased in. For the 2023 Update, each state's GST relativity must be at least 0.70.

Data revisions and changes in state circumstances changed the assessed needs of states in 2023–24 compared with 2022–23 (see Table 2-2). The main drivers are discussed below.

Table 2-2 Change in assessed GST needs by source of change, 2022–23 to 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|------------------------------------|-------------|-----------|------------|-------------|------------|-------------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Revised populations from census | -547 | -640 | 204 | 690 | 216 | -8 | 83 | 0 | 1,194 |
| Other data revisions | -63 | 49 | 52 | -75 | 28 | 3 | 34 | -27 | 165 |
| Changes in state circumstances (a) | 109 | 627 | -150 | -1,148 | 474 | -99 | 54 | 133 | 1,397 |
| Total | -501 | 36 | 105 | -534 | 719 | -103 | 171 | 106 | 1,138 |

(a) Includes both the changes in relative state circumstances and changes in how much states collectively spend or raise.
Source: Commission calculation.

Data revisions

This section describes the impact of replacing data used in the 2022 Update with the latest available data (see Table 2-3). Since the 2022 Update, data providers have released updated data for 2019–20 and 2020–21. The Commission has revised its assessments using the latest available data.

Table 2-3 Major effects of data revisions, 2022–23 to 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|-----------------------------------|-------------|-------------|------------|------------|------------|-----------|------------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Revised populations from census | -547 | -640 | 204 | 690 | 216 | -8 | 83 | 0 | 1,194 |
| Revisions to services to industry | 66 | 59 | 18 | -150 | 8 | 0 | 4 | -6 | 155 |
| Revisions to natural disasters | 41 | -143 | 27 | 13 | 44 | 4 | 2 | 11 | 143 |
| Revisions to investment | 46 | 81 | -30 | -29 | -12 | -1 | 3 | -58 | 131 |
| Other revisions | -217 | 51 | 37 | 90 | -13 | 0 | 24 | 26 | 230 |
| Total | -610 | -591 | 256 | 615 | 245 | -5 | 117 | -27 | 1,232 |

Source: Commission calculation.

Revisions to Estimated Resident Population from 2021 Census

See Box 2-1 for an explanation of how the revised population estimates from the 2021 Census affected the distribution of GST revenue.

Revisions to services to industry data

In the 2022 Update, Victoria's expenses for renewable energy programs for households were assessed in the mining regulation and business development components of the services to industry category. Following consultation with Victoria, it was agreed that these expenses are more appropriately assessed in the electricity subsidies component of the services to communities category, which is more aligned with the purpose of Victoria's renewable energy programs.

The reclassification of Victoria's renewable energy programs resulted in a downward revision to the services to industry expenses data for 2020–21. The revision reduced assessed GST needs for mining regulation for Western Australia and the Northern Territory, and increased assessed GST needs for mining regulation in New South Wales, Victoria, Queensland, South Australia and the ACT.

Revisions to natural disaster relief data

In the 2022 Update, the Commission used proxy data for natural disaster relief expenses for Victoria in 2020–21, as actual data were unavailable. Replacing the proxy expense data with actual data in the 2023 Update resulted in a downward revision to Victoria's natural disaster relief expenses, reducing its assessed needs.

An upward revision was made to South Australia's natural disaster relief expenses for 2020–21 due to greater than estimated spending, including from Australia's 2019–20 Black Summer Bushfires. The Northern Territory's natural disaster relief expenses were also revised up. These revisions increased GST distribution to South Australia and the Northern Territory.

Revisions to investment data

Revisions to health services user-populations in 2020–21 led to changes in states' assessed GST needs for investment in health infrastructure. States with relatively large increases in the growth rate of their user-populations were assessed to have a greater need for health infrastructure to service their growing user-populations. The effect of this was to distribute additional GST revenue to New South Wales, Victoria, Western Australia and the ACT, and reduce the distribution to the other states.

Box 2-1 How revised population estimates from the 2021 Census affected the distribution of GST

Population data used to estimate GST distribution

The Commission uses Estimated Resident Population data from the ABS in its assessments. Australia's Estimated Resident Population includes all people who usually live in Australia, regardless of nationality, citizenship, or visa status.

The Estimated Resident Population data are also used by the Commonwealth to calculate the GST entitlements of the states based on the Commission's recommended GST relativities.

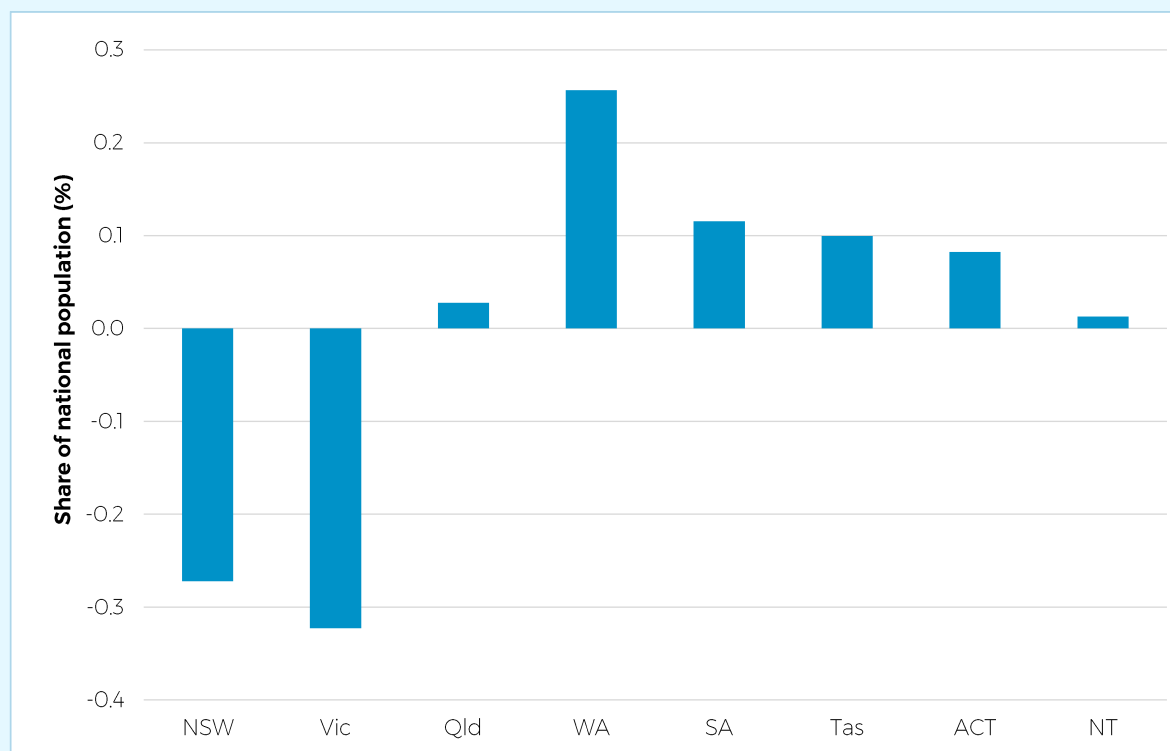
Census and rebased Estimated Resident Population

The ABS undertakes a Census of Population and Housing every 5 years. The ABS uses census counts and other data to produce the Estimated Resident Population at the census date.

Between censuses, the ABS updates the Estimated Resident Population by adding population changes due to births, deaths, and migration.

To ensure a consistent time series, the ABS revises the historical Estimated Resident Population series for the years back to the previous census.

Figure 2-1 Revision to December 2020 Estimated Resident Population: 2021 Census compared with 2016 Census



Source: Commission calculations based on ABS data.

First Nations population

The ABS has released 2021 Estimated Resident Population data of First Nations people disaggregated by age and state.

However, it has not yet released its final data, which will include 2021 First Nations population disaggregated by geographic location and socio-economic status. These data will be released in August 2023.

The Commission needs to disaggregate population data by state, age, geographic location, socio-economic status and Indigenous status. These subgroups are used to calculate states' assessed needs for health, justice, welfare, post-secondary education and services to communities.

For the 2023 Update, the Commission has applied the 2016 Census-based First Nations proportions to the 2021 Census disaggregated Estimated Resident Population. For the 2024 Update, it will use the 2021 Census proportions.

The Commission consulted with states on this approach. Information on this consultation can be found in the [New Issues for the 2023 Update](#).

Impact on the distribution of GST revenue

Revenue assessments:

- Revised populations will not affect the assessed revenue of states, except where revenue is assessed on an equal per capita basis.
- However, it will affect the difference between a state's assessed revenue and its equal per capita share of the revenue.
 - As relativities are expressed as a ratio of a state's per capita GST requirement and the national average per capita GST distributed in the year, there will be a revenue-related effect on states' relativities from revisions to population in the assessment years.
 - States that have upward revisions to their populations will have a higher assessed relativity, because the difference between their assessed revenue (which remain unchanged) and their equal per capita share of the revenue (which declines) increases.

Expense assessments

- For assessments that are not based on population, such as the schools and rural roads assessments, a similar effect (in the opposite direction) to revenue assessments occurs. That is, states that have upward revisions to their populations will have a lower assessed relativity because the difference between their assessed expenses (which remain unchanged) and their equal per capita share of the expenses (which increases) declines.
- For assessments based on population attributes, such as the health and welfare (child protection) assessments, changes to states' shares of socio-demographic groups from the census will affect assessed relativities. For example, the 2021 Census revealed that New South Wales and Victoria had older populations than previously estimated and Tasmania a younger population. This increased assessed health spending needs for New South Wales and Victoria, and reduced corresponding needs for Tasmania. The census also revealed that Victoria's population was more dispersed than previously thought, increasing its assessed GST needs due to the higher costs of providing services in regional areas, while Queensland and Tasmania's populations were revealed to be less dispersed than previously estimated, reducing their assessed GST needs.

Investment assessments

- Revisions to the historical Estimated Resident Population series will change the population growth rates used by the Commission in its assessment of states' investment needs. An upward revision to a state's population in the 2021 Census year means that its population growth between census years is higher than previously estimated by the ABS. The Commission will assess these states as needing to undertake more investment and their assessed relativities will be higher than would have been the case with the pre-2021 Census Estimated Resident Population.

The main impact on estimated GST distribution from revisions to population data was through the investment assessment, in particular investment in urban transport.

- The population in the major urban areas of New South Wales and Victoria has been revised down. Lower population growth since 2018–19 than previously estimated means that these states have been assessed to need less urban transport infrastructure as a result of population changes.

Table 2-4 Impact of revised Estimated Resident Population on GST distribution, 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total |
|------------------------------|-------------|-------------|------------|------------|------------|-----------|-----------|----------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Revenue | -278 | -294 | -11 | 421 | 54 | 50 | 49 | 9 | 583 |
| Commonwealth payments | -111 | -128 | 8 | 102 | 44 | 45 | 30 | 11 | 239 |
| Expense assessments | 197 | 192 | 12 | -146 | -44 | -121 | -56 | -33 | 401 |
| Population based assessments | -13 | -40 | 10 | 46 | 28 | -28 | 11 | -14 | 95 |
| <i>Health</i> | 10 | 21 | -28 | 26 | 4 | -31 | 7 | -9 | 68 |
| Other assessments | 210 | 232 | 2 | -192 | -73 | -92 | -67 | -19 | 443 |
| <i>Schools</i> | 130 | 147 | -8 | -123 | -47 | -51 | -37 | -10 | 277 |
| Capital assessments | -354 | -409 | 195 | 314 | 163 | 18 | 60 | 14 | 763 |
| <i>Urban transport</i> | -326 | -354 | 197 | 267 | 139 | 19 | 43 | 14 | 679 |
| <i>Net borrowing</i> | 155 | 164 | -9 | -144 | -66 | -51 | -42 | -7 | 320 |
| Total | -547 | -640 | 204 | 690 | 216 | -8 | 83 | 0 | 1,194 |

Source: Commission calculation.

Changes in state circumstances

This section describes the main changes in state circumstances since the 2022 Update — that is, the changes that occurred when revised 2018–19 data were replaced with 2021–22 data (see Table 2-5 and Table 2-6).

Table 2-5 Composition of changes in state circumstances, 2022–23 to 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--------------------------|------------|------------|-------------|---------------|------------|------------|-----------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Expense needs | 128 | -39 | 44 | -111 | -29 | -79 | 29 | 56 | 258 |
| Investment needs | 504 | -558 | 132 | 143 | -39 | -128 | -46 | -9 | 779 |
| Net borrowing | 58 | 193 | -171 | -77 | -18 | 5 | 15 | -6 | 271 |
| Revenue raising capacity | -626 | 1,121 | -205 | -922 | 362 | 97 | 60 | 114 | 1,753 |
| Commonwealth payments | 44 | -90 | 51 | -182 | 199 | 6 | -5 | -23 | 300 |
| Total | 109 | 627 | -150 | -1,148 | 474 | -99 | 54 | 133 | 1,397 |

Source: Commission calculation.

Table 2-6 Change to assessed GST needs due to changes in state circumstances, 2022–23 to 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--------------------------------|------------|------------|-------------|---------------|------------|------------|-----------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Mining production | 332 | 779 | -417 | -1,047 | 203 | 42 | 54 | 55 | 1,465 |
| Property sales | -837 | 284 | 102 | 151 | 191 | 63 | 1 | 45 | 837 |
| Capital improvements | 459 | 261 | -291 | -127 | -134 | -93 | -31 | -44 | 720 |
| Population growth | 33 | -603 | 272 | 234 | 82 | -36 | -12 | 30 | 651 |
| Commonwealth payments | 44 | -90 | 51 | -182 | 199 | 6 | -5 | -23 | 300 |
| Taxable land values | -189 | 63 | 69 | 70 | -8 | -4 | 0 | 0 | 202 |
| Economic environment | 128 | 33 | -69 | -33 | -37 | -17 | 0 | -5 | 161 |
| Other changes in circumstances | 138 | -99 | 134 | -215 | -22 | -59 | 48 | 75 | 640 |
| Total | 109 | 627 | -150 | -1,148 | 474 | -99 | 54 | 133 | 1,397 |

Source: Commission calculation.

Mining production

Mining royalties are volatile. In recent years, changes in commodity prices have had a big influence on the value of mining activity.

Total mining revenues grew strongly between 2018–19 and 2021–22 (see Figure 2-2). In this update, this reduced the assessed GST needs of states with above-average capacities to raise royalties (particularly Western Australia) and increased the assessed GST needs of other states. After reaching a peak in 2020–21, iron ore royalties fell slightly in 2021–22, to be overtaken by coal royalties for the first time in 3 years. Royalties for other minerals reached a peak in 2021–22.

Table 2-6 outlines the estimated aggregate effect of changes in the value of mining production on the distribution of GST between 2022–23 and 2023–24. The GST effects of each of the components of the mining revenue assessment varied across states. The increase in iron ore royalties had the biggest effect on the assessed GST needs of New South Wales (\$437 million) and Western Australia (-\$1,233 million). The increase in coal royalties had the biggest effect on Victoria (\$330 million) and Queensland (-\$616 million). The GST effect of the increase in other mining royalties varied across states, for example, New South Wales (\$106 million), Victoria (\$89 million), Queensland (-\$53 million), Western Australia (-\$99 million) and the Northern Territory (-\$37 million).

Box 2-2 Mining and GST distribution

The increasing importance of mining revenue

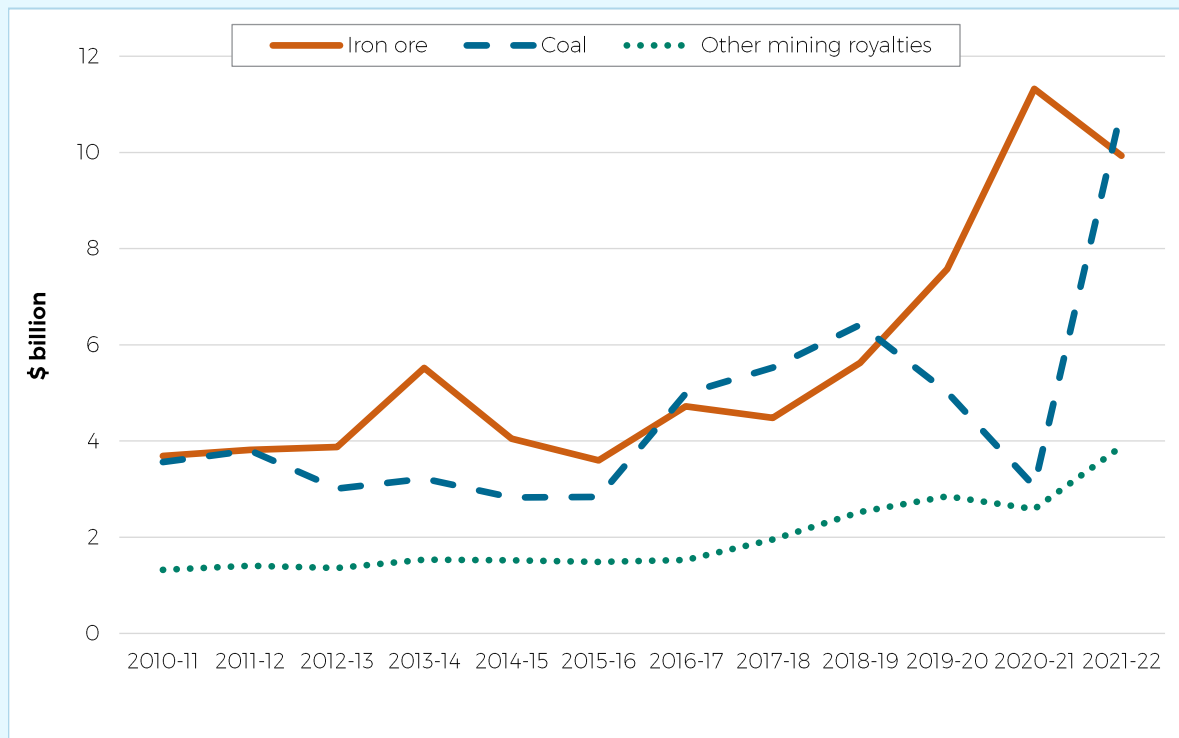
Over the past decade, the importance of mining revenues in GST distribution has significantly increased. Mining royalties, mainly from iron ore and coal, have increased almost fourteenfold since the early 2000s. The expansion of mining has had major implications for the structure of Australia's economic development. It has also resulted in some divergence and greater volatility in the fiscal capacities of the states.

While there has been a cyclical element in the price of commodities, the mining expansion is largely long term and structural. It has transformed the fiscal capacity of Western Australia, whose royalties have grown from \$0.6 billion to \$11 billion per year since the early 2000s. Throughout most of the 20th century, Western Australia received above-average per capita Commonwealth funding under fiscal equalisation arrangements. However, it has been assessed by the Commission as the fiscally strongest state since 2008–09.

The composition of mining royalties

Mineral endowments are unevenly distributed. While all mining royalties have grown over the last decade (see Figure 2-2), the strongest growth has been in coal and iron ore. As a result, the increasing quantum of royalties has a disproportionate effect on the revenue capacity and GST outcomes of Queensland (coal) and Western Australia (iron ore). Between 2010–11 and 2021–22, Queensland royalties grew from \$3 billion to \$9 billion per year and Western Australia's grew from \$4 billion to \$11 billion per year.

Figure 2-2 Royalty revenue by mineral, 2010–11 to 2021–22



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

The changing composition of royalties is also important. It influences the minerals that are separately assessed by the Commission. Minerals that are not separately assessed are combined and assessed together ('other minerals'). A separate assessment of nickel royalties ceased to be material in the 2020 Review. In this update, lithium royalties rose to \$260 million, making a separate assessment of them material for the first time.

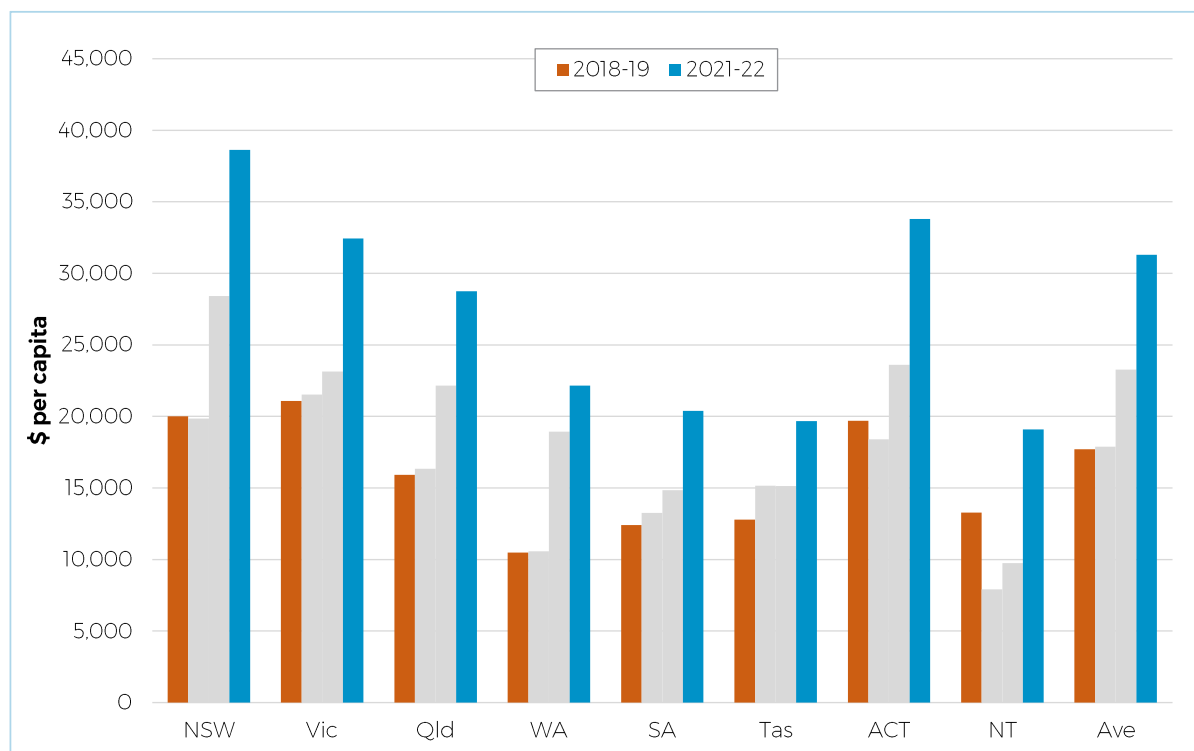
Property sales

Stamp duties raised from the transfer of property are volatile. Property market cycles can lead to large changes across years and states. This can have marked effects on states' revenue raising capacities.

Total stamp duty revenue grew strongly between 2018–19 and 2021–22. This reduced the assessed GST needs of states with an above-average capacity to raise stamp duties (New South Wales, Victoria and the ACT) and increased the assessed GST needs of the other states.

The per capita value of property transferred grew in all states between 2018–19 and 2021–22 (see Figure 2-3). The very strong growth in property transfers in New South Wales both in absolute and relative (to other states) terms reduced its assessed GST needs by \$837 million and increased the assessed GST needs of the other states.

Figure 2-3 Value of property transfers per capita, 2018–19 to 2021–22



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

Population growth

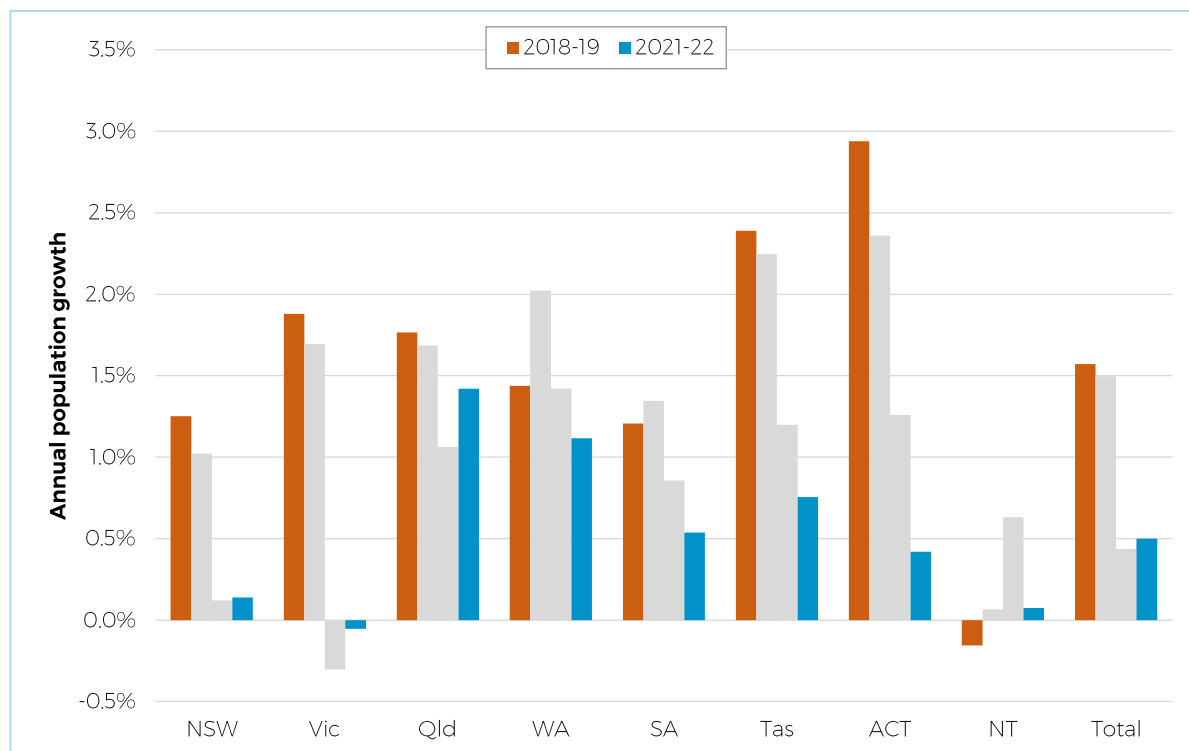
Relative population growth affects a state's assessed GST needs through the investment assessment, and to a lesser extent the net borrowing assessment. The Commission's assessment of a state's need to invest in a particular type of infrastructure is largely based on the proportion of its population expected to use that type of infrastructure (referred to as the 'user-population') and how that user-population changes.

In 2021–22, all states except the Northern Territory had population growth well below 2018–19 levels (Victoria's population declined in 2020–21 and 2021–22), after ABS revisions to the Estimated Resident Population series from the 2021 Census are taken into account (see Figure 2-4). The reduction in population growth between 2018–19 and 2021–22 in New South Wales, Victoria, Tasmania and the ACT was above the reduction in the national average population growth. This resulted in reduced investment needs for these states compared with the 2022 Update.

The area of spending most affected by the changes to states' population growth was investment in urban transport. The user-population of urban transport is weighted towards densely populated parts of the major cities. These areas in Melbourne had a more rapid population decline than Victoria overall. Melbourne's reduction in population growth

lowered Victoria’s assessed needs for urban transport investment by \$600 million, and increased needs in all other states.

Figure 2-4 Population growth rates, 2018–19 to 2021–22



Source: Commission calculations based on ABS data.

Capital improvements

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

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

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

Commonwealth payments

The Commonwealth makes payments to states for specific purposes. If a payment is for a state-type service for which the Commission assesses needs, then it includes this revenue when assessing how much GST a state requires.

For some Commonwealth payments, the terms of reference specify whether they should be excluded from the Commission’s assessment of state assessed GST needs. For the 2023 Update, the terms of reference direct the Commission to exclude the Commonwealth payment to Tasmania for the Tarraleah Hydro Power Station Redevelopment. The Commission continues to exclude Commonwealth payments that were quarantined in earlier terms of reference.

To the extent that a state receives above-average per capita amounts of assessed Commonwealth payments, it is assessed to require less GST per capita. Conversely, if a state receives below-average amounts, it is assessed to require more GST per capita.

Between 2018–19 and 2021–22, there were changes in the interstate distribution of some payments for specific purposes, particularly for road infrastructure, rail infrastructure and national health reform. This had flow-on effects for GST pool distribution. New and ceased payments for specific purposes in 2020–21 also affected GST distribution.

Victoria, Western Australia, the ACT and the Northern Territory received greater shares of assessed Commonwealth payments in 2021–22 than in 2018–19, lowering their assessed GST needs. The other states received smaller shares of Commonwealth payments in 2021–22 than in 2018–19, increasing their assessed GST needs (see Table 2-7).

Table 2-7 Changes in the estimated GST distribution due to changes in Commonwealth payments, 2022–23 to 2023–24

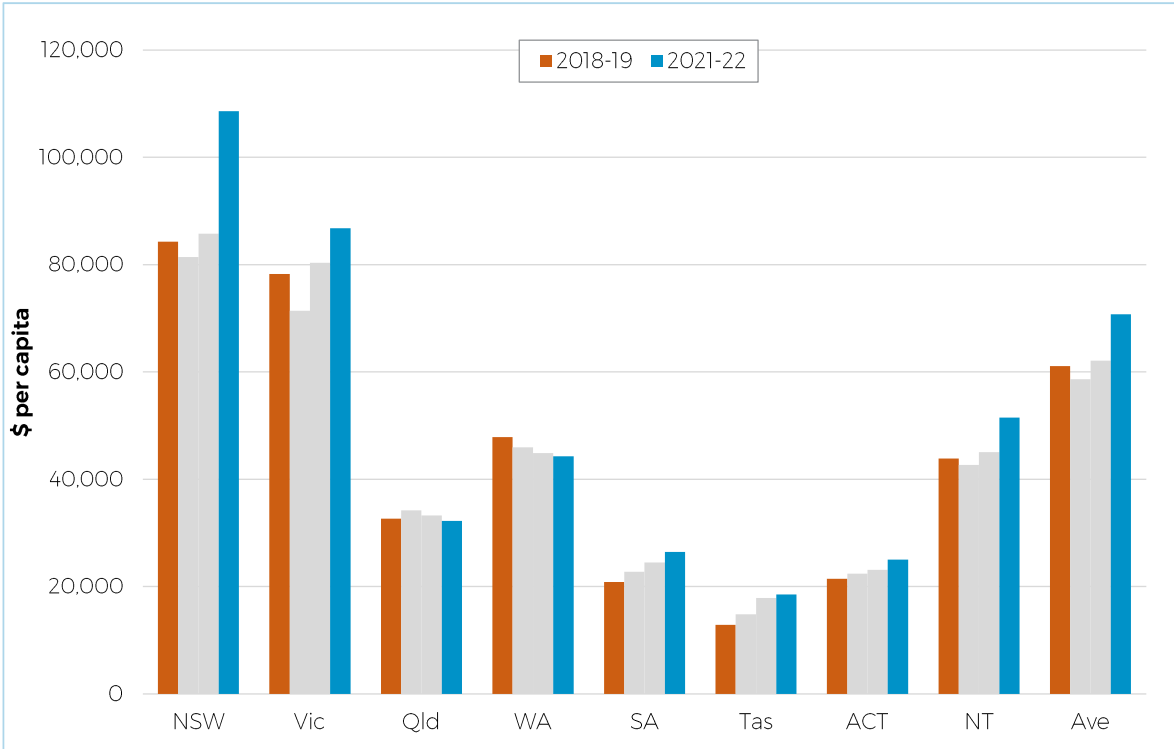
| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--|-----------|------------|-----------|-------------|------------|----------|-----------|------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Infrastructure investment program - National network roads | 36 | -83 | -34 | -45 | 153 | -16 | -5 | -6 | 189 |
| Building Australia Fund - Rail | -162 | 32 | 38 | -12 | 104 | 1 | -3 | 3 | 177 |
| National health reform funding | 41 | 38 | 85 | -40 | -78 | -14 | -2 | -30 | 164 |
| Infrastructure investment program - Other roads | 104 | -68 | -46 | -20 | 10 | 3 | 3 | 14 | 134 |
| Students First funding - government education | 25 | -24 | 15 | -24 | 4 | 9 | -1 | -2 | 52 |
| Urban Congestion Fund | 29 | 13 | 2 | -39 | -12 | 3 | 3 | 2 | 51 |
| Water for the Future | -33 | 29 | -8 | -3 | 1 | 9 | 6 | 0 | 45 |
| Pay equity for the social and community services sector | -22 | 2 | 7 | 19 | -5 | 1 | -1 | -1 | 29 |
| Bilateral Energy and Emissions Reduction Agreements | -11 | 11 | -16 | 2 | 9 | 5 | 0 | 0 | 27 |
| Community Health Hospitals and Infrastructure projects | 1 | 0 | -14 | -4 | 14 | 3 | -2 | 0 | 20 |
| Other | 37 | -41 | 22 | -15 | -1 | 2 | -3 | -2 | 62 |
| Total | 44 | -90 | 51 | -182 | 199 | 6 | -5 | -23 | 300 |

Source: Commission calculation.

Taxable land values

Cycles in property markets change state land values and their capacities to raise land tax. Between 2018–19 and 2021–22, per capita taxable land values increased by 16% nationally. New South Wales, South Australia, Tasmania, the ACT and the Northern Territory experienced above-average growth over the period (see Figure 2-5). This reduced the assessed GST needs of those states.

Figure 2-5 Taxable land value per capita, 2018–19 to 2021–22



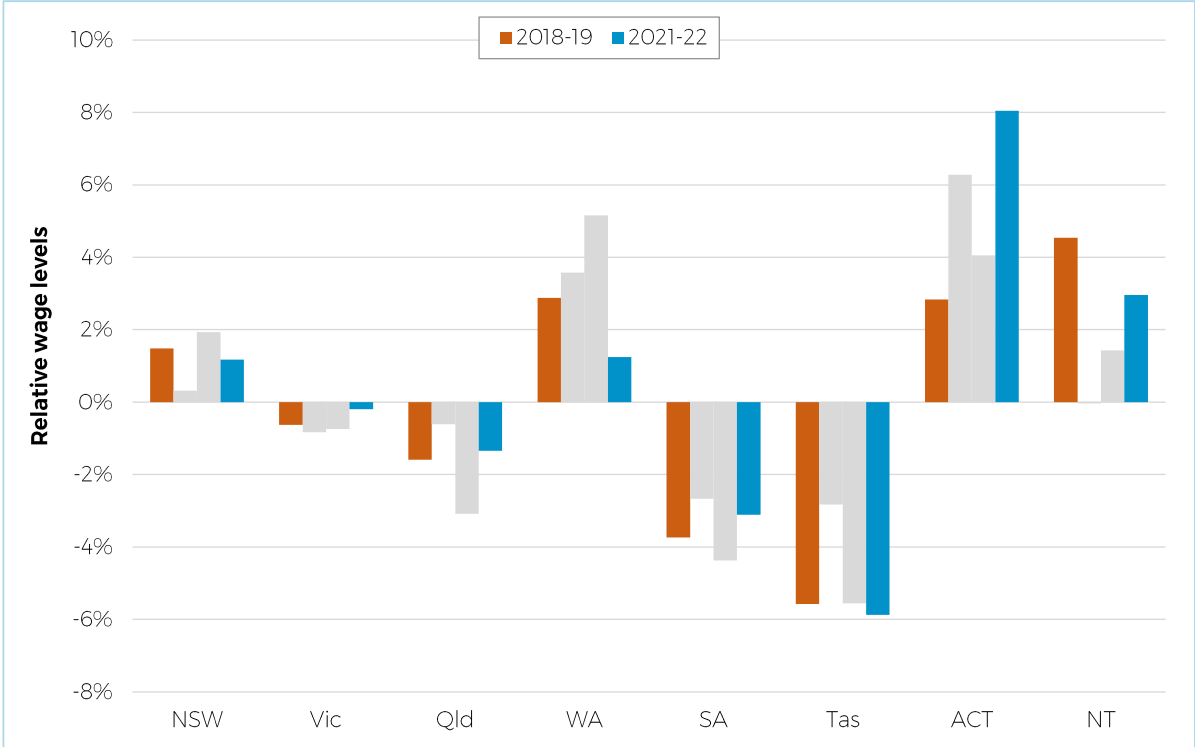
Source: Commission calculation based on annual data provided by states.

Wage costs

Wage growth between 2018–19 and 2021–22 was above average in Victoria, Queensland, South Australia and in particular the ACT (see Figure 2-6). Wage growth between these 2 years was below average in other states, in particular Western Australia and the Northern Territory.

Following consultation with the states, the Commission made an adjustment to its wage cost calculation in each state in order to minimise any bias from COVID-19 lockdowns. This adjustment seeks to ensure the Commission continues to appropriately reflect wage pressures in each state. This issue is discussed in more detail in the attachment to the [New Issues for the 2023 Update](#).

Figure 2-6 Relative wage costs, 2018-19 to 2021-22



Source: Commission calculation.

Box 2-3 Fiscal impacts of COVID-19

For the 2021 and 2022 Updates, the Commission concluded, on balance, that:

- state responses to COVID-19 largely reflected circumstances rather than state specific policy choices
- the Commission's revenue assessments largely captured the effects of COVID-19 on states' revenue raising capacities
- the drivers of state spending on COVID-19 health services and business support were likely to differ from the drivers in the Commission's assessment methods.

The impact of COVID-19, and states' responses, have evolved since early 2020. The Commission again consulted states on these issues as part of the 2023 Update. The focus of the consultations was on the assessment methods for spending on health services and business support.

Health

The pattern of state spending on COVID-19 public hospital and public health services under the National Partnership on COVID-19 Response (50% of which was funded by the Commonwealth) differed from the Commission's assessment of state health spending needs. As such, the drivers of state spending (and Commonwealth payments) on COVID-19 health services differ from the drivers of state health spending that are the basis of the Commission's decisions.

Given the spending has not been specifically assessed, the Commission decided to continue to treat the Commonwealth payments associated with the National Partnership on COVID-19 Response as no impact.

In keeping with the terms of reference for the 2023 Update to use the assessment methods from the 2022 Update, the Commission has applied the 2020 Review health assessment approach to state funded spending under the National Partnership on COVID-19 Response.

Business support

State spending to support businesses during the COVID-19 pandemic differed distinctly from states' usual business development programs. Where usual state programs tend to have a long-term focus on growing industries and employment, the measures deployed during the pandemic were short term in nature and aimed at keeping businesses afloat until trading conditions returned to normal. The drivers of spending for COVID-19 business support did not align with the Commission's existing assessment methods.

For the 2023 Update, the Commission decided to treat the Commonwealth payments associated with the COVID-19 business support agreements as no impact. This was on the basis that the relevant state spending needs were not specifically assessed by the existing business development assessment method.

In keeping with the terms of reference for the 2023 Update to use the assessment methods from the 2022 Update, the Commission has applied the 2020 Review services to industry assessment approach to state-funded spending under the COVID-19 business support agreements.

See the [New Issues for the 2023 Update](#) for further information on the Commission's consultations with states on this issue.

Why GST shares differ

States' economic, socio-demographic characteristics affect their expenditures and revenues. The Commission takes these into account when assessing how much GST each state needs.

These characteristics have contributed to differences between the recommended GST pool distribution and an equal per capita allocation (see Table 2-8). This comparison shows whether a state has been assessed by the Commission to have above-average or below-average needs for GST revenue.

Over the 3-year assessment period for the 2023 Update, New South Wales and Victoria had above-average capacities to raise revenue from property sales, taxable land values and taxable payrolls, yet lower mining revenue raising capacities. Western Australia had by far the highest capacity to raise revenue, mainly from mining production but also from taxable payrolls. Queensland and the Northern Territory had above-average capacity to raise revenue from mining production.

Queensland, Western Australia, South Australia, Tasmania and the Northern Territory had above-average expense needs. Population dispersion is a key reason for the higher expense needs of these states as it costs more to provide services to a dispersed population. On average, it costs more to provide services to First Nations people because of their higher use of services and higher complexity of needs. This was a key driver of higher expense needs for Queensland, Western Australia, Tasmania and the Northern Territory. Low socio-economic status and an older age structure drove higher expense needs in South Australia. Wage costs raised expense needs for Western Australia. For the ACT, higher expense needs from wage costs and administrative scale were more than offset by lower expense needs due to the socio-demographic composition of the ACT population.

Queensland, Western Australia, South Australia, Tasmania and the ACT had above-average investment needs resulting from higher population growth over the period 2019–20 to 2021–22. New South Wales, Western Australia and the Northern Territory were assessed to have greater investment needs due to capital improvements and the cost of construction.

Overall, Queensland, South Australia, Tasmania, the ACT and the Northern Territory were assessed to have above-average needs for GST revenue. The blending of assessed and standard state relativities and application of the GST relativity floor, as required by the 2018 legislated arrangements, resulted in all states except Western Australia receiving less GST revenue than assessed by the Commission.

Table 2-8 Drivers of difference from an equal per capita distribution of GST, 2023–24

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Total Effect |
|--|---------------|---------------|--------------|----------------|--------------|--------------|-------------|--------------|---------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| REVENUE RAISING CAPACITY | | | | | | | | | |
| Mining production | 4,704 | 6,019 | -1,242 | -11,553 | 1,242 | 417 | 438 | -26 | 12,821 |
| Property sales | -2,888 | -471 | 877 | 1,150 | 876 | 277 | 16 | 162 | 3,359 |
| Taxable land values | -1,684 | -780 | 1,190 | 376 | 528 | 199 | 138 | 33 | 2,464 |
| Taxable payrolls | -464 | -33 | 781 | -1,088 | 459 | 261 | 82 | 2 | 1,585 |
| Other revenue effects | 106 | 103 | -61 | -74 | -150 | -1 | 61 | 15 | 285 |
| TOTAL REVENUE | -226 | 4,839 | 1,546 | -11,187 | 2,955 | 1,153 | 734 | 186 | 11,413 |
| COMMONWEALTH PAYMENTS | 606 | 1,273 | -1,343 | -177 | 80 | -54 | 148 | -533 | 2,108 |
| EXPENSE NEEDS | | | | | | | | | |
| Socio-demographic composition (SDC) | | | | | | | | | |
| Population dispersion | -2,066 | -1,753 | 1,065 | 694 | 116 | 647 | -298 | 1,593 | 4,117 |
| Indigenous status | 153 | -2,641 | 1,135 | 285 | -248 | 181 | -116 | 1,251 | 3,006 |
| Socio-economic status | 50 | -322 | 326 | -197 | 565 | 114 | -370 | -166 | 1,055 |
| Age | 256 | -107 | -185 | -78 | 234 | -25 | -29 | -67 | 490 |
| Other SDC | -93 | -213 | 196 | 11 | 7 | 17 | -30 | 104 | 336 |
| Total SDC | -1,699 | -5,035 | 2,538 | 716 | 674 | 935 | -842 | 2,715 | 7,577 |
| Urban centre characteristics | 1,371 | 486 | -763 | -304 | -355 | -259 | -65 | -112 | 1,858 |
| Wage costs | 658 | -277 | -655 | 713 | -461 | -232 | 190 | 64 | 1,625 |
| Administrative scale | -714 | -497 | -297 | 71 | 208 | 390 | 396 | 443 | 1,508 |
| Student populations | -212 | -311 | 480 | 105 | -84 | -34 | 12 | 44 | 641 |
| Non-state health sector | -269 | 192 | -277 | 251 | -1 | 26 | 134 | -56 | 603 |
| Other expenses | -185 | -845 | 358 | 486 | 130 | 34 | -143 | 165 | 1,174 |
| TOTAL EXPENSES | -1,049 | -6,286 | 1,384 | 2,038 | 110 | 859 | -320 | 3,264 | 7,655 |
| INVESTMENT | | | | | | | | | |
| Population growth | -974 | -936 | 1,093 | 735 | 30 | 6 | 57 | -11 | 1,920 |
| Capital improvements | 914 | -114 | -376 | 3 | -309 | -238 | -223 | 343 | 1,260 |
| Cost of construction | 306 | -695 | -169 | 440 | -35 | -53 | 34 | 171 | 952 |
| TOTAL INVESTMENT | 246 | -1,745 | 548 | 1,178 | -314 | -285 | -133 | 504 | 2,476 |
| NET BORROWING | 304 | 237 | -309 | -183 | -14 | -30 | -20 | 14 | 555 |
| Total effect of assessed relativities (a) | -119 | -1,683 | 1,825 | -8,331 | 2,819 | 1,643 | 410 | 3,435 | 10,133 |
| Blending relativities | -1,162 | -952 | -763 | 3,324 | -261 | -83 | -66 | -38 | 3,324 |
| Floor applied | -780 | -639 | -511 | 2,229 | -175 | -55 | -44 | -24 | 2,229 |
| TOTAL | -2,060 | -3,273 | 551 | -2,778 | 2,383 | 1,505 | 299 | 3,373 | 8,111 |

Note: This table shows the drivers that lead to each state receiving more or less than an equal per capita share of GST in 2023–24.

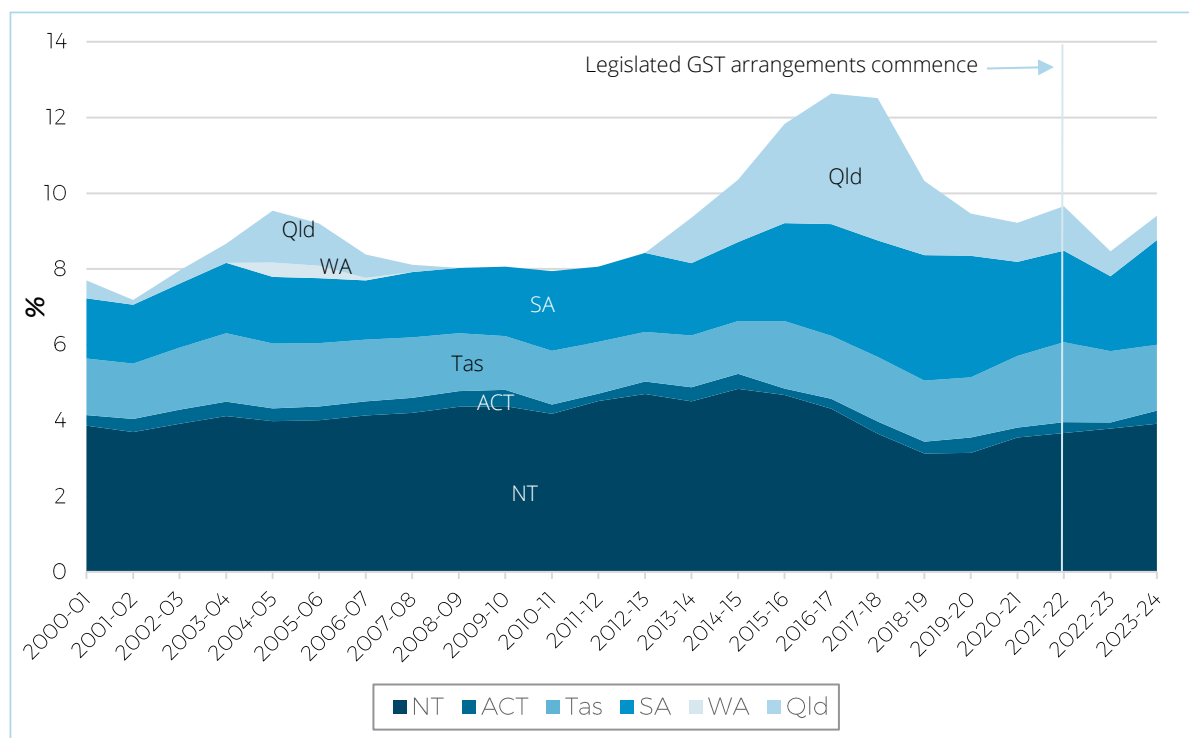
(a) Assessed relativities reflect the GST each state needs, to have the same capacity to provide services as the other states. Legislation specifies how these are adjusted to derive GST relativities, which determine GST distribution.

Source: Commission calculation.

Size of the equalisation task

Since the introduction of the GST in 2000–01, South Australia, Tasmania, the ACT and the Northern Territory have received a share of the GST pool in excess of their population share. Queensland has had an above-average GST pool distribution for the majority of the period. Its high needs in the mid-2010s were mainly due to significant natural disaster relief expenses. Western Australia had above-average needs for a 3-year period in the mid-2000s (see Figure 2-7).

Figure 2-7 Proportion of the GST pool in excess of a state’s population share, 2000–01 to 2023–24 (excludes no worse off payments)



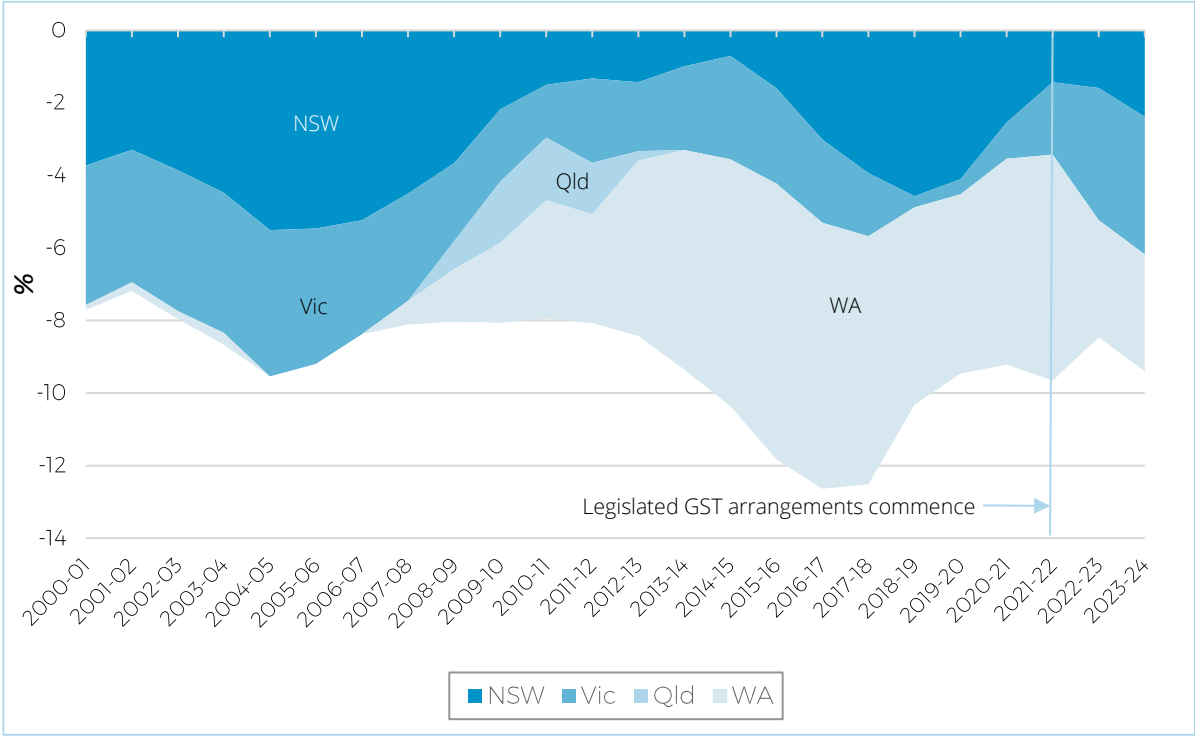
Source: Commission calculation.

The assessed GST needs of New South Wales, Victoria and Western Australia have varied since the introduction of the GST (see Figure 2-8).

Growing royalties from iron ore have resulted in Western Australia needing significantly less revenue from the GST pool. The high concentration of iron ore in Western Australia has meant that changes in its assessed GST needs largely follow changes in its iron ore royalties. While iron ore royalties have increased rapidly over the past 2 decades, they have fluctuated due to the combined effect of price volatility and an expansion in the volumes produced.

The growing fiscal strength of Western Australia has meant that New South Wales and Victoria have become financially weaker in relative terms. The proportion of the GST pool received by New South Wales and Victoria combined has increased since 2004–05.

Figure 2-8 Proportion of the GST pool less than a state’s population share, 2000–01 to 2023–24 (excludes no worse off payments)



Source: Commission calculation.

3. State by state changes

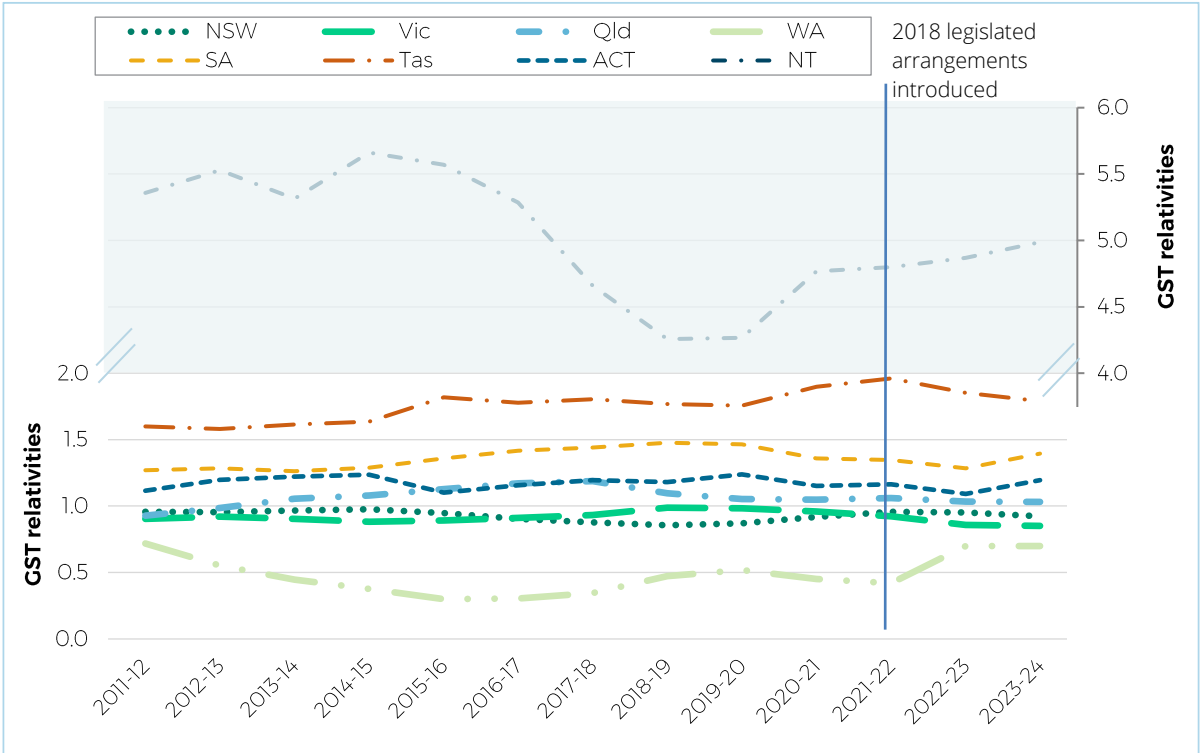
Key points

- All states are expected to receive more revenue from the GST pool in 2023–24 than they received in 2022–23, reflecting an estimated increase in the pool of more than \$3 billion. This is despite some states having a smaller GST relativity.
- The estimated increases in state GST distribution in 2023–24 are: New South Wales \$152 million (\$18 per capita), Victoria \$621 million (\$92 per capita), Queensland \$673 million (\$124 per capita), Western Australia \$254 million (\$89 per capita), South Australia \$943 million (\$509 per capita), Tasmania \$5 million (\$8 per capita), the ACT \$223 million (\$473 per capita) and the Northern Territory \$255 million (\$979 per capita).
- This is the second year in which the GST relativity floor of 0.70 is drawn from the GST pool. Increasing Western Australia’s relativity to the 0.70 floor reduces the relativity of the other states, whose GST distributions would be reduced on a population share basis.

This chapter sets out the major drivers of change in each state’s GST revenue since the 2022 Update. In addition to changes in assessed GST needs and the combined impact of blended relativities and the GST relativity floor, states’ estimated GST distributions will be affected by changes in state populations in the year of distribution, and any changes in the size of the GST pool (including Commonwealth top-up payments as part of the 2018 legislated arrangements).

Figure 3-1 shows changes in states’ GST relativities since 2011–12. Chapter 2 explained why states’ assessed GST needs differ from each other and why they have changed from 2022–23.

Figure 3-1 GST relativities, 2011–12 to 2023–24



Note: The GST relativities in 2015–16 and 2020–21 included the impacts of method reviews.
 Source: Commission calculation.

Australia’s GST arrangements are transitioning from assessed relativities to relativities based on a benchmark of the fiscally stronger of New South Wales or Victoria. In the 2023 Update, Victoria was assessed as fiscally stronger in 2019–20 and 2020–21 and New South Wales in 2021–22.

The 2018 legislated arrangements allow for additional financial assistance to be made to a state should the GST it receives be less than it would have received under the previous arrangements. These no worse off payments apply until the end of the transition period in 2026–27. These payments are not discussed or factored into this chapter. They are discussed and estimated in Chapter 1.

New South Wales

New South Wales' share of the GST pool is estimated to decrease from 29.7% to 28.8%. Taking into account growth in the GST pool, New South Wales' estimated GST distribution in 2023–24 would increase by \$152 million (\$18 per capita), or 0.6%.

- New South Wales' assessed GST needs reduced due to:
 - well above-average growth in the value of property sales and taxable land values
 - a downward revision to its population following the 2021 Census.
- These changes were partly offset by a national increase in urban transport investment (with New South Wales having above-average spending needs in this area), a fall in New South Wales' relative capacity to raise mining revenue (growing value of iron ore production in Western Australia more than offset the impact of higher coal royalties) and greater expense needs for natural disaster relief and business support.
- Estimated growth in the GST pool was sufficient to offset the reduction in New South Wales' assessed GST needs and the combined effect of blended relativities and the GST relativity floor.

Table 3-1 Change in estimated GST distribution from 2022–23 to 2023–24, New South Wales (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|-----------|
| Change in population | -80 | -10 |
| Growth in GST pool | 927 | 112 |
| Changes in assessed GST needs | | |
| Revised populations from census | -547 | -66 |
| Other data revisions | -63 | -8 |
| State circumstances | 109 | 13 |
| Total | -501 | -61 |
| Blended relativities and GST floor | -193 | -23 |
| Total change | 152 | 18 |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-2 New South Wales: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Property sales | -837 | -101 | Well above-average growth in property sales increased New South Wales' relative revenue raising capacity and reduced its assessed GST needs. |
| Capital improvements | 459 | 56 | National urban transport investment more than doubled between 2018–19 and 2021–22. This increased the assessed GST needs of states with above-average urban transport investment needs, especially New South Wales. |
| Mining production | 332 | 40 | The growing value of iron ore production in Western Australia more than offset the impact of higher coal royalties, such that New South Wales' relative mining revenue capacity was reduced and its assessed GST needs increased. |
| Taxable land values | -189 | -23 | Above-average growth in taxable land values increased New South Wales' relative revenue raising capacity and decreased its assessed GST needs. |
| Economic environment | 128 | 16 | Large growth in the national level of spending on industries other than agriculture and mining, mainly due to COVID-19 business support payments, increased the assessed GST needs of states with above-average shares of industry production, particularly New South Wales. |
| Natural disaster relief | 108 | 13 | An increase in disaster relief expenses in response to the 2021 and 2022 floods increased New South Wales' assessed GST needs. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | -547 | -66 | A downward revision to New South Wales' estimated resident population reduced its assessed GST needs. The main effect was to reduce assessed needs for urban transport investment due to a downward revision to the population in major urban areas. |

Source: Commission calculation.

Victoria

Victoria's share of the GST pool is estimated to fall slightly from 21.9% to 21.8%. Taking into account growth in the GST pool, Victoria's estimated GST distribution in 2023–24 would increase by \$621 million (\$92 per capita), or 3.4%.

- Victoria's assessed GST needs fell slightly due to:
 - reduced investment needs following a downward revision to its population following the 2021 Census and a decline in its population growth between 2018–19 and 2021–22
 - lower natural disaster relief expenses
 - increased national spending on services used by First Nations peoples.
- The decreases to its assessed GST needs were almost entirely offset by a fall in Victoria's relative capacity to raise mining revenue (due to growing value of mining production in other states), together with below-average growth in property sales and a national increase in urban transport investment (Victoria has above-average needs in urban transport).
- Expected growth in the GST pool would be sufficient to offset the reduction in Victoria's assessed GST needs and the combined effect of blended relativities and the GST relativity floor.

Table 3-2 Change in estimated GST distribution from 2022–23 to 2023–24, Victoria (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|-----------|
| Change in population | 60 | 9 |
| Growth in GST pool | 686 | 101 |
| Changes in assessed GST needs | | |
| Revised populations from census | -640 | -94 |
| Other data revisions | 49 | 7 |
| State circumstances | 627 | 92 |
| Total | 36 | 5 |
| Blended relativities and GST floor | -161 | -24 |
| Total change | 621 | 92 |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-3 Victoria: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Mining production | 779 | 115 | The growing value of production in other states reduced Victoria's relative revenue raising capacity and increased its assessed GST needs. |
| Population growth | -603 | -89 | The decline in Victoria's population growth between 2018-19 and 2021-22 was greater than the national average decline. This reduced its assessed investment needs. |
| Property sales | 284 | 42 | Below-average growth in property sales decreased Victoria's relative revenue raising capacity and increased its assessed GST needs. |
| Capital improvements | 261 | 38 | National urban transport investment more than doubled between 2018-19 and 2021-22. This increased the assessed GST needs of states with above-average urban transport investment needs, including Victoria. |
| Indigenous status | -95 | -14 | Growth in national expenses, in excess of growth in the GST pool, in assessment categories where Indigenous status is a large driver of need, reduced Victoria's assessed GST needs given its relatively small First Nations population. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | -640 | -94 | A downward revision to Victoria's estimated resident population reduced its assessed GST needs. The main effect was to reduce assessed needs for urban transport investment due to a downward revision to the population in major urban areas. |
| Natural disaster relief | -143 | -21 | Incorporating actual 2019-20 and 2020-21 natural disaster expense data for Victoria resulted in a downward revision to Victoria's natural disaster relief expenses. This reduced its assessed GST needs. |

Source: Commission calculation.

Queensland

Queensland's share of the GST pool is estimated to remain at 21.1%. Taking into account growth in the GST pool, Queensland's estimated GST distribution in 2023–24 would increase by \$673 million (\$124 per capita), or 3.8%.

- Queensland's assessed GST needs increased due to:
 - a smaller than average decline in population growth between 2018–19 and 2021–22
 - an upward revision to its population following the 2021 Census
 - a fall in its relative capacity to raise revenue from property sales and taxable land values.
- These increases in assessed GST needs were partly offset by an increase in Queensland's capacity to raise mining revenue, along with the effect of a national increase in urban transport investment and an upward revision to the value of property sales in Queensland.
- Queensland's estimated GST distribution increased due to growth in the GST pool and the increase its assessed GST needs. These exceeded the combined effect of blended relativities and the GST relativity floor.

Table 3-3 Change in estimated GST distribution from 2022–23 to 2023–24, Queensland (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|------------|
| Change in population | 31 | 6 |
| Growth in GST pool | 661 | 122 |
| Changes in assessed GST needs | | |
| Revised populations from census | 204 | 38 |
| Other data revisions | 52 | 10 |
| State circumstances | -150 | -28 |
| Total | 105 | 19 |
| Blended relativities and GST floor | -125 | -23 |
| Total change | 673 | 124 |

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

Figure 3-4 Queensland: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Mining production | -417 | -77 | The growing value of coal production increased Queensland's relative revenue raising capacity and reduced its assessed GST needs. |
| Capital improvements | -291 | -54 | National urban transport investment more than doubled between 2018–19 and 2021–22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including Queensland. |
| Population growth | 272 | 50 | The decline in Queensland's population growth between 2018–19 and 2021–22 was less than the national average decline. This increased its share of investment needs. |
| Property sales | 102 | 19 | Strong growth in property sales in New South Wales decreased Queensland's relative revenue raising capacity and increased its assessed GST needs. |
| Economic environment | -69 | -13 | Large growth in the national level of spending on industries other than agriculture and mining, mainly due to COVID-19 business support payments, reduced the assessed GST needs of states with below-average shares of industry production, including Queensland. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | 204 | 38 | Downward revisions to urban populations in New South Wales and Victoria reduced their assessed needs for urban transport investment, increasing the assessed GST needs of other states. |
| Property sales | -84 | -15 | An upward revision to Queensland's value of property sales reduced its assessed GST needs. |

Source: Commission calculation.

Western Australia

Western Australia's share of the GST pool is estimated to remain at 7.5%. Taking into account growth in the GST pool, Western Australia's estimated GST distribution in 2023–24 would increase by \$254 million (\$89 per capita), or 4.1%.

- Western Australia's assessed GST needs declined due to:
 - an increase in its capacity to raise mining revenue
 - an increasing share of Commonwealth payments
 - the effects of a national increase in urban transport investment and downward revisions in national mining regulation expenses.
- The decline in its assessed GST needs was partly offset by an upward revision to its population in the 2021 Census, slower growth in property sales and a decline in its population growth between 2018–19 and 2021–22 that was smaller than average.
- Under the 2018 legislated arrangements, the combined effect of blended relativities and the GST relativity floor offsets the change in Western Australia's assessed needs. Those arrangements will drive \$543 million more in GST to Western Australia than they did in 2022–23. This is because Western Australia's assessed GST needs are lower than in the previous update, so there is a bigger gap between its assessed relativity and the legislated floor of 0.70. Expected growth in the GST pool also increased its estimated GST distribution.

Table 3-4 Change in estimated GST distribution from 2022–23 to 2023–24, Western Australia (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|-----------|
| Change in population | 10 | 4 |
| Growth in GST pool | 235 | 82 |
| Changes in assessed GST needs | | |
| Revised populations from census | 690 | 243 |
| Other data revisions | -75 | -26 |
| State circumstances | -1,148 | -404 |
| Total | -534 | -188 |
| Blended relativities and GST floor | 543 | 191 |
| Total change | 254 | 89 |

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

Figure 3-5 Western Australia: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Mining production | -1,047 | -368 | The growing value of iron ore production increased Western Australia's relative revenue raising capacity and reduced its assessed GST needs. |
| Population growth | 234 | 82 | The decline in Western Australia's population growth between 2018–19 and 2021–22 was less than the national average decline. This increased its share of investment needs. |
| Commonwealth payments | -182 | -64 | Above-average growth of Commonwealth payments made to Western Australia between 2018–19 and 2021–22 decreased its assessed GST needs. |
| Property sales | 151 | 53 | Strong growth in property sales in New South Wales decreased Western Australia's relative revenue raising capacity and increased its assessed GST needs. |
| Capital improvements | -127 | -44 | National urban transport investment more than doubled between 2018–19 and 2021–22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including Western Australia. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | 690 | 243 | An upward revision in Western Australia's total population increased its assessed GST needs. In addition, a downward revision to urban populations in New South Wales and Victoria reduced their assessed needs for investment in urban transport infrastructure, increasing the assessed needs of other states. |
| Economic environment | -146 | -51 | A downward revision to national mining regulation expenses reduced the assessed GST needs of states with above-average shares of mining production, particularly Western Australia. |

Source: Commission calculation.

South Australia

South Australia's share of the GST pool is estimated to increase from 9.0% to 9.8%. Taking into account growth in the GST pool, South Australia's estimated GST distribution in 2023–24 would increase by \$943 million (\$509 per capita), or 12.6%.

- South Australia's assessed GST needs increased due to:
 - an upward revision to its population in the 2021 Census
 - an upward revision in its natural disaster relief spending
 - a fall in its relative capacity to raise revenue from mining activity and property sales
 - slower growth in Commonwealth payments
 - a decline in its population growth between 2018–19 and 2021–22 that was smaller than average.
- The increase in its assessed GST needs was partly offset by the effects of a national increase in urban transport investment.
- South Australia's estimated GST distribution increased due to expected growth in the GST pool and the increase in its assessed GST needs. These exceeded the combined effect of blended relativities and the GST relativity floor.

Table 3-5 Change in estimated GST distribution from 2022–23 to 2023–24, South Australia (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|------------|
| Change in population | -16 | -8 |
| Growth in GST pool | 281 | 151 |
| Changes in assessed GST needs | | |
| Revised populations from census | 216 | 117 |
| Other data revisions | 28 | 15 |
| State circumstances | 474 | 256 |
| Total | 719 | 388 |
| Blended relativities and GST floor | -41 | -22 |
| Total change | 943 | 509 |

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

Figure 3-6 South Australia: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|---------------------------------|---------------|-------------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Mining production | 203 | 109 | The growing value of production in other states reduced South Australia's relative revenue raising capacity and increased its assessed GST needs. |
| Commonwealth payments | 199 | 107 | South Australia's share of payments, particularly for road and rail infrastructure, was lower in 2021–22 compared with 2018–19. This increased its assessed GST needs. |
| Property sales | 191 | 103 | Below-average growth in property sales decreased South Australia's relative raising capacity and increased its assessed GST needs. |
| Capital improvements | -134 | -72 | National urban transport investment more than doubled between 2018–19 and 2021–22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including South Australia. |
| Population growth | 82 | 44 | The decline in South Australia's population growth between 2018–19 and 2021–22 was less than the national average decline. This increased its share of investment needs. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | 216 | 117 | Downward revisions to urban populations in New South Wales and Victoria reduced their assessed needs for urban transport investment, increasing the assessed GST needs of other states. |
| Natural disaster relief | 44 | 24 | An upward revision to South Australia's natural disaster relief expenses increased its assessed GST needs. |

Source: Commission calculation.

Tasmania

Tasmania's share of the GST pool is estimated to decrease slightly from 4.1% to 4.0%. Taking into account growth in the GST pool, Tasmania's estimated GST distribution in 2023–24 would increase by \$5 million (\$8 per capita), or 0.1%.

- Tasmania's assessed GST needs declined due to:
 - a national increase in urban transport investment
 - an above-average decline in its population growth between 2018–19 and 2021–22
 - the effect of increased national spending on business support
 - lower natural disaster relief expenses
 - reduced expense needs for school education.
- These changes were partly offset by a fall in its relative capacity to raise revenue from property sales and mining activity.
- Estimated growth in the GST pool was sufficient to offset the reduction in Tasmania's assessed GST needs and the combined effect of blended relativities and the GST relativity floor.

Table 3-6 Change in estimated GST distribution from 2022–2023 to 2023–24, Tasmania (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|----------|----------|
| Change in population | -9 | -15 |
| Growth in GST pool | 128 | 218 |
| Changes in assessed GST needs | | |
| Revised populations from census | -8 | -13 |
| Other data revisions | 3 | 5 |
| State circumstances | -99 | -169 |
| Total | -103 | -177 |
| Blended relativities and GST floor | -11 | -19 |
| Total change | 5 | 8 |

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

Figure 3-7 Tasmania: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|---|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Capital improvements | -93 | -159 | National urban transport investment more than doubled between 2018–19 and 2021–22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including Tasmania. |
| Property sales | 63 | 108 | Below-average growth in property sales decreased Tasmania's relative raising capacity and increased its assessed GST needs. |
| Mining production | 42 | 72 | The growing value of production in other states increased, reducing Tasmania's relative revenue raising capacity and increasing its assessed GST needs. |
| Population growth | -36 | -62 | The decline in Tasmania's population growth between 2018–19 and 2021–22 was greater than the national average decline. This reduced its investment needs. |
| Economic environment | -17 | -29 | Large growth in the national level of spending on industries other than agriculture and mining, mainly due to COVID-19 business support payments, reduced the assessed GST needs of states with below-average shares of industry production, particularly Tasmania. |
| Natural disaster relief | -16 | -27 | As Tasmania's expenses for the 2018 flooding event and 2019 bushfires moved out of the assessment years, its natural disaster relief expenses fell. This reduced its assessed GST needs. |
| Student populations | -13 | -22 | Tasmania's school student population grew more slowly than its total population, reducing its per capita need for school spending and its assessed GST needs. |

Source: Commission calculation.

Australian Capital Territory

The ACT's share of the GST pool is estimated to increase from 1.9% to 2.1%. Taking into account growth in the GST pool, the ACT's estimated GST distribution in 2023–24 would increase by \$223 million (\$473 per capita), or 13.9%.

- The ACT's assessed GST needs increased due to:
 - an upward revision to its population in the 2021 Census
 - faster growing wage costs
 - the effect of the increased capacity to raise mining revenue in other states
 - increased construction costs
 - higher cost of contributions to the National Disability Insurance Agency (due to the upward revision to its population).
- The increase in its assessed GST needs was partly offset by the effects of a national increase in urban transport investment.
- The ACT's estimated GST distribution increased due to expected growth in the GST pool and an increase in its assessed GST needs. These exceeded the combined effect of blended relativities and the GST relativity floor.

Table 3-7 Change in estimated GST distribution from 2022–23 to 2023–24, the ACT (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|------------|
| Change in population | 2 | 5 |
| Growth in GST pool | 61 | 129 |
| Changes in assessed GST needs | | |
| Revised populations from census | 83 | 177 |
| Other data revisions | 34 | 72 |
| State circumstances | 54 | 114 |
| Total | 171 | 363 |
| Blended relativities and GST floor | -11 | -23 |
| Total change | 223 | 473 |

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

Figure 3-8 ACT: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|---------------------------------|---------------|-------------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Wage costs | 58 | 123 | Wage costs in the ACT grew faster than the national average between 2018–19 and 2021–22, increasing its assessed GST needs. |
| Mining production | 54 | 115 | The growing value of production in other states reduced the ACT's relative revenue raising capacity and increased its assessed GST needs. |
| Capital improvements | -31 | -67 | National urban transport investment more than doubled between 2018–19 and 2021–22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including the ACT. |
| Cost of construction | 13 | 28 | The cost of construction in the ACT increased between 2018–19 and 2021–22, increasing its assessed GST needs. |
| Population growth | -12 | -25 | The decline in the ACT's population growth between 2018–19 and 2021–22 was greater than the national average decline. This reduced its investment needs. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Populations from census | 83 | 177 | Downward revisions to urban populations in New South Wales and Victoria reduced their assessed GST needs for urban transport investment, increasing the assessed GST needs of other states. |
| NDIS | 12 | 26 | The ACT's share of state contributions to the National Disability Insurance Agency increased due to a relatively larger increase in its population between the 2011 Census and the 2021 Census. This increased its assessed GST needs. |

Source: Commission calculation.

Northern Territory

The Northern Territory's share of the GST pool is estimated to increase from 4.8% to 4.9%. Taking into account growth in the GST pool, the Northern Territory's estimated GST distribution in 2023–24 would increase by \$255 million (\$979 per capita), or 6.4%.

- The Northern Territory's assessed GST needs increased due to:
 - a fall in its relative capacity to raise revenue from mining activity and property sales
 - increased national spending on services used by First Nations peoples
 - an increase in its population growth between 2018–19 and 2021–22
 - a national increase in spending on services where population dispersion is a large driver of need.
- The increase in its assessed GST needs was partly offset by the effects of a national increase in urban transport investment and revisions to the cost of investment in justice infrastructure.
- The Northern Territory's estimated GST distribution increased due to expected growth in the GST pool and an increase in its assessed GST needs. The combined effect of blended relativities and the GST relativity floor was largely unchanged.

Table 3-8 Change in estimated GST distribution from 2022–23 to 2023–24, Northern Territory (excludes no worse off payments)

| | \$m | \$pc |
|------------------------------------|------------|------------|
| Change in population | 0 | 1 |
| Growth in GST pool | 149 | 574 |
| Changes in assessed GST needs | | |
| Revised populations from census | 0 | 1 |
| Other data revisions | -27 | -103 |
| State circumstances | 133 | 512 |
| Total | 106 | 410 |
| Blended relativities and GST floor | -1 | -5 |
| Total change | 255 | 979 |

Note: Table may not add due to rounding.

Source: Commission calculation.

Figure 3-9 Northern Territory: Main changes in assessed GST needs, 2023 Update

| Changes in circumstances | | | |
|--------------------------|--------|------|--|
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Mining production | 55 | 211 | The growing value of production in other states decreased the Northern Territory's relative revenue raising capacity and increased its assessed GST needs. |
| Property sales | 45 | 172 | Below-average growth in property sales decreased the Northern Territory's relative raising capacity and increased its assessed GST needs. |
| Indigenous status | 44 | 171 | Growth in national expenses, in excess of growth in the GST pool, in assessment categories where Indigenous status is a large driver of need, increased the Northern Territory's assessed GST needs given the relatively large First Nations population in the state. |
| Capital improvements | -44 | -168 | National urban transport investment more than doubled between 2018-19 and 2021-22. This decreased the assessed GST needs of states with below-average urban transport investment needs, including the Northern Territory. |
| Population growth | 30 | 116 | An increase in population growth between 2018-19 and 2021-22 in the Northern Territory increased investment needs. |
| Population dispersion | 26 | 102 | Growth in national expenses, in excess of growth in the GST pool, in assessment categories where population dispersion is a large driver of need, increased the Northern Territory's assessed GST needs given its relatively dispersed population. |
| Revisions | | | |
| Driver | Change | | Explanation |
| | \$m | \$pc | |
| Population dispersion | 24 | 91 | Incorporating data from the 2021 Census showed that the proportion of people in remote and very remote areas living in social housing was higher than estimated from the 2016 Census. This increased the assessed GST needs of states with above-average share of people living in remote and very remote areas, including the Northern Territory. |

Source: Commission calculation.

Attachment A: Quality assurance

This attachment reports on the quality assurance procedures applied in this update. These procedures aim to ensure:

- data used in the Commission's assessments are fit for purpose and of the best possible quality
- analysis is accurate
- reporting of the Commission's findings and reasons for decisions leading to them are accurate and transparent.

Checking calculations

The Commission completed a rigorous internal audit of all calculations. For each assessment, internal checks were performed and signed off by the assessment officer, another officer not involved in the original calculation, and the assessment director.

The Commission also engaged an officer from the Australian Treasury with relevant technical expertise to check the calculations. These checks were done after internal checks were completed.

Reporting of methods, decisions and results

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

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

The Commission has posted this update; its consultation paper, [New Issues in the 2023 Update](#); [state submissions](#) on this paper and a range of supporting documents on the Commission website (<https://www.cgc.gov.au>).

Glossary

This glossary includes terms used in this report that have a meaning specific to the Commission.

2018 legislated arrangements

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* includes the following key changes to the GST arrangements:

- additional funding in the GST pool through pool top-ups (see GST pool top-up payments defined below)
- changes to the distribution system so that no state has a relativity lower than the lower of New South Wales or Victoria (see standard state relativity defined below)
- changes to the distribution system to introduce a floor below which a state's GST relativity cannot fall (see GST relativity floor defined below)
- transition arrangements over a 6-year period. Transition arrangements include a no worse off guarantee, blending of assessed and standard state relativities to move gradually to standard state relativities, and moving to a GST relativity floor of 0.75.

For an explanation of how these arrangements are being implemented, see [New arrangements for distributing GST](#), Occasional Paper, September 2021 and [Report on GST Revenue Sharing Relativities, 2020 Review](#), Volume 2, Chapter 4.

actual per capita assessment (APC) method

A method used by the Commission where 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 judgement, the policies of all states are sufficiently similar, meaning differences in expenses or revenue per person are due to differences in state circumstances rather than policy choices.

administrative scale

A measure of the differences in costs that states incur in providing the minimum level of administration and policy development required to deliver services. It relates to core head office functions and specialised state-wide services provided centrally. More populous states can spread these costs across a larger service population, which reduces the cost per person.

application year

The year in which the recommended relativities are used to distribute the GST pool. For example, for the 2023 Update, the application year is 2023–24.

assessed expenses

The expenses a state would incur based on its relative advantages and disadvantages if it were to follow average policies and operate at average efficiency.

assessed investment

The expenditure on new and replacement infrastructure a state would incur based on its relative advantages and disadvantages if it were to follow average policies and operate at average efficiency.

assessment methods

An assessment method uses specified calculations and data to derive each state's assessed GST needs in that area, with the aim of bringing states closer together in their capacity to deliver services.

assessed GST needs

The GST distribution that reflects the application of assessed relativities (defined below) to the GST pool (defined below).

assessed net borrowing

The net borrowing that a state would undertake in a year if it followed the average policy of all states and operated at average efficiency. This is assessed to give states the capacity to maintain the national average net financial liabilities per person. States with slower growing populations have greater assessed GST needs.

assessed relativity

A measure used to inform the distribution of the GST pool. Assessed relativities are determined for each state such that, after allowing for advantages and disadvantages affecting revenues and expenditures, each would have the fiscal capacity to provide services and 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. In addition to own-source revenue the measure takes account of those Commonwealth payments to states treated as impact (defined below). The assessed relativities are blended with the standard state relativities (defined below) to obtain the GST relativities (defined below).

assessed revenue

The revenue a state would raise from its own sources if it were to apply average policies to its revenue base and raise revenue at the average level of efficiency. Assessed revenue excludes differences from the average due to policy choices, for example a higher or lower tax rate compared with the average.

assessment years

The Commission uses lagged data for 3 assessment years to calculate the recommended GST distribution in a given application year. For the 2023 Update, the assessment years are 2019–20, 2020–21 and 2021–22.

average expense / revenue

A per person measure derived as the total spending, or revenue collected by states, divided by the total population across Australia. It represents the average amount spent by states on each person or the average revenue collected from each person. As a 'per person' calculation, the more populous states generally have a greater effect on the average than the less populous states.

blended relativities

The transition to full application of the 2018 legislated arrangements involves the blending of assessed relativities and standard state relativities (defined below). The blending proportions are specified in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*. For the 2023 Update, the blend is weighted half to assessed relativities and half to standard state relativities. The weight given to standard state relativities increases each year until the transition is complete in 2026–27. Blended relativities are an input to the calculation of a state's GST relativity.

capital improvements

States invest in infrastructure to improve the level of assets per user of the service and to account for asset depreciation. This is separate from investment to provide for a growing population.

Commonwealth payments

Payments to states made by the Commonwealth. These include general revenue grants (other than distribution of the GST pool), payments for specific purposes and some payments for Commonwealth own-purpose expenses. The Commission determines the treatment of each payment as impact or no impact using established guidelines.

Commonwealth payment treated as ‘impact’

In treating a Commonwealth payment as ‘impact’ the Commission considers that it funds state services for which expense needs are assessed. These payments reduce the fiscal pressure on the state and therefore should have an impact on assessed relativities.

Commonwealth payment treated as ‘no impact’

In treating a Commonwealth payment as ‘no impact’ the Commission considers that the payment does not fund a state service for which GST needs are assessed. This means, in the Commission’s judgement, these payments do not have a fiscal impact on the state and therefore should have no impact on assessed relativities. In addition, the terms of reference may specify particular Commonwealth payments that the Commission must exclude from its assessment of assessed GST needs.

discount

Where a Commission assessment is affected by uncertainty in data or methods, it may decide to apply a discount. The discount reflects the Commission’s judgement of the degree of uncertainty: 12.5% for low levels of uncertainty, 25% for medium and 50% for high.

driver

A factor outside a state’s control that means:

- with average effort it can raise above (or below) average revenue per capita, or
- it needs to spend more (or less) per person than the average to provide the average level of service.

Drivers of differences in revenue raising capacity include the value of mining production, land values and the value of property transactions. Drivers of differences in the costs of services include socio-demographic characteristics, wage pressures, population dispersion, population density and rates of population growth.

equal per capita (EPC) assessment method

Where each state’s assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. The Commission typically uses this method when it judges that there are no material differences in advantages and disadvantages between the states, or where it cannot develop reliable assessments due to data or other limitations. This type of assessment means that no needs are assessed for any state and that there is no impact on the GST distribution.

fiscal capacity

Financial resources a state can use to provide services to its residents. An above-average fiscal capacity means a state requires less in GST payments than a state with a below-average fiscal capacity.

fiscal impacts

Economic, social or environmental developments that affect state government budgets. These could affect the revenue states raise, or the spending or investment states undertake.

GST pool

The funds available for distribution to the states as untied financial assistance. From 2021–22 the pool comprises GST revenue plus pool top-up payments (defined below) made by the Commonwealth.

GST relativity

The per person weight used to calculate a state's share of the GST pool. A state with a GST relativity higher than one (the average) will receive an above-average amount of GST per person. Under the 2018 legislated arrangements, a state's GST relativity is derived by first blending its assessed relativity with its standard state relativity (defined below), and then ensuring no state receives a relativity less than the GST relativity floor (defined below).

GST relativity floor

A minimum GST relativity, with an initial value of 0.70, then 0.75 from 2024–25.

horizontal fiscal equalisation

A principle that seeks to reduce fiscal disparities between sub-national governments. Australia gives effect to horizontal fiscal equalisation by distributing the GST pool to states to ensure that each has a similar fiscal capacity, under average policies and efficiency, to provide services and associated infrastructure to its citizens.

infrastructure

Physical assets belonging to a state's general government sector and its urban public transport and housing public non-financial corporations.

investment

The acquisition of physical assets for new infrastructure or to replace depreciated infrastructure, less any disposals of assets. This concept differs from that used by the Australian Bureau of Statistics for gross fixed capital formation. Gross fixed capital formation does not include non-produced asset transfers, such as land, which is included in the Commission's investment assessment.

materiality

A test the Commission uses in deciding whether to undertake separate assessments of needs, or to make data adjustments. An assessment is material if it changes the GST any state receives by at least \$35 per person. A data adjustment is material if it changes the GST any state receives by at least \$10 per person.

methodology reviews and updates

During a methodology review the Commission reconsiders the methods and approach it uses to calculate the recommended GST distribution, according to terms of reference given to it by the Commonwealth Treasurer. Since 1988 onwards, methodology reviews have usually occurred every five years. In contrast, an update of GST relativities is conducted every year other than a review year. In an update, the Commission applies the methods it determined in the last methodology review to incorporate new budgetary developments and the most recent available data. From the 2021 Update, the recommended relativities also reflect the transition to the 2018 legislated arrangements.

natural disaster relief

Expenses incurred by states under the Disaster Recovery Funding Arrangements 2018. These are assessed on an actual per capita basis.

net financial worth

The sum of financial assets minus the sum of liabilities.

no worse off payments

Payments made by the Commonwealth under the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*. The payments are part of a guarantee that no state will be worse off over the 6-year transition period (2021–22 to 2026–27). Each year during the transition period the total amount of financial assistance a state has received since 2021–22 (including GST distributions from the topped-up pool and previous no worse off payments) is compared with the total amount of GST it would have received based on no worse off relativities applied to a GST revenue only pool. The Commonwealth will make a no worse off payment equal to any cumulative shortfall. Where a state is better off in a year, this is taken into account in calculating a no worse off payment in a subsequent year. This additional financial assistance is funded by the Commonwealth outside the GST pool.

revenue base

A measure of transactions, activities or assets that are taxed by states. Differences between the revenue bases of each state are used by the Commission to determine the relative capacity of each state to raise revenue.

socio-demographic characteristics

The measurable personal characteristics that identify sub-groups within the population. These characteristics include age, socio-economic status, Indigenous status and remoteness. Data show that individuals with different socio-demographic characteristics have different levels of engagement with state services, and that service provision can be more or less costly for different sub-population groups.

socio-economic status

Refers to the social and economic position of a given individual, or group of individuals, within the larger society.

Data show that people from different socio-economic backgrounds have different levels of engagement with health, justice and other state services. The Commission uses the Indigenous Relative Socioeconomic Outcomes (IRSEO) index to measure the socio-economic status of the First Nations population, and a non-Indigenous specific version of the Australian Bureau of Statistics' Socio-Economic Index for Areas (NISEIFA) for the non-Indigenous population.

standard state

The standard state is the fiscally stronger of New South Wales or Victoria in an assessment year. In the 2023 Update it is Victoria for 2019–20 and 2020–21 and New South Wales for 2021–22.

standard state relativity

An input under the 2018 legislated arrangements in calculating the GST relativities. Standard state relativities are derived by adjusting assessed relativities to ensure that no state has a relativity below the standard state.

state(s)

Unless the context indicates otherwise, the term 'state(s)' includes the ACT and the Northern Territory.

top-up payments to the GST pool

Additional funds provided by the Commonwealth to top up the GST revenue pool as specified in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*. Under the 2018 legislated arrangements there is annual indexation of the GST pool top-up amount so that it continues to grow as GST revenue grows. The top-up payment was \$600 million in 2021–22. It is estimated to be \$672 million in 2022–23 and \$698 million in 2023–24.

transition period

The transition of the GST distribution arrangements to the 2018 legislated arrangements. The transition period is 2021–22 to 2026–27.