SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO GST DISTRIBUTION REFORMS

Submitted by

Clive Brooks

CONTENTS

1. OVERVIEW

The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* (the Act) requires the Productivity Commission (the Commission) to undertake a review into the Act's operation and report by 31 December 2026. This review is to examine 'whether the amendments made by this Act are operating efficiently, effectively and as intended; and the fiscal implications for each state, the Australian Capital Territory and the Northern Territory, of the amendments made by this Act'.

On 24 September 2025 the Hon Jim Chalmers MP, the Commonwealth Treasurer, issued terms of reference to the Commission to undertake an inquiry into the 2018 Goods and Services Tax (GST) distribution reforms[1]. In addition to the requirements of the Act, the terms of reference require the Commission to examine:

- To what extent the current arrangements are:
  1. Delivering a reasonable level of horizontal fiscal equalisation;
  2. Appropriately balancing the objective of responsiveness to changing circumstances with the objectives of reducing volatility and improving the certainty of GST revenue streams to support state fiscal planning;
  3. Supporting states and territories to pursue reforms, including to the efficiency of service delivery and state and territory revenue bases; and
  4. Fiscally sustainable for the Commonwealth and states and territories.
- Whether alternative arrangements would better achieve some or all of these outcomes.
- The interaction between GST payments and other Commonwealth payments to states, including the principles for exempting payments from the Commonwealth Grants Commission's assessments.

It should be noted that the Act takes effect through amendments made to two other Acts—the *Federal Financial Relations Act 2009* (the FFR Act) and *Commonwealth Grants Commission Act 1973* (the CGC Act).

A challenge facing the Commission is that its inquiry takes place while the transition arrangements of the Act are in place. The most important one is the 'no worse off guarantee' (NoWO). This means that the GST payments to the states and territories (hereafter the term 'states' is used for simplicity) would not be less than the payments they would have been in the absence of the Act. However, it is the fiscal implications after the expiration of the transition period that would be of great interest and concern to the states.

Horizontal fiscal equalisation (HFE) has been the basis of distributing the GST pool to the states. Paragraph 26 of the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR)[2]. states:

> 'The Commonwealth will distribute GST payments among the States and Territories in accordance with the principle of horizontal fiscal equalisation.'

1 Productivity Commission (2025), pp. 4–5.
2 Council of Australian Governments (2011).

Unfortunately, the IGAFFR does not define HFE and it has been left to the Commonwealth Grants Commission (CGC) to determine the principle of HFE. In its 2015 Review, the most recent at the time the Act was drafted, the CGC set out its concept of HFE as:

> 'State governments should receive funding from the pool of goods and services tax such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.'[3]

The CGC kept this approach to HFE for its 2020 and 2025 Reviews.

In November 2025 the Commission released an Issues Paper which set out its broad approach to the inquiry into the GST distribution reforms as well as specifying five information requests. This submission provides analyses to address the Commission's information requests, where it can add value. There are some additional issues worthy of analysis and these will be covered in this submission.

The conclusion that can be drawn from the analyses presented in this submission is that the current HFE method has no intellectual basis, only achieves one of its stated objectives and the nation would be better served if the previous HFE method was restored.

There is some terminology that is used throughout this submission that will be explained to remove any chance of confusion or misunderstanding:

Previous HFE method: this is the method used to determine the amount each state would receive in GST payments prior to the application of the Act, that is up to and including 2020–21.

Current HFE method: this method used to determine the amount each state would receive in GST payments after to the application of the Act, that from 2021–22 to current (includes transitional arrangements).

Standard State HFE method: this is the method used by the CGC to determine the standard state relativities as specified in 16AB (2) of the CGC Act.

Transition period: this is the period over which the GST relativities transition from those of the previous HFE method to those of the standard state method (as set out in the CGC Act) and the NoWO applies. Initially this period was from 2021–22 to 2027–27 for both the transitioning of the GST relativities and the NoWO, but now extends to 2029–30 for the NoWO[4].

2. INFORMATION REQUEST 1

2.1 Have other Commonwealth payments to the states been affected?

The current HFE method requires that the Commonwealth Government makes two additional payments to the states—the GST pool boost and the NoWO payments. In the Commonwealth Government's response to the Commission's HFE report it was stated:

3 Commonwealth Grants Commission (2015), p. 27.

4 https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/extension-no-worse-deal-help-fund-essential-services.

> 'The size of the boost to the GST pool would be set at a level that ensures no State is worse off as a result of the move to a new equalisation benchmark'[5].

It is clear from the experience over the transition period that the GST pool boost was insufficient to leave states (other than the fiscally strongest state) no worse off, let alone better off[6]. This has meant that the Commonwealth Government to date has provided around $20 billion in no NoWO payments to the states. In total to date, the Commonwealth Government has paid about $26 billion in boosting the GST pool, transitional payments and NoWO payments.

The impact of these payments on ability of the Commonwealth Government to fund the non-GST payments to the states is an issue that the Commonwealth Government is best placed to answer. It would be interesting to know to whether the Commonwealth Government has funded these payments associated with the 2018 legislative changes from reducing other payments to the states.

Table 2-1 presents the various categories of Commonwealth Government payments to the states in 2021–22 and in 2025–26 and the increase over this period.

Table 2-1: Commonwealth grant payments to the states, 2021–22 and 2025–26 ($ million)

	General purpose payments				Specific purpose payments		
	GST pool	GST pool boost	NoWO[1]	Other	National partner-ships	Agreements	Total
2021–22	73,581	600	2,273	1,077	28,245	58,110	86,355
2025–26*	95,510	1,044	5,065	506	25,829	71,177	97,006
Increase (%)	29.8	74.0	122.8	-53.0	-8.6	22.5	12.3

* forecast.
1. Includes transitional GST top-up payments to Western Australia in 2021–22.
Sources: Commonwealth of Australia, *Budget 2021–22 Final Budget Outcome*, Part 3, Tables 3.2 and 3.5; *Budget 2025–26, Mid-Year Economic and Fiscal Outlook*, *Appendix C*, Tables C.1 and C.4; and Table A2-1.

The GST pool, which represents no net cost to the Commonwealth Government, increased strongly over the period considered. The GST pool boost and NoWO payments (which include transitional payments in 2021–22) are payments required by the Act. These increased quite considerably over the period, especially the NoWO payments. The other general purpose payments comprise predominantly royalty payments to Western Australia which are required under legislation. The decline over the period reflect the decline in royalties from North West Shelf oil and gas projects off the coast of Western Australia.

Total specific purpose payments increased by 12 per cent over the period. While payments under agreements between the Commonwealth Government and the states increased reasonably strongly, national partnership payments, which provide more funding flexibility for the Commonwealth Government, decreased over the period. There are probably several reasons for this decrease, but it does give rise to the impression that there may have been some diversion of funding to the GST pool boost and the NoWO payments. The Commonwealth Government should be able to throw more light on this issue.

5 The Commonwealth of Australia (2018), p.18.

6 The states must have realised that the GST pool boost would be insufficient and so negotiated the 'no worse off guarantee' from the Commonwealth Government.

2.2 Has Commonwealth or state revenue, service and infrastructure provision been supported or impeded by the changes?

The Commonwealth Government is best placed to answer whether the additional funds it has had to direct to the GST pool boost and the NoWO payments has impeded its provision of services and infrastructure.

During the transition period of the Act the states would have been receiving the same amount of GST revenue that they would have under the previous HFE method, with the exception of Western Australia. Western Australia has received around $21 billion more in GST revenue than it would have under the previous HFE method. The conclusion that could be drawn is that, for the states other than Western Australia, their ability to provide services and infrastructure under the current HFE method is the same as for the previous HFE method. Western Australia would have the fiscal capacity to provide services and infrastructure at a higher level than the other states.

The critical point for the states other than Western Australia is when the transition period ends. The higher GST revenue that Western Australia would receive under the standard state HFE method compared with the previous method would be funded by diverting GST revenue from the other states. This would impede the provision of services and infrastructure for those states. The affected states would be able to indicate the extent to which the provision of services and infrastructure would be impeded.

The changes to the HFE method should not have had any direct impact on the ability of the states to raise revenue from their own sources. Some of the later information requests cover particular aspects of state own source revenue.

2.3 What would happen to Commonwealth, state revenue, services and infrastructure if the no worse off guarantee ceased?

The Commonwealth Government has funded around $26 billion to date for the NoWO payments and is forecast to fund a further $21 billion for the forward estimates period. The cessation of this guarantee would enable the Commonwealth to allocate these funds to other purposes. What these purposes might be is a question that the Commonwealth Government is best placed to answer.

States other than Western Australia would receive less GST revenue under the current HFE method than they would have under the previous HFE method if the NoWO payments ceased. Table 2-2 illustrates the difference is GST revenue for 2025–26 between the previous HFE method (which provides the basis for the NoWO) and the current method without the NoWO payments.

Table 2-2: GST revenue, previous and current HFE methods, 2025–26 ($ million)*

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Previous HFE method	28,082	28,243	16,813	1,901	9,706	3,832	2,113	4,819
Current HFE method[1]	25,807	26,373	16,758	7,990	9,206	3,682	1,985	4,753
Difference	-2,276	-1,870	-55	6,089	-500	-150	-128	-66

* forecast.

1. Excludes NoWO payments.

Sources: Tables A3-1 and A3-4.

For some states, such as Queensland and the Northern Territory, the cessation of the NoWO payments would only result in an insignificant loss of GST revenue forecast for 2025–26. For some of the other states, such as New South Wales, Victoria and the Australian Capital Territory, the loss in GST revenue forecast for 2025–26 would be more significant. This loss in GST revenue would accumulate over time. Western Australia, on the other hand, would be left in the same situation as it does not receive any NoWO payments.

The states other than Western Australia would be faced with the choice of increasing own source revenue in order to maintain the current provision of services and infrastructure or reducing them to compensate for the reduction in the available funding. Those states are in the best position to inform the Commission of their intentions.

2.4 Should some Commonwealth payments be excluded? If so, which payments should be excluded and why?

The CGC's guidelines for the treatment of Commonwealth Government non-GST payments to the states were set out in the 2015 Review and have been retained in the 2025 Review. The guidelines are:

> 'payments which support state services, and for which expenditure needs are assessed, will impact the relativities.'[7]

The CGC went on to state:

> 'Where there is substantial uncertainty about the payment's purpose, or whether relative state expenditure needs are assessed, an impact treatment will be the default. States will have the opportunity to provide evidence in support of a no impact treatment for those payments'[8].

In the terms of reference issued to the CGC for an Update or a Review, there is usually a section which specifies how particular Commonwealth Government payments are to be treated. There is also usually a clause which allows the CGC to apply a different treatment to that specified if it considers it appropriate. However, it does not appear that the CGC has ever taken advantage of that clause.

The CGC guidelines for the treatment of Commonwealth Government payments have been in operation for some time and are generally well accepted by the states. There will be instances where the CGC will have to make a judgement call as to the nature of the Commonwealth payment. An example was the treatment in the 2020 Review of a payment under the Skilling Australia Fund that New South Wales considered a reward payment, but the Commonwealth Treasury did not. The CGC noted that it will take into account advice of Commonwealth Treasury and the states, as well as national agreements, when determining which payments are facilitation and reward payments.[9]

Another grey area is Commonwealth Government funding to non-government organisations where the operations of these organisations may reduce the amount a state needs to spend on a service.

As long as the CGC is transparent and consistent in its decision making then the treatment of Commonwealth Government payments should not be controversial. Where issues arise it is usually where the terms of reference specify a treatment where the reasons for this treatment may be obscure or inconsistent with the CGC's guidelines. Where there is an absence of information about the reasoning it is difficult for the CGC or states to challenge the treatment specified in the terms of reference.

The GST Distribution Review considered the issue of the treatment of Commonwealth Government payments. It found that the CGC's guidelines aided transparency, although some judgment was

7 Commonwealth Grants Commission (2025), p. 295.

8 Loc cit.

9 Ibid., p. 299.

required by the CGC. It noted that, on the other hand, the Commonwealth Treasurer had not published any guidelines or principles governing the treatment of payments specified in terms of reference. It recommended that the Commonwealth Treasurer develop guidelines to aid transparency and improve predictability.[10] However, this recommendation has not been adopted. Now might be the time to reconsider this recommendation.

3. INFORMATION REQUEST 2

3.1 How do you define a reasonable level of horizontal fiscal equalisation?

Prior to consideration of how a reasonable level of HFE could be defined, the concept of a reasonable level of HFE needs to be rigorously examined. The concept of a reasonable level of HFE, as far as this inquiry is concerned, has its genesis in the Commission's HFE Review:

> '…it does not require that States have an identical fiscal capacity. Some differences may be acceptable in order to provide reward for policy effort (fairness) and to achieve more policy-neutral (efficient) outcomes. In striking a balance between these outcomes, a reasonable standard of services also balances the benefits and costs to the Australian community from redistributions between States.'[11]

The implication of a reasonable level of HFE is that it is somewhat lesser than full equalisation. That is, instead of the states receiving the fiscal capacity to deliver services and infrastructure at the same level, they would receive the fiscal capacity to deliver services and infrastructure at differing levels.

The Commonwealth Government in its response to the Commission's HFE report stated that its preferred model for distributing GST was:

> '…a benchmark that would ensure the fiscal capacity of all States is at least the equal of NSW or Victoria (whichever is higher)'[12].

The previous GST distribution method did result in all states having the same fiscal capacity so, at face value the Commonwealth Government's model is no different. However, it is evident that the Commonwealth Government had in mind a variation of the equalisation to the second strongest state (ESSS) method that was presented in the Commission's HFE report[13]. In the Commonwealth Government's method the fiscally second strongest state is replaced by the fiscally stronger of New South Wales and Victoria[14].

The Act's Explanatory Memorandum expresses the new method for distributing GST slightly differently to the Commonwealth Government's response to the Commission's HFE report. It states that the amendments to the CGC Act require that the CGC:

> '…transition the horizontal fiscal equalisation system from full equalisation (equalised to the strongest State or Territory) to reasonable equalisation (equalised to the stronger of New South Wales and Victoria).'[15]

---

10 The Australian Government (2012), pp. 70–71.
11 Productivity Commission (2018}, p. 176.
12 The Commonwealth of Australia (2018), p. 16.
13 Productivity Commission (2018), p. 233.
14 Effectively the two methods are identical as since the Act came into force either New South Wales or Victoria has been the fiscally second strongest state, with the exception of the CGC 2025 Review when Queensland was the fiscally second strongest state.
15 The Parliament of the Commonwealth of Australia (2018), p. 3.

This statement that the previous HFE method equalised to the strongest state is difficult to understand given that the CGC has quite explicitly stated that its assessment methodology is based on the average of what states do. How did the CGC's methodology become misconstrued? A starting point to understand this is the distribution of the GST pool given by the previous HFE method. Table 3-1 presents the GST distribution for 2018–19 from the CGC's 2018 Update, the most recent Update at the time of the Commission's HFE inquiry and the Commonwealth Government's response.

Table 3-1: GST distribution for 2018–19

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
GST Relativity	0.8552	0.9867	1.0958	0.4729	1.4773	1.7671	1.1807	4.2582	
Population	8,029,399	6,495,723	5,020,837	2,621,328	1,740,288	524,553	418,606	246,382	25,097,116
Weighted population	6,866,487	6,409,344	5,502,022	1,239,538	2,570,879	926,918	494,250	1,049,134	25,058,572
Weighted population share (%)	24.1	25.6	22.0	4.9	10.3	3.7	2.0	4.2	100.0
Equalisation distribution									
$ million	18,030	16,830	14,447	3,255	6,751	2,434	1,298	2,755	65,800
$ per capita	2,246	2,591	2,878	1,242	3,879	4,640	3,100	11,181	2,622

Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2018 Update*, Table 1 and Supporting Information, Table S1-1.

The CGC stated the following in its 2018 Update about the size of the equalisation task:

> 'The process of distributing GST revenue can be thought of in either of two ways.
>
> - GST revenue is first distributed on a population basis, raising the fiscal capacity of all States equally. Then there is a redistribution to achieve equalisation—from States with above average capacity to those with below average capacity. The size of this redistribution is one measure of the equalisation task.
> - GST revenue is first distributed to bring the initial fiscal capacities of all States to that of the strongest. The remaining GST is then distributed equally among all States. The GST required to achieve the first step is an alternative measure of the equalisation task.'[16]

The alternative measure of the equalisation task described in the second dot point is illustrated in Table 1-9 of the CGC's 2018 Update report[17]. This table is replicated in Table 3-2 below.

Table 3-2: Illustrative distribution of GST, 2018–19 ($ per capita)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
Equal per capita	1,242	1,242	1,242	1,242	1,242	1,242	1,242	1,242	1,242
Equalisation requirement	1,004	1,349	1,636	0	2,637	3,398	1,859	9,940	1,380
GST requirement	2,246	2,591	2,878	1,242	3,879	4,640	3,100	11,181	2,622

Source: Commonwealth Grants Commission (2018), *Report on GST Revenue Sharing Relativities, 2018 Update*, Table1-9.

The CGC describes this table as showing that the states other than Western Australia require different per capita amounts of GST to achieve the same fiscal capacity as Western Australia, the fiscally strongest state. The remainder of the GST revenue is then shared equally among all the states. All the states now have the fiscal capacity to deliver the same standard of services, based on the average of what states do.

16 Commonwealth Grants Commission (2018), pp.32–33.
17 Ibid., p. 35.

It is important to note two things about the illustrative distribution presented in Table 3-2. First, it is just an alternative way of presenting the outcome of Table 3-1. That is, the per capita values in Table 3-2 are completely dependent on the per capita values of Table 3-1. It needs to be made quite clear that the figures presented in Table 3-2 are the result of equalisation on the basis of the average of what states collectively do. Second, it is clear from what the CGC stated that this illustration does not 'equalise to the fiscal capacity of the strongest State'. Table 3-2 presents an illustration of how GST is *distributed*, but not how the distribution of GST is *determined*.

It must be stressed that Table 3-2 represents a decomposition of the GST distribution. The third row is the amount each state requires per capita to have the fiscal capacity to provide services and the associated infrastructure at the same standard. The first row gives the states the same per capita GST as the fiscally strongest state. That is, the result for the fiscally strongest state is the point of reference for the decomposition. The second row gives the states the additional per capita GST they require to have the fiscal capacity to provide services and the associated infrastructure at the same standard.

The myth that the previous GST distribution method equalised to the fiscally strongest state needs to be put to rest. If the current 'reasonable level of HFE' exists only because it was misconstrued that the previous HFE method equalised to the strongest state then its justification is based on a falsehood. If a reasonable level of HFE was brought about because of a desire to have HFE achieve additional outcomes, such as fairness and efficiency, then this justification needs careful consideration, particular in the context of the requirement of the IGAFFR.

The current HFE method includes a floor for GST relativities. The Explanatory Memorandum argues that a floor would provide a safety net to guard against economic shocks that were extreme enough to introduce significant volatility into the HFE system[18]. In its HFE review the Commission argued against a relativity floor. It noted that the activation of a floor would result in partial equalisation and that a floor is targeting a symptom rather than finding a cure.[19]

If HFE is to achieve fairness and efficiency as well as equalising fiscal capacity then consideration needs to be given as to how the assessment methodology can be modified to achieve this. Modifying how the GST pool is distributed, which the current HFE method does, will not necessarily result in the desired outcomes. This issue is explored further in Section 5.1. If achieving fairness and efficiency are considered desirable in their own right, then other policy measures may be better in achieving these outcomes. This would leave in integrity of HFE intact.

The GST Distribution Review considered 'full' equalisation against 'partial' or 'less comprehensive' HFE. The review noted:

> 'The basis for 'full' equalisation has solid support amongst academics. Put very simply, the reasoning goes as follows: just as, in the absence of States, a unitary government would naturally want to treat citizens the same way unless there were specific policy decisions made to distinguish amongst them, so too, in a federation, providing States with the capacity to treat their citizens equally is critical.'[20]

It is interesting to note that the Act makes no mention of a 'reasonable' level of HFE. The Act amended the CGC Act to specify that:

> '…the States, the Australian Capital Territory and the Northern Territory each have the fiscal capacity to provide services (including associated infrastructure) at a

18 The Parliament of the Commonwealth of Australia, (2018), p. 17.
19 Productivity Commission (2018), p. 27.
20 The Australian Government (2012), p. 36.

> standard that is at least as high as the standard for whichever of New South Wales and Victoria has the higher standard.'[21]

There appears to be some confusion about what the amendment to the CGC Act will achieve. This inquiry's terms of reference states that this change would mean that '…each state's relativity is at least as high as the relativity of the fiscally stronger of New South Wales or Victoria'[22]. This is the case for the annual assessment year relativities, but not for the GST relativities. Since 2021–22 Western Australia's GST relativity has been less than that of New South Wales and Victoria.

The wording in the CGC Act has strong similarities to the CGC's interpretation of HFE with the 'same standard' replaced with 'a standard that is at least as high as …whichever of New South Wales and Victoria has the higher standard'.

Unfortunately, the Act gives no definition of 'standard' which makes it open to interpretation. Two different interpretations of how the standard could be applied are readily apparent when the method envisaged in the Commonwealth Government's response to the Commission's HFE report is compared with the CGC's 'standard state' application of the new method.

While the Commonwealth Government's response presented estimated GST relativities for the new GST distribution method, it did not explain how they were derived. If it is assumed that the derivation followed that of the ESSS method that was presented in the Commission's HFE report then it is possible to determine the distribution of GST. This involves using the per capita GST distribution determined by the previous GST distribution method. The 'standard' in this case is the lower per capita distribution out of New South Wales and Victoria. This method is explained in Appendix A1, together with the concerns about this method.

The CGC takes a different approach, starting with the annual per capita relativities from the previous GST distribution method. The 'standard' in this case is the lower annual per capita relativity out of New South Wales and Victoria[23]. Table 3-3 presents the GST distributions that result from the two different applications of the standard since the arrangements of the Act came into operation.

21 Section 16AB (2).

22 Productivity Commission (2025), p. 4.

23 The details of this approach are set out in Commonwealth Grants Commission (2020), pp. 73–74.

Table 3-3: GST distribution, Commonwealth Government response method and CGC application, 2021–22 to 2025–26 ($ million)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
2021–22								
Commonwealth	20,987	16,386	15,212	6,900	6,719	3,126	1,445	3,408
CGC	21,007	16,403	15,222	6,858	6,719	3,124	1,445	3,402
Difference	-20	-18	-10	42	0	2	-1	5
2022–23								
Commonwealth	24,011	17,608	17,072	7,420	7,259	3,280	1,548	3,796
CGC	24,016	17,618	17,071	7,424	7,255	3,276	1,547	3,787
Difference	-5	-10	1	-4	4	4	0	9
2023–24								
Commonwealth	24,352	18,360	17,860	7,784	8,201	3,253	1,767	4,028
CGC	24,422	18,417	17,902	7,627	8,203	3,251	1,768	4,015
Difference	-70	-57	-41	158	-2	2	-2	13
2024–25								
Commonwealth	24,261	22,213	17,549	8,542	8,771	3,490	1,912	4,436
CGC	24,400	22,297	17,632	8,262	8,772	3,484	1,915	4,411
Difference	-139	-84	-83	280	-1	6	-3	25
2025–26*								
Commonwealth	25,342	26,000	16,741	9,001	9,110	3,655	1,960	4,746
CGC	25,352	25,997	16,748	9,004	9,104	3,651	1,959	4,738
Difference	-10	3	-7	-4	5	3	1	8

* forecast.
Sources: Tables A3-3 and A4-1.

It can be seen that differences in the GST distributions resulting from the two different methods are generally quite minor, but tend to be larger for Western Australia and the states with the larger share of the GST pool. The differences are quite minor for 2025–26. It may be the case that the drafters of the Act had in mind the method outlined in the Commonwealth Government's response, but in the absence of any further guidance the CGC has determined its own interpretation of how the 'standard' is to be applied.

It can be questioned whether the method applied by the CGC is the one required by the wording of the CGC Act. Given the similarity noted previously between the wording in the CGC Act and the CGC's interpretation of HFE, it could be argued that CGC Act intends that the revenue, expense and infrastructure assessments are based on what is the higher standard out of New South Wales and Victoria rather than the 'same standard'.

That is, revenue assessments would be based on the tax rates of New South Wales or Victoria, whichever is the higher, rather than national average tax rates. Similarly, expense and infrastructure assessments would be based on the per capita expenses of New South Wales or Victoria, whichever is the higher, rather than national average per capita expenses. This interpretation is just as valid as the CGC's interpretation and would be consistent with the wording of the Act.

What would be the outcome of applying such a standard? In Appendix A4 an analysis is undertaken with the payroll tax assessment. This indicates that using the higher standard (in this case payroll tax rate) out of New South Wales and Victoria produces the same assessed values as using the 'same standard' (that is, the national average payroll tax rate). An analysis is also undertaken with the post-secondary education expense assessment. Again, this indicates that using the higher standard (in this case per capita expenses) out of New South Wales and Victoria produces the same assessed values as using the 'same standard' (that is, the national average per capita expenses).

This leads to the conclusion that the application of this interpretation of the new standard would result in the same GST distribution as the previous GST distribution method. The reasoning is outlined below.

Consider the revenue assessments. The revenue assessed for each state for a particular revenue category is obtained by applying the national average tax rate to each state's revenue base. Under the alternative interpretation of the new standard, revenue would be assessed by applying the tax rate of New South Wales or Victoria (whichever is the higher) to each state's revenue base. The differences between the assessments for the states are driven by differences in their revenue bases which are contemporaneously independent of tax rates.

Similarly with expense assessments. The differences between the assessed expenses for the states for a particular expense category are driven by differences in the socio-demographic composition of their populations, differences in the regional dispersion of their populations and differences in wage cost pressures. These are all independent of per capita expenditure levels.

It can be argued that this alternative interpretation of 'standard', consistent with how the CGC determines fiscal capacity, is just as valid as the CGC's interpretation. This ambiguity as what the Act means as 'standard' is an entirely unsatisfactory state of affairs and reflects poor drafting of the legislation.

Returning to the Commission's question as to whether GST distribution arrangements since the 2018 legislative changes delivered a reasonable level of horizontal fiscal equalisation, the conclusion that can be drawn is that the changes have delivered a level of HFE not much different to the previous HFE method. However, after the expiry of the transition period it would be difficult to characterise the level of HFE as 'reasonable'. The concept of a reasonable level of HFE that does not involve fiscal equality is an indication that the principles of HFE are not fully understood.

3.2 Should the PC look to international approaches to determine what reasonable fiscal equalisation is in Australia, and why?

The Commission undertook a comprehensive review of fiscal equalisation in OECD countries in Appendix E of its HFE report. The conclusion from this review was:

> 'The country-specific nature of equalisation arrangements means the applicability of those schemes to Australia (with its own unique institutional framework, responsibility for providing public services, fiscal capacities and societal values) is somewhat limited.'[24]

There would appear to be no value in the Commission revisiting this issue.

4. INFORMATION REQUEST 3

The information requested by the Commission is to enable it to examine how the changes introduced by the Act have affected the balance between responding to changing circumstances and providing certainty around revenue. Much of the information sought is best provided by the states. This submission will focus on the more general information sought under this request.

24 Productivity Commission (2018), p. 355.

4.1 Have the GST distribution reforms decreased or increased the volatility of state finances?

The Commission noted in its HFE report that:

> 'Several features of Australia's HFE system promote predictable and stable GST payments'.[25]

The Commission also noted that:

> '…States have a range of options with which they can manage short-term fluctuations in their GST payments, just as they would with any other source of volatility in State revenues…'[26]

However, there has been some volatility in the GST revenue received by each state. Revenue-raising capacity for all states has been volatile over the past decade, mainly due to shifts in their relative mining revenue capacities. Changes in property and labour markets affected states' capacities to raise stamp duty, land tax and payroll tax. The CGC has noted that over the past decade or so, mining revenue has been a major determinant of states' GST distributions.[27] Mining revenue is volatile, and this has contributed to volatility in GST distributions.

On the expense and investment side, fluctuating relative population growth rates, along with changes in spending on Indigenous populations and regional services, have been major drivers of fluctuations in state needs. Natural disasters also caused fluctuations in relative GST needs between states.

The transition period has only provided a limited time series of the new HFE method in operation. Table 4-1 shows the standard deviation of fluctuations in the GST distribution since the Act came into operation for the previous, current and standard state HFE methods.

Table 4-1: Standard deviation of year to year fluctuations in GST revenue, 2021–22 to 2025–26 (per cent)

Method	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous	6.1	5.7	9.4	46.1	3.0	2.9	3.7	2.1	2.3
Current	6.1	5.7	9.4	4.1	3.0	2.8	3.7	1.7	3.1
Standard state	5.6	6.7	6.5	2.5	3.3	2.9	4.3	2.1	2.3

Source: Table A5-1.

Under the current HFE method the GST revenue received by the states other than Western Australia over the transitional period to date has been the same as they would have received under the previous HFE method. In other words, to date there has been no impact on the variability of GST revenue for the states other than Western Australia. Western Australia, on the other hand, experienced much lower variability in GST revenue under the current HFE method than it would have under the previous HFE method.

The standard state method does seem capable of producing a more stable GST revenue stream for the fiscally strongest state and a slightly more stable GST revenue stream for the other fiscally stronger states compared with the previous GST distribution method. However, some of the less fiscally strong states have a marginally more volatile GST revenue stream.

25 Ibid, p. 11.
26 Ibid, p. 140.
27 Commonwealth Grants Commission (2021b).

In the post transition period the states other than the fiscally strongest state will have a more stable GST revenue stream offered by the standard state method, but will receive less GST revenue than they would have under the previous method. It is not clear that reduced volatility is worth reduced GST revenue, unless states are not able to predict the volatility in their GST revenue streams and they place a high weight on stability. The states will likely inform the Commission of their views on this trade off.

4.2 Can volatility in the states' GST shares be reduced, and if so how?

Volatility is hard to avoid, especially if it is due to external factors over which the states have no, or little, control. The pertinent issue is not whether volatility can be reduced, but whether it can be predicted. The GST relativities are based on actual data which means they are at least two years older than the current financial year. This means that the impact of recent changes to state own source revenue, expenditure, state populations and Commonwealth non-GST payments on GST relativities can be predicted—in direction, if not their exact magnitude.

In principle, forecasting GST relativities for a forthcoming CGC Update should be a relatively uncomplicated process. Due to the three year averaging of assessment year per capita relativities to obtain the GST relativities, only the per capita relativities for the new assessment year have to be forecast as the other two assessment year per capita relativities are known. However, in practice it can be slightly more complicated. Some of the data used for the socio-demographic use and cost factors for the most recent assessment year are not available at the time of a CGC Update. These data are available for the following update which means that the per capita relativities are changed at this update. In other words, constant assessment year per capita relativities cannot be assumed.

The CGC could assist by updating its assessment system spreadsheets as new data become available so that the states can take into account the changes in previous assessment year per capita relativities. If states are kept updated about data that has an impact on per capita relativities then they will be better able to predict the forthcoming GST relativities. Some of the desire to reduce the volatility of GST relativities may be met by improving the predictability of the relativities.

4.3 Have the GST distribution reforms impacted the ability of the states to undertake fiscal planning?

Apart from Western Australia, the current HFE method results in the same GST revenue to the states as the previous HFE method. The volatility in Western Australia's GST payments has been reduced under the current HFE method compared with the previous HFE method. The conclusion that can be drawn is that, apart from Western Australia, the current HFE method has had no impact on the ability of the states to undertake fiscal planning.

Table 4-1 above showed that the standard state HFE method, which will be in operation when the transition period expires, generally, but not completely, reduces volatility in GST revenue. However, this does not necessarily translate into improving the ability to undertake financial planning by the states.

To project the standard state GST relativities the annual per capita relativities have to be projected in order to determine which of New South Wales or Victoria is the fiscally stronger state. The annual per capita relativities are then manipulated to produce the relativities that are averaged to produce the standard state GST relativities. The projection of GST relativities for both methods requires the projection of the annual per capita relativities. The conclusion is that the GST relativities for the standard state method are no easier to predict than those for the previous method.

5. INFORMATION REQUEST 4

5.1 Do the current GST distribution arrangements impede states pursuing service delivery or revenue raising reforms?

The first point to note is that efficiency of service delivery and revenue bases have an impact on the *assessment* of expenses and revenue, while the current HFE method has an impact on the *distribution* of GST revenue after the assessment has occurred.

Expenditure needs are assessed by calculating the national average per capita cost of providing a service and adjusting this amount for each state depending on levels of service usage and costs due to factors beyond the direct control of individual states. As noted by the Commission in its HFE report, the previous HFE method is '….unlikely to materially distort State incentives to provide public services cost effectively.'[28] This assessment can also be applied to the current HFE method as it leaves the assessment of expenses unchanged. If a state implements reforms to improve its efficiency in the delivery of services then the only impact on its expense assessment will be through the impact on average per capita expenses, which is likely to be minimal.

To demonstrate this likely outcome a scenario analysis was undertaken to examine the GST impact of New South Wales reducing its schools expenses by five per cent from 2021–22 to 2023–24 through efficiency measures. Reducing expenditure through efficiency measures while leaving service delivery unchanged is quite challenging, hence the modest reduction in expenditure for this scenario. It is assumed that undertaking these efficiency measures do not involve any additional expenditure. The results from this scenario are presented in Table 5-1.

Table 5-1: Estimated GST impact of New South Wales efficiency scenario, 2025–26 ($ million)*

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous GST method									
Base case	28,082	28,243	16,813	1,901	9,706	3,832	2,113	4,819	95,510
NSW efficiency	28,074	28,302	16,764	1,799	9,744	3,852	2,119	4,856	95,510
Difference	-8	59	-50	-102	38	20	6	37	0
Current method									
Base case	28,082	28,243	16,813	7,990	9,706	3,832	2,113	4,819	101,599
NSW efficiency	28,074	28,302	16,764	7,990	9,744	3,852	2,119	4,856	101,701
Difference	-8	59	-50	0	38	20	6	37	102
Standard state method									
Base case	25,352	25,997	16,748	9,004	9,104	3,651	1,959	4,738	96,554
NSW efficiency	25,300	26,019	16,713	8,986	9,133	3,668	1,963	4,773	96,554
Difference	-52	22	-35	-19	28	17	3	35	0

* Based on forecast GST pool and December 31 populations.

Sources: Tables A3-1, A3-3, A3-4 and A6-18.

The results from the previous HFE method indicate that New South Wales would lose an insignificant amount of GST revenue from undertaking this efficiency measure. The change in national average per capita schools expenses results in the other states also receiving impacts to their GST revenues, either positive or negative. The clear conclusion would be that the previous HFE method would not have discouraged New South Wales from undertaking efficiency reforms in the delivery of services. Some of the other states may not have been impressed with the outcome for them, but these impacts were also insignificant.

28 Productivity Commission (2018), p. 117.

Due to the NoWO, the GST impacts for the current HFE method are the same as those for the previous HFE method. There is a zero impact to Western Australia's GST payment due to the implementation of the GST relativity floor. The current HFE method supports states to make improvements to service delivery to the same extent than the previous HFE method.

The results for the standard state HFE method provides an indication of the outcome in the post transition period. While the GST revenue impact is smaller than the previous two methods, except for the state making the efficiency in service delivery, the impact is still insignificant. However, the standard state HFE method provides the states other than the fiscally strongest with less GST revenue than they would have received under the other two HFE methods. While the argument could be made that this lesser GST revenue might encourage those states to make efficiencies in service delivery, the more likely result is that there would be reductions in service delivery.

If the Commonwealth Government did not want the HFE method to have an impact on the distribution of GST to the states as a result of a state undertaking efficiencies in the delivery of services then this could be specified in the terms of reference for an CGC Update or Review. That is, the assessment methodology used by all HFE methods should be able to be modified to take efficiency impacts into account, without the need to modify how the GST is distributed.

The CGC has developed four supporting principles which guide considerations in designing and evaluating alternative assessment methods. The relevant supporting principle in this situation is policy neutrality:

> 'a state's policy choices (in relation to the revenue it raises or the services it provides) should not directly influence its GST share; and the Commission's assessments should not create incentives to choose one policy over another.'[29]

By applying this principle the CGC could remove or lessen the impact of a state's efficiency reforms on its share of the GST pool.

The extent the current arrangements support states to pursue reforms to their revenue bases will now be examined. Finding 3.1 of the Commission's HFE report stated:

> 'Most State tax reforms would have limited impacts on the GST distribution. However, there are circumstances where the GST effects can be material—such as for a State undertaking large scale tax reform—and act as a significant disincentive for States to implement efficient tax policy. These disincentives are likely to be exacerbated where the State is a first mover on reform or where there is uncertainty about how significant tax changes will be assessed by the CGC.'[30]

Cameo 1 in the Commission's HFE report considered a single state halving its stamp duty on property and replacing this lost revenue with a new broad-based tax on residential land. The conclusion that the Commission drew was that a state unilaterally undertaking this reform would be made worse off in terms of its GST payments.

To examine whether the current HFE method provides a lesser disincentive for a state to undertake tax reform a scenario analysis along the lines of cameo 1 is made. New South Wales is assumed to reduce its revenue from stamp duty on conveyances by 50 per cent and recover the lost revenue from increased land tax revenue from 2021–22 to 2023–24. The details of this scenario are presented in Appendix A7 and the outcomes for the different HFE methods are presented in Table 5-2. For reasons that are explained in Appendix A7, the outcomes presented can only approximate

29 Commonwealth Grants Commission (2025), p. 312

30 Productivity Commission (2018), p. 113.

those that the CGC assessment methods would provide. However, they are valid for comparing the outcomes between the HFE methods.

Table 5-2: Estimated GST impact of New South Wales tax reform scenario, 2025–26 ($ million)*

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous HFE method									
Base case	28,082	28,243	16,813	1,901	9,706	3,832	2,113	4,819	95,510
NSW tax reform	27,470	28,013	17,351	2,014	9,786	3,860	2,190	4,825	95,510
Difference	-612	-230	538	113	80	28	77	6	0
Current method									
Base case	28,082	28,243	16,813	7,990	9,706	3,832	2,113	4,819	101,599
NSW tax reform	27,470	28,013	17,351	7,990	9,786	3,860	2,190	4,825	101,485
Difference	-612	-230	538	0	80	28	77	6	-113
Standard state method									
Base case	25,352	25,997	16,748	9,004	9,104	3,651	1,959	4,738	96,554
NSW tax reform	25,084	26,051	16,735	8,909	9,262	3,702	2,056	4,755	96,554
Difference	-268	54	-12	-95	157	51	97	17	0

* Based on forecast GST pool and December 31 populations.
Sources: Tables A3-1, A3-3, A3-4 and A7-18.

It can be seen from Table 5-2 that the previous HFE method would result in the GST payments for all the states being affected by the revenue neutral tax reform undertaken by New South Wales, with that state losing GST revenue. The loss in revenue is relatively small, about two per cent, but in a tight fiscal situation this could be sufficient to discourage the tax reform from being undertaken. It seems perverse that a revenue neutral tax reform results in changing GST revenue payments.

The current HFE method, incorporating the NoWO, has the same outcome as the previous HFE method for all states other than Western Australia, the fiscally strongest state. This means that the current HFE method has the same disincentive effect for the state undertaking the tax reform as the previous HFE method.

The more interesting outcome is that from the standard state HFE method, which is the method that would apply post the transition period. The amount of GST revenue lost by New South Wales has been reduced to about 40 per cent of that from the other two HFE methods. On that basis, the standard state HFE method would provide a lesser disincentive to undertake the tax reform. However, the GST payment that would be received is about 90 per cent of that of the other two HFE methods.

This raises the question as to which is the better situation—one that provides a lesser GST revenue impact from tax reform but at the cost of less GST revenue, or one that has a greater GST revenue impact from tax reform but at no cost to GST revenue? Perhaps the more important question is whether this choice is necessary.

If the issue with the GST revenue impact of tax reform, or some other change to state revenue bases, is due to the method of assessing fiscal capacity then the obvious solution is to adjust the method of assessment as this is the direct cause. Modifying the distribution of GST revenue after the assessment of fiscal capacity is not an effective solution, as this tax reform scenario illustrates.

The CGC examined the issue of state tax reform and the distribution of GST[31]. It noted that the policy neutrality principle seeks to ensure state policy choices have minimal effect on its assessments and vice versa. If the reform policies of an individual state were to have a material effect on its GST share then, under the policy neutrality principle, the CGC could seek to mitigate such an effect. While this

31 Commonwealth Grants Commission (2021a).

CGC publication occurred after the Act came into effect, it would have still been applicable at the time the Act was being drafted.

The conclusion that can be drawn is that the previous HFE method has the capacity to support states to undertake reforms to improve efficiency in the delivery of service delivery or undertake tax reform. This capacity is derived from the supporting principles used to guide the assessment of fiscal capacity. The changes embodied in the current method that modify how GST revenue is distributed do not support states in pursuing reform.

The GST Distribution Review came to a similar conclusion. It found that:

> 'There is no clear evidence that the current system of HFE is impeding State tax reform. If it ever became apparent that possible changes in GST shares were impeding tax reforms, specific and temporary adjustments should be made to the GST distribution in that context, rather than changing HFE.'[32]

5.2 What are the elements of the current arrangements that impede the pursuit of reforms?

While the method of distributing GST revenue should ideally be neutral in terms of fiscal reforms that the states may make, its primary purpose is to achieve HFE, as required by the IGAFFR. As noted above, the current and standard state HFE methods change the way in which GST revenue is distributed. They do not change how fiscal capacity is assessed, which is the factor than can impede fiscal reforms. The ability of the CGC's policy neutrality supporting principle to mitigate the impact of fiscal reforms on the assessment of fiscal capacity indicates that the current arrangements are not required to prevent the impediment of fiscal reforms.

5.3 Should there be amendments to the current arrangements to remove impediments to reforms?

The previous HFE method has the capacity to remove impediments to fiscal reform to the extent that they can be quantified and can be dealt with by the policy neutrality supporting principle. This should cover most types of fiscal reforms currently being considered.

The current arrangements use the same fiscal assessment methodology as the previous HFE method, but alters how GST revenue is distributed between the states to the extent that no less revenue is received that would be under the previous HFE method. This indicates that the application of the neutrality supporting principle would remove impediments to fiscal reform.

The position taken in this submission is that the previous HFE method has the capacity to remove impediments to fiscal reform and so no changes to how the GST is distributed, once the assessment of fiscal capacity is made, is required.

The GST Distribution Review found that:

> '…the GST distribution should not be used to compel or encourage States to change policies—HFE should be policy neutral and GST should remain untied and freely available.'[33]

32 The Australian Government (2012), p. 18.

33 Loc cit.

5.4 Should there be amendments to the current arrangements to provide support for reforms?

As noted above, the primary purpose of HFE is to achieve fiscal equalisation. It should be neutral in its impact on fiscal reform. If a particular HFE method supports reform as a side effect then well and good, but equalisation should not be compromised to support fiscal reform. There are other policy tools available to support reform.

5.5 Have states and territories pursued service delivery or revenue raising reforms since the 2018 GST distribution reforms?

This is a question best answered by the states. The critical issue is whether any reforms were because of, despite of, or indifferent to, the changed GST distribution method.

6. INFORMATION REQUEST 5

The Commission indicates that it will explore the extent to which the goals of the 2018 changes might be served by alternative approaches. First, the goals of the changes introduced by the Act need to be established. While the Act does not set out what are its goals, an insight as to what the intentions of the Act can be gained from its Explanatory Memorandum, which states that the Commonwealth's plan:

> '…provides a long-term solution—one that leaves Australia with a more stable and predictable source of revenue for all States and Territories, while preserving the best features of the horizontal fiscal equalisation system in terms of equity, leaving all States and Territories better off.'[34]

The Explanatory Memorandum also envisages that:

> 'By 2026–27, the system would have fully transitioned to the new, more stable benchmark in a way that is fair, reasonable and sustainable for all States and Territories'.[35]

The conclusion that can be drawn from the analysis above is that the Act will only achieve a more stable source of revenue for the states and that in the post transition period this stability will be at the cost of reduced GST revenue for states other than the fiscally strongest state. None of the other goals will be met. Only the fiscally strongest state will be better off than it would have been under the previous GST distribution method. While the fiscal situations of the other states will be the same as those from the previous GST distribution method during the transition period, they will be worse post the transition period.

It is clear that an approach other than the current one is required. However, one already exists in the previous HFE method. The GST Distribution Review found that:

> 'The current HFE system—requiring material equality and being guided by internally referenced principles and pillars, standards and capacities—is well established and internally consistent. It works satisfactorily if the goal and definition of equalisation as currently set out is accepted…'[36]

34 The Parliament of the Commonwealth of Australia (2018), p. 7.

35 Ibid, p. 9.

36 The Australian Government (2012), p. 9.

Given this assessment, how come the HFE method was later changed by the Act? It is apparent that the Act only came about from constant lobbying of the Commonwealth Government by the Western Australian Government. The mineral boom from around 2010 resulted in Western Australia's GST relativity falling to very low levels, due to that state's capacity to raise revenue from mineral royalties. As a result of agitation by the Western Australia Government the GST Distribution Review was undertaken in 2012. This Review recommended no change to the HFE method. Further agitation from the Western Australia Government led to the Commission's HFE review and the subsequent introduction of the Act.

While Western Australia might consider it has been unfairly treated by the previous HFE method, it can be argued that method was working as intended. If mineral resources are regarded as a national resource, then all citizens of the nation should benefit from the exploitation of these resources, not just the citizens of the states where the minerals happen to be located. This was the outcome achieved by the previous HFE method. The alternative which will result from the Act is a divided nation where the citizens of the states with valuable mineral resources can enjoy a higher standard of government services than other citizens.

Despite the goals for the amendments expressed in the Explanatory Memorandum and despite the Act's grandiose title, the main outcome of the Act's amendments is to provide more GST revenue to Western Australia—currently funded effectively by the Commonwealth Government and, at the expiry of the transition period, to be funded by the other states.

If the Commonwealth Government considers that Western Australia should receive more revenue that it would under the previous HFE method then it could make an additional general revenue payment to Western Australia. This would leave HFE intact for the distribution of GST revenue as required by the IGAFFR and make transparent the additional funding that the Commonwealth Government considers that Western Australia requires. This would return to the situation where each state receives the GST revenue that would provide it with the fiscal capacity to provide services at the same standard as what states collectively do.

The position taken in this submission is that the concept of a 'reasonable' level of HFE as opposed to 'full' HFE does not stand up to intellectual scrutiny. Full equalisation has been characterised as equalised to the strongest state. As has been discussed above, this characterisation of the previous HFE method was misconstrued and inaccurate.

Although the HFE method resulting from the Act has been claimed as being reasonable, it will not provide the states with the fiscal capacity to deliver services and infrastructure at the same level in the post transition period. HFE as has been commonly accepted will not be achieved.

While other objectives, such stability and certainty for state budgets, and neutrality for the pursuit of policy reforms that lead to higher prosperity and productivity are important they should not be achieved at the expense of HFE. If the HFE method cannot achieve these objectivities then there are other mechanisms that can be used. The previous HFE method achieved a level of HFE that was appropriate and should be reinstated.

APPENDICES

A1 Issues with the Commonwealth's Interpretation of the Stronger of New South Wales and Victoria

This section outlines the flaw in the Commonwealth Government's response to the Commission's HFE report in determining that the GST distribution would ensure the fiscal capacity of all States is at least the equal of NSW or Victoria (whichever is higher)[37]. It is apparent that what the Commonwealth Government wanted to achieve was based on the Commission's ESSS method with the fiscally stronger out of New South Wales or Victoria (hereafter called the fiscally stronger state for simplicity) replacing the fiscally second strongest state. This has had no practical impact as since the Act came into force the fiscally second strongest state has been either New South Wales or Victoria, except for the CGC's 2025 Review when Queensland was the fiscally second strongest state.

It must be noted that the fiscal strength of the states is based on the per capita GST requirement as determined by the previous HFE method. That is, the fiscally strongest state is the state with the lowest per capita GST requirement and the fiscally stronger of New South Wales and Victoria is the one with the lower per capita GST requirement. These GST requirements represent the funding states require to provide services and the associated infrastructure at the same standard.

Table A1-1 presents the GST distributions from the CGC's 2018 Update using the CGC's method, referencing the fiscally strongest state and the fiscally stronger state methods. Two interpretations of the later method are presented. One is consistent with the Commission's ESSS method and the other using what is called here the reference method. This reference method is based on the concept of the decomposition the CGC did using the fiscally strongest state as the reference point.

37 The Commonwealth of Australia (2018).

Table A1-1: GST Distribution from different benchmarks, CGC 2018 Update

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*All States*
CGC 2018 Update method									
Dollars millions	18,030	16,830	14,447	3,255	6,751	2,434	1,298	2,755	65,800
Dollars per capita	2,246	2,591	2,878	1,242	3,879	4,640	3,100	11,181	2,622
Referenced to fiscally strongest state									
Dollars per capita									
Lift to strongest state	1,004	1,349	1,636	0	2,637	3,398	1,859	9,940	1,380
EPC balance	1,242	1,242	1,242	1,242	1,242	1,242	1,242	1,242	1,242
GST requirement	2,246	2,591	2,878	1,242	3,879	4,640	3,100	11,181	2,622
Dollars millions									
GST requirement	18,030	16,830	14,447	3,255	6,751	2,434	1,298	2,755	65,800
Stronger of NSW and Victoria—Commonwealth method									
Dollars per capita									
Lift to stronger state	0	345	632	0	1,634	2,394	855	8,936	481
EPC balance	2,141	2,141	2,141	2,141	2,141	2,141	2,141	2,141	2,141
GST requirement	2,141	2,486	2,773	2,141	3,774	4,535	2,995	11,076	2,622
Dollars millions									
GST requirement	17,188	16,149	13,921	5,611	6,568	2,379	1,254	2,729	65,800
Stronger of NSW and Victoria—reference method									
Dollars per capita									
Lift to stronger state	0	345	632	-1,004	1,634	2,394	855	8,936	376
EPC balance	2,246	2,246	2,246	2,246	2,246	2,246	2,246	2,246	2,246
GST requirement	2,246	2,591	2,878	1,242	3,879	4,640	3,100	11,181	2,622
Dollars millions									
GST requirement	18,030	16,830	14,447	3,255	6,751	2,434	1,298	2,755	65,800

Sources: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2018 Update*, Table 2 and Supporting Information, Table S1-1.

Going through Table A1-1 will illustrate the points that need to be made. The first part provides the GST distribution, in millions of dollars and dollars per capita, from the CGC's 2018 Update. The next part decomposes the per capita distribution using the fiscally strongest state as the point of reference. It can be seen that the other states require a positive amount to bring their GST distribution to that of the fiscally strongest state. The all states amount is the population weighted sum of these amounts. The difference between this amount and the all states GST amount is then distributed to all the states on an EPC basis. The GST distribution from this calculation is the same as that determined by the CGC's previous method.

The following parts look at two ways of applying the fiscally stronger state benchmark. In the Commonwealth Government's application, the states that have a per capita GST requirement above that of the fiscally stronger state initially receive GST revenue that represents the difference between their GST requirements and that for the fiscally stronger state. The fiscally strongest state, which has a per capita GST requirement less than that for the fiscally stronger state receives zero GST revenue. The fiscally stronger state also receives zero GST revenue in this step. The next step distributes the balance of GST revenue to the states on an EPC basis.

If the fiscally stronger state is the reference state for the decomposition of the GST distribution, then the fiscally strongest state should receive a negative amount in the first step as it has a lower per capita GST requirement. This amount is the difference between the GST requirements of the fiscally stronger and fiscally strongest states. This is the approach adopted in the 'reference method' application. The GST distribution from this calculation is the same as that determined by the CGC, which is the expected outcome from a decomposition of the CGC's outcome.

There are concerns about what is being equalised in the Commonwealth Government's fiscally stronger state distributions. Ostensibly it is supposed to provide states with the fiscal capacity to provide services at the same level as the fiscally stronger state. However, it does not quite meet this objective as the fiscally strongest state in the first step of the fiscally stronger state method receives zero rather than negative funding. This results in the fiscally strongest state receiving the fiscal capacity to deliver services at a higher level than the fiscally stronger state.

It is interesting to note that the amount of GST revenue received by the fiscally stronger state under the Commonwealth Government's application is less than that it received under the CGC's method. This means that the fiscally strongest state has the fiscal capacity to deliver services at a higher level than the average of what states collectively do, while the other states only have the fiscal capacity to deliver services at a lower, and varying, level below the collective average.

It is clear that the Commonwealth Government's application of the fiscally stronger of New South Wales and Victoria method does not provide states with the fiscal capacity to deliver services at the same standard. In other words, this GST distribution method does not treat all states equally. So what is being equalised? It is not clear what the fiscal capacities provided under this method enables to be equalised. The Commonwealth Government did not explain the HFE principles that its GST distribution options were to meet. It is obvious that the Commonwealth Government's fiscally stronger of New South Wales and Victoria method does not achieve HFE as it is commonly understood.

A2 GST Pool and Population

The value of the GST pool to be distributed varies between the previous HFE method and the standard state and current HFE methods. For the latter methods the GST pool is topped up as specified in 8A of the FFR Act.

The values of the GST pools from 2021–22 to 2025–26 are presented in Table A2-1. The base pool is the pool that is relevant for the previous method and the final pool is the pool relevant for the other two methods.

Table A2-1: GST pool, 2021–22 to 2025–26 ($ million)

Year	*2021–22*	*2022–23*	*2023–24*	*2024–25*	*2025–26**
Base	73,581	81,332	84,919	90,192	95,510
Pool boost	600	662	686	981	1,044
Final pool	74,181	81,994	85,605	91,173	96,554

* forecast.

Sources: Commonwealth of Australia, *Budget 2021–22 Final Budget Outcome*, Part 3, Table 3.5; *Budget 2022–23 Final Budget Outcome, Part 3*, Table 3.6; *Budget 2023–24 Final Budget Outcome, Part 3*, Table 3.6; *Budget 2024–25, Final Budget Outcome, Part 3*, Table 3.6; and *Budget 2025–26, Mid-Year Economic and Fiscal Outlook, Appendix C,* Table C.7.

The NoWO payments which are used to determine the GST distribution for the current HFE method are presented in Table A2-2.

Table A2-2: No worse off guarantee payments, 2021–22 to 2025–26 ($million)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021-22	64	56	33	2,115[1]	3	0	2	0	2,273
2022-23	1,464	1,204	947	0	314	87	81	12	4,108
2023-24	1,740	1,439	1,129	0	375	112	96	39	4,929
2024-25	1,899	1,562	1,239	0	412	122	106	46	5,386
2025-26*	2,285	1,876	59	0	501	150	128	66	5,065

1. Transitional GST top-up payment.

* forecast.

Sources: Commonwealth of Australia, *Budget 2021–22 Final Budget Outcome*, Part 3, Table 3.5; *Budget 2022–23 Final Budget Outcome, Part 3*, Table 3.5; *Budget 2023–24 Final Budget Outcome, Part 3*, Table 3.5; *Budget 2024–25, Final Budget Outcome, Part 3*, Table 3.5; and *Budget 2025–26, Mid-Year Economic and Fiscal Outlook, Appendix C Annex A*, Table CA.10.

The state population numbers used to distribute the GST pools are presented in Table A2-3. These are 31 December population numbers.

Table A2-3: State populations used to distribute the GST pool, 2021–22 to 2025–26 ('000)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22	8,095.4	6,559.9	5,265.0	2,762.2	1,806.6	569.8	453.3	249.3	25,761.7
2022–23	8,238.8	6,704.3	5,378.3	2,825.2	1,834.3	571.6	460.9	250.1	26,263.4
2023–24	8,434.8	6,906.0	5,528.3	2,927.9	1,866.3	574.7	470.2	253.6	26,961.8
2024–25	8,545.1	7,011.1	5,618.8	3,008.7	1,891.7	575.8	481.7	262.2	27,395.0
2025–26*	8,643.7	7,121.0	5,709.9	3,070.0	1,910.2	576.5	488.0	265.9	27,785.1

* forecast.

Sources: Commonwealth of Australia, *Budget 2021–22 Final Budget Outcome*, Part 3, Table 3.9; *Budget 2022–23 Final Budget Outcome, Part 3*, Table 3.9; *Budget 2023–24 Final Budget Outcome, Part 3*, Table 3.9; *Budget 2024–25, Final Budget Outcome, Part 3*, Table 3.9; and *Budget 2025–26, Mid-Year Economic and Fiscal Outlook, Appendix C,* Table C.10.

Some of the analyses undertaken in this submission require the estimation of assessment year and GST relativities for the years of the CGC's 2025 Review. These populations are presented in Table A2-4.

Table 2-4: State populations for the CGC 2025 Review ('000)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Assessment years									
2021–22	8,101.2	6,566.1	5,261.0	2,763.0	1,805.7	568.6	452.7	248.1	25,766.5
2022–23	8,248.2	6,717.4	5,386.5	2,834.9	1,835.9	572.6	461.2	251.3	26,308.2
2023–24	8,423.8	6,901.7	5,527.4	2,928.7	1,866.4	574.6	470.0	253.9	26,946.3
Application year									
2025–26*	8,666.4	7,168.9	5,730.0	3,054.8	1,903.0	577.9	482.8	257.2	27,840.9

* forecast.

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supplementary Information, Table S1-1.

A3 GST Distributions

There are three main methods of distributing the GST pool to the states that are used in this submission. These are:

- Previous method—the method that was used to distribute the GST pool prior to 2021–22;
- Standard state method—the method that is specified in 16AB(2) of the CGC Act, as interpreted by the CGC; and
- Current method—the method currently used to distribute the GST which involves the combination of the previous and standard state method as specified in 16AB(3)(b)(ii) of the CGC Act, the application of a relativity floor as specified in 8(2A) and 8(2B) of the FFR Act and the NoWO payments.

In calculating the GST distribution from these three methods the most recent application year population and GST pool data are used. This should provide as accurate as possible values for the GST distributions.

The GST distributions from 2021–22 to 2025–26 that would have resulted from the previous GST distribution method are presented in Table A3-1 for the base GST pool and in Table A3-2 for the final GST pool. The GST relativities are different in these two tables as the ones using the base GST pool have the assessment year relativities calculated using the base pool and the ones using the final pool have the assessment year relativities calculated using the final pool.

Table A3-1: GST distribution—previous method using the base GST pool, 2021–22 to 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22									
GST relativity	0.9645	0.9317	1.0675	0.3285	1.3555	1.9690	1.1710	4.8082	
Population ('000)	8,095	6,560	5,265	2,762	1,807	570	453	249	25,762
Weighted population ('000)	7,808	6,112	5,621	907	2,449	1,122	531	1,199	25,749
Weighted population share (%)	30.3	23.7	21.8	3.5	9.5	4.4	2.1	4.7	
Equalisation distribution									
$ million	22,313	17,466	16,062	2,593	6,998	3,206	1,517	3,426	73,581
2022–23									
GST relativity	1.0137	0.9217	1.0968	0.1578	1.3471	1.9166	1.1556	4.9325	
Population ('000)	8,239	6,704	5,378	2,825	1,834	572	461	250	26,263
Weighted population ('000)	8,352	6,179	5,899	446	2,471	1,096	533	1,234	26,209
Weighted population share (%)	31.9	23.6	22.5	1.7	9.4	4.2	2.0	4.7	
Equalisation distribution									
$ million	25,917	19,176	18,306	1,384	7,668	3,400	1,653	3,829	81,332
2023–24									
GST relativity	0.9955	0.9238	1.1033	0.0979	1.4683	1.8653	1.2684	5.0721	
Population ('000)	8,435	6,906	5,528	2,928	1,866	575	470	254	26,962
Weighted population ('000)	8,397	6,380	6,099	287	2,740	1,072	596	1,286	26,858
Weighted population share (%)	31.3	23.8	22.7	1.1	10.2	4.0	2.2	4.8	
Equalisation distribution									
$ million	26,549	20,172	19,285	906	8,665	3,389	1,886	4,067	84,919
2024–25*									
GST relativity	0.9432	1.0420	1.0285	0.1147	1.4828	1.9105	1.2824	5.1693	
Population ('000)	8,545	7,011	5,619	3,009	1,892	576	482	262	27,395
Weighted population ('000)	8,060	7,306	5,779	345	2,805	1,100	618	1,355	27,368
Weighted population share (%)	29.5	26.7	21.1	1.3	10.2	4.0	2.3	5.0	
Equalisation distribution									
$ million	26,562	24,077	19,045	1,137	9,244	3,625	2,036	4,467	90,192
2025–26*									
GST relativity	0.9464	1.1536	0.8585	0.1870	1.4755	1.9279	1.2587	5.2428	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	8,177	8,224	4,896	554	2,826	1,116	615	1,403	27,810
Weighted population share (%)	29.4	29.6	17.6	2.0	10.2	4.0	2.2	5.0	
Equalisation distribution									
$ million	28,082	28,243	16,813	1,901	9,706	3,832	2,113	4,819	95,510

* forecast.

Sources: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2021 Update*, Table A-1; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2022 Update*, Table A-1; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2023 Update*, Table 1-5; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2024 Update*, Table 1-5; Commonwealth Grants Commission, *GST Relativities 2025–26*, Table 1-3; Table A2-1; and Table A2-3.

Table A3-2: GST distribution—previous method using the final GST pool, 2021–22 to 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22									
GST relativity	0.9562	0.9234	1.0592	0.4197	1.3472	1.9607	1.1627	4.7999	
Population ('000)	8,095	6,560	5,265	2,762	1,807	570	453	249	25,762
Weighted population ('000)	7,741	6,057	5,577	1,159	2,434	1,117	527	1,197	25,809
Weighted population share (%)	30.0	23.5	21.6	4.5	9.4	4.3	2.0	4.6	
Equalisation distribution									
$ million	22,249	17,410	16,029	3,332	6,995	3,211	1,515	3,440	74,181
2022–23									
GST relativity	1.0137	0.9217	1.0968	0.1578	1.3471	1.9166	1.1556	4.9325	
Population ('000)	8,239	6,704	5,378	2,825	1,834	572	461	250	26,263
Weighted population ('000)	8,352	6,179	5,899	446	2,471	1,096	533	1,234	26,209
Weighted population share (%)	31.9	23.6	22.5	1.7	9.4	4.2	2.0	4.7	
Equalisation distribution									
$ million	26,128	19,332	18,455	1,395	7,731	3,427	1,666	3,860	81,994
2023–24									
GST relativity	0.9956	0.9238	1.1033	0.1003	1.4669	1.8632	1.2676	5.0607	
Population ('000)	8,416	6,896	5,508	2,905	1,866	576	471	254	26,893
Weighted population ('000)	8,379	6,371	6,077	291	2,737	1,074	597	1,286	26,812
Weighted population share (%)	31.3	23.8	22.7	1.1	10.2	4.0	2.2	4.8	
Equalisation distribution									
$ million	26,882	20,438	19,496	935	8,780	3,444	1,917	4,127	86,018
2024–25*									
GST relativity	0.9438	1.0415	1.0288	0.1190	1.4799	1.9053	1.2808	5.1458	
Population ('000)	8,556	7,048	5,637	2,998	1,887	576	477	255	27,435
Weighted population ('000)	8,075	7,341	5,799	357	2,792	1,098	611	1,314	27,387
Weighted population share (%)	29.5	26.8	21.2	1.3	10.2	4.0	2.2	4.8	
Equalisation distribution									
$ million	26,619	24,198	19,117	1,176	9,203	3,620	2,013	4,332	90,278
2025–26*									
GST relativity	0.9464	1.1536	0.8585	0.1870	1.4755	1.9279	1.2587	5.2428	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	8,181	8,215	4,902	574	2,819	1,111	614	1,394	27,810
Weighted population share (%)	29.4	29.5	17.6	2.1	10.1	4.0	2.2	5.0	
Equalisation distribution									
$ million	28,403	28,521	17,020	1,993	9,786	3,859	2,133	4,840	96,554

* forecast.

Sources: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2021 Update*, Table 1-2; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2022 Update*, Table 1-2; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2023 Update*, Table 1-2; Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2024 Update*, Table 1-2; Commonwealth Grants Commission, *GST Relativities 2025–26*, Table A-1; Table A2-1; and Table A2-3.

The GST distributions from 2021–22 to 2025–26 that would have resulted from the standard state GST distribution method are presented in Table A3-3.

Table A3-3: GST distribution—standard state method, 2021–22 to 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22									
GST relativity	0.9026	0.8698	1.0056	0.8636	1.2936	1.9071	1.1091	4.7463	
Population ('000)	8,095	6,560	5,265	2,762	1,807	570	453	249	25,762
Weighted population ('000)	7,307	5,706	5,294	2,385	2,337	1,087	503	1,183	25,802
Weighted population share (%)	28.3	22.1	20.5	9.2	9.1	4.2	1.9	4.6	
Equalisation distribution									
$ million	21,007	16,403	15,222	6,858	6,719	3,124	1,445	3,402	74,181
2022–23									
GST relativity	0.9345	0.8425	1.0176	0.8425	1.2679	1.8373	1.0763	4.8533	
Population ('000)	8,239	6,704	5,378	2,825	1,834	572	461	250	26,263
Weighted population ('000)	7,699	5,648	5,473	2,380	2,326	1,050	496	1,214	26,286
Weighted population share (%)	29.3	21.5	20.8	9.1	8.8	4.0	1.9	4.6	
Equalisation distribution									
$ million	24,016	17,618	17,071	7,424	7,255	3,276	1,547	3,787	81,994
2023–24									
GST relativity	0.9093	0.8376	1.0170	0.8181	1.3803	1.7764	1.1811	4.9717	
Population ('000)	8,416	6,896	5,508	2,905	1,866	576	471	254	26,893
Weighted population ('000)	7,653	5,776	5,601	2,377	2,575	1,023	557	1,264	26,826
Weighted population share (%)	28.5	21.5	20.9	8.9	9.6	3.8	2.1	4.7	
Equalisation distribution									
$ million	24,539	18,521	17,961	7,620	8,258	3,282	1,785	4,052	86,018
2024–25*									
GST relativity	0.8583	0.9559	0.9432	0.8254	1.3939	1.8190	1.1950	5.0565	
Population ('000)	8,556	7,048	5,637	2,998	1,887	576	477	255	27,435
Weighted population ('000)	7,344	6,738	5,317	2,474	2,630	1,048	570	1,291	27,412
Weighted population share (%)	26.8	24.6	19.4	9.0	9.6	3.8	2.1	4.7	
Equalisation distribution									
$ million	24,186	22,189	17,511	8,149	8,660	3,453	1,877	4,253	90,278
2025–26*									
GST relativity	0.8453	1.0521	0.8453	0.8453	1.3735	1.8252	1.1571	5.1349	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,306	7,492	4,826	2,595	2,624	1,052	565	1,365	27,825
Weighted population share (%)	26.3	26.9	17.3	9.3	9.4	3.8	2.0	4.9	
Equalisation distribution									
$ million	25,352	25,997	16,748	9,004	9,104	3,651	1,959	4,738	96,554

* Forecast.

Sources: As for Table A3-2.

The GST distributions from 2021–22 to 2025–26 that have resulted from the current GST distribution method are presented in Table A3-4.

Table A3-4: GST distribution—current method, 2021–22 to 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22									
GST relativity	0.9562	0.9234	1.0592	0.4197	1.3472	1.9607	1.1627	4.7999	
Population ('000)	8,095	6,560	5,265	2,762	1,807	570	453	249	25,762
Weighted population ('000)	7,741	6,057	5,577	1,159	2,434	1,117	527	1,197	25,809
Weighted population share (%)	30.0	23.5	21.6	4.5	9.4	4.3	2.0	4.6	
Equalisation distribution									
$ million	22,249	17,410	16,029	3,332	6,996	3,211	1,515	3,440	74,181
Equalisation distribution after NoWO									
$ million	22,313	17,466	16,062	3,332	6,998	3,211	1,517	3,440	74,339
2022–23									
GST relativity	0.9507	0.8586	1.0338	0.7000	1.2841	1.8536	1.0925	4.8699	
Population ('000)	8,239	6,704	5,378	2,825	1,834	572	461	250	26,263
Weighted population ('000)	7,832	5,756	5,560	1,978	2,355	1,060	503	1,218	26,263
Weighted population share (%)	29.8	21.9	21.2	7.5	9.0	4.0	1.9	4.6	
Equalisation distribution									
$ million	24,453	17,972	17,358	6,174	7,354	3,308	1,572	3,803	81,994
Equalisation distribution after NoWO									
$ million	25,917	19,176	18,305	6,174	7,668	3,395	1,653	3,815	86,103
2023–24									
GST relativity	0.9235	0.8517	1.0312	0.7000	1.3946	1.7908	1.1954	4.9873	
Population ('000)	8,435	6,906	5,528	2,928	1,866	575	470	254	26,962
Weighted population ('000)	7,789	5,882	5,701	2,050	2,603	1,029	562	1,265	26,880
Weighted population share (%)	29.0	21.9	21.2	7.6	9.7	3.8	2.1	4.7	
Equalisation distribution									
$ million	24,807	18,731	18,155	6,527	8,289	3,278	1,790	4,028	85,605
Equalisation distribution after NoWO									
$ million	26,547	20,170	19,284	6,527	8,664	3,390	1,886	4,067	90,535
2024–25*									
GST relativity	0.8674	0.9650	0.9523	0.7500	1.4031	1.8283	1.2042	5.0668	
Population ('000)	8,545	7,011	5,619	3,009	1,892	576	482	262	27,395
Weighted population ('000)	7,412	6,766	5,351	2,257	2,654	1,053	580	1,328	27,400
Weighted population share (%)	27.0	24.7	19.5	8.2	9.7	3.8	2.1	4.8	
Equalisation distribution									
$ million	24,662	22,513	17,805	7,508	8,832	3,503	1,930	4,420	91,173
Equalisation distribution after NoWO									
$ million	26,561	24,075	19,044	7,508	9,244	3,625	2,036	4,466	96,559

Table A3-4 (continued)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2025–26*									
GST relativity	0.8603	1.0672	0.8457	0.7500	1.3888	1.8405	1.1722	5.1511	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,436	7,600	4,829	2,302	2,653	1,061	572	1,370	27,823
Weighted population share (%)	26.7	27.3	17.4	8.3	9.5	3.8	2.1	4.9	
Equalisation distribution									
$ million	25,807	26,373	16,758	7,990	9,206	3,682	1,985	4,753	96,554
Equalisation distribution NoWO									
$ million	28,082	28,243	16,813	7,990	9,706	3,832	2,113	4,819	101,599

* forecast.

Sources: Table A2-2 and as for Table A3-2.

A4 The New Standard

Table 4 of the Commonwealth Government's response to the Commission's HFE Report presented estimated GST relativities for the new GST distribution method. However, the method used to obtain these relativities was not explained. If it is assumed that the derivation followed that of the ESSS method that was presented in the Commission's HFE report then it is possible to determine the distribution of GST for the Commonwealth Government's method from 2021–22 to date. This involves using the per capita GST distributions determined by the previous GST distribution method. The 'standard' in this case is the lower per capita distribution out of New South Wales and Victoria.

In this section the GST distributions from the fiscally stronger of New South and Victoria as calculated using the Commonwealth Government's response (based on the ESSS method) for the period 2021–22 to 2025–26 are presented in Table A4-1.

Table A4-1: GST distribution based on stronger of New South Wales and Victoria method, 2021–22 to 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22									
Dollars per capita									
Lift to stronger state	94	0	390	0	1,218	2,982	688	11,142	381
EPC balance	2,499	2,499	2,499	2,499	2,499	2,499	2,499	2,499	2,499
Total	2,593	2,499	2,889	2,499	3,717	5,480	3,187	13,641	2,879
Dollars million									
Total	20,992	16,392	15,211	6,902	6,715	3,123	1,445	3,401	74,181
2022–23									
Dollars per capita									
Lift to stronger state	288	0	548	0	1,331	3,112	732	12,548	496
EPC balance	2,626	2,626	2,626	2,626	2,626	2,626	2,626	2,626	2,626
Total	2,914	2,626	3,174	2,626	3,957	5,739	3,358	15,174	3,122
Dollars million									
Total	24,011	17,608	17,072	7,420	7,259	3,280	1,548	3,796	81,994
2023–24									
Dollars per capita									
Lift to stronger state	230	0	576	0	1,742	3,014	1,103	13,272	520
EPC balance	2,678	2,678	2,678	2,678	2,678	2,678	2,678	2,678	2,678
Total	2,909	2,678	3,254	2,678	4,421	5,692	3,781	15,950	3,199
Dollars million									
Total	24,480	18,470	17,924	7,780	8,248	3,280	1,782	4,054	86,018
2024–25*									
Dollars per capita									
Lift to stronger state	0	322	280	0	1,767	3,170	1,111	13,851	477
EPC balance	2,814	2,814	2,814	2,814	2,814	2,814	2,814	2,814	2,814
Total	2,814	3,136	3,094	2,814	4,581	5,984	3,925	16,665	3,291
Dollars million									
Total	24,077	22,104	17,442	8,436	8,642	3,449	1,872	4,256	90,278
2025–26*									
Dollars per capita									
Lift to stronger state	0	719	0	0	1,837	3,408	1,084	14,917	543
EPC balance	2,932	2,932	2,932	2,932	2,932	2,932	2,932	2,932	2,932
Total	2,932	3,651	2,932	2,932	4,769	6,340	4,016	17,848	3,475
Dollars million									
Total	25,342	26,000	16,741	9,001	9,110	3,655	1,960	4,746	96,554

* forecast.
Source: Table A3-2.

As noted in Section 3.1, due to the lack of a definition of 'standard' in the Act, a possible interpretation is that the 'standard' applies to the *assessment* of revenue and expenses rather than to the *distribution* of GST revenue.

Revenue is assessed by applying the national average tax rate to the tax base of each state. The standard referred in the Act could be interpreted as meaning the higher tax rate of New South Wales or Victoria would be used to assess revenue rather than the average tax rate. The exercise undertaken here is the assessment of payroll tax revenue where the average tax rate is replaced by the higher of the New South Wales or Victorian tax rate.

The most recently publicly available data on payroll tax revenue and the payroll tax base used by the CGC for assessment are for 2018–19. These data are provided in Table A4-2. The effective tax rates for the states can be calculated from these data and these rates are also provided in Table A4-2. It can be seen that New South Wales has a higher effective tax rate than Victoria.

The method that the CGC uses to assess revenue is to apply the national average tax rate to the tax base of each state. This assessment is presented in Table A4-2. The national average tax rate is the 'standard' used. Payroll tax revenue is now assessed using the New South Wales tax rate as the standard. The results of this assessment are presented in Table A4-2 as a raw assessment as the total assessed revenue does not agree with total payroll tax revenue. The final step is to rescale the raw assessed revenue so that total assessed revenue agrees with total payroll tax revenue. The CGC often uses rescaling in its revenue and expense assessments. The rescaled assessed revenue is presented in Table A4-2.

Table A4-2: Payroll tax assessment, 2018–19

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Actual revenue ($m)	9,293	6,272	4,134	3,537	1,256	369	544	280	25,685
Revenue base ($m)	177,350	128,433	94,114	67,077	28,216	7,140	8,379	5,717	516,426
Tax rate (%)	5.24	4.88	4.39	5.27	4.45	5.17	6.49	4.90	4.97
Assessment based on average tax rate									
Assessed revenue ($m)	8,821	6,388	4,681	3,336	1,403	355	417	284	25,685
Assessment based on NSW tax rate									
Raw assessed revenue ($m)	9,293	6,730	4,931	3,515	1,478	374	439	300	27,060
Rescaled assessed revenue ($m)	8,821	6,388	4,681	3,336	1,403	355	417	284	25,685

Source: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2020 Review—Volume 2B*, Table 6.5.

When we compare the two revenue assessments in Table A4-2 it can be seen that they are identical. This indicates the revenue assessment is indifferent to the tax rate used for assessment.

Expenses are assessed by applying various expense disabilities to national per capita expenses. These disabilities relate to factors such as socio-demographic composition, regional costs and interstate wage differences. The exercise undertaken here relates to post-secondary education expenses as this expense category does not have any separate components.

The assessment of post-secondary education expenses involves calculating a socio-demographic composition assessment, a cross-border assessment and an interstate wage cost assessment. Some of the data required to calculate these assessments are not publicly available. To overcome this issue, an implied expense disability factor is calculated as the assessed per capita expenses for the states relative to national per capita expenses. Assessed expenses and the implied expense disability factors for 2018–19 are presented in Table A4-3.

Table A4-3: Post-secondary education assessed expenses, 2018–19

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
$ million	1,839	1,447	1,216	621	405	139	97	98	5,861
$ per capita	229	222	241	238	233	262	229	399	233
Disability factor	0.9821	0.9518	1.0334	1.0226	0.9988	1.1233	0.9819	1.7123	1.0000

Sources: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2020 Review*, Supporting Information, Tables S3-3-1 and S3-3-2.

The interpretation of the standard used here is that the higher per capita expenses of New South Wales or Victoria would be used to assess revenue rather than national per capita expenses. Post-secondary education expenses for 2018–19 are presented in Table A4-4.

Table A4-4: Post-secondary education expenses by State, 2018–19

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
$ million	1,761	1,814	964	492	355	77	145	254	5,861
$ per capita	219	278	191	189	203	144	343	1,033	233

Sources: Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities 2020 Review*, Supporting Information, Tables S2-3-1 and S2-3-2.

It can be seen from Table A4-4 that Victoria has higher per capita expenses than New South Wales so this will be used as the standard for assessment. The results from applying the implied expense disability factor to Victorian per capita expenses are presented in Table A4-5. The final step is to rescale the raw assessed expenses so that total assessed expenses agrees with total post-secondary education expenses.

Table A4-5: Post-secondary education assessed expenses—Victorian standard, 2018–19

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
$ per capita	273	265	287	284	278	312	273	476	278
Expenses $ million									
Raw	2,194	1,727	1,451	741	484	166	116	117	6,994
Rescaled	1,839	1,447	1,216	621	405	139	97	98	5,861

Sources: Tables A4-3 and A4-4.

When the two assessments of expenses in Tables A4-3 and A4-5 are compared it can be seen that they are identical. This indicates the expense assessment is indifferent to the per capita expense used for assessment.

The conclusion that can be drawn is that when the 'standard' of the Act is applied to the assessment methodology rather than the distribution methodology then same GST distribution as the previous HFE method will result.

A5 Stability and Predictability of GST Revenue

Since the Act came into force there is only a limited time series to examine whether the new GST distribution method has produced stability in GST revenues and has improved the predictability of GST relativities. The annual percentage differences in the GST revenues for the states between GST distributions from the previous, current and standard state methods are presented in Table A5-1 for the transition period to date. As the focus is on volatility, the standard deviation is used as the summary statistic.

Table A5-1: Annual differences in GST revenue, previous, current and standard state methods, 2022–23 to 2025–26 (per cent)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous method									
2022–23	16.2	9.8	14.0	-46.6	9.6	6.0	8.9	11.8	10.5
2023–24	2.4	5.2	5.3	-34.5	13.0	-0.3	14.1	6.2	4.4
2024–25	0.1	19.4	-1.2	25.5	6.7	6.9	7.9	9.8	6.2
2025–26*	5.7	17.3	-11.7	67.2	5.0	5.7	3.8	7.9	5.9
Std deviation	6.1	5.7	9.4	46.1	3.0	2.9	3.7	2.1	2.3
Current method									
2022–23	16.2	9.8	14.0	13.3	9.6	5.7	9.0	10.9	12.6
2023–24	2.4	5.2	5.3	5.7	13.0	-0.2	14.1	6.6	5.1
2024–25	0.1	19.4	-1.2	15.0	6.7	6.9	7.9	9.8	6.7
2025–26*	5.7	17.3	-11.7	6.4	5.0	5.7	3.8	7.9	5.2
Std deviation	6.1	5.7	9.4	4.1	3.0	2.8	3.7	1.7	3.1
Standard state method									
2022–23	14.3	7.4	12.2	8.3	8.0	4.9	7.0	11.3	10.5
2023–24	1.7	4.5	4.9	2.7	13.1	-0.8	14.3	6.0	4.4
2024–25	-0.1	21.1	-1.5	8.3	6.9	7.2	8.3	9.9	6.5
2025–26*	3.9	16.6	-5.0	9.0	3.8	4.8	2.3	7.4	5.9
Std deviation	5.6	6.7	6.5	2.5	3.3	2.9	4.3	2.1	2.3

* forecast.

Sources: Tables A3-1, A3-3 and A3-4.

A6 Efficiency Scenario

In order to analyse how the various HFE methods support states to pursue reforms that improve the efficiency of service delivery, a scenario analysis of a five per cent reduction in the cost of delivering schools education by New South Wales is undertaken. The impacts on the GST distributions for 2025–26 are then calculated.

The expenditure of states on schools in the three assessment years of the CGC's 2025 Review are presented in Table A6-1.

Table A6-1: Schools expenditure, 2021–22 to 2023–24 ($ million)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22	16,813.0	10,975.7	10,802.0	5,777.3	3,557.7	1,171.3	999.6	680.6	50,777.2
2022–23	18,068.6	11,447.5	11,591.6	6,311.7	3,597.2	1,247.6	1,062.8	703.8	54,031.0
2023–24	17,692.1	14,198.2	12,056.2	6,345.8	4,001.4	1,292.0	1,087.9	756.7	57,430.2

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S2-3-1.

Schools expenditure after New South Wales has reduced its expenditure is presented in Table A6-2.

Table A6-2: Schools expenditure after NSW efficiency, 2021–22 to 2023–24 ($ million)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
2021–22	15,972.3	10,975.7	10,802.0	5,777.3	3,557.7	1,171.3	999.6	680.6	49,936.5
2022–23	17,165.2	11,447.5	11,591.6	6,311.7	3,597.2	1,247.6	1,062.8	703.8	53,127.5
2023–24	16,807.5	14,198.2	12,056.2	6,345.8	4,001.4	1,292.0	1,087.9	756.7	56,545.6

Source: Table A6-1.

The next step is to calculate assessed schools expenses. The data on cost and use disabilities that are used by the CGC to assess expenses are not publicly available. The assessment of expenses has to be estimated using expense ratios. These are the ratio of each state's assessed per capita expenses relative to total per capita expenses for each expense category. The use of expenses ratios should provide a good approximation of the CGC assessment method. The expense ratios of schools expenses are presented in Table A6-3.

Table A6-3: Schools expense ratios, 2021–22 to 2023–24 (per cent)

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	97.6	93.2	108.0	104.7	95.8	103.4	94.0	169.0	100.0
2022–23	97.2	93.4	108.6	104.6	95.6	104.0	93.7	165.6	100.0
2023–24	96.5	94.5	108.2	105.0	95.5	104.1	93.6	165.9	100.0

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S6-3.

Table A6-4 presents the national state average per capita schools expenses for the base case (Table A6-1) and for the New South Wales efficiency scenario (Table A6-2).

Table A6-4: National state average per capita schools expenses, 2021–22 to 2023–24 ($)

Base case			*NSW efficiency*		
2021–22	*2022–23*	*2023–24*	*2021–22*	*2022–23*	*2023–24*
1,970.7	2,053.8	2,131.3	1,938.0	2,019.4	2,098.5

Sources: Tables A2-4, A6-1 and A6-2.

Assessed per capita schools expenses for the NSW efficiency scenario are calculated by applying the schools expense ratios to the national state average per capita expenses for that scenario. The assessed schools expenses for the base case and NSW efficiency scenario are presented in Table A6-5.

Table A6-5: Assessed schools expenses, 2021–22 to 2023–24

Year	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Base case									
$ million									
2021–22	15,578.6	12,064.1	11,200.4	5,702.6	3,408.4	1,158.2	838.8	826.1	50,777.2
2022–23	16,472.8	12,891.0	12,010.9	6,087.3	3,603.2	1,223.1	887.9	854.6	54,031.0
2023–24	17,324.9	13,895.9	12,743.8	6,555.2	3,800.6	1,274.8	937.4	897.6	57,430.2
$ per capita									
2021–22	1,923.0	1,837.3	2,128.9	2,063.9	1,887.6	2,036.8	1,853.1	3,329.5	1,970.7
2022–23	1,997.1	1,919.0	2,229.8	2,147.3	1,962.6	2,136.0	1,925.3	3,400.5	2,053.8
2023–24	2,056.7	2,013.4	2,305.6	2,238.3	2,036.3	2,218.7	1,994.5	3,535.9	2,131.3
NSW efficiency									
$ million									
2021–22	15,320.6	11,864.3	11,014.9	5,608.2	3,352.0	1,139.0	824.9	812.5	49,936.5
2022–23	16,197.4	12,675.5	11,810.1	5,985.5	3,543.0	1,202.7	873.1	840.3	53,127.5
2023–24	17,058.1	13,681.9	12,547.5	6,454.3	3,742.0	1,255.1	923.0	883.8	56,545.6
$ per capita									
2021–22	1,891.2	1,806.9	2,093.7	2,029.7	1,856.3	2,003.1	1,822.4	3,274.4	1,938.0
2022–23	1,963.7	1,887.0	2,192.5	2,111.4	1,929.8	2,100.2	1,893.1	3,343.7	2,019.4
2023–24	2,025.0	1,982.4	2,270.1	2,203.8	2,004.9	2,184.5	1,963.8	3,481.5	2,098.5

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S3-3-1 and Table S3-3-2; Table A2-4; Table A6-3 and Table A6-4.

Now that the assessed schools expenses have been calculated for the New South Wales efficiency scenario, total assessed expenses can now be calculated for that scenario. Total assessed expenses for the base case and the New South Wales efficiency scenario are presented in Table A6-6.

Table A6-6: Assessed total expenses, 2021–22 to 2023–24 ($ million)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Base case									
$ million									
2021–22	97,045	76,093	59,710	32,630	20,138	7,160	5,156	5,624	303,556
2022–23	96,679	72,290	64,697	35,165	21,235	7,636	5,028	5,927	308,656
2023–24	101,584	78,521	70,346	38,268	23,148	8,094	5,403	6,489	331,853
NSW efficiency									
$ million									
2021–22	96,787	75,894	59,524	32,536	20,081	7,140	5,142	5,610	302,715
2022–23	96,403	72,074	64,496	35,063	21,175	7,616	5,013	5,913	307,753
2023–24	101,317	78,306	70,150	38,167	23,090	8,075	5,388	6,475	330,968
$ per capita									
2021–22	11,947	11,558	11,314	11,775	11,121	12,557	11,360	22,609	11,748
2022–23	11,688	10,729	11,974	12,369	11,533	13,299	10,871	23,526	11,698
2023–24	12,028	11,346	12,691	13,032	12,371	14,054	11,465	25,506	12,282

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S3-3-1; Table A2-4 and Table A6-5.

The annual assessment year per capita relativities can now be calculated. These are presented in Tables A6-7 to A6-9.

Table A6-7: Per capita assessed relativities, NSW efficiency, 2021–22

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	11,947	11,558	11,314	11,775	11,121	12,557	11,360	22,609	11,748
+ Assessed investment	2,185	2,031	2,279	2,464	1,908	1,862	1,848	3,594	2,176
Assessed expenditure	14,133	13,589	13,593	14,240	13,029	14,420	13,208	26,203	13,924
- Assessed net borrowing	2,382	2,376	2,464	2,452	2,414	2,448	2,443	2,384	2,410
- Assessed revenue	6,582	5,563	6,481	9,625	4,655	4,406	4,917	5,470	6,405
Total requirement	5,168	5,650	4,648	2,163	5,960	7,567	5,847	18,348	5,110
- Commonwealth payments	2,384	2,328	2,140	2,132	1,932	2,175	2,058	3,642	2,263
= GST requirement	2,784	3,321	2,507	31	4,028	5,392	3,790	14,706	2,846
Per capita assessed relativity									
	0.9781	1.1669	0.8808	0.0108	1.4152	1.8943	1.3314	5.1666	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-1 and Table A6-6.

Table A6-8: Per capita assessed relativities, NSW efficiency, 2022–23

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	11,688	10,729	11,974	12,369	11,533	13,299	10,871	23,526	11,698
+ Assessed investment	2,260	2,259	2,192	2,625	1,914	1,476	1,599	3,992	2,249
Assessed expenditure	13,948	12,988	14,165	14,994	13,447	14,775	12,470	27,518	13,947
- Assessed net borrowing	1,821	1,852	1,858	1,871	1,812	1,749	1,825	1,787	1,839
- Assessed revenue	7,162	5,664	7,609	9,976	4,830	4,514	5,141	5,534	6,903
Total requirement	4,965	5,472	4,698	3,147	6,806	8,512	5,503	20,197	5,205
- Commonwealth payments	2,081	1,941	2,275	2,243	2,044	2,471	1,806	4,054	2,122
= GST requirement	2,884	3,532	2,423	904	4,762	6,041	3,697	16,143	3,082
Per capita assessed relativity									
	0.9357	1.1457	0.7861	0.2933	1.5448	1.9598	1.1996	5.2373	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-2 and Table A6-6.

Table A6-9: Per capita assessed relativities, NSW efficiency, 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	12,028	11,346	12,691	13,032	12,371	14,054	11,465	25,506	12,282
+ Assessed investment	2,256	2,273	2,237	2,710	1,775	1,428	1,729	3,782	2,260
Assessed expenditure	14,284	13,619	14,928	15,742	14,147	15,481	13,194	29,287	14,542
- Assessed net borrowing	1,919	1,994	1,978	2,062	1,862	1,697	1,893	1,782	1,956
- Assessed revenue	7,262	6,018	7,649	10,495	5,422	5,039	5,306	5,950	7,153
Total requirement	5,102	5,607	5,300	3,186	6,863	8,746	5,995	21,555	5,434
- Commonwealth payments	2,231	2,019	2,500	2,475	2,255	2,662	2,096	4,648	2,290
= GST requirement	2,871	3,587	2,800	711	4,608	6,084	3,899	16,907	3,144
Per capita assessed relativity									
	0.9130	1.1410	0.8907	0.2261	1.4655	1.9351	1.2403	5.3775	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-3 and Table A6-6.

The annual per capita relativities for the previous HFE method have to be calculated using the base GST pool (that is, excluding the GST pool top up). In order to do this the equal per capita value of the pool top up is deducted from the per capita GST requirements in Tables A6-7 to A6-9. These calculations are presented in Tables A6-10 to A6-12.

Table A6-10: Per capita assessed relativities with NSW efficiency, previous HFE method, 2021–22

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,784	3,321	2,507	31	4,028	5,392	3,790	14,706	2,846
Less pool top up	23	23	23	23	23	23	23	23	23
Adjusted GST requirement	2,761	3,298	2,484	7	4,005	5,368	3,766	14,683	2,823
Per capita assessed relativity									
	0.9779	1.1683	0.8798	0.0026	1.4186	1.9016	1.3341	5.2010	1.0000

Sources: Table A2-1 and Table A6-7.

Table A6-11: Per capita assessed relativities with NSW efficiency, previous HFE method, 2022–23

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,884	3,532	2,423	904	4,762	6,041	3,697	16,143	3,082
Less pool top up	25	25	25	25	25	25	25	25	25
Adjusted GST requirement	2,859	3,506	2,398	879	4,736	6,016	3,672	16,118	3,057
Per capita assessed relativity									
	0.9352	1.1469	0.7843	0.2875	1.5493	1.9677	1.2012	5.2722	1.0000

Sources: Table A2-1 and Table A6-8.

Table A6-12: Per capita assessed relativities with NSW efficiency, previous HFE method, 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,871	3,587	2,800	711	4,608	6,084	3,899	16,907	3,144
Less pool top up	25	25	25	25	25	25	25	25	25
Adjusted GST requirement	2,845	3,562	2,775	685	4,582	6,059	3,874	16,882	3,119
Per capita assessed relativity									
	0.9123	1.1422	0.8898	0.2198	1.4693	1.9428	1.2422	5.4133	1.0000

Sources: Table A2-1 and Table A6-9.

The GST relativities for the previous HFE method are calculated as the average of the per capita relativities presented in Tables A6-10 to A6-12 rescaled so that the population weighted average for the application year (2025–26) is one. These relativities are presented in Table A6-13.

Table A6-13: Previous HFE method GST relativities, NSW efficiency, 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.9779	1.1683	0.8798	0.0026	1.4186	1.9016	1.3341	5.2010	1.0000
2022–23	0.9352	1.1469	0.7843	0.2875	1.5493	1.9677	1.2012	5.2722	1.0000
2023–24	0.9123	1.1422	0.8898	0.2198	1.4693	1.9428	1.2422	5.4133	1.0000
Average	0.9418	1.1525	0.8513	0.1700	1.4791	1.9374	1.2592	5.2955	0.9958
Average rescaled	0.9457	1.1573	0.8549	0.1707	1.4853	1.9455	1.2645	5.3176	1.0000

Sources: Table A2-4 and Tables A6-10 to A6-12.

The standard state relativities can now be calculated from the per capita relativities in Tables A6-7 to A6-9. New South Wales was the standard state for all three assessment years. The raw standard state annual per capita relativities are presented in Table A6-14.

Table A6-14: Raw standard state annual per capita relativities, NSW efficiency, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.9781	1.1669	0.9781	0.9781	1.4152	1.8943	1.3314	5.1666	1.1236
2022–23	0.9357	1.1457	0.9357	0.9357	1.5448	1.9598	1.1996	5.2373	1.0999
2023–24	0.9130	1.1410	0.9130	0.9130	1.4655	1.9351	1.2403	5.3775	1.0792

Sources: Tables A6-7 to A6-9.

The raw standard state relativities are then rescaled and averaged to produce the standard state GST relativities for 2025–26. These relativities are presented in Table A6-15.

Table A6-15: Rescaled standard state annual per capita relativities, NSW efficiency, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.8545	1.0433	0.8545	0.8545	1.2916	1.7707	1.2078	5.0430	1.0000
2022–23	0.8359	1.0459	0.8359	0.8359	1.4450	1.8600	1.0997	5.1374	1.0000
2023–24	0.8338	1.0618	0.8338	0.8338	1.3862	1.8559	1.1610	5.2983	1.0000
Average	0.8414	1.0503	0.8414	0.8414	1.3743	1.8288	1.1562	5.1596	0.9974
Average rescaled	0.8435	1.0530	0.8435	0.8435	1.3778	1.8335	1.1591	5.1728	1.0000

Sources: Tables A2-4 and A6-14.

The first step in calculating the GST relativities for the current HFE method is to blend the annual per capita relativities for the previous HFE method and the standard state relativities. For 2025–26 the blending ratio is 1/6 and 5/6, respectively. The blended annual per capita relativities are presented in Table A6-16.

Table A6-16: Blended annual per capita relativities, NSW efficiency, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.8751	1.0639	0.8589	0.7139	1.3122	1.7913	1.2284	5.0636	1.0000
2022–23	0.8525	1.0625	0.8276	0.7454	1.4616	1.8766	1.1164	5.1541	1.0000
2023–24	0.8470	1.0750	0.8433	0.7325	1.3995	1.8691	1.1742	5.3115	1.0000
Average	0.8582	1.0671	0.8432	0.7306	1.3911	1.8457	1.1730	5.1764	0.9972
Average rescaled	0.8606	1.0702	0.8456	0.7327	1.3950	1.8509	1.1763	5.1910	1.0000

Sources: Tables A2-4, A6-13 and A6-15.

The final step in calculating the GST relativities for the current HFE method is to apply the GST relativity floor of 0.75. Table A6-17 presents these GST relativities.

Table A6-17: Current HFE method GST relativities, NSW efficiency, incorporating relativity floor, 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Apply floor	0.8606	1.0702	0.8456	0.7500	1.3950	1.8509	1.1763	5.1910	
Application year population ('000)	8,666.4	7,168.9	5,730.0	3,054.8	1,903.0	577.9	482.8	257.2	27,840.9
Weighted population ('000)	7,458.5	7,671.8	4,845.4	2,291.1	2,654.7	1,069.6	567.9	1,334.9	27,893.8
Difference (excess population) ('000)									53.0
Population for rescaling ('000)	8,666.4	7,168.9	5,730.0	0.0	1,903.0	577.9	482.8	257.2	24,786.1
Apportion difference ('000)	18.5	15.3	12.2	0.0	4.1	1.2	1.0	0.5	53.0
Total weighted. Population ('000)	7,439.9	7,656.5	4,833.1	2,291.1	2,650.7	1,068.3	566.9	1,334.4	27,840.9
GST relativities	0.8585	1.0680	0.8435	0.7500	1.3929	1.8487	1.1742	5.1889	1.0000

Sources: Tables A2-4 and A6-16.

The final step for this scenario is to calculate the GST distributions for the three HFE methods. The GST relativities are presented in Table A6-18.

Table A6-18: Estimated GST distribution, NSW efficiency, 2025–26*

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous GST method									
GST relativity	0.9457	1.1573	0.8549	0.1707	1.4853	1.9455	1.2645	5.3176	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	8,175	8,241	4,881	524	2,837	1,122	617	1,414	27,810
Weighted population share (%)	29.4	29.6	17.6	1.9	10.2	4.0	2.2	5.1	
Equalisation distribution									
$ million	28,074	28,302	16,764	1,799	9,744	3,852	2,119	4,856	95,510
Standard state method									
GST relativity	0.8435	1.0530	0.8435	0.8435	1.3778	1.8335	1.1591	5.1728	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,291	7,498	4,816	2,590	2,632	1,057	566	1,375	27,826
Weighted population share (%)	26.2	26.9	17.3	9.3	9.5	3.8	2.0	4.9	
Equalisation distribution									
$ million	25,300	26,019	16,713	8,986	9,133	3,668	1,963	4,773	96,554
Current method									
GST relativity	0.8585	1.0680	0.8435	0.7500	1.3929	1.8487	1.1742	5.1889	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,420	7,605	4,816	2,302	2,661	1,066	573	1,380	27,824
Weighted population share (%)	26.7	27.3	17.3	8.3	9.6	3.8	2.1	5.0	
Equalisation distribution									
$ million	25,750	26,392	16,713	7,990	9,233	3,698	1,988	4,788	96,554
Equalisation distribution after no worse off guarantee									
$ million	28,074	28,302	16,764	7,990	9,744	3,852	2,119	4,856	101,701

* Based on forecast GST pool and December 31 population.

Sources: Tables A2-1, A2-4, A6-13, A6-15 and A6-17.

A7 Tax Reform Scenario

In order to analyse how the various HFE methods support states to pursue reforms to their revenue bases, a scenario analysis of a revenue neutral tax reform is undertaken. Cameo 1 in the Commission's HFE report considered a single state halving its stamp duty on property and replacing this lost revenue with a new broad-based tax on residential land. This scenario will be along the lines of an update to that cameo, that is New South Wales is assumed to reduce its revenue from stamp duty (on conveyances) by 50 per cent and recover the revenue lost by increasing revenue from land tax for the assessment years of the CGC's 2025 Review.

This scenario is difficult to model in the absence of the data used by the CGC in assessing revenue from land tax and stamp duty. Land tax is assessed using 17 value ranges and stamp duty by using 18 value ranges. That is revenue, taxable values and national average tax rates are obtained for these value ranges. The Commission in its cameo 1 made adjustments for elasticities effects in the revenue bases. However, the CGC has decided not to make adjustments for elasticities in its assessments.

This tax reform could be implemented by varying tax rates and/or tax bases. Stamp duty revenue is likely to be reduced by reducing stamp duties rates and perhaps by increasing duty free thresholds, while land tax is likely to be increased by increasing the number of taxable properties. However, due to publicly available data limitations, this scenario has to rely on revenue ratios to give effect to the revenue changes. A revenue ratio is the ratio of each state's assessed per capita revenue relative to total per capita revenue for a particular source of revenue. The implicit assumption in the use of revenue ratios is that the revenue change does not involve a change in the revenue base. This means that the results for this scenario can only approximate those that would result from the CGC's assessment methods. However, it is the differences between the outcomes from the different HFE methods that is important, rather than the outcome for a particular HFE method.

The revenue of the states from land tax and stamp duty in the three assessment years of the 2025 Review are presented in Table A7-1.

Table A7-1: Land tax and stamp duty revenue, 2021–22 to 2023–24 ($ million)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Land tax									
2021–22	4,833.7	4,135.1	1,632.6	748.8	532.7	137.2	157.8	0.0	12,177.9
2022–23	5,961.4	5,366.7	1,732.4	779.1	574.8	155.1	184.3	0.0	14,753.8
2023–24	7,091.1	7,094.1	2,026.3	836.6	746.0	185.5	205.6	0.0	18,185.3
Stamp duty									
2021–22	13,525.1	10,717.0	5,608.7	2,441.4	1,351.3	409.8	445.7	241.5	34,740.6
2022–23	9,699.9	8,990.9	4,419.1	2,275.1	1,210.2	364.0	386.5	161.6	27,507.4
2023–24	11,401.8	8,411.0	5,172.0	2,804.7	1,432.1	374.4	330.2	166.5	30,092.6

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S2-2-1.

The land tax and stamp duty revenue after New South Wales has undertaken its revenue neutral tax reform are presented in Table A7-2.

Table A7-2: Land tax and stamp duty revenue after NSW tax reform, 2021–22 to 2023–24 ($ million)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Land tax									
2021–22	11,596.2	4,135.1	1,632.6	748.8	532.7	137.2	157.8	0.0	18,940.4
2022–23	10,811.4	5,366.7	1,732.4	779.1	574.8	155.1	184.3	0.0	19,603.7
2023–24	12,792.0	7,094.1	2,026.3	836.6	746.0	185.5	205.6	0.0	23,886.2
Stamp duty									
2021–22	6,762.6	10,717.0	5,608.7	2,441.4	1,351.3	409.8	445.7	241.5	27,978.0
2022–23	4,850.0	8,990.9	4,419.1	2,275.1	1,210.2	364.0	386.5	161.6	22,657.5
2023–24	5,700.9	8,411.0	5,172.0	2,804.7	1,432.1	374.4	330.2	166.5	24,391.7

Source: Table A7-1.

The next step is to calculate assessed land tax and stamp duty revenue after the tax reform. First, the revenue ratios for land tax and stamp duty are required. These revenue ratios are presented in Table A7-3.

Table A7-3: Land tax and stamp duty revenue ratios, 2021–22 to 2023–24 (per cent)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Land tax									
2021–22	147.32	120.18	52.52	67.44	45.37	35.53	41.97	41.31	147.32
2022–23	159.49	109.67	52.15	57.58	45.03	38.66	41.45	42.10	159.49
2022–23	152.79	112.06	55.90	56.31	56.09	42.62	41.15	46.09	152.79
Stamp duty									
2021–22	128.36	104.40	88.64	66.13	59.95	56.04	104.69	59.20	128.36
2022–23	118.13	108.27	89.25	79.35	66.21	61.38	119.26	46.58	118.13
2023–24	123.93	93.33	95.92	86.38	72.36	58.10	91.02	47.98	123.93

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S6-1.

It can be seen from Table A7-3 that for New South Wales the revenue ratio for land tax is greater than that for stamp duty. This indicates that the increase in national average per capita revenue will generate a gain in assessed revenue from land tax that is greater than the loss in assessed revenue from stamp duty. The resultant gain in total assessed revenue will result in a loss in GST revenue.

Table A7-4 presents the national state average per capita land tax and stamp duty revenue for the base case (Table A7-1) and for the New South Wales tax reform scenario (Table A7-2).

Table A7-4: National state average per capita revenue, 2021–22 to 2023–24 ($)

	Base case		*Tax reform*	
	Land tax	*Stamp duty*	*Land tax*	*Stamp duty*
2021–22	473	1,348	735	1,086
2022–23	561	1,046	745	861
2023–24	675	1,117	886	905

Source: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S2-2-2, Table A2-4 and Table A7-2.

Assessed per capita land tax and stamp duty revenue for the NSW tax reform scenario are calculated by applying the respective revenue ratios to the national state average per capita land tax and stamp duty revenues for that scenario. The assessed land tax and stamp duty revenues for the base case and NSW tax reform scenario are presented in Table A7-5.

Table A7-5: Assessed land tax and stamp duty revenues, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Land Tax									
Base case									
$ million									
2021–22	5,641	3,729	1,306	881	387	95	90	48	12,178
2022–23	7,377	4,131	1,575	915	464	124	107	59	14,754
2023–24	8,686	5,220	2,085	1,113	707	165	131	79	18,185
$ per capita									
2021–22	696	568	248	319	214	168	198	195	473
2022–23	894	615	292	323	253	217	232	236	561
2023–24	1,031	756	377	380	379	288	278	311	675
NSW tax reform									
$ million									
2021–22	8,773	5,801	2,031	1,370	602	149	140	75	18,940
2022–23	9,803	5,489	2,093	1,216	616	165	142	79	19,604
2023–24	11,409	6,856	2,739	1,462	928	217	171	104	23,886
$ per capita									
2021–22	1,083	883	386	496	334	261	308	304	735
2022–23	1,188	817	389	429	336	288	309	314	745
2023–24	1,354	993	496	499	497	378	365	409	886
Stamp Duty									
Base case									
$ million									
2021–22	14,021	9,242	6,287	2,464	1,460	430	639	198	34,741
2022–23	10,188	7,605	5,027	2,352	1,271	368	575	122	27,507
2023–24	11,659	7,193	5,921	2,825	1,508	373	478	136	30,093
$ per capita									
2021–22	1,731	1,408	1,195	892	808	756	1,412	798	1,348
2022–23	1,235	1,132	933	830	692	642	1,247	487	1,046
2023–24	1,384	1,042	1,071	965	808	649	1,017	536	1,117
NSW tax reform									
$ million									
2021–22	11,291	7,443	5,063	1,984	1,176	346	515	159	27,978
2022–23	8,392	6,264	4,140	1,937	1,047	303	474	101	22,657
2023–24	9,450	5,831	4,799	2,290	1,223	302	387	110	24,392
$ per capita									
2021–22	1,394	1,134	962	718	651	608	1,137	643	1,086
2022–23	1,017	932	769	683	570	529	1,027	401	861
2023–24	1,122	845	868	782	655	526	824	434	905

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S3-2-1 and Table S3-2-2; Table A2-4; Table A7-3 and Table A7-4.

Now that the assessed land tax and stamp duty revenue have been calculated for the New South Wales tax reform scenario, total assessed revenue can now be calculated for that scenario. Total assessed revenue for the base case and the New South Wales tax reform scenario are presented in Table A7-6.

Table A7-6: Assessed total revenue, 2021–22 to 2023–24 ($ million)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Base case									
$ million									
2021–22	53,325	36,530	34,098	26,593	8,406	2,505	2,226	1,357	165,040
2022–23	59,070	38,044	40,988	28,280	8,868	2,585	2,371	1,391	181,597
2023–24	61,177	41,535	42,281	30,735	10,120	2,895	2,494	1,510	192,747
NSW tax reform									
$ million									
2021–22	53,728	36,802	33,600	26,603	8,336	2,474	2,151	1,346	165,040
2022–23	59,699	38,061	40,620	28,167	8,796	2,561	2,305	1,389	181,597
2023–24	61,692	41,808	41,813	30,549	10,056	2,876	2,444	1,509	192,747
$ per capita									
2021–22	6,632	5,605	6,387	9,628	4,617	4,352	4,752	5,423	6,405
2022–23	7,238	5,666	7,541	9,936	4,791	4,472	4,998	5,525	6,903
2023–24	7,324	6,058	7,565	10,431	5,388	5,006	5,200	5,946	7,153

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S3-2-1, Table A2-4 and Table A7-5.

The annual assessment year per capita relativities can now be calculated for the tax reform scenario. These are presented in Tables A7-7 to A7-9.

Table A7-7: Per capita assessed relativities, NSW tax reform, 2021–22

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	11,979	11,589	11,349	11,810	11,152	12,591	11,391	22,664	11,781
+ Assessed investment	2,185	2,031	2,279	2,464	1,908	1,862	1,848	3,594	2,176
Assessed expenditure	14,164	13,620	13,628	14,274	13,060	14,454	13,238	26,258	13,957
- Assessed net borrowing	2,382	2,376	2,464	2,452	2,414	2,448	2,443	2,384	2,410
- Assessed revenue	6,632	5,605	6,387	9,628	4,617	4,352	4,752	5,423	6,405
Total requirement	5,150	5,639	4,778	2,194	6,029	7,654	6,043	18,451	5,142
- Commonwealth payments	2,384	2,328	2,140	2,132	1,932	2,175	2,058	3,642	2,263
= GST requirement	2,766	3,310	2,637	61	4,098	5,479	3,985	14,808	2,879
Per capita assessed relativity									
	0.9608	1.1499	0.9160	0.0213	1.4233	1.9032	1.3842	5.1435	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-1 and Table A7-6.

Table A7-8: Per capita assessed relativities, NSW tax reform, 2022–23

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	11,721	10,762	12,011	12,404	11,566	13,335	10,903	23,583	11,732
+ Assessed investment	2,260	2,259	2,192	2,625	1,914	1,476	1,599	3,992	2,249
Assessed expenditure	13,981	13,020	14,202	15,030	13,480	14,811	12,502	27,574	13,981
- Assessed net borrowing	1,821	1,852	1,858	1,871	1,812	1,749	1,825	1,787	1,839
- Assessed revenue	7,238	5,666	7,541	9,936	4,791	4,472	4,998	5,525	6,903
Total requirement	4,922	5,502	4,804	3,223	6,878	8,590	5,679	20,262	5,239
- Commonwealth payments	2,081	1,941	2,275	2,243	2,044	2,471	1,806	4,054	2,122
= GST requirement	2,841	3,561	2,529	980	4,833	6,118	3,873	16,208	3,117
Per capita assessed relativity									
	0.9117	1.1426	0.8113	0.3145	1.5509	1.9631	1.2427	5.2005	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-2 and Table A7-6.

Table A7-9: Per capita assessed relativities, NSW tax reform, 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
Assessed expenses	12,059	11,377	12,727	13,067	12,403	14,088	11,495	25,560	12,315
+ Assessed investment	2,256	2,273	2,237	2,710	1,775	1,428	1,729	3,782	2,260
Assessed expenditure	14,316	13,650	14,963	15,777	14,178	15,516	13,225	29,342	14,575
- Assessed net borrowing	1,919	1,994	1,978	2,062	1,862	1,697	1,893	1,782	1,956
- Assessed revenue	7,324	6,058	7,565	10,431	5,388	5,006	5,200	5,946	7,153
Total requirement	5,073	5,598	5,420	3,284	6,928	8,813	6,132	21,614	5,467
- Commonwealth payments	2,231	2,019	2,500	2,475	2,255	2,662	2,096	4,648	2,290
= GST requirement	2,841	3,579	2,920	809	4,673	6,151	4,036	16,966	3,177
Per capita assessed relativity									
	0.8943	1.1265	0.9193	0.2546	1.4711	1.9362	1.2703	5.3404	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-3 and Table A7-6.

The annual per capita relativities for the previous HFE method have to be calculated using the base GST pool (that is, excluding the GST pool top up). In order to do this the equal per capita value of the pool top up is deducted from the per capita GST requirements in Tables A7-7 to A7-9. These calculations are presented in Tables A7-10 to A7-12.

Table A7-10: Per capita assessed relativities, NSW tax reform, previous HFE method, 2021–22

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,766	3,310	2,637	61	4,098	5,479	3,985	14,808	2,879
Less pool top up	23	23	23	23	23	23	23	23	23
Adjusted GST requirement	2,743	3,287	2,614	38	4,074	5,456	3,962	14,785	2,856
Per capita assessed relativity									
	0.9604	1.1511	0.9153	0.0134	1.4268	1.9106	1.3873	5.1773	1.0000

Sources: Tables A2-1 and A7-10.

Table A7-11: Per capita assessed relativities, NSW tax reform, previous HFE method, 2022–23

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,841	3,561	2,529	980	4,833	6,118	3,873	16,208	3,117
Less pool top up	25	25	25	25	25	25	25	25	25
Adjusted GST requirement	2,816	3,536	2,503	955	4,808	6,093	3,848	16,183	3,091
Per capita assessed relativity									
	0.9109	1.1437	0.8098	0.3089	1.5553	1.9710	1.2447	5.2347	1.0000

Sources: Tables A2-1 and A7-8.

Table A7-12: Per capita assessed relativities, NSW tax reform, previous HFE method, 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
$ per capita									
GST requirement	2,841	3,579	2,920	809	4,673	6,151	4,036	16,966	3,177
Less pool top up	25	25	25	25	25	25	25	25	25
Adjusted GST requirement	2,816	3,553	2,895	783	4,648	6,126	4,010	16,940	3,151
Per capita assessed relativity									
	0.8935	1.1275	0.9186	0.2486	1.4749	1.9438	1.2725	5.3754	1.0000

Sources: Tables A2-1 and A7-9.

The GST relativities for the previous HFE method are calculated as the average of the per capita relativities presented in Table A7-10 to A7-12 rescaled so that the population weighted average for the application year (2025–26) is one. These relativities are presented in Table A7-13.

Table A7-13: Previous HFE method GST relativities, NSW tax reform, 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.9604	1.1511	0.9153	0.0134	1.4268	1.9106	1.3873	5.1773	1.0000
2022–23	0.9109	1.1437	0.8098	0.3089	1.5553	1.9710	1.2447	5.2347	1.0000
2023–24	0.8935	1.1275	0.9186	0.2486	1.4749	1.9438	1.2725	5.3754	1.0000
Average	0.9216	1.1408	0.8812	0.1903	1.4857	1.9418	1.3015	5.2625	0.9959
Average rescaled	0.9254	1.1455	0.8849	0.1911	1.4918	1.9497	1.3068	5.2841	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-10, Table A2-4, and Tables A7-10 to A7-12.

The standard state relativities can now be calculated from the per capita relativities in Tables A7-7 to A7-9. New South Wales was the standard state for all three assessment years. The raw standard state annual per capita relativities are presented in Table A7-14.

Table A7-14: Raw standard state annual per capita relativities, NSW tax reform, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.9608	1.1499	0.9608	0.9608	1.4233	1.9032	1.3842	5.1435	1.1099
2022–23	0.9117	1.1426	0.9117	0.9117	1.5509	1.9631	1.2427	5.2005	1.0849
2023–24	0.9604	1.1511	0.9604	0.9604	1.4268	1.9106	1.3873	5.1773	1.1090

Source: Tables A7-7 to A7-9.

The raw standard state relativities are then averaged and rescaled to produce the standard state GST relativities for 2025–26. These relativities are presented in Table A7-15.

Table A7-15: Rescaled standard state annual per capita relativities, NSW tax reform, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.8509	1.0400	0.8509	0.8509	1.3134	1.7933	1.2743	5.0337	1.0000
2022–23	0.8268	1.0577	0.8268	0.8268	1.4660	1.8782	1.1578	5.1156	1.0000
2023–24	0.8248	1.0570	0.8498	0.8248	1.4015	1.8667	1.2008	5.2708	1.0000
Average	0.8342	1.0516	0.8425	0.8342	1.3936	1.8461	1.2110	5.1400	0.9974
Average rescaled	0.8363	1.0543	0.8447	0.8363	1.3973	1.8509	1.2141	5.1534	1.0000

Sources: Tables A2-4 and A7-14.

The first step in calculating the GST relativities for the current HFE method is to blend the annual per capita relativities for the previous HFE method and the standard state relativities. For 2025–26 the blending ratio is 1/6 and 5/6, respectively. The blended annual per capita relativities are presented in Table A7-16.

Table A7-16: Blended annual per capita relativities, NSW tax reform, 2021–22 to 2023–24

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Average*
2021–22	0.8691	1.0585	0.8616	0.7113	1.3323	1.8129	1.2931	5.0576	1.0000
2022–23	0.8408	1.0720	0.8239	0.7405	1.4809	1.8937	1.1723	5.1354	1.0000
2023–24	0.8363	1.0687	0.8612	0.7288	1.4138	1.8795	1.2128	5.2883	1.0000
Average	0.8487	1.0664	0.8489	0.7268	1.4090	1.8620	1.2261	5.1604	0.9972
Average rescaled	0.8512	1.0695	0.8514	0.7289	1.4130	1.8674	1.2296	5.1752	1.0000

Sources: Tables A2-4, A7-13 and A7-15.

The final step in calculating the GST relativities for the current HFE method is to apply the GST relativity floor of 0.75. Table A7-17 presents the GST relativities.

Table A7-17: Current HFE method GST relativities, NSW tax reform, incorporating relativity floor, 2025–26

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Apply floor	0.8512	1.0695	0.8514	0.7500	1.4130	1.8674	1.2296	5.1752	
Application year population (‘000)	8,666.4	7,168.9	5,730.0	3,054.8	1,903.0	577.9	482.8	257.2	27,840.9
Weighted population (‘000)	7,376.5	7,666.9	4,878.3	2,291.1	2,689.0	1,079.1	593.6	1,330.9	27,905.3
Difference (excess population) (‘000)									64.4
Population for rescaling (‘000)	8,666.4	7,168.9	5,730.0	0.0	1,903.0	577.9	482.8	257.2	24,786.1
Apportion difference (‘000)	22.5	18.6	14.9	0.0	4.9	1.5	1.3	0.7	64.4
Total weighted. Population (‘000)	7,354.0	7,648.3	4,863.4	2,291.1	2,684.0	1,077.6	592.4	1,330.2	27,840.9
GST relativities	0.8486	1.0669	0.8488	0.7500	1.4104	1.8648	1.2270	5.1726	1.0000

Sources: Commonwealth Grants Commission, *GST Relativities 2025–26*, Supporting Data, Table S7-10, Table A2-4 and Table A7-16.

The final step for this scenario is to calculate the GST distribution for the three HFE methods. The GST relativities are presented in Table A7-18.

Table A7-18: Estimated GST distribution, NSW tax reform, 2025–26*

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Total*
Previous GST method									
GST relativity	0.9254	1.1455	0.8849	0.1911	1.4918	1.9497	1.3068	5.2841	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,999	8,157	5,052	587	2,850	1,124	638	1,405	27,811
Weighted population share (%)	28.8	29.3	18.2	2.1	10.2	4.0	2.3	5.1	
Equalisation distribution									
$ million	27,470	28,013	17,351	2,014	9,786	3,860	2,190	4,825	95,510
Standard state method									
GST relativity	0.8363	1.0543	0.8447	0.8363	1.3973	1.8509	1.2141	5.1534	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,229	7,508	4,823	2,567	2,669	1,067	592	1,370	27,826
Weighted population share (%)	26.0	27.0	17.3	9.2	9.6	3.8	2.1	4.9	
Equalisation distribution									
$ million	25,084	26,051	16,735	8,909	9,262	3,702	2,056	4,755	96,554
Current method									
GST relativity	0.8486	1.0669	0.8488	0.7500	1.4104	1.8648	1.2270	5.1726	
Population ('000)	8,644	7,121	5,710	3,070	1,910	576	488	266	27,785
Weighted population ('000)	7,335	7,597	4,846	2,302	2,694	1,075	599	1,375	27,824
Weighted population share (%)	26.4	27.3	17.4	8.3	9.7	3.9	2.2	4.9	
Equalisation distribution									
$ million	25,453	26,364	16,818	7,990	9,349	3,730	2,078	4,773	96,554
Equalisation distribution after no worse off guarantee									
$ million	27,470	28,013	17,351	7,990	9,786	3,860	2,190	4,825	101,485

* Based on forecast GST pool and December 31 population.

Sources: Tables A7-13, A7-15 and A7-17.

REFERENCES

The Australian Government (2012), *GST Distribution Review*.

Commonwealth Grants Commission (2015), *Report on GST Revenue Sharing Relativities 2015 Review—Volume 1*.

Commonwealth Grants Commission (2018), *Report on GST Revenue Sharing Relativities, 2018 Update*.

Commonwealth Grants Commission (2020), *Report on GST Revenue Sharing Relativities 2020 Review — Volume 2 (Part A*).

Commonwealth Grants Commission (2021a), *Occasional Paper No. 2: GST distribution and State tax reform*.

Commonwealth Grants Commission (2021b), *Occasional Paper No. 3: Mining revenue and GST distribution*.

Commonwealth Grants Commission (2025), *2025 Methodology Review—Review Outcomes*.

The Commonwealth of Australia (2018)*, Productivity Commission Inquiry into Horizontal Fiscal Equalisation: Government Interim Response*.

Council of Australian Governments (2011), *Intergovernmental Agreement on Federal Financial Relations*.

The Parliament of the Commonwealth of Australia (2018), *House of Representatives*, *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018, Explanatory Memorandum*.

Productivity Commission (2018)*, Horizontal Fiscal Equalisation*, Report no. 88.

Productivity Commission (2025), *GST Distribution Reforms Issues Paper*.