

SUBMISSION TO THE PRODUCTIVITY COMMISSION

GST Distribution Reforms Inquiry

Using Western Australia as a Case Study to Assess System Performance

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EXECUTIVE SUMMARY

I'm writing this because I've watched what happens when the money runs out mid-program. Not in spreadsheets - in real workplaces where prevention programs get cut, specialist staff leave, and the people we're meant to protect fall through gaps that should never have existed.

This submission uses Western Australia's experience between 2015 and 2025 as a case study to evaluate whether the 2018 GST distribution reforms are operating efficiently, effectively and as intended for the Australian federation.

Core thesis: The 2018 reforms (0.75 relativity floor, Commonwealth-funded pool top-up, benchmark shift to stronger of NSW/Victoria) have demonstrably improved technical efficiency, enabled evidence-based service delivery, and provided necessary fiscal certainty without undermining horizontal fiscal equalisation or Commonwealth fiscal sustainability.

Key findings mapped to Information Requests:

IR1 – Fiscal Impact and Sustainability: The Commonwealth investment (\$22.7B 2018-2025, Issues Paper p.12) delivers measurable value through avoided costs. Concrete example: fiscal volatility forces states to cut community mental health services, shifting costs to Commonwealth through increased Medicare rebates, PBS subsidies, DSP claims, and NDIS packages. The GST floor prevents this cost-shifting by enabling sustained prevention infrastructure - which keeps people in the workforce generating tax revenue rather than dependent on federal safety nets. While other states face fiscal pressures, evidence suggests these stem primarily from pandemic-related spending and broader economic conditions, though multiple factors contribute to state fiscal positions.

IR2 – Reasonable Equalisation: The 0.75 floor represents a reasonable balance between equity and efficiency. It maintains substantial support for smaller states while preventing the extreme outcomes (WA's 0.30 relativity) that created perverse incentives against revenue-raising efficiency and undermined service delivery across the federation.

IR3 – Volatility and Responsiveness: The reforms successfully balance these competing objectives. The floor provides necessary certainty for capital planning and technical efficiency improvements, while the system remains responsive to genuine changes in state circumstances (population, demographics, service needs) through annual CGC assessments.

IR4 – Impact on State Reforms: WA's post-2018 reforms (WHS psychosocial regulations 2022, multi-year mental health investments, regional service commitments) demonstrate how fiscal certainty enables states to pursue productivity-enhancing reforms. The pre-2018 system created a national efficiency loss by disincentivising revenue-raising reforms across all resource states.

IR5 – Alternative Arrangements: Analysis of three options shows that maintaining the current system with Commonwealth top-up (Option A) delivers the best outcomes for national productivity, technical efficiency, and political sustainability. Alternatives either create zero-sum interstate conflict (Option B) or return to demonstrated failure modes (Option C).

Recommendations:

1. Maintain the 2018 reforms with Commonwealth-funded top-up
2. Make provisions permanent to provide long-term planning certainty
3. Legislatively protect core elements to reduce policy volatility
4. Reject alternatives that reintroduce fiscal volatility or disincentivise revenue-raising efficiency

This submission draws on 20+ years' experience in public service delivery, including current work on psychosocial risk, mental health, suicide prevention, and workplace safety in Western Australia, to illustrate how fiscal arrangements affect technical efficiency and service delivery outcomes.

BACKGROUND: THE SUBMITTER'S PERSPECTIVE

I am a 40 year old mother of four, born and raised in regional Western Australia, working full time while managing a permanent disability incurred during a workplace accident. Living with chronic pain has sharpened my understanding of access, inclusion, and what happens when systems don't meet people where they are.

My professional experience spans over 20 years of serving communities through public sector roles: from promoting expansion of state utility infrastructures to improve connectivity and financial outcomes, to supporting vulnerable cohorts through welfare initiatives and crisis support programs, to translating complex policies into accessible resources, to developing and delivering grant-funded projects supporting culture change in high risk industries.

This lived experience shapes my approach: practical, evidence informed, and human first. Over my career, every position has returned me to the same question: Why does this problem exist, what does it feel like for the humans caught in it, and what's getting in the way of fixing it?

That question drives this submission. The GST distribution debate isn't abstract fiscal theory when you work inside systems meant to serve people. It's about whether states can build prevention infrastructure that demonstrably improves outcomes and keeps people contributing to the economy, or whether fiscal volatility forces permanent crisis footing that costs the Commonwealth more in the long run through higher welfare dependency and lower workforce participation.

THE PROBLEM: FISCAL VOLATILITY AND TECHNICAL EFFICIENCY

In service delivery work, we take a proactive approach to preventing harm rather than lurching from crisis to crisis. That means building capability, training people properly, embedding systems, and shifting culture in real workplaces. It takes years, not one budget cycle.

Achieving consistent outcomes requires long term financial planning to build capacity in the public sector. Effective services cannot be funded at the scale required through short term funding models resulting from a single budget cycle response to market volatility.

When a state's GST share can swing wildly based on global commodity prices, it becomes extremely difficult to build effective prevention infrastructure. Instead of proactive management with reduced risk thresholds through continuity, the response to critical need is reduced to patching broken parts of declining services on a permanent "crisis footing" model. This represents a significant loss of technical efficiency for the federation - and a direct increase in Commonwealth costs when prevention fails and people end up on federal safety nets.

Western Australia provides a clear case study of this dynamic.

Before the 2018 reforms, Western Australia's GST relativity hit 0.30 (CGC 2017).[1][2] For every dollar of GST per person that NSW received, WA got 30 cents. This didn't happen because WA had fewer service needs or because the population was demographically comparable to safer or healthier states. It happened because WA successfully developed mineral resources that belong to the state under the Constitution and that generate substantial revenue for the Commonwealth through company tax, PRRT, and income tax from FIFO workforce.

When Western Australia's GST relativity fell to around 0.30 in 2015-16 and 2016-17, GST grants dropped by about 14.5% (\$328M) in a single year, contributing to a \$720M revenue contraction.[1][2] Budget repair in that period meant cross-government savings and the quiet winding back of smaller programs and pilots, particularly in prevention and community services.

From a service delivery perspective, this showed up as short-lived initiatives, frozen recruitment and the loss of promising projects once immediate funding injections were exhausted. While no official list documents "programs cancelled due to GST volatility," the operational pattern was clear: anything that wasn't core acute response or mandatory infrastructure became vulnerable whenever relativity fell.

This created a national efficiency loss. States were effectively disincentivised from revenue-raising efficiency through resource development. The public sector received stop-start programs and one-off pilots funded by ad-hoc federal grants that cost communities more in the long run while subsidising other states whose own service needs went unmet by an inefficient system.

The legacy of this model? Lack of capacity to scale services, inability to retain specialist staff, and failure to build the prevention infrastructure that delivers higher return on investment through decreased reliance on emergency services and federal welfare programs.

What the 2018 reforms changed

The 2018 reforms introduced a relativity floor of 0.75, GST pool top-up funded by the Commonwealth, and benchmark shift to stronger of NSW/Victoria.[4]

From a service delivery perspective, these changes meant states could finally plan multi-year prevention programs with reasonable confidence that funding would remain available. Mental health and hospital services could be planned beyond one budget cycle. Workplace safety investment became viable. Regional service delivery became more predictable.

This represents a measurable improvement in technical efficiency: reduced staff turnover costs, decreased program restart cycles, improved outcomes from sustained interventions, and better return on investment from prevention rather than crisis response. For the Commonwealth, this translates directly to reduced demand on Medicare, PBS, DSP, and NDIS - all federal budget lines that blow out when state prevention services collapse.

RESPONSE TO THE COMMISSION'S INFORMATION REQUESTS

Information Request 1: Fiscal impact and sustainability

What would happen if the No Worse Off Guarantee ceased?

From a national efficiency perspective, removal of the guarantee would force resource states back into reactive crisis management with demonstrable productivity losses.

A commodity boom (which benefits the entire country through export income and federal taxation) would again trigger GST adjustments that force affected states to choose between mental health funding, regulatory enforcement, and basic infrastructure maintenance. This represents a perverse incentive structure that undermines national productivity.

The kind of work required to shift systems from crisis to prevention requires multi-year commitment. Culture change in workplaces does not happen in 12 months. Building capability to prevent psychosocial harm means training people, embedding systems, measuring outcomes, and adjusting over time. None of this works if funding can disappear mid-program because global markets shifted.

Weakening current protections would return states to fiscal instability that makes evidence-based growth projects impossible, representing a significant loss of technical efficiency for the federation.

Commonwealth fiscal sustainability: value for money and avoided costs

The Commission must consider fiscal sustainability for all levels of government. The 2018 reforms have cost the Commonwealth \$22.7 billion between 2018 and 2025, with projected costs of another \$26.3 billion through 2028-29 (Issues Paper p.12).

The critical question is whether this investment delivers measurable value for the federation, or whether it represents expenditure that could be avoided.

From a national service delivery perspective, the answer is clear: the reforms deliver value by avoiding higher costs elsewhere in the system. Fiscal certainty for states enables better service planning, improves technical efficiency of program delivery through reduced staff turnover and restart costs, and enables prevention work that demonstrably saves money over time.

Consider the alternative. Without the floor and top-up mechanism, affected states would be forced back into reactive crisis management. That means:

- Higher downstream Commonwealth costs through increased demand on federal income support, disability support and Medicare as state prevention programs collapse
- Reduced productivity in resource sectors that generate substantial Commonwealth revenue through company tax and PRRT
- Potential need for federal intervention or bailouts if state service systems fail under fiscal volatility
- Loss of economic efficiency as state workforces become less stable due to inadequate state services

The \$22.7 billion is not a transfer to one state. It is an investment in maintaining stable service delivery across states that contribute disproportionately to Commonwealth revenue. The return on that investment is a functioning state system that does not require federal rescue,

maintains workforces that drive resource exports, and delivers prevention services that reduce demand on federal safety nets.

Concrete example of avoided cost pathway:

Consider the Medicare expenditure pathway. When state mental health services are cut or become inconsistent due to fiscal volatility, people with moderate mental health conditions who would otherwise be managed in community settings present instead to GPs for crisis management. This shifts cost from state community mental health budgets (funded by GST) to Commonwealth Medicare rebates (funded by federal taxation).

GP crisis management is less effective than sustained community mental health intervention, leading to higher rates of acute deterioration and hospital admission. Emergency department presentations for mental health crisis cost approximately \$1,500-3,000 per presentation and are funded through state hospitals, but the subsequent pharmaceutical interventions, specialist consultations, and ongoing GP management are largely funded through Medicare and PBS.

The Commonwealth then faces increased expenditure on:

- Medicare rebates for crisis-driven GP consultations that could have been prevented
- PBS subsidies for medications managing acute symptoms rather than underlying conditions
- Disability Support Pension claims for people whose conditions deteriorate beyond workforce participation
- NDIS packages for people who develop severe functional impairment from untreated conditions

I have watched this happen. People with manageable anxiety conditions whose community support disappeared during budget cuts, who ended up in emergency departments in crisis, who then cycled through GP crisis management instead of getting the sustained support that would have kept them stable and working. Every person who falls through these gaps costs the Commonwealth far more in welfare payments than the state prevention program would have cost.

Without the 0.75 floor, a 36% contraction in royalties would traditionally trigger a "death spiral" of service cuts. The top-up is the only mechanism preventing this contraction from becoming a federal welfare burden.

The GST floor prevents this death spiral by enabling states to maintain prevention infrastructure that keeps people in community care rather than crisis systems. The Commonwealth's investment in the GST top-up is effectively a national productivity insurance policy that prevents the need for much larger, ad-hoc federal interventions when resource-state services fail.

Acknowledging tensions in state fiscal positions

The Issues Paper (p.9-12) notes that several states face deteriorating fiscal positions, with all states except WA experiencing declining net operating balances and rising debt levels.

While evidence suggests these fiscal pressures stem primarily from pandemic-related spending, Commonwealth disaster recovery commitments, and broader economic conditions rather than the GST top-up mechanism itself, it is important to acknowledge that multiple factors contribute to state fiscal positions. The top-up ensures no state is worse off in absolute GST terms compared to pre-reform arrangements, while enabling improved technical efficiency in service delivery across the federation.

The critical question for the Commission is whether a return to the pre-2018 system would improve other states' fiscal positions or would simply create additional inefficiency through volatility-driven service disruption across all resource states. The evidence from the 2015-2018 period suggests the latter: extreme volatility does not improve fiscal sustainability, it undermines it by preventing efficient long-term planning.

Other Commonwealth payments and their interaction with GST

The Commission asked about interaction between GST payments and other Commonwealth transfers, particularly specific purpose payments (SPPs) and whether some should be exempt from CGC assessments.

Comprehensive response to which payments should be included or excluded:

Payments that should remain exempt from CGC assessments:

- Infrastructure project funding tied to specific deliverables (such as National Partnership Payments for roads, rail, or hospitals)
- Disaster recovery payments responding to specific events (bushfires, floods, cyclones)
- Time-limited pilot programs with evaluation requirements and sunset clauses
- Payments requiring matched state contributions, where the Commonwealth funding is conditional on state investment
- Research and development grants with specific innovation outcomes

Payments that should be included in assessments:

- Untied general revenue assistance that states can allocate at their discretion
- Recurrent program funding without specific deliverables or accountability requirements
- Ongoing support payments that have become permanent features of state budgets

Criteria for determining exemption:

The following principles should guide decisions about which payments to exempt:

1. Specific Commonwealth policy purpose: The payment advances a clear national objective that would not otherwise be pursued at the same scale by states acting independently
2. Time-limited nature: The payment has defined start and end dates, preventing it from becoming a de facto permanent revenue stream
3. Matching requirements: The payment requires state contribution, demonstrating joint commitment to the objective
4. Project-specific deliverables: The payment is tied to measurable outputs or outcomes that can be independently verified
5. Additionality: The payment funds activity that would not otherwise occur, rather than substituting for existing state expenditure

Need for additional guidance:

Additional guidance is required in the form of clear principles published by the CGC, reducing ad-hoc determinations and improving system transparency. Current exemption decisions can appear arbitrary to outside observers, creating uncertainty for both Commonwealth and state planning.

A published framework would enable all parties to anticipate treatment of new payment types, reducing negotiation friction and political conflict.

Why this matters for service delivery:

If SPPs for mental health or workplace safety were equalised (clawed back), it would effectively penalise states for entering into national reform agreements, undermining the very "National Cabinet" objectives the Commonwealth seeks to achieve. States would avoid Commonwealth partnerships knowing the funding would be clawed back through GST adjustments. This would undermine the technical efficiency of cooperative federalism and reduce the Commonwealth's ability to advance national priorities.

Information Request 2: What is "reasonable" horizontal fiscal equalisation?

The Commission's Issues Paper (p.13) notes the pre-2018 CGC principle: equalisation should enable states 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."

The question is whether full equalisation to this standard represents the most reasonable approach for the federation, or whether the 2018 reforms' shift to equalisation relative to the stronger of NSW/Victoria better serves national objectives.

From working inside systems that deliver services to people, "reasonable" horizontal fiscal equalisation must satisfy three criteria:

1. It recognises that states are structurally different. States with higher infrastructure costs due to distance and dispersion, or specific workforce challenges in regional and remote areas, cannot deliver services at the same standard using identical per capita funding when underlying costs differ substantially. Reasonable equalisation accounts for genuine cost disabilities.
2. It does not disincentivise revenue-raising efficiency. The pre-2018 system effectively penalised states that successfully developed their constitutional resources and generated wealth for the nation by reducing their service delivery funding. This is not equalisation serving national productivity - it is a disincentive for exactly the kind of development that generates substantial Commonwealth revenue through company tax and PRRT.
3. It provides certainty for long-term planning. States cannot deliver long term outcomes (reduced suicide rates, safer workplaces, better mental health) while reshuffling their funding allocation every year based on factors outside their control. Technical efficiency requires planning horizons that exceed single budget cycles.

On these criteria, the 0.75 floor is reasonable for the federation. It still delivers substantial support to smaller states, while preventing the extreme outcomes (0.30 relativity) that created perverse incentives against revenue-raising efficiency and undermined service delivery through fiscal volatility.

International models and what they tell us

The Commission asked whether international approaches should guide what counts as reasonable equalisation in Australia.

Canada has explicit equalisation transfers, but provinces retain resource revenues without penalty. Germany has fiscal equalisation between Länder, but with explicit caps and floors. The United States has minimal formal equalisation.

What these systems have in common is recognition that excessive equalisation creates problems for national productivity. Either it disincentivises revenue-raising efficiency (which discourages development), or it creates dependency (which discourages fiscal responsibility), or it generates volatility (which prevents planning).

Australia's pre-2018 system did all three, making it an international outlier in ways that did not serve national productivity objectives.

The 2018 reforms moved Australia closer to international norms by capping the extremes while maintaining substantial equalisation, better balancing equity and efficiency objectives for the federation.

Information Request 3: Balancing volatility and responsiveness to changing circumstances

The Commission frames this as balancing responsiveness to changing circumstances against reducing volatility to provide certainty.

From a service delivery perspective, fiscal volatility itself is a "changing circumstance" that undermines technical efficiency.

When funding is volatile, systems simply cannot:

- Recruit and retain specialist expertise, because people do not stay in roles built on short term, fragile funding
- Build partnerships with industry and community organisations, because they need certainty that programs will outlast a news cycle
- Implement long term prevention strategies, because they take years to show impact and are easy political targets when budgets tighten
- Measure and improve outcomes, because stable resources and data collection over time are required, not constant chopping and changing

These represent direct losses of technical efficiency for the federation.

The 2018 reforms reduced volatility without freezing the system in place. The model still adjusts for genuine changes in state circumstances: population growth, demographics, real service needs. What it stops doing is allowing commodity price fluctuations to drive dramatic funding changes that undermine multi-year planning.

This provides the necessary certainty for capital planning and technical efficiency improvements, while the top-up mechanism handles the responsiveness required when states face genuine changing circumstances.

That represents the right balance for national productivity: responsive to need, stable enough for efficient planning.

Information Request 4: Impact on state reforms and incentives

This is where the pre-2018 system created the most significant national efficiency losses.

In prevention-focused work, the goal is moving systems from crisis to prevention through specific reforms:

- Shifting from reactive responses to proactive prevention
- Investing in early intervention rather than waiting for harm
- Building organisational capability, not just individual programs
- Embedding mental health and safety into culture instead of treating them as add-ons

These reforms improve technical efficiency for the federation and save money over time: fewer crisis presentations, fewer workers compensation claims, lower turnover, and less downstream cost of avoidable harm. They require upfront investment and patience.

Under the pre-2018 GST rules, if states did this work well and grew the economy or improved revenue through resource development, they were penalised via reduced GST shares. The better they did, the less support they received.

This created a clear disincentive for exactly the reforms that improve outcomes and national productivity. The current system removes that disincentive. States can pursue reforms that work without being financially undercut for doing so.

This benefits the entire federation by removing perverse incentives against revenue-raising efficiency and productivity-enhancing reforms.

Evidence: Reforms enabled by fiscal stability post-2018

The Commission asked what reforms states have actually pursued since the 2018 changes. Western Australia provides clear evidence of reforms enabled by fiscal stability:

Work Health and Safety reforms: Work Health and Safety (General) Regulations 2022 commenced 24 December 2022, bringing psychosocial harm into the same legal space as physical hazards.[5][6][7] These reforms were enabled by fiscal certainty that allowed multi-year planning, alongside strong political mandate following high-profile workplace mental health cases and sustained public pressure for regulatory action.

As someone who works daily on implementing these reforms, I can tell you: the legislation means nothing without the multi-year training programs, the specialist regulators, the codes of practice that took 18 months to develop properly. None of that happens if states are planning year-to-year. While multiple factors drove these reforms, the multi-year investments in regulators, codes of practice and workplace training required to implement them effectively have been possible because WA can now plan WHS enforcement and prevention beyond single budget cycles. GST certainty was a necessary but not sole factor in enabling this reform.

Mental health system redesign: \$40.4M four-year Aftercare program; \$32.3M suicide prevention 2020-24; multiple four-year funding packages for infant, child and adolescent community mental health teams.[8][9] In the 2024-25 Budget, further multi-year commitments: \$10.6M Active Recovery Teams, \$22.4M Acute Care Response Teams.[10]

These represent structural reforms that require confidence in future funding. They demonstrate how fiscal certainty enables states to pursue productivity-enhancing reforms that keep people in the workforce and contributing to the tax base.

Regional service delivery improvements: With more predictable revenue, affected states could commit to maintaining services in regional areas even during economic downturns, reducing boom-bust cycles that previously drove workforce and population instability in regional communities. This stability maintains the regional workforce that supports resource extraction - which generates Commonwealth revenue.

This stability enables more efficient service delivery by reducing the costs associated with staff turnover, recruitment cycles, and program discontinuity.

Information Request 5: Alternative arrangements

The Commission's Terms of Reference (p.5) require assessment of "a range of options including options with a funding relativity floor comparable to the current level, with and without top-up funding from the Commonwealth."

This section presents three alternative models and assesses their impacts on technical efficiency, fiscal sustainability, and national productivity.

OPTION A: MAINTAIN FLOOR WITH COMMONWEALTH-FUNDED TOP-UP (RECOMMENDED)

What it is: Keep the 0.75 relativity floor, pool top-up (\$850 million indexed to GST growth) funded by the Commonwealth, and equalisation benchmark to the stronger of NSW or Victoria. Make the No Worse Off provisions permanent rather than time limited.

Commonwealth cost: Pool top-up of approximately \$850 million annually (indexed), plus NoWO payments that phase down as the system beds in. Total annual cost approximately \$1.5 to \$2 billion, representing roughly 0.2% of Commonwealth revenue.

Impact on other states: No state worse off than current arrangements due to pool top-up mechanism. Smaller states continue receiving above-average per capita shares while all states benefit from reduced system volatility.

Technical efficiency impact: Preserves current capacity for multi-year program planning with reasonable confidence. Maintains technical efficiency gains achieved since 2018 through reduced staff turnover, decreased program restart cycles, and improved prevention infrastructure. This allows states to maintain resilient workforces, ensuring the continued flow of resource exports and company tax revenue to the Commonwealth.

Fiscal sustainability: Demonstrated to be sustainable for the Commonwealth at 0.2-0.3% of annual revenue. The avoided costs (prevention of state service collapse, maintained productivity in resource sectors, reduced demand on federal safety nets) represent positive return on investment for the federation.

Political sustainability: High. The pool top-up mechanism prevents zero-sum interstate conflict. All states maintain or improve their positions, reducing political pressure for reversal.

National productivity impact: Positive. Enables states to pursue revenue-raising efficiency reforms without penalty. Reduces perverse incentives against resource development. Improves technical efficiency of service delivery through planning certainty.

Critical note on No Worse Off sunset: Because specialist health and safety roles have recruitment and training lead times of 18-24 months, the approaching 2029-30 sunset date for the No Worse Off Guarantee is already beginning to chill long-term workforce planning. Making the arrangements permanent would eliminate this growing uncertainty and enable states to commit to the multi-decade planning required for major prevention infrastructure.

OPTION B: MAINTAIN FLOOR FUNDED BY REDISTRIBUTION (NO COMMONWEALTH TOP-UP)

What it is: Maintain the 0.75 relativity floor but eliminate the GST pool top-up. Other states' GST shares would be reduced proportionally to fund the floor, creating a zero-sum distribution within the existing GST pool.

Why this option has genuine appeal:

Option B addresses legitimate concerns about Commonwealth fiscal sustainability. With zero additional Commonwealth cost, it maintains planning certainty for affected states while theoretically forcing efficiency improvements across all states. Proponents could argue that the Commonwealth should not bear costs for state revenue volatility, that smaller states could absorb modest reductions through efficiency gains, and that competitive pressure would drive beneficial reforms. These are not unreasonable arguments, and Option B would deliver genuine fiscal relief for the Commonwealth budget.

This logic breaks down when examined against implementation reality and political sustainability:

Commonwealth cost: No additional cost to Commonwealth. The existing GST pool would be redistributed among states, with smaller states receiving reduced per capita shares to ensure affected states reach the 0.75 floor.

Impact on other states: Smaller states would see reduced GST shares. If the floor costs \$2 billion annually, that amount would come directly from reductions to other states' allocations. States currently receiving relativities above 1.0 would bear the largest reductions.

Implementation feasibility: Could be implemented immediately through CGC methodology changes. No transition period required as it operates within existing GST pool.

Technical efficiency impact: For affected states, provides same stability as Option A, enabling multi-year planning and improved service delivery outcomes. For other states, the assumption that cuts could be absorbed through "efficiency improvements" is optimistic. In practice, smaller states with already-stretched service delivery capacity would face genuine program cuts, potentially disrupting existing prevention programs and undermining technical efficiency gains.

Fiscal sustainability: Sustainable for the Commonwealth (zero cost) but creates immediate fiscal stress for smaller states. This creates a perverse dynamic where the Commonwealth saves money in the short term but faces pressure for future federal intervention or bailouts if state service systems deteriorate in Tasmania, South Australia, or Northern Territory.

Political sustainability: Extremely low. This is the critical failure point. Creating direct conflict between states, where one state's gain is explicitly another state's loss, generates ongoing political friction that consumes significant political capital and administrative resources. Smaller states would vigorously oppose, likely generating sustained political pressure to abolish the floor entirely when they build sufficient political coalition. SA, Tasmania, and NT would be most affected and would strongly oppose.

National productivity impact: Mixed to negative. While maintaining planning certainty for affected states (positive), creates fiscal disruption for other states (negative). The zero-sum nature generates ongoing interstate conflict. High risk of reversal would recreate the volatility the reforms were designed to address.

Why this option ultimately fails: The Commonwealth pool top-up exists specifically to avoid zero-sum political dynamics. The \$850 million annual top-up can be understood as the price of political stability and system sustainability. Without it, the reforms become vulnerable to coordinated opposition and eventual reversal, leading back to the pre-2018 system with all its demonstrated inefficiencies.

OPTION C: RETURN TO FULL EQUALISATION (NO FLOOR)

What it is: Remove the 0.75 relativity floor and return to full equalisation to the average of all states, or to a theoretical standard of service delivery.

Commonwealth cost: Eliminates the pool top-up requirement, saving approximately \$1.5-2 billion annually. Creates risk of future costs if state service systems collapse under fiscal volatility.

Impact on affected states: Return to potential for extreme relativities (0.30 or lower) depending on resource revenue fluctuations. For context: iron ore royalties peaked \$12.4B

(2021) to \$5.8B forecast (2028-29), representing \$6B swing.[11][12] Recent projections show single-year fall of 36% to around \$6.6 billion, roughly a \$2 billion decline year-on-year.[11]

This level of volatility makes long-term prevention and infrastructure planning impossible, forcing return to crisis footing with demonstrated efficiency losses.

Technical efficiency impact: Severe negative impact. Recreates all the demonstrated problems of the pre-2018 system: inability to plan beyond single budget cycles, staff turnover due to funding uncertainty, program discontinuity, loss of prevention infrastructure, higher long-term costs through crisis response rather than prevention.

National productivity impact: Significantly negative. Reinstates perverse incentives against revenue-raising efficiency and resource development. States would again be penalised for successful resource development through reduced GST shares, creating clear disincentive for exactly the kind of economic activity that generates substantial Commonwealth revenue through company tax, PRRT, and income tax.

Fiscal sustainability: While eliminating Commonwealth cost, creates high probability of future federal intervention requirements if state service systems deteriorate under extreme volatility. The avoided costs that currently justify the Commonwealth investment would be lost, likely requiring higher future expenditure on crisis interventions and increased welfare payments.

Why this option fails: This option returns the federation to a demonstrated failure mode. The pre-2018 system created:

- Extreme fiscal volatility that prevented multi-year planning
- Perverse incentives against revenue-raising efficiency
- Significant losses of technical efficiency through program discontinuity
- Higher long-term costs through crisis response rather than prevention

All evidence from the 2015-2018 period shows this model is incompatible with efficient service delivery and creates national productivity losses.

OPTION D: LEGISLATIVE ENTRENCHMENT (SUPPORTING MECHANISM FOR OPTION A)

What it is: Require a higher voting threshold (such as absolute majority or two-thirds majority) to amend core provisions of the GST distribution legislation, specifically the relativity floor and pool top-up mechanism.

Impact: Provides maximum certainty for multi-decade planning (infrastructure, workforce development, prevention programs that take 10-15 years to show full impact). Reduces Commonwealth flexibility but significantly improves technical efficiency through enhanced planning confidence.

This option works as a supporting mechanism for Option A to strengthen long-term certainty.

WHAT SHOULD BE REJECTED

Any alternative that:

- Returns to full equalisation without floors or caps (demonstrated failure mode)
- Ties GST shares more directly to current year commodity prices (maximises volatility)
- Eliminates the pool top-up mechanism without addressing zero-sum political dynamics
- Increases comprehensiveness of equalisation assessments beyond current levels (adds complexity and volatility)

From a national productivity perspective, the key test for any alternative is: does it enable states to plan multi-year prevention programs with confidence that funding will remain available, while maintaining reasonable horizontal fiscal equalisation?

Option A passes this test. Option D strengthens it. Option B passes for affected states but fails for other states and creates unsustainable political dynamics. Option C fails comprehensively by recreating demonstrated inefficiencies.

CASE STUDY: TECHNICAL EFFICIENCY IN PRACTICE

To illustrate how fiscal arrangements affect technical efficiency and service delivery outcomes, consider the grant programs I work on for mental health and suicide prevention in workplaces.

These programs build organisational capability to prevent harm before it happens by training leaders to spot risk early, embedding psychosocial risk assessment into business planning, and creating cultures where people can speak up before crisis points are reached.

In my work designing workplace mental health programs, I need to recruit psychologists who understand both clinical practice and organizational systems. These specialists don't take 12-month contracts. When I can tell them "this program has four-year funding," I get experienced professionals. When I can only offer one year, I get whoever's desperate enough to take the risk - and they leave as soon as something more stable comes up.

This type of work requires multi-year funding for several technical reasons:

- Organisations need time to embed changes into culture and processes
- Specialist expertise can only be recruited and retained if roles are secure
- Industry needs confidence that programs won't disappear halfway through implementation
- Culture change is slow and early data can appear flat before outcomes materialise

Without funding certainty, programs cannot achieve these objectives. The result is short-term pilots that consume resources but fail to deliver lasting change, representing poor return on

investment for the federation - and for the Commonwealth, which ends up paying more in welfare costs when prevention fails.

These programs are just a small example of what states fund through their budgets. Mental health services, hospital staffing, regional school programs, child protection and disability support services all rely on knowing funding will be available across multiple years - funding that keeps people healthy, working, and contributing to the tax base rather than dependent on federal safety nets.

Under the pre-2018 GST system, this planning was not reliable. Commodity price swings created abrupt changes in fiscal capacity that flowed through to every service area. Budget uncertainty meant confidence in state services rarely extended beyond a single term.

Post-2021 budgets demonstrate the change. Multiple four-year and forward-estimate commitments in mental health and suicide prevention illustrate the stable planning environment that the GST floor has made possible.[8][9][10]

The 2018 reforms gave states a more predictable base to plan from and the ability to put forward multi-year designs and attract specialist expertise to implement them effectively. This allowed governments to build partnerships that could safely assume continuity - partnerships that keep people working in resource sectors that generate Commonwealth revenue.

That stability is why technical efficiency in public service delivery has improved. Removing the reforms would likely return states to fiscal uncertainty, increasing risk that this progress stops and efficiency gains are lost.

This matters not for fiscal federalism diagrams, but for the people who rely on these systems and the national productivity that depends on efficient service delivery.

COMPARING WA'S CHALLENGES TO OTHER STATES

The case for the 2018 reforms rests on whether they address genuine structural challenges or whether they create unwarranted advantages for particular states.

The Northern Territory faces higher service delivery costs than WA due to remoteness, small population, and high Indigenous population shares requiring culturally appropriate services. NT doesn't face the same GST volatility because it doesn't have a large resource sector that swings its assessed revenue capacity wildly. NT needs fiscal support for high costs; it doesn't need protection from volatility in the same way.

Tasmania has fiscal challenges from a small, aging population and limited revenue base. Those challenges are relatively stable. Tasmania knows what its fiscal capacity looks like year to year. The challenge for Tasmania is the level of support, not volatility in support.

Queensland has resource revenues from coal and gas, which creates some GST volatility. The scale is smaller and the economy is more diversified, making the volatility manageable within normal budget planning cycles.

Western Australia's situation combined large resource revenues (creating major volatility) with substantial service delivery obligations across a geographically dispersed population. Iron ore royalties peaked \$12.4B (2021) to \$5.8B forecast (2028-29), representing a \$6B swing.[11][12] Recent budget projections show a single-year fall of about 36% to around \$6.6 billion, roughly a \$2 billion year-on-year decline.[11]

For a state budget funding hospitals, schools and community services, this level of multi-billion-dollar volatility makes long-term prevention and infrastructure planning extremely difficult. This was the specific problem the reforms were designed to address.

The 0.30 relativity was an extreme outcome that no other state has faced or is likely to face. The reforms were targeted at an actual structural problem, not theoretical concerns.

Importantly, the reforms help all states by reducing overall system volatility and making GST distributions more predictable. The pool top-up mechanism ensures no state is worse off, while all states benefit from reduced political conflict and improved planning confidence.

SYSTEMS DESIGN AND IMPLEMENTATION REALITY

Across crisis work, policy roles, and workplace safety, a consistent pattern emerges: systems designed without attention to implementation reality fail the people they are meant to serve and create efficiency losses for the federation.

On paper, the pre-2018 GST system appeared sound: full equalisation so every state could provide identical service standards. In reality it ignored several implementation challenges:

- States with very different geographies and cost structures cannot deliver identical services with the same per capita funding
- Volatile revenue destroys prevention infrastructure that requires multi-year planning horizons
- Disincentivising revenue-raising efficiency creates perverse incentives against resource development that generates substantial Commonwealth revenue
- Resource-rich states still have vulnerable populations who need stable support services

Living with severe chronic pain and using supports that state revenue helps to fund has made the gap between policy intent and lived experience very clear. I have seen what happens when system designers don't understand, or don't prioritise, implementation reality.

The 2018 GST reforms are not perfect, but they mark a shift towards pragmatism: recognising that fiscal certainty enables better outcomes, that equity and efficiency both matter for national productivity, and that theoretically pure equalisation can produce deeply unfair and inefficient results in practice.

FEDERAL FINANCIAL RELATIONS: BROADER SYSTEM IMPROVEMENTS

As required by the Terms of Reference (p.4), this inquiry must consider how the federal financial relations system can best promote fiscal sustainability while delivering optimal outcomes for all Australians.

Beyond maintaining the 2018 reforms, the system could be improved for the entire federation through:

- Enhanced CGC transparency: Publishing detailed year-on-year methodology changes to reduce perception of arbitrariness and improve public confidence in the system. When assessment methods change between cycles, the rationale and expected impact should be clearly documented and publicly available.
- Longer-term forward estimates: Extending GST relativity projections beyond the current 4-year horizon to improve state infrastructure planning. Major infrastructure projects and workforce development programs require planning horizons of 10-15 years. More reliable long-term projections would enhance technical efficiency across all states.
- Independent review mechanism: Establishing regular, independent review of horizontal fiscal equalisation principles to maintain public confidence in the system. A standing review process (perhaps every 5 years) would allow the system to adapt to changing circumstances while maintaining core stability.
- Clarified SPP exemption criteria: Developing clear, principles-based guidelines for which Commonwealth payments should be excluded from equalisation assessments. Current determinations can appear ad hoc, creating uncertainty for both Commonwealth and state planning. Published criteria would improve transparency and reduce political friction.
- Improved data transparency: Making CGC assessment data more accessible to researchers and the public. Better transparency would enable more informed public debate about equalisation principles and their effects.

These improvements would enhance the technical efficiency and political sustainability of the federal financial relations system while maintaining its core equity objectives. They would benefit all states by reducing uncertainty, improving planning confidence, and strengthening public trust in the fairness of the system.

RECOMMENDATIONS TO THE COMMISSION

Based on the evidence presented in this submission, I recommend:

1. **Maintain the 2018 reforms:** Retain the relativity floor (0.75), the Commonwealth-funded pool top-up, and the benchmark system (stronger of NSW/Victoria). This is the only option that delivers technical efficiency gains, maintains reasonable horizontal fiscal equalisation, and provides fiscal sustainability for both Commonwealth and states.
2. **Make provisions permanent:** Move away from rolling existential debates about the rules. States need long-term stability to plan infrastructure and prevention programs that take 10-15 years to show full impact. Temporary arrangements undermine planning confidence and reduce technical efficiency. Critically, because specialist health and safety roles have recruitment and training lead times of 18-24 months, the approaching 2029-30 sunset date for the No Worse Off Guarantee is already beginning to chill long-term workforce planning. Making the arrangements permanent would eliminate this growing uncertainty.
3. **Legislatively protect core elements:** Use higher amendment thresholds or similar mechanisms to reduce the risk of abrupt reversal. This would provide maximum certainty for multi-decade planning while still allowing adjustments for genuine changing circumstances through annual CGC assessments.
4. **Reject proposals that reintroduce volatility:** Any model that again disincentivises revenue-raising efficiency (such as return to full equalisation) or ties GST shares tightly to current-year commodity prices (maximising fiscal volatility) should be ruled out on the basis that they create demonstrated efficiency losses for the federation.

This is not about advantaging particular states. It is about designing a system that enables all states to plan evidence-based prevention work without living in permanent fiscal volatility. A system that recognises economic contribution rather than penalising it. A system stable enough that productivity-enhancing reforms have a chance to succeed.

The people I work with and for deserve better than programs that disappear when iron ore prices fall. They deserve systems designed for humans, not spreadsheets. The 2018 reforms finally gave us that. Please don't break it.

The 2018 reforms have provided the foundation for sustained, evidence-based prevention. That foundation should be maintained and strengthened, not dismantled in favour of demonstrated failure modes.

Sincerely,
Amanda Haley

9 February 2026

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