

# **Productivity Commission Inquiry GST Distribution Reforms**

Submission from the Government of South Australia  
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## Executive Summary

In response to the Productivity Commission's last inquiry on horizontal fiscal equalisation (HFE) in 2018, the Commonwealth Government stated that its proposed reforms to GST distribution arrangements aimed to:

- affirm the Commonwealth's commitment to the **'fair go'** principle of HFE;
- **maintain and improve HFE** with minimal disruption, both now and in the future, to deliver essential services;
- improve the **stability** of the system, reducing **volatility** for states' revenue; and
- ensure all states and territories are in a **better off** position.

The 2018 reforms are in their fifth year of operation and it is clear that they have not achieved these intended policy outcomes.

Only one state is better off – Western Australia.

The additional GST revenue redistributed to Western Australia under the current system totalled over \$17 billion across the first four years of operation. This is equivalent to an additional \$6,000 for each Western Australian resident. Conversely, all other states are collectively over \$14 billion worse off on an underlying basis (that is, before the Commonwealth no worse off guarantee).

Compared to the Commonwealth's expectations, this represents a \$16 billion improvement for Western Australia and a \$16 billion deterioration for all other states.

2018 HFE Arrangements - Budget Improvement (+ve = improvement | -ve = deterioration)

	2021-22	2022-23	2023-24	2024-25	Total
	\$m	\$m	\$m	\$m	\$m
Commonwealth forecast					
Western Australia	262	421	495	575	1,753
Other jurisdictions	338	210	168	374	1,090
Actual experience*					
Western Australia	739	4,790	5,601	6,373	17,504
Other jurisdictions	-139	-4,127	-4,909	-5,387	-14,563

\*Underlying - excludes the impact of the Commonwealth guarantee.

These outcomes provide Western Australia with the capacity to deliver a higher standard of public services, greater capacity to reduce taxes and/or retire debt faster than other states.

Once the Commonwealth's guarantee expires at the end of 2029-30, this advantage afforded to Western Australia will come at the direct expense of other states' fiscal sustainability, eroding other states' capacity to invest in and support critical public services.

As an example of this cost, in South Australia for the 2025-26 year only, the underlying economic loss (opportunity cost) associated with current arrangements is \$500 million – equivalent to funding 3,500 nurses in our community.

The divergence between Western Australia and other states also has broader implications on the national economy. Capital and labour flows across Australia to take advantage of higher service standards or more attractive policy settings promoted by unfair distribution arrangements may reduce national productivity.

The fiscal and economic advantages created by the current system for 10 per cent of the nation in Western Australia at the expense of the 90 per cent of residents in other states contradicts the **'fair go'** principle of HFE.

The current system makes no improvements to revenue **stability** nor has it reduced **volatility**. The Commonwealth Grants Commission (CGC) continues to determine states' GST revenue shares each year based on a full HFE assessment methodology using historical data (e.g. actual taxation revenues).

The new system only adds complexity by introducing a series of additional calculations in order to unwind the full HFE benchmark to deliver a higher GST revenue share to Western Australia by reducing that of other states.

The greatest uncertainty for states has been the uncertainty of the Commonwealth's guarantee.

The key principles on which the 2018 reforms were legislated by the Commonwealth Parliament are incongruous with the states' experience with these reforms in the first five years of their operation:

- all states are **not better off**;
- the fiscal and economic advantage afforded to one state at the expense of others undermines HFE and **does not reflect the 'fair go'** principle; and
- the current system has **not improved stability/reduced volatility** but instead introduced greater complexity and uncertainty.

South Australia recommends a return to the full HFE system - distributing GST in a manner that seeks to ensure all states have the capacity to provide a similar standard of services and infrastructure to their residents.

This represents the fairest system for all states and their residents, irrespective of where they choose to live.

Until such time as the return to a more appropriate HFE system can be implemented, the perpetual extension of the Commonwealth's guarantee is essential to protect the financial capacity of the states to provide services and infrastructure to their residents.

## Introduction

The South Australian Government welcomes the opportunity to provide a submission to the Productivity Commission's (PC's) Inquiry into the 2018 GST distribution reforms (the Inquiry).

The South Australian Government is a strong and longstanding supporter of full horizontal fiscal equalisation (HFE), which seeks to ensure that states and territories have the fiscal capacity to provide services and the associated infrastructure at the same standard. The 2018 reforms represented a significant shift away from full HFE in favour of an approach that delivers outcomes that are neither fair nor sustainable.

The Inquiry's Terms of Reference ask the PC to consider the operation of the 2018 GST reform legislation<sup>1</sup>, including whether the changes to the GST distribution system are operating efficiently, effectively and as intended, and the fiscal implications for each state and territory (state) and the Commonwealth.

South Australia's submission responds to the issues and themes presented in the PC's November 2025 Issues Paper.

## Impact of the 2018 reforms

This section addresses questions raised in the Information Request 1 (*whether current arrangements have impacted the fiscal position of states*).

### The need for an equitable GST distribution system

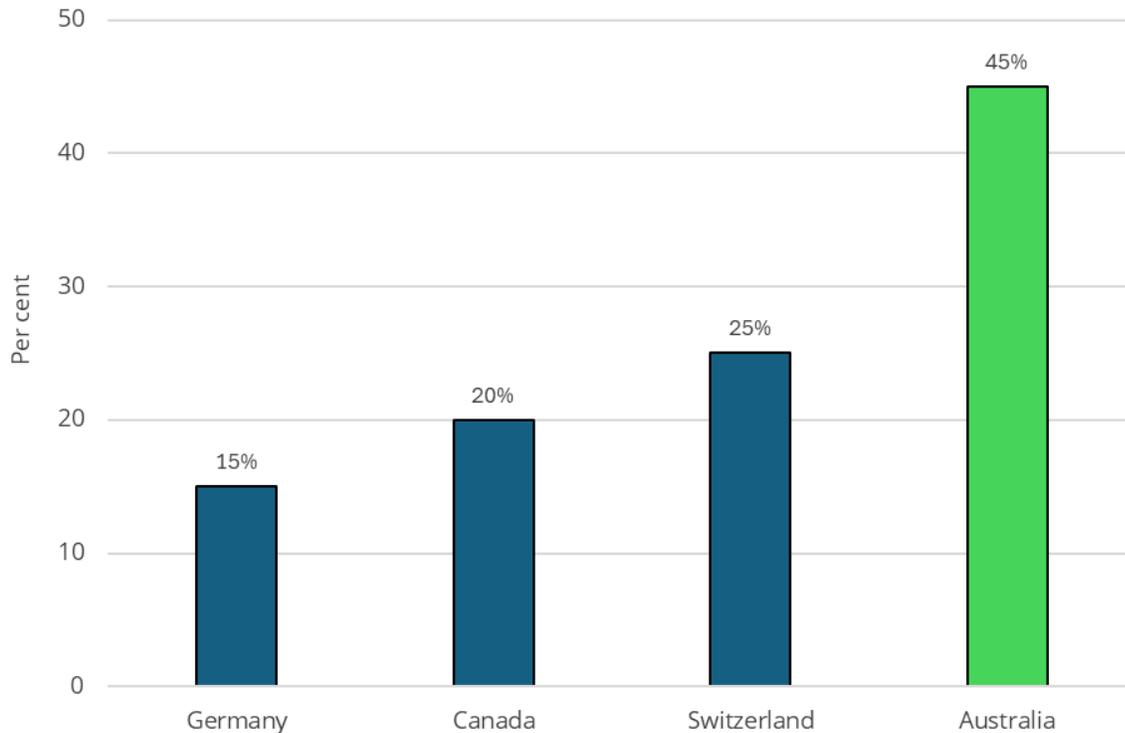
Australia's federal financial relations are characterised by a relatively high level of vertical fiscal imbalance (VFI) compared to other federations. The Commonwealth Grants Commission (CGC) estimates that the level of VFI in Australia, as measured by the proportion of total state spending that is directly or indirectly funded by the Federal Government, is around 45 per cent, compared to an estimated 25 per cent in Switzerland, 20 per cent in Canada, and 15 per cent in Germany<sup>2</sup>.

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<sup>1</sup> *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018.*

<sup>2</sup> Commonwealth Grants Commission (2022), *Research Paper 3 – Some international themes in fiscal equalisation: An Australian perspective*, <https://www.cgc.gov.au/publications/research-paper-3-international-themes-fiscal-equalisation-australian-perspective>.

**Figure 1 – Federal transfers as a proportion of sub-national government expenditure**



Source: Commonwealth Grants Commission

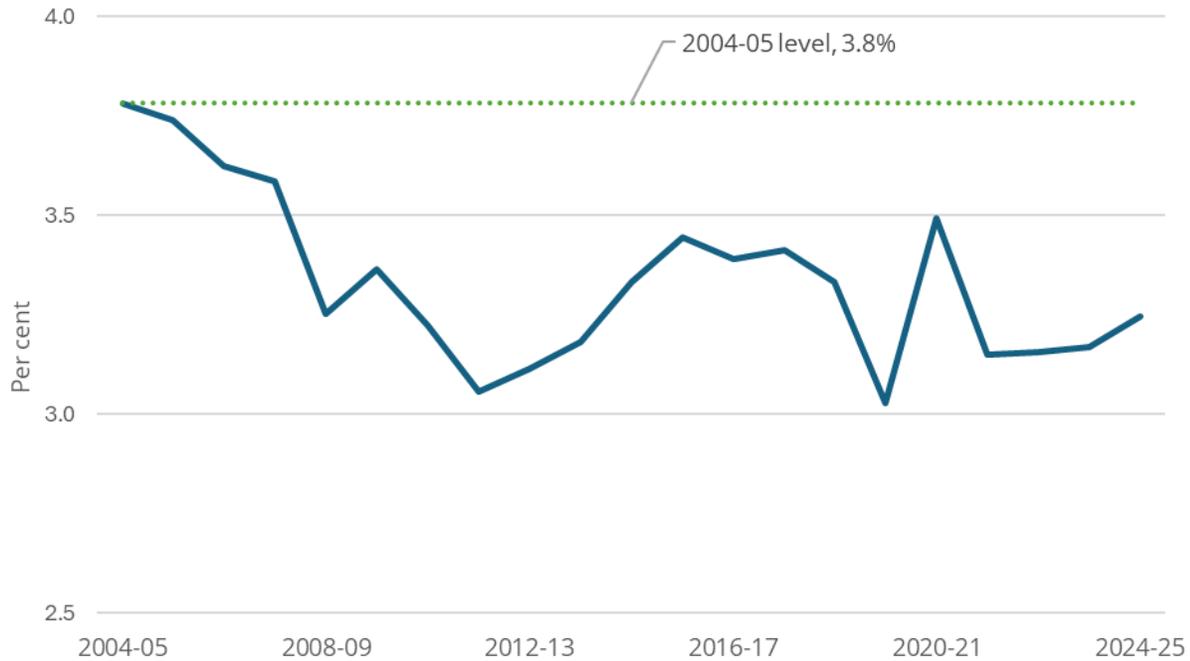
The relatively high level of VFI in Australia is mainly sustained by constitutional limitations on the range of revenue raising avenues available to the states, with recent interpretations by the High Court further constraining the scope and ability of jurisdictions to generate future taxation revenues<sup>3</sup>.

GST grants, which constitute around half of Commonwealth transfers to the states, are a critical mechanism for addressing VFI. However, due to the range of exemptions that apply to the GST base (e.g. health, education and fresh food), it has not lived up to its expected role as a source of funding for the states that grows broadly in line with the national economy (Figure 2).

Notwithstanding this, as the only source of untied Commonwealth funding available to all states, it is critical that the GST distribution system is equitable across all jurisdictions. The impacts of the current arrangements on VFI are discussed in the “VFI impact” section of this submission.

<sup>3</sup> For example, the Court’s ruling in *Ha v New South Wales* (1997), which had the effect of invalidating a range of state-based licence fees (e.g. liquor, tobacco and petrol licence fees) on the basis that they constituted an excise, and the more recent *Vanderstock v Victoria* (2023) case, which had the effect of invalidating Victoria’s electric vehicle charge on a similar basis.

**Figure 2 – GST distribution revenue relative to Gross Domestic Product over the past 20 years<sup>1</sup>**



1: Excluding GST pool boost.

Source: Commonwealth Final Budget Outcomes, 2004-05 to 2024-25; Australian Bureau of Statistics.

## Fiscal impact

The pre-2018 arrangements reflected a simple concept – when a state’s fiscal capacity strengthened, its GST share decreased (albeit with a slight lag) to reflect that state’s lower requirement for Commonwealth fiscal assistance through the GST. When that state’s fiscal capacity weakened, its GST share increased to reflect its higher requirement for GST assistance.

This equity principle has eroded under current arrangements. Any state that is fiscally stronger than New South Wales or Victoria (i.e. Western Australia) benefits from a redistribution of GST revenue from other states, further accentuating its fiscal capacity and dominance.

Figure 3 shows that under full HFE, Western Australia’s GST grants responded appropriately (with a lag) to changes in Western Australia’s mineral royalty income over time – GST grants generally declined when royalties increased, and vice versa. Implementation of the current arrangements from 2021-22 broke this link and prevented Western Australia’s GST grants from declining in response to the record royalty revenues collected by that state from 2019-20.

**Figure 3 – Relationship between Western Australia’s royalty revenue and its GST grants**



Source: PC Issues paper, Individual state and territory chart data; Commonwealth Final Budget Outcomes, 2000-01 to 2024-25; SA Department of Treasury and Finance calculations.

The fiscal impacts of the 2018 reforms are already clear based on final budget outcomes. In the first four years of the revised arrangements (2021-22 to 2024-25):

- Western Australia, by far the fiscally strongest state, received more than \$17 billion in additional GST compared to what it would have received under full HFE. The current distribution formula is designed such that if Western Australia’s fiscal capacity strengthens further, even more GST revenue will be redistributed to it from other states (i.e. there is a positive correlation between higher fiscal capacity and higher GST revenue).
- Had it not been for the Commonwealth guarantee, the other states would have collectively lost \$14.6 billion in GST revenue over this period from funding additional GST revenue to Western Australia.
- In per capita terms, this equates to an average of around \$6,000 in additional Commonwealth GST funding for each Western Australian resident, and a loss of around \$600 each for the 89 per cent of Australians who happen not to reside in Western Australia.

The inequity created by the current arrangements is further demonstrated in the disparity between the fiscal metrics of Western Australia and all other jurisdictions across several performance indicators. The table below shows that Western Australia has the lowest debt burden across the nation and it represents less than half of the next lowest jurisdiction (Queensland).

**Figure 4 – Moody’s interstate issuer ratings and analysis of fiscal metrics**

	Long term issuer rating	Outlook	Net lending (borrowing) / operating revenues (%)	Debt burden*	Interest payments % revenue	Funding requirements (AUD billions)	Purchase of non-financial assets (AUD billions)
New South Wales	Aaa	○	-14.0%	116.6%	5.3%	21.8	27.2
Victoria	Aa2	○	-15.6%	165.6%	7.0%	28.1	24.4
Queensland	Aa1	○	-25.2%	85.8%	5.3%	32.5	24.7
Western Australia	Aaa	○	-5.1%	40.8%	1.7%	11.1	12.6
South Australia	Aa1	○	-10.8%	104.1%	5.7%	8.5	6.2
Tasmania	Aa3	○	-21.7%	98.2%	4.2%	3.3	2.8
Northern Territory	Aa3	○	-9.6%	109.9%	6.3%	2.5	2.2

For Tasmania, values throughout the report are based on the Interim 2025-26 Budget, released in November.

\*Debt burden is nonfinancial public sector net debt as percentage of operating revenue.

Sources: State and Territory midyear budgets, Tasmania’s interim fiscal 2026 budget, State and Territory Treasury Corporations and Moody’s Ratings

Source: Moody’s Sector Comment, Fiscal consolidation faces challenges from inflation and physical climate risks, 30 January 2026.

These outcomes demonstrate a system that fosters financial and budgetary inequality across the states, exacerbating the specific issue HFE was designed and established to address.

## Economic impact

The fiscal inequity highlighted in the preceding section exacerbates existing economic inequity across the states.

The current GST system acts to provide Western Australia with the capacity to deliver a higher standard of public services, greater capacity to reduce taxes and/or retire debt faster than other states. This higher capacity flows through to stronger domestic economic growth potential through higher employment, income and living standards.

This creates an economic gap between Western Australia and other states. Once the Commonwealth’s guarantee concludes at the end of 2029-30, states will fund a higher GST share for Western Australia and the economic gap will broaden.

This economic advantage afforded to Western Australia through the current GST system will come at the direct expense of, and disadvantage to, all other states.

In South Australia for the 2025-26 financial year only, the underlying economic loss (or opportunity cost) to the state is approximately \$500 million. This is equivalent to funding the employment and wages of around 3,000 teachers or 3,500 nurses in our state economy.

The divergence in the standard of public services, ability to reduce taxes and/or retire debt between Western Australia and other states also has broader implications for the national economy. Continued divergence in these settings will encourage the inefficient distribution of capital and labour across Australia, as firms and individuals make location decisions based on quality of services and/or other settings, rather than opportunities to maximise their productivity.

The efficiency benefits of full HFE were the subject of a detailed review undertaken by Independent Economics (commissioned by the South Australian Government) for consideration in the 2012 GST

Distribution Review (the Greiner Review). The report<sup>4</sup> found that there would be a significant loss in overall national economic productivity if there was a departure from full HFE (e.g. the current partial equalisation system).

## Commonwealth impact

The Commonwealth's exposure to the impacts of its 2018 reforms is through:

- the permanent GST pool top-up, an initial outlay of \$600 million in 2021-22 and a further \$250 million in 2024-25, with both amounts indexed by growth in the national GST pool; and
- temporary guarantee payments to any state that would otherwise be worse off (in cumulative terms between 2021-22 and 2029-30) under the current arrangements compared to full HFE. When the guarantee expires, this part of the Commonwealth's exposure will transfer to the states.

The guarantee was not an outcome of the PC's 2018 Inquiry and was adopted by the Commonwealth following representations from the states through the Board of Treasurers.

At this time, the Commonwealth's modelling assumed that the net impact of the revised partial equalisation standard and the GST pool top-up would mean that all states were financially better off (i.e. the guarantee would not be required). In contrast, scenario modelling undertaken by the states demonstrated that under a range of plausible scenarios, states could be significantly worse off. The risks highlighted by these scenarios have proven to be accurate (Table 1).

**Table 1 – Commonwealth expectations of GST outcomes under the 2018 reforms compared to actual outcomes, 2021-22 to 2024-25**

	2021-22	2022-23	2023-24	2024-25	Total
	\$m	\$m	\$m	\$m	\$m
Commonwealth forecast					
Western Australia	262	421	495	575	1,753
Other jurisdictions	338	210	168	374	1,090
Actual experience*					
Western Australia	739	4,790	5,601	6,373	17,504
Other jurisdictions	-139	-4,127	-4,909	-5,387	-14,563

\*Underlying - excludes the impact of the Commonwealth guarantee.

The Commonwealth has needed to provide guarantee payments every year since the implementation of the 2018 reforms. Between 2021-22 and 2024-25, the Commonwealth has provided \$14.6 billion in guarantee payments to the states. The Commonwealth's 2025-26 Mid-Year Economic and Fiscal Outlook estimates that a further \$22.5 billion in guarantee payments will be required from 2025-26 to 2028-29.

South Australia considers that a potential \$37 billion difference between current expectations of the cost of the guarantee between 2021-22 and 2028-29 and the Commonwealth's expectations in 2018

<sup>4</sup> Independent Economics (2012), *Horizontal Fiscal Equalisation: Modelling the welfare and efficiency effects*, <https://murphyeconomics.com.au/Govt%20Services.aspx>

(i.e. that the guarantee would not be required) represents clear evidence that the 2018 reforms are operating neither efficiently nor as expected.

## VFI impact

The cost of the 2018 reforms on the Commonwealth risks further increasing the level of VFI and undermining the delivery of critical services in Australia through its impact on the Commonwealth's capacity or willingness to honour its funding responsibilities in other areas of public services, such as health, disability, and infrastructure.

For example, one of the objectives of the original National Health Reform Agreement (NHRA) was to see the Commonwealth Government's share of public hospital and health services increase incrementally overtime. This was initially being achieved under funding arrangements in which the Australian Government funded 45 per cent of 'efficient' growth for in-scope NHRA activity from 2014-15, which would increase to 50 per cent in 2017-18. However, an Addendum to the NHRA made in 2020 saw the Australian Government's aspiration for a 45 per cent contribution maintained, but a 6.5 per cent national funding cap resulted in the national Commonwealth Contribution Rate (CCR) declining since 2020-21.

In 2023, National Cabinet agreed to a suite of health and disability reforms that were publicly stated would see states and territories 'better off overall'. This included the following changes to funding arrangements under the next NHRA that was due to be in place from 2025-26 to 2029-30: the Commonwealth Contribution Rate (CCR) increasing incrementally, to reach 42.5 per cent by 2029-30 and 45 per cent by 2034-35; and a higher cumulative cap would be implemented with a first year 'catch up' growth premium.

These reforms were also linked to measures to constrain growth in the National Disability Insurance Scheme (NDIS) that would see the states partner with the Commonwealth to deliver a system of foundational supports outside of the NDIS.

NHRA negotiations between the Commonwealth and states concluded at the January 2026 National Cabinet meeting. Although the Commonwealth committed to providing an additional \$25 billion in funding (over five years), the CCR will not reach the levels previously committed to by the Commonwealth.

As the CCR is expected to remain below committed levels, states will be increasingly reliant on revenue from the GST guarantee to meet expected growth in health costs. States also have to address a lack of investment by the Commonwealth in areas that interface with the health sector including aged care and the disability sector. The impact of the large number of older patients in public hospitals awaiting an aged care place on hospital costs and delays in other services that hospitals should be providing is well documented.

A further example relates to infrastructure funding. Due to the increasing level of VFI in Australia, the Commonwealth has made grants to states for roads since 1922 and started funding a national highway system in 1974. Land transport (road and rail) has been the primary component of Commonwealth infrastructure funding, delivered through the Land Transport Infrastructure Projects (LTIP) Federation Funding Agreement (FFA), which is the current funding vehicle.

Although the Commonwealth has consistently provided land transport infrastructure funding to the states in recent decades, it has recently introduced measures that constrain future investment

through changes to project cost-sharing arrangements. These changes move away from long-standing agreements and effectively reduce the Commonwealth's share of funding for land transport infrastructure projects.

Until the current LTIP FFA, the Commonwealth typically funded 80 per cent of regional transport projects, with states contributing the remaining 20 per cent. However, the LTIP FFA agreed in 2024 introduced a default 50:50 funding split for all land transport projects. While alternative funding splits can be negotiated on a case-by-case basis, this shift signals a clear intention by the Commonwealth to compel the states to increase their respective contributions to infrastructure projects. This trend increases the extent of VFI and places additional pressure on the fiscal position of the states, ultimately reducing their capacity to fund other priority areas.

## Commonwealth payments

The CGC seeks to calculate the GST share required by each state in order to have the fiscal capacity to provide the same standard of government services and infrastructure as other states. This takes into account the fact that states have access to other funding sources, i.e. own-source revenues, borrowing, and Commonwealth tied payments.

On this basis, Commonwealth payments should, in principle, be included in the CGC's assessments, reflecting the role that these payments play in financing the delivery of public services and infrastructure (and thereby partially offsetting the direct delivery cost of the state receiving the payment).

Notwithstanding this, South Australia supports the broad caveats applied by the CGC in considering the appropriate treatment of a Commonwealth payment – that payments that finance a Commonwealth function, or expenditure that the CGC does not assess, should be excluded from the CGC's assessments.

A key consideration in this respect is the role of the Commonwealth in directing the CGC, through Terms of Reference, to exclude specific payments. There is an opportunity to consider a consistent and predictable framework for these decisions to ensure fairness and transparency.

## Impact of the 2018 reforms on fiscal equalisation

This section addresses Information Request 2 (*whether reasonable equalisation is achieved*).

The issues paper considers whether the current GST distribution arrangements have delivered a reasonable level of equalisation, and whether the PC should look at international approaches to determine what reasonable fiscal equalisation is in Australia.

The concept of a “reasonable” level of HFE is flawed and subjective, as it could mean anything that is less than full HFE. The distribution of GST revenue should be underpinned by a clear objective. While the achievement of full HFE under the pre-2018 arrangements was always aspirational in nature, it nonetheless provided a clear pathway and principles on which the HFE system would operate.

Recognising that the previous full HFE system aimed to deliver the opportunity for the highest level of equity, it is logical that any system based on a lower standard of equalisation (i.e. current partial equalisation system or some other “reasonable” equalisation system) would deliver less equity.

On this basis, it would appear unfair and inefficient to explore sub-optimal equity outcomes for the nation as a policy objective.

The CGC has a sophisticated model that considers the major non-policy drivers of the cost of delivering public services in each state, and the non-policy drivers of the capacity of each state to raise the revenue required to finance the delivery of these services. The current partial equalisation system actively undermines these assessments in accommodating a higher GST revenue share for Western Australia at the expense of the assessed GST requirements of other states.

For example, in the CGC's 2016 Update of GST relativities, Queensland's GST grant for 2016-17 included an assessed expenditure need of \$850 million in respect of natural disaster relief. This recognised Queensland's expenditure response to significant natural disasters including Severe Tropical Cyclone Yasi, Tropical Cyclone Ita and Severe Tropical Cyclone Marcia. If the current arrangements had been in place in 2016-17, Queensland would have received an estimated \$528 million less GST revenue than its full HFE entitlement, or the equivalent of more than 60 per cent of its assessed natural disaster relief expenditure need (Table 2). This GST revenue loss would have flowed to Western Australia for no other reason than to increase its GST revenue share. It is estimated that Western Australia would have received an additional \$3.3 billion, financed by reductions in other states' GST revenue shares (including Queensland's \$528 million loss).

**Table 2 – Illustrative impact on Queensland if current arrangements had applied in 2016-17<sup>1</sup>**

Qld GST grant calculation	\$m
<b>Full HFE GST grant</b>	<b>14,055</b>
Adjustment to NSW/Vic benchmark	-718
Share of GST pool boost	189
<b>Partial equalisation GST grant</b>	<b>13,527</b>
<b>Difference from full HFE</b>	<b>-528</b>

1: Assumes full implementation of the current arrangements in 2016-17, including fully equalising to the stronger of NSW and Victoria, an \$850 million GST pool boost, a 0.75 relativity floor, and no Commonwealth guarantee payments.

International equalisation approaches are unlikely to provide an appropriate alternative. The context under which Australia's equalisation system operates – such as the high level of VFI and a small number of sub-national governments with large variances in the characteristics of the populations they serve – means that the way in which equalisation is undertaken in other federations is unlikely to be compatible with Australia's circumstances.

Full HFE seeks to produce the same distributional outcome that would be obtained with the implicit equalisation that would occur in a national or unitary system of government. Implicit area fiscal equalisation occurs automatically within the scope of Commonwealth expenditures. Use of Commonwealth-provided services like Medicare, the Pharmaceutical Benefits Scheme, and the aged pension varies between jurisdictions due to differences in demographic profiles and socio-economic status. Full HFE addresses the effects of the arbitrary location of sub-national government boundaries in a federation as compared with the outcomes which arise implicitly in a unitary nation.

Australia's former full HFE approach, which operated on the basis of independent advice from the CGC, was well regarded internationally and influenced fiscal management in other federations. The 2018 reforms represented a deviation that should be reversed.

## Balancing responsiveness with reducing volatility and improving certainty

This section addresses Information Request 3 (*whether current arrangements improve volatility and certainty*).

The CGC calculates states' GST relativities for the upcoming financial year based on a rolling average of assessed fiscal capacities in the three most recent lapsed financial years. By using actual (rather forecast) data and averaging this over a rolling three-year period to smooth out any one-off shocks, this approach balances stability and responsiveness to changes in states' fiscal circumstances over time.

There is an inherent trade-off between the stability and predictability offered by the use of historical data, and the risk that the GST relativities may not accurately reflect GST needs in the year in which they will be applied. However, South Australia notes that the CGC's approach, when applied on a full HFE basis, still achieves fiscal equalisation over time, albeit with a lag.

Shortening the assessment period or basing the CGC's assessments on forecast fiscal capacities would increase volatility and, to the extent that subsequent adjustments are required to account for any forecasting errors, would increase complexity.

From a state Treasury perspective, the CGC's use of actual data supports the GST grant forecasting process, as the majority of the state revenue data used in the CGC's calculations is publicly available. In addition, the CGC provides state Treasuries with copies of its assessment system calculations and most of the underlying data<sup>5</sup>, which allows states to replicate (to a large extent) its calculations.

This means there is a level of predictability in the CGC's calculations, as evidenced by the relatively low GST forecasting errors across state Treasuries. It is understood that recent analysis of interstate GST forecasting outcomes by the economist Chris Murphy found that average forecasting errors over the 10 years to 2022-23 ranged from 5.1 per cent in Victoria to 5.7 per cent in Tasmania<sup>6</sup>.

It is noted that, even in times of revenue shocks, such as a mining boom, states have been able to reasonably predict their GST outcomes. For example, in its 2011-12 budget, Western Australia forecast that its GST relativity would decline from 0.72 in 2011-12 to 0.33 in 2014-15 due to its strengthening capacity to raise mining royalty revenue. This forecast turned out to be reasonably accurate, as Western Australia's actual relativity in 2014-15 (as reported by the CGC in its 2014 Update) was 0.38, slightly higher than anticipated by Western Australia in its 2011-12 Budget.

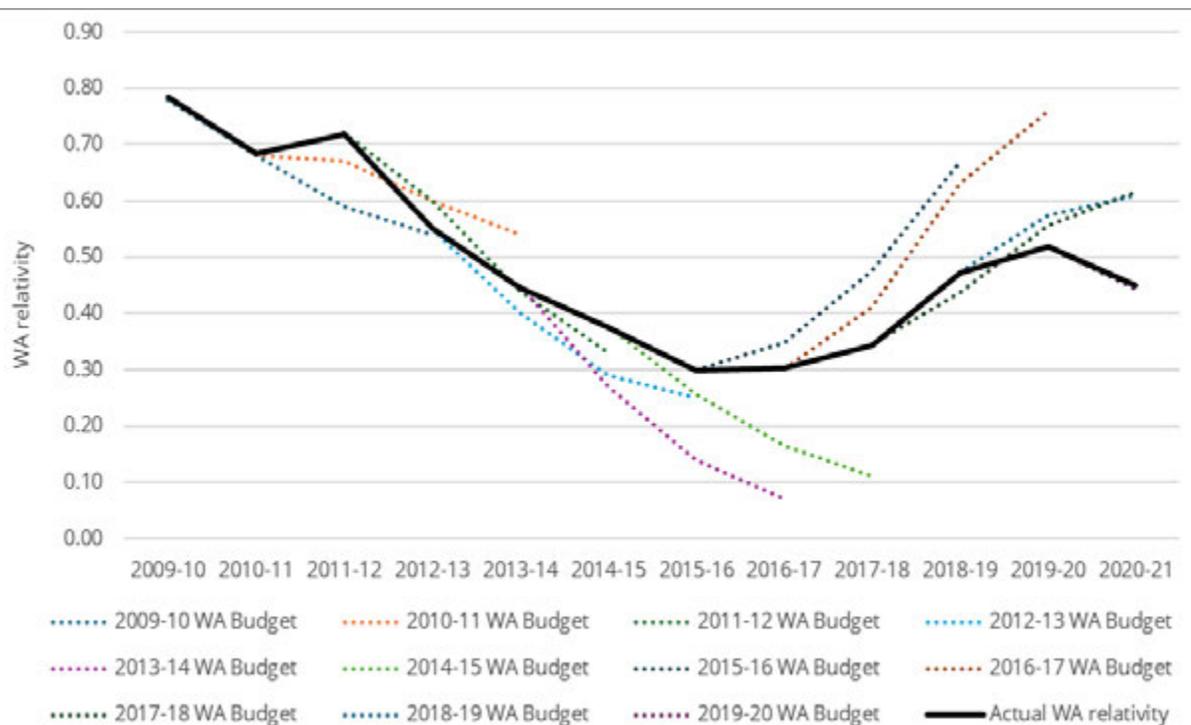
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<sup>5</sup> The CGC is only able to share data that it has been authorised to share by the data providers (mainly the states). In some cases, the CGC is prevented by a state from sharing its data with other states on confidentiality grounds, e.g. some mining revenue data. This limits the ability of state Treasuries to fully replicate the CGC's calculations.

<sup>6</sup> Australian Financial Review, 2025, *Treasury Excel flub and 'spurious' trends behind \$12b GST miss for NSW*, <https://www.afr.com/politics/treasury-excel-flub-and-spurious-trends-behind-12b-gst-miss-for-nsw-20250812-p5mm9s>, accessed 27 January 2026.

The chart below further demonstrates that Western Australia has generally been able to anticipate changes in its GST relativity over time.

**Figure 5 – Western Australia’s GST relativity forecasts compared to outcomes**



Source: WA State Budgets, 2009-10 to 2019-20; Commonwealth Final Budget Outcomes, 2009-10 to 2020-21.  
 Note: From 2021-22, Western Australia’s relativity is pegged to the relativity of the second strongest state on a weighted basis through the transition period (2026-27 is the first year of full transition).

Given this predictability (especially in the case of taxation and mining revenue), it is the responsibility of states to develop their fiscal policies/strategies in a manner that recognises and accommodates expected changes in GST revenue shares. States have tools to support this through flexible fiscal frameworks and strong access to capital markets.

The current GST system is not designed in a manner that reduces volatility and/or improves certainty. It still relies on the CGC to calculate all jurisdictions’ GST relativities on a full HFE basis, but adds complexity through a series of subsequent calculations to unwind the full HFE benchmark in order to deliver a higher GST revenue share to Western Australia.

The future of the Commonwealth’s guarantee has been the greatest source of uncertainty for South Australia.

As indicated in the “Impact of the 2018 reforms” section of this submission, the current approach breaks the previous direct link between changes in a state’s fiscal capacity over time and its GST grant. Under full HFE, there is an inverse relationship between a state’s revenue-raising capacity and its GST grant share (all other things being equal) – that is, when its revenue-raising capacity increases, its GST share decreases (with a lag) and vice versa. The current arrangements erode this relationship in supporting a higher GST grant share for Western Australia.

Experience to date shows that current arrangements have not reduced volatility. As an example, since 2019-20<sup>7</sup>, Western Australia has experienced higher revenue volatility, as measured by the average annual change in its total revenue (i.e. own-source revenue and Commonwealth grants, including GST), than it did prior to the 2018 reforms (Table 3).

**Table 3 – Volatility in Western Australia’s total revenue pre- and post-2018 reforms<sup>1</sup>**

Average annual change in total WA revenue	
Pre-2018 reforms <sup>2</sup>	4.6%
Post-2018 reforms <sup>3</sup>	6.0%

1: As measured by the average change (in absolute terms, whether positive or negative) in total revenue.

2: Average annual change from 2000-01 to 2018-19.

3: Average annual change from 2019-20 to 2023-24, recognising that the Commonwealth provided Western Australia with out-of-system GST top-ups in 2019-20 and 2020-21.

Source: PC Issues paper, Individual state and territory chart data.

South Australia considers that a GST distribution system based on full HFE offers the most balanced approach in terms of stability and certainty for the states.

## Impact on the pursuit of state reforms

This section addresses Information Request 4 (*whether current arrangements disincentivise policy reform*).

The impact of HFE on the willingness of states to pursue policy reforms has been the subject of multiple reviews in the past, including the 2012 GST Distribution Review and the PC’s 2018 HFE Inquiry. None of these reviews found any evidence that HFE impedes policy reforms.

Instead, there are multiple examples (also raised in previous inquiries) of states undertaking reforms under the previous GST system despite the expected HFE impacts. For South Australia, this includes the abolition of non-residential (non-primary production) conveyance duty from 2018-19, the recent abolition of conveyance duty for first home buyers of new homes and vacant land and the continuing investment in the expansion of the state’s mining sector. South Australia also acknowledges the significant property tax reform being undertaken by the Australian Capital Territory in its ongoing transition from conveyance duty to land tax.

More recently under the current GST system, Queensland introduced a progressive coal royalty rate system in 2022-23 despite the potential GST impacts. In contrast, Western Australia, which is shielded by the current arrangements from the HFE implications of any policy reforms, has not implemented mining policy reforms since the 2018 reforms though reforms in other sectors have been made.

The 2018 reforms were not intended to address perceived disincentives for policy reform. The Commonwealth’s Interim Response to the 2018 HFE Inquiry stated that the Commonwealth’s reforms aimed to:

- affirm the Commonwealth’s commitment to the ‘fair go’ principle of HFE;

<sup>7</sup> While the new equalisation benchmark and GST pool boost commenced in 2021-22, the Commonwealth provided out-of-system GST top ups to Western Australia (over and above its full HFE entitlement) in 2019-20 and 2020-21.

- maintain and improve HFE with minimal disruption, both now and in the future, to deliver essential services;
- improve the stability of the system, reducing volatility for states' revenue; and
- ensure all states and territories are in a better off position.

It is therefore important for this Inquiry to remain focused on whether the 2018 reforms have achieved its policy objectives.

## Alternative arrangements

This section addresses Information Request 5 (*whether alternative arrangements should be adopted*).

South Australia recommends a return to the pre-2018 full HFE system as it aims to deliver the highest level of fiscal and economic equity across the nation, with GST distributed in a manner that seeks to ensure that all states have the capacity to provide a similar standard of services and infrastructure to their residents.

Recognising that the previous full HFE system aimed to deliver the opportunity for the highest level of equity, it is logical that any system based on a lower standard of equalisation (i.e. current partial equalisation system or some other “reasonable” equalisation system) would deliver less equity. On this basis, it would appear irrational and inefficient to explore sub-optimal equity outcomes for the nation as a policy objective (e.g. per capita GST distribution).

Concerns about specific aspects of the full HFE process can be addressed within the CGC's existing framework. The CGC's forward work program, which currently includes considering improvements to mining revenue assessments, investigating the feasibility of elasticity adjustments in the revenue assessments, improvements to the CGC's expense regression models, and consideration of the appropriateness of a new net zero expenses assessment, is an appropriate platform for this purpose.

A return to full HFE would ideally be supported by measures aimed at improving the public's understanding of HFE and how it has benefited the nation over many years. The inaccurate depiction of HFE as a complicated “black box” has allowed the emergence of inaccurate narratives in the public domain, such as allegations by some states that “their” GST is being taken by other states.

Until such time as the return to a more appropriate HFE system can be implemented, the perpetual extension of the Commonwealth's guarantee is essential to avoid a decline in the capacity of the majority of states to provide services and infrastructure to their residents. This approach, however, would not address the inequity of the current arrangements, as the fiscally strongest state (Western Australia) would continue to receive more GST than it is assessed as requiring and at the expense of the Commonwealth.

If the direction in the Terms of Reference requiring this Inquiry to be cognisant of the Commonwealth's policy commitments in relation to GST distribution is interpreted as guaranteeing a certain GST revenue outcome for Western Australia, this should be done more transparently outside the GST distribution system, without compromising the capacity of other states to continue delivering services and infrastructure to their residents.

Similarly, if it is considered that a particular state requires additional Commonwealth support to fund nationally significant infrastructure (e.g. mining infrastructure), this support should be transparently provided outside the HFE process and informed by strong analysis of the costs and economic benefits for the nation.