

Submission to the Productivity Commission Inquiry

GST Distribution Reforms

Andrew Gibbs MPH BBus FFin FCSI (CISI)

Independent policy analyst and advisor (semi-retired)

Sydney, February 2026

1. Overview

This submission draws on more than 30 years' experience in public and private sector funding, planning and resource allocation modelling across State, national and private sector health systems, including contributions to NSW Treasury submissions to Commonwealth Grants Commission (CGC) methodology reviews over roughly a decade. It is provided in a personal capacity.

The submission focuses on four areas central to the Commission's terms of reference:

- highlighting the volatility and State budget uncertainties in service planning
- fixing the structural anomaly of the 2018 reforms
- more equitable treatment of resource revenues via potential greenhouse factors
- governance and transparency of the CGC model.

The Commission has been asked to consider whether current arrangements appropriately balance responsiveness and certainty in GST revenue streams and support fiscal sustainability across jurisdictions.

In my view, current arrangements fall short on predictability, transparency and operational workability for State service systems.

2. Volatility and service system planning

The most operationally significant issue is volatility in GST relativities. Internal modelling using historical CGC allocation movements indicates that annual changes in GST shares for large States can equate to multi-billion-dollar revenue swings.

Table 1: Illustrative annual GST share volatility (large State scenario)

Metric	Approximate range
Annual GST share movement	±10-13%
Equivalent revenue shift	\$2-4 billion
Hospital system equivalent	2-3 major tertiary hospitals
Workforce equivalent	5,000-10,000 staff

These are not theoretical adjustments. States cannot realistically close or open major hospitals or adjust workforce at this scale within a single year, as planning cycles for core services operate on 3-10-year horizons whilst GST shares are updated annually.

Also, within the health portfolio, any equivalent GST funding offsets relative to the funding changes under the five-year National Health Reform Agreements negotiated with the States, means funding often moves between the direct health portfolio and general consolidated funds, thus introducing another element of uncertainty and contestability of funding for that high cost and demand service area of health care.

The volatility and internal Federal funding mechanism undermine overall system stability.

3. Counter-intuitive distribution effects

Analysis shows:

- percentage swings can be larger for larger States than smaller ones, despite larger base grant denominators in the former
- volatility is not aligned with capacity to adjust expenditure
- revenue swings can exceed realistic policy adjustment capacity.

The result is even more structural uncertainty for State governments responsible for delivering essential services. The statistical counter-intuity suggests something might not be working properly with the model.

4. Structural anomaly from the 2018 reforms

The 2018 GST changes introduced:

- a relativity floor
- a new equalisation benchmark
- Commonwealth top-up payments
- no-worse-off guarantees.

These were primarily designed to address extreme outcomes for Western Australia during the mining boom. However, they created a structural anomaly in the equalisation system and transferred substantial costs to the Commonwealth.

The anomaly can be unwound quicker without embedding the current unduly large, additional ongoing top-ups from outside the GST pool, with no jurisdiction being worse off in absolute terms by:

- using natural GST growth based on economic growth and productivity increases, with historical GST pool growth indicating this target is feasible
- phasing adjustments over multiple years
- holding WA relatively constant in dollar terms (no worse off)
- smoothing relativity transitions. The CGC already uses multi-year averaging for some factors, acknowledging the need for stability. Extending smoothing or introducing forward target shares could materially improve planning certainty without abandoning equalisation principles.

This mirrors earlier NSW Treasury approaches used to correct internal funding inequities without destabilising service delivery.

5. Greenhouse emissions and resource revenues

The CGC model treats resource royalties as indicators of fiscal capacity but does not explicitly incorporate environmental externalities. Modelling shows that incorporating a greenhouse-adjusted resource factor would:

- better reflect long-term national costs
- incentivise abatement investment
- ensure externalities for all States and populations arising from GHGs are apportioned more to its source from a national zero-sum funding equity perspective
- maintain equalisation principles.

Table 2: Conceptual greenhouse factor approach

Variable	Current treatment	Proposed adjustment
Mining royalties	Full fiscal capacity	Net of environmental cost proxy
Emissions intensity	Not included	Included as adjustment factor
Abatement investment	Not recognised	Recognised

This would require careful calibration to avoid penalising Australian competitiveness in international commodity markets but still merits consideration from an internal equity perspective, as all Australians pay the price for pollution and environmental degradation whilst financial rewards are not all equitably distributed.

6. Governance and transparency

The CGC model is highly complex and opaque to most stakeholders. Issues often reported include:

- lack of independent performance auditing in the past
- low visibility on weighting of evidence and judgement
- potential over-fitting of the models and collinearity of factors that can double count impacts and burdens on jurisdictions
- materiality concerns for various factors
- difficulty understanding final outcomes.

While the Commission conducts annual and periodic reviews, there has been limited independent performance auditing of the system itself.

In my own experience:

- state submissions can be detailed and evidence-based
- but rarely lead to fundamental methodological change
- there is limited visibility on how evidence is weighted.

A simple reform would be publication of an annual decomposition showing percentage and/or dollar contributions to each GST allocation model factor adjustment of:

- data inputs
- methodological adjustments
- expert judgement and assumptions including from peer reviewed literature sources
- policy decisions.

This would significantly improve accountability and materiality of inputs to final decisions by the CGC. This would help ensure greater emphasis on evidence, informed judgement and valid data, not political considerations, returning to pre-2018 principles.

7. Options for reform

Table 3: Reform options

Option	Benefit	Risk
Multi-year smoothing	Budget certainty	Slower responsiveness
Forward indicative shares	Planning stability	Forecast risk
Gradual anomaly correction	Equity	Transition complexity
Transparency reporting	Accountability	Minimal
Independent review cycle	Governance	Institutional change

8. Experience informing this submission

This submission reflects:

- preparation of CGC-related submissions through NSW Treasury and NSW Health
- development of funding models for large service systems
- modelling of fiscal capacity and allocation stability
- analytical work provided to government and inquiries.

These experiences reinforced two consistent themes:

1. The CGC model can produce outcomes that are technically defensible but operationally destabilising.
2. The governance and transparency of the system lags behind the material fiscal consequences it produces.

These experiences consistently highlight the importance of stability, transparency and operational feasibility.

9. Conclusion

Australia's HFE system remains sound in principle. However, current arrangements:

- generate excessive volatility
- lack transparency
- contain structural distortions from the 2018 reforms
- create planning challenges for States and Territories.

The Productivity Commission review provides an opportunity to:

- improve predictability
- strengthen governance
- address anomalies
- maintain fairness.

A more stable and transparent system would better support both fiscal sustainability and effective service delivery.