

SUPPLEMENTARY SUBMISSION TO THE PRODUCTIVITY COMMISSION

Response to the Interim Report Inquiry into the 2018 GST Distribution Reforms

Submitted by: Senator the Hon Michaelia Cash, Leader of the Opposition in the Senate, Shadow Attorney-General, Senator for Western Australia, on behalf of the Western Australian Federal Liberal Parliamentary Team

September 2026

Introduction

This submission responds to the Productivity Commission's interim report, released this month, and builds on our submission of February 2026 (the WA Federal Liberal Team's original submission to this inquiry).

In that submission we set out what the 2018 reforms achieved and why they must be retained. Having now read the interim report in full, we remain firmly of that view.

The interim report's own evidence confirms the scale of the injustice the 2018 reforms corrected. Yet its central preliminary conclusion is to recommend a pathway back towards the very system that produced that injustice.

That conclusion does not follow from the Commission's own findings, and we urge the Commission to reconsider it before finalising its report.

What the interim report confirms

The interim report does not dispute the core facts that justified the 2018 reforms. It confirms that Western Australia's GST relativity fell to unprecedented lows during the mining boom, that this "strained community acceptance of the HFE system," and that the reforms were a direct legislative response to that crisis.

It confirms the floor and the standard state benchmark have operated as designed to prevent a repeat of those extremes. And it confirms that the No Worse Off (NoWO) guarantee has meant no state has gone backwards under the reformed system.

These are significant concessions. They establish that the 2018 reforms did precisely what they were legislated to do: end a period in which one state was, in the Commission's own words, pushed to genuinely unprecedented lows.

The \$23 billion cost is not a payment to Western Australia

The interim report's headline finding is that the reforms have cost \$23 billion against an original \$5 billion estimate. That framing invites the public to misread where this money has gone.

The great bulk of that is the NoWO guarantee money paid to every state other than Western Australia, to ensure none of them lost a dollar relative to the pre-2018 system.

Western Australia does not receive NoWO payments.

What Western Australia has instead retained is a larger share of its own GST base, now at 75 cents in the dollar, through the floor and benchmark.

To describe the \$23 billion as the cost of the reforms without stating plainly that it flowed to other jurisdictions, not to WA, inverts the true picture.

The reason the figure exceeded forecasts is equally important and is acknowledged in the interim report itself: iron ore prices ran far higher for far longer than anyone, including Treasury, assumed in 2018.

That is not evidence the reform design failed.

It is the measure of how much worse the pre-2018 system would have treated Western Australia had it remained in place through this same period.

The interim report's own modelling shows WA's assessed relativity would have approached, and at points fallen below, zero.

The interim report also does not weigh this cost against the corresponding Commonwealth revenue windfall from the same iron ore prices, delivered through company and personal income tax.

It acknowledges this offset exists but declines to estimate it.

A complete assessment of cost should not stop at one side of that ledger.

Only WA has benefited applies the wrong test

The interim report finds that only Western Australia has been left materially better off, with other states remaining where they would have been.

This is presented as a criticism. It should not be.

The reforms were never designed to make every other state better off than the pre-2018 baseline.

The reforms were designed to correct an extreme unfairness suffered by one state, without leaving any other state worse off.

On the Commission's own figures, that test has been met in full: no state has lost a dollar.

That the correction of an unfairness principally benefits the state that was unfairly treated is not a design flaw. It is the point.

It is also worth restating what the benefit actually is.

Even under the reformed system, Western Australia still returns 25 cents of every GST dollar it generates to other states.

That is a rate of subsidy to the rest of the federation higher than has ever been asked of any other state, at any point in the GST's history.

The Commission's figure of WA receiving 113 per cent of assessed fiscal need, against 98 per cent for other states, should be read in that light: it reflects a state still well short of a full return on its own revenue base, not a state receiving a windfall at others' expense.

The perverse outcomes are hypothetical, not observed

The interim report raises scenarios in which the standard state benchmark could theoretically produce counterintuitive results.

For example, a scenario in which a bushfire affecting New South Wales finances could flow through to Western Australia's GST share.

We take these concerns seriously. But the Commission's own report concedes it has found no evidence any such outcome has occurred and assesses any effect would likely be small.

A theoretical case, unobserved in eight years of operation, is not a sound basis for dismantling an architecture that has demonstrably worked in practice.

The efficiency finding is premature

The interim report concludes the reforms have delivered minimal efficiency gains.

This conclusion is reached before the reforms have even finished being implemented.

The transition to the new equalisation benchmark only completes this financial year, 2026/27.

No assessment of a reform's effect on state government behaviour, investment decisions or economic reform incentives can be made before the system it is judging has operated for a single year in its final form.

The Commission should defer any conclusive efficiency judgement to a dedicated review once the system has operated in full for a meaningful period.

The preliminary options would recreate the crisis, not resolve it

We are particularly concerned by the interim report's first two preliminary options.

These are a return to the pre-2018 system, moderated either by Treasurer directions to the Commonwealth Grants Commission or by discretionary Commonwealth side payments.

Both options replace a transparent, legislated formula not contingent on the political judgement of the Treasurer of the day.

That is a retreat from certainty and it draws the CGC, an institution whose credibility rests on its independence, directly into political decisions.

Both options would also potentially return Western Australia towards the assessed relativities that produced the 30 cent low the interim report itself identifies as unprecedented in the Federation's history.

The third option identified in the interim report, retaining the 0.75 floor and making the NoWO guarantee permanent, while removing the standard-state

benchmark and pool boost, comes closer to preserving the protection Western Australia needs. But removing the benchmark would still weaken the system's stability, reintroducing volatility into relativities that the benchmark's stable anchoring to NSW and Victoria has helped avoid.

Governance recommendations we support

We welcome the interim report's recommendations for genuine cross jurisdictional consultation before future changes, more regular Treasurer level engagement through the Council on Federal Financial Relations, and greater transparency around Commonwealth payments to states.

These are sound, uncontroversial improvements that can be adopted regardless of the Commission's final position on the core architecture.

Recommendations for the final report

On behalf of the Western Australian Federal Liberal Parliamentary Team, we urge the Commission to:

1. **Retain the full 2018 architecture:** the 0.75 relativity floor, the standard-state benchmark, and the No Worse Off guarantee, as an integrated system.
2. **Make the No Worse Off guarantee permanent and Commonwealth-funded,** resolving the 2029/30 cliff and giving every state, including Western Australia, lasting certainty.
3. **Reject Options 1 and 2** as preliminary recommendations. Both would recreate the conditions that produced the crisis the 2018 reforms were legislated to resolve, and both would politicise the CGC's independence.
4. **Defer any conclusive efficiency assessment** until the reformed system has operated in its fully implemented form for a meaningful period and commit to a dedicated evaluation at that point.
5. **Carry forward the governance and transparency recommendations** on consultation, Council engagement and payment transparency.

Conclusion

The interim report confirms what our original submission argued: Western Australia's treatment under the pre-2018 system was without precedent in the history of the Federation, and the 2018 reforms corrected it without leaving a single other state worse off.

Even now, Western Australia still forgoes a quarter of its own GST base to the rest of the country. That is a modest and overdue correction.

To wind back that correction would not be sound public policy.

This would be a return to treating Western Australia's economic success as something to be punished rather than recognised.

The 2018 floor was right. It remains right.

We urge the Commission to say so, unambiguously, in its final report.

Contact for this submission:

Senator the Hon Michaelia Cash

Leader of the Opposition in the Senate

Shadow Attorney-General

Senator for Western Australia

On behalf of the Western Australian Federal Liberal Parliamentary Team