

QUEENSLAND TREASURY

Productivity Commission Inquiry into GST distribution reforms

Queensland submission to the Interim Report

September 2026

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Executive Summary

The Productivity Commission's (PC) Interim Report strongly confirms what governments and experts have known for years—the Federal Government's 2018 GST distribution reforms are neither sustainable nor fit for purpose. The PC found that the 2018 reforms have reduced equalisation, created perverse outcomes, added complexity, cost Australian taxpayers substantially more than expected and materially benefited only Western Australia. Due to the failings of the 2018 arrangements, even the GST pool boost contributed to divergence in state fiscal capacities rather than making all states better off.

A compelling and urgent case has been made for comprehensive GST and Federal Financial Relations reform.

- As the PC has found, unwinding the 2018 reforms is necessary, but not sufficient on its own.
- Returning to the former GST architecture without addressing dominant state effects in mining means ignoring the precise issue that led to the original loss of confidence in the GST system.
- Addressing mining issues without reforming the way Commonwealth payments are treated leaves targeted national funding vulnerable to being unwound through GST.
- Structural GST reform without repairing governance around the Commonwealth Grants Commission's (CGC) processes means major GST decisions would still be opaque and contestable.
- Even after the above GST distribution issues are resolved, Australia's persistent vertical fiscal imbalance (VFI) means GST revenue will remain insufficient to close the broader vertical fiscal gap between state responsibilities and state revenues available to fund them.

Queensland recommends that the PC's Final Report includes the following package of national reforms:

- **Restore one coherent equalisation standard** by returning to the pre-2018 architecture from 2027-28.
- **Address dominant state effects within the mining assessment** through a broad 25 per cent discount to assessed mining revenue; the CGC would continue to recognise 75 per cent of mining revenue for HFE, preserving substantial equalisation while moderating excessive redistribution, volatility and policy-neutrality concerns.
- **Establish a clear, public, principles-based framework** for discounting or quarantining Commonwealth payments that reflect relative state need, address structural disadvantage, support a nationally significant objective or whose purposes would otherwise be materially frustrated by GST redistribution.
- **Strengthen GST governance** through a direction by the Federal Treasurer to the CGC to ensure its processes contain transparent reasoning, accessible technical material, adequate consultation and stronger quality assurance for GST assessments and decisions.
- **Recognise that additional Commonwealth payments are needed outside of the GST system** to address Australia's persistent VFI and to appropriately fund jurisdictions for Federal Government decisions that transfer the cost of delivering services and infrastructure to those jurisdictions; these payments are distinct from non-GST payments to states to address dominant state effects within GST.
- **Make the No Worse Off Guarantee (NoWO) permanent and enforceable** if any element of the 2018 architecture is retained, noting that the NoWO itself does not remedy excessive mining redistribution, the unwinding of Commonwealth payments through GST, CGC methodological weaknesses, Federal cost shifting or VFI.

Queensland is not asking for special treatment. We are asking for consistent principles. One federation deserves one coherent approach to equalisation that delivers one fair standard for every Australian.

Introduction

On 14 August 2026, the Productivity Commission (PC) published the Interim Report of its Inquiry into the 2018 GST distribution reforms.

The PC found that the 2018 GST distribution reforms have not operated efficiently, effectively or as intended. In addition, the PC determined the 2018 reforms materially weakened horizontal fiscal equalisation (HFE), introduced perverse outcomes, increased complexity, benefited only Western Australia and cost Australian taxpayers substantially more than anticipated. Queensland welcomes the PC's interim findings and its conclusion that better targeted GST reforms are available.

The PC's Interim Report validates Queensland's concern that persistent dominant state effects cause an excessive redistribution of GST from mining states. The PC's analysis confirms that the Federal Government's 2018 reforms do not remedy dominant state effects. Instead, their arbitrary features permit one state to maintain a material fiscal advantage over other states and territories, in ways that invert the logic of HFE.

As Queensland has previously submitted to this Inquiry, all Australians should have the same access to hospitals, schools, police, roads and essential services, regardless of the state or territory in which they live. This Inquiry presents a rare opportunity to repair Australia's system of HFE, before temporary national protections expire and today's perverse GST outcomes become permanent.

Without urgent reform, the poorly designed 2018 GST arrangements will continue to undermine the fairness, coherence and sustainability of Australia's GST system, weakening states' capacity to plan and deliver the infrastructure and other essential services that all Australians rely on.

Failure by the Federal Government to act means entrenching the extreme disparity in GST outcomes between Western Australia and all other jurisdictions. The PC estimates this disparity to be \$47 billion in 2024-25 alone. Commonwealth payments for health and infrastructure to those jurisdictions in 2024-25 would have needed to be more than double to make those jurisdictions whole.

Closing a \$47 billion-per-year funding gap would require the Federal Government to raise over seven times the additional tax it expects to reap from its changes to capital gains tax, negative gearing and the taxation of trusts announced in its 2026-27 Federal Budget—with every dollar going to jurisdictions other than Western Australia.

Importantly, the PC reached its \$47 billion gap estimate after accounting for around \$6 billion in GST pool top-ups and No Worse Off payments provided in the same year. The Federal Government cannot credibly claim that making seven states and territories no worse off versus pre-2018 GST arrangements is the same as treating all eight jurisdictions fairly.

As identified by the PC, Australia needs to return to the former GST architecture and address dominant state effects in mining. Simply unwinding the 2018 reforms would be insufficient, as it would leave unresolved the fundamental issues that caused the original loss of confidence in the GST system.

GST reform must also address the treatment of Commonwealth payments so that targeted national funding achieves its intended purpose rather than being unwound through GST. Stronger governance of Commonwealth Grants Commission processes is also needed to ensure GST decision-making is transparent, evidence-based and accountable.

Together, these reforms would restore greater fairness and coherence to Australia's GST system. However, they need to be complemented by broader action on vertical fiscal imbalance to ensure Federal funding can appropriately close the fiscal gap between state service delivery and the state revenues available to fund them.

This submission provides a structured response to the PC's interim findings and recommendations, articulates the rationale and principles for Queensland's proposed reforms and examines threshold issues that need to be addressed to support a fair, stable and sustainable Federation.

Discussion on the PC's interim findings and recommendations

Interim finding 1.1

A lack of understanding of the HFE system has undermined the quality of public debate on the topic

Queensland agrees with this finding. However, limited public understanding of HFE is not an incidental outcome. It reflects the complexity and opacity of the GST distribution system, including subjective judgements in Commonwealth Grants Commission (CGC) assessments, unresolved methodological deficiencies following the CGC's 2025 Methodology Review and the additional overlay of the 2018 reforms.

Improving public understanding requires more than just clearer communication. It requires a simpler, more transparent and more predictable GST system, supported by substantive reforms that address the problems identified in the PC's Interim Report, including:

- poorly targeted and perverse outcomes from the 2018 reforms;
- significant dominant state effects in mining;
- the inconsistent and opaque treatment of non-GST Commonwealth payments; and
- broader governance issues affecting Federal Financial Relations (FFR).

Queensland also welcomes the PC's efforts to correct certain misconceptions about HFE. However, several statements in the Interim Report tend to describe the intended operation of HFE without fully recognising the outcomes produced by CGC assessments in practice.

1.1.1 States Are Not Entitled to Receive Their Population Share of the GST Pool

Queensland agrees that no state is entitled to receive an equal per capita share of the GST pool. HFE is meant to underpin the GST distribution system, ensuring that states with weaker fiscal capacities receive the additional support they need to provide comparable standards of services and infrastructure to their residents. An equal per capita distribution would be highly detrimental to the HFE objective as it disregards material differences in state circumstances, including the additional costs faced by jurisdictions required to serve large, geographically dispersed populations. It would therefore leave some states with insufficient fiscal capacity to provide comparable services and infrastructure to their residents.

1.1.2 The GST distribution does not reward states with poor fiscal management

Queensland acknowledges GST distribution is not intended to reward or punish fiscal management. However, in practice, some assessment methods used by the CGC effectively recognise policy-influenced expenditure as fiscal need. A key example is the CGC's assessments of COVID-19-related health and business support expenses in the 2025 Methodology Review. The actual per capita assessments used by the CGC effectively provided greater GST support for higher expenditure by certain states without adequately distinguishing unavoidable costs incurred from expenditure influenced by state policy. This approach effectively rewarded states that implemented poor COVID-19 management policies and therefore incurred higher expenses related to higher case numbers, longer lockdowns, and larger business support, whether those expenses were within or beyond states' control.

1.1.3 GST payments are not intended to influence state policy decisions

Queensland agrees that GST payments are not intended to influence state policy decisions. However, this intention is not consistently realised. The CGC's mining assessment creates dominant state effects where production of a mineral is concentrated in a state. In those circumstances, the producing state's existing revenue base and policy settings can substantially determine the national average policy used to assess its revenue-raising capacity.

Dominant state effects arise not only when the resource producing state subsequently changes its royalty or resource development policies. They exist where other states restrict production, causing actual production and the assessed revenue base to become concentrated in the state that permits development. The producing state's assessed capacity is then driven substantially by its own production and policies, while states that restrict production can avoid both an equivalent mining revenue assessment and the associated infrastructure, regulatory and community costs of resource development. This weakens policy neutrality and can influence future decisions about resource development and royalty policy.

The CGC's inconsistent treatment of minerals compounds this problem. For onshore gas, the CGC retained a production-based assessment despite material differences in state policies governing exploration and development. The assessment therefore does not adequately distinguish differences in resource availability from differences in production caused by policy restrictions. As Queensland accounts for most east coast gas production, the method attributes substantial revenue-raising capacity to Queensland while providing insufficient recognition of the role that restrictions in other states play in concentrating production in Queensland.

For coal, by contrast, the CGC changed its assessment methodology following changes in Queensland's royalty settings, including by dividing coal into price bands, while simultaneously refusing to address the dominant state effects exacerbated by this method change.

The CGC's contrasting treatment means that policy differences limiting gas production are not adequately recognised, while Queensland's coal royalty and resource characteristics are reflected more directly in its assessed capacity.

1.1.4 A larger share of the GST pool is not, on its own, a fiscal win – it means more support is needed

Queensland agrees that, under a properly functioning HFE system, a larger GST share generally reflects greater assessed fiscal need and should not, of itself, be characterised as a fiscal gain. However, this proposition does not adequately describe outcomes under the current arrangements, which do not equalise all states to the same fiscal capacity. The PC found the 2018 reforms have only benefited Western Australia, such that other jurisdictions would have needed \$47 billion more Federal funding to be equalised to Western Australia in 2024-25 alone.

1.1.5 GST payments are not intended to address structural disadvantage

Queensland notes that GST payments are intended to be the 'balancing factor' in HFE that provides states the appropriate fiscal capacity to address the service delivery consequences of structural disadvantage, rather than to remove the underlying disadvantage itself. However, the problem arises when a Commonwealth payment specifically designed to recognise disadvantage, reflect relative need or achieve an agreed national objective, has its intended purpose subsequently unwound through the GST assessment. In those circumstances, one element of FFR can frustrate the policy objective of another.

The Federal Government has recognised this issue for the Better and Fairer Schools Agreement by directing the CGC not to unwind the agreement's differential funding shares through the GST distribution. The same principle is not applied consistently to other major Commonwealth payments, including health funding under the National Health Reform Agreement, which reflects factors such as service activity, the costs of small rural and remote hospitals and, ultimately, the costs incurred where state hospitals have stepped up to address Federal service shortfalls in relation to aged care and disability.

The treatment of key Commonwealth payments should be governed by clear and consistent principles. They should be discounted or quarantined where their allocation already reflects relative need or incorporates an element of equalisation; they address structural disadvantage or exceptional need not adequately recognised by the CGC; they support an agreed national objective or nationally significant reform; or their inclusion in the GST assessment would materially frustrate its stated purpose.

Interim finding 1.2

An unprecedentedly low relativity – arising from the impacts of the mining boom – strained community acceptance of the HFE system in Western Australia and was a catalyst for the 2018 reforms

Queensland agrees with this finding but considers the counterfactual benchmark needs to be properly defined. As the PC has articulated in Interim finding 1.1, the counterfactual benchmark is not a relativity of 1, i.e. an equal per capita share of GST. Further, the underlying problem is that the GST distribution system has been shown to excessively distribute mining revenues linked to the high concentration of minerals in certain states and territories. As broadly found by the PC and previously submitted by Queensland, the 2018 reforms addressed the issue for Western Australia by providing it the equivalent of a 50 per cent mining discount, while leaving all other mining states fully exposed to excessive GST redistribution. The 2018 reforms did not adequately respond to the ‘catalyst’ referenced. Without the clarifications above, Interim finding 1.2 risks perpetuating the lack of HFE understanding flagged in Interim finding 1.1.

Interim finding 2.1

The new fiscal equalisation standard creates perverse outcomes that invert the logic of HFE – it should not be an ongoing feature of the GST distribution system

Queensland agrees with this finding. An increase in a state’s relative fiscal capacity should reduce its need for GST. Yet, 2018’s arbitrary standard state benchmark can produce the opposite result when the standard state is not the strongest state. The equalisation benchmark should return to the fiscally strongest state.

However, resolving the equalisation benchmark does not resolve the limitations around equalisation methods used to assess states’ fiscal capacities or provide the transparency, consistency and consultation needed for effective GST distribution. Substantive reforms are still required to fix GST governance issues, the significant dominant state effects in mining and the unwinding of non-GST Commonwealth payments through GST.

Interim finding 2.2

The 2018 reforms are not operating efficiently, effectively or as intended

Queensland agrees with this finding, which confirms what governments and experts have known for years. The 2018 reforms materially weakened HFE, introduced perverse outcomes, increased complexity, benefited only Western Australia and cost Australian taxpayers substantially more than anticipated.

Interim finding 3.1

The GST pool boost has, so far, contributed to a divergence in fiscal capacities between the states and failed to meet its intent

Queensland agrees with this finding. Since the No Worse Off Guarantee (NoWO) has been triggered every year despite the GST pool boost, it is evident that jurisdictions other than Western Australia were worse off than the previous arrangements every year the 2018 arrangements have been in effect.

The PC found the other jurisdictions would have needed \$47 billion more Federal funding to be equalised to Western Australia. Queensland’s share of the lost funding is roughly \$11.3 billion in 2024-25 alone, exceeding the entire \$9 billion Bruce Highway Targeted Safety Package currently being delivered.

The economic consequences are also substantial. Avoiding the need to raise transfer duty not only reduces tax burden, but could deliver substantial economic welfare benefits for homeowners, investors and businesses, of \$4.8 billion¹ in 2024-25, close to 1% of Queensland's current gross state product.

That is what unequal fiscal capacity means in practice. One state has greater capacity to reduce taxes, repay debt or improve services, while other states face harder choices between taxing households and businesses, servicing debt and funding hospitals, schools and infrastructure.

If the fiscal divergence driven by the 2018 reforms is left unaddressed, the cumulative consequences over the next decade would be extraordinary, entrenching unequal fiscal capacities and imposing substantial costs on Queensland's economy, public finances and capacity to fund essential services.

Interim finding 3.2

The GST distribution system was and is broadly policy neutral, with some exceptions that are best managed through targeted responses

Queensland agrees that policy neutrality broadly holds for most expenditure decisions and incremental non-mining tax changes. The impacts of most policy changes on GST shares are also generally small relative to other constraints on reform (such as transition costs, distributional impacts and public acceptance).

However, policy neutrality breaks down materially where an assessed revenue base is concentrated in one state, particularly in mining. These dominant state effects can create significant disincentives to develop resources and impose appropriate royalties. The 2018 reforms did not resolve the dominant state problem in mining. A targeted response is needed in the form of a broad-based mining discount that applies consistently across all states and all minerals.

Figure 3.5 of the PC's Interim Report understates the mining problem. The estimated outcomes for coal would suggest the current system has performed more favourably than the pre-2018 system. It is worth noting that the current system includes methodology changes which have split the coal assessment as well as changes to Queensland coal royalty settings. The CGC's 2025 Methodology Review has intensified dominant state effects for Queensland by splitting coal into price bands. As an increasing proportion of Queensland's coal is classified in the higher-price band from 2025-26, Queensland becomes more dominant within that narrower assessed base. Its own production and royalty settings therefore exert greater influence on the national average policy, increasing the share of its coal royalty revenue redistributed through the GST system. Consequently, the new methodology increases, rather than moderates, the policy neutrality problem. In addition, the Interim Report fails to mention the impact of onshore gas where the concentration of production in Queensland creates another instance of a significant dominant state effect.

The Final Report should recognise that these exceptions are not marginal. They are sufficiently material to distort policy choices and undermine confidence in HFE outcomes.

Interim finding 4.1

The reduction in equalisation under the current system, with or without a permanent NoWO guarantee, has not markedly improved efficiency, fiscal sustainability or certainty

Queensland generally agrees with this finding, with a few clarifications below.

The PC found that, compared to the pre-2018 system, the 2018 reforms reduced equalisation to 77 per cent with NoWO payments and 73 per cent without them, and did not deliver commensurate benefits. Importantly,

¹ Parliamentary Budget Office, Australia's Tax Mix: Budget Explainer (2024). The Parliamentary Budget Office estimates the marginal excess burden of transfer duty at around 70 cents per dollar of revenue raised. Applying this estimate to Queensland's \$6.9 billion in transfer duty revenue in 2024-25 implies an indicative additional economic welfare benefit of approximately \$4.8 billion if the tax were replaced.

the notional 100 per cent index associated with the pre-2018 benchmark does not mean the pre-2018 system was perfect. This clarification is critical given Interim finding 1.1.

Efficiency gains were limited to addressing one jurisdiction's excessive mining-related GST redistribution and were more than offset by perverse outcomes and the failure to address dominant state effects consistently across all states and minerals.

Fiscal sustainability was not improved, given the material fiscal divergence of \$47 billion between Western Australia and other jurisdictions, in 2024-25 alone, after accounting for NoWO and GST pool top-ups paid for by the Australian taxpayer. The expiry of the NoWO, after its extension from 2026-27 to 2029-30, shifts the fiscal burden for maintaining Western Australia's GST advantage from the Federal Government to states and territories. The taxpayers picking up the bill are largely the same as before, namely all that reside or do business in jurisdictions other than Western Australia.

The PC's analysis supports its conclusion that reduced equalisation has not improved state fiscal sustainability. However, Figure 3.6 in the PC's Interim Report does not provide a meaningful comparison of Queensland's fiscal trajectory. The compound annual growth rate calculated is highly sensitive to the selected start and end points. The PC's period begins when Queensland's net debt-to-revenue ratio was already among the highest of the states, mechanically lowering its measured growth rate, while obscuring the more recent fiscal outcomes following the normalisation of coal royalty revenue from transitory highs in the early 2020s.

Certainty improved only for Western Australia given its equalisation to the fixed GST floor for most of the years in which the 2018 reforms have taken effect, and its equalisation to the standard state thereafter, which further raised its GST share. Conversely, predictability was reduced for other states and territories due to the complexity of the operation of the 2018 GST architecture.

In general, Queensland considers the estimated costs and scores calculated by the PC in relation to the 2018 reforms act as helpful directional guides rather than definitive measures. The NoWO estimates in Table 3.4 reflect scenarios that depend materially on assumed prices for iron ore, metallurgical coal and thermal coal. The original cost estimates for the 2018 reforms demonstrate the limitations of relying on uncertain commodity assumptions. The PC should therefore test options across a range of plausible circumstances and use the scoring framework in Table 4.1 to inform, rather than determine, its conclusions. Final recommendations must rest on sound and enduring principles, not point estimates that could change with commodity prices or modelling assumptions.

Interim finding 4.2

Some alternatives perform better at lower cost to HFE than the 2018 reforms

Queensland agrees with this finding.

The PC identifies dominant state effects in the mining assessment as the principal limitation of the pre-2018 system, rather than a system-wide failure of HFE. The appropriate response is therefore to address that problem directly, rather than retain the blunt and poorly targeted architecture introduced in 2018.

Consistent with Queensland's initial submission, targeted discounts to the CGC's assessments of mining revenue and qualifying Commonwealth payments would better address policy neutrality and fairness concerns while preserving meaningful equalisation.

The Final Report should recommend restoring full HFE, supported by transparent and consistently applied adjustments that address the identified limitations within the relevant assessments.

Interim recommendation 4.1

Australia should return towards the pre-2018 system but the Federal Treasurer should direct the CGC to address dominant state effects

Queensland supports this recommendation in principle. However, the PC's Final Report should specify the mechanism for addressing dominant state effects rather than leave major policy design to the CGC, given the CGC's rejection of a dominant state adjustment in its 2025 Methodology Review and the challenges it continues to face in grappling with the issue.

In practice, the impact of Interim recommendation 4.1 is highly dependent on whether the Federal Treasurer's direction leads to a simple, broad, transparent change to the mining assessment that reduces dominant state effects across all relevant commodities and states (Queensland's preferred direction); or a narrower, more complex adjustment that is difficult to predict, requires ongoing judgement calls, and/or results in uneven benefits across states and commodities.

Queensland considers that any dominant state solution outlined in the PC's Final Report should be simple, transparent and durable; address existing structural effects rather than only future policy changes; avoid thresholds, cliff effects and unreliable counterfactuals; and apply consistently across all states, minerals and time periods, including coal and onshore gas.

Queensland considers these requirements are best met by an across-the-board 25 per cent discount to assessed mining revenue. This would recognise 75 per cent of every state's mining revenue, materially reduce dominant state effects and allow states to retain an appropriate share of the benefits of resource development and royalty policy, while preserving meaningful equalisation. It would be more predictable and administratively practical than commodity specific thresholds, bundling, or approaches based on endowments, profitability, depletion or notional sustainable income.

The next section, 'Addressing dominant state effects', explains the preferred design and assesses the alternatives identified in the PC's Interim Report.

Interim recommendation 4.2

If the Australian Government is not minded to pursue interim recommendation 4.1, Australia should return to a pre-2018 system and the Australian Government should make direct payments to states it considers are affected by dominant state issues

Queensland supports this recommendation as a second-best option with the following clarifications.

Without a defined mechanism, Interim recommendation 4.2 risks reproducing the discretionary treatment under the 2018 reforms the PC has deemed necessary to replace. In particular, the non-GST Federal payments to address dominant state effects should be calculated transparently using a broad 25 per cent mining discount, applied consistently across all states and minerals, funded outside the GST pool and quarantined from CGC assessments. The Final Report should also distinguish these payments from the broader Federal funding needed to address persistent VFI and Federal cost shifting.

More details can be found in the next section, 'Addressing dominant state effects'.

Interim recommendation 4.3

If the Australian Government does not pursue interim recommendation 4.1 or 4.2, it should make the minimum changes to address the critical issues in the current system

Queensland supports this recommendation in principle, given the PC's proposed removal of the standard state benchmark and the GST pool boost, and making the NoWO permanent, is strictly better than the status

quo. The PC's proposed changes would prevent the fiscal burden of the 2018 reforms shifting from the Federal Government to states with lower fiscal capacity when NoWO expires in 2029-30.

However, retaining the 0.75 relativity floor would continue to limit equalisation, at significant ongoing cost to the Australian taxpayer. Interim recommendation 4.3 would also not address dominant state effects directly and transparently within the mining assessment. The current system would remain fiscally expensive and hard to explain, continue to excessively redistribute GST from mining revenue and Commonwealth payments, and maintain the enduring fiscal advantage of one state above all other jurisdictions.

Interim finding 5.1

The CGC has adopted an independent, consultative and transparent approach to its role, but should strive for continuous improvement

An independent, consultative and transparent CGC is essential to maintain confidence in HFE. However, the existence of consultation and published material does not, by itself, establish that consultation is timely and capable of influencing decisions, that the evidence and judgements underlying material methodology changes are sufficiently transparent, or that the CGC's approach is sufficient to overcome the lack of HFE understanding identified in Interim finding 1.1.

Confidence in GST outcomes is also undermined where assessment methods produce outcomes that appear disconnected from underlying service delivery challenges. Queensland has provided examples of this in prior submissions to the PC's Issues Paper and to the CGC's 2025 Methodology Review.

Another example is the way the CGC assesses jurisdictions' coastal protection needs. Queensland has almost 7,000 kilometres of mainland coastline, which is home to important coastal communities, public infrastructure and natural assets that require protection. The need to respond to erosion, storm tides and cyclones, as well as protect beaches, dunes, foreshores, roads and other public infrastructure, is not evenly distributed across Australia's population. Yet, coastal protection needs are assessed on an equal per capita basis as part of the CGC's broader environmental protection category. As a result, the Australian Capital Territory receives an assessed need for coastal protection despite being landlocked. Coastal protection need should be assessed against real coastal exposure and assets at risk.

More broadly, given the complexity and fiscal significance of the CGC's assessments, continuous improvement should include:

- clearly explaining how the primary objective of HFE has been balanced against policy neutrality, reliability, materiality, simplicity and contemporaneity;
- publishing sufficiently detailed technical analysis, data and sensitivity testing to enable effective scrutiny;
- identifying material adjustments, assumptions and subjective judgements, with reasons;
- allowing jurisdictions adequate time to test significant proposed changes before decisions are settled; and
- strengthening quality assurance where errors or data revisions could materially affect GST outcomes.

These improvements would support the PC's objective of strengthening the evidence base, transparency and public confidence in HFE. They are necessary regardless of the broader GST architecture ultimately adopted.

Governance responsibilities should also be clearer. Policy choices should be made transparently by governments, while the CGC retains independence over legitimate technical implementation. States and territories have identified further administrative improvements through the Board of Treasurers, and this work should be progressed rather than displaced by another general commitment to continuous improvement.

Interim recommendation 5.1**Monitoring the potential for the HFE system to contribute to diverging state outcomes**

Queensland supports this recommendation in principle. Where HFE settings allow one jurisdiction to maintain a significantly stronger fiscal capacity than others, there is a material risk of divergence in taxes, services, infrastructure and budget outcomes. Regular analysis would improve transparency about the real-world effects of maintaining different fiscal capacities and support informed public debate about whether those differences are acceptable, sustainable and consistent with the objectives of HFE.

Monitoring should draw on the Report on Government Services, Government Finance Statistics and other relevant evidence. However, it must distinguish the contribution of HFE settings from other drivers of state outcomes, including structural circumstances and state policy and fiscal choices. It should not attribute differences in outcomes to unequal fiscal capacity alone.

However, monitoring is not a substitute for reform. The scale of the current fiscal divergence, estimated by the PC to be \$47 billion between Western Australia and other jurisdictions, in 2024-25 alone, makes it clear that the Federal Government needs to take urgent action and restore meaningful equalisation. Additional monitoring would then be helpful for testing whether the reformed system operates as intended.

Interim recommendation 5.2**There should be a more transparent approach for quarantining Commonwealth payments**

Queensland supports greater transparency and accountability in quarantining decisions but does not consider Interim recommendation 5.2 sufficient. A prospective exchange of public letters without clear criteria would expose, rather than resolve, the inconsistent treatment of comparable payments. Transparency is necessary, but a transparent clawback remains a clawback.

The need for reform is demonstrated by the differentiated funding shares under the Better and Fairer Schools Agreement, the needs-based features of the National Health Reform Agreement, nationally significant Bruce Highway safety upgrades and Games-enabling infrastructure for Brisbane 2032. These payments illustrate how one Federal funding mechanism can partly defeat another when their intended benefits are subsequently unwound through GST.

The Final Report should instead recommend a nationally consistent, rules-based framework for discounting or quarantining payments whose purpose would otherwise be materially frustrated by GST redistribution. Payments should qualify where they already reflect relative need, address structural disadvantage or exceptional circumstances, support nationally significant infrastructure or an agreed national objective, or reward a defined reform or innovation. Eligibility should depend on the payment's design and purpose, not the recipient jurisdiction or its negotiating influence.

More details are available under the section, 'Appropriate treatment of key Commonwealth payments'.

Interim recommendation 5.3**Ensure Federation Funding Agreement schedules provide net benefits for the community**

Queensland supports this recommendation and agrees that Federal and state governments should abide by the Federal Financial Relations principles already agreed, ensuring that the benefits of Federation Funding Agreement schedules exceed the costs of negotiation, compliance and monitoring. Low value agreements with highly localised benefits should be minimised where their administrative costs are disproportionate.

However, the assessment of net community benefit should extend beyond agreement size and administrative cost. Greater priority should be given to preserving state budget autonomy and flexibility, providing funding

certainty, and ensuring effective Council on Federal Financial Relations (CFFR) oversight. These principles are particularly important where agreements impose matched funding requirements, prescriptive delivery conditions or ongoing service obligations that shift fiscal risk to states.

Federation Funding Agreement schedules should support clearly defined national objectives while allowing states sufficient flexibility to deliver agreed outcomes efficiently. They should also provide adequate, predictable and durable funding, rather than leaving states responsible for continuing costs after Federal funding expires. This would better ensure that agreements provide genuine net benefits to the community and strengthen accountability across the Federation.

Interim recommendation 5.4

Update the IGAFRR, its schedules, and the enabling legislation

Queensland supports this recommendation in principle.

Queensland would welcome the IGAFRR and its schedules being updated in line with the current FFR architecture but would consider this to be a lower order priority as this is largely an administrative change. However, amending the *Federal Financial Relations Act 2009* would be a matter for the Federal Government's consideration.

Interim recommendation 5.5

Improving the functioning of CFFR

Queensland supports this recommendation. A more structured and predictable operating model would strengthen CFFR's role as the principal forum for Federal and state Treasurers to consider shared fiscal and economic priorities.

Queensland supports regular meetings, agreed annual priorities and workplans, appropriate oversight of significant and expiring Federation Funding Agreements, and timely communication with jurisdictions. Clearer referral pathways would also assist Ministerial Councils to identify matters requiring CFFR consideration and CFFR to determine when issues should be elevated to National Cabinet.

These improvements would support earlier engagement, clearer collective responsibility and more effective coordination across governments, strengthening the operation of Federal Financial Relations.

Interim recommendation 5.6

Enhancing the GFS

Queensland supports this recommendation. Government Finance Statistics (GFS) are a key input to the CGC's assessment of state fiscal capacities. The accuracy, comparability and stability of GST assessments therefore depend materially on the quality of the underlying GFS data.

Queensland supports strengthening state validation processes before GFS data are submitted to the Australian Bureau of Statistics (ABS), together with clearer public documentation explaining GFS structures, classifications and relationships. This would improve transparency and support more consistent interpretation across jurisdictions and over time.

Queensland will continue working with the CGC, the ABS and other jurisdictions through the CGC's Forward Work Program Data Working Group to improve data quality and comparability and reduce material revisions that contribute to volatility in GST outcomes.

Interim recommendation 5.7**Improving governments' long-term fiscal sustainability reporting**

Queensland supports the objective, in principle, of regular, public reporting that enables informed judgements about long-term fiscal sustainability, emerging pressures and policy trade-offs. Such reporting should demonstrate the fiscal effects of maintaining current policies and examine material demographic and economic drivers.

However, the PC has not established that every jurisdiction requires a separate, legislated five-yearly report. Governments should retain flexibility to meet the objective through existing or enhanced frameworks suited to their institutional and fiscal circumstances, including statutory fiscal objectives, budget reporting, audited whole-of-government accounts and other long-term analysis.

The PC's Final Report should therefore prescribe minimum analytical outcomes rather than a uniform reporting vehicle. These should include a transparent current-policy baseline, clear assumptions, material demographic and economic drivers, and appropriate sensitivity analysis. The precise form, horizon, frequency and legislative basis should remain matters for each jurisdiction.

Addressing dominant state effects

Clarifying the problem

Dominant state effects that produce excessive GST redistribution are a structural problem, not a jurisdiction-specific concern. Mining is the clearest material exception to the PC's finding that HFE is broadly policy neutral because production and revenue can be highly concentrated. Where one state constitutes a large share of an assessed revenue base, its production and policy settings can materially influence the national average policy subsequently applied to assess that same state.

Dominant state effects prevent the mining assessment from adequately separating underlying revenue-raising capacity from policy effort. Also, mining royalties arise from the depletion of finite, publicly owned assets and should therefore not be treated identically to renewable recurrent revenues. Addressing these effects is therefore not a concession to particular commodities or jurisdictions. It is a necessary correction to the operation of the CGC's mining assessment.

A consistent and durable national solution is needed across iron ore, coal, gas and emerging minerals as production shares and market conditions change. It must also recognise that the problem already exists where development restrictions in some states concentrate production in another. Dominant state effects do not only arise when the resource producing state subsequently changes its royalty policy. Applying dominant state solutions only on prospective royalty policy changes would be narrow and short-sighted.

Queensland is subject to material dominant state effects in both coal and onshore gas, with Queensland's coal being increasingly concentrated within the higher-price coal band introduced by the CGC's 2025 Methodology Review and Queensland's gas accounting for nearly 90 per cent of east coast gas production. In both assessments, Queensland's share of the relevant revenue base is sufficiently large that its own production and policies materially influence the national average policy applied back to Queensland.

The CGC's inconsistent treatment of coal and gas exacerbates this problem. For coal, the CGC divided the assessment into price bands following changes to Queensland's royalty structure, increasing Queensland's dominance within the higher-price band and the proportion of its royalty capacity redistributed through GST. For onshore gas, the CGC retained a production-based approach that does not adequately account for restrictions on development elsewhere. Queensland is therefore assessed heavily on the production it facilitates, while jurisdictions that restrict gas development avoid an equivalent assessment and the infrastructure, regulatory and community costs associated with production.

Dominant state effects have become clearer through the cumulative effects of the CGC's mining assessment, as it excessively redistributes GST in response to changes in production, prices, royalty structures and CGC methodology. In this context, it is not a helpful approach to attempt to infer retrospective causality around point-in-time GST impacts and point-in-time government decisions around royalty policy. The material GST distortions caused by dominant state effects do not need to drive state decisions to warrant correction.

A general direction to the CGC to address dominant state effects, per the PC's Interim recommendation 4.1, would likely leave the issue unresolved. The CGC recently decided not to address dominant state effects through its 2025 Methodology Review. A broad direction risks being subordinated to the CGC's primary equalisation objective or translated into a narrow, methodologically complex adjustment that delivers limited improvements to policy neutrality.

The PC's Final Report should therefore recommend both the policy objective and an implementable mechanism: a broad 25 per cent discount to assessed mining revenue, applied consistently across all states and minerals. This would provide clear policy direction without compromising the CGC's independence in administering the remaining technical elements of the mining assessment.

The following sections respond to the alternative dominant state adjustments in Box 4.1 of the PC's Interim Report, as well as Interim recommendation 4.2 for the Federal Government to pay affected states outside GST.

Across-the-board mining discount

1. Applying the mining discount within the GST system

A durable solution should materially reduce excessive redistribution from highly concentrated resource revenues, preserve meaningful equalisation, apply consistently across all states and minerals, and remain simple, predictable and robust as production patterns and CGC methods change.

As the GST distribution system is already highly technical, any adjustment should not add to complexity, volatility and uncertainty. In this context, a broad 25 per cent mining discount is the most practical and durable way to address dominant state effects while preserving the pre-2018 HFE framework.

Importantly, the PC's Interim Report identifies an across-the-board mining discount as a leading targeted option. Relative to both pre-2018 and post-2018 arrangements, a mining discount would better address dominant state concerns for all affected commodities and states, not just states whose relativities fall below particular equalisation benchmarks or relativity floors.

Under Queensland's proposal of a broad 25 per cent mining discount, the CGC would continue to recognise 75 per cent of every state's mining revenue, preserving meaningful equalisation while moderating dominant state effects, excessive redistribution and volatility. The same rule would apply to all states and minerals, including iron ore, coal, gas and emerging critical minerals, without recurring disputes over which state is dominant, how narrowly a commodity should be classified, or when dominance begins and ends.

Jurisdictions impacted by dominant state effects would retain a greater, but limited, share of the fiscal benefits arising from royalty policy, resource development and the removal of production restrictions. Increases and decreases in mining revenue would continue to affect GST outcomes, but in a more proportionate, consistent and predictable way.

Queensland notes the discussion in the PC's Interim Report that discounts are already used in CGC practice where there is uncertainty within key GST assessments. The PC's modelling also indicates that a broad 25 per cent mining discount would deliver materially greater equalisation than the current system, with or without NoWO payments.

A broad 25 per cent mining discount is conservative compared to what Western Australia receives under the current arrangements (between 40 per cent and 60 per cent) or the level of discount extended to mining revenues in comparable equalisation systems internationally, such as 50 per cent in Canada.

Importantly, a broad 25 per cent mining discount would:

- address existing structural dominant state effects, not only prospective royalty rate changes;
- apply consistently across states, commodities and time;
- cover all materially concentrated revenue bases, including coal and onshore gas;
- avoid hard thresholds, cliff effects and rules governing entry into and exit from dominance;
- minimise reliance on unavailable data, granular commodity classifications or hypothetical counterfactuals;
- remain effective if production shares or CGC assessment methods change; and
- be simple to administer, explain and forecast.

In terms of the other two discount levels analysed in the PC's Interim Report, a 10 per cent discount risks being tokenistic given the scale of the mining revenue exposed to dominant state effects, while a 50 per cent discount would not improve overall equalisation compared to the status quo. Queensland considers the PC's 'medium' scenario of 25 per cent is a fair compromise as it replaces the larger, jurisdiction-specific protection under the 2018 arrangements with an adjustment around half its size and would be applied consistently across all states and minerals. Crucially, 25 per cent has been deemed suitable by Western Australia (the beneficiary of the 2018 reforms) and the Northern Territory in their submissions to the PC's Issues Paper.

2. *Funding the equivalent of the mining discount outside the GST system*

Interim recommendation 4.2 suggests that, if the Federal Government is not minded to pursue interim recommendation 4.1, Australia should return to a pre-2018 system and the Federal Government should make direct payments to states it considers are affected by dominant state issues.

Queensland supports this recommendation as a second-best option. Returning to the pre-2018 system would restore full HFE as the basis for distributing the GST pool, while direct Federal payments could address dominant state effects without retaining the blunt and complex architecture introduced in 2018.

However, just as Interim recommendation 4.1 does not specify how the CGC should address dominant state effects, Interim recommendation 4.2 leaves the Federal Government to determine which states are materially affected and how much they should receive. Without a defined mechanism, this risks reproducing the discretionary treatment provided by the 2018 reforms the PC has deemed necessary to replace.

Queensland has identified an across-the-board 25 per cent mining discount as the most suitable, principled and workable response to dominant state effects. The same benchmark should determine direct payments under Interim recommendation 4.2. Payments should reflect the difference between a state's GST outcome under full HFE and the outcome that would arise if only 75 per cent of each state's mining revenue were assessed. This would produce a calculable, transparent and nationally consistent remedy across all states and minerals. Payments should be made outside the GST pool and quarantined from CGC assessments so that their intended benefit is not unwound.

Federal payments outside the GST system to address dominant state effects must not, however, be confused with the broader additional funding required to address vertical fiscal imbalance (VFI). Even if all distributional and policy neutrality issues within HFE were resolved, states would continue to face structural funding pressures in delivering critical services and infrastructure. These pressures compound where Federal funding caps, policy changes, service gaps or the expiry of funding agreements shift costs and responsibilities to states, including across health, aged care, disability services, education and disaster recovery.

Queensland would support Interim recommendation 4.2 if the preferred in-system reform is not adopted, provided the Final Report:

- defines the payment by reference to a broad 25 per cent mining discount;
- applies that benchmark consistently across all states and minerals;
- requires the Federal Government to publish the calculations and payment basis;
- places the payments outside the GST pool and quarantines them from CGC assessments; and
- makes clear that these payments are distinct from the broader Federal funding required to address persistent VFI and Federal cost shifting.

General issues with alternative dominant state adjustments

In comparison, other dominant state adjustments risk becoming:

- **Threshold driven:** A concession triggered only when production or value exceeds a prescribed share would create arbitrary cliff effects as prices and production shares change. This would reduce predictability and increase volatility and methodological judgement.
- **Reliant on complex estimates:** Approaches requiring granular royalty classifications or estimates of additional revenue against a counterfactual baseline would depend on unavailable or unreliable data, weakening practicality and confidence in the resulting GST distribution.
- **Confined to policy changes:** A mechanism directed only at future rate changes would fail to address dominant state effects embedded in the existing production and revenue base.

- Inconsistent over time: States could receive different treatment according to whether production or policy changes occurred before or after the adjustment was introduced.
- Narrow in coverage: A mechanism applying only to selected commodities or jurisdictions would reproduce the inconsistent treatment that reform should resolve.

Dominant state commodity specific discount

A commodity specific discount is directionally sound but more operationally complex and subjective than an across-the-board mining discount. It would require recurring judgements in relation to the definition of dominance, the relevant measurement period, applicable thresholds, commodity classifications and rules governing entry and exit from dominance.

Marginal movements in prices or production of affected commodities could change whether the discount applies from year to year, even when the underlying policy neutrality concern remains unchanged. The disincentive would remain immediately below the threshold and fall abruptly above it, creating an arbitrary cliff effect.

A commodity specific approach could also treat otherwise comparable jurisdictions differently depending on when production or policy changes occurred. An across-the-board discount avoids these boundaries and remains effective as dominance shifts between commodities and jurisdictions.

Bundling commodities

The effect of bundling would depend on which commodities are included in the bundle, how they are weighted, how separate royalty structures are normalised, and how new commodities are incorporated as they emerge.

Different commodities can have materially different prices, cost structures, royalty regimes and market cycles. A common rate or average can therefore produce opaque transfers between commodities, whereby the treatment of one resource may affect the assessed capacity attributed to production of another despite limited economic comparability.

Also, bundling can dilute dominance at a particular point in time, but it does not guarantee that the excessive GST redistribution due to dominance is durably addressed. This is particularly the case where states open a new mineral base compared to changing royalty settings. Depending on the grouping of minerals, a state may remain dominant across the chosen bundle or may come in and out of dominance as production shares and prices change. Outcomes may consequently be sensitive to both the judgements in bundling and market conditions.

Data limitations may also arise where some minerals are assessed using production volumes and others by value of production. Bundling may warrant further investigation as a technical refinement, but it is not a sufficiently transparent or stable substitute for an across-the-board mining discount.

Hotelling Rule-based discount

A Hotelling Rule-based approach recognises that royalty income partly reflects depletion of a finite natural asset. This proposition has conceptual merit. However, implementation would require contestable estimates of resource stocks, depletion values, future extraction, prices, costs and discount rates. Changes in any of these variables could materially alter GST outcomes.

Estimates would change as reserves, prices, extraction costs or project lives change. This would make GST outcomes more dependent on specialist modelling and less readily understood by governments or the public.

A Hotelling Rule-based discount could therefore produce less transparent and less stable outcomes than an across-the-board discount. A broad 25 per cent discount would reflect that not all royalty revenue should be treated identically to renewable recurrent revenue without requiring the CGC to place a contestable annual value on capital depletion.

Sustainable income approach

A sustainable income approach would assume that royalties were deposited into a notional sovereign wealth fund and assess only the income that could be withdrawn while preserving the fund's value. Its operation would depend on one or more hypothetical scenarios regarding investment returns, withdrawal rules and estimates of the underlying resource asset. This would introduce substantial complexity and could disconnect assessed fiscal capacity from states' actual revenues and policy settings.

Establishing and maintaining a notional fund for each state would also require substantial administrative effort and ongoing adjustments. Reliable data to estimate sustainable income across diverse commodities is not readily available. This approach introduces unnecessary complexity without providing a clear or practical solution to dominant state effects.

Profitability-based approach

A profitability-based assessment would replace observable royalty revenue or production with estimates of mining profits or economic rents. Reliable and comparable state-level profitability data is not readily available, and constructing such measures would require extensive consultation and methodological judgement.

Profitability is also sensitive to commodity prices, extraction costs, project structures and accounting treatments. These factors increase the risk of volatile, contestable GST outcomes. Furthermore, calculating profitability across diverse minerals and states would introduce significant complexity into the assessment process. This approach is impractical due to data limitations and the potential for increased volatility and complexity.

Endowment-based approach

An endowment-based approach would require accurate and reliable estimates of the resource base that exists within each state. However, reserves exist on a spectrum from proven discoveries to more speculative estimates. Further, the classification of reserves is also subject to frequent change, in particular the quantity contained within accumulations and the estimates around what is potentially recoverable.

Resource estimates also depend on exploration effort, available geological information, technical recoverability, expected prices and project economics. State policies restricting exploration or development can also reduce the information available, meaning an endowment-based method could reproduce, rather than correct, the policy neutrality problem. These limitations result in any estimate of endowments being 'inherently imprecise' as global auditing standards for reserves have noted.

The choice of resource definition can also materially affect assessed capacity. In 2025, Geoscience Australia estimated Australia's proven and probable reserves (2P) for conventional gas to be approximately 75,000 petajoules (PJ) and contingent (2C) conventional gas resources to be approximately 100,000 PJ. The large difference illustrates how the selected resource classification could materially alter assessed endowments.

Additional comments on measures that change the timing of dominant state impacts on GST

1. CGC's proposal

The CGC has flagged increasing the duration of smoothing beyond the current three-year moving average as a possible means of addressing dominant state issues. Increasing the duration may reduce year-to-year volatility by delaying the effect of short-term movements in commodity prices, production and royalty revenue on GST distributions. However, this would not address the underlying dominant state problem and should not be regarded as a substitute for substantive reform.

The central issue is not timing, but the quantum of mining revenue ultimately redistributed. Shortening the lag would bring that redistribution forward, while lengthening the lag would defer it. Neither approach would change the mining revenue assessed or materially reduce the excessive redistribution arising from dominant state effects. The fiscal impact would be borne fully by the affected state at a different time.

Reducing the lag would expose mining states more quickly to the same redistribution. While this may improve contemporaneity, it would not address the underlying quantum of revenue redistributed and could increase short-term volatility.

The stability offered by a longer lag is more than offset by reduced contemporaneity. GST assessments would become less reflective of states' current fiscal capacities and more reliant on historical conditions that may no longer exist. In practice, this can create significant risks for mining states. Periods of exceptionally strong royalty revenue would remain in the assessment for longer, potentially coinciding with a downturn in commodity prices, production or broader state revenues. A state could therefore continue to be assessed as having a high mining revenue capacity after the corresponding revenues have materially declined.

More fundamentally, increasing smoothing does not address the policy neutrality concerns associated with dominant state effects. The producing state's historical production and royalty settings would still materially influence the national average policy used to assess that state. The assessment would simply occur later. Smoothing would also not resolve concerns regarding excessive redistribution, the treatment of finite resource revenues, or the concentration of minerals and resource development in individual jurisdictions.

2. *New South Wales' proposal*

New South Wales has proposed a temporary dominant state adjustment that would phase out over time rather than operate as an enduring feature of the GST system.

A temporary discount would not provide a meaningful solution to what is an ongoing structural problem. Dominant state effects are structural features of highly concentrated mining revenue bases, not temporary conditions. A discount that phases out over time would eventually reintroduce the same policy neutrality concerns, excessive redistribution and incentives that the adjustment was intended to address.

A temporary approach would also treat comparable circumstances differently depending on timing. States that have already reformed royalty arrangements, facilitated resource development or removed barriers to production could receive no benefit, while otherwise comparable future decisions could qualify for an adjustment. The value of the adjustment could also vary depending on commodity prices when a policy decision was made or development occurred, potentially introducing a further timing distortion into state decision-making.

Further, any approach based on future policy changes would need to consider whether the removal of development restrictions should be treated in the same way as royalty rate changes. In some cases, dominant state effects arise not because a producing state has increased royalty rates, but because other jurisdictions have restricted exploration or production, concentrating activity in one state. A temporary discount focused narrowly on royalty policy changes risks overlooking these broader structural drivers of dominance.

Comparable mining revenue should receive comparable treatment regardless of when development occurred, when policy decisions were made or when the resulting GST effects are recognised. This requires a permanent and consistently applied adjustment to the quantum of assessed mining revenue, rather than a temporary concession, a phased discount or a change to the timing of redistribution.

Appropriate treatment of key Commonwealth payments

Queensland supports greater transparency and accountability in decisions to quarantine Commonwealth payments. However, it does not support Interim recommendation 5.2 as a sufficient response.

The approach of using prospective, ad hoc exchange of letters to determine what should or should not be quarantined, without appropriately defined criteria, ignores certain precedents that have already been set by historical quarantining arrangements and does not address inequities arising from the inconsistent historical treatment of comparable payments.

The issue is one of policy coherence. Commonwealth payments are used to address identified needs, support reforms and deliver nationally significant projects. Where the CGC subsequently treats those payments as increasing a state's fiscal capacity, GST redistribution can materially unwind the funding intended for specific purposes. One Federal funding mechanism can thereby partly defeat another.

The Federal Government has already accepted this principle by directing the CGC not to unwind the differentiated funding shares under the Better and Fairer Schools Agreement. Comparable payments should receive comparable treatment where the same rationale applies. This does not require the exclusion of every Commonwealth payment, which would weaken HFE and create incentives to re-label general assistance. It requires a disciplined distinction between payments that increase general fiscal capacity and those whose design or purpose would be materially frustrated by GST redistribution.

The National Health Reform Agreement illustrates the problem. Its activity-based and block-funding arrangements recognise aspects of relative need, including the circumstances of small rural and regional hospitals. Including the payments in the GST assessment can partly unwind that recognition.

The concern is compounded where gaps in Commonwealth-funded primary care, aged care or disability services increase demand for state hospitals. In these circumstances, the GST system should not treat the Commonwealth payment as an unqualified increase in state fiscal capacity without recognising the purpose and needs embedded in the agreement.

Nationally significant infrastructure provides another clear example. The Federal Government committed \$7.2 billion to Bruce Highway safety upgrades, yet Queensland estimates that approximately \$2.9 billion of the fiscal benefit could be redistributed through future GST assessments. The Bruce Highway is Queensland's principal north-south corridor and forms part of the national land transport network.

If the Federal Government identifies a national safety and infrastructure priority, the value publicly committed and the net benefit reaching that priority should not be materially different because of a subsequent GST assessment.

The same issue arises for the Brisbane 2032 Olympic and Paralympic Games. Federal contributions to Games venues have been protected, but related transport investments remain exposed to GST redistribution. The governing principle should not depend on the administrative classification of a payment. It should turn on whether the investment is integral to an agreed national objective and whether redistribution would materially undermine its purpose.

Queensland therefore recommends a narrow, rules-based framework. Payments should be appropriately discounted or quarantined where they:

- already embed a robust assessment of relative need;
- address structural disadvantage or exceptional circumstances not adequately recognised by the CGC;
- support nationally significant infrastructure or an agreed national objective;
- reward a defined reform or innovation; or
- would have its stated purpose materially frustrated by GST redistribution.

Eligibility should be determined by the payment's design and purpose, supported by evidence. It should not depend on the recipient jurisdiction or the strength of its negotiating position, which an ad hoc exchange of letters would make transparent, but not address.

Previous attempts to develop guidelines did not secure agreement, but that does not justify retaining an ad hoc system. The PC's own analysis identifies inconsistent treatment of payments made for similar purposes. Public applications and reasons should form part of the framework, but transparency should support substantive principles rather than substitute for them.

The Final Report should therefore replace Interim recommendation 5.2 with a recommendation for a clear, nationally consistent and publicly accountable framework for discounting or quarantining key Commonwealth payments. This would preserve the purposes of targeted funding, maintain appropriate HFE discipline and ensure Commonwealth commitments operate coherently across the federation.

GST reform in the context of persistent vertical fiscal imbalance

As discussed earlier in this submission, Australia's persistent vertical fiscal imbalance (VFI) remains a fundamental challenge for Federal Financial Relations (FFR). The Federal Government raises substantially more revenue than is required for its own spending responsibilities, while states and territories collectively raise less than is required to fund their service delivery and infrastructure responsibilities. In 2024-25, the Federal Government collected 70.4 per cent of government revenue nationally, compared with 23.6 per cent collected by states and territories. All jurisdictions therefore rely on Federal transfers to bridge the gap between their own-source revenues and expenditure responsibilities.

VFI cannot be readily corrected through reductions in state expenditure. States deliver many of the services most valued by Australians, including hospitals, schools, skills training, housing and transport infrastructure. Expenditure in these areas is shaped not only by state policy choices, but also by population needs, community expectations, national service standards and intergovernmental funding agreements. Federal funding increasingly carries requirements for states to match, maintain or increase expenditure, while reducing state expenditure can also reduce the associated Federal contribution. These arrangements constrain state budget flexibility and can transfer demand, cost and delivery risks to the states.

VFI is further aggravated where changes to Federal policies, funding arrangements or service coverage increase demand for state-funded services without commensurate and durable funding. Current Queensland analysis identifies material risks at the interfaces between the National Disability Insurance Scheme and mainstream services, private health insurance and public hospitals, disaster recovery arrangements, and Commonwealth aged-care responsibilities and state hospital capacity. These pressures should be assessed on their net effect across governments, including the services, infrastructure, workforce and costs transferred or created, rather than solely by reference to the gross value of Federal payments.

In this context, the GST reforms recommended by the PC's Interim Report can improve the fairness and efficiency with which the GST pool is distributed, but they cannot resolve VFI. Even if all horizontal distribution and policy neutrality issues were addressed, states would continue to require additional Federal funding to deliver the critical services and infrastructure all Australians deserve. The PC's Final Report should preserve this distinction and recognise that sustainable FFR require both a coherent GST distribution system and Federal funding commensurate with the responsibilities states deliver for the Australian public.

Conclusion

The PC's Interim Report confirms that the Federal Government's 2018 GST reforms are not sustainable or fit for Australia's GST distribution system. They have weakened equalisation, introduced perverse outcomes, increased complexity, cost Australian taxpayers substantially more than anticipated and materially benefited only Western Australia. The resulting disparity is illustrated by the PC's estimate that jurisdictions other than Western Australia would have needed \$47 billion more Federal funding in 2024-25 alone to attain the same fiscal capacity.

The PC's Final Report needs to provide a clear and implementable pathway to a coherent national settlement. Queensland recommends restoring the pre-2018 equalisation architecture from 2027-28; applying a broad 25 per cent discount to assessed mining revenue; establishing a nationally consistent, principles-based framework for discounting or quarantining key Commonwealth payments; and strengthening the transparency, consultation, quality assurance and accountability of CGC processes. If any element of the 2018 architecture remains, the NoWO Guarantee must be permanent and enforceable.

These reforms are necessary and complementary. Returning to the pre-2018 GST architecture without addressing dominant state effects would leave unresolved the problem that contributed to the original loss of confidence in HFE. Addressing mining without reforming the treatment of Commonwealth payments would leave targeted national funding vulnerable to being unwound through GST. The effectiveness of both reforms depends on GST governance reforms that clearly distinguish policy choices for governments from the CGC's responsibility for independent technical implementation.

Crucially, Queensland's proposals are national rules, not jurisdiction-specific protections. A broad 25 per cent mining discount would apply consistently across all states and minerals, retain 75 per cent of mining revenue within HFE and remain effective as production, prices and commodity classifications change. A principles-based approach to Commonwealth payments would turn on their design and purpose, not the identity or negotiating influence of the recipient. Comparable circumstances should receive comparable treatment.

GST reform must also be situated within the broader fiscal architecture of the Federation. HFE determines how the GST pool is distributed among states. VFI concerns whether states collectively have sufficient revenue to discharge their service delivery and infrastructure responsibilities. A fairer distribution of the GST pool cannot, by itself, make the aggregate funding available to states sufficient. That challenge is compounded where national agreements, Federal policy changes or gaps in Federal services increase state responsibilities and costs without commensurate, predictable and durable funding.

If the Federal Government ultimately adopts payments outside the GST system to address dominant state effects, those payments must be distinguished from the broader Federal funding required to address persistent VFI and Federal cost shifting. Sustainable Federal Financial Relations require both a coherent GST distribution system and funding commensurate with the responsibilities states are expected to deliver.

This Inquiry should not be reduced to a contest between Western Australia and other states. It presents a larger national choice between a system governed by coherent principles for every jurisdiction and one sustained by increasingly costly exceptions to manage unreasonable and perverse outcomes.

The Final Report presents a rare opportunity to replace costly exceptions with coherent national principles, restore meaningful equalisation and strengthen confidence in the Federation. One Federation should have one fair and durable standard of equalisation, supported by funding arrangements that give every state and territory the fiscal capacity to provide the services and infrastructure Australians reasonably expect.

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