

Productivity Commission Inquiry

GST Distribution Reforms

Submission from the Government of South Australia – Response
to the Interim Report

October 2026



Contents

Executive Summary	3
Introduction	5
Horizontal Fiscal Equalisation in Australia	5
Impacts of the 2018 reforms.....	6
Assessment of the current system	7
South Australia's preferred approach	9
Dominant state issues in mining.....	9
Permanent NoWO if there is no return to pre-2018 arrangements	11
Governance arrangements for an effective Federal Financial Relations system	11

Executive Summary

The Government of South Australia welcomes the Productivity Commission's (PC's) Interim Report into GST Distribution Reforms. The report represents an important and impartial contribution to the public discourse about the impact of the 2018 GST distribution reforms. South Australia supports the Commission's central conclusion that the 2018 GST reforms have not achieved their objectives and have weakened the effectiveness of Australia's horizontal fiscal equalisation (HFE) framework.

The Commission's finding that the reforms have reduced fiscal equalisation, increased costs to the Commonwealth and primarily benefited Western Australia are consistent with South Australia's longstanding position.

This is also consistent with the conclusions reached by all state and territory (state) governments but one, as well as a number of independent economic experts.

South Australia's position

South Australia is a longstanding supporter of full HFE and supports a return to the pre-2018 GST distribution arrangements.

Recognising that policy neutrality concerns may arise in limited circumstances relating to mining royalty revenue, South Australia is open to the consideration of options for addressing dominant state issues in a targeted and transparent manner that does not materially impact equity. If this cannot be achieved within the HFE system (as envisaged by the PC's interim recommendation 4.1), dominant state issues must be addressed directly by the Commonwealth outside the HFE system (interim recommendation 4.2).

At a minimum, if the Commonwealth does not return to a system of full HFE, it must make the No Worse-Off guarantee (NoWO) permanent for all states.

Addressing dominant state issues

South Australia has long argued that a return to the pre-2018 system of full equalisation under which all states are equalised to the fiscal capacity of the strongest state is the best outcome for the nation. This model best supports fairness, equity, fiscal sustainability and the long-term interests of the Australian federation.

Since the introduction of the 2018 reforms, the NoWO has supported all states except Western Australia to ensure they continue to receive the same level of GST funding that they would have received under the pre-2018 arrangements. South Australia notes that since 2018, it is only those states that are receiving the equivalent of their full HFE GST entitlement that have introduced tax reforms and pursued strategies to grow their royalty revenues. Western Australia, the only state receiving more than its full HFE entitlement, has not pursued any material reforms over this period.

Resource endowments are driven by geology, and mining revenues largely reflect natural advantages. While state governments have facilitated mining, the majority of investment to develop the resources sector across Australia has been funded by the private sector. South Australia continues to hold the view that the wealth and revenues derived from the nation's resource endowments should be shared equitably across the nation.

While the pre-2018 arrangements were more equitable than the current arrangements, they were not without challenges. The uneven distribution of Australia's mineral resources meant that issues could arise in cases where a single state dominated the production of a particular mineral. In theory,

it was possible for a dominant state to lose much of the additional benefit of its royalty policy choices through HFE redistributions.

South Australia recognises the importance of achieving a distribution outcome where adjustments are minimised and happen within a fair, consistent and transparent system that applies to all states. South Australia is therefore open to consideration of targeted ways to address dominant state issues within the HFE system in a way that remains true to the overall objective of HFE. Fairness and equity must remain central in any adjustment, and no individual state should be significantly disadvantaged. Principles are suggested in this submission to guide the way that dominant state issues could be considered.

The central issue in considering the need for a dominant state adjustment is clarity on what specific issue the adjustment is intended to address.

A state accounting for a significant proportion of the production of a mineral is not, on its own, appropriate grounds for a dominant state adjustment. As a key source of fiscal capacity for the states, mining revenue must be equalised under HFE, similar to other state revenues. South Australia does not support proposals by some states for a broad discount (e.g. 25 per cent) to the Commonwealth Grants Commission's (CGC's) mining revenue assessments as this would significantly undermine equity and be inconsistent with HFE.

A case may arise for a dominant state adjustment if it is evident that policy neutrality could be impacted when a state implements a change in policy (e.g. increasing a royalty rate). A dominant state adjustment could be designed to apply as a targeted and temporary measure in the specific context of a policy change by a dominant state, not as a broad and permanent adjustment.

If designed appropriately, a targeted and temporary dominant state adjustment could balance the recognition of the policy neutrality concerns raised by resource-rich states and the objective of achieving fiscal equalisation over time.

Should this not be possible, and where there is a view that a dominant state adjustment is required that materially impacts the HFE equity and fairness principles (e.g. where transition support may be necessary), South Australia would contend that this be addressed outside of the GST distribution system. The South Australian Government believes that the CGC is the most appropriate body for consideration of dominant state issues within the HFE system, and there is an established process to consider proposed data and adjustments and for states to provide their views on the CGC's proposed methodology.

If the Commonwealth Government's position is ultimately not to return to the pre-2018 system of full fiscal equalisation, then the No-Worse-off Guarantee (NoWO) must be made permanent. This is essential to ensure that jurisdictions can continue to provide services and infrastructure to their residents. The 90 per cent of Australia's population who reside outside of Western Australia should not be expected to accept a lower standard of public services to fund gold plated service in Western Australia.

Introduction

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

The Inquiry's Terms of Reference asks the PC to consider the operation of the 2018 GST reform legislation¹, including whether the changes to the GST distribution system are operating efficiently, effectively and as intended, and the fiscal implications for each state and the Commonwealth.

South Australia's submission responds to the preliminary findings and recommendations presented in the PC's Interim Report.

Horizontal Fiscal Equalisation in Australia

South Australia remains firmly of the view that full equalisation provides the most equitable, transparent and sustainable foundation for Australia's federal financial relations. No Australian should be disadvantaged simply because of the state in which they happen to live and where a boundary is drawn on a map.

The GST distribution system is the primary tool for delivering equity between Australians across the federation and this is why changes to the system matter. It is one of the ways we ensure that every Australian shares in our national prosperity, and that the benefits of our federation are available to all, not just to those living in the most populous or resource-rich parts of the country.

As discussed in South Australia's initial submission, the Australian federation is characterised by a high degree of vertical fiscal imbalance (VFI) relative to other comparable federations. While states are responsible for delivering major services including hospitals, schools, policing, child protection and transport infrastructure, Australia's constitutional arrangements limit the revenue raising avenues available to states to fund these services, compared with that of the Commonwealth.

In addition to VFI, horizontal fiscal imbalance exists between states. Due to differences in revenue-raising capacities and structural differences between jurisdictions, the relative fiscal capacity of states to deliver services to their residents varies across Australia.

Since 2000, the GST distribution system has been the primary mechanism used to equalise states' fiscal capacities. The sole objective of GST distribution, as agreed by all state governments and the Commonwealth in the *Intergovernmental Agreement on Federal Financial Relations*, is HFE.

Full HFE has served Australia well over many years and has been responsive, over time, to changes in states' relative fiscal circumstances. As outlined in South Australia's initial submission, due to the slight lag in the system, states are able to forecast their GST relativities to a reasonable degree, even in times of revenue shocks, such as a mining boom. This provides a level of predictability for their budget processes which, together with access to capital markets, allows revenue volatility over time to be managed.

South Australia agrees with the position of the PC in its Interim Report – founded on the economic principle of the *Tinbergen Rule* – that each policy tool should principally be focused on delivering

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

one goal, and that attempting to achieve multiple policy objectives with one policy instrument runs the risk that none of the objectives will be achieved particularly well.

South Australia also agrees with the PC that should the Commonwealth Government wish to pursue other objectives such as encouraging states to undertake policy reform, these objectives would be more effectively delivered through other policy instruments, such as specific-purpose grants, which can be more directly linked to reform actions and outcomes. Incentive payments under the revitalisation of National Competition Policy are a recent example of this.

With GST revenue representing around half of Commonwealth transfers to states, the GST distribution system is critical to addressing both VFI and ensuring that all Australians can access comparable public services regardless of where they live. As a result, GST distribution arrangements have become one of the most important elements of Australia's federal financial relations and are an integral pillar supporting the federation.

A system based on full equalisation:

- recognises structural differences between jurisdictions;
- equalises differences in revenue-raising capacity arising from natural resource endowments and other economic factors;
- supports comparable service delivery to Australians regardless of where they reside;
- reduces pressure for ad hoc Commonwealth intervention; and
- strengthens national cohesion and confidence in the federation.

The current arrangements, which link Western Australia's GST relativity to the fiscally stronger of New South Wales or Victoria and thereby ignore the fact that Western Australia is fiscally stronger than those states, are inconsistent with HFE. These arrangements also mean that the stronger Western Australia becomes relative to the other jurisdictions, the more GST it receives. This is the opposite of HFE.

South Australia supports the PC's finding that the 2018 GST reforms have not operated efficiently, effectively or as intended and that reform is required.

The Interim Report demonstrates that the reforms have reduced fiscal equalisation, increased fiscal disparities across jurisdictions and imposed substantial costs on the Commonwealth while largely benefiting a single jurisdiction.

Impacts of the 2018 reforms

The 2018 reforms coincided with continuing concern from the states about lower than expected growth in national GST collections over time. Due to the range of exemptions that apply to the GST base and stronger growth in the cost of GST-exempt goods and services compared to non-exempt items, the GST has not lived up to its expected role as a source of funding for the states that grows broadly in line with the economy. The modest growth rate of the GST pool has contributed to the deterioration of state fiscal positions over time.

When the GST distribution reforms were introduced in 2018, the Commonwealth Government at the time assured the nation that all states would be better off compared to the previous, full HFE system. However, to date, only Western Australia is better off – by over \$22 billion.

Whilst the temporary NoWO guarantee has ensured that other states are no worse off relative to their GST entitlements under the pre-2018 system, the current arrangements have provided and continue to provide Western Australia with an additional \$6 billion in GST revenue (an untied and fully discretionary funding source) above its assessed needs, annually. The scale and significance of this outcome is demonstrated by Western Australia's stronger credit rating and a net debt position that is markedly lower than the rest of the country, achieved while maintaining expense growth above the state average.

If the NoWO guarantee is allowed to expire at the end of 2029-30, the growing divergence of Western Australia's fiscal capacity relative to all other states will become even more pronounced from 2030-31. Not only would WA receive more than its assessed share, other states such as South Australia would also be worse off relative to the pre-2018 system. This is a double whammy for other states.

Under such an outcome, the 90 per cent of Australia's population who reside outside of Western Australia would be expected to accept a lower standard of public services in order to finance the provision of better services and/or lower taxes in Western Australia.

Such an outcome could have negative efficiency implications for the nation – with individuals deciding where to live and work based on the level of public services or the lure of lower taxes rather than where their labour is the most productive.

Assessment of the current system

South Australia agrees with the PC's conclusion that the 2018 reforms have failed to achieve their intended objectives.

The reforms were intended to improve certainty, reduce volatility, strengthen incentives and ensure that all jurisdictions would be better off. However, the evidence indicates:

- fiscal equalisation has been weakened;
- Commonwealth costs have greatly exceeded expectations;
- only Western Australia has benefitted;
- interstate fiscal disparities have widened; and
- no-worse-off payments are required on an ongoing basis rather than as a temporary transition mechanism.

The reforms represent a significant departure from the long-standing principles underpinning Australia's GST distribution arrangements.

The experience of the past eight years reinforces the importance of a GST distribution framework founded on full HFE, which remains the most effective mechanism for supporting fiscal equity across the federation.

The current system sets the equalisation benchmark to a single state – the fiscally stronger of New South Wales or Victoria. The Interim Report has demonstrated how this arrangement can create perverse outcomes. As the PC notes, the current arrangements mean that if New South Wales was to suffer a significant natural disaster, this would improve Western Australia's GST share, despite there being no additional need arising in Western Australia. This outcome contradicts the objective of HFE.

In contrast, under the pre-2018 arrangements, a significant natural disaster in New South Wales would result in a reduction in the GST shares of all other states, including Western Australia, recognising the additional support required by New South Wales at its time of need. This reflects the ‘fair go’ principle of our federation.

Impacts of the current system on state policy reforms and productivity

Some critics of the pre-2018 arrangements have suggested that full equalisation acted as a disincentive for states to reform their economies or to pursue productivity enhancing policies. South Australia notes that past reviews into HFE have not identified robust evidence of these effects. Instead, the available evidence suggests otherwise.

As other contributors to this inquiry have noted, it is only the jurisdiction that is benefitting from the 2018 reforms (Western Australia) that has not pursued any material economic reforms since the current arrangements commenced. In contrast:

- South Australia abolished non-residential (non-primary production) conveyance duty from 2018-19 and the government continues to invest in the expansion of the state’s mining sector (discussed in further detail below);
- Queensland introduced a progressive coal royalty rate system in 2022-23 to better align its royalty system with emerging developments in coal prices;
- Victoria introduced a commercial and industrial property tax in 2024, progressively transitioning from commercial stamp duty to an ongoing property tax; and
- the Northern Territory abolished duty on non-real business assets in 2023.

In addition, Western Australia is assessed by the Business Council of Australia (BCA) in its 2025 *Regulation Rumble*² report as having the second worst regulatory and tax settings for doing business in Australia.

Business Council of Australia’s 2025 Regulation Rumble Report jurisdictional rankings

Ranking	Jurisdiction
1 st	South Australia
2 nd	Tasmania
3 rd	Northern Territory
4 th	Australian Capital Territory
5 th	New South Wales
6 th	Queensland
7 th	Western Australia
8 th	Victoria

² The BCA’s 2025 Regulation Rumble Report assesses each jurisdiction’s regulatory and tax settings for doing business against six ‘cost and regulation’ metrics and four ‘planning systems’ metrics. Additional information on the report can be found at: <https://www.bca.com.au/reports-submissions/reports/regulation-rumble-2025/>.

South Australia's preferred approach

South Australia is a longstanding supporter of full HFE and supports a return to the pre-2018 GST distribution arrangements.

Recognising that policy neutrality concerns may arise in limited circumstances relating to mining royalty revenue, South Australia is open to the consideration of options for addressing dominant state issues in a targeted and transparent manner that does not materially impact equity. If this cannot be achieved within the HFE system (as envisaged by the PC's interim recommendation 4.1), dominant state issues must be addressed directly by the Commonwealth outside the HFE system (interim recommendation 4.2).

At a minimum, if the Commonwealth does not return to a system of full HFE, it must make the No Worse-Off guarantee (NoWO) permanent for all states.

It has been suggested that the GST distribution system should return to the pre-2018 distribution arrangements with the inclusion of a relativity floor (e.g. 50 per cent). South Australia does not consider reform options that include a floor mechanism to be an appropriate response to issues with the current arrangements.

The pre-2018 distribution arrangements had equalisation of fiscal capacities as the primary objective and the introduction of a floor to these arrangements immediately undermines the equity objective. It provides a fiscal advantage to stronger states at the expense of fiscally weaker states. The setting of a floor is a highly arbitrary process that is not based on equalisation objectives. Rather, in the current landscape, it is a subjective policy decision on how much extra fiscal benefit should be provided to one jurisdiction.

Dominant state issues in mining

South Australia recognises that Australia's mineral resources are not evenly distributed between states and for some minerals the concentration in one or two states can be extreme. This can result in some states dominating the assessment of mining revenues for some minerals, effectively determining average royalty policy and theoretically risking policy non-neutrality when they implement policy changes. There is a view among some other jurisdictions that this created a disincentive for resource-rich states to fully support the development of their mining industries in the national interest.

The South Australian Government continues to pursue policies that support development of the state's mining sector recognising the significant broad economic benefit to the state and national economy while advocating for a return to the pre-2018 system.

For example, the South Australian Government is investigating supporting the expansion of South Australia's copper through the Northern Water project. The project proposes construction and operation of a desalination plant in the Upper Spencer Gulf to provide an open access water source that could not only unlock capital for copper expansion, but the mining of other minerals. The Government's consideration of how to support the private sector's investment in these resources recognises the significant economic benefits, including employment, private capital and export benefits, that these investments can provide the Australian community. These considerations are at the forefront of the Government's decision making and not the impact of those investments on South Australia's GST relativity.

South Australia notes the Commonwealth Grants Commission's assessment of states' relative fiscal capacities captures government spending on mining regulation as a component of its 'Services to Industry' expense category.

Dominant state adjustment

Concerns have previously been raised about the assessment of mining revenues where one or two states dominate the production of a particular mineral.

The South Australian submission to the CGC 2025 Methodology review noted that should there be a change in distribution arrangements back to the pre-2018 system of full equalisation, South Australia would support consideration of alternative options to address dominant state policy neutrality concerns.

Mining royalties arise from naturally occurring resource endowments that are unevenly distributed across Australia, for example about 83 per cent of Australia's iron ore deposits and 99 per cent of Australia's iron ore production is concentrated in Western Australia. Resource endowments are among the most significant determinants of relative fiscal capacity and therefore should remain assessed.

South Australia remains open to sensible changes to address dominant state effects in a fair and equitable way, aligned to the principles of HFE.

South Australia considers that the approach to addressing dominant state issues should be guided by the following key principles:

- Consideration of dominant state issues should be led by the Commonwealth Grants Commission (CGC), in consultation with the states and territories, recognising the CGC's role as an impartial and respected expert body on HFE.
- Equity must remain at the core of the GST distribution system. Addressing dominant state issues must not come at the expense of achieving equity. This recognises that Australia's mineral wealth is a national resource that should benefit all Australians, not just those who happen to live in a particular state.
- Recognition of the efforts made by state governments to facilitate and support the extraction of Australia's mineral wealth for the benefit of the nation should be reasonably considered in the HFE assessment (as above the government spending on mining regulation is already considered in the assessment of state relativities).

Any approach that does not reflect these principles would potentially weaken equalisation, increase complexity, reduce transparency and risk undermining confidence in the GST distribution system.

The Interim Report lists several approaches to implementing a dominant state adjustment including broad mining revenue discounts, dominant-state mineral specific discounts, Hotelling Rule based discounts, bundling of commodities, profitability approaches and endowment-based approaches.

There are practical difficulties associated with defining dominance, determining appropriate adjustment thresholds and managing changing economic conditions. Commodity prices, production volumes and royalty arrangements also fluctuate over time, creating challenges for any adjustment mechanism.

South Australia does not support any of the dominant state adjustment measures listed by the PC in its Interim Report due to their material impact on equity. Further, approaches based on an arbitrary broad-based discount, such as the 25 per cent discount suggested by some states, are an extremely blunt and highly subjective option that would materially undermine HFE principles with little or no conceptual underpinning.

Concerns about dominant state effects are not new and have been examined as part of the CGC's 2020 and 2025 methodology reviews (noting that the CGC was largely restricted from recommending changes to the mining assessment in the 2020 methodology review). The CGC did not recommend the introduction of a dominant state adjustment in the 2025 methodology review but did refer further consideration to its forward work program for the next methodology review.

South Australia believes that the CGC is the most appropriate body to consider dominant state adjustments and would be open to the CGC considering an adjustment that is targeted at addressing policy neutrality, prospective in nature and time-limited. For example, if a dominant mining state made a policy decision to increase a royalty rate, an adjustment could be implemented so that additional revenue generated from the policy change is partially assessed for a specified period of time, with this approach being progressively phased out over time.

After this time, the full value of the additional revenue would be included in the assessment of mining revenues. To minimise the equity impacts of this approach it would only apply to future royalty changes with no retrospective adjustments. This would address the theoretical disincentives for dominant states to implement revenue policy decisions whilst managing the impact on the equity objective of HFE.

Similar to other dominant state options considered by the PC, there would be practical implementation issues in defining dominance that would need to be overcome.

Permanent NoWO if there is no return to pre-2018 arrangements

Should the unfair arrangements continue and the Commonwealth chooses to maintain the current system of partial equalisation it must commit to making the NoWO guarantee permanent for all states.

The new equalisation arrangements and the NoWO were introduced together as part of a single reform package. One was designed to ensure that Western Australia received a higher GST share than it would have received under the previous arrangements. The other was designed to ensure that no other state or territory was financially disadvantaged as a result.

It would not be equitable to retain one part while removing the other.

The NoWO is essential to ensure that all jurisdictions can provide quality services and infrastructure to their residents. The 90 per cent of Australia's population who reside outside of Western Australia should not be expected to accept a lower standard of public services compared to those in Western Australia.

Governance arrangements for an effective Federal Financial Relations system

The Interim Report includes interim findings regarding governance and oversight issues for Australia's federal financial relations. South Australia's positions on these preliminary findings are discussed below.

Commonwealth Grants Commission governance – transparency and consultation

South Australia considers the CGC to be a technically robust and skilled independent arbiter of the GST distribution system and is open to continuous improvement processes being explored and proposed for consideration by the states.

Although not a specific recommendation in the Interim Report, South Australia believes that the CGC could further consider initiatives to improve the understanding of the importance of HFE and the GST distribution arrangements across all levels of government and throughout the broader community. The public's knowledge of HFE has been influenced by campaigns that focus on how many cents in the dollar a state 'gets back' compared to its population share of GST collections.

The CGC could also take a more vocal and proactive role in educating the community on HFE and correcting misunderstandings on how Australia's system of HFE operates. The CGC, through its Chair and Commission members, should provide a strong, clear, independent voice in national debates on HFE. There have been a number misleading or simply incorrect comments made about HFE by media commentators, industry bodies, members of parliament (state and Federal) and other members of public that usually go unchecked. The CGC can provide an accurate and truly independent view to enable decision makers and the community to understand the true effect of HFE and implications of proposed changes.

The CGC has taken some steps to present HFE issues in a more understandable way, including through the publication of occasional papers on selected issues, however, these papers only have a limited readership. A more public and active role would help improve community understanding.

Diverging outcomes

The primary objective of the GST distribution system is fiscal equalisation. If the Commonwealth Government implements a GST distribution system that is designed to deliver less than full equalisation, there should be appropriate accountability measures to ensure the effects of this policy choice are fully understood.

The CGC's annual GST relativity updates include a comparison of each state's GST share under the pre- and post-2018 arrangements, which informs the Commonwealth Government's calculation of NoWO payments. Should the GST distribution system not return to the pre-2018 arrangements, South Australia considers that the CGC should be directed to continue publishing this analysis on an ongoing basis as part of its annual updates. This could be supported by a periodic analysis by the Productivity Commission of the extent to which state socioeconomic outcomes have diverged since the introduction of the 2018 reforms, for example as part of the PC's Report on Government Services. This analysis should be made available in the public domain.

Quarantining of Commonwealth payments

While South Australia is supportive of greater transparency of the Commonwealth payments quarantining process, the approach proposed in the Interim Report is likely to be administratively burdensome for both the states and the Commonwealth.

Based on the proposal included in the Interim Report, it is likely that a similar level of transparency could be reasonably achieved through a simpler approach whereby the Commonwealth Treasurer outlines all payments that have been approved for quarantining (as is currently the case) and a brief explanation of the reason for the quarantining be included in the terms of reference in each annual CGC Update.

Low value Federation Funding Agreements

South Australia notes that the Council on Federal Financial Relations (CFFR) undertook an agreement rationalisation process in August 2020. This process created five Federation Funding Agreements (FFAs) with one for each of the major service delivery sectors – health; education and skills; infrastructure; environment; and affordable housing, community services and other. Beneath these agreements sit FFA schedules that set out funding amounts, milestones and other details.

While this reform was intended to rationalise agreements, in practice it consolidated the form of agreements rather than materially reducing their number. National Partnership agreements were replaced with FFA schedules.

Consistent with the PC's interim recommendation, the concern for South Australia is not solely the number of lower value agreements, but whether the requirements attached to those agreements are proportionate to the funding provided. Lower value agreements may still impose significant administrative costs where they include detailed reporting obligations, bespoke governance arrangements, acquittal-style requirements or other input controls. South Australia is also concerned about the use of FFA architecture to support Commonwealth programs where states are required to administer project-specific funding, grant programs or payments to proponents (e.g. non-government organisations) rather than delivering mutually agreed outcomes under an intergovernmental funding agreement.

South Australia agrees there is scope to reduce the burden of agreements by consolidating smaller agreements where appropriate, rolling funding into existing National Agreement arrangements with greater flexibility, and ensuring that the terms of lower value agreements are commensurate with the funding and risk involved.

Update of the Intergovernmental Agreement on Federal Financial Relations

South Australia agrees with the PC's interim recommendation that the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR) should be updated to reflect the current federal financial relations architecture. The IGA FFR contains references that are out-of-date including references to National Partnerships, the disbanded COAG Reform Council and historical payment schedules. This is not an urgent issue and should be considered at an appropriate time in the future.

The role of the Council on Federal Financial Relations (CFFR)

The PC has noted existing concerns that CFFR would benefit from having a regular cadence of meetings and meeting more frequently. Also recommended is the issuing of communiques after each meeting, clearer guidelines for when Ministerial Councils should refer matters to CFFR and greater clarification of when CFFR should escalate matters to National Cabinet.

South Australia supports having quarterly CFFR meetings consistent with the CFFR terms of reference. The infrequency of CFFR meetings has limited the opportunity for Treasurers to engage on their oversight role of the FFA framework. When Treasurers have agreed that the negotiation process for a new agreement should include input from CFFR, the lack of meetings has not allowed CFFR to receive timely updates on negotiations, address issues of concern and ensure agreements adhere to agreed funding principles. For the CFFR meetings that are held, the Commonwealth no longer includes a standing item for agreement oversight and has ceased producing reports to facilitate the oversight process. Reinstatement of these standing items, together with more frequent meetings would help support CFFR's agreement oversight role.

Government Finance Statistics (GFS) data accuracy

South Australia notes the PC's interim recommendation that there are opportunities for states and territories to improve quality and usefulness of GFS data submitted to the Australian Bureau of Statistics (ABS) and for the ABS to improve its data collection processes and the presentation of data. South Australia is open to consideration of measures to address these issues.

Longer term fiscal sustainability

The PC has included an interim recommendation for governments to produce long-term fiscal sustainability reports, for the purpose of demonstrating the fiscal impacts of maintaining existing government policies over the long term.

South Australia notes that reports of this nature (e.g. intergenerational reviews) have historically not been reliable for long-term fiscal forecasting, although they have been beneficial in highlighting broad structural trends and changes. Models are dependent on multiple and inter-related assumptions and are highly sensitive to population/migration estimates, workforce participation and the impact of unforeseen shocks. The uncertainty is compounded for sub-national long-term projections, as states and territories are also subject to changes in national policies that have economic and fiscal impacts (e.g. changes to access to the National Disability Insurance Scheme, aged care and national road infrastructure investment).

Given these inherent limitations and the significant resourcing requirements that would be associated with undertaking long term fiscal sustainability reporting, South Australia is not currently considering producing a report in this area.