



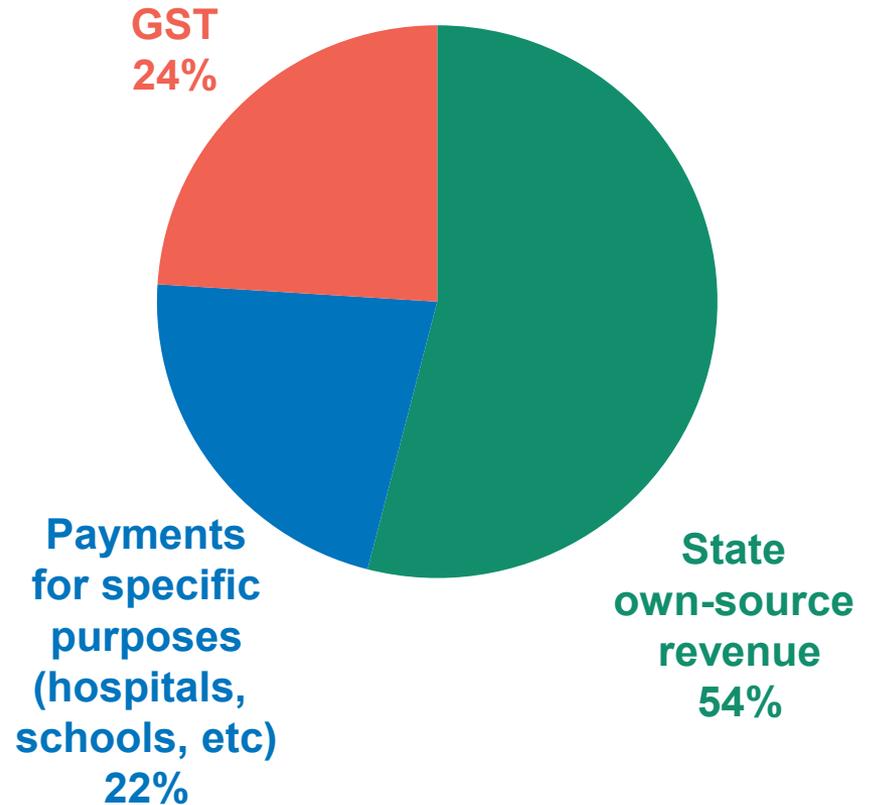
TSY/AU

Horizontal Fiscal Equalisation

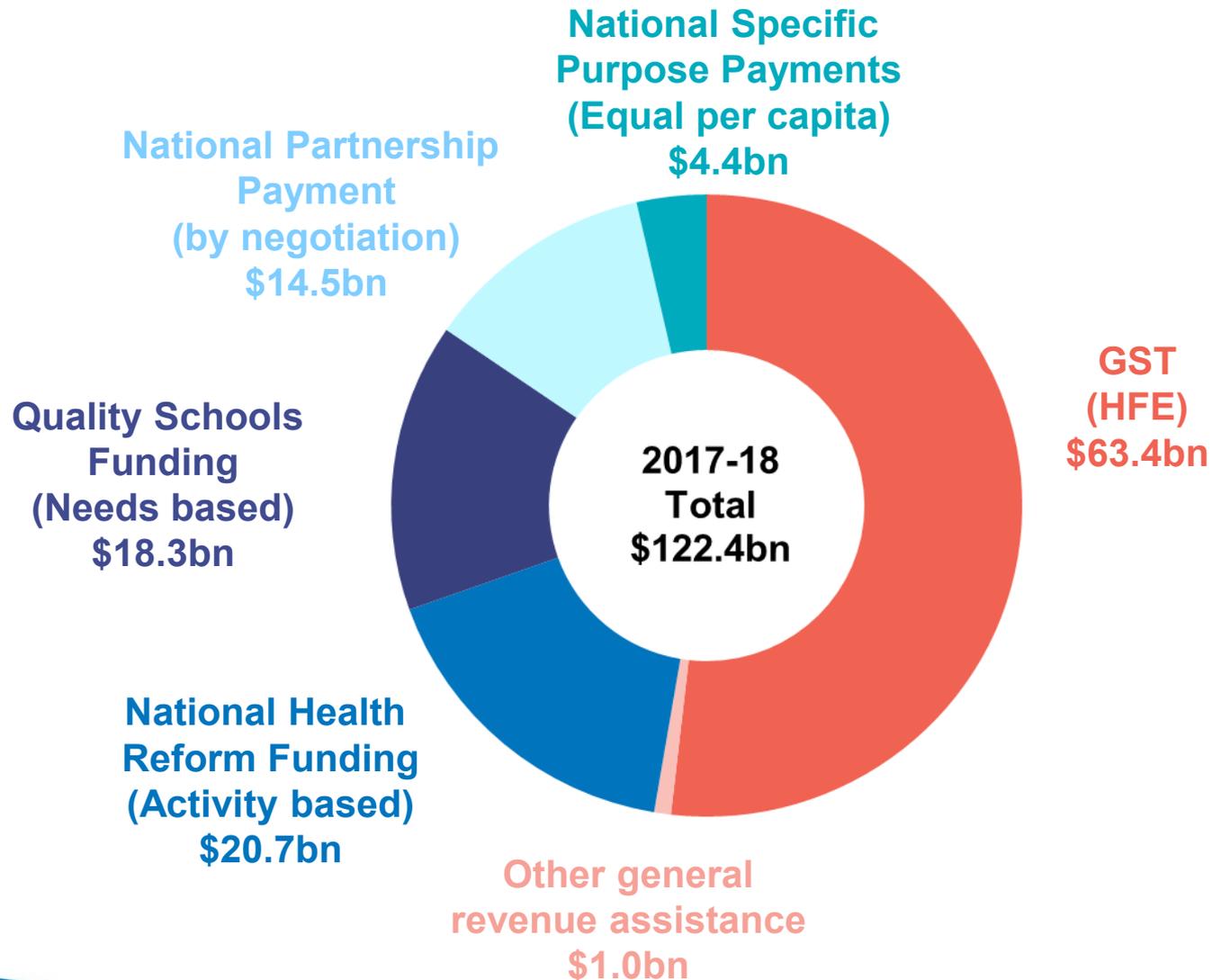
Response to the PC Inquiry into the
distribution of the GST amongst the
States & Territories

The Hon Scott Morrison MP
Treasurer

2017-18 State Revenues

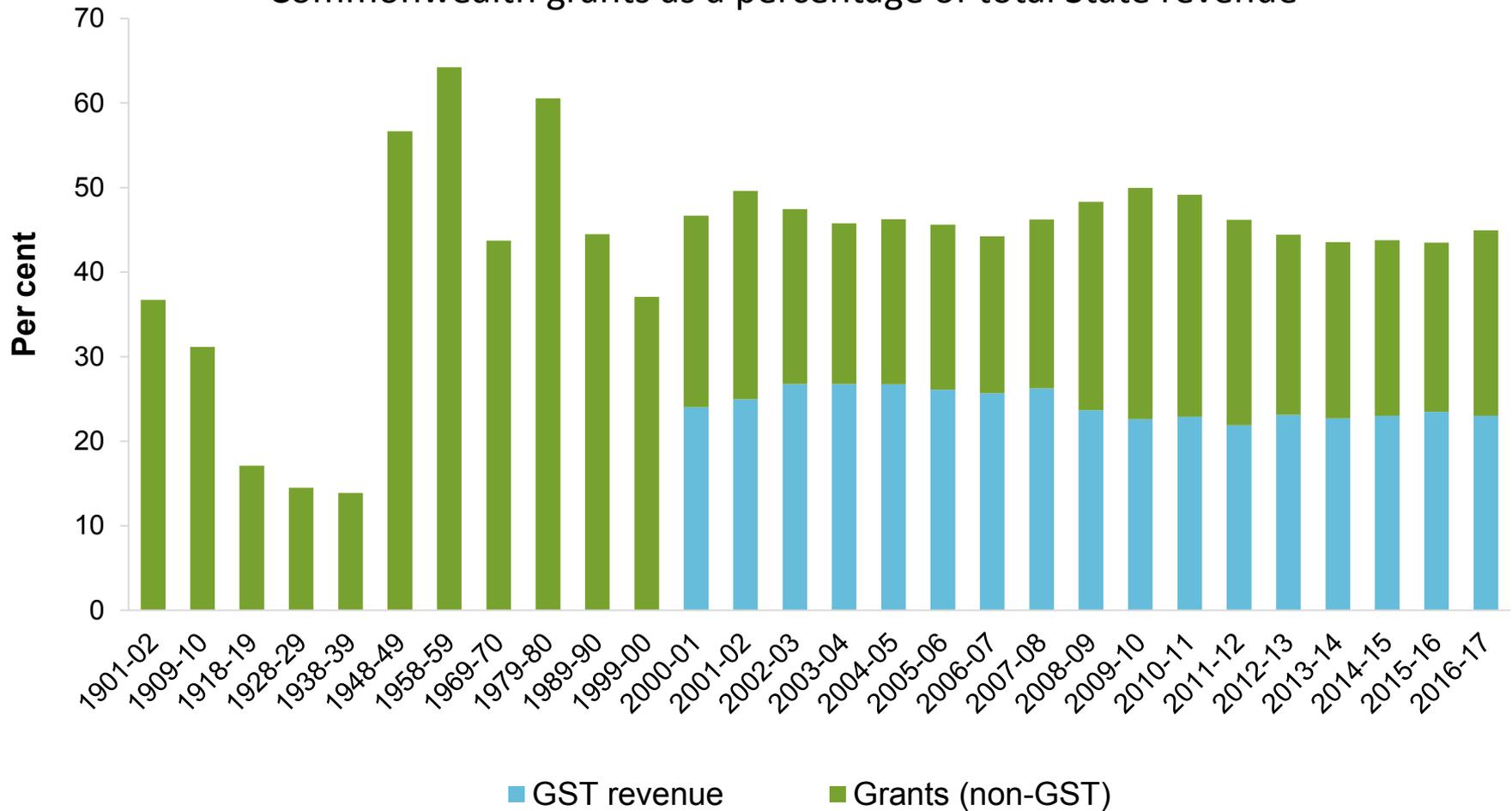


Redistribution mechanisms

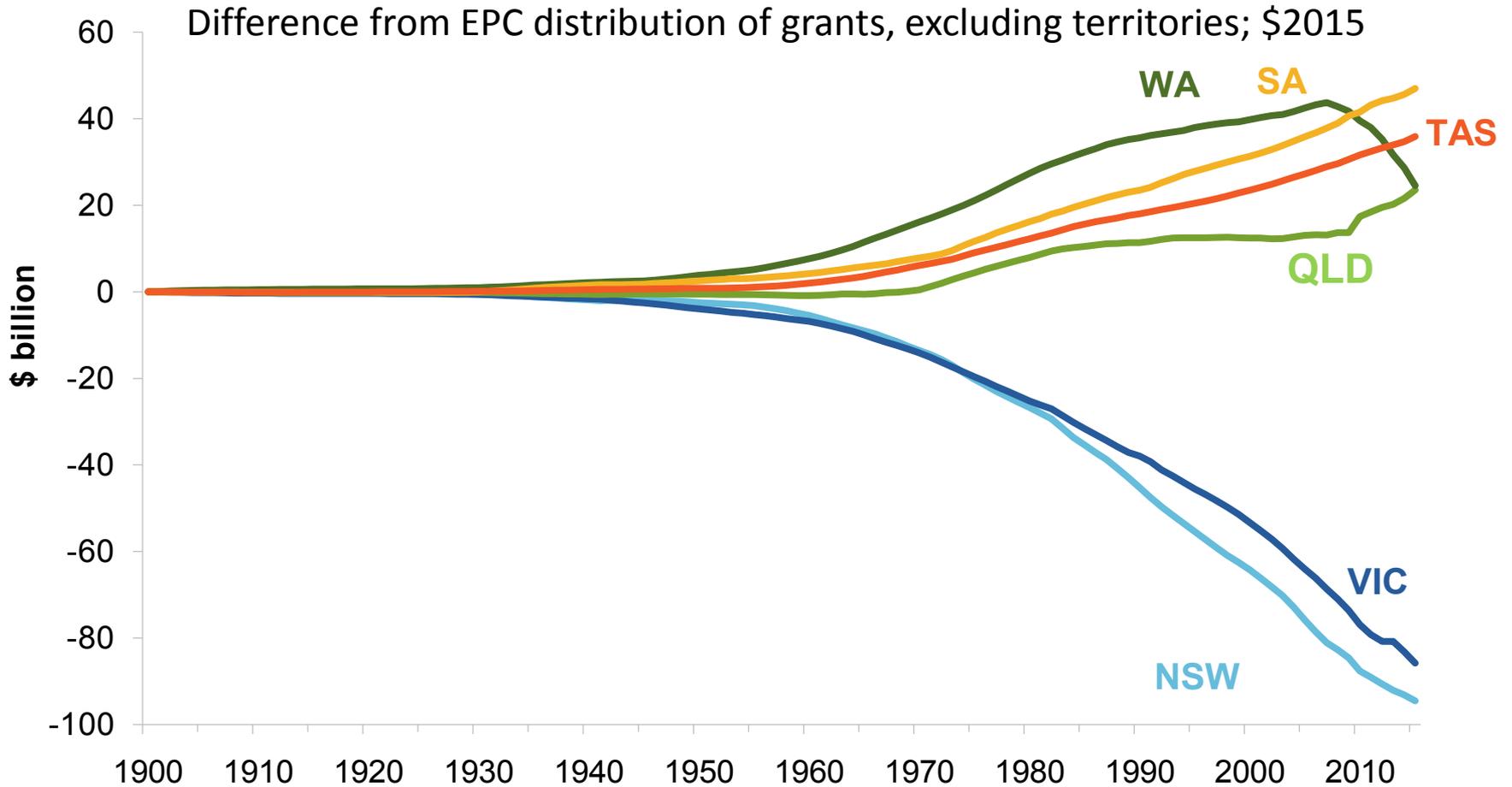


Vertical fiscal imbalance

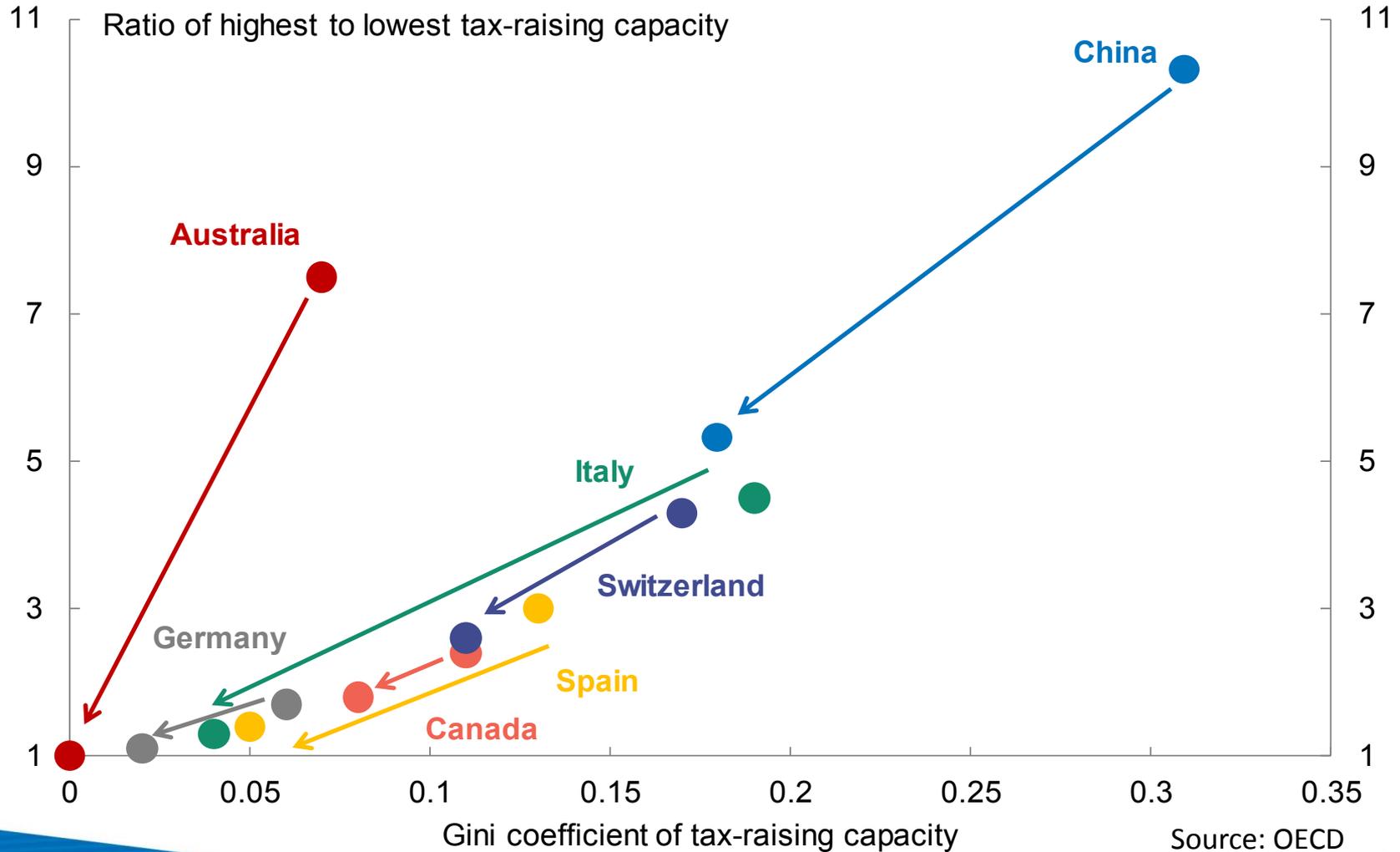
Commonwealth grants as a percentage of total State revenue



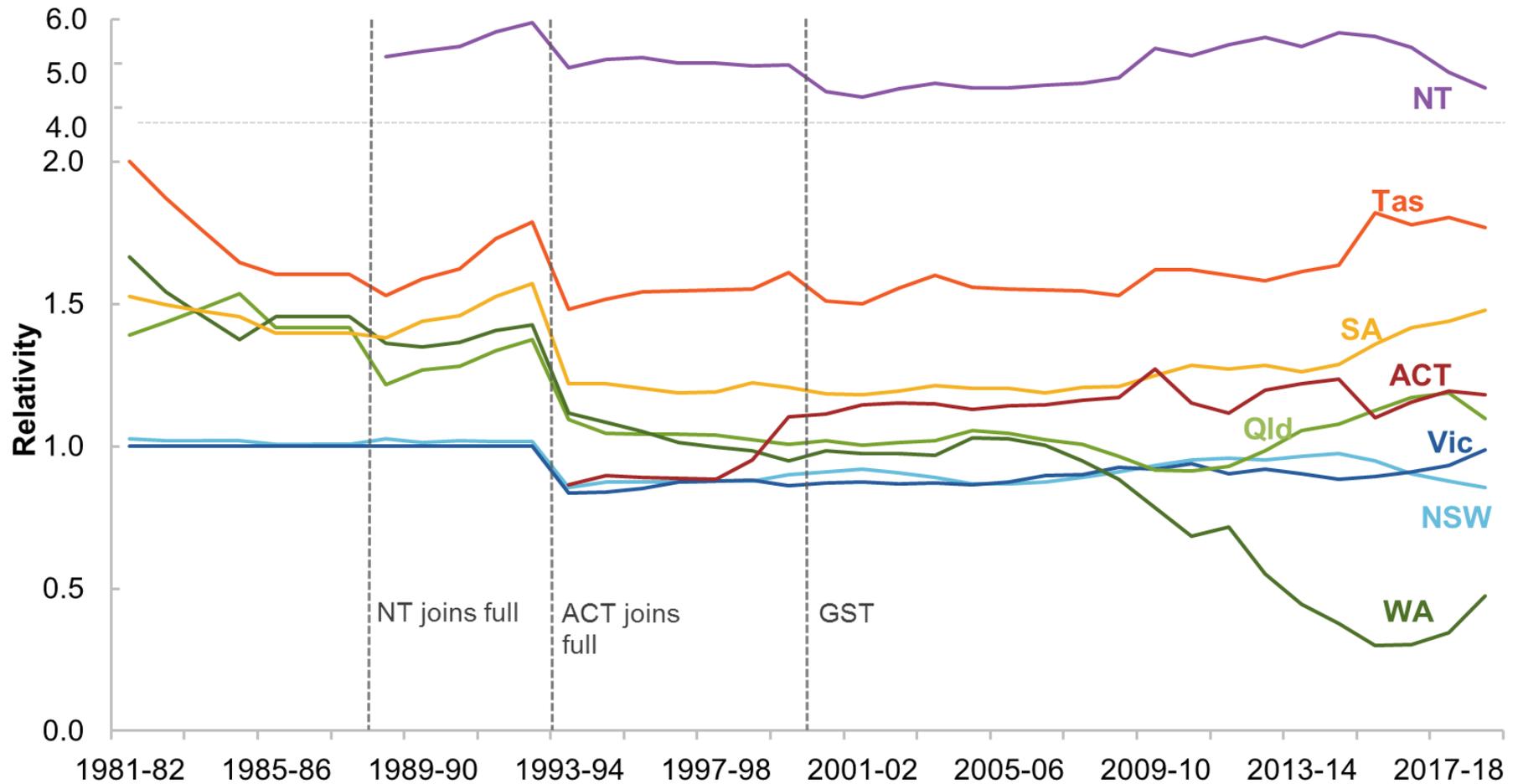
NSW and VIC historically the strongest states



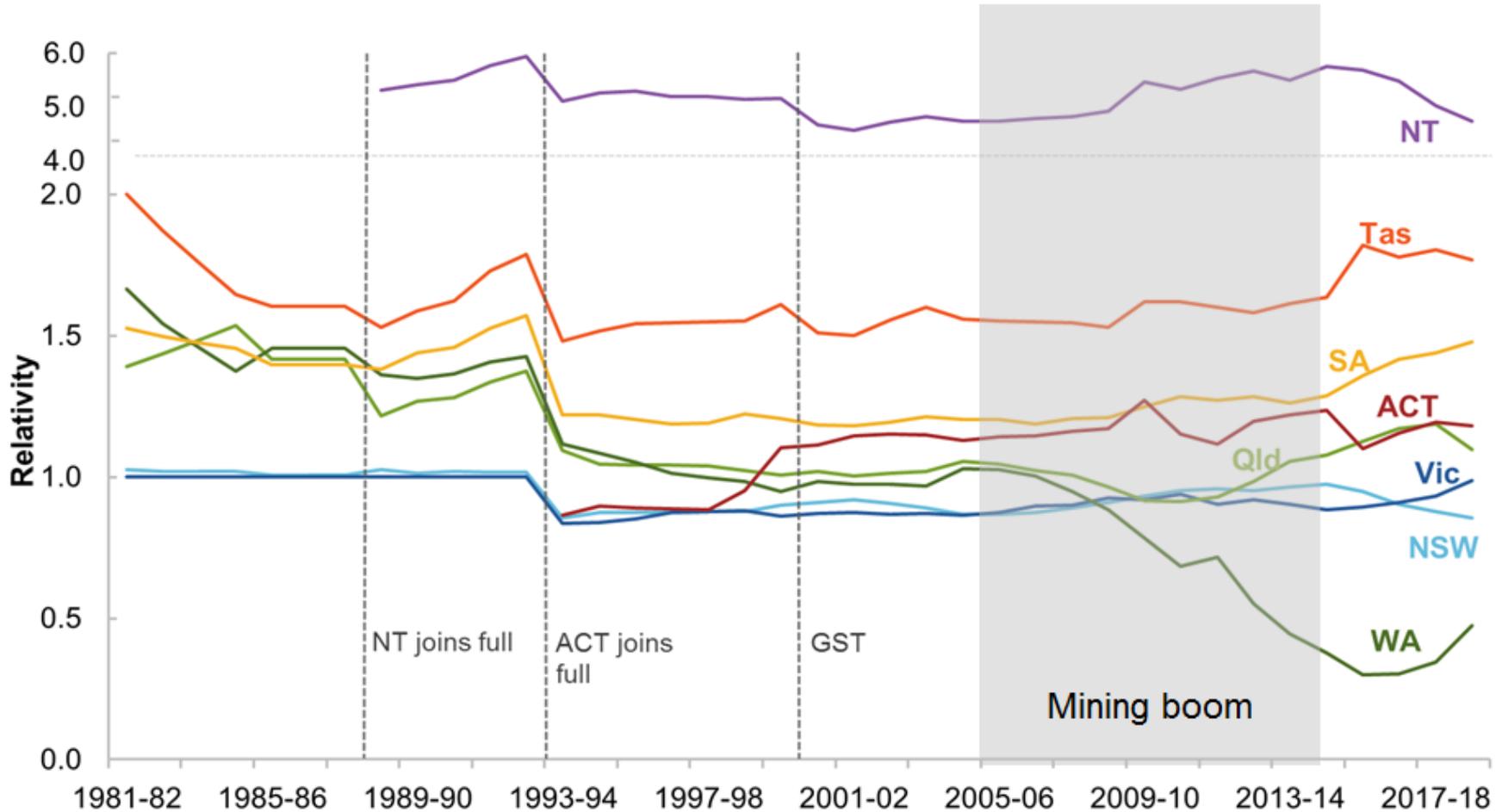
Fiscal disparities before and after equalisation (2012)



Divergence in State relativities

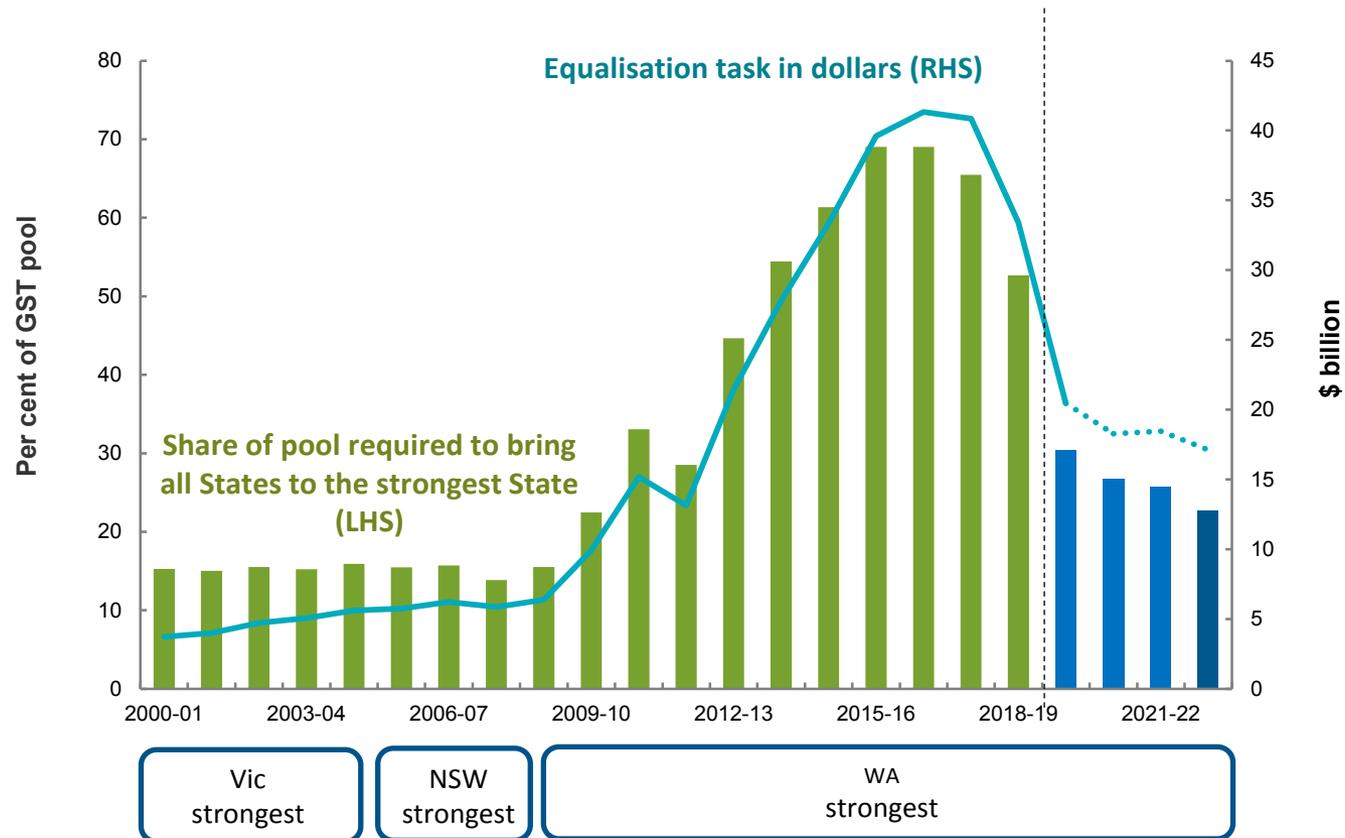


Divergence in State relativities

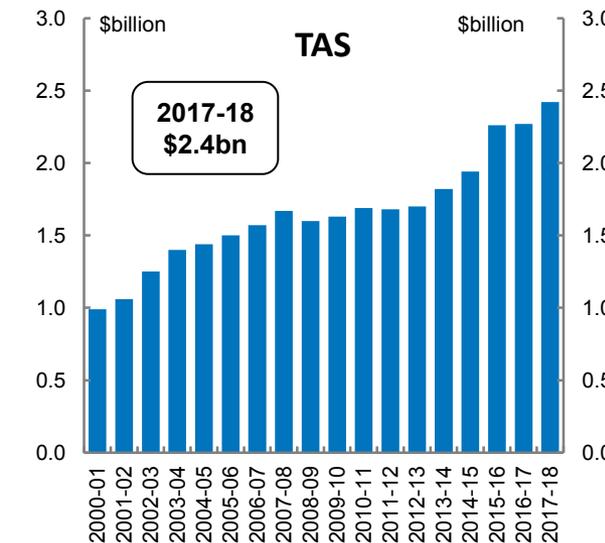
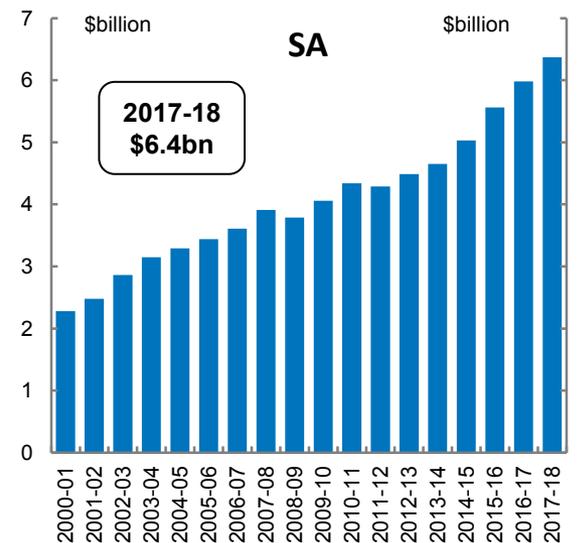
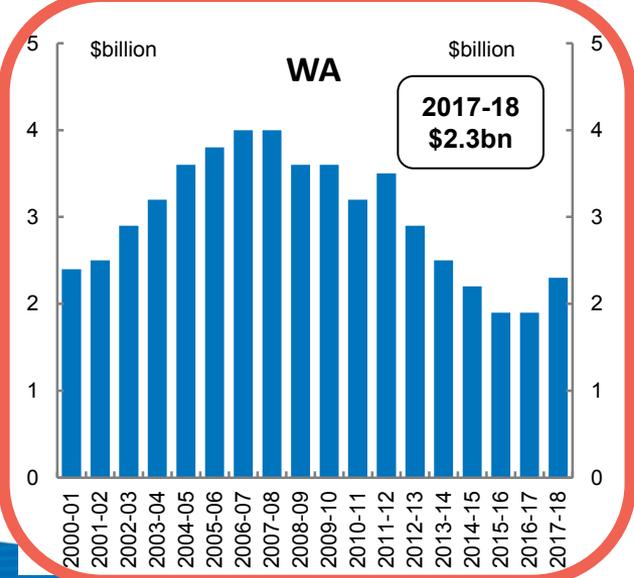
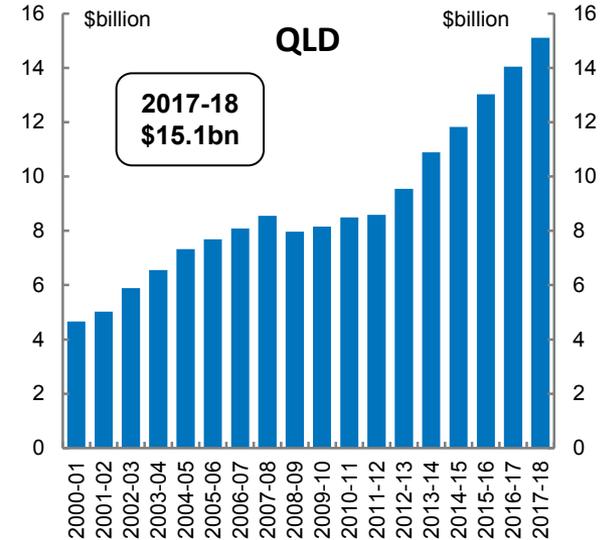
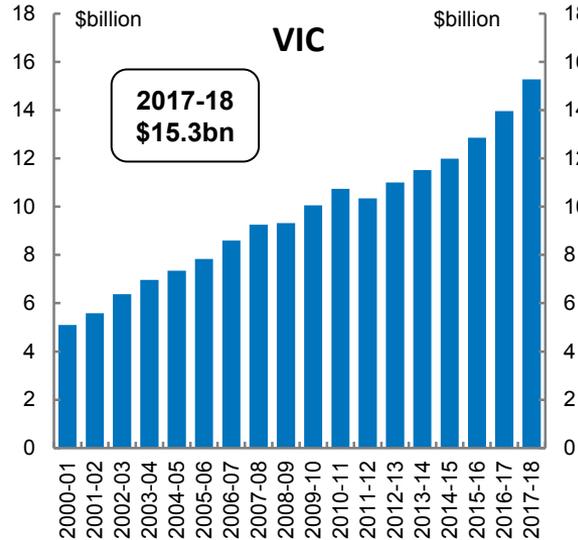
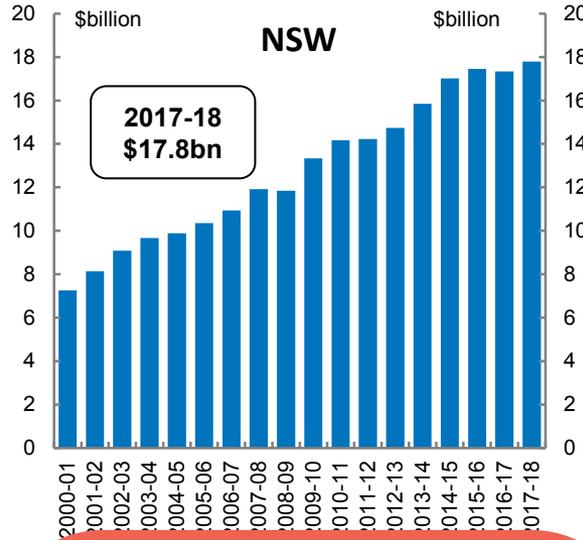


More GST has been needed for equalisation purposes

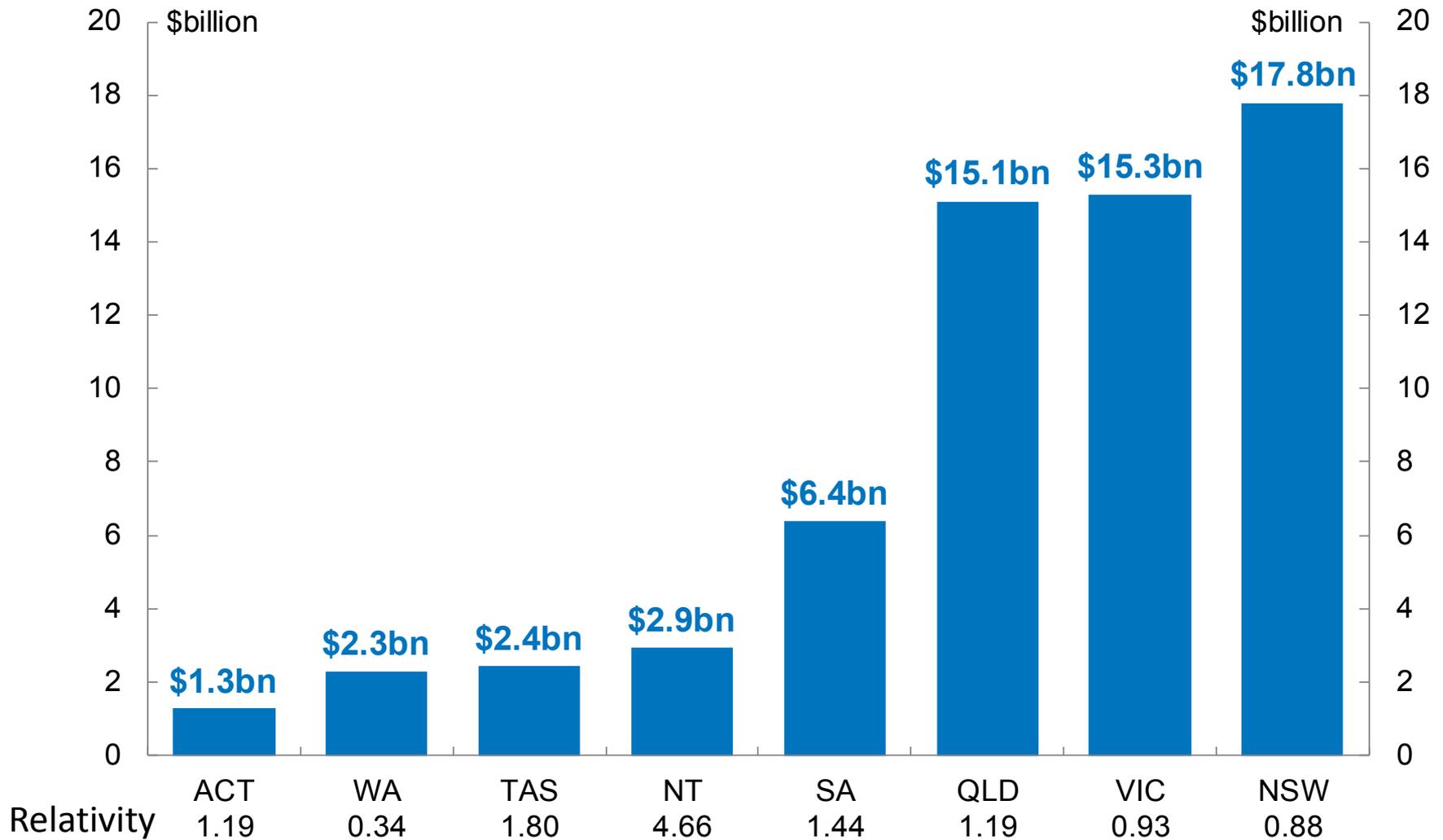
- Current HFE is susceptible to extreme shocks, such as the mining boom



Historical nominal GST payments



2017-18 nominal GST payments

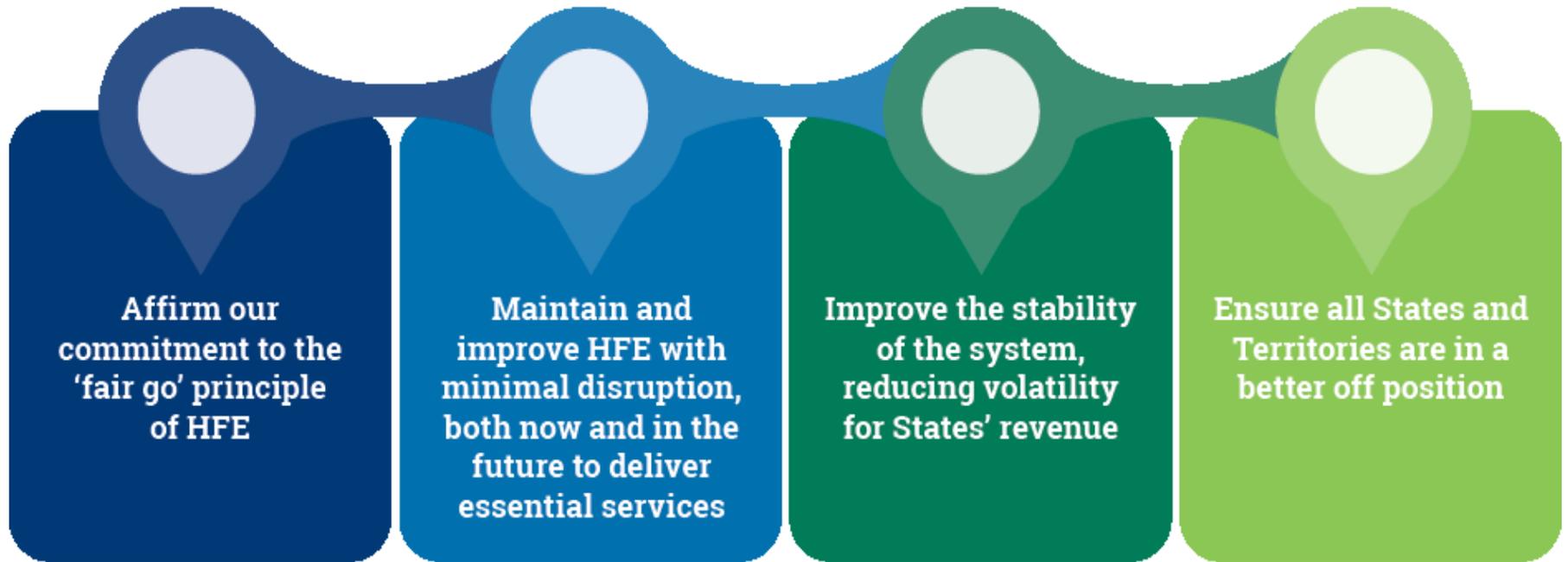


Contribution of Commonwealth's GST integrity measures to each state's GST allocation

\$m	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2018-19	575	538	461	103	215	78	41	87	2,100
2019-20	344	325	292	79	128	49	26	57	1,300
2020-21	393	374	337	96	146	55	30	68	1,500
2021-22	421	399	364	104	153	58	31	70	1,600
Total	1,733	1,637	1,455	382	642	239	128	283	6,500

GST integrity measures since 2015-16 Budget.

Principles for considering HFE reform options



PC's recommendations

Refocus HFE objective to 'reasonable' standard

CGC to provide strong public voice & facilitate better understanding of HFE

CGC strengthen interaction with States and provide 'draft rulings'

Commonwealth & States develop clear guidelines on GST exclusions

Commonwealth to nominate areas of focus for 5-yearly reviews

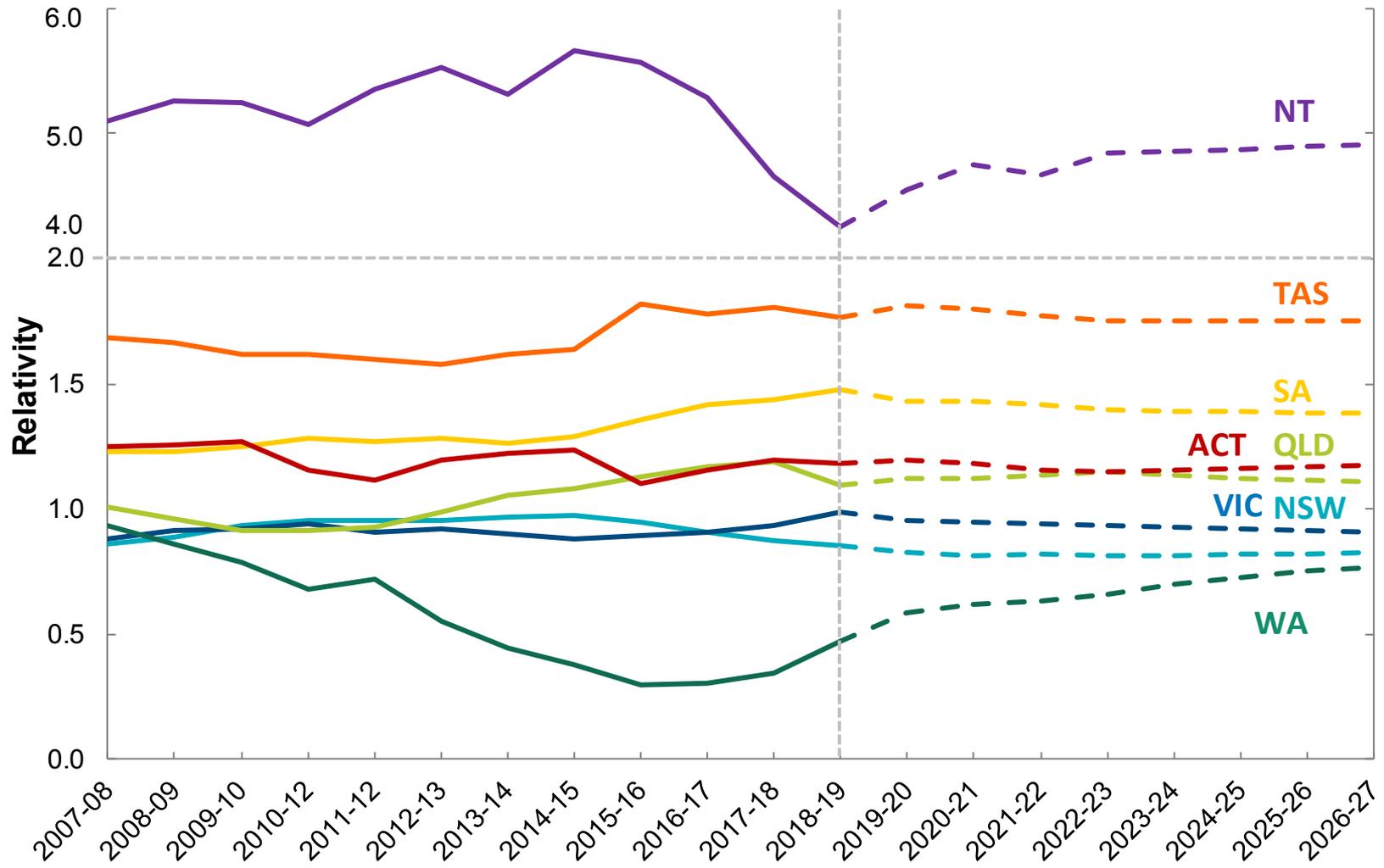
CGC to make data and calculations publicly available

CGC to examine broader indicators & increase materiality thresholds

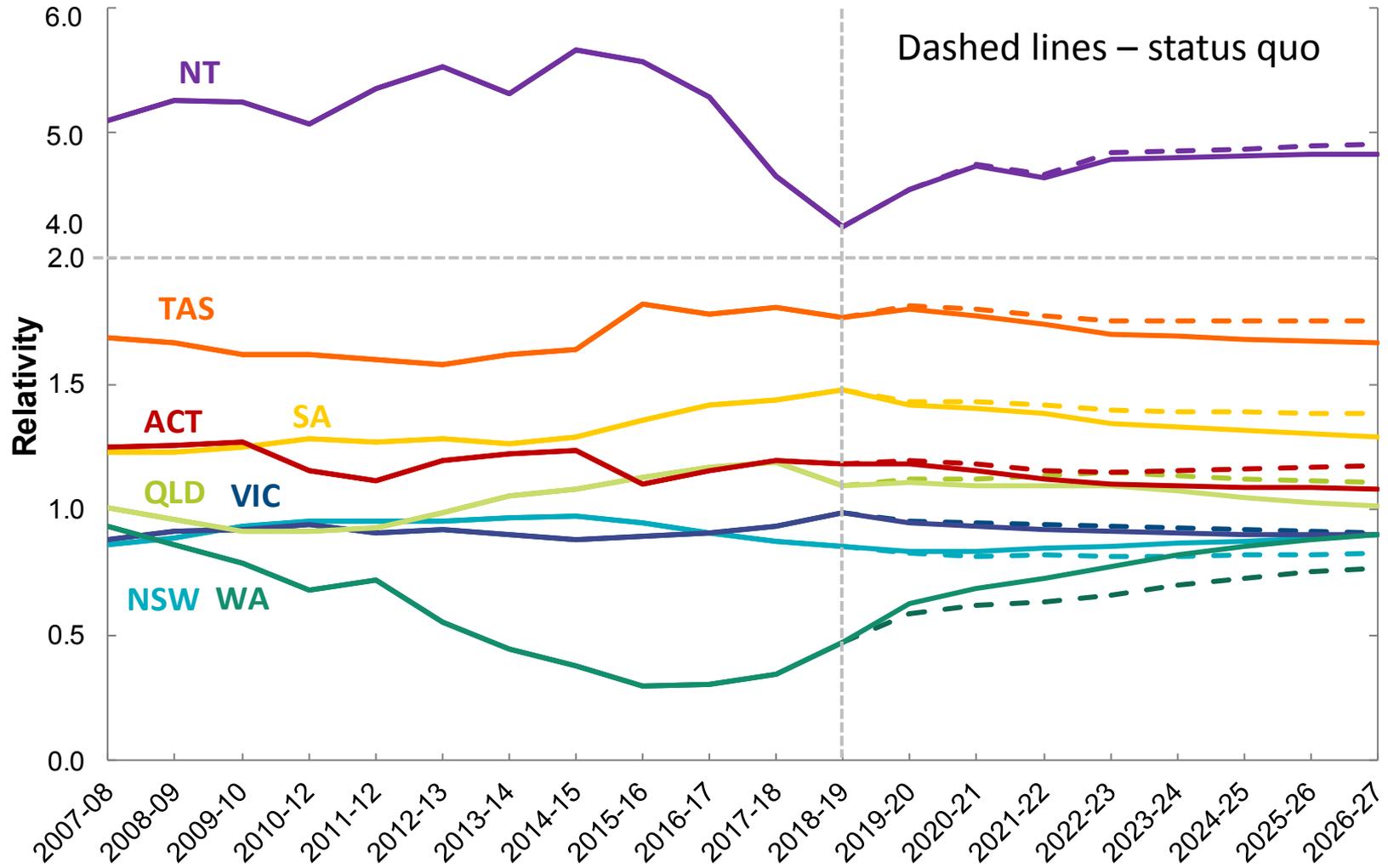
Commonwealth & states to work on further federal-financial relations reform

HFE to equalise to the average fiscal capacity of all states

PC projects that relativities will change



PC option vs status quo



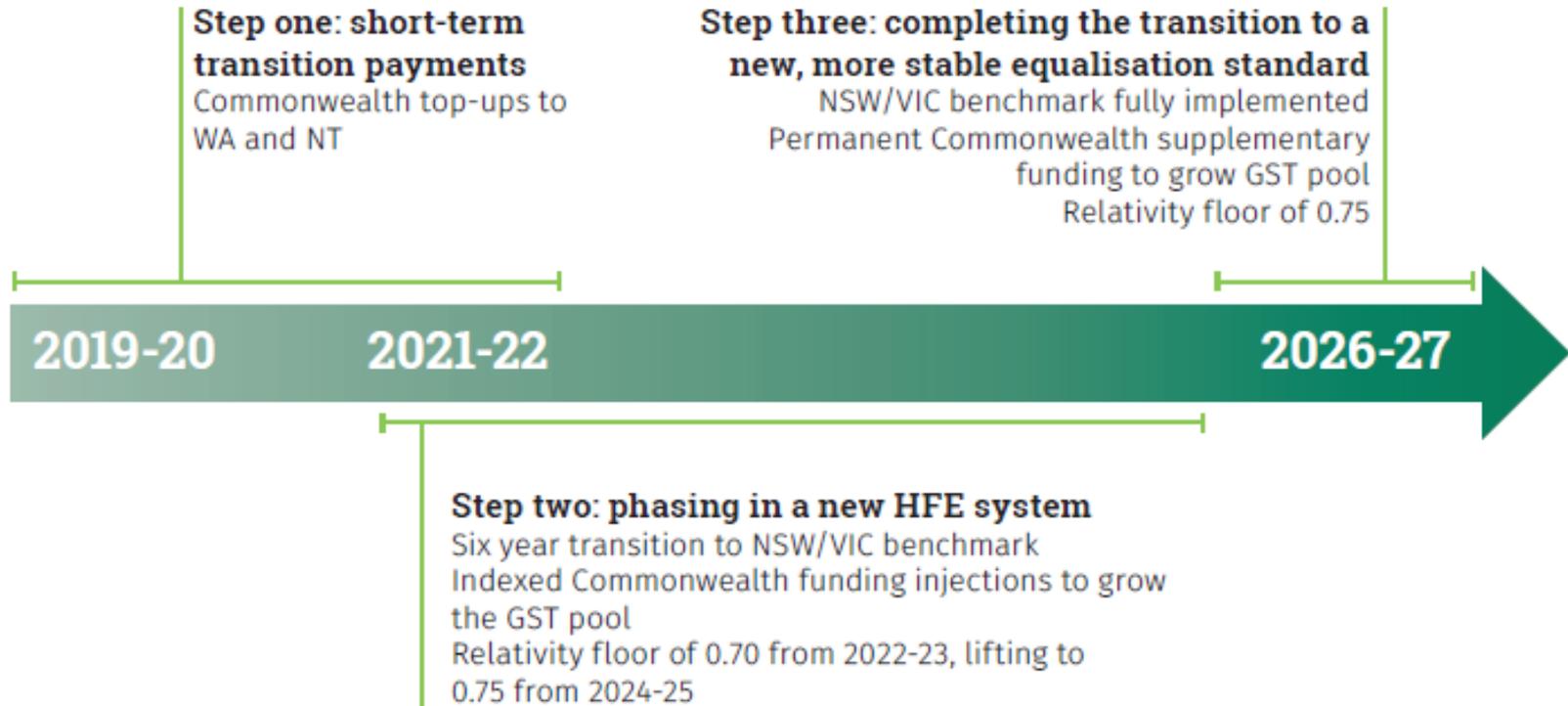
PC option vs status quo

	NSW		VIC		QLD		WA	
	Status		Status		Status		Status	
	Quo	PC	Quo	PC	Quo	PC	Quo	PC
2019-20	0.82	0.84	0.96	0.95	1.12	1.11	0.59	0.63
2020-21	0.82	0.84	0.95	0.94	1.12	1.10	0.62	0.69
2021-22	0.82	0.85	0.94	0.92	1.14	1.10	0.63	0.73
2022-23	0.81	0.85	0.93	0.91	1.15	1.10	0.66	0.78
2023-24	0.81	0.86	0.93	0.91	1.14	1.07	0.70	0.82
2024-25	0.82	0.88	0.92	0.90	1.12	1.05	0.73	0.85
2025-26	0.82	0.89	0.91	0.90	1.12	1.03	0.75	0.88
2026-27	0.83	0.90	0.91	0.90	1.11	1.01	0.76	0.90
	SA		TAS		ACT		NT	
	Status		Status		Status		Status	
	Quo	PC	Quo	PC	Quo	PC	Quo	PC
2019-20	1.43	1.42	1.81	1.80	1.19	1.18	4.55	4.54
2020-21	1.43	1.40	1.80	1.77	1.18	1.16	4.75	4.74
2021-22	1.42	1.38	1.78	1.74	1.16	1.12	4.67	4.64
2022-23	1.40	1.35	1.75	1.70	1.15	1.10	4.84	4.80
2023-24	1.39	1.33	1.75	1.69	1.16	1.09	4.86	4.81
2024-25	1.39	1.32	1.75	1.68	1.16	1.09	4.88	4.82
2025-26	1.39	1.30	1.75	1.67	1.17	1.09	4.90	4.83
2026-27	1.38	1.29	1.75	1.66	1.18	1.08	4.91	4.84

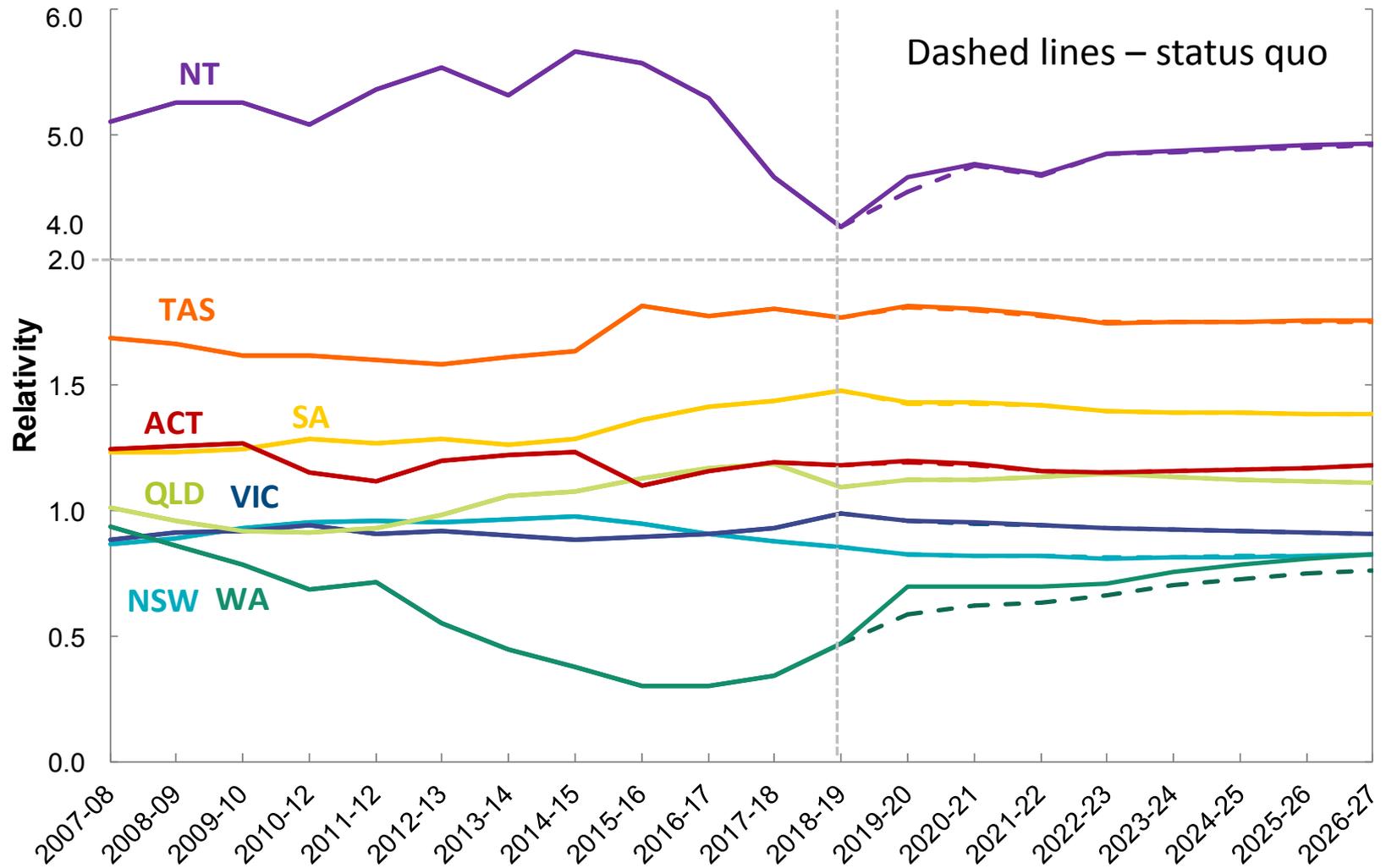
Our preferred response

1. Recommit to the **'fair go' principle** of Horizontal Fiscal Equalisation
2. Stronger economy and continuing with GST integrity measures to protect and **grow the GST base** and distribution pool
3. Adopt the PC's recommendations to **make the system simpler** and more transparent
4. Change the HFE formula to establish a new relativity floor and a new benchmark that **removes the impact of extreme cases** by equalising to the higher of NSW or Victoria – the historically strongest states
5. Adopt a **sensible transition path** over eight years that protects the delivery of essential services that Australians rely on
6. Ensure all states & territories are **better off now and in the future** by permanently boosting the size of the GST distribution pool from supplementary contributions to the pool made by the Commonwealth

The transition pathway



Government option vs status quo



Government option vs status quo

	NSW		Vic		Qld		WA [^]	
	Status Quo	Govt Option	Status Quo	Govt Option	Status Quo	Govt Option	Status Quo	Govt Option
2019-20	0.82	0.83	0.96	0.96	1.12	1.12	0.59	0.70
2020-21	0.82	0.82	0.95	0.95	1.12	1.12	0.62	0.70
2021-22	0.82	0.82	0.94	0.94	1.14	1.14	0.63	0.70
2022-23	0.81	0.81	0.93	0.93	1.15	1.15	0.66	0.71
2023-24	0.81	0.81	0.93	0.92	1.14	1.13	0.70	0.75
2024-25	0.82	0.82	0.92	0.92	1.12	1.12	0.73	0.79
2025-26	0.82	0.82	0.91	0.91	1.12	1.12	0.75	0.81
2026-27	0.83	0.83	0.91	0.90	1.11	1.11	0.76	0.83
	SA		Tas		ACT		NT [^]	
	Status Quo	Govt Option	Status Quo	Govt Option	Status Quo	Govt Option	Status Quo	Govt Option
2019-20	1.43	1.43	1.81	1.81	1.19	1.20	4.55	4.66
2020-21	1.43	1.43	1.80	1.80	1.18	1.18	4.75	4.76
2021-22	1.42	1.42	1.78	1.78	1.16	1.16	4.67	4.68
2022-23	1.40	1.40	1.75	1.75	1.15	1.15	4.84	4.85
2023-24	1.39	1.39	1.75	1.75	1.16	1.16	4.86	4.87
2024-25	1.39	1.39	1.75	1.75	1.16	1.16	4.88	4.89
2025-26	1.39	1.39	1.75	1.76	1.17	1.17	4.90	4.91
2026-27	1.38	1.38	1.75	1.76	1.18	1.18	4.91	4.93

[^] Includes top up where applicable.

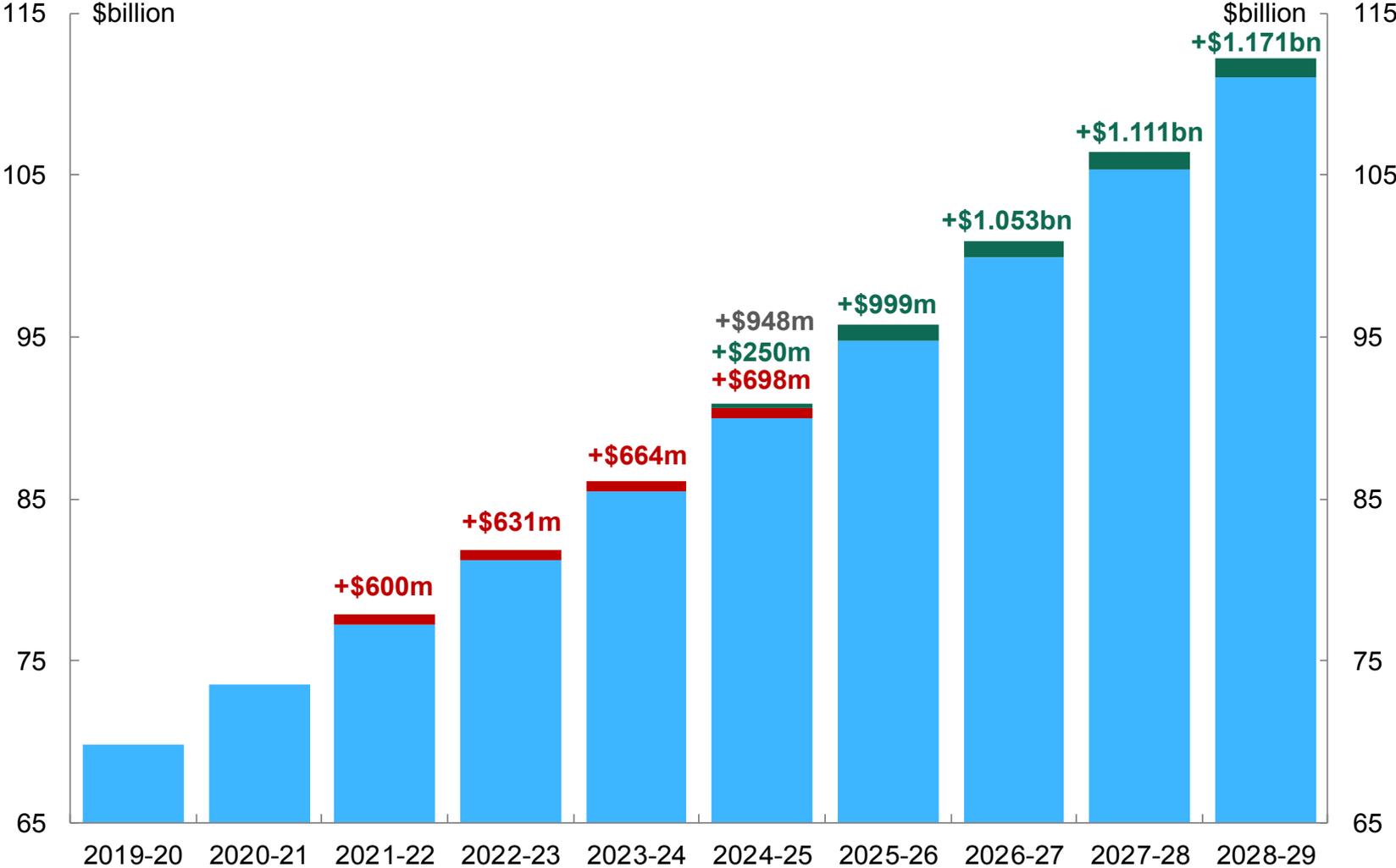
Legend:

Same Positive Negative

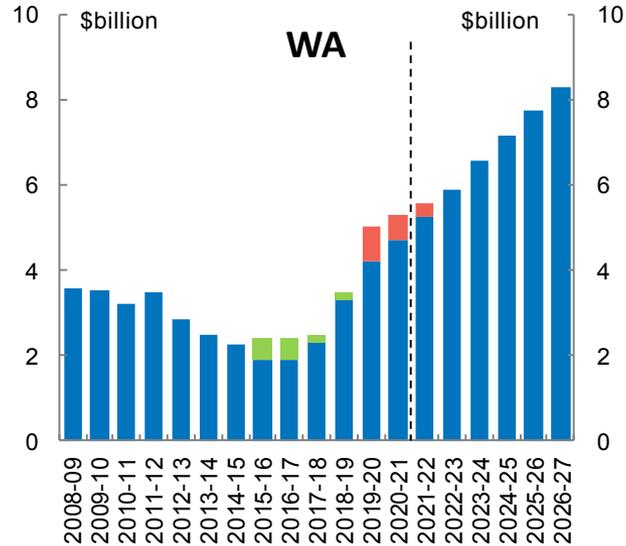
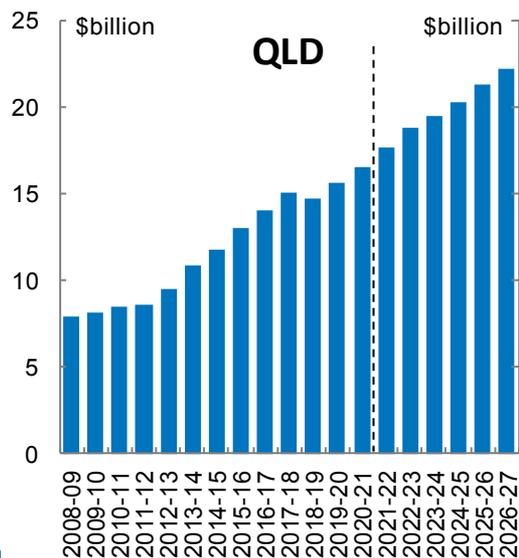
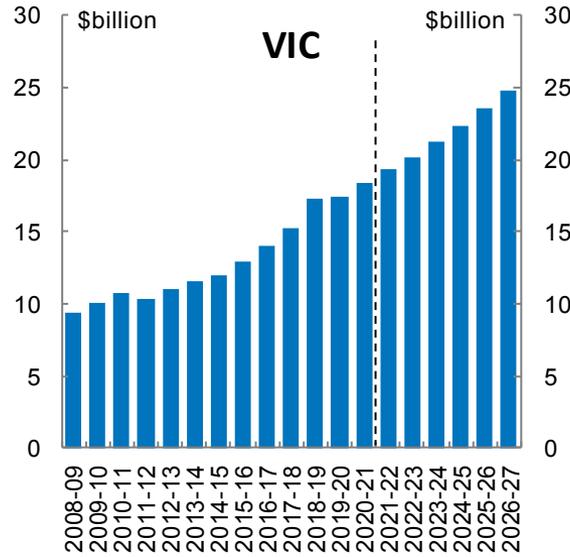
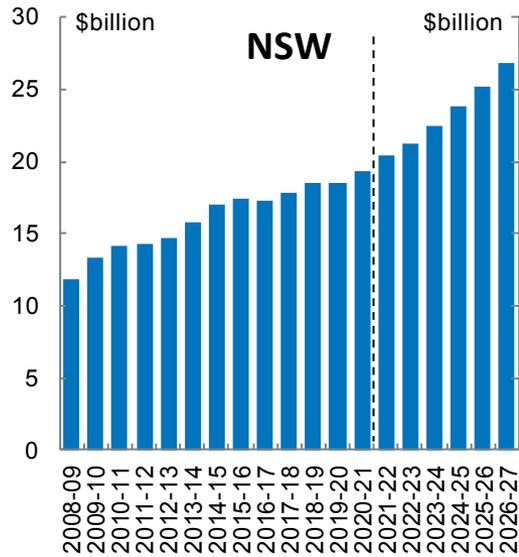
Expanding the Base

\$m	Estimated GST Pool	Cwth Injection	Boosted GST Pool	Additional GST Pool
2018-19	67,320		67,320	0
2019-20	69,790		69,790	0
2020-21	73,510		73,510	0
2021-22	77,270	600	77,870	600
2022-23	81,250		81,881	631
2023-24	85,450		86,114	664
2024-25	89,950	250	90,898	948
2025-26	94,770		95,769	999
2026-27	99,900		100,953	1,053
2027-28	105,340		106,451	1,111
2028-29	111,080		112,251	1,171

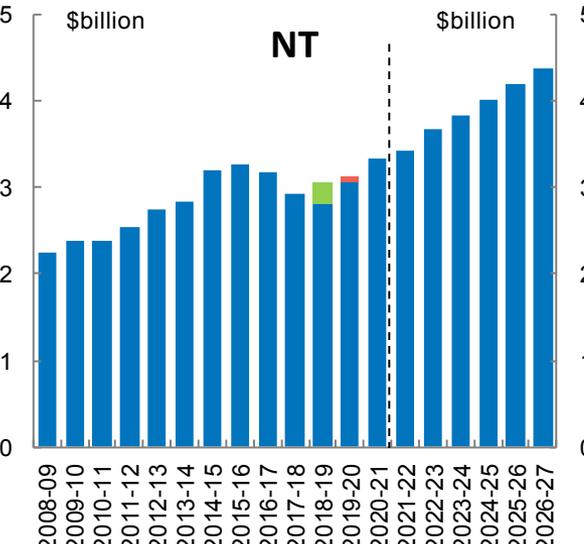
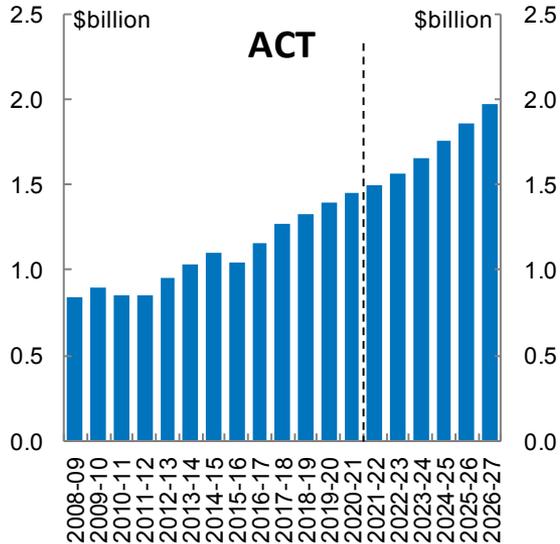
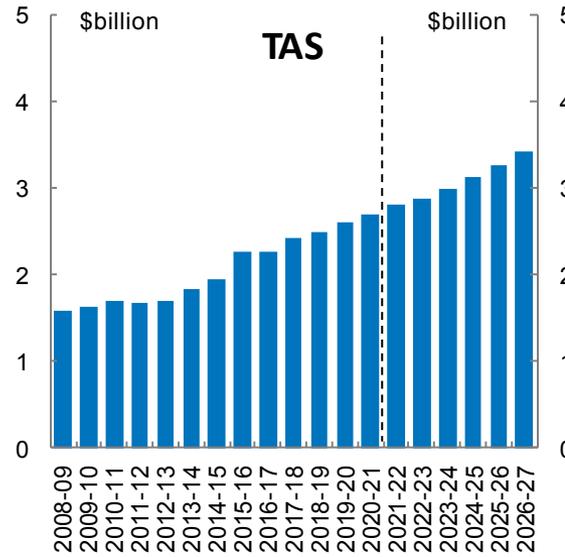
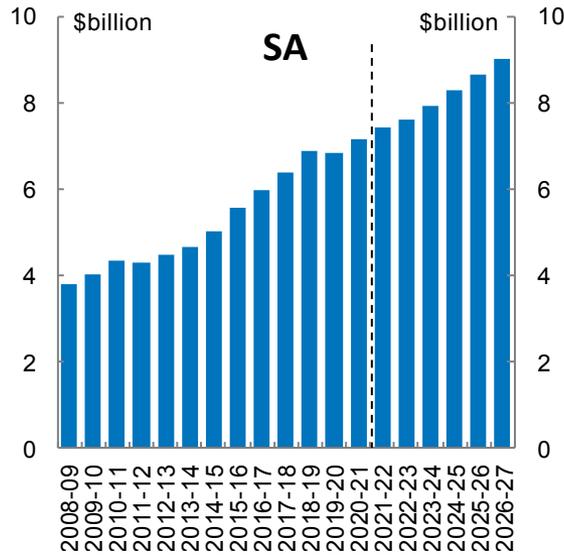
Projected GST distribution pool



Projected nominal GST payments



Projected nominal GST payments



Every State and Territory better off

Additional Top Ups

\$m	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2019-20	0	0	0	814	0	0	0	69	883
2020-21	0	0	0	585	0	0	0	0	585
Total	0	0	0	1,399	0	0	0	69	1,468

Boost GST Distribution Pool

2021-22	78	84	87	568*	41	17	7	24	905*
2022-23	30	45	61	421	31	14	5	24	631
2023-24	14	32	51	495	28	13	5	25	664
2024-25	70	84	101	575	50	22	9	37	948
2025-26	85	96	112	580	54	23	10	39	999
2026-27	74	85	105	663	53	23	10	40	1,053
Total	351	425	518	3,303*	257	112	46	189	5,201*

* This includes a further top up payment of \$305 million in 2021-22 to ensure WA relativity of 0.70 is maintained.

Comparison based on estimate of nominal distributions from Government option and status quo of full equalisation using PC relativity projections.

Next steps

1. Commonwealth Treasury to provide States and Territories with data and assumptions underlying Interim Response proposal
2. States and Territories to provide feedback – HoTs to work to resolve issues and provide consolidated data
3. CFFR to meet to consider HoTs report, PC recommendations, proposed reform options and IGA
4. Commonwealth to issue direction to CGC on accepted PC recommendations
5. HoTs to consolidate feedback on first CFFR meeting and present proposed IGA to CFFR
6. CFFR to meet to consider final proposal