

Local Government Economic Briefing



GST Distribution Reform

Key Points

- The Federal Government has released the Productivity Commission's Inquiry Report into Horizontal Fiscal Equalisation (HFE).
- The Report recommends that the Commonwealth Government set a revised objective for HFE to provide States with the fiscal capacity to deliver a 'reasonable' standard of services, as opposed to the standard provided by the strongest state.
- The Federal Government however has not adopted this premise, and has instead set out its own plan to reform the GST distribution that it claims will leave no state worse off.
- WA is set to receive an extra \$4.7 billion in GST revenue by 2026-27 under the new approach.

Summary

After much anticipation, the Federal Government has finally released the Productivity Commission's Inquiry Report into Horizontal Fiscal Equalisation (HFE) – the method by which GST revenue is distributed to the States and Territories.

The Productivity Commission found that the basic premise of HFE has broad support from all levels of Government, but there are some significant weaknesses with the current approach, resulting in a need for reform to deliver a better balance between equity and efficiency. The primary reform recommended by the Commission is for the Commonwealth Government to set a revised objective for HFE to provide States with the fiscal capacity to deliver a 'reasonable' standard of services – rather than a level comparable with the strongest state.

The Federal Government however has not adopted this recommendation, and has instead set out its own plan to reform the GST distribution that it claims will leave no state worse off. It proposes a phased approach over an eight year period, which involves the following elements.

- Setting a 70 cent in the dollar floor for each State and Territory's annual GST allocation from 2022-23, rising to 75 cent in the dollar floor from 2024-25.
- Short-term funding will be provided from general revenue over the three years from 2019-20 to 2021-22 to ensure that no State receives less than 70 cents per person per dollar of GST.
- Introduce a new equalisation measure so that the fiscal capacity of the States and Territories is at least equivalent to the two largest states of New South Wales or Victoria, whichever is higher. It is considered that this approach would smooth out the impact of extreme circumstances such as mining booms.
- Injecting \$600 million per annum from general revenue into the GST pool in 2020-21 to increase the amount of revenue available for distribution. This is to be followed by a further recurrent injection of \$250 million in 2024-25. In the subsequent years, this will be indexed at the same rate of growth as GST collections in those years.

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These reforms will deliver WA and extra \$4.7 billion in GST revenue by 2026-27.

While this will help address the State's fiscal challenges, it is important that this windfall is not wasted. There needs to be a proper strategic decision made around priorities for investing in key local infrastructure, paying down the record levels of debt that have accumulated in recent years, and resisting committing to new spending initiatives.

Understanding the detail of the proposed reforms will be important, and at this stage there remains some unanswered questions about how the new approach will work. In particular, it is unclear how the injections to the funding pool will be funded, and what the impact would be from a fall in the total GST pool. These questions will need to be worked through in coming months.

Treasurer Scott Morrison notes that the proposed changes will require significant consultation in order to develop a new Intergovernmental Agreement, and will be visiting all States in coming weeks, as well as convening a special meeting of the Council on Federal Financial Relations by September. This meeting will be used to finalise the transition arrangements by the end of this year.

Further detail can be found at:

<http://www.pc.gov.au/inquiries/completed/horizontal-fiscal-equalisation/report>

http://sjm.ministers.treasury.gov.au/media-release/069-2018/?utm_source=wysija&utm_medium=email&utm_campaign=Media+Release+-+All+better+off+from+fairer+way+to+share+the+GST

For further information please contact:

Policy Manager, Economics Dana Mason on 9213 2096 or email dmason@walga.asn.au.