



Productivity Commission Post-draft Submission

Inquiry into GST distribution reforms

September 2026



Chamber of Commerce
and Industry WA

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Contents

Executive Summary	3
Productivity Commission Interim Report.....	4
Chapters and findings.....	5
Horizontal Fiscal Equalisation in Australia	5
Impacts of the 2018 reforms.....	7
The PC's assessment of the current system	11
Assessing alternative GST distribution arrangements	14
Governance arrangements for an effective FFR system	16
Interim Recommendations	17
Conclusion: Move forward, not backward	18



Executive Summary

The Chamber of Commerce and Industry WA (CCIWA) welcomes the opportunity to comment on the Productivity Commission's interim report on the 2018 Goods and Services Tax (GST) distribution reforms (the interim report).

The Productivity Commission made nine interim findings and ten interim recommendations, under five chapters. The interim report finds that the 2018 reforms have not achieved their objective.

CCIWA reiterates that our initial submission presents findings to the contrary. **As such, we disagree with the Productivity Commission's assessment and highlight five key concerns,** namely that the interim report:

1. does not fully account for the broader economic and productivity narrative.
2. diverges significantly from previous definitions and the Terms of Reference.
3. puts excessive emphasis on equity – at the expense of other important objectives.
4. does not wholly consider the role of the Commonwealth Grants Commission (CGC).
5. has yet to sufficiently focus on systemic flaws, which many submissions highlighted.

In what follows, we outline how the Productivity Commission could address our concerns and provides additional recommendations for consideration.

REVISED RECOMMENDATIONS

Based on the Productivity Commission's interim report, CCIWA again recommends to:

1. **maintain the 2018 GST Reforms**, specifically:
 - a. the **current equalisation standard**, as the stronger of NSW or Vic; and
 - b. the **GST relativity floor of 0.75**.
2. support targeted opportunities to **further strengthen incentives and integrity of the GST system, over the short and the longer term**, by:
 - a. reviewing the factors the CGC applies when determining reasonable equalisation, such as **royalty discounts**, and improvements to the **transparency** of the GST distribution system.
 - b. examining the longer-term merits and risks of an **Equalisation to the Average (ETA)** GST distribution model.

Ahead of the final report, CCIWA also recommends the Productivity Commission should:

3. seek to more fully address the Terms of Reference, with a recognition of **different definitions of reasonable equalisation**, including a definition that aligns with the 2018 Inquiry into Horizontal Fiscal Equalisation (HFE).
4. **acknowledge that the GST system cannot be viewed in isolation** from broader Federal Financial Relations (FFR), as outlined in the Terms of Reference.
5. **assess for the final report a broader range of options for GST distribution**, being cognisant of Commonwealth Government's policy commitments which have focused on ensuring all states and territories get a 'fair' share.
6. investigate ways the CGC should address the factors it applies when determining reasonable equalisation, such as **royalty discounts**, and improvements to the **transparency** of the GST distribution system.
7. make recommendations regarding:
 - a. ongoing research of GST distribution to incentivise productivity; and
 - b. civic education to improve understanding of GST amongst the general public.



Productivity Commission Interim Report

On the whole, the interim report dissents with CCIWA's initial submission and reverses many of the conclusions outlined in the findings made in the Productivity Commission's substantive and well-researched 2018 report on horizontal fiscal equalisation.¹

The interim report is written in response to the Terms of Reference:

The Commission will inquire into the operation of the 2018 legislation, including whether the 2018 changes to the GST distribution system are operating efficiently, effectively and as intended and the fiscal implications for each state and territory, and for the Commonwealth, of the changes made by the 2018 legislation.

The Commission is to investigate:

To what extent the current arrangements are:

1. delivering a reasonable level of Horizontal Fiscal Equalisation.
2. appropriately balancing the objective of responsiveness to changing circumstances with the objectives of reducing volatility and improving the certainty of GST revenue streams to support state fiscal planning.
3. supporting states and territories to pursue reforms, including to the efficiency of service delivery and state and territory revenue bases, and
4. fiscally sustainable for the Commonwealth and states and territories.

Whether alternative arrangements would better achieve some or all of these outcomes.

The interaction between GST payments and other Commonwealth payments to states, including the principles for exempting payments from the Commonwealth Grants Commission's assessments.

Any recommendations made by the Commission should include an assessment of implementation feasibility and risks, and be cognisant of the Commonwealth's policy commitments in relation to GST distribution.

In its recommendations, the Commission should provide a range of options including options with a funding relativity floor comparable to the current level, with and without top-up funding from the Commonwealth.

In our view, the interim report does not address these as clearly as it could. The final report should address these questions in a much more direct and clear way.

By framing the interim findings and recommendations against the primacy of equity, which was not part of the scope of the inquiry, the interim report has introduced a false equivalence.

As outlined by the Productivity Commission, there was a set of tests which the 2018 reforms needed to meet, with four of these provided in Figure 2.2 of the interim report:

1. **guard against the negative effects of economic shocks (on states' GST revenue)** by moving to an updated HFE system.
2. **maintain and improve the HFE system** with minimal disruption, now and into the future.

¹ Productivity Commission. [Inquiry Report No. 88: Horizontal Fiscal Equalisation](#). May 2018.



3. **provide a long-term solution with more stable and predictable revenue** for all states, while preserving equity in the HFE system and leaving all states better off.
4. **transition Australia's HFE system** in a fair, reasonable and sustainable way that leaves no state worse off.

Later in this document, we will outline that we believe these four tests have been met – despite flaws in the current system – and as such we conclude that the 2018 reforms are operating efficiently, effectively and as intended.

Chapters and findings

Horizontal Fiscal Equalisation in Australia

This section of the interim report relates to the principle of HFE and identified that it is widely supported for its objective of enabling states to provide a similar standard of public services.

CCIWA would agree that the broad goal of horizontal fiscal equalisation is supported – but there are substantial differences in opinion on what form that should take on, from the average of states and territories, full equalisation to the strongest state, or the higher of Victoria or New South Wales (NSW).

The interim report notes that vertical fiscal imbalance – that is, the revenue raising discrepancy between States and the Commonwealth – remains a key and pressing issue, and that HFE is a fiscal mechanism used to address vertical fiscal imbalance.

In this section, the Productivity Commission also sought to highlight how misinterpretation has, in their view, skewed public discourse.

There were two findings in this chapter:

- **Interim finding 1.1:** A lack of understanding of the HFE system has undermined the quality of public debate on the topic.
- **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.

CCIWA partially agrees with these interim findings, with caveats on why we agree.

From the outset, we agree that while the concept of HFE is simple, distribution of GST is complex.

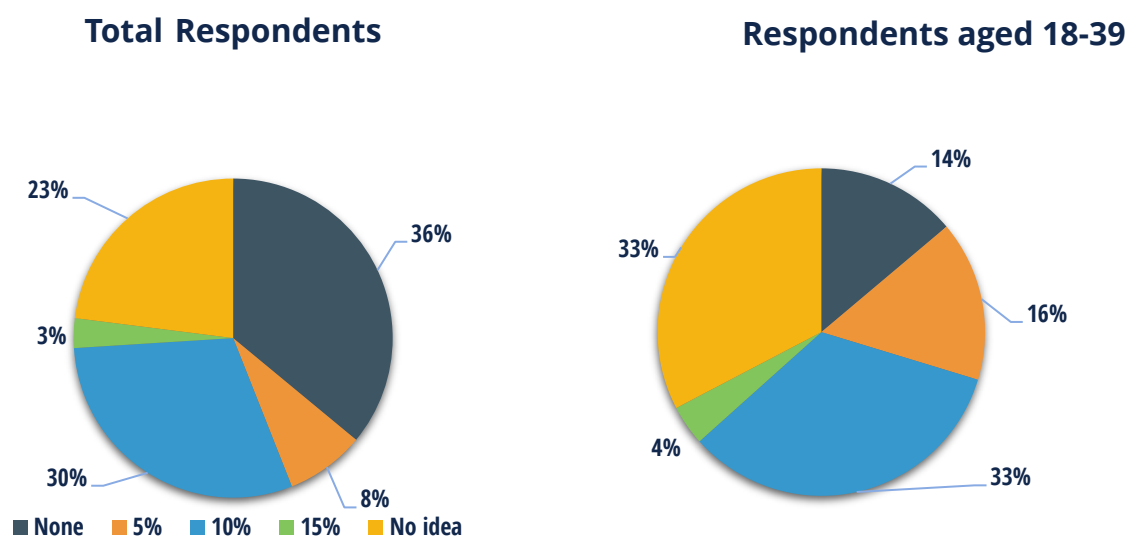
The level of understanding of the GST amongst the general public has been, at best, limited. We understand that this was why the Productivity Commission has previously recommended that the CGC provide public education, to help broaden awareness and understanding.

Indeed, we found that the literacy for GST remains very low in the community, particularly for Generations Z and Alpha **[Figure 1]**.

Through research conducted for CCIWA, in response to a question around whether GST applied to fresh fruit, it was found that only 26% of respondents could correctly answer. When limiting responses to the 18 to 39 year old age cohort, the correct response rate dropped to 14%.²

² Data extrapolated from CCIWA Consumer Confidence. March 2026

Figure 1: Comparison of responses to question: without checking on the internet can you indicate how much GST applies to fresh fruit?³



While the population broadly may not fully understand GST, we disagree that this has undermined ‘quality debate’ on the topic.

We suggest that, since its introduction, the GST has been a contentious issue, as outlined in the several examples.⁴ This includes the example below:

The 1999 *Intergovernmental Agreement on the Reform of the Commonwealth-State Financial Relations* provided that the GST pool was to be distributed among the States on horizontal fiscal equalisation (HFE) principles, however the States disagree about exactly what HFE entails.

Review of Commonwealth-State Funding

Ross Garnaut & Vince FitzGerald. August 2002.

We suggest a historically low relativity was the main driver for reform, rather than low community sentiment.

CCIWA suggests that the findings should be amended to reflect that:

- a lack of understanding of the HFE system persists amongst the general population.
- an unprecedentedly low relativity, due to an unexpected and rapid increase in iron ore price, was the catalyst for the 2018 reforms.

³ Ibid.

⁴ Examples: Guardian Australia, Jericho G. [Colin Barnett’s GST rhetoric is finding blame for WA’s shambolic budget](#). April 2015. Sydney Morning Herald, Wade M. [NSW budget takes \\$150m hit as GST share reduced](#). February 2012. Crook T. [Submission into the GST Distribution Review](#). October 2011. Australian Financial Review. [Editorial: Grants commission needs shake-up now](#). September 2005. Commonwealth Parliament, Garnaut R & FitzGerald V. [Review of Commonwealth-State Funding](#). August 2002.

Impacts of the 2018 reforms

There were two findings relating to the perceived impacts of the 2018 reforms:

- **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.
- **Interim finding 2.2:** The 2018 reforms are not operating efficiently, effectively or as intended.

CCIWA disagrees with both findings, and directs the Productivity Commission to our initial submission, specifically the section *The 2018 Reforms and why they work as intended*.⁵

In the interim report, the Productivity Commission writes that:

The new equalisation standard introduced as part of the 2018 reforms requires that no state has a relativity lower than whichever of New South Wales or Victoria has the greatest fiscal capacity (the 'standard state'). This standard state benchmark can create perverse outcomes in the GST distribution system, as state policy choices and external shocks now impact different states in different ways. As a result of the 2018 reforms:

- **States that have a lower fiscal capacity than the standard state** do not need to have their relativity adjusted upwards to meet the standard state benchmark. For these states, a relative improvement (weakening) in their fiscal capacity would reduce (increase) their GST share. This is consistent with the logic of HFE.
- **States that have a greater fiscal capacity than the standard state** (currently only Western Australia) have their relativities adjusted upwards to meet the standard state benchmark. In response to a state policy change or external shock, states in this position can now experience a relative improvement in their fiscal capacity and see their GST share increase, rather than fall. This runs counter to the logic of HFE: a state with a greater revenue-raising capacity should need less GST revenue as its relative fiscal capacity increases, not more.

The PC has explored a non-exhaustive number of perverse outcomes arising from the introduction of the new fiscal equalisation standard. These cases involve natural disaster payments, as well as mining revenue rising because of either state policy choices or increases in commodity prices or volumes.

These perverse outcomes create equity concerns that could undermine community confidence in the GST distribution system.

The Productivity Commission provides just two examples:

- a natural disaster impacting NSW could result in WA receiving more GST; and
- WA may receive additional GST revenue when its mining revenue increases.

The Productivity Commission should balance this with examples of potential perverse outcomes that go the other way and reduce GST allocations to WA. WA Treasury has provided the example of another property boom in New South Wales, which would decrease their GST share and also reduce WA's share. WA should not receive less because another state has a property boom.

⁵ CCIWA. *Submission to the Productivity Commission Review of GST Distribution: A case for stability, productivity and national prosperity*. February 2026.



To the extent there are such shocks and perverse outcomes these could be handled by common sense allocation decisions by the CGC or, if needed, outside the system such that in the bushfire example the Commonwealth provides bush fire assistance.

Moreover, there are other perverse outcomes across the GST distribution system which we comment on later in this submission related to gambling revenue and remoteness.

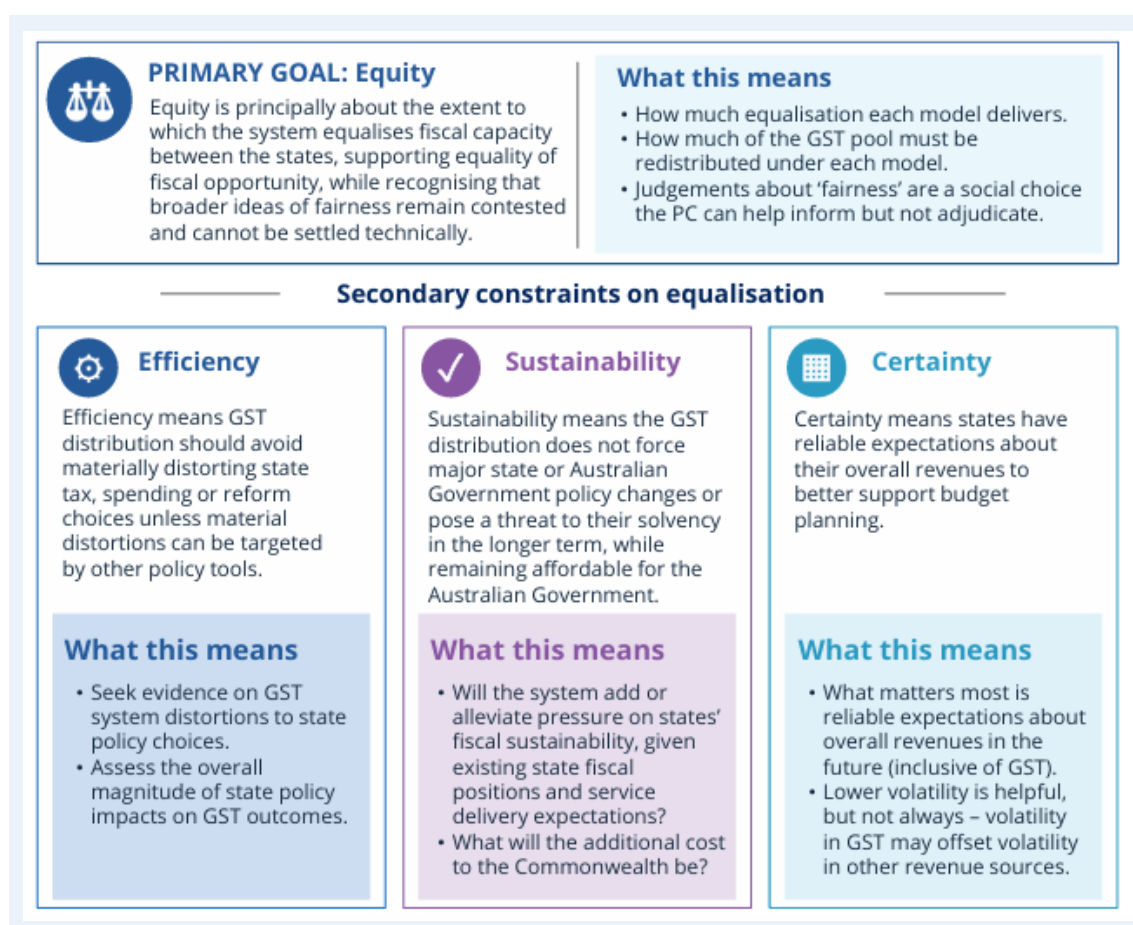
However, this does illustrate the concern from many submissions, including ours, that perverse outcomes have always been persistent within the GST system.

It is not, however, a perverse outcome to grow the share of GST by rewarding productivity. Indeed, this was a key finding from the 2018 report – in the full HFE system, there was a lack of incentive, or a disincentive, which discouraged States from investing in their economies.

With this in mind, we oppose the framework which is provided in the interim report and in interim report Appendix B [Figure 2]. This framework suggests that perverse outcomes are solely caused by not meeting the primary goal of equity.

The framework also downplays fairness concluding it involves a social choice and is contested – but so too is equity. There is an uncomfortable asymmetry here. The Productivity Commission should update its framework to be more consistent with a better balancing of objectives and provide Government with an expanded set of options that reflect different judgements of equity. A positive economics focus above a normative one is recommended.

Figure 2: Framework outlined in the interim report.



Also in this section of the interim report, the Productivity Commission asserts that States other than Western Australia have been worse off.

No State has been worse off – every State has benefited from a larger GST pool.

As we wrote in our initial submission:

WA's resource-based economy provides significant contributions to the State and national economy. WA delivers up to 48% of the nation's exports with only 11% of Australia's population. Indeed, WA's net economic contribution to the Commonwealth Budget has been consistently the highest across all states over time, as reported in consecutive WA State Budgets.

The most recent data set, from 2023-24, shows that NSW was the only other net contributor to the Commonwealth Budget and that WA's net contribution of \$13,300 per capita was 19 times that of NSW.

WA's current GST share enables the State to provide services and invest further in its productive sectors, with more capacity than previously. This results in a net economic gain for the Commonwealth and, via reasonable HFE, other States.

Similarly, it is unreasonable to contrast GST distribution with the statement that the GST pool has not grown as originally forecast. Forecasts made in 1999 will of course be inaccurate compared to the context which we live in today – a highly volatile global economy, with significant tension with a major global pandemic also occurring.

We agree that State expenditure has grown faster than the GST pool [Table 1].

Table 1: Change in growth over time for Commonwealth Transfers (including GST) and State Expenditure, 2000-01 to 2023-24.⁶

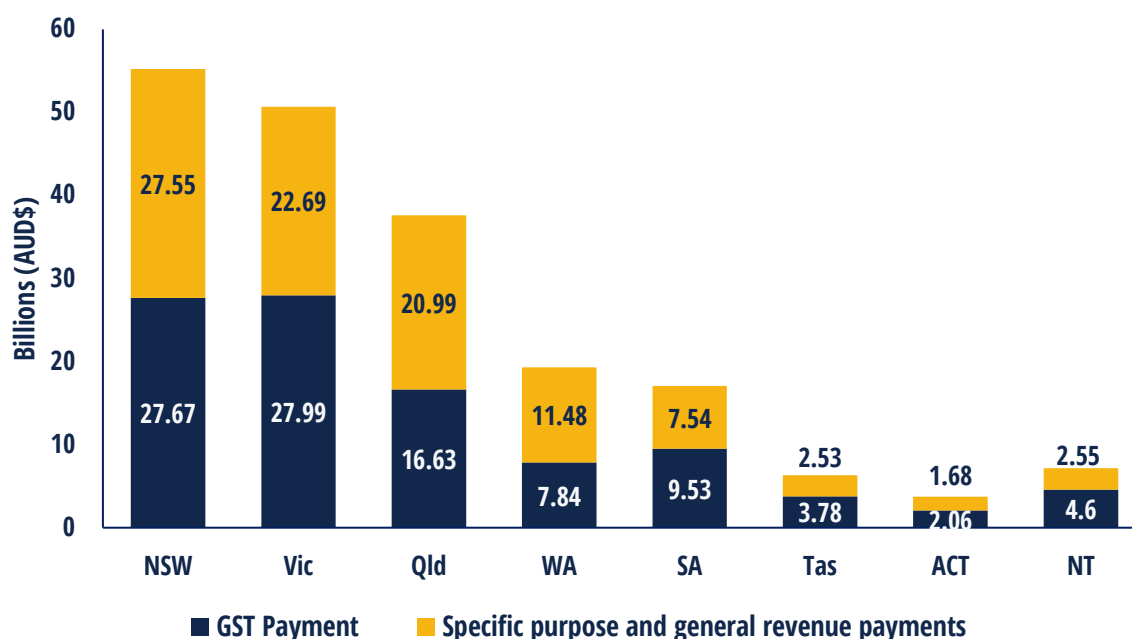
State	Commonwealth transfers to State (incl GST)	State Expenditure growth
NSW	+\$18.9bn	+\$15.9bn
Vic	+\$15.4bn	+\$18.7bn
QLD	+\$18.5bn	+\$19.3bn
WA	+\$5.1bn	+\$9.4bn
SA	+\$5.3bn	+\$4.7bn
Tas	+\$2.0bn	+\$2.3bn
ACT	+\$1.5bn	+\$1.7bn
NT	+\$2.2bn	+\$1.5bn

However, the GST pool has grown significantly since 2000-01, to the benefit of all States. Further, the amount of GST compared to non-GST Commonwealth fund transfers has been relatively equal. This is particularly so for the most recent financial year [Figure 3].

⁶ CCIWA analysis of Productivity Commission data, GST Reform Issues Paper Appendix B.



Figure 3: GST and other Commonwealth transfers 2025-26.⁷



Earlier, we noted that in the interim report, the Productivity Commission stated that the 2018 reforms would be seen as working as intended if they:

1. **guard against the negative effects of economic shocks (on states' GST revenue)** by moving to an updated HFE system.
2. **maintain and improve the HFE system** with minimal disruption, now and into the future.
3. **provide a long-term solution with more stable and predictable revenue** for all states, while preserving equity in the HFE system and leaving all states better off.
4. **transition Australia's HFE system** in a fair, reasonable and sustainable way that leaves no state worse off.

CCIWA believes that these four outcomes have been achieved because:

- **the floor has guarded** against the negative effect of economic shocks, while the price of iron ore has remained higher than Commonwealth and WA Government price projections. The floor is in place for all jurisdictions.
- HFE is now considered against a **reasonable standard, not the highest standard**, making a marked improvement to the HFE system. Moving to a reasonable standard was phased in over the period 2018-27, providing ample time for States to plan their budgets accordingly.
- **equity is preserved and the GST pool has grown** – the principle of HFE remains, just not to full equalisation. No other federation in the OECD seeks full equalisation. Western Australia still receives the least amount of GST per capita, and State shares of GST have remained relatively consistent except for Western Australia.
- there was a six-year transition, with a 'blending' of relativities between 2021 and 2027. As outlined by the CGC, a **'no worse off' guarantee (NoWO)** operates during the transitional period.⁸ This ensures that, over the transitional period, no state will receive

⁷ CCIWA analysis of Productivity Commission data.

⁸ Note: CCIWA had previously used the abbreviation NWO, however for this submission we have aligned with the Productivity Commission's preferred terminology.



a lower cumulative amount of GST than it would have received under the previous arrangements.⁹

The onus to grow State economies still remains with the States.

States should be encouraged to grow their economies. A well-designed distribution system should allow every jurisdiction to have a stronger economy and receive the fiscal support required to meet reasonable service levels. We again iterate that the current system does achieve that aim.

The NoWO was always intended to be a temporary measure, enabling the transition from full to reasonable HFE. There are five factors to note regarding the NoWO:

- the Federal Government made a policy decision to extend the NoWO from 2026-27 through to 2030.
- WA is the only State which does not receive, and has never received, the NoWO.
- in isolation, the NoWO is a cost to the Federal Budget.
- however, when considered against the entire Federal Budget, the NoWO can be costed against revenue from other sources, such as company tax revenue.
- the NoWO ensures States are no worse off compared to the pre-2018 system of full HFE. Therefore, any price increase in commodities will lead to an overall higher cost.

This has been evidenced with two commodities – iron ore and coal. Of these, iron ore has had an outsized impact due to the concentration of iron ore production being in one State – WA.

While the price of iron ore has increased the value of the NoWO, **there has still been a significant tax dividend to the Commonwealth budget and States have not received less than they would have otherwise.**

We again highlight our initial submission, which clearly outlined that royalty income has a material impact on GST relativities. This is largely due to the way they are assessed by the CGC under the current methodology.

CCIWA suggests that the findings should be amended to reflect that:

- GST distribution, when based on HFE, will always have a risk of perverse outcomes if the foundational inputs do not reflect the realities of State revenue raising and service provision.
- within the context of delivering reform for both a strong, growing economy and the management of revenue volatility, the legislation is working efficiently, effectively, and as intended.

The PC's assessment of the current system

This section outlines the Productivity Commission's considerations around HFE, specifically how it aligns with definitions and policy settings.

There were two findings:

- **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.
- **Interim finding 3.2:** The GST distribution system was and is broadly policy neutral, with some exceptions that are best managed through targeted responses.

⁹ Commonwealth Grants Commission. [About GST Distribution: 2018 GST distribution legislation](#). Accessed August 2026.



CCIWA disagrees with these findings, and notes that the Productivity Commission has used unpublished data from the CGC to determine the findings.¹⁰

While WA's percentage of budget funded by GST has increased over time, **the WA budget is still much less reliant on GST revenue than any other State**. WA's share sits at 12.4% with the next closest state (Queensland) sitting almost 9 percentage points higher at 21.0%.

Comparing the GST component of State budgets in 2013-14 relative to 2023-24 shows an increase for all states. Tasmania (28% to 40%), South Australia (23% to 33%) and the Northern Territory (41% to 54%), as well as the ACT (18% to 25%) all displayed higher growth in GST as a share of state budgets than WA (6% to 12%) [Table 4].

Table 4: GST as a proportion of State Budget for the years 2013-14 and 2023-24

State	Size of State Budget (billions)		GST contribution to State Budget (percentage)		Percentage point change (ppt) change over time, proportion of GST in State Budget
	2013-14	2023-24	2013-14	2023-24	
NSW	\$89.85	\$111.31	17.5%	22.34%	+4.84
Vic	\$66.33	\$86.82	17.23%	21.65%	+4.42
QLD	\$61.22	\$86.76	17.68%	21%	+3.32
WA	\$42.37	\$52.9	5.9%	12.4%	+6.5
SA	\$20.04	\$25.58	23.04%	32.92%	+9.88
Tas	\$6.44	\$8.46	28.07%	40.30%	+12.23
ACT	\$5.69	\$7.42	18.01%	24.67%	+6.66
NT	\$6.84	\$7.8	41.06%	54.1%	+13.04

States will and do have a natural divergence in fiscal capacity, from geographical resources, royalty settings for those resources, population growth, expenses due to exposure to climate impacts, and the historical structure of State economies.

The Productivity Commission appears to argue that the pool boost has worsened this divergence and suggests, without clear evidence, that in practice the pool boost only benefits states not receiving NoWO payments.

We suggest the Productivity Commission acknowledge that, while it is seen by some as a blunt financial instrument, every State sees a benefit from the GST safety net of a 0.75 relativity.

The floor provides certainty that, in the event of a significant market being volatile and impacting revenue capacity over the applicable term, that any State would be guaranteed a return and would not be penalised for a successful economic investment.

We again reiterate that while the NoWO has been higher than forecast – something we would attribute to a change in context and constrained economic foresight – the cost of the NoWO is

¹⁰ Productivity Commission. [Interim report: Appendix C](#). August 2026.



well offset by tax income received by the Commonwealth as a result of the same higher iron ore prices that drove NoWO higher.

WA's economy is currently an outlier. The system is working as intended and it is more than paying for itself.

Indeed, the Productivity Commission notes this in the interim report and notes that it is a gap in the findings which underpin the recommendations:

Higher iron ore prices also generate additional Australian Government revenue through company and personal income taxes. While the PC has not estimated the net fiscal effect, the associated rise in NoWO payments diminishes at least part of that revenue gain.

Other than this, there is no reference to company tax receipts throughout the interim report. This is, we suggest, a fault of the interim report.

If viewed in isolation, the current GST system will always be viewed as a net negative to the budget.

This would be akin to only focusing on the cost of seed rather than the revenue earned off the crop grown and sold to market, or only looking at the cost of purchasing shares at a point in time and not the return earned when those shares are sold at a profit.

The Commonwealth's fiscal relationship with every State has both outflows and inflows, and assessing one without the other will only create an incomplete picture of the national economy.

We note that the CGC does not view the GST system separately from other grants, unless directed to quarantine payments by the Federal Treasurer.

However, the CGC has made decisions which do not consider externalities. While covered more fulsomely in our initial submission, we reiterate that **there are still flaws in the way fiscal capacity is determined:**

- revenue distortion needs to be addressed through an **industry neutral approach** to calculations. Industry development is a result of policy decisions.
- this is arguably more important for States seeking to unlock mining and resources – a **mining discount**, embedded into the CGC formula, could help to provide baseline revenue.
- **State debt remains an elephant in the room** – actual debt levels must be considered, as this is a structural factor as a result of policy decisions.
- **regionality and remoteness are oversimplified** and there should be a greater degree of nuance for factors which are not policy decisions.
- **gambling revenue raised within States has been exempt from GST calculations.** The GST framework does not appear to consistently treat policy effort across major state revenue sources, most notably gambling.

CCIWA suggests that the findings should be amended to reflect that:

- due to a variety of factors, States do have varying fiscal capacity, however, productivity outputs can improve this metric.
- GST distribution, when based on HFE, will always have perverse outcomes if the foundational inputs do not reflect the realities of State revenue raising and service provision.

We also recommend the Productivity Commission seek to close loopholes which **embed disincentives** in the CGC's assessment methods. This will address the need to improve



national productivity and appropriately balance the objective of responsiveness to changing circumstances with the objectives of reducing volatility and improving the certainty of GST revenue streams to support state fiscal planning, as required by the Terms of Reference.

Assessing alternative GST distribution arrangements

This section considers a selection of alternative GST distribution arrangements, testing whether equalisation can be pursued in a way that achieves a better balance between equity, efficiency, sustainability and certainty than the current distribution system.

There were two findings relevant for this section:

- **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.
- **Interim finding 4.2:** Some alternatives perform better at lower cost to HFE than the 2018 reforms.

CCIWA disagrees with both findings.

The current GST distribution methodology was phased in over time, which may lead to – in the longer term – better efficiency, fiscal sustainability and certainty. Full implementation of reforms will take time, and may not be solely driven by GST revenue certainty.

The period since 2018 to now has also been marked by the COVID-19 pandemic, no doubt interrupting Government fiscal and reform decision making.

Productivity enhancing reforms are also less likely under the circumstances of NoWO payments which act to blunt the incentives to build fiscal capacity.

Where expenditure outpaces revenue growth, particularly due to policy decisions and investments, this should be adequately considered through the GST distribution regardless of the arrangement. In interim report Appendix D, the Productivity Commission frames the current distribution system as only beneficial for WA, and a reduction in equalisation. It evidences this by debt-to-revenue ratios and reported surpluses.

However, the Western Australian Government has had a long-standing position to reduce expenditure, and other States have recently adopted similar approaches but have current government expenditure much higher than WA.¹¹ Often this is portrayed as ‘repairing the Budget after neglect from the previous party of Government’.

Alongside States making policy decisions to improve financial sustainability, often in light of increased expenditure due to an unexpected pandemic and policy changes regarding disability services, the NoWO has remained in place and has been extended until 2030.

The NoWO was always intended as a mechanism to ease into the current distribution system. It’s extension – which benefits every State other than WA – will add to the Federal budget no matter the iron ore price over the forward estimates. We reiterate that the 2018 changes seek to deliver reasonable equalisation and provide a net benefit to the Federal budget.

As requested by the Australian Government, the Productivity Commission has considered a number of alternatives, however we would recommend further analysis should occur. This may require more time than the initial deadline of 31 December 2026.

¹¹ See examples: WA Government. [Media Statement: Major changes introduced to create a more efficient public sector](#). April 2017. WA Government. [Media Statement: McGowan government sets budget on a path to surplus](#). September 2017. Australian Financial Review, Karp P. [Minns boasts of spending restraint compared with federal Labor](#). March 2026.



In particular, Equalisation to the Average, which the Productivity Commission recommended in 2018, should be re-examined. CCIWA has long argued that such a scheme has considerable benefits and represents a solid long-term option.

That said, **CCIWA considers that now is not the time for substantial change**. This is in part because the reforms have not had enough time to show their full effects, but also because doing so would add considerable uncertainty at time of great global instability.

The analysis provided in the interim report focuses on costs rather than benefits, and weights equity disproportionately compared to efficiency, State fiscal sustainability and certainty. There is little discussion to consider the opportunities resulting from each model, and how States could leverage productivity through the GST.

The options that were presented proposed three distribution models, all of which reverse the 2018 reforms. Options 1 and 2 do include directly respond to the dominant state effect, a problem the interim report acknowledges. Rather than embedding a solution in legislation, the Productivity Commission suggests addressing this through either the CGC or Treasurer's decision-making. This does not provide certainty, and effectively return to full HFE. This was a model the Productivity Commission previously found was not working as intended.

The Productivity Commission, and other commenters, suggest that States with higher fiscal capacities have a structural advantage to provide higher quality services. While this may be the case at any point in time, we suggest that this is not as simple as it sounds. **Policy decisions influence budget outcomes and long-term fiscal capability, such as:**

- Victoria, which has maintained investment in infrastructure and social programs, despite a struggling business environment and warnings from credit agencies and the Federal Government.¹²
- Queensland, which has secured the 2032 Olympics; however, a change of elected Federal and State Governments since 2021 has meant significant changes to the scope of the projects required to deliver this event.¹³
- Tasmania, which is planning to build a covered stadium in Hobart after pressure from sporting entities which said they would only use a stadium facility if it was weatherproof. The Tasmanian Government insists that the financial contribution from taxpayers will be capped.¹⁴

With the above in mind, CCIWA suggests that the findings should be amended to reflect that:

- there is a lack of empirical evidence to say that under the current distribution, with or without a permanent NoWO guarantee, there has not been markedly improved efficiency, fiscal sustainability or certainty.
- alternative distribution arrangements have various advantages and disadvantages and need fulsome assessments before substantial change is recommended.

We also suggest the Productivity Commission make recommendations regarding ongoing research of GST distribution to incentivise productivity.

¹² Australian Financial review, Durkin P. [Ratings agencies warn Carroll over rail loop, election spending](#). July 2026.

¹³ Commonwealth Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts. [A new way forward to Brisbane 2032](#). July 2025.

¹⁴ Australian Broadcasting Corporation, Gibson J. [Tasmanian parliament calls for new stadium cost estimate amid rising global construction costs](#). May 2026.

Governance arrangements for an effective FFR system

The final chapter of the interim report focuses on FFR, specifically:

- how the CGC exercises its functions in the HFE system.
- the case for ongoing monitoring of outcomes if a HFE system that advantages one or more states is maintained.
- whether non-GST Commonwealth payments can be administered more efficiently.
- the operation of the Council on Federal Financial Relations (CFFR); and
- opportunities to improve governments' fiscal transparency.

There was just one finding for this section:

- **Interim finding 5.1:** The CGC has adopted an independent, consultative and transparent approach to its role, but should strive for continuous improvement.

CCIWA partially agrees with this finding, but urges the final report recommend ongoing monitoring of HFE outcomes, efficiency of payments, the operation of the CFFR, and opportunities to improve fiscal transparency.

We agree that the CGC is an independent institution, and should receive adequate support to fulfil its obligations under the *Commonwealth Grants Commission Act 1973*.

However, we disagree with the finding in full due to two factors:

- CCIWA cannot comment on the CGC being consultative, as consultation is primarily between State Governments and the CGC.
- we disagree that the CGC is transparent in its approach to determining GST distribution.

We note that the Productivity Commission has encouraged the CGC to consider the merits of trialling a broader consultation approach as part of its five-yearly methodological reviews, to strengthen the evidence base for the CGC to draw on to inform decisions on any changes to its methodological approach.

In the final report, we hope that this remains as a clear recommendation.

The CGC, however, is not transparent. While some data is rightly confidential, the CGC has refused, repeatedly, to provide transparency for the formula used to determine GST share. This has been characterised by several initial submissions, including by some State Governments and CCIWA, as a 'black box'.

We also suggest further scrutiny as to whether the CGC has provided a strong neutral voice to facilitate a better informed public discourse on the HFE system.¹⁵

Based on the above, CCIWA suggests that the following amendment should be made to the finding:

- based on submissions received and Productivity Commission research, the CGC has continued to be independent and consultative in its role, but should strive for continuous improvement.

We also suggest the Productivity Commission recommend further civic education to improve understanding of GST amongst the general public. This aligns with our previous findings and research, which show a low public understanding of GST and Australia's tax system broadly.

¹⁵ Productivity Commission. [Inquiry Report No. 88: Horizontal Fiscal Equalisation](#) Recommendation 6.2. May 2018.



Interim Recommendations

The Productivity Commission made ten interim recommendations. In what follows, CCIWA outlines our response to the recommendations and justification for these responses. We trust this information will be adequately considered by the Productivity Commission on its merits.

Interim recommendation	CCIWA view and justification
4.1: Australia should return towards the pre-2018 system but the Australian Treasurer should direct the CGC to address dominant-state effects.	Disagree The 2018 Productivity Commission report into HFE was unequivocal in opposing the former GST distribution system.
4.2: 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.	Disagree Returning to the pre-2018 settings, with external direct payments, does not address the Productivity Commission's concerns regarding the current distribution.
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.	Disagree The 'critical issues' mentioned under Interim Recommendation 4.3 are not the issues raised by submissions.
5.1: Monitoring the potential for the HFE system to contribute to diverging state outcomes.	Not opposed
5.2: There should be a more transparent approach for quarantining Commonwealth payments.	Not opposed Concern with additional regulation which may add delay and cost to GST reporting.
5.3: Ensure Federation Funding Agreement schedules provide net benefits for the community.	Agree
5.4: Update the Intergovernmental Agreement on Federal Financial Relations (IGAFFR), its schedules, and the enabling legislation.	Further evidence required
5.5: Improving the functioning of Council on Federal Financial Relations (CFFR).	Agree
5.6: Enhancing the Government Financial Statistics (GFS).	Not opposed
5.7: Improving governments' long-term fiscal sustainability reporting.	Agree



Conclusion: Move forward, not backward

CCIWA encourages the Productivity Commission to re-think many of its findings in the interim report, re-calibrating to achieve a better balancing of objectives.

Retaining the 2018 changes, in our view, is a balanced approach to sharing GST revenue, particularly in the current economic climate.

We reiterate that the current system is working as intended, by providing **greater stability and certainty** needed for commodity-exposed economies through the relativity floor, as well as **strengthening incentives** for further productivity-enhancing reform in strong performing States, like Western Australia, through the revised equalisation standard.

As Australia's declining productivity dominates the political debate, looking for further opportunities to broaden incentives that **lift the nation overall is critical.**

To this end, CCIWA recommends the following:

1. **maintain the 2018 GST Reforms**, specifically:
 - a. the **current equalisation standard**, as the stronger of NSW or Vic; and
 - b. the **GST relativity floor of 0.75**.
2. support targeted opportunities to **further strengthen incentives and integrity of the GST system, over the short and the longer term**, by:
 - a. reviewing the factors the CGC applies when determining reasonable equalisation, such as **royalty discounts**, and improvements to the **transparency** of the GST distribution system.
 - b. examining the longer-term merits and risks of an **Equalisation to the Average (ETA)** GST distribution model.

Ahead of the final report, CCIWA recommends the Productivity Commission should:

3. seek to more fully address the Terms of Reference, with a recognition of **different definitions of reasonable equalisation**, including a definition that aligns with the 2018 Inquiry into Horizontal Fiscal Equalisation (HFE).
4. **acknowledge that the GST system cannot be viewed in isolation** from broader Federal Financial Relations, as outlined in the Terms of Reference.
5. **assess for the final report a broader range of options for GST distribution**, being cognisant of Commonwealth Government's policy commitments which have focused on ensuring all states and territories get a 'fair' share.
6. investigate ways the CGC should address the factors the CGC applies when determining reasonable equalisation, such as **royalty discounts**, and improvements to the **transparency** of the GST distribution system.
7. make recommendations regarding:
 - a. ongoing research of GST distribution to incentivise productivity; and
 - b. civic education to improve understanding of GST amongst the general public.

CCIWA welcomes further, productive discourse on the matter of GST distribution, and is available to discuss any parts of this submission.