



Australian Government

Commonwealth Grants Commission

**PRODUCTIVITY COMMISSION INQUIRY INTO
HORIZONTAL FISCAL EQUALISATION**

**SUBMISSION ON THE DRAFT REPORT FROM THE
COMMONWEALTH GRANTS COMMISSION**

**COMMISSION PAPER
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Commission contact officer	Michael Willcock, secretary@cgc.gov.au

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INTRODUCTION

- 1 In providing this submission on the Productivity Commission's (the PC's) draft report on Horizontal Fiscal Equalisation (HFE), the intention of the Commonwealth Grants Commission (the Commission) is to complement the work of the PC. As part of the Commission's 2020 Review of methodology, on 29 September 2017 the Commission issued a position paper on *The principle of HFE and its implementation* (available on the [Commission's website](#)), which deals with some of the issues raised in the draft report. This submission should be read in conjunction with that position paper.
- 2 As noted in the Commission's first submission to the PC inquiry, governments agreed in the mid-1970s on the form of equalisation the Commission was to deliver. The form of equalisation was initially specified in legislation and then in terms of reference. This is the form of equalisation the Commission continues to deliver today.
- 3 The form of equalisation is properly a matter for governments. The Commission's role is to assist in the implementation of HFE, pursuant to terms of reference from the Treasurer. If governments agree on a different form of equalisation and task the Commission to deliver it, the Commission can advise on how that can be achieved.
- 4 In the remainder of this submission, the Commission seeks to draw out the trade-offs and implications arising from different forms of equalisation. In doing so, **the Commission is not advocating any particular model** but aims to inform debate during the next stage of the PC's inquiry by illustrating that different forms of equalisation are based on different policy rationales and have different financial impacts on the affected stakeholders. The Commission also seeks to provide technical commentary on options canvassed in the draft report, and some commentary on the proposed institutional reforms.

Some findings of the draft report

- 5 The PC made a number of draft findings and recommendations. The ones of most relevance to this submission are the following.
 - The primary rationale for HFE — fiscal equity in the Australian federation — has broad support.
 - HFE does not result in significant distortions to interstate migration or economic growth.
 - HFE results in reasonably stable GST payments and a level of predictability for (most) States' budget outcomes. The PC also noted any approach to equalisation involves a trade-off between contemporaneity and budget stability.

- States considering tax reforms would generally not be deterred by the effects on GST redistribution. However, it recognises there might be circumstances where the GST effects can be material.
 - In particular, the PC expressed concerns about the policy neutrality of the mining assessment. The Commission’s recently released position paper, proposed a solution to this issue.
- The CGC ... should provide a strong neutral voice in public discussion on the HFE system and fulfil an independent educative role.

6 Nonetheless, the PC has some reservations about the current system.

7 It said the Commonwealth Treasurer should articulate a revised HFE objective. It considers the objective should be to aim for ‘reasonable’ equalisation not full equalisation. That is, the Treasurer should amend the equalisation objective from one that gives States the capacity to provide services to the same standard to one that gives them the capacity to provide services to a reasonable standard. The outcome would be partial, rather than full, equalisation.

8 The PC’s proposed revised objective is:

The primary objective of the HFE system should be to provide the States with the fiscal capacity to allow them to supply services and the associated infrastructure of a reasonable standard.

This objective should be pursued to the greatest extent possible, provided that:

- it does not unduly influence the States’ own policies and choices beyond providing them with fiscal capacity
- it does not unduly hinder efficient movement of capital and people between States
- the process for determining the distribution of funds is transparent and based on reliable evidence.¹

9 The draft report highlights a threshold issue for governments — what should equalisation seek to achieve and how best might that objective be achieved? This might be rephrased as what level of equalisation, short of full equalisation, would be ‘reasonable’?

¹ Productivity Commission, *Horizontal Fiscal Equalisation*, Draft Report, October 2017, page 17.

FORMS OF EQUALISATION

Full equalisation

- 10 As the PC notes, full equalisation is derived from the equalisation principles defined in the *States (Personal Tax Sharing) Amendment Act 1978*:
- (i) ... payments ... should enable each State to provide, without imposing taxes and charges at levels appreciably different from the levels of taxes and charges imposed by other States, government services at standards that at standards not appreciably different from the standards of government services provided by the other States
 - (ii) taking account of: differences in the capacities of States to raise revenues; and differences in the amounts required to be expended by the States in providing comparable government services.²
- 11 The policy rationale for full equalisation is that each State should have the fiscal capacity to provide the same level of service.³
- 12 In determining State capacities, the Commission is to have regard to State differences, for reasons outside their control, in the costs of service provision and revenue raising capacities. Successive Commissions have recognised some States experience higher costs of service provision, lower revenue capacity and, in some cases, both. These differences have persisted and show no signs of abating. As the PC observed in respect of revenue capacity, those differences have diverged further in the last decade (reflecting, in particular, the significant income boost arising from the global commodities boom driven by China and other emerging markets).

Alternative approaches considered by the PC

- 13 The PC considered a range of alternative approaches. Its findings include the following.
- Removing mining from the HFE process, or the use of a discount factor within the mining assessment, is inequitable and not justified. However, there is a need to consider potential improvements in the assessment method in the light of problems with policy neutrality (draft finding 7.1).
 - The Commission’s recently released position paper, proposed a solution to this problem.

² Ibid, Box 2.1, page 55.

³ This level of service reflects the average level of services provided by States collectively. That level of service is funded by States’ own source revenue and funding received from the Commonwealth in the form of tied (e.g. Payments for specific purposes) and untied (i.e. GST revenue) funding. Because of vertical fiscal imbalance, no State has the capacity to provide the average level of services without this combination of funding support from the Commonwealth.

- Introducing a minimum relativity floor would ... likely prove a band-aid solution as it does not address the identified deficiencies of HFE and may even introduce greater uncertainty and unpredictability into the HFE system (draft finding 7.2).
 - An equal per capita approach to distributing GST revenue is incapable of equalising the fiscal capacities of States ... is thus inimical to achieving the core equity rationale underpinning horizontal fiscal equalisation (draft finding 8.2).
- 14 Its consideration of alternative approaches led it to (effectively) suggest that each State should be entitled to a minimum per capita GST payment, but it did not specify what the minimum should be. It said that, rather than being benchmarked to the fiscally strongest State (which is currently Western Australia), the minimum could be based on the fiscal capacity of:
- the second strongest State
 - the average of the other fiscally strong States, or
 - the average of the other seven States.
- 15 It left the determination of the minimum to the Commonwealth, ideally through some form of collaborative process with the States.
- 16 This approach would effectively introduce a relativity floor, with the minimum per capita GST payment (however it is determined) being the level of the floor.

ISSUES

- 17 If the equalisation objective is to be changed to aim for reasonable equalisation, then it would assist public debate if the policy rationale for 'less than full equalisation' was clearly articulated. In particular, a definition of 'reasonable' would provide clear political endorsement of a central feature of our federal arrangements. It would allow the Commonwealth to specify the equalisation objective in terms of reference, providing the Commission with a clear mandate as to the form of equalisation it is to deliver.
- 18 The key issues are:
- if the HFE system is to deliver less than full equalisation, how much less?
 - If the HFE system is to be changed, should the change affect States equally/symmetrically?

A PRODUCTIVITY COMMISSION PROPOSAL — LIFTING STATES TO THE FISCAL CAPACITY OF THE SECOND STRONGEST STATE

- 19 This approach would effectively introduce a per capita minimum GST to which each State would be entitled. In this submission, we model one of the PC’s proposals for achieving this outcome, namely, raising States to the fiscal capacity of the second strongest State.⁴
- 20 Attachment A shows how this could be implemented. Table 1 sets out the change in GST from a full equalisation outcome. This proposal would increase the GST of the fiscally strongest State, currently Western Australia, reducing the GST shares of all other States.

Table 1 **Difference from full equalisation, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Proposal	16 513	13 909	14 235	5 598	6 105	2 326	1 170	2 885	62 740
Full equalisation	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Difference									
Dollars million	-1 167	-920	-729	3 244	-256	-77	-60	-36	3 244
Dollars per capita	-147	-147	-147	1 210	-147	-147	-147	-147	131

Source: Table A-3 and Table A-4 in Attachment A.

What are the implications of this approach?

- 21 The draft report has not made clear the policy rationale for choosing proposals such as this.
- 22 Compared to full equalisation, a minimum per capita GST payment would affect States unequally. It would provide additional assistance to the fiscally strongest State and, therefore, create a system with:
- one playing field for seven States, with less than full equalisation among them, and
 - a different playing field for the fiscally strongest State, which would attract a ‘strong State premium’.

⁴ The considerations in this section would also apply if the minimum per capita GST payment was determined using the average of the other fiscally strong States or the average of the other seven States.

- 23 A minimum per capita GST effectively puts a bound on equalisation, a bound that would move in response to the fiscal capacity of the second strongest State.⁵ It would treat States in an asymmetric manner, depending upon which side of the bound they fall. It would change the fiscal strength of each jurisdiction by varying amounts. States other than the fiscally strongest State would have their fiscal strength discounted, according to the method chosen to determine reasonable equalisation.
- 24 The proposal is asymmetric because it treats:
- States differently
 - the fiscally strongest state would have a structural fiscal advantage over all other States as a result of receiving GST revenue in excess of its full equalisation outcome
 - assessments differently
 - the mining assessment receives a different treatment from other revenue and expense assessments, because currently mining is the biggest revenue stream for the fiscally strongest State
 - industries differently
 - the industries in the fiscally strongest State would receive a different treatment from the same industries in other States, or different industries in other States.
- 25 Under this proposal, the fiscally strongest State would receive more than it requires to provide the average level of service. If it remained the fiscally strongest State over the intermediate term, it would be able to:
- provide services in excess of the average and/or
 - provide services of a higher quality than the average and/or
 - levy lower than average own-source taxes and charges and/or
 - retire debt at a faster rate than other States.
- 26 As a consequence, the other seven States would have less revenue and would be unable to finance the average level of service.
- 27 The PC concluded there was a case for less than full equalisation, while leaving open how less than full equalisation would be implemented. It could be implemented by reducing the depth of equalisation (reducing the degree to which services and revenues are equalised) or the breadth of equalisation (reducing the number of States which are equalised). The following illustrations show both approaches.
- 28 **The Commission is not advocating either approach.** Our interest is in complementing the work of the PC by exploring the implications and trade-offs of different options.

⁵ Each of the three most populous States has been the second fiscally strongest State in at least one of the last seven years. That is, there has recently been some volatility in terms of which State occupies this position.

ILLUSTRATION 1 - A SYMMETRIC APPROACH

29 If governments decide that HFE should deliver something other than full equalisation, one approach would be to dilute the full equalisation outcomes by, say, 10%.⁶ — that is, to define reasonable equalisation as 90% of full equalisation.

30 This approach would separate GST revenue into two pools.

- A population pool: the revenues in this pool would be distributed using State populations. For this submission, we assumed this pool comprised 10% of GST revenue.
- An equalisation pool: the revenues in this pool would be distributed using full equalisation. For this submission, we assumed this pool comprised 90% of GST revenue.

31 Table 2 shows the distribution generated by this approach.

Table 2 A symmetric approach, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Population pool	2 011	1 586	1 256	682	441	133	103	63	6 274
Equalisation pool	15 912	13 346	13 467	2 119	5 724	2 162	1 107	2 629	56 466
Total	17 923	14 933	14 724	2 800	6 165	2 295	1 210	2 691	62 740

Source: Table A-5 in Attachment A.

32 Table 3 shows the change from a full equalisation outcome (Table 1). This proposal would increase the GST of all three fiscally strong States (albeit significantly less for Western Australia than under the PC's proposal), in proportion to their relative fiscal capacities.

Table 3 Difference from full equalisation, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Illustration 1	17 923	14 933	14 724	2 800	6 165	2 295	1 210	2 691	62 740
Full equalisation	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Difference									
Dollars million	243	103	-240	446	-196	-107	-20	-230	793
Dollars per capita	31	17	-49	166	-113	-206	-50	-934	32

Source: Table 1 and Table 2.

⁶ The 10% figure was chosen because it was close to the relativity of the second strongest State (which is currently New South Wales).

What are the implications of this approach?

- 33 A policy rationale for this approach is that States should be given the capacity to provide a minimum (or safety net) level of services.
- 34 The impact of equalisation would remain symmetrical across States with respect to their relative fiscal capacities. Their capacities would continue to have much the same impact on the GST regardless of what specifically drives them. The greatest per capita impact would continue to be on the most 'outlying' States in the distribution (in both directions). This approach interprets reasonable equalisation as meaning the same type of adjustment for all States, rather than much more/less equalisation for some States than others.
- 35 Compared to full equalisation, this approach would deliver additional assistance to each of the fiscally strong States, but much less additional assistance to the fiscally strongest State (currently Western Australia) than the PC's proposal.

ILLUSTRATION 2 - APPLYING FULL EQUALISATION ONLY TO THE SMALLEST STATES

- 36 If governments decide that HFE should deliver something other than full equalisation, an approach would be to continue to apply full equalisation to the four smallest (least populous) States. Like the PC's proposal, this approach would create two playing fields:
 - one for the four least populous States, with full equalisation as its basis
 - one for the four most populous States, with equal per capita as its basis.
- 37 This approach would give the four least populous States their full equalisation outcomes (funding these outcomes would be the first call on the GST pool) and distribute the remaining assistance among the four most populous States according to their populations. Propositions along these lines have previously been championed by various States, including the four most populous States in the 2012 GST Distribution Review (albeit, supported by top-up payments from the Commonwealth for the four smallest States).
- 38 Table 4 shows the change from a full equalisation outcome. This approach would increase the GST share of the two fiscally strongest States.

Table 4 **Difference from full equalisation, 2017 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Illustration 2	18 102	14 277	11 310	6 137	6 360	2 403	1 230	2 921	62 740
Full equalisation	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Difference									
Dollars million	423	-552	-3 654	3 783	0	0	0	0	4 206
Dollars per capita	53	-88	-739	1 411	0	0	0	0	170

Source: Table 1 and Table A-6.

What are the implications of this approach?

- 39 A policy rationale for this approach is that the most populous States are sufficiently economically diversified and fiscally strong that they can withstand the vicissitudes of above average capacity in some years and below average capacity in other years without the (cross-subsidising) support of equalisation.
- 40 Compared to full equalisation, this proposal would deliver more GST to Western Australia (currently the fiscally strongest State) than the PC's proposal. It would provide both New South Wales (currently the second fiscally strongest State) and Western Australia with more than their full equalisation outcomes. The implications of this additional funding are the same as for the PC proposal.
- 41 Like the PC proposal, this approach is asymmetric. It treats:
- different fiscally weak States differently
 - Queensland is currently assessed to be fiscally weak but, unlike the other fiscally weak States, it would not receive an above average share of GST
 - fiscally strong and fiscally weak States differently.
- 42 This approach has some similarities with the Commission's previous claimancy process, which prevailed before the introduction of all-State equalisation in the early 1980s. In those inquiries, the Commission assessed a special grant to bring a claimant State up to the average capacity of the standard States, but it left the fiscal capacity of the standard States (and other non-claimant States) unchanged.
- 43 In the claimancy era, any State could enter claimancy and Queensland did so on several occasions. If this approach allowed States to move between groups (for example, Queensland receiving its full equalisation outcome) then the results in Table 4 would be very different.
- 44 Queensland has a tendency to move regularly from being a fiscally strong to a fiscally weak State, often because of the impact of natural disasters. If this approach did not allow States to move between groups, then it might require some capacity to account for the effects of natural disasters occurring in the four most populous States.

INSTITUTIONAL REFORMS

- 45 The PC's draft report also makes observations and draft recommendations on institutional reforms directly relating to the conduct of the Commission.
- 46 Draft recommendation 9.1 in the PC's draft report states:
- The CGC — through its Chairperson and Commission members — should provide a strong neutral voice in the public discussion of the HFE system.
- The CGC should also enhance its formal interactions with the State and Commonwealth Governments. In particular, it could provide draft rulings to State Governments on the potential HFE implications of a policy change.
- 47 Historically, the views of Commissions have been that defining the architecture of the equalisation system has been a role for governments, with the role of the Commission being to operationalise the required system, as defined in terms of reference.
- 48 Past Commissions have seen their reports as being the appropriate vehicle to explain their views and to describe the approaches, methods and outcomes resulting from implementing the required equalisation system (much like judgments issued following legal processes). They have not seen their role as being to defend the policy of HFE in public fora.
- 49 From time to time, as stakeholders have expressed differing views about the appropriateness of the Commission's task, the Commission has used its reports to canvass these issues, but to make clear that in its view the financial architecture of the federation is properly a matter for governments.⁷ Until such time as the HFE architecture has been resolved and agreed to by governments (along with the Commission's role in this architecture), there are clear limits to the scope for the Commission to adopt an expanded educational role.
- 50 We have recently put substantial effort into improving our explanation of the Commission's work through the Commission's web site. Increased references to the web site in various media articles suggest that this work has improved, at least to some extent, the transparency of the Commission's work.
- 51 The PC proposed a formal process to enable States to consult the Commission on possible implications of State policy changes, which the PC envisages as being like the draft rulings made by the Australian Tax Office (ATO). But there are significant differences in the two situations. The ATO makes rulings (provides an interpretation) on the 'static' law it is tasked with administering and its rulings are subject to court and tribunal interpretation. The HFE process is different. While the Commission can provide advice on the effect of a State policy change on its existing assessment

⁷ For example, refer to Chapter 7 of the Commission's 2004 Report into revenue sharing relativities.

methods, those methods are fluid. They are reviewed formally every five years and can change in the intervening years in response to changes in average policy. Moreover, HFE outcomes are not generally dependent on the actions of one government alone: as a relative system, changes in other jurisdictions also need to be taken into account.

- 52 The Commission has acted to assist the development of significant changes in Commonwealth and State relations in the past, for example in the development of the National Disability Insurance Scheme (NDIS). During such policy development there is a risk that the final structure of agreements varies from those contemplated during negotiations and for which the Commission has provided advice, so that the final HFE outcomes may vary. To shield the Commission from accusations of inconsistency, the provision of such advice has generally been on the basis that it constitutes Commission staff views on likely HFE treatments, rather than definitive advice. Participants have been advised that until such time as agreements are finalised and outcomes known, the Commission is not able to provide definitive advice on the HFE consequences.
- 53 The proposed reforms to the treatment of discretionary changes in mineral royalty rates (described in the Commission's position paper on *The principle of HFE and its implementation*), together with the Commission's recent response to a request from a parliamentarian seeking advice on its likely treatment of State-based bank levies, are instances of how the Commission provides guidance on the possible HFE implications of a policy change. The Commission does not know what further forms of more formal interaction it could engage in.
- 54 Draft recommendation 9.2 in the PC's draft report states:
- The CGC should make the data provided by the States publicly available on its website, along with the calculations on these data. Where there are risks identified with this approach, mitigating steps should be identified and taken.
- 55 The detailed data and calculations made by the Commission are routinely made available to all Treasuries, through access to the Commission's assessment system online (ASOL). All data are available to Treasuries, with the exception of a small number of datasets identified by individual States as being confidential. Data confidentiality was an issue raised by States and addressed by the Commission in the 2017 Update Report. The Commission changed the data sharing protocol to include:
- '... sharing non-confidential data among States which have not designated their data as confidential, provided any data designated as confidential by States cannot be back solved from the assessment outcome.'
- 56 Commission staff have, on a small number of occasions, received requests from members of the public (without exception, academics) to have access to the ASOL.

Commission staff facilitate these requests, but the final decision on allowing access to the data lies with the States, not the Commission.

ASSISTANCE TO THE PRODUCTIVITY COMMISSION

- 57 The Commission confirms its readiness to continue to assist, in any way required, as the PC moves to finalise its report.

ATTACHMENT A: SUPPORTING CALCULATIONS

Full equalisation outcome

- 1 The Commission set out the full equalisation outcome in its 2017 Update report. Table A-1 shows the derivation of that outcome using the 2017 Update relativities and the 2017-18 State populations.

Table A-1 Full equalisation outcomes, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2017 Update relativities	0.877	0.932	1.188	0.344	1.440	1.805	1.195	4.660	1.000
2017-18 population ('000s)	7 910	6 238	4 942	2 682	1 732	522	404	246	24 676
Weighted populations ('000s)	6 935	5 817	5 869	923	2 495	942	482	1 146	24 609
Share of GST (%)	28.2	23.6	23.8	3.8	10.1	3.8	2.0	4.7	100.0
GST revenue									
Dollars million	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Dollars per capita	2 235	2 377	3 028	878	3 671	4 601	3 047	11 881	2 543

Source: Commission calculation using 2017 Update data.

- 2 The PC illustrates the HFE process as a three step process:
- raise the fiscally weak States up to the average fiscal capacity of all States
 - raise all States to the fiscal capacity of the fiscally strongest State
 - distribute any remaining revenue from the GST pool to all states on an EPC basis.
- 3 Table A-2 shows the presentation of this three step process.

Table A-2 The three step process, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Bring the States up to the average	0	0	485	0	1 129	2 059	504	9 338	321
Bring all States up to the strongest State	1 357	1 499	1 665	0	1 665	1 665	1 665	1 665	1 343
Distribute the balance EPC	878	878	878	878	878	878	878	878	878
Total	2 235	2 377	3 028	878	3 671	4 601	3 047	11 881	2 543

Source: Commission calculation using 2017 Update data.

A Productivity Commission proposal — lifting States to the fiscal capacity of the second strongest State

4 The PC proposed an approach that would raise States to the fiscal capacity of the second strongest State. Table A-3 shows how this would affect the Table A-2 presentation.

Table A-3 The proposal to raise States to the second strongest State, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Bring the States up to the average	0	0	485	0	1 129	2 059	504	9 338	321
Bring all States up to the second strongest State	0	142	307	0	307	307	307	307	134
Distribute the balance EPC	2 088	2 088	2 088	2 088	2 088	2 088	2 088	2 088	2 088
Total	2 088	2 230	2 880	2 088	3 524	4 454	2 899	11 734	2 543

Source: Commission calculation using 2017 Update data.

5 Table A-4 shows how different this proposal is from a full equalisation outcome. It provides an increase in Western Australia's share of GST revenue.

Table A-4 Difference from full equalisation, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
PC proposal	16 513	13 909	14 235	5 598	6 105	2 326	1 170	2 885	62 740
Full equalisation (Table A-1)	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Difference									
Dollars million	-1 167	-920	-729	3 244	-256	-77	-60	-36	3 244
Dollars per capita	-147	-147	-147	1 210	-147	-147	-147	-147	131

Source: Commission calculation using 2017 Update data.

Illustration 1 - A symmetric approach

6 Table A-5 shows the outcome of one of the Commission's illustrations. This approach would split GST revenue into two pools:

- a population pool: this pool would comprise 10% of GST revenue and would be distributed on a population basis
- an equalisation pool: this pool would comprise 90% of GST revenue and would be distributed on an equalisation basis.

7 Table A-5 shows how different this approach is from a full equalisation outcome.

Table A-5 Illustration — a symmetric approach, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Population pool	2 011	1 586	1 256	682	441	133	103	63	6 274
Equalisation pool	15 912	13 346	13 467	2 119	5 724	2 162	1 107	2 629	56 466
Total	17 923	14 933	14 724	2 800	6 165	2 295	1 210	2 691	62 740
Difference from Table A-1									
Dollars million	243	103	-240	446	-196	-107	-20	-230	793
Dollars per capita	31	17	-49	166	-113	-206	-50	-934	32

Source: Commission calculation using 2017 Update data.

Illustration 2 - Applying full equalisation only to the smallest States

8 Table A-6 shows the outcome of one of the Commission’s illustrations. This approach provides full equalisation to the four smallest States and distributes the remaining GST revenue among the four biggest States based on their populations.

9 Table A-6 shows how different this approach is from a full equalisation outcome.

Table A-6 Illustration – applying full equalisation to the four smallest States, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Proposal	18 102	14 277	11 310	6 137	6 360	2 403	1 230	2 921	62 740
Full equalisation	17 680	14 829	14 963	2 354	6 360	2 403	1 230	2 921	62 740
Difference from Table A-1									
Dollars million	423	-552	-3 654	3 783	0	0	0	0	4 206
Dollars per capita	53	-88	-739	1 411	0	0	0	0	170

Source: Commission calculation using 2017 Update data.

10 Table A-7 shows the full equalisation relativities and the implied relativities for the PC proposal and the two Commission illustrations.

Table A-7 Implied relativities (a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Full equalisation	0.877	0.932	1.188	0.344	1.440	1.805	1.195	4.660	1.000
PC proposal	0.821	0.877	1.133	0.821	1.386	1.752	1.140	4.615	1.000
Illustration 1	0.891	0.941	1.172	0.411	1.399	1.729	1.178	4.306	1.000
Illustration 2	0.900	0.900	0.900	0.900	1.444	1.810	1.198	4.673	1.000

(a) Implied relativities were derived by dividing States’ assessed GST distributions by an equal per capita distribution of the GST.

Source: Table A-1, Table A-4, Table A-5 and Table A-6.

11 In its draft report, the PC provided a schema for conceptualising options. A similar schema is provided here.

Figure A-1 HFE outcomes

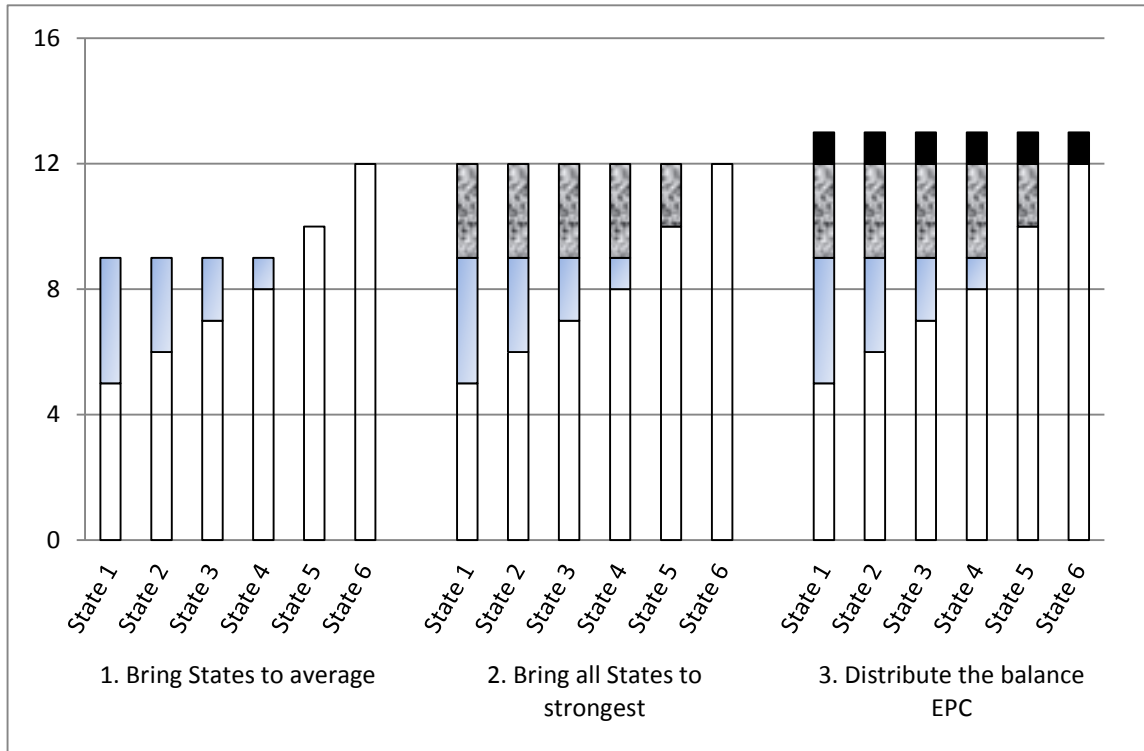


Figure A-2 PC proposal — lift States to fiscal capacity of the second strongest State

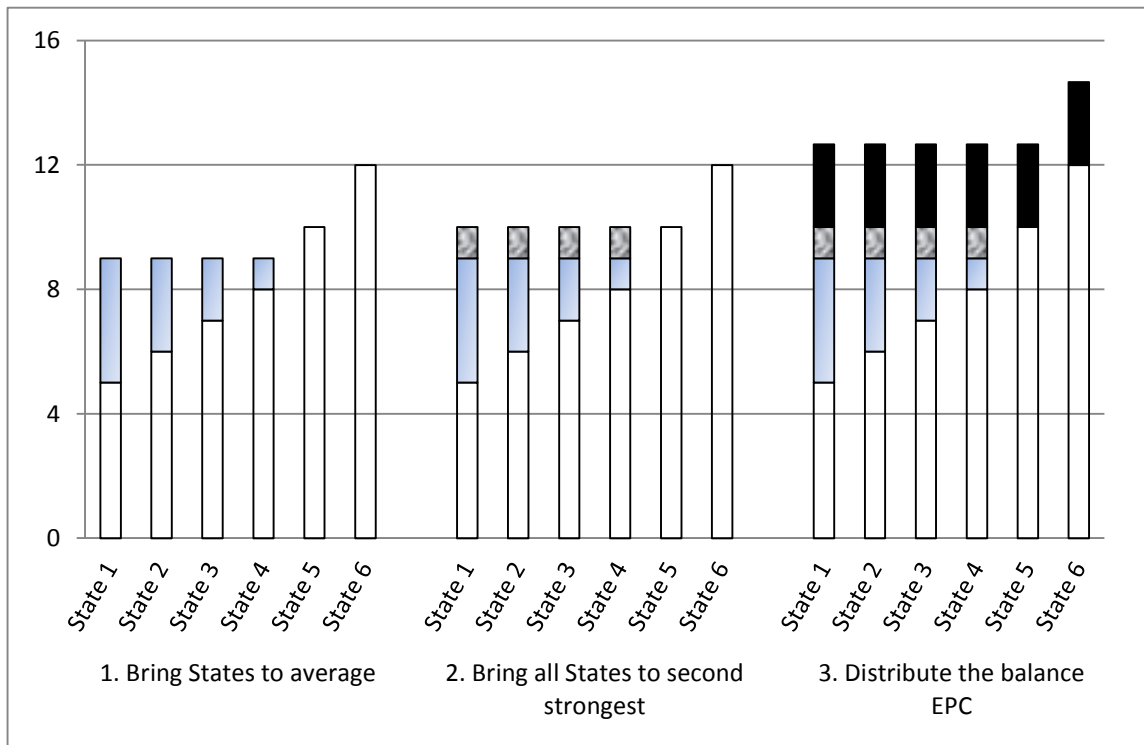


Figure A-3 Illustration 1 — a symmetric approach

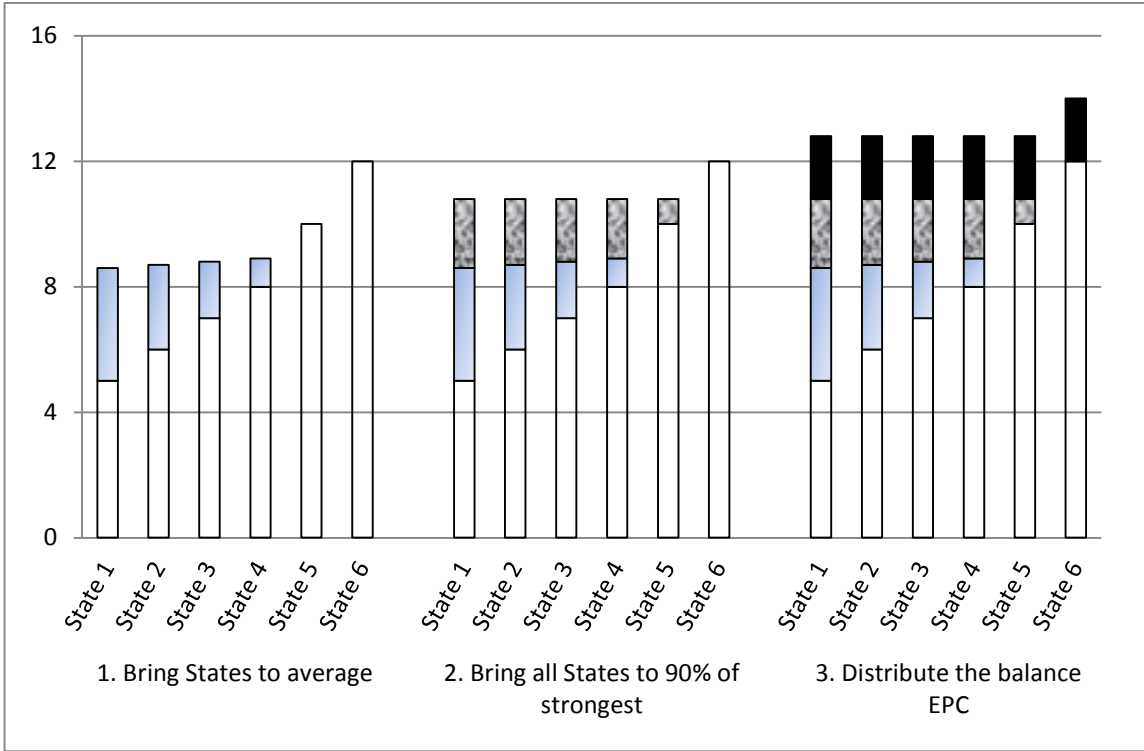


Figure A-4 Illustration 2 — apply full equalisation only to the least populous States

