



Government of
Western Australia

Western Australia's submission to the
**2026 Productivity Commission
inquiry into the
GST distribution reforms**

February 2026

Acknowledgement of Country

This report was prepared by the Department of Treasury and Finance on the traditional Country of the Whadjuk people of the Noongar Nation.

Department of Treasury and Finance respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.

We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information relating to this report may be obtained by emailing gst@dtf.wa.gov.au.

Contents

Executive Summary	1
1. Reasonable level of HFE	7
2. Responsiveness and volatility	49
3. Improved incentives	61
4. Fiscal sustainability	79
5. Alternative arrangement: Adding a mining discount.....	93
Appendix A – PC Information Requests	107
Appendix B – Perverse CGC methods	115
Appendix C – CGC capital assessments	119

Executive Summary

Even **with** the 2018 GST distribution reforms ('GST Reforms'), Western Australia contributes more than its fair share to the Australian federation, the national economy, and the Commonwealth Budget.

- Relative to our population share, Western Australia still provides a **GST subsidy** to the other States and Territories ('States') of around \$2.5 billion per year – the largest per capita GST subsidy of any State.
- This GST subsidy is just one part of Western Australia's overall **net fiscal subsidy** to the federation, estimated to total \$39 billion (in 2023-24, the latest year available). In per capita terms, this contribution is over 18 times larger than that of New South Wales, the only other State that makes a positive net contribution to the federation.
- Western Australia has by far the **lowest reliance on Commonwealth grants** of all States and Territories. Over the last decade, Commonwealth grants have averaged 31% of Western Australia's general government revenue, compared to at least 40% and as high as 73% for every other State.
- Western Australia produces almost half of the nation's goods exports and around 17% of Australia's total economic output, despite having only 11% of the national population. This makes Western Australia the **most productive State in the country**, with economic output per person that is more than 50% above the national average.

Without the GST Reforms, Western Australia's already oversized contribution to the federation would be even larger, with our GST subsidy to the other States increasing from \$2.6 billion to an unsustainable \$8.7 billion per year – due to our population share of national GST revenue falling from 75% (with the reforms) to just 18% (without the reforms) in 2025-26.

The Western Australian Government accepts that, as an economically successful State, Western Australia has a role to play in supporting the smaller States. The question at hand is the **extent** of this support.

By moving Australia's system of 'horizontal fiscal equalisation' from full to partial equalisation – **consistent with every other federation in the OECD** – the GST Reforms have achieved a more reasonable balance between:

- supporting the smaller States; and
- encouraging States like Western Australia to continue investing in their economies, by allowing them to retain more of the benefits of policy decisions and investments aimed at growing and diversifying their industrial (and revenue) bases and boosting national productivity.

The Western Australian Government strongly submits that the GST Reforms provide a **reasonable and pragmatic balance** between these competing objectives, and **must be preserved**. In support of this, we note that:

- while the GST Reforms lift Western Australia's GST grant to 75% of our population share (in 2025-26), no other State has ever had a share below 83%;
- while the GST Reforms are worth around \$6 billion per year to Western Australia, they are **not as generous** to our State as the model proposed by the Productivity Commission (PC) itself in its 2018 report (i.e. equalising to the average of all States);
 - had the PC's model of partial equalisation been adopted, Western Australia's GST grant in 2025-26 would have increased by a **further** \$1.1 billion (over and above the additional \$6 billion resulting from the legislated GST Reforms);
- under the GST Reforms, Tasmania still receives 2.5 times more GST per capita than Western Australia, and the Northern Territory still receives around 7 times more than Western Australia; and
- the level of fiscal equalisation achieved under the GST Reforms is **comparable** to that achieved under the Canadian model of equalisation (albeit Canada takes a different approach to achieving this outcome, including reducing how much of a province's mining revenue can be redistributed to other provinces).

Critics of the GST Reforms are quick to point out Western Australia's historical status as a 'mendicant' State over much of the 20th century, implying that we should be paying our 'fair share' now by going back to the system of full equalisation that existed prior to the 2018 reforms.

- While it is true that Western Australia received more than its population share of Commonwealth financial assistance for many years, this was to explicitly compensate the State for the impact of Commonwealth tariff policies that disproportionately impacted Western Australia's revenue base at the time.
- Moreover, the extent of Western Australia's GST subsidy to the other States over the last two decades has been so large that it has **far outweighed** the earlier gains to Western Australia. Indeed, in 2025-26 dollar terms, Western Australia has experienced a **cumulative loss** from Commonwealth equalisation payments, totalling \$32 billion since 1942-43.

The previous system of horizontal fiscal equalisation (i.e. prior to the GST Reforms) created many extreme (and unforeseen) outcomes, and many perverse incentives (and disincentives). These are described in detail in this submission, but in summary include:

- almost 90% of Western Australia's iron ore, lithium and nickel royalties were redistributed to other States (based on their population shares), meaning that New South Wales, Victoria and Queensland effectively received **more** of our iron ore, lithium and nickel royalties than we did (via the GST distribution system);
 - in contrast, New South Wales effectively retained the **vast majority** of its coal royalties;

- prior to introducing a gold royalty in 1998, the Commonwealth Grants Commission (CGC) assessed Western Australia as having a **high capacity** to raise gold royalties, which **reduced** our share of financial assistance grants (now GST revenue) from the Commonwealth;
 - in contrast, when Victoria banned onshore gas exploration and development from 2012 to 2021, the CGC assessed they had **no capacity** to raise royalties from onshore gas, which **increased** their GST revenue;
- this led the PC to conclude in its 2018 inquiry report that “This treatment may distort States’ incentives because policy decisions to **restrict** extraction are not treated symmetrically with policy decisions to **facilitate** extraction”;
- in a similar vein, the previous system of full equalisation administered by the CGC discouraged States from growing their tax **bases** (because all but their population share of the resulting revenue would be redistributed to other States and Territories), but effectively rewarded States for increasing tax **rates** on existing (and often narrow and inefficient) tax bases (because they would retain virtually all of the resulting revenue);
- under the previous system of full equalisation, Western Australia would be financially **better off** if we replaced our iron ore royalties with an equivalent amount of increased payroll tax, because the CGC would assess that we ‘need’ additional GST revenue (equivalent to around 100% of our population share) – even though our overall level of own-source revenue (and expenditure) is **unchanged**; and
- deficiencies in the compensation for the costs of regional service delivery, which resulted in Western Australia receiving one sixth of the compensation per capita as Tasmania, despite Western Australia’s land size being 37 times larger than Tasmania and the distance from the State’s capital to deliver services in regional and remote communities being far greater.

These examples (and others in this submission) illustrate some of the arbitrary and non-sensical outcomes resulting from the system of full equalisation administered by the CGC.

They also highlight that States like Western Australia that have actively sought to grow their economies, develop their revenue bases and increase productivity have been **punished** through a higher redistribution of GST to other States, while States that have not proactively sought to develop their revenue bases (or even deliberately limited their revenue bases) have been **rewarded** by a higher GST share.

- This goes to the heart of what is wrong with the system of full equalisation administered by the CGC, and explains why every other federation in the OECD has moved to a system of **partial or reasonable equalisation** – similar to that achieved by the 2018 GST Reforms.

In addition to achieving a reasonable level of equalisation and improving incentives for States to develop their economies and undertake productivity-enhancing reforms, this submission demonstrates that the GST reforms have also **reduced the volatility** of the GST distribution system for all States, protecting the system from economic shocks and allowing for better forecasting and fiscal planning.

In short, it is clear that the GST Reforms have achieved their originally intended aims, by delivering a reasonable level of equalisation, improving incentives that support productivity, and reducing volatility. This is why they must be retained.

The only component of the GST Reforms that has departed from initial expectations is the cost of the Commonwealth's No-Worse-Off Guarantee (NWOOG). This has proven to be higher than forecast in 2018, leading some commentators to question whether the reforms are **fiscally sustainable**.

However, the reason the NWOOG has cost more than initially forecast is that iron ore prices have stayed higher for longer than forecast back in 2018. These higher iron ore prices have increased Western Australia's fiscal capacity (as assessed by the CGC) and lowered our 'pre-reform' GST share – down to as low as 10% of our population share in 2023-24. This meant that more GST revenue had to be redistributed from other States to lift Western Australia's share up to the guaranteed 'floor' (initially 70% but now 75% of a State's population share). As a result, the Commonwealth's NWOOG had to increase to lift other States back up to their 'pre-reform' GST shares.

Even if one just considers the expenditure side of this equation (and ignores the revenue side), we note that the cost of the NWOOG equates to just 0.6% of the Commonwealth's total general government expenses. But the revenue side of the equation **cannot** be ignored – the NWOOG would not have cost more than initially forecast if iron ore prices had not been higher than initially forecast. And the revenue benefit to the Commonwealth from higher iron ore prices has **far outweighed** the increased cost of the NWOOG.

- Indeed, we estimate that the benefit to the Commonwealth Budget through increased company tax revenue alone is **three to four times greater** than the increased cost of the NWOOG.
- This (higher iron ore prices and associated tax revenue) is one significant reason why the Commonwealth Budget has fared **much better** than forecast in recent years. Compared to forecasts at the time of the 2022 Federal election, the Commonwealth Budget has outperformed expectations by a total of \$209 billion over the last three financial years.

Not only has the Commonwealth's Budget improved, but all States and Territories are demonstrably better off – through the GST distribution system – as a result of higher than forecast iron ore prices. Due to iron ore prices to date being higher than projected in 2018, we estimate that other States will receive more than \$31 billion in additional GST revenue over the period 2020-21 to 2028-29.

For these reasons, we submit that the GST Reforms are clearly fiscally sustainable. Combined with higher than forecast iron ore prices, the reforms have significantly benefited **all** jurisdictions, not just Western Australia.

In addition, independent analysis being conducted by ACIL Allen shows that the GST Reforms have facilitated additional investment by the Western Australian Government in ports, roads, energy and other economic infrastructure totalling an estimated \$22.8 billion (over the period 2019-20 to 2028-29) – with this investment generating up to an estimated \$67.8 billion boost to national GDP and up to an additional \$16.2 billion in Commonwealth tax revenue. In addition, public infrastructure spending in Western Australia reached \$4,345 per person in 2024-25, only behind the Northern Territory (whose per capita figures tend to be inflated due to their small population). This highlights the importance of the GST Reforms in supporting investment in Australia's most productive State, for the **benefit of the entire nation**.

For all of the above reasons, the Western Australian Government submits in the strongest possible terms that the 2018 GST Reforms must be preserved.

But given that the PC has sought views on possible **alternative arrangements**, we recommend that consideration be given to a 25% discount on the CGC's mining revenue assessment – to operate **alongside and in addition to the 2018 GST Reforms**. Such a discount would:

- more directly and explicitly improve States' incentives to grow their mining industries and associated royalty bases;
- better align Australia's system of fiscal equalisation with our OECD peers, like Canada and Germany; and
- approximately halve the cost of the NWOG in 2026-27 and, depending on the future trajectory of iron ore prices, eliminate (or almost eliminate) the need for the NWOG from 2029-30.

The rest of this submission provides detailed analysis and supporting evidence for the Western Australian Government's position, framed around the terms of reference for the PC's inquiry.

- Chapter 1 addresses the extent to which the GST Reforms deliver a reasonable level of horizontal fiscal equalisation.
- Chapter 2 addresses the extent to which the GST Reforms have reduced volatility, while remaining responsive to changing circumstances.
- Chapter 3 examines the impact of the reforms on State incentives, while Chapter 4 addresses the issue of fiscal sustainability.
- Chapter 5 outlines the case for a mining revenue discount, while further detail (including in response to the Commission's information requests) is contained in the Appendices.

1. Reasonable level of HFE

To what extent the current arrangements are delivering a reasonable level of horizontal fiscal equalisation (HFE)

KEY POINTS

The level of equalisation is more reasonable under the reforms

The reforms limit how much GST is redistributed from any individual State, which is appropriate, as horizontal fiscal equalisation (HFE) is unquantifiable.

The reforms provide a much better balance than other proposals of equalisation to the average and equal per capita, and address declining community confidence in the GST distribution.

Equalisation to the minimum of New South Wales and Victoria is critical, as it prevents any State from becoming an outlier (which is the point when public confidence erodes).

The reforms bring the treatment of mining royalties in Australia more in line with HFE in other OECD countries such as Germany and Canada, neither of which tries to achieve full equalisation as Australia previously attempted.

The reforms address shortfalls in the pre-reform system measurement of Western Australia's needs

HFE has produced incomprehensible results, particularly in Western Australia, with regards to remoteness, isolation, and indigeneity needs.

The reforms address deficiencies in the treatment of royalties, particularly where one State dominates the revenue collected, and better accounts for the costs of supporting resource sector development.

The reforms are not a windfall gain for Western Australia

As HFE is unquantifiable, it cannot be used as a benchmark to say that Western Australia is receiving a windfall gain.

It is important to recognise the GST distribution is only one part of Western Australia's very large total net fiscal subsidy to the Federation.

The Western Australian Government strongly submits that the 2018 GST distribution reforms deliver a more reasonable level of HFE relative to the pre-reform arrangements.

While *Chapters 2 and 3* consider efficiency arguments, this chapter outlines that the reforms are justified on the basis of equity.

The reforms provide more reasonable equalisation

HFE is unquantifiable

Many parties have used the Commonwealth Grants Commission's (CGC's) measure of HFE as a benchmark for criticising the reforms. However, those arguments rely on the CGC being able to accurately quantify HFE. Western Australia does not object to the concept of HFE, but concludes that accurately quantifying it is unachievable.

The CGC acknowledges that its calculation of HFE is not precise:¹

Pursuing horizontal fiscal equalisation is not an exact science — it depends on the availability of appropriate data and requires the Commission to undertake estimates, make trade-offs and apply judgements.

But this understates the uncertainties in the CGC's calculations.

The four reasons outlined below justify why the CGC cannot reliably measure HFE.

1. There are many uncertainties in the CGC's calculations, as illustrated by the changes implemented in each method review (generally every five years).
2. The HFE principle refers to States making the same effort to raise their own revenues, but the CGC does not attempt to calculate what States' revenue bases would be if States had the same policies.
3. The CGC assesses standard policies for service provision and tax/royalty rates, but these standards are arbitrary.
4. There is an ongoing conflict between complexity of the CGC methods and data robustness.

In the face of such unreliability, it makes sense to err on the side of caution by limiting how much GST grants will be taken off each State. This is what the 2018 GST Reforms do.

The CGC cannot settle on methods

A fundamental indication of the unreliability of the CGC's assessments is the breadth of change at every methodology review.

¹ Commonwealth Grants Commission (2025), *GST Relativities 2025-26*, page 15.

This shows flexibility, which is good, but highlights their uncertainty. Flexibility to change assessment methods is essential to keep abreast of changing circumstances. But there have been frequent method changes for some assessments that have otherwise had relatively stable circumstances.

- For example, there have been six significantly different methods of assessing mining revenues over eleven method reviews (from 1981 to 2025). These method changes have the potential to redistribute billions of dollars between States.

Table 1.1 shows the impact of method changes across all assessments from the last seven² method reviews for each State, in 2025-26 dollars per capita.

- Impacts are as high as \$1,872 per capita (for the Northern Territory in the 2010 Review), while many other impacts have significantly exceeded \$200 per capita.
- Most States have substantial cumulative impacts (as high as \$3,875 per capita for the Northern Territory).

Table 1.1

Impact of Changes in CGC Methods
2025-26 terms, \$ per capita

Review Data year	1993 1987-88	1999 1993-94	2004 1998-99	2010 2006-07	2015 2011-12	2020 2016-17	2025 2021-22	Total
NSW	+113	+135	-156	-180	-51	+63	+122	+45
Vic	-1	-98	+50	+23	+79	-124	+549	+479
Qld	-59	-86	+153	+271	-18	+88	-492	-143
WA	-17	-23	+281	+187	-111	-88	-308	-79
SA	+32	-131	-17	+61	+144	-197	-347	-456
Tas	+17	+39	-279	+49	+387	+349	-273	+289
ACT	-1,262	+271	+168	-312	-410	-224	-96	-1,866
NT	-1,207	+138	-930	-1,872	-27	+1,338	-1,314	-3,875

Note: For each State, WA DTF use the data year listed in the table and for that data year we compare the Review data-year relativity against the preceding Update data-year relativity. The earliest data year of the Review averaging period is used to minimise data revisions. This difference is multiplied by the estimated national per capita GST pool for 2025-26 (as per the Commonwealth's 2025-26 Mid-year Economic and Fiscal Outlook).

Source: WA DTF estimates.

² It is not possible to separate method changes from data revisions for earlier reviews, as there were no annual updates prior to the CGC's 1988 Review.

For comparison, as shown in Table 1.2, we estimate that Western Australia's additional GST grants from the GST Reforms (compared to the CGC's quantification of HFE):³

- reached a maximum of \$2,210 per capita in 2024-25 (which is comparable to the method change impact for the Northern Territory from the 2010 Review, and substantially lower than the cumulative method changes for the Northern Territory); and
- will average \$1,496 per capita over the period 2019-20 to 2029-30 (which is substantially lower than the maximum single review method change for the Northern Territory).

Hence, the benefit to Western Australia is well within the uncertainties in the CGC's assessments. That is, benefits and losses of this magnitude are not uncommon under the CGC's method changes.

Table 1.2

Western Australia's Additional GST Grants from the Reforms

\$ per capita

	Nominal	2025-26 terms
2019-20	473	739
2020-21	579	746
2021-22	1,033	1,322
2022-23	1,696	1,962
2023-24	1,920	2,128
2024-25	2,118	2,210
2025-26	1,955	1,955
2026-27	2,057	1,952
2027-28	1,921	1,726
2028-29	1,354	1,155
2029-30	701	567
Average	1,437	1,496

Source: WA DTF estimates, consistent with Western Australian 2025-26 Government Mid-year Financial Projections Statement.

Furthermore, we estimate the value of the NWOG to other States is much smaller at:⁴

- a maximum in any one year of \$259 per capita (New South Wales in 2025-26); and
- a maximum average over the nine years 2021-22 to 2029-30 of \$167 per capita (Victoria).

These are well within the middle range of the variations in Table 1.1.

³ In 2025-26 terms. Consistent with the Western Australian 2025-26 Government Mid-year Financial Projections Statement estimates.

⁴ *ibid.*

The CGC ignores policy consistency of revenue bases

The HFE principle is as follows:⁵

... after allowing for material factors affecting revenues and expenditures, each state would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own-sources and operated at the same level of efficiency.

A State's own-source revenues (taxes and royalties) will depend upon the State's revenue base (e.g. wages for payroll tax) and the State's tax/royalty rate. For each State to make *the same effort to raise revenue from its own sources*, it must:

- make the same effort to develop its revenue bases; and
- apply the same tax/royalty rates.

The CGC's assessments are based on average tax/royalty rates. However, with the exception of gambling taxes, the CGC does **not attempt** to assess revenue bases on a **policy-consistent** basis. That is, the CGC does not attempt to equate States' efforts to develop their revenue bases.

This is despite the CGC stating that this is necessary:⁶

For revenue, this requires the calculation of national average tax rates and policy-neutral estimates of tax bases for major state revenue sources.

Instead, the CGC uses **observed** revenue bases, which are affected by a wide range of State policies.⁷ These include:

- level and stability of tax/royalty rates;
- regulations over economic activities;
- provision of services and infrastructure;
- policies on releasing land and through zoning policies;
- regional development — such as affordable housing;
- business development spending;
- services to industry, such as geological surveys;
- approval processes — including environmental approvals;
- fiscal policies — through their impact on business confidence; and
- mining bans and restrictions.

⁵ Commonwealth Grants Commission (2025), *Commission's Assessment Methodology*, page 230, paragraph 5.

⁶ Commonwealth Grants Commission (2025), *Occasional Paper No. 13: Is the GST distribution system too complex?*, page 2.

⁷ In some previous method reviews, the CGC has adjusted for the tax elasticity impact of differing tax rates (and this is again under consideration for the 2030 Review), but it has never adjusted for any of the other listed policies.

In its 2025 Review, the CGC admitted that it cannot adjust for these policies:⁸

While there will be a range of different policies affecting a state's revenue capacity, it would be impractical to identify and make reliable adjustments for every difference.

The Western Australian Government considers this to be an admission that the CGC is unable to implement the HFE principle. This principle may be a lofty goal, but it is an unachievable one.

In practical terms, Western Australia has placed significant effort over decades into developing its resources sector. This includes a supportive regulatory environment, significant investments into economic infrastructure to facilitate industry and social infrastructure and services in regional Western Australia to support development. However, this effort is not appropriately recognised by the CGC. Conversely, other States that have chosen not to develop resources are not penalised.

The problem is that observed revenue bases are unreliable measures of what the HFE principle requires, which are policy-consistent revenue bases. This aspect of the HFE principle is essential for true equalisation.

The CGC has an approach to dealing with unreliable data, which is to discount assessments using such data. In the case of gambling taxes, the CGC discounts the assessment by 100% for lack of policy consistency in the revenue bases (particularly as Western Australia bans poker machines outside of the Perth casino). It is Western Australia's view that other tax and Mining revenue assessments should similarly be discounted (albeit by a lower percentage) due to the uncertainties discussed above is. This is just one of the inconsistencies in the CGC's assessments, which further highlights the unquantifiable nature of HFE in the CGC's methods.

A larger list of perverse CGC methods is provided in *Appendix B*.

Table 1.3 shows the impact if the CGC were to apply a 25% discount to its revenue assessments (this is the discount level that the CGC refers to as 'moderate').

⁸ Commonwealth Grants Commission (2025), *2025 Methodology Review – Review Outcomes*, page 314, paragraph 32.

Table 1.3

Impact on CGC Revenue Assessments of a 25% Discount

2025-26 terms, \$ per capita

	Payroll tax	Land tax	Transfer duty	Insurance tax	Motor taxes	Mining revenue	Total
NSW	+17	+85	+80	+6	-12	-127	+49
Vic	-6	+22	+7	-5	-2	-318	-302
Qld	-38	-74	-30	-1	+9	+247	+115
WA	+122	-64	-79	-8	+22	+906	+900
SA	-94	-81	-114	+16	+4	-254	-523
Tas	-119	-97	-138	-16	+19	-260	-611
ACT	-26	-93	+16	-13	-36	-326	-478
NT	+4	-90	-158	-9	-12	-65	-329

Source: CGC assessments multiplied by -25%. The CGC quantified its assessments using the 2025-26 GST pool projected in the Commonwealth's 2024-25 Mid-year Economic and Fiscal Outlook.

Table 1.3 is in per capita terms. The total impact for Western Australia equates to \$2.8 billion in just one year. If a 50% discount to the mining revenue assessment was applied as it occurs in Canada, this would increase to \$5.3 billion in 2026-27 (see Table 1.9).

Incidentally, Table 1.4 shows the impact of the discount that the CGC implements for lack of policy consistency in the observed gambling tax revenue base.

Table 1.4

Impact of CGC 100% Discount to Observed Gambling Tax Revenue Base

2025-26 terms

	\$m	\$pc
NSW	+997	+115
Vic	-244	-34
Qld	-67	-12
WA	-454	-149
SA	-136	-72
Tas	-81	-141
ACT	-42	-86
NT	+27	+105

Source: WA DTF estimates, applied to the national GST pool and States' populations from the Commonwealth's 2025-26 Mid-year Economic and Fiscal Outlook.

Removing this discount (which does not currently apply to other revenue assessments) results in a substantial gain for Western Australia.

The lack of policy neutrality in HFE, particularly for the Mining revenue assessment is discussed further in *Chapter 5* of this submission.

It is useful to distinguish between the two terms *policy consistency* and *policy neutrality*.

- We use the term *policy consistency* to refer to revenue bases that reflect the same policies among States. These are the revenue bases required by the reference in the HFE principle for States to make the same effort to raise revenue from their own sources.
- The CGC defines the term *policy neutrality* as a State's policy choices not influencing its GST share, and the CGC assessments not creating incentives nor disincentives for a State to choose one policy over another.⁹

Although related, the two terms still have distinct meanings.¹⁰ However, the CGC does not use the term *policy consistency*, and appears to use the term *policy neutrality* haphazardly to cover both terms (inconsistently with its definition).

The relevance of the distinction is that:

- The lack of *policy neutrality* of Mining revenue assessments shows that HFE produces poor outcomes.
- The lack of *policy consistency* of all revenue assessments shows that HFE is not even achieved.

The standards in HFE are arbitrary

It is the Western Australian Government's argument that the CGC's estimate of HFE must be considered as arbitrary as it requires a significant level of judgement. To align with the HFE principle, the CGC attempts to give each State the capacity to provide the same standard of services (and associated infrastructure). This is predicated on each State making the same effort to raise revenues, which requires the CGC to determine a standard level of effort. This relies on many assumptions and does not properly recognise the nuances across States.

While this may sound very equitable, it is arguable that to determine the appropriate standards necessarily involves many judgements.

Four examples that involve significant judgements are provided below.

Services in regional areas

Some commentators have decried the GST distribution reforms, on the basis that they move away from enabling everyone to receive the same standard of services through HFE no matter where they live.

⁹ Commonwealth Grants Commission (2025), *Commission's Assessment Methodology*, page 233, paragraph 20.

¹⁰ If instead of being policy consistent, revenue bases depend on States' policies, then States will be able to influence their grant shares by altering their revenue bases, so the assessments will not be policy neutral. On the other hand, an assessment will not be policy neutral if one State has undue influence on the national tax/royalty rate, even if the revenue bases are policy consistent.

However, both they and the average member of the public would probably be surprised to know that the CGC does not seek to enable everyone to receive the same standard of services.

The CGC interprets the HFE principle as referring to the average standard of services by State Governments, and interprets this standard as being varied across socio-demographic groups. The CGC explicitly equalises on the basis that States provide a standard of services that differs with remoteness. Although States are given increased GST grants for the additional cost of providing services in more remote regions, this is partially offset by the national average reduction in the standard of services in more remote regions. That is, the CGC equalises States' remote regions to the average level of services provided in those regions, which are lower than in capital cities. This is likely to be even more true for Indigenous communities in very remote areas.

An example of the impact of this interpretation is that the Australian Capital Territory is equalised to be able to provide a higher standard of service to its residents (as they all live in a capital city) than any other State.

If the CGC were to seek to give every State the capacity to provide the national average standard of services to all its residents, there would be a substantial redistribution of GST to States such as Western Australia.

The variation in services within States also calls into question the claim of some commentators that HFE mirrors what a unitary government would do. Service delivery is dependent on the practicality of providing services, and a range of complex decision making. Furthermore, the experience of existing unitary governments does not necessarily translate readily into the Australian circumstances. In this regard, it should also be noted that countries with more diverse regions are also more likely to be Federations.

Public urban transport

The CGC assesses the national average standard of public urban transport to be to provide a higher standard of urban transport as the urban centre population increases.

So, for example, Sydney is equalised to provide heavy rail services, whereas Darwin is only equalised to provide bus services.

It is sensible for Darwin to only provide bus services, but it is questionable that this is consistent with the wording of the HFE principle.

Even if one accepts that the CGC's interpretation is the right basis for HFE, there is substantial difficulty in measuring a "national average standard" that varies across the nation. The CGC's attempts are significantly influenced by New South Wales' policies for public transport in Sydney.

This is another example of the arbitrary nature of the CGC's assessments.

Iron ore royalties

As discussed earlier, the CGC does not attempt to measure policy-consistent revenue bases.¹¹ For royalties, the CGC uses observed value of production, with no adjustments for policy differences.

In addition, the CGC applies a national-average royalty rate. However, as 99% of the national iron ore value of production is from Western Australia, this national-average iron ore royalty rate is virtually the Western Australian rate. This raises the question of whether an **average** royalty rate is even meaningful.

This also means that if Western Australia makes a policy choice to change its iron ore royalty rate, then the CGC will consider Western Australia's capacity to raise iron ore royalties to have changed. (A significant part of the increase in Western Australian iron ore revenue raising capacity (as measured by the CGC) since the GST was introduced has been due to Western Australia increasing its royalty rates.)

- For taxes, each State can choose to raise more revenue (without significant loss of GST grants) by having a higher-than-average tax rate (i.e. higher-than-average revenue-raising effort). However, Western Australia cannot choose to have a higher-than-average iron ore royalty rate – instead its revenue-raising capacity is deemed to have increased. It is hard to see how this is consistent with the HFE principle.
- As discussed later, as well as calling into question the reliability of HFE as calculated by the CGC, this raises extreme policy neutrality problems.

In its 2025 Review, the CGC proposed improving policy neutrality of its royalty assessments by discounting by 50% any **future** royalty changes by dominant States.¹² It did not proceed with this proposal, but this is being further considered in the 2030 Review (as part of the CGC's forward work program).

There are a number of alternative ways to define a national average iron ore royalty rate, including the rate that applied at 1 July 2000 (when the GST was introduced¹³), and either a flat or population-weighted average of the rates applied by the three States that produce iron ore (the CGC weights the royalty rates by value of production).

¹¹ In some past reviews, it has taken account of tax/royalty rate elasticities, but these are only one of the many impacts, and are influenced by differing State policies.

¹² The CGC proposed defining a dominant State for a mineral as one whose revenue base share minus its population share exceeds 50% (Commonwealth Grants Commission (2023), *2025 Methodology Review Mining Revenue Consultation Paper*, page 9, paragraphs 30-31).

¹³ This would be better than the CGC's proposal, as it would not discriminate between past and future royalty rate changes.

The arbitrariness of the HFE calculation is further illustrated by the fact that Western Australia could increase its relativity above one by abolishing its iron ore royalty. Under its current approach, the CGC would assess Western Australia's capacity to collect iron ore royalties to have declined to 0.05% of its value of production.¹⁴ Western Australia's relativity would remain above one even if it were to make up for the royalty shortfall by raising its tax rates.¹⁵

The Western Australian Government has not taken this approach, due to the political difficulty of 'giving away the State's iron ore' and the potential inefficiency of increasing taxes. Instead, this example is used as a basis to advocate for the 2018 GST Reforms to remain, and to highlight the lack of policy neutrality endemic in CGC methods. The reforms have successfully reduced the incentive to make such a switch.

Table 1.5 shows the impact on HFE of the various alternative iron ore royalty rate standards discussed above. It shows starkly that different (valid) ways of measuring the 'standard' iron ore royalty rate produce impacts of similar magnitude for Western Australia as the reforms.

Table 1.5

Impact to Western Australia of Using Differing 'Standard' Iron Ore Royalty Rates
CGC 2025 Review

	'Standard' iron ore royalty rate ^(a)	Increase in GST grants		Pre-reform GST Relativity
		\$m	\$pc	
Current	7.19%	-	-	0.18
Population-weighted average of WA, SA and Tas	5.73%	2,119	694	0.38
GST introduction (1 July 2000)	5.57%	2,332	763	0.40
Flat average of WA, SA and Tas	5.00%	3,189	1,044	0.49
WA abolishes iron ore royalty	0.05%	10,299	3,371	1.17

(a) Averaged over the three data years of the CGC 2025 Review.

Source: WA DTF estimates, consistent with CGC 2025 Review (the CGC quantified its assessments using the 2025-26 national GST pool projected in the Commonwealth's 2024-25 *Mid-year Economic and Fiscal Outlook*).

¹⁴ This is slightly above zero, because South Australia and Tasmania would still have royalty collections. This rate is calculated by dividing the sum of those royalty collections by the sum of all three States' value of production.

¹⁵ Note that, to be budget-neutral, higher Western Australian taxes would only have to cover the shortfall in iron ore royalty revenues net of the GST gains (i.e. the 12% of revenues that are not effectively equalised away).

Coal royalties

Since introduction of the GST, Queensland has introduced progressive coal royalty rates to extract more of the economic rent from coal production.

The CGC responded to this in its 2025 Review, by basing its assessments on progressive royalty rates. It justified this on the basis that, because Queensland produces the majority of coal, the national average policy is to have progressive rates, even though Queensland is the only State that has progressive rates.¹⁶ New South Wales has flat rates that vary with the type of mine (open cut, underground, deep underground), but the CGC does not take this into account.

Although not as extreme as iron ore (as both Queensland and New South Wales have significant coal production), this still raises the question of how meaningful an **average** royalty rate is.

It also means to a significant extent that Queensland is assessed as having higher capacity because of its higher revenue-raising effort (despite this being arguably economically efficient). This is both inconsistent with the HFE principle and (as discussed later) is not policy neutral.

Onshore gas

Prior to Western Australia introducing a gold royalty in 1998, the CGC deemed that Western Australia had a high capacity to raise gold royalties, despite not actually receiving any gold royalty revenue. This would have led to a decrease in Western Australia's GST revenue.

This decision led the PC to conclude in its 2018 inquiry report that:¹⁷

This treatment may distort States' incentives because policy decisions to restrict extraction are not treated symmetrically with policy decisions to facilitate extraction.

In contrast, when the Victorian Government imposed a ban on onshore gas exploration and development from 2012 to 2021, the CGC assessed Victoria had no capacity to raise royalties from onshore gas. This finding led to an increase in GST revenue for Victoria, and highlights the contradiction in the CGC's methodology.

Whilst this is an inconsistent treatment that should be mitigated, it is discussed further in *Chapter 3* how the CGC's treatment of gold incentivised the introduction of a gold royalty rate in Western Australia, a policy which has led to significant benefit to the national economy.

¹⁶ Commonwealth Grants Commission (2024), *2025 Methodology Review Draft Report, Mining Revenue* chapter, page 14, paragraph 85.

¹⁷ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no.88, page 127.

Data inadequacy

The CGC sometimes discounts its assessments to address data quality problems.

Table 1.6 shows the per capita pre-reform grant-year impact of including these discounts in the CGC 2025 Review.

- This only covers discounts towards equal per capita (so does not include cases where two measures were averaged, such as Rawlinsons cost factors and recurrent cost factors in the Investment assessment).
- It does not include 100% discounts, such as gambling tax.

Table 1.6

Assessment Impact of Discounts in the CGC 2025 Review

2025-26 terms, \$ per capita

	Land Tax	Community Health SDC ^(a)	Health non-State services	Regional costs	Roads	Wage costs	Total
NSW	+49	+6	+6	+7	+4	-9	+64
Vic	+12	+10	-2	+7	+19	-4	+43
Qld	-42	-8	+7	-3	-11	+20	-37
WA	-36	-7	-17	-11	-14	-24	-109
SA	-46	-5	-6	-1	-12	+44	-26
Tas	-55	-44	+3	-8	-12	+62	-54
ACT	-53	+17	-44	+8	+57	-68	-83
NT	-51	-141	+3	-239	-245	-80	-754

(a) Socio-demographic composition.

Source: CGC estimates (using the 2025-26 GST pool projected in the Commonwealth's December 2024 *Mid-year Economic and Fiscal Outlook*). Discounts are 12½%, except for regional costs which is a 25% discount.

For comparison with Table 1.1, Table 1.6 is in per capita terms. The total dollar annual impact of discounting for Western Australia is a \$334 million reduction.

More generally, the CGC has acknowledged that a reliable measure of HFE requires significant complexity, and States commonly argue for more complexity.¹⁸ However, data are not always available to implement that complexity, especially as State agencies are generally collecting data for purposes that are quite different from determining HFE.

- The CGC could reduce complexity, if it were to accept that its results are unreliable, so a broader approach could be used.

¹⁸ Commonwealth Grants Commission (2025), *Occasional Paper No. 13: Is the GST distribution system too complex?*, Summary, page 1.

This can be illustrated by the large impacts on the CGC's assessments from updating data, when there has been no change in method or States' service delivery.

- An example is the very large impacts of introducing 2023-24 data into the urban transport regression, which is estimated using a single year of data (2022-23).¹⁹ The CGC's preliminary view is to not use this new data.²⁰

Overall, the CGC struggles to be able to make the assessments that it thinks are ideal. When data are readily available, it tends to make very complex assessments, but makes no assessment at all where data are not available, often despite a conceptual case that States have differing needs (especially for expenses, which penalises States with generally above-average expense requirements, such as Western Australia).

The appropriate response to unquantifiable HFE

As shown in Table 1.6, the CGC addresses unreliable assessments by discounting them towards an equal per capita assessment.²¹

The Western Australian Government argues this means the CGC should similarly discount the revenue assessments, because the observed revenue bases used by the CGC are an unreliable measure of policy-consistent revenue bases. Ideally, the CGC would place a floor on the relativities in recognition that discounting individual assessments can actually increase the GST redistribution.

- For example, Western Australia's pre-reform GST relativity is the net impact of reductions from revenue assessments partially offset by increases from expenditure assessments. Hence, the discounts to the expenditure assessments in Table 1.6 actually make Western Australia's GST relativity lower, increasing the redistribution of GST grants away from Western Australia.

In other words, the CGC should mirror the GST distribution reforms, purely on the basis of the unreliability of any quantification of the HFE principle.

It is a case that, **because the HFE principle cannot be reliably quantified, the Commonwealth should limit just how much GST grants are taken off any individual State.**

The 2018 GST Reforms achieve this by ensuring no State receives less GST per capita than the minimum of New South Wales and Victoria.

The extra GST grants that such a State receives should not be seen as a windfall gain, as HFE is only an exceedingly approximate benchmark.

The issue should not be that Western Australia is gaining the amounts in Table 1.2.

¹⁹ Commonwealth Grants Commission (2025), *New Issues in the 2026 Update*, page 11, Table 5.

²⁰ *Ibid.*, page 12, Preliminary View.

²¹ An equal per capita assessment has no impact on the GST grant distribution.

Rather, it should be that, in the absence of the reforms, an unreliable HFE quantification would reduce Western Australia's GST grants by the amounts in Table 1.7.

Table 1.7

Western Australia's HFE Redistribution in the Absence of the GST Reforms

Nominal terms

	\$m	\$pc	% of equal per capita share
2019-20	-2,995	-1,135	-48%
2020-21	-4,175	-1,563	-55%
2021-22	-5,296	-1,917	-67%
2022-23	-7,365	-2,607	-84%
2023-24	-8,316	-2,840	-90%
2024-25	-8,768	-2,914	-89%
2025-26	-8,516	-2,776	-82%
2026-27	-8,030	-2,579	-73%
2027-28	-7,856	-2,488	-68%
2028-29	-6,293	-1,965	-51%
2029-30	-4,371	-1,343	-34%
Total	-71,981	-24,127	

Source: WA DTF estimates, consistent with Western Australian 2025-26 *Government Mid-year Financial Projections Statement*.
Relative to an equal per capita distribution of the GST grant pool (excluding the pool boost).

Table 1.7 is relative to an equal per capita distribution of GST grants, as that is the distribution that would apply if the CGC made no assessments. As discussed in the following section, the Western Australian public expect the State to receive a reasonable proportion of an equal per capita share of the GST pool.

It is equally valid that high redistributions to States are called into question because HFE is unquantifiable. However, the Western Australian Government does not propose a ceiling on GST relativities as:

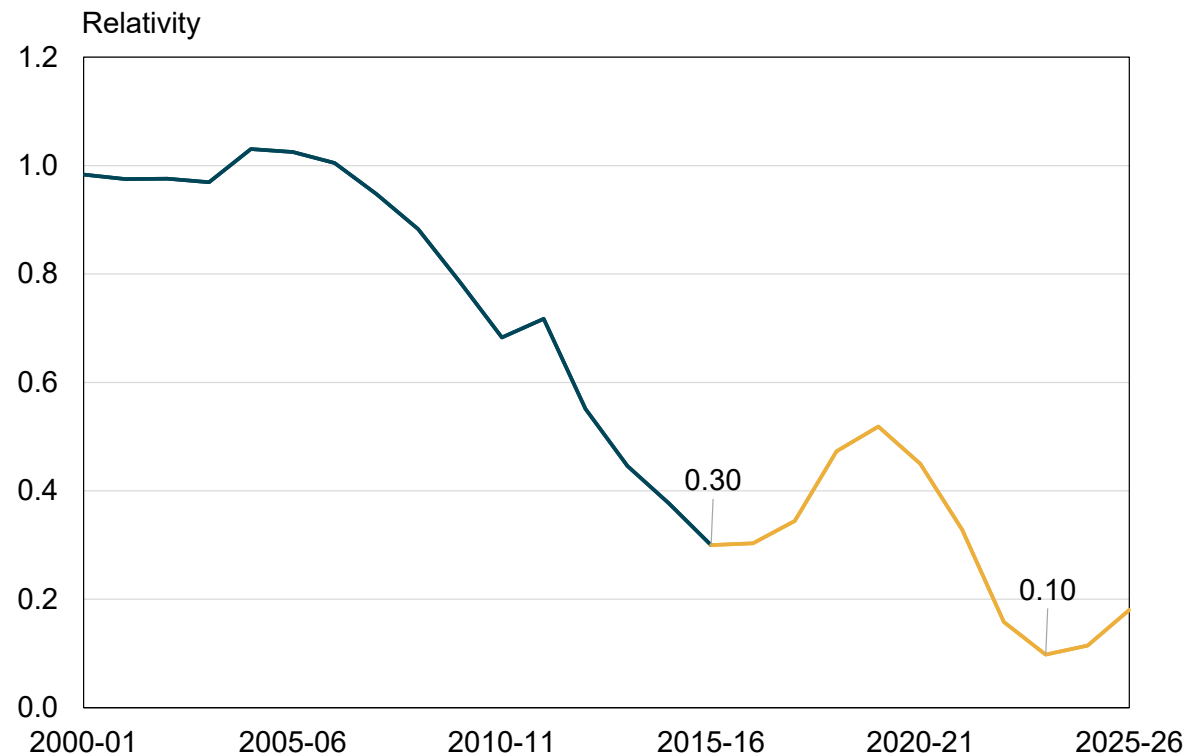
- the consequences of overfunding a State are not as severe as the consequences of underfunding a State; and
- the States with the highest relativities (Tasmania and the Northern Territory) have small populations, so the fiscal implications for jurisdictions funding them above any ceiling (whether that be the Commonwealth or the other States) is relatively minor.

Declining community confidence in the GST distribution

The 2018 Productivity Commission (PC) Review of the GST distribution was called in the context that Western Australia's GST relativity had fallen below 30%. The State's pre-reform relativity has since fallen to below 10% (although it is now rising).

Chart 1.1

Western Australia's GST Relativity in the Absence of the GST Reforms



Source: CGC analysis.

Western Australian residents pay GST, and expect much of this to be spent on services within Western Australia.^{22, 23}

- There is limited public understanding of the difference between how much GST is generated in Western Australia and Western Australia's population share of national GST collections (to which relativities relate). However, Australian Bureau of Statistics (ABS) data on household expenditure indicate that Western Australia generates broadly its population share of national GST collections.²⁴

Some commentators have criticised the reforms as being politically motivated. However, this ignores the fact that it is the lack of public confidence in the GST distribution system that has made it a voting issue in Western Australia. This is not because the Western Australian relativity fell below one, but because it fell *well* below one.

New South Wales Governments have been trying for decades to engage their public on their below per capita share of equalisation grants (GST and the preceding financial assistance grants) to no avail.²⁵ While the public may prefer their State receive its population share of grants, a relativity down towards 85% is not drastic enough to become a voting issue for the public, as they are more concerned about other government policies.

Likewise, although some governments and political commentators have heavily criticised the GST distribution reforms, the general public in other States do not appear to be politically engaged on this.

Only in Western Australia has the public compact on GST broken down. The GST Reforms critically have repaired this compact.

In face-to-face discussions, PC staff queried whether the reforms would attract more criticism if Western Australia continued to benefit to the same extent over decades to come. The Western Australian Government strongly believes the above comments would continue to hold, and notes that these gains will fall significantly even if iron ore remains at its current price. In any case, as discussed later, these gains should not be seen as windfall gains for Western Australia.

²² It is of little relevance to community confidence that the GST is a Federal tax, only that it is the vehicle for general purpose grants to the States.

²³ Some commentators have suggested that general purpose grants should no longer be linked to GST collections. Prior to the introduction of the GST, from 1982-83 to 1999-2000, relativities applied to a Financial Assistance Grant pool determined by the Commonwealth. This pool was increased for inflation and national population growth in the years 1994-95 to 1999-2000. However, prior to that, the pool was only increased for inflation, and the Commonwealth made real cuts to the pool of \$1.6 billion or 12% over the three years to 1990-91 (and in the 1993 election, the Federal Opposition pledged to cut this pool by an additional 10%). This was why all States agreed to replacing the Financial Assistance Grant pool with the GST collections, despite differing views on whether the GST should be introduced (as a tax) and on the method of distributing the GST.

²⁴ Our method of estimating the base on which GST is levied, on a State-basis, is consistent with methods a couple of other States used in the past for estimating the national base (for the purpose of forecasting national GST collections).

²⁵ Including newspaper pictorial advertisements depicting Queensland as cane toads coming to get New South Wales' grants.

The 2018 GST Reforms provide a much better balance than the other proposals

The Commonwealth Government response to the 2018 PC Review of the GST distribution was to ensure (after a phase-in period) that no State receives less GST per capita than the minimum of New South Wales and Victoria.

However, in their final report, the PC recommended using the average of all States as the benchmark, rather than the minimum of New South Wales and Victoria.²⁶ This would have resulted in a significantly higher impact of the reforms on GST grants than the current reforms.

Furthermore, the New South Wales Government has been consistently advocating for all States to receive an equal per capita share of the national GST pool (with States that lose from this being compensated by the Commonwealth). This would have an even greater impact.

The Productivity Commission's 2018 Review

In the PC's 2018 Review, a range of equalisation alternatives were evaluated based on fairness and their impact on fiscal equality. The PC recommended that GST should be distributed by equalisation to the average (ETA) on the basis that:²⁷

On balance, ETA is considered to be more efficient and equitable than the current equalisation benchmark and the other alternatives proposed and considered.

As highlighted in Table 1.8, if the PC's recommendation to equalise to the average had been adopted then in 2026-27, Western Australia would receive higher GST grants than the current post-reform system (as would New South Wales and Queensland).

²⁶ In both cases, all States pay the cost of raising States to the benchmark (on an equal per capita basis). Hence, when the benchmark is the minimum of New South Wales and Victoria, the net impact of raising States to that benchmark is that they get the new reduced New South Wales or Victorian relativity. Likewise, when the benchmark is the average of all States, those States raised to the benchmark still receive a relativity less than one, reflecting the cost of the increase spread across all States.

²⁷ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no.88, page 254.

Table 1.8

Alternative Benchmarks compared to Equalisation to NSW

Nominal terms, 2026-27

	Equalisation to Average		Equal per capita	
	\$m	\$pc	\$m	\$pc
NSW	+992	+114	+4,899	+560
Vic	-1,153	-159	-716	-99
Qld	+327	+56	+2,916	+503
WA	+354	+114	+1,745	+560
SA	-306	-159	-2,662	-1,385
Tas	-92	-159	-1,818	-3,143
ACT	-79	-159	-253	-512
NT	-43	-160	-4,110	-15,463

Note: NSW is projected to have a lower relativity than VIC in 2026-27. Comparisons include the GST pool boost.

Source: WA DTF estimates, consistent with Western Australian 2025-26 *Government Mid-year Financial Projections Statement*.

Equalisation to the average

The 2018 Review concluded that equalisation to the average would improve fairness and that several States would have greater incentive to undertake reform. This should still be considered as a point of reference when the current reforms are evaluated.

When evaluating equalisation to the average, the PC found that:²⁸

HFE benchmarks that enable States to provide a reasonable standard of services, address States' inherent disadvantages, and provide some degree of reward for policy effort and risk-taking, are judged to be equitable. It may not necessarily be the case that symmetric equalisation benchmarks deliver the right balance when viewed from the perspectives of both fiscal equality and fairness.

Whilst the system in place does not go as far in terms of balancing the trade-off between fiscal equality and fairness, it is better than the pre-reform system that actively disincentivised policy effort and risk-taking. This is discussed further in *Chapter 3*.

Equal per capita

When the PC undertook its review of various equalisation methods, the options explored were all significantly closer to HFE than equal per capita (EPC). Whilst the Western Australian Government does not advocate for a system entirely based on EPC, there should be caution placed on how much is redistributed away from EPC.

²⁸ *ibid.*, page 246.

An EPC distribution could be an issue if GST were the only method for the Federal Government to transfer money to States, which it is not. So, if the GST pool was distributed in EPC terms, there are other mechanisms in place that could be used to support fiscally weaker States.

When the PC evaluated alternative approaches, it was noted that:²⁹

To varying degrees, each of the alternative benchmarks ... have the potential to reduce these policy disincentives. However, none of the options mute the disincentives for all States equally.

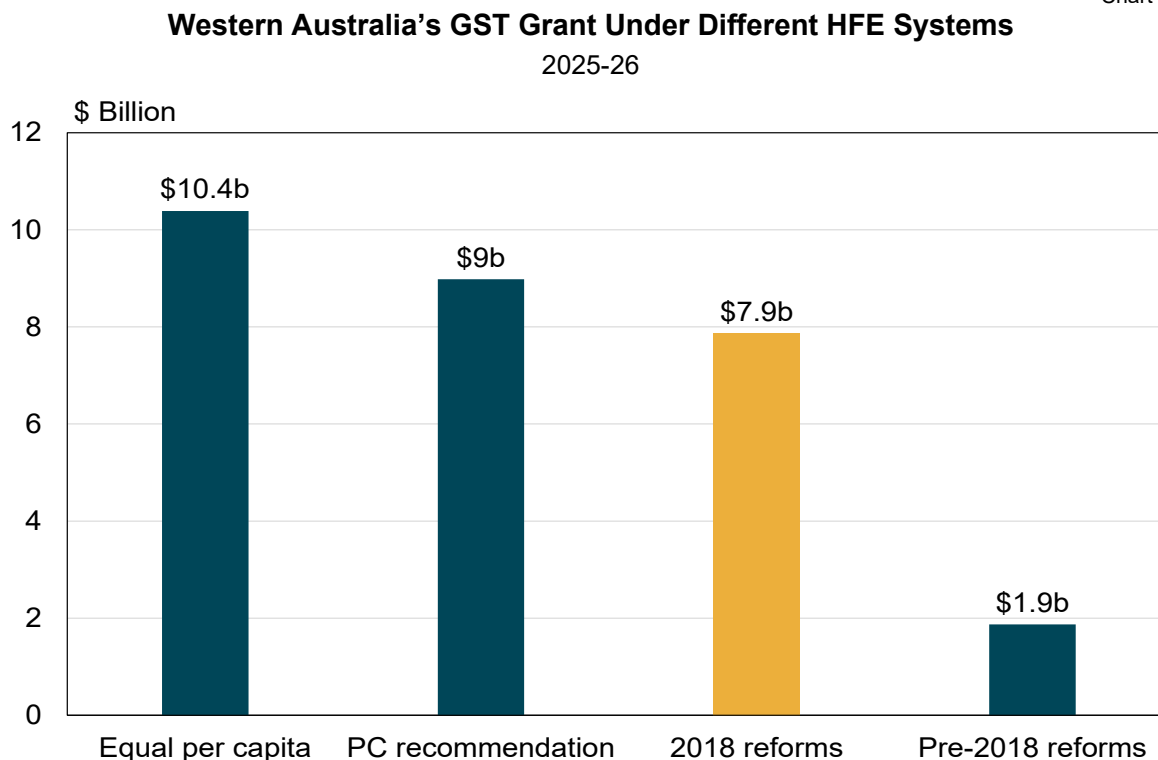
While the PC did not examine EPC as an option in their report, it is notable that it is the only distribution method that would reduce all policy disincentives.

As concluded earlier in this chapter, HFE is unquantifiable. This lack of reliability highlights the caution on how much GST revenue is distributed from any State. The reforms address this concern by limiting how low a State's GST relativity can fall.

Comparison of Options

Chart 1.2 compares the options discussed above with the current reforms and the pre-reform arrangements, and illustrates how the current reforms are a reasonable compromise by providing a much better balance than other proposals.

Chart 1.2



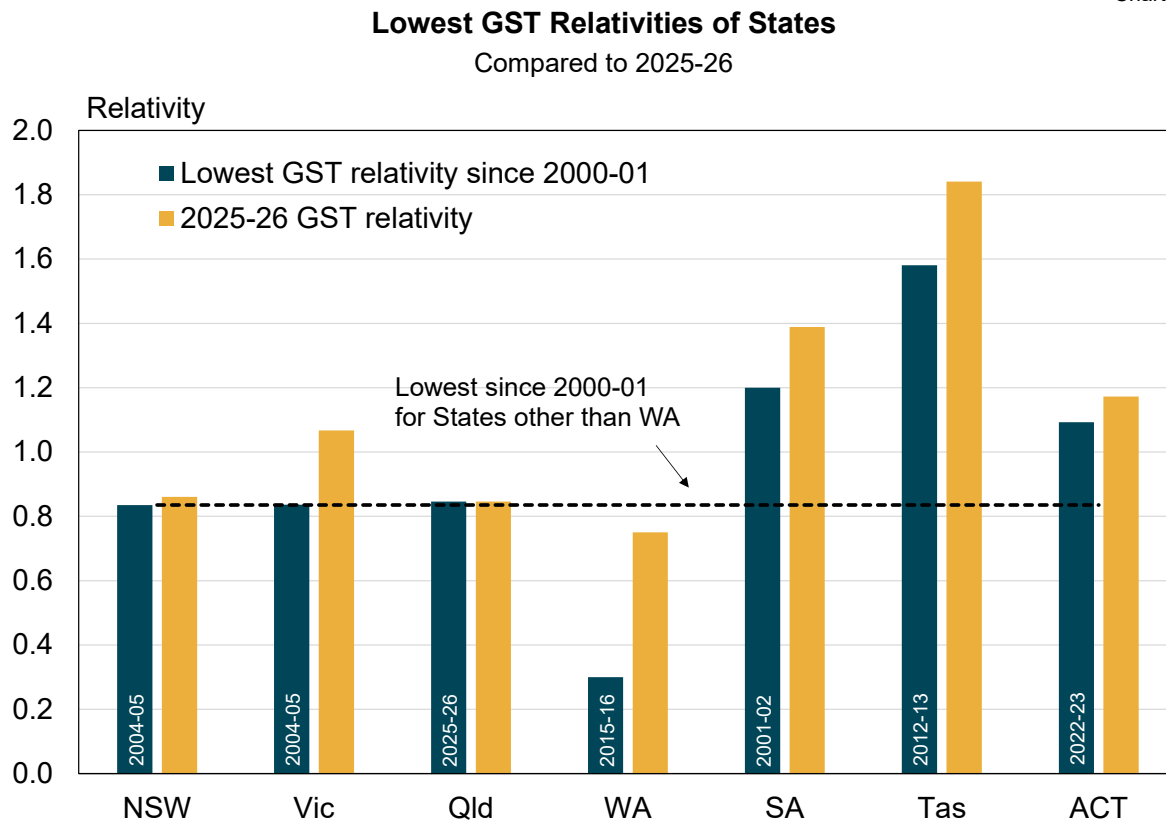
Source: WA DTF estimates.

²⁹ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no.88, pages 246-247.

Importance of each component of the reforms

No State other than Western Australia has ever received less than 83% of its population share of the GST grant pool. In 2004-05, New South Wales and Victoria both recorded a relativity just above 83% (83.5% and 83.6%, respectively). Chart 1.3 compares the lowest GST relativity of all States to the current year relativity. Western Australia is the only State to have received relativities substantially below this, in 2015-16 at 30%.

Chart 1.3



Note: The Northern Territory is not shown (their lowest GST relativity was 4.3 in 2018-19, and their 2025-26 GST relativity is 5.2).

Source: CGC estimates.

Equalisation to the Standard State (i.e. minimum of New South Wales and Victoria) currently results in relativities slightly above this for New South Wales (excluding the NWO) and if fully transitioned, also for Western Australia.

Due to New South Wales and Victoria having the largest populations, their relativities are inherently more stable than for other States. Hence, equalisation to the minimum of these two States prevents any State from becoming an outlier (which is key when public confidence in the system erodes). For this reason, we consider this to be the most critical component of achieving a fairer and more balanced outcome.

However, the 75% floor is also vital, as it provides a guarantee for all States (including New South Wales and Victoria) in extreme circumstances. Previously, we would not have expected either of these States to use this guarantee, and we are projecting them to be well above it in the foreseeable future. However, it is more likely than previously as:

- in recent years, there has been a significant divergence between their relativities (with Victoria's GST relativity (including the NWOOG) at over 115% for 2025-26) which resulted in low relativities for New South Wales; and
- the New South Wales relativity is reduced by several percentage points for the cost of lifting Western Australia and Queensland³⁰ up to the New South Wales relativity.

The Commonwealth added the national GST pool boost to ensure that no State would be worse off from the reforms, under the forecasts at the start of 2018. Continuing this is important to at least reduce the loss by any State.

Likewise, the NWOOG has played a valuable role in ensuring no State has been worse off. However, the Western Australian Government is ambivalent about the NWOOG continuing, as the NWOOG:

- is measured relative to the CGC quantification of HFE, which as discussed earlier, is not reliable;
- is well within the range of method change impacts in Table 1.1;
- is only a modest percentage of the GST funding;
- has only been above zero due to higher-than-expected iron ore prices, so is essentially a bonus to other States; and
- will cease if iron ore prices fall sufficiently³¹ – no State should be budgeting on the basis that iron ore prices will remain high.

Quantification of fairness

In the PC's 2018 HFE inquiry, the key part of its Recommendation 6.1 read:³²

The objective of the HFE system should be refocused to provide the States with the fiscal capacity to provide services and associated infrastructure of a reasonable (rather than the same) standard.

The PC argued that consideration should not just be given to equalisation, but also to a concept of *fairness*.³³ It made reference to States 'retaining' a reasonable proportion of GST.

³⁰ In its 2025 Review, the CGC assessed a lower relativity for Queensland than New South Wales for the three data years 2021-22 to 2023-24. These data years will only gradually drop out of the CGC's three-year weighted average.

³¹ We currently forecast that no NWOOG would be necessary from 2030-31 at an iron ore price of \$US78.82/tonne, which is significantly above the long-run average of \$US72/tonne. We discuss this and why we expect iron ore prices to continue declining in more detail in Chapter 4.

³² Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no. 88, page 39.

³³ *ibid.*, pages 164-165.

This is relevant to our earlier discussion of community confidence.

We acknowledge that *reasonableness* and *fairness* are subjective. But the following example gives one way of looking at this.

In the absence of the reforms, in 2025-26 Tasmania would receive eleven times as much GST per capita as Western Australia. The Northern Territory would receive 29 times as much. It is difficult to argue that this distribution appears reasonable or fair.

As a result of the reforms, these ratios fall to three times and seven times respectively (two times and six times if the reforms were fully phased in). These ratios include the NWOOG, but this makes little difference.

These ratios show another way that the average person might look at the impact of HFE. While still providing assistance to the smaller jurisdictions, the post-reform ratios are far more likely to be seen as reasonable.

International experience

As highlighted by the PC in its 2018 HFE inquiry,³⁴ the underlying system for distributing GST is designed to achieve full horizontal fiscal equalisation. It is too heavily skewed towards trying to achieve equity (of service provision) amongst States at the expense of economic development and productivity, with full equalisation acting as a disincentive to economic reform and development opportunities.

This is why every other federation in the OECD has adopted a system of partial (rather than full) fiscal equalisation (i.e. to achieve a reasonable balance between equity and economic efficiency objectives).

For example, Germany and Canada are two comparable OECD federations as they both have: parliamentary systems; developed economies; and well established, substantial HFE systems.

Both of these Federations discount the assessment of mining royalties in HFE.

- Germany has a 67% discount to recognise the social and environmental costs of mining, and ensure the economic benefits are shared widely.
- Canada has a 50% discount to reduce the disincentives to maximise royalty collections.

These reasons are equally valid in Australia.

³⁴ *ibid.*, page 164.

These Federations do not have full expense equalisation.³⁵

- Germany only has expense equalisation for its Eastern Länder, although it also has special purpose transfers to all Länder to address specific needs.
 - This makes it akin to some mix of the current Australian arrangements, and the Australian arrangements that applied prior to 1982-83 when only disadvantaged States made claims for HFE-based special grants.
- Canada only has expense equalisation for its Territories.
 - This reflects the autonomy of the Provinces under the Canadian Constitution.

The reasons why German and Canadian expense equalisation differ from Australia reflect federation-specific circumstances.

Prior to the reforms, Australia's HFE system fully assessed royalties. Although the reforms do not explicitly discount mining royalties, they do bring Australia more in line with Germany and Canada by effectively reducing the impact of very high royalties.

- During the latest period of elevated iron ore prices, Western Australia did not experience the full loss of additional iron ore royalties.
- Had coal prices increased much further during the latest period of elevated coal prices, Queensland would also not have experienced the full loss of additional coal royalties (as discussed later).

Notably, both Canada and Australia have a jurisdiction with resource revenues disproportional to its population. That is, the most populous jurisdiction is not the highest per capita mining revenue earner, which creates problems with HFE.

For a guide to the reasonableness of the current reforms, we can compare them to alternate reforms that discount royalty assessments in line with Germany and Canada (as a replacement to the Standard State benchmark and the 75% floor).

Table 1.9 shows the benefit to Western Australia of the current reforms (from 2026-27, when they are fully phased in) and the corresponding benefits if the reforms were instead in the form of a mining discount.

This table shows that the current reforms are less generous to Western Australia than Germany's 67% mining royalty discount, but comparable to Canada's 50% mining royalty discount.

³⁵ Commonwealth Grants Commission (2022), *Research paper 3: Some international themes in fiscal equalisation: an Australian perspective*, pages 19-20.

Table 1.9

Western Australia's Additional GST Grants from Alternative International Reforms

\$ billion

	Australian GST Reforms	Germanic 67% mining royalty discount	Canadian 50% mining royalty discount
2026-27	6.4	7.1	5.3
2027-28	6.1	6.9	5.2
2028-29	4.3	6.0	4.5
2029-30	2.3	5.5	4.1
Total	19.1	25.5	19.1

Note: All estimates include the impact of the GST pool boost.

Source: WA DTF estimates, consistent with Western Australian *2025-26 Government Mid-year Financial Projections Statement*.

It should be noted, even with the reforms, a significant proportion of Western Australia's iron ore royalty revenues are still being redistributed. For example, Table 1.10 shows the proportion of Western Australia's iron ore royalties redistributed to other States (post-reform) if Western Australia's gains from the reforms were to be interpreted as a discount to the iron ore royalty assessments.³⁶

Table 1.10

Western Australia's Redistribution of Iron Ore Royalties under the Reforms

	%
2019-20	69
2020-21	62
2021-22	53
2022-23	47
2023-24	48
2024-25	42
2025-26	43
2026-27	35
2027-28	37
2028-29	47
2029-30	69

Note: Based on a GST grant pool that includes the pool boost. Assumes that Western Australia's gains from the reform are interpreted as a discount to the iron ore royalty assessments.

³⁶ It should be noted that the reforms do not relate to individual CGC assessments. For example, Western Australia's gains could be attributed to all royalty assessments, or the total of tax and royalty assessments, or partly to expense assessments.

Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms

Source: WA DTF estimates, consistent with Western Australian 2025-26 Government Mid-year Financial Projections Statement.

Note that, in the absence of the reforms, 88% of Western Australia's iron ore royalties would be redistributed. Table 1.10 shows that, even under the reforms:

- this redistribution is only partly discounted, so Western Australia is still effectively sharing its iron ore royalties; and
- there is always still significant redistribution which provides support to other States.

Measuring Western Australia's Expenditure Needs

Western Australia is unique

The implementation of HFE is highly complex and is made more difficult when the most populous jurisdiction is not the strongest State. Western Australia faces many extreme circumstances that the CGC's methods cannot adequately capture.

The CGC's implementation of HFE struggles with Western Australia's deviation from what the CGC describes as 'average State policy'. Averaging of State experience is distorted when a State has consistently above-average expenses, as spending will be above average for all measures. The implication is a consistent policy to overspend, where that is not necessarily the case. When a State is an outlier, there are no data from another State to justify its level of spending.

Hence, Western Australia's costs are consistently understated by the CGC. This results in a lower GST relativity than is justified. The 2018 GST Reforms have provided a more balanced outcome, helping to mitigate Western Australia from the inability of CGC methods to adequately compensate its high costs.

In various submissions to the CGC over years, Western Australia has argued that the CGC's assessments do not adequately compensate our State for its vast size and geographic features, the unique socio-economic disadvantage faced by our Indigenous population, and our investment requirements.

The following section details examples of the shortfalls in the system that unduly penalise Western Australia.

Understating Western Australia's needs

Remoteness

The CGC's current method to calculate cost gradients across regions applies Accessibility/Remoteness Index of Australia Plus (ARIA+) remoteness scores to regional locations. This substantially dilutes Western Australia's regional costs. The underlying calculations severely underestimate and misrepresent the high costs experienced in Western Australia's remote and very remote regions, primarily due to Western Australia's unique geographical disadvantage.

Unlike other States, where regions become progressively more remote in bands from the capital city, Western Australia has multiple major centres that are classified as remote, but are surrounded by vast tracts of very remote regions.³⁷ The State must provide services to these regions that are significantly further away from a major city than remote areas in other States, resulting in service costs that are considerably higher than in other State's remote locations. Yet averaging across the States implies that they face the same costs.

These regions are only classified as remote (rather than very remote) because the system is categorised by population size (and the towns are of a reasonable size).

As acknowledged in the CGC's 2025 Review Geography consultation paper:³⁸

In the 2020 Review, the Commission acknowledged that the 5 ABS remoteness categories do not cover the full range of circumstances experienced by states and territories and that, therefore, providing services to locations in the same remoteness area can have very different costs.

ARIA+ was developed deliberately with a mechanism to remove 'anomalies', or very high scores, so that similar locations can be compared across States. This is achieved by capping each location category score to three times the national average distance to that location category. However, removing these anomalies is inconsistent with the CGC's intention to capture the additional costs faced in a location. It limits the capacity of the CGC to accurately capture the additional costs in locations that are significantly further than three times the average distance to larger service centres.

The CGC also averages the costs across States for each remoteness region. Whilst this is done to achieve *policy neutrality*, the vast differences between States' locations in similarly-classified regions, especially for more remote areas, does not appropriately lend itself to averaging. Averaging across the States further dilutes Western Australia's regional costs allowance.

Table 1.11 was published by the CGC in its 2025 Review showing the impact of population dispersion in 2025-26.

³⁷ For example, Broome (population of 15,000), Karratha (17,000) and Port Hedland (15,000) as at the Australian Bureau of Statistics 2021 Census.

³⁸ Commonwealth Grants Commission (2023), *2025 Methodology Review, Geography consultation paper*, page 9, paragraph 20.

Table 1.11

GST Impact of Population Dispersion

2025-26, \$ million (total also in \$ per capita)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
Schools	-231	-212	+201	+79	+15	+57	-24	+115	+467
Post Secondary Education	-41	-37	+24	+15	+6	+15	-6	+24	+84
Health	-1,193	-915	+750	+128	+16	+624	-224	+814	+2,331
Housing	-150	-58	+6	+82	+6	-9	-6	+128	+222
Welfare	-58	-45	+18	+10	-2	+14	-5	+68	+110
Services to Communities	-201	-217	+66	+154	+34	+25	-21	+160	+439
Justice	-436	-340	+145	+209	+24	+79	-50	+370	+827
Roads	-26	-24	+15	+19	-1	-2	-1	+20	+54
Transport	-3	-3	+1	+2	0	+1	0	+2	+6
Services to Industry	-8	-8	+3	+4	0	+2	-1	+7	+17
Other Expenses	-24	-25	+11	+14	+3	+5	-3	+17	+51
Total (\$m)	-2,372	-1,882	+1,242	+714	+102	+809	-340	+1,725	+4,593
Total (\$pc)	-274	-263	+217	+234	+54	+1,401	-704	+6,708	+165

Source: CGC analysis (using the 2025-26 GST pool and populations projected in the Commonwealth's December 2024 *Mid-year Economic and Fiscal Outlook*).

Of particular note is the comparison between Western Australia and Tasmania.

It is extraordinary that Tasmania, with a land mass of 68,401 square kilometres, was allocated \$809 million for remoteness in 2025-26 – over 13% more than Western Australia, which has a land mass of 2,527,013 square kilometres, and was allocated just \$714 million. This means that, despite Western Australia being almost 37 times larger than Tasmania, and with more than five times the population, it is deemed more expensive to provide services in Tasmania **in total**, due to remoteness.

In per capita terms the comparison is even more stark, as Tasmania received \$1,401 per person due to remoteness, almost six times as much as Western Australia with \$234 per person.

Isolation costs

Although most State capital cities are assessed as facing the same per-capita costs, Perth faces additional costs due to its isolation.

The CGC maintains that a conceptual case exists that costs differ between the States due to isolation, but do not implement an adjustment for Perth.

ARIA+ classifies Hobart and Darwin as inner and outer regional areas, respectively, thereby compensating them for higher costs due to isolation (rather than classifying them as major cities). As this pushes the regions outside these capitals up a category, it further compensates their regions. However, ARIA+, and the CGC, fail to account for Western Australia's isolation. Perth is classified as a major city, the same as Sydney and Melbourne, yet is significantly more isolated than any other capital city.

Indigeneity

The CGC's methods are unable to accurately capture the Indigenous disadvantage in Western Australia. Indigenous people tend to be more disadvantaged than non-Indigenous people across a range of economic and demographic factors.³⁹ While relative disadvantage is present in the Indigenous populations of most States, the degree of disadvantage varies substantially.

A recent trend is for more advantaged people to identify as Indigenous in censuses, particularly in major cities on the east coast.⁴⁰ These people are unlikely to have the same service use rates as more disadvantaged Indigenous people across the country; indeed, some would use services to the same degree as their non-Indigenous neighbours.⁴¹

This would not be a problem if the CGC were able to assess Indigenous disadvantage adequately. It attempts to do so by calculating different use rates for different socio-economic cohorts, but the current assessment falls short in adequately compensating Western Australia.

The CGC themselves have expressed the difficulty of assessing this with the current data limitations. Although we acknowledge this is being further considered as part of the CGC's 2030 Review (as part of the CGC's forward work program), Western Australia has suffered inadequate compensation for many years.⁴²

³⁹ Note that the term Indigenous is used in this discussion to describe people who identify as Aboriginal or Torres Strait Islander, and non-Indigenous is used to describe people who do not.

⁴⁰ Centre for Aboriginal Policy Research (2018), *Indigenous Identification change between 2011 and 2016: evidence from the Australian census longitudinal dataset*, CAEPR topical issue no. 1/2018, pages 5-6.

⁴¹ More detail on this discussion can be found in: Western Australian Treasury, *Assessing Indigenous Disadvantage in Commonwealth Grants Commission Assessments*, Discussion Paper.

⁴² Commonwealth Grants Commission (2025), *Commonwealth Grants Commission – Forward work program*, page 3.

Incomprehensible results

The reforms have protected States from unfathomably low GST relativities, as described below. This highlights the importance of their continuation. No one initially expected Western Australia's relativity to fall to such unprecedented levels, and there is a chance this could happen again to Western Australia or to another State.

Low GST relativities

In 2015-16, Western Australia's GST relativity reached a record low of 0.300. This provided a catalyst for the Commonwealth to commission the PC to conduct its 2018 Review of the GST distribution. However, since then Western Australia's pre-reform relativity has fallen much lower than this. For example, in 2023-24 Western Australia's relativity would have fallen to 0.098 if the reforms were not in place, as per Chart 1.1.

A GST relativity of 0.098 would have seen Western Australia receive less than 1% of the GST pool in that year, this is just \$906 million from the \$85 billion national GST pool. Levels this low were never expected to occur when the GST system was implemented.

By comparison, South Australia, with a population around half that of Western Australia would have received almost ten times more in GST revenue than Western Australia, for that same year.

Negative GST data-year relativity

Further illustrating these nonsensical results, in its 2022 Update, the CGC determined that Western Australia had a negative data-year relativity.⁴³ In theory, this means that for that one data year, Western Australia would need to contribute extra to the GST pool – or receive no GST at all, depending on the approach taken by the CGC.

The CGC consulted States on possible treatments for this issue. Initially, the CGC proposed to 'lift' the negative relativity to zero and share the cost of this across the other States (this method was supported by Western Australia). Ultimately, the final decision by the CGC was as follows:⁴⁴

On balance, the Commission considered it appropriate to allow any negative annual relativities in the three year assessment period to flow through to the calculation of the average relativity

Importantly, Western Australia's data-year relativities for the other two years in the assessment period were positive enough to maintain a positive average relativity. It remains unclear what the CGC would have done if the average of the three data years had been negative. This would imply that Western Australia would receive no GST revenue, and would need to **contribute extra** to the national GST pool.

⁴³ The average of three data year relativities is used to determine a State's grant year relativity, which is what States will quote in GST discussions. For 2023-24, the three years that informed the grant year relativities were 2019-20, 2020-21 and 2021-22.

⁴⁴ Commonwealth Grants Commission (2022), *New issues in the 2022 Update*, page 11.

COVID-19

States need certainty that they are protected from both economic shocks, and the decisions from the CGC that can magnify these shocks. The COVID-19 pandemic is an example of a significant economic shock that has occurred since introduction of the GST Reforms.

In their 2025 Review, the CGC changed their methodology to assess spending on COVID-19 on the basis that there were no policy differences between States that differentially impacted costs. This decision was made despite the multitude of evidence Western Australia provided to show there were significant policy differences between States that impacted the respective costs to the States throughout the pandemic. For example, the Commonwealth Government commissioned the *COVID-19 Response Inquiry Report*, which concluded:⁴⁵

Australia's federated system meant states and territories could pursue different approaches to respond to the crisis. These approaches were influenced by differing public health system robustness, capability, capacity and resilience across states and territories.

The Western Australian Government's management and response of COVID-19 allowed the State's resources sector to continue operating throughout the pandemic, for the benefit of the entire nation. Yet, in the absence of the 2018 GST Reforms, Western Australia would have been **penalised** by \$375 million for its successful outcomes. By contrast, Victoria gained \$870 million for its mismanagement.

Victoria has the second largest population and economy in the country, yet is currently receiving more than 100% of its population share of the GST in 2025-26 – largely due to additional expenses it incurred during the pandemic, and the CGC's favourable (to them) assessment method, which has rewarded this.

Not a windfall gain for Western Australia

Commentators have claimed that the cost of the reforms will be \$60 billion, over the period 2019-20 to 2029-30, and that this is a windfall gain to Western Australia.

The Western Australian Government believes this calculation is overstated – WA DTF estimate the cost to the Commonwealth will be around \$48 billion if iron ore prices return to their long-run average, or around \$51 billion if iron ore prices remain at their current level.

⁴⁵ On 21 September 2023, the Prime Minister the Hon Anthony Albanese MP announced an independent inquiry into Australia's response to the COVID-19 pandemic. The Independent Panel, consisting of Ms Robyn Kruk AO as Chair, Prof. Catherine Bennett, and Dr Angela Jackson, reviewed the Commonwealth Government's response to the COVID-19 pandemic to identify lessons learned to improve Australia's preparedness for future pandemics. The extensive 12-month inquiry delivered its report on 29 October 2024. Accessed: <https://www.pmc.gov.au/resources/covid-19-response-inquiry-report>, page 76.

More importantly, attributing the GST Reforms as a windfall gain to Western Australia depends upon an assumption that the CGC's calculation of HFE is reliable. As we discussed earlier, HFE is actually unquantifiable, so this assumption does not hold. While we accept that any reasonable estimate of HFE will result in Western Australia having a relativity below one, and this is still the case under the reforms, the reforms provide a more reasonable and fair outcome.

The GST Reforms are not a 'windfall' for Western Australia, but are a fair and pragmatic balance of supporting smaller jurisdictions while not penalising States that have built strong, resilient economies. Note that many commentators who criticise the reforms still call for a simpler system to calculate HFE. The CGC has often rejected such proposals for simplification (including our proposals for merging all revenue assessments into one) on the basis that it would alter the results of HFE too much. For example:⁴⁶

There is a trade-off between assessing states' relative fiscal capacities as comprehensively as possible and simplifying assessment methods. Distributing the GST based on simpler methods that overlook differences in fiscal capacities would depart from the objective of horizontal fiscal equalisation.

That commentators do not see this as a problem undermines any claims that they might make that current HFE is a benchmark for claiming that Western Australia is receiving windfall gains.

The following discussion further expounds why Western Australia's gains from the reforms are not windfall gains.

- There have been historical shortfalls in CGC assessments for capital spending and investment in the North West Shelf project.
- Western Australia has received less than its population share over the decades.
- Western Australia's total public sector is in a cash deficit.
- The reforms are needed to fund investment in Western Australian infrastructure, particularly in the regions.
- GST is not the only contribution Western Australia makes to the Commonwealth. More broadly, Western Australia provides a large total net subsidy to the Federation through the Commonwealth Budget.

Historical shortfall in CGC assessments

Capital assessments

Prior to its 2010 Review, the CGC did not take account of the need for States with higher population growth to build more new infrastructure. There were also other shortfalls in the CGC's assessment of the assets required to provide a national average standard of service.

⁴⁶ Commonwealth Grants Commission (2025), *Occasional Paper No. 13: Is the GST distribution system too complex?*, page 1.

The 2010 Review adopted (with little modification) the Western Australian proposed capital assessments. Although these were very contentious at that time, in broad terms they have attracted little criticism since then from any State and the CGC has only made minor amendments.

These assessments recognised Western Australia's large costs from population growth. For example, excluding the population-growth assessment would have reduced Western Australia's 2025-26 pre-reform relativity from 18% to 12%, equating to a pre-reform GST grant loss of about \$600 million in that year.

If the CGC's comprehensive capital assessments had applied prior to the 2010 Review, we estimate that, in 30 June 2025 net present value terms, Western Australia would have received around an **additional \$24 billion**.⁴⁷

Appendix C explains (in broad terms) the CGC's capital assessments, and how we estimated these for pre-2010 Review.

Economic development

The CGC's methods equalise capital costs for population growth and socio-demographic factors, but do not recognise the cost of economic development activities. Hence, these are usually the burden of one State, whilst the benefit is shared across all States.

So, Western Australia can invest significantly in the mining industry, only for the economic benefits to be equalised across other States, despite these States bearing none of the costs. Under the HFE principle, either these costs are required to generate economic benefits, in which case they should be equalised, or they are above-average effort, in which case the economic benefits (such as royalties) should not be equalised.

A key historical example of this is the North West Shelf.

North West Shelf project

As part of its Mining revenue assessments, the CGC has redistributed all except Western Australia's population share of North West Shelf royalty revenues to other States since its inception.

This is despite the Western Australian Government playing a pivotal role in the 1970s and 1980s to secure the development of the North West Shelf project through financial assistance and infrastructure provision. This project helped to provide the energy needed to develop other State resources and established Western Australia as a prospective location for natural gas development in the face of significant global competition.

⁴⁷ Using Western Australian Government 10-year borrowing rates as the discount factor. Calculated from the introduction of the system of relativities in the CGC's 1982 Review.

Therefore, the CGC should only redistribute the royalties net of the costs that the Western Australian Government incurred – a view we have put forth to the CGC, but to no avail.⁴⁸

WA DTF has estimated that the net present value of the costs incurred is **\$12 billion** in 2024-25 terms.⁴⁹

Combined impact

The capital assessments shortfall of around \$24 billion and the North West Shelf assessments shortfall of \$12 billion combine to **around \$36 billion**. Hence, about **three quarters** of Western Australia's gains from the reforms is merely a clawback of these losses.

Western Australia's HFE impact over time

Various public commentators have referred to the decades during which Western Australia received additional funding from HFE, compared to its population share. They describe Western Australia as being a mendicant State prior to 1997-98.

However, this ignores the following three imperative issues.

1. The CGC was created to address State disadvantages that arose from being part of the Federation.
2. There was neither full equalisation nor donor States prior to 1982-83.
3. The cumulative impact of HFE (despite moderation by the reforms) has been that Western Australia has received well below its population share.

Disadvantages from being in the Federation

The CGC was created because South Australia, Western Australia and Tasmania argued that they were disadvantaged by belonging to the Federation.⁵⁰

The most significant of these disadvantages was tariff policies.

Tariffs were designed to protect Australia's manufacturing sector, concentrated in the Eastern States (particularly New South Wales and Victoria), but Western Australia's economy was agriculture based. Tariffs forced Western Australia's farmers and other primary producers to pay higher prices for manufactured inputs.

⁴⁸ Note that the relevant infrastructure costs would still not have been picked up by the CGC's current comprehensive capital assessments.

⁴⁹ Using Australian Government 10-year borrowing rates as the discount factor. The net present value would be larger if valued in Western Australian Government borrowing rates, but this estimate is based on historical analysis that used Australian borrowing rates at the time, and cannot be readily adjusted to Western Australian rates.

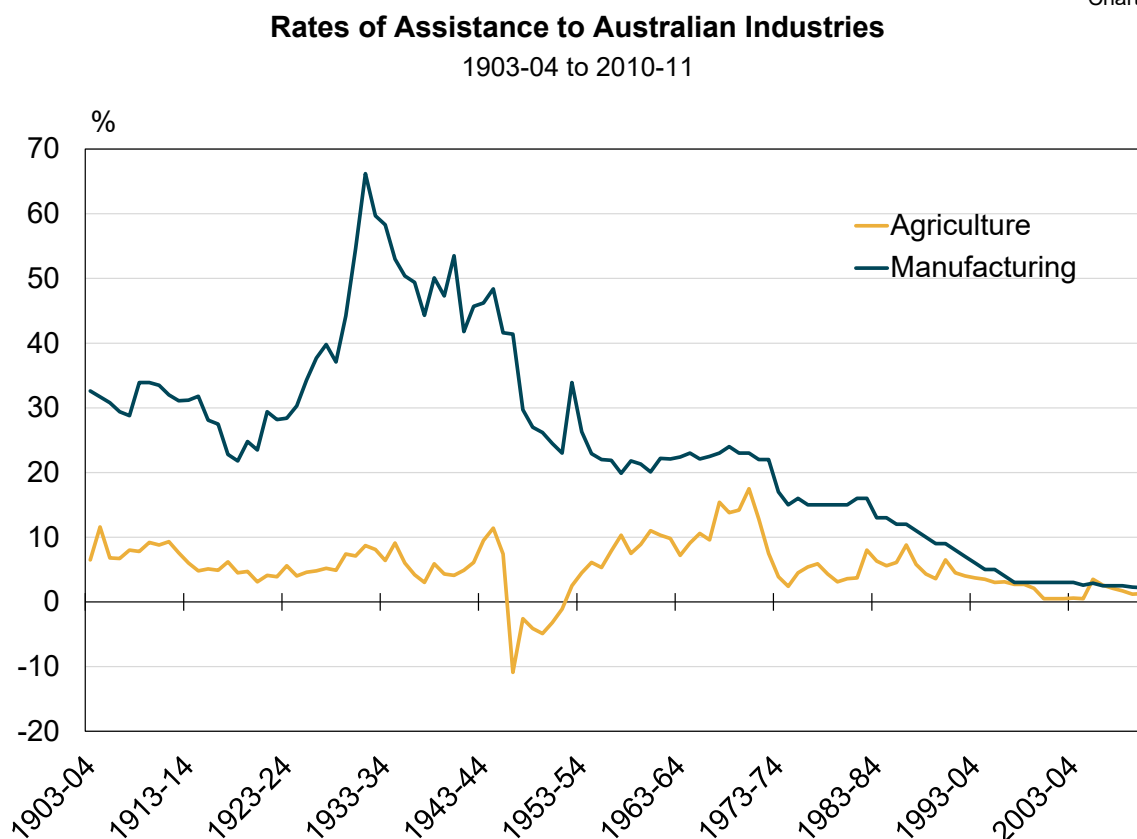
⁵⁰ Australian Government Publishing Service, *Equality in Diversity - First Edition*, pages 6-16.

Although the CGC could not quantify the financial impact of tariffs, in its first report it concluded that Western Australia:⁵¹

... suffers a good deal more than any other from the trade policy of the Commonwealth.

In 1988-89, when sustained tariff reform began, the Western Australian Treasury estimated (based on Industry Commission modelling) that Commonwealth industry assistance reduced the State's annual Gross State Product by around 3%. As shown by Chart 1.4, tariffs protecting manufacturing were much higher relative to agriculture in previous decades, whereas the difference has since become insignificant.

Chart 1.4



Note: Nominal Rate of Assistance is the percentage deviation between the average price received by Australian producers, and the world price at the border. This measure captures all forms of market distortion except the small effect of quantitative restrictions on trade.

Source: Peter Lloyd and Donald MacLaren, 2014, *Relative assistance to Australian agriculture and manufacturing since Federation*.

Also of note, from 1938 until 1960, the Commonwealth had placed an embargo on the export of iron ore from Australia. Although at least partly reflecting concerns at the time about the national security threat posed by Japan, the Commonwealth also supposed that Australia had insufficient reserves and needed to keep them to support the local steel industry. Following an extended period of industry lobbying, and with confirmation in the 1950s of massive iron ore deposits, the export embargo was lifted by the Commonwealth in 1960.

⁵¹ Commonwealth Grants Commission (1933), First Report, *Report on the Applications made in 1933 by the States of South Australia, Western Australia, and Tasmania, for Financial Assistance from the Commonwealth under Section 96 of the Constitution*, pages 66-68, paragraphs 108-110 (quote is from paragraph 110).

Hence, while Western Australia formerly received a subsidy, this was while the State economy was hamstrung by federal tariff and export policies, so the subsidy made sense. It was compensation rather than handouts.

There was neither full equalisation nor donor States prior to 1982-83

Full equalisation

Prior to 1982-83, the CGC recommended 'special grants' to States that put in a claim for these grants. The HFE principle that the CGC developed in its early years, for this purpose, did not require full equalisation. It read:⁵²

...special grants are justified when a State through financial stress from any cause is unable efficiently to discharge its functions as a member of the federation and should be determined by the amount of help necessary to make it possible for that State by reasonable effort to function at a standard not appreciably below that of other States.

Notably, this required claimant States to use "reasonable effort" and only equalised them to "a standard not appreciably below that of other States".

As an example of what this meant, for many years the CGC calculated special grants on the basis of the claimant States applying **more severe taxation** than the standard States to which they were equalised.⁵³

- If, instead of the reforms, the CGC had calculated South Australia's GST relativity on the basis of South Australia applying more severe taxation in the form of an additional 7% effort in raising its own taxes and royalties (as per the CGC's Second Report in 1935), South Australia's relativity would have been reduced to 1.36 in 2025-26.
- This is a modestly larger impact than the reforms, which reduced South Australia's GST relativity from a pre-reform 1.47⁵⁴ to a post-reform 1.39 in 2025-26 (and if the reforms had been fully phased in, this would have been 1.37).

Donor States

The current system of relativities applying to a common grant pool was introduced in the 1982-83 grant year.

As noted above, prior to that, States made claims for additional special grants, which were funded by the Commonwealth. Hence, there were no donor States (i.e. States that received a reduction in funding from HFE).

⁵² Commonwealth Grants Commission (2023), *Occasional Paper No.10: 90 Years of the Commonwealth Grants Commission*, page 5 (quoting the CGC's 1936 Third Report).

⁵³ Commonwealth Grants Commission (1935), Second Report, *Report on the Applications made in 1933 by the States of South Australia, Western Australia, and Tasmania, for Financial Assistance from the Commonwealth under Section 96 of the Constitution*, pages 72-74, paragraphs 176-178; and subsequent reports.

⁵⁴ This is marginally below the GST relativity of 1.48 used to calculate the NWOOG, due to the inclusion of the national GST pool boost.

Therefore, for the majority of the time in which Western Australia was a recipient State, the Commonwealth paid for this, rather than States such as New South Wales, Victoria and Queensland.

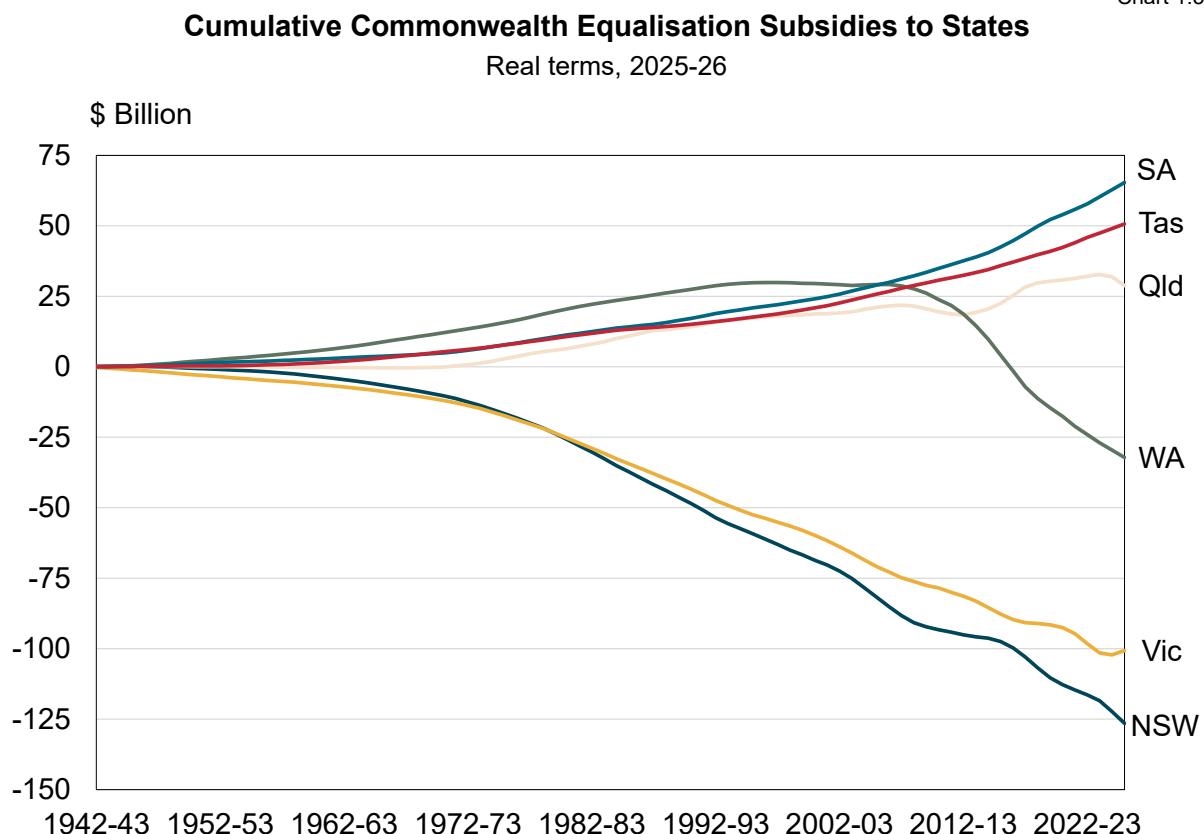
In this sense, the reforms merely revert **part of the way** to the pre-relativities arrangements, by having the Commonwealth funding **part of** the subsidy to recipient States, with no donor State contributing more per capita than the minimum of New South Wales and Victoria.⁵⁵

Nevertheless, even with the inclusion of the 2018 GST Reforms, Western Australia continues to provide a GST subsidy to the rest of the nation of \$2.6 billion in 2025-26, compared to its population share.

Cumulative impact of HFE

Despite Western Australia having received more than its population share for decades, in real terms the State's losses more recently have much more than offset the earlier gains. As shown by Chart 1.5, despite the reforms, Western Australia's cumulative loss since 1942-43 has been **\$32 billion**, in 2025-26 dollars.

Chart 1.5



Source: WA DTF estimates using Commonwealth budget documents. Put into real terms using national CPI. This covers tax re-imbursement grants (introduced in 1942) and special grants (used for HFE); and their successor grants. It is each State's grant minus its population share of the national total.

⁵⁵ The reforms also limit the potential contribution by New South Wales and Victoria to 25% of their population share of the boosted GST pool.

Western Australia's total public sector is in a cash deficit

Various public commentators have compared Western Australian Government surpluses to other States' deficits to argue that the reforms are unfair.

These arguments ignore that the Western Australian Government is faced with high infrastructure costs from its growing economy and population. This is evident as public infrastructure spending in Western Australia reached \$4,345 per person in 2024-25, only behind the Northern Territory (whose per capita figures tend to be inflated due to their small population).⁵⁶

In addition, the Western Australian Government faces large infrastructure requirements in the regions, particularly in relation to roads, ports and rail – all key components for the resources industry, which provides large economic benefits to the nation through export income and job creation.

Much of the infrastructure is purchased or built by Government-owned public corporations because the Western Australian Government has not privatised its public enterprises to the same extent as other States. This has started leading to cash deficits for the Western Australian total public sector, highlighting the importance of maintaining Western Australia's GST share.

Western Australia's total net subsidy to the Federation

The GST distribution is only one way that Western Australia contributes to the Federation. Western Australia's support for other States extends beyond the GST to other revenue sources, such as company and personal income tax.

Each year, WA DTF estimates the value of Commonwealth Budget revenues that are derived from each State and the value of Commonwealth Budget expenses that are for the benefit of each State. The difference for each State (including a distribution of the federal deficit) is the total net subsidy that each State provides to or receives from the Federation.

- This is measured compared to if the Federation did not exist. So, for example, it attributes company tax paid by mining companies on their Western Australian mines to Western Australia, but income tax paid by shareholders in those companies that live interstate to those other States.

Under the most recent analysis, in 2023-24 the Commonwealth derived an estimated \$112 billion in revenue from Western Australia, while expenses for the benefit of the State (including the State's share of the Commonwealth deficit) totalled \$73 billion, giving a **net fiscal contribution from Western Australia of \$39 billion** in just one year.

⁵⁶ WA DTF analysis of total non-financial public sector infrastructure spending per capita, using the most recent budget data from States' publications.

Table 1.12 shows the net contribution of each State.

Net Contribution of Each State to the Federation ^(a)
2023-24

Table 1.12

	\$m	\$pc
NSW	+5,997	+712
Vic	-529	-77
Qld	-16,776	-3,035
WA	+39,022	+13,324
SA	-14,173	-7,594
Tas	-6,969	-12,130
NT	-6,572	-25,885
Total	0	

(a) All Commonwealth outlays and revenue relating to the ACT are allocated to the other States according to population shares. This recognises that the ACT would be unlikely to exist as a separate entity if the Federation dissolved.

Source: WA DTF estimates, using a range of data sources including the Commonwealth *Final Budget Outcome* and ABS publications. Results are based on the latest available data. Where 2023-24 data is not yet available it has been proxied by escalating earlier data using relevant economic indicators.

In 2023-24, New South Wales was the only other net contributor. However, on a per capita basis, Western Australia's net contribution was over \$13,000 per person – 19 times that of New South Wales (at around \$700 per person).

Table 1.13 shows the composition of Western Australia's net contribution.

Table 1.13

Components of Western Australia's Net Contribution
Relative to Western Australia's Population Share

	2022-23 \$m	2023-24 \$m
Personal income tax	+3,963	+4,106
Company tax	+28,506	+26,657
Fuel excise (net of rebates)	+90	-346
Taxes and royalties on mineral extraction ^(a)	+1,521	+1,153
Commonwealth services ^(b)	+1,919	+2,140
Personal benefit payments	+1,995	+2,235
GST-related grants net of GST revenues	+2,469	+2,816
Other grants to State and local governments ^(c)	-351	-218
Other ^(d)	-162	+479
Total	+39,949	+39,022

(a) Net of North West Shelf royalties passed on as grants to Western Australia by the Commonwealth.

(b) Commonwealth gross operating expenses, including defence.

(c) Includes grants to universities. Excludes North West Shelf royalties paid as grants to Western Australia, as these have been netted off taxes and royalties on mineral extraction.

(d) Includes the impact of Commonwealth business support programs and the Commonwealth Budget outcome amongst other things.

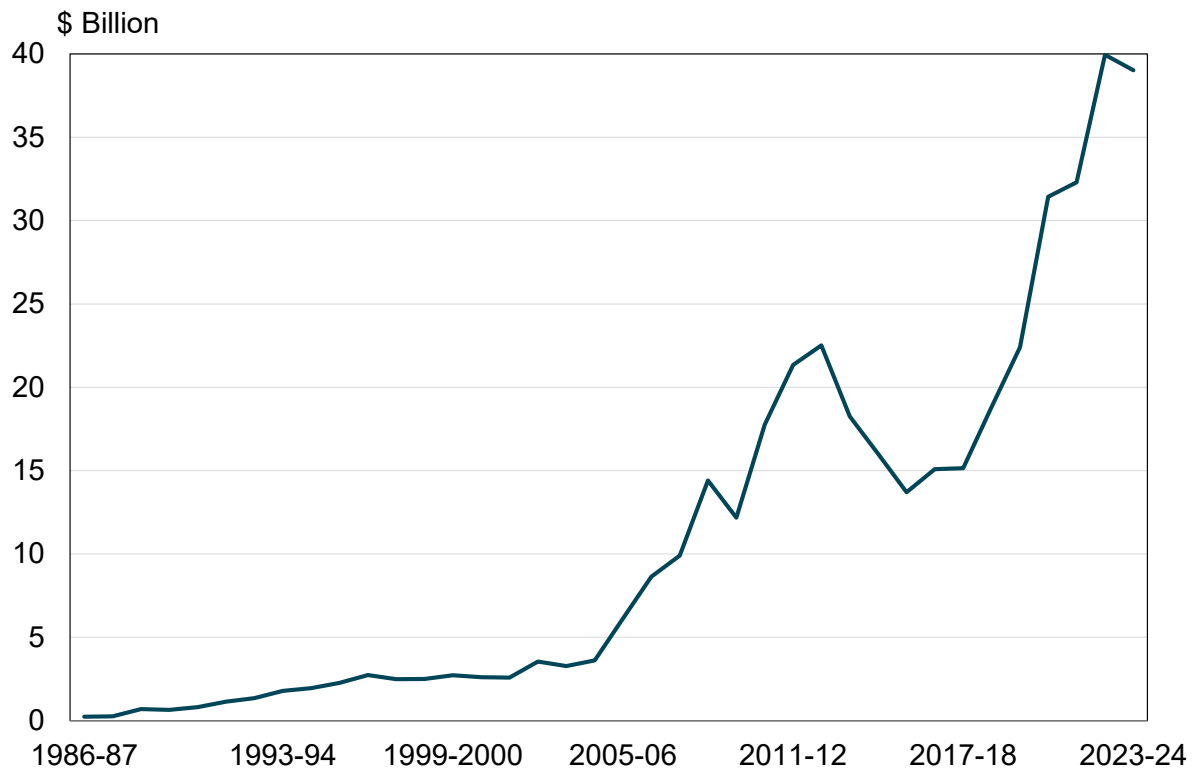
Source: WA DTF estimates, using a range of data sources including the Commonwealth *Final Budget Outcome* and ABS publications. Results are based on the latest available data. Where 2023-24 data is not yet available it has been proxied by escalating earlier data using relevant economic indicators.

Chart 1.6 shows that Western Australia's net contribution has grown strongly over time. Over the period 1986-87 to 2023-24, Western Australia's net contributions to the Federation have totalled \$412 billion (of which \$391 billion is since 2000-01, when the GST was introduced) in nominal dollars.

Chart 1.6

Western Australia's Net Fiscal Subsidy

Nominal terms



Source: WA DTF estimates, using a range of data sources including the Commonwealth *Final Budget Outcome* and ABS publications. Results are based on the latest available data. Where 2023-24 data is not yet available it has been proxied by escalating earlier data using relevant economic indicators.

When the PC visited Western Australia, they queried whether the GST distribution reforms undermine the integrity of the Federation.

The Western Australian Government strongly disagree with this. Like the pre-reform distribution of the GST, Western Australia is an outlier when it comes to contribution to the entire Commonwealth Budget (even with the inclusion of the GST distribution reforms). The reforms partly reduce the total contribution, which effectively rebalances the Federation.

2. Responsiveness and volatility

To what extent are the current arrangements appropriately balancing responsiveness with reducing volatility and improving certainty for fiscal planning

KEY POINTS

The 2018 GST Reforms have reduced the volatility of GST for all States

The reforms protect the GST system from periods of high economic uncertainty and fluctuating mineral prices. This will improve the ability for all States to manage their budgets, allowing for better fiscal planning.

GST is distributed with a time-lag, meaning that as Western Australia saw declining revenue after the mining boom, we also received less GST. The reforms protect States from extreme outcomes like this.

The Western Australia Government strongly supports retaining the reforms, as repealing them would reintroduce financial uncertainty for States.

The GST Reforms have reduced volatility

The 2018 GST Reforms have demonstrably reduced the volatility of GST payments to States. As GST forms a substantial portion of State revenue (around 23% on average⁵⁷), the reforms have significantly improved the ability of States to manage their budgets.

Table 2.1 shows how the volatility of GST payments has reduced thanks to the reforms. From 2022-23 (when the 70% within-system floor was introduced) through to 2028-29 (the end of the forward estimates in our 2025-26 Mid-year Review) the standard deviation of GST relativities decreased for all States other than Tasmania over this period. Tasmania's volatility likely increased as this was otherwise a period of unusual stability for Tasmania, having the lowest pre-reform standard deviation of 0.039.

⁵⁷ Western Australian Department of Treasury and Finance estimate based on ABS *Government Finance Statistics, Australia, September 2025*.

Table 2.1

Standard Deviation of GST Relativities

2022-23 to 2028-29

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
No reforms	0.051	0.088	0.097	0.138	0.053	0.039	0.286	0.046
With reforms	0.046	0.083	0.076	0.063	0.042	0.044	0.279	0.037
Change	-9%	-6%	-22%	-54%	-21%	+12%	-2%	-18%

Source: WA DTF analysis. Underlying GST relativities from 2022-23 to 2025-26 are sourced from the CGC, while 2026-27 to 2028-29 are forecasts from WA DTF December 2025 *Mid-year Review*.

The period since the introduction of the reforms is not representative of their long-term impact, as the reforms were being transitioned in. Additionally, these years were volatile times, with the COVID-19 pandemic and with unusually high iron ore and coal prices.

If you assess the reforms over a longer period, then the improvement to volatility is even more significant. Table 2.2 shows the impact on GST payments if the 2018 GST Reforms were applied from 2000-01 through to 2028-29. Over this extended period, introducing the reforms would have lowered the volatility of every States' GST relativity, and therefore helped to improve certainty for fiscal planning.

Table 2.2

Standard Deviation of GST Relativities with Historical Application of the Reforms

2000-01 to 2028-29

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
No reforms	0.047	0.074	0.078	0.321	0.098	0.156	0.510	0.046
With reforms	0.033	0.054	0.069	0.072	0.068	0.129	0.489	0.035
Change	-29%	-27%	-12%	-77%	-30%	-18%	-4%	-24%

Note: The CGC's current method of averaging three-years of data for each grant year was also applied historically.

Source: WA DTF analysis. Underlying GST relativities from 2000-01 to 2025-26 are sourced from the CGC, while 2026-27 to 2028-29 are forecasts from WA DTF December 2025 *Mid-year Review*.

GST grants are now less influenced by mineral prices

The GST Reforms improve the capacity for all non-mining States to forecast their revenues, as they insulate GST grants from movements in mineral prices during periods of heightened volatility.⁵⁸

Mining royalties (primarily from iron ore, gold and lithium in Western Australia's case) have proven to be a uniquely volatile component of all States' finances. Mining revenue was the largest change for States in eight of the last ten CGC updates. Table 2.3 shows that mining revenue ranks first in volatility in four States and is in the top three for all States but the Australian Capital Territory.

Table 2.3

Five of the Most Volatile CGC Assessments

Ranked by Standard Deviation of GST Relativity Contributions, 2010 to 2025

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT	Total
Mining revenue	3	1	1	1	1	3	2	9	1
Investment	5	2	4	3	4	5	5	2	2
C'with payments	7	3	5	10	2	4	9	1	3
Stamp duty	1	4	2	2	3	7	6	8	4
Other expenses	6	7	6	13	9	2	1	3	5

Source: WA DTF analysis based on CGC data.

Year-on-year changes in individual commodities can be very high, with iron ore royalties falling by 26% in 2014-15 and rising by 49% in 2020-21. On average, iron ore royalties have varied upwards or downwards by 28% annually over the last twenty years. The story is similar for gold and lithium. In 2024-25, gold royalties increased by 40% but lithium royalties fell by 63%, and in 2022-23 lithium royalties increased by 299%.

As described later in *Chapter 4*, mining royalties are particularly susceptible to global shocks. For example, changes in Chinese industrial policy in 2021 essentially halved global iron ore prices, and geopolitical uncertainty led to a surge in gold prices in 2025. Mineral extraction is also vulnerable to extreme weather, such as in 2024-25 when iron ore shipments fell well below forecasts largely due to a series of cyclones. This volatility makes mining royalties difficult to forecast, especially in the outer forward estimates. In addition, other States do not have direct access to data and relationships with the mining industry.

⁵⁸ States have yet to receive this benefit as a result of the NWO, which reinstates the volatile, pre-reform GST grants. The analysis in this chapter does not consider the temporary NWO, as we evaluate the long-term impact of the permanent features of the reforms.

Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms

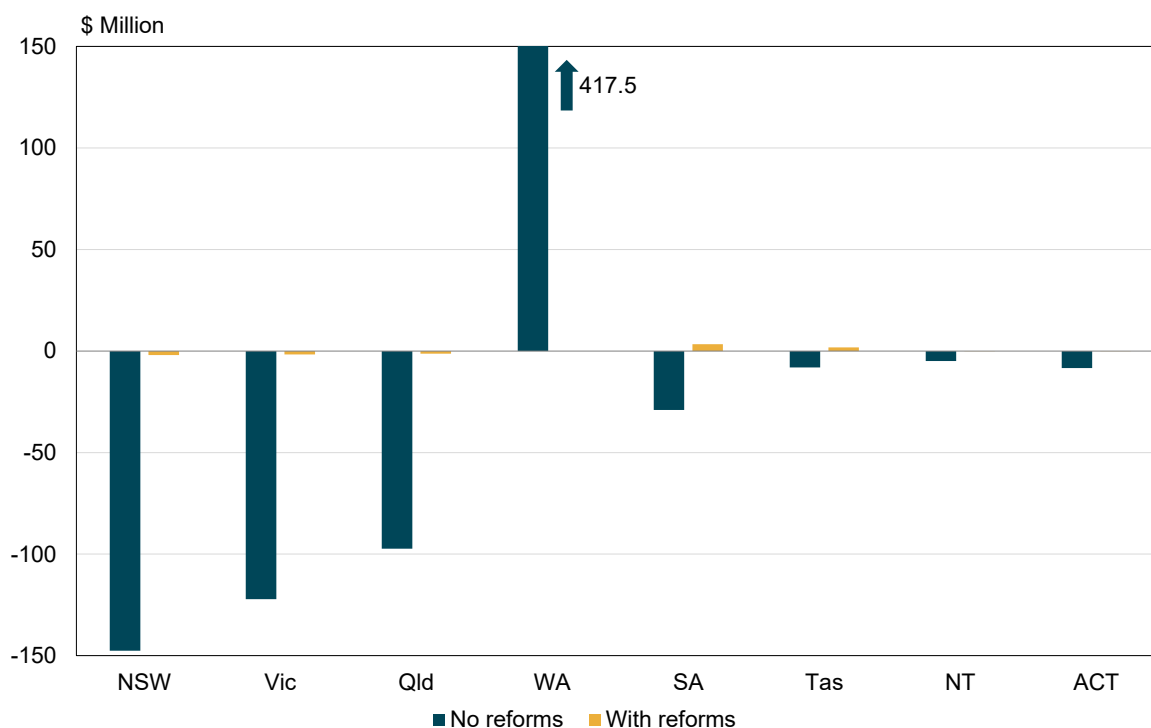
As mining revenues increase, mining States receive less GST and non-mining States receive more. Therefore, GST has exposed non-mining States to fluctuations in royalties, without the advantages that mining States have to forecast these revenues. This challenge was identified by Victoria in their recent Budget.⁵⁹

Uncertainty about global economic policy settings may adversely impact global activity, reducing global demand for domestically produced commodities such as coal and iron ore. Victoria's GST relativity is affected by royalty revenue collected in mining states, and lower commodity export prices and volumes present a downside risk to Victoria's relativity.

By stabilising Western Australia's GST relativity, the 2018 GST Reforms insulate all States from such fluctuations in royalty collections. This is shown clearly in Chart 2.1, which shows the GST impact in 2025-26 from a \$US5/tonne decrease to iron ore prices. Without the reforms, Western Australia's GST grant would substantially increase and all other States would see a notable fall that would directly impact their budgets. The reforms, by contrast, effectively eliminate the movement.

Chart 2.1

GST Impact of a \$US5/tonne Decrease in Iron Ore Prices 2025-26



Note: There would be an equivalent, but opposite, impact from a US\$5/tonne increase in iron ore prices.
A uniform \$US5/tonne decrease was applied to the three data years (2021-22, 2022-23, and 2023-24) that were used to determine the 2025-26 GST grants.

Source: WA DTF analysis.

⁵⁹ Victorian Government (2025), *Budget Paper 2: Strategy and Outlook 2025-26*, page 58.

It is notable that Queensland (the predominant State for coal) is very close to being below the Standard State benchmark and was only \$54 million shy of benefitting from the reforms in 2025-26. If coal ever experiences a larger surge in prices, it would drive Queensland below the benchmark and coal price volatility would be insulated from the GST system just as iron ore prices are now.

The reforms insulate from periods of instability

The reforms have their greatest impact during periods of economic shock, insulating States' volatility from the GST system.

The Standard States (New South Wales and Victoria) have large and diverse economies that are more stable than other States. It is expected that they remain the fiscally strongest outside of volatile periods due to these diverse, systemic fiscal strengths that are far less volatile (relative to their large populations).

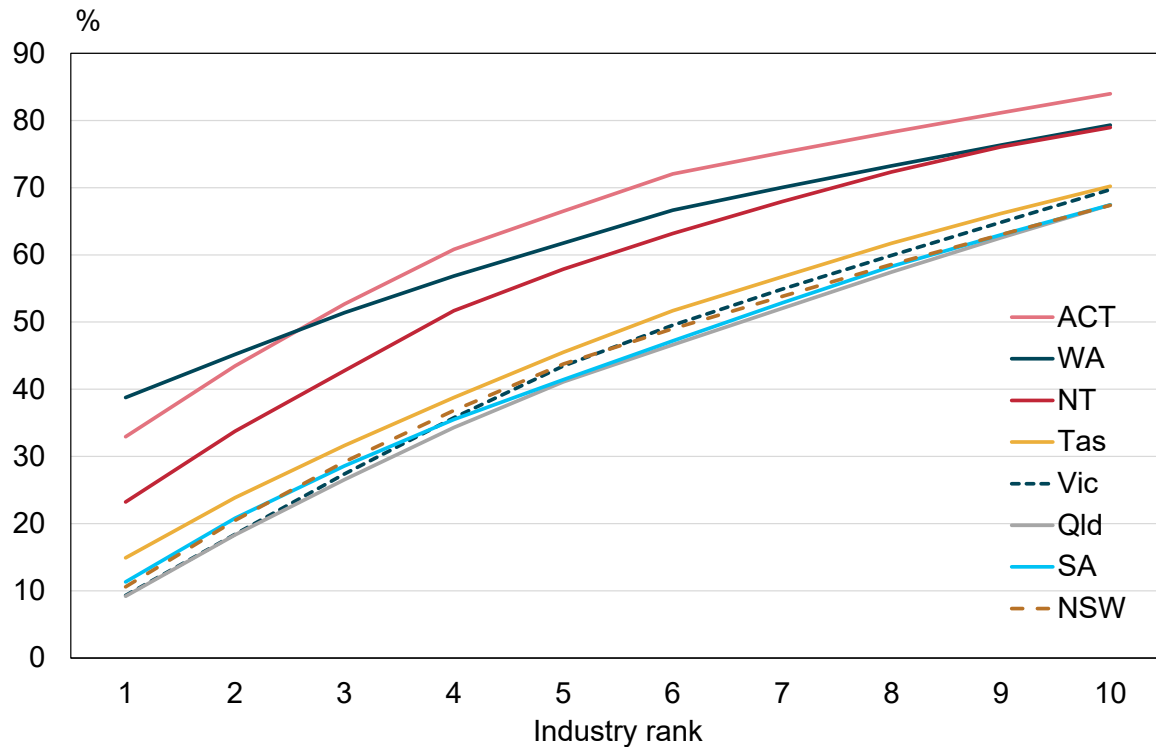
By contrast, the States that have fallen below this benchmark, Western Australia (since 2008-09) and Queensland (in 2025-26) have shown unparalleled economic strength, but focused in one industry concentrated in their jurisdiction: iron ore for Western Australia and 'high-value' coal for Queensland.

Western Australia's mining sector is particularly dominant, in a way no industry is in New South Wales and Victoria. This is shown clearly in Chart 2.2, which plots the cumulative Gross State Product (GSP) contribution of the ten largest industries of each State, from largest (#1 rank) to smallest (#10 rank). The three largest States plus South Australia have similar concentrations in their industries at around 10% of GSP. Tasmania is only slightly higher at around 15% of GSP. By contrast, Western Australia's largest industry, mining, contributes close to 40% of GSP, higher than any other State's largest industry.

Chart 2.2

Cumulative Share of GSP of the Top 10 Industries in Each State

2025-26



Source: WA DTF Analysis based on ABS, *Australian National Accounts*.

The dominance of the mining industry is reflected in Western Australia's finances. As shown in Table 2.4, royalty income made up a substantial share of Western Australia's revenues over the ten years, from 2014-15 to 2023-24. This is unlike any other State, as they rely more on taxation revenue, which is less influenced by global shocks, and Commonwealth grants, which are unaffected by the business cycle or actively counter-cyclical (in the case of GST).

Table 2.4

Shares of General Government Revenues

2014-15 to 2023-24

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Taxation revenue	39%	39%	26%	29%	26%	20%	10%	35%
C'wlth grants	42%	44%	44%	31%	52%	62%	73%	40%
Sales of goods and services	8%	8%	10%	8%	14%	8%	6%	9%
Mining revenue	3%	0%	10%	24%	2%	1%	5%	1%
Other revenue	8%	8%	11%	8%	6%	9%	5%	15%

Source: WA DTF analysis based on ABS *Government Financial Statistics*.

The level of industry concentration is a risk for Western Australia, which is often noted by credit rating agencies. The Western Australian Government has made significant investments to diversify the economy. However, the concentration of mining industry and particularly iron ore remains high. This makes the State more vulnerable to both cyclical movements in commodity prices and structural changes, such as declining Chinese steel consumption and the addition of significant low cost iron ore supply from West Africa. A stronger financial position is needed to buffer Western Australia's economy and finances against these risks.

Additionally, New South Wales and Victoria don't have to overcome the same service delivery challenges that Western Australia faces. A sizable portion of the Standard States' fiscal strength is built on having low cost demographics, which are far more stable than revenues. As seen in Table 2.5, the CGC assesses the Standard States as having below-average expense needs, driven in part by lower remoteness costs, and in Victoria, the addition of lower costs for Indigeneity. By contrast, Western Australia and Queensland rely on their systemic strength in mining revenues as they have high expenses driven by their demographics.

Table 2.5

Drivers of Change from EPC in the CGC's 2025 Review

\$ per capita

	NSW	Vic	Qld	WA
Revenue				
Mining	+506	+1,273	-989	-3,625
Taxes and other revenue	-701	-65	+531	+25
Total	-195	+1,208	-458	-3,600
Expenses				
Population dispersion	-274	-263	+217	+234
Indigenous status	+44	-427	+235	+98
Other	+217	-75	-368	+202
Total	-12	-765	+84	+534
Investment	+36	-56	-26	+347
Commonwealth Payments	-13	+137	-83	-59
Total	-183	+525	-483	-2,779

Note: A positive (negative) sign denotes higher-than-average costs (revenues), and the converse applies.

Source: WA DTF analysis, from CGC 2025 Review data.

Table 2.6 shows that for all States except the Northern Territory, expenses are more stable than revenues.⁶⁰ Therefore, we can expect that when a high-cost State like Western Australia has a relative at or below New South Wales and Victoria, Western Australia's position is inherently more volatile as revenues constitute a larger portion of its fiscal strength.

Table 2.6

Volatility of Expenses and Revenue Assessments

Standard Deviation of GST Relativity Contributions, 2010 to 2025

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
Revenues	0.057	0.057	0.083	0.198	0.083	0.084	0.107	0.102
Expenses	0.038	0.025	0.037	0.050	0.043	0.082	0.459	0.060
Ratio: R/E	1.513	2.287	2.268	3.931	1.930	1.023	0.234	1.691

Source: WA DTF analysis. Underlying GST relativities from 2010-11 to 2025-26 are sourced from the CGC.

The above analysis shows that the reforms adopt an effective benchmark. A State's relativity would only fall below the Standard State if it were undergoing an economic shock that should be isolated from the GST system. This outlier State would be highly volatile as it would be driven by a single dominant industry, concentrated in their jurisdiction, to overcome long-standing demographic disadvantages.

This can be seen in Chart 2.3, which shows the stark difference in volatility of pre-reform relativities for States (excluding the Northern Territory) that are above and below the Standard State. From 2001-02 through to 2028-29, States with relativities below the Standard State, shown in green, had on average a 21.6% annual change in their relativity from the previous year. This compares to just 2.8% for all States (excluding the Northern Territory) with relativities above the Standard State, shown in red.⁶¹

The stability of the Standard State benchmark is also evident. The benchmark, shown in amber, has an average annual change of just 2% and the relativity ranges from just 0.829 to 0.946.

Chart 2.3 shows that, historically, it is only when a State's relativity falls below the narrow region inhabited by the Standard States that its volatility increases substantially.

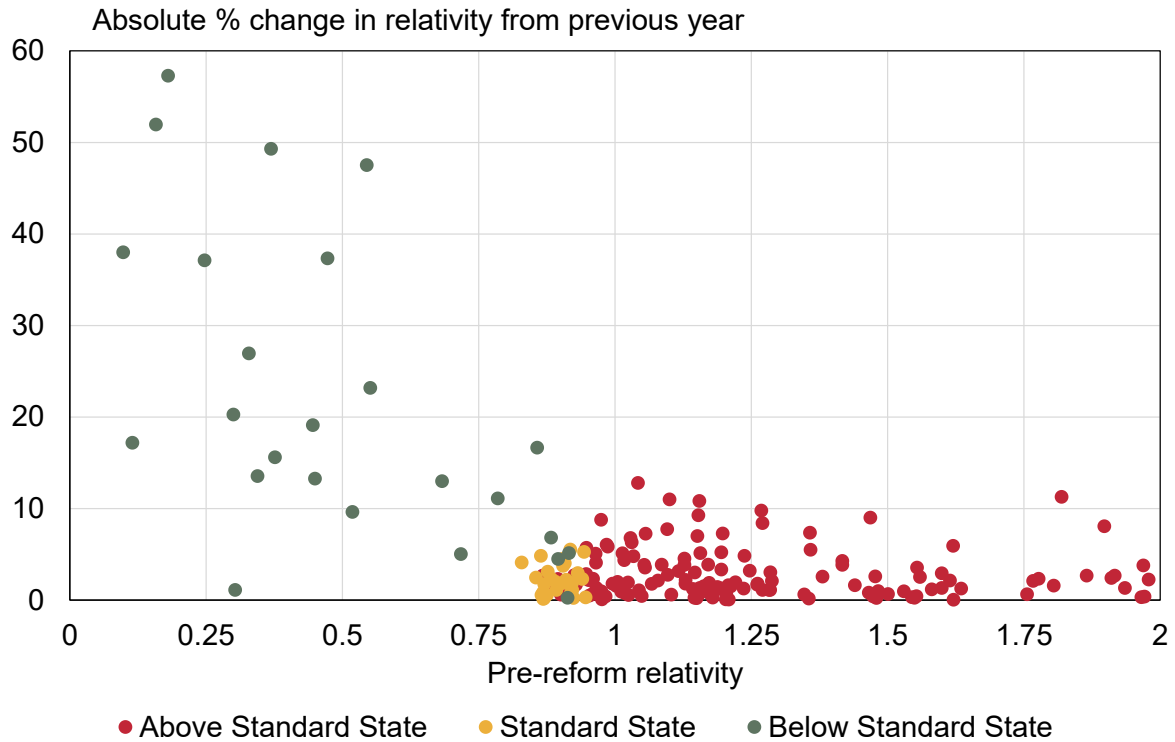
⁶⁰ The standard deviation of expenses is higher than revenues in the Northern Territory because total assessed expenses are far greater than revenues in that State.

⁶¹ It is commonly known that, given its small size, the Northern Territory's relativity is highly volatile. However, its average annual change is only slightly higher than the other above benchmark States at 4.1%.

Chart 2.3

Volatility vs Relativity – Role of the Standard State

2001-02 to 2028-29



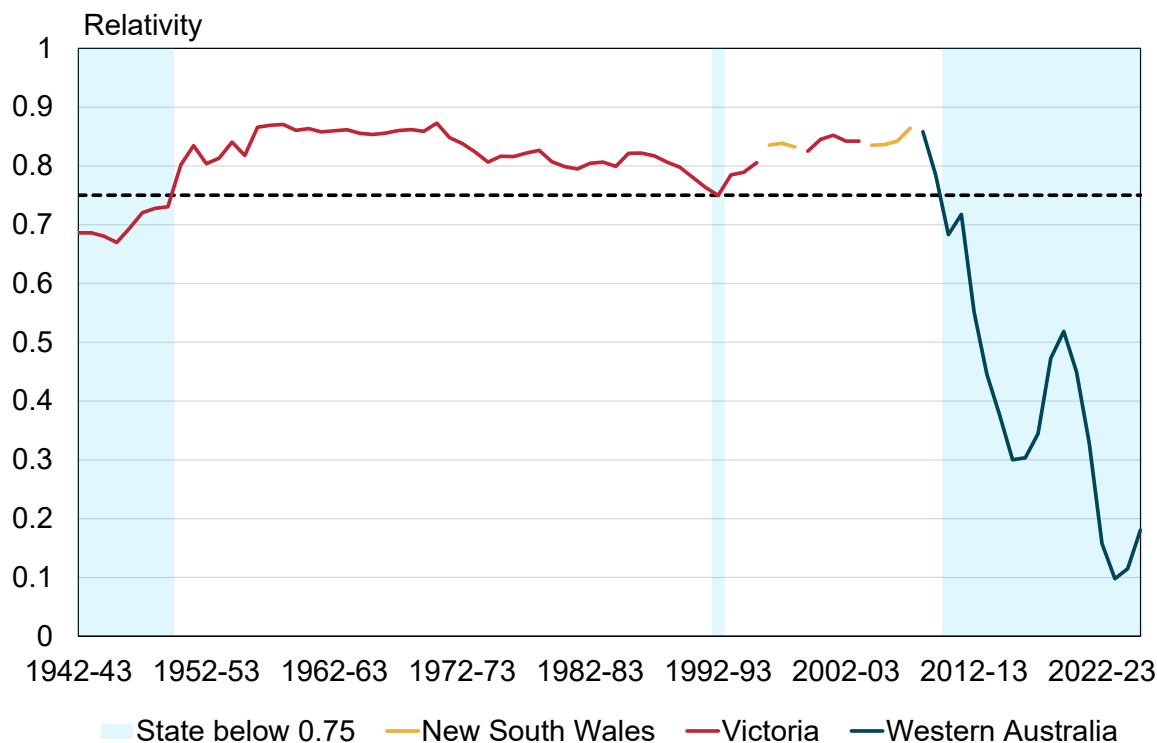
Note: Does not include the effect of the 2018 GST Reforms. Northern Territory is excluded for visual clarity.

Source: Pre-reform GST relativities from 2001-02 to 2025-26 are sourced from the CGC, while the GST relativities from 2026-27 and 2027-28 are forecasts from WA DTF December 2025 *Mid-year Review*.

Additionally, a key success of the reforms is that the benchmark they adopt is only captured in periods of outlier performance over the long-run. Chart 2.4 shows the lowest relativity of any State in each year, if the reforms had not been adopted. The chart highlights how extraordinarily low and unfair Western Australia's pre-reform relativity has been since 2010-11. The blue shading shows that it is historically uncommon for the relativity of the strongest State (with the lowest relativity) to be below the 75% level. Indeed, it occurs only 25 times in the 84 years between 1942-43 and 2025-26. The chart also shows that if the reforms were in place, the Standard States benchmark would only be active for 18 out of the 84 years, when Western Australia was the strongest State (shown with the blue line). Therefore, history suggests that over the next decades we should expect the reforms to be rarely needed.

States with the Lowest Relativity Each Year

1942-43 to 2025-26



Note: GST relativities do not include the impact of the 2018 GST Reforms. This covers tax re-imbursement grants (introduced in 1942) and special grants (used for HFE); and their successor grants. It is each State's grant divided by its population share of the national total.

Source: WA DTF analysis.

By only functioning at times of economic shock, through stabilising the lowest relativity to the floor or Standard State, the 2018 GST Reforms effectively protect the GST system from periods of intense economic variability. This ensures a more reasonable and fair distribution, by improving certainty and the capacity for all States to manage their budgets.

The reforms insulate HFE's delay

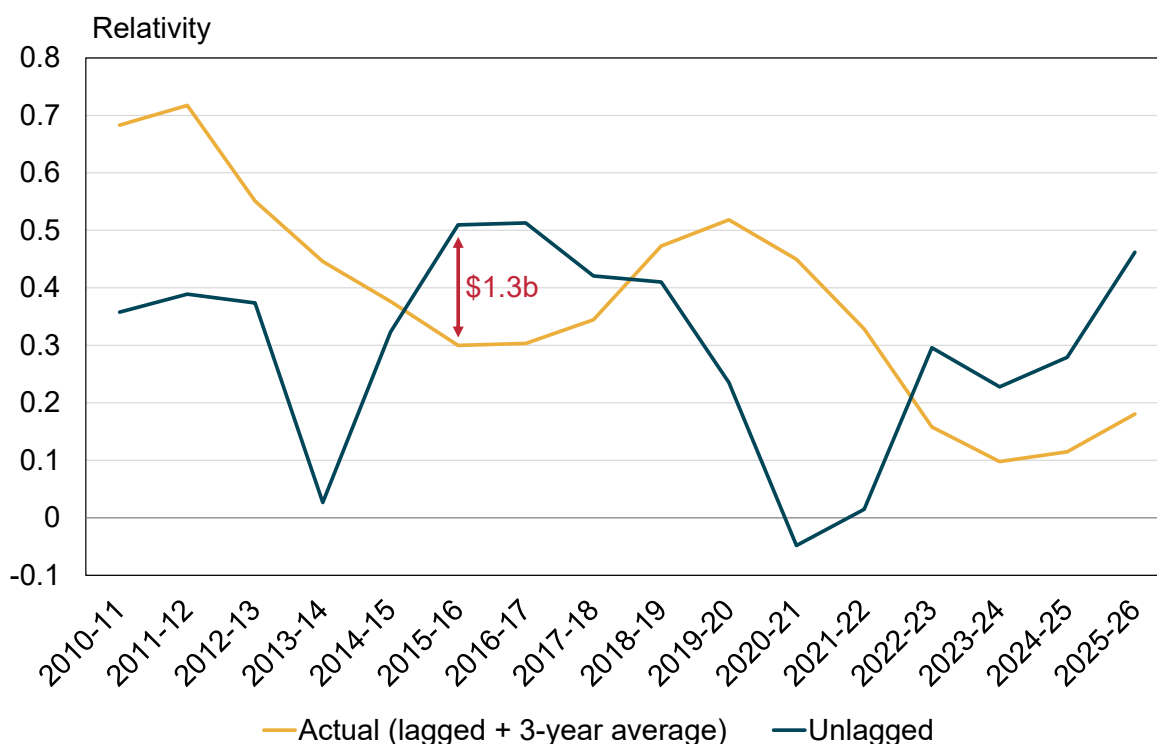
When producing the annual GST relativities, the CGC uses an average of three 'data years' to reduce volatility and the impact of outlier years. Due to data availability, there is also a two-year delay in the most recent data used. That is, to produce the 2025-26 GST relativity, the CGC used an average of data from 2021-22, 2022-23 and 2023-24.

This method poses substantial challenges to States when managing their budgets. States' fiscal circumstances can change quickly, but their GST relativities are based in part on data from up to four years prior. Importantly, the delay means that the majority of GST impacts from policy decisions fall outside the forward estimates, distorting decision making. Nevertheless, these impacts are typically small enough to be an acceptable trade-off between practicality and certainty for most States, most of the time.

However, this method becomes unacceptable when States experience sudden and large declines in their fiscal position, like Western Australia faced in the mid-2010s. This is illustrated in Chart 2.5, which compares Western Australia's actual and unlagged GST relativities. As Western Australia's fiscal position deteriorated in the mid-2010s, its relativity did not rise to reflect this, exacerbating the decline. Based on 2015-16 data, Western Australia's unlagged relativity in that year was 0.510, but the CGC recommended a relativity of only 0.300. This difference is equivalent to a loss of \$1.3 billion in GST grants in that year alone. A similar situation would have occurred in 2025-26 if not for the reforms. It is difficult for States to bank temporary fiscal strengths,⁶² so these periods of fiscal decline represent significant structural costs facing States with volatile economies. The GST system should aim to smooth economic fluctuations for States, but without the reforms, it often worsened them.

Chart 2.5

Western Australia's Actual vs Unlagged GST Relativity



Note: GST relativities do not include the impact of the 2018 GST Reforms.

Source: WA DTF analysis, from CGC data.

The 2018 GST Reforms alleviate the impact of the CGC's lag for States that experience these sudden and large economic declines, restoring fairness to the system. Hence, despite the use of lagged data having its shortcomings, we are comfortable with the practice now that its most serious flaw has been addressed.

⁶² Partly because the longevity of the 'temporary' strength is unknown, and partly because such periods usually increase migration to the State, requiring infrastructure investment to cater for the expanding population.

Methodology reviews are appropriately frequent

The Western Australian Government considers the CGC's current arrangement of reviewing its methods every five years appropriately balances certainty and frequency.

More frequent reviews would not be advised. As described in *Chapter 1*, methodology changes contribute a large amount of variability into GST, in directions that are hard for States to predict. Additionally, methodology reviews present large administrative burdens to States and the CGC. The CGC has now recommended targeted methodology changes between reviews to address the rare events like the COVID-19 pandemic. The CGC has also implemented a forward work program between reviews to undertake longer-term analysis. This should allow for a greater depth of research, and volume of changes in each review, without the need for more frequent reviews.

3. Improved incentives

The 2018 GST Reforms have improved incentives for reforms and efficiency

KEY POINTS

The 2018 GST Reforms assist to mitigate the disincentives to policy reform, including times when HFE was the reason State policies were not implemented.

HFE disincentivises revenue reforms

The significant redistribution of a revenue base is a barrier for States to pursue revenue reforms. This removes the incentive for States to grow their economies.

The reforms have improved incentives for all States, as no State's GST relativity can fall below the relativity floor.

HFE impacts decision making

Prior to the GST Reforms, Western Australia was unable to progress many reforms on the basis that the GST impact was too large or entirely mitigated the resultant gains.

Benefits of incentivising efficient economies

The Western Australian economy is highly productive. It is important to incentivise the industries that drive not only the Western Australian economy, but also the national economy.

The reforms have supported the national economy

Western Australia requires a significant level of economic investment, given the remoteness of our communities and makeup of our industry.

The reforms have allowed Western Australia to increase economic investment, by an estimated \$22.8 billion, from 2019-20 to 2028-29.

This has spurred growth, benefitting the whole nation. Gross Domestic Product (GDP) will increase by an estimated \$67.8 billion.

HFE disincentivises revenue reforms

HFE redistributes GST based on States' revenue bases, which potentially disincentivises policy reform even if that policy has economic benefits. When States grow their revenue bases, fiscal capacity and sustainability increases, thus reducing States' reliance on Commonwealth funding. This is important in the context of the cost of the reforms. Whilst the costs have been greater than initially expected, the protection from unsustainably low relativities, in addition to the NWOOG payments, provides States with the ability to develop their own economies. This will result in a reduction to their reliance on the Commonwealth.

The 2018 GST Reforms mitigate some of the extreme disincentives for a State to undertake reforms. While this has been more pronounced for Western Australia, as the only State to fall significantly below the current equalisation benchmark, the reforms are crucial for States that wish to implement any large reform to both service delivery and revenues.

The source of revenue matters

There is no consideration of holistic revenue raising capacity under the CGC's methods of HFE. A State that wishes to raise additional revenue can do so in a range of ways, but the outcome is very different depending on the source of the additional revenue. For example, Western Australia could raise iron ore royalty rates or payroll tax rates, to raise extra revenue. But once the CGC applies its methods, only 12% of the additional iron ore royalties are effectively retained (approximately 88% of the extra royalties is lost to other States through reduced GST). If the equivalent amount is raised by increasing payroll tax rates, 96% of the increase is effectively retained, despite the initial revenue impact being identical.

Western Australia could remove the iron ore royalty rate and replace the lost revenue with an increase to the payroll tax rate. Western Australia would only need to raise around \$125 million in payroll tax to be the equivalent of \$1 billion in iron ore royalties, due to losses under the pre-reform GST distribution. The net revenue impact is identical, and any further increase in payroll tax would give the State a revenue gain.

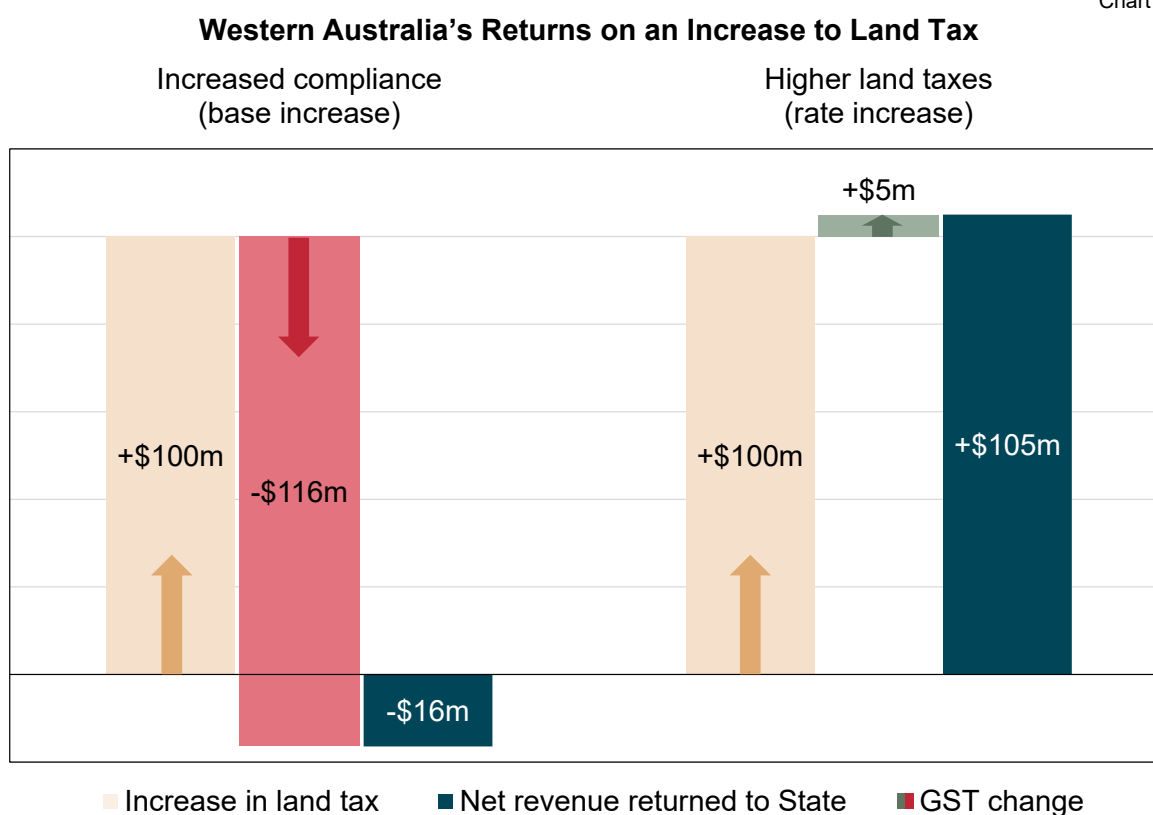
There are reasons that the State would not do this, including harm to the national and Western Australian economies, but it is hypothetically possible, and shows that different policies to raise the same revenue can have substantially different overall revenue outcomes. Due to the potential harm, we welcomed the 2018 Reforms as a preferable alternative to this strategy.

Under the CGC's methods, a State will lose very little from increasing a tax rate.⁶³ But it will lose a substantial amount of GST from increasing a tax base. If it has around the national average tax rate on that base, it will only effectively retain about its population share of the additional revenue raised. If its rate is below the average, the losses can be substantial, often more than the extra revenue raised.

⁶³ This is distinct from raising a mineral royalty rate, which when a State dominates the mineral, such as Western Australia does for many minerals, the loss can be substantial.

Chart 3.1 shows this for land tax. If Western Australia increases its land tax rate to receive an additional \$100 million, the national average land tax rate (on which its capacity will be calculated) will only increase a small amount, so the GST impact will be small; in this case a \$5 million or 5% increase. However, if the State increases its land tax base, by lowering thresholds, or increasing the type of property that is captured, or even just increasing its compliance efforts, it will lose more in GST revenue than is gained from the increased revenue; in this case \$116 million or 116%. This is because that State alone now has a bigger tax base and the CGC makes it effectively share the revenues from that extra base with all the other States. This is just one example to show that the choice of policy matters substantially.

Chart 3.1



Source: WA DTF estimates, consistent with CGC 2025 Review.

This tends to discourage a change in tax policies to, for example, make taxes more efficient. It discourages extra tax compliance effort and policies that aim to grow the State's economy. However, it encourages inefficient over-taxation of existing bases.

This has been an issue for land tax compliance in Western Australia, where efforts would have been discouraged by the perverse impacts. As land tax is assessed under value bands by the CGC, different bands can have vastly different losses for a base increase. For 2023-24, the loss associated with a base increase for Western Australia varies from 83% to 213% across the bands. Losses of this magnitude give no incentive to increase compliance or undertake any policy reform that could grow the base if the net impact is more than the additional revenue raised.

Where are the revenue reforms?

Some commentators state that despite the 2018 GST Reforms' ability to help mitigate this disincentive for Western Australia, it has not actively undertaken such reforms. However, this is undeserved. There are many reasons that a Government may not make initial changes, including that tax reform takes time.

In the case of Western Australia and iron ore, there remain barriers to changes to iron ore royalty rates. Royalty rates are often negotiated between the Western Australian Government and proponents of major resource projects and are ratified by an Act of Parliament. In addition, iron ore prices and production is historically volatile, with major projects entering the market in other parts of the world. The long-term prosperity of the system needs to be considered before implementing policy for a short-term gain.

Notwithstanding, there have been occurrences in the past, before the reforms, where serious attempts to increase rates were thwarted by the impending CGC treatment, and effective losses, of those additional royalties (see examples below).

Further, the 2018 GST Reforms are in their infancy. Full equalisation to the Standard State will only occur from 2026-27. In addition, States experienced an extreme economic shock from the COVID-19 pandemic, which shifted spending and policy priorities. As such, the full extent of the improved incentives to reform is yet to emerge.

There is also the risk that a State could implement reform that would see punishment from the CGC. For example, in 2022 Queensland implemented reforms to their coal royalty structure, where they created a tiered royalty rate that depended on the price of coal. The idea was to extract some of the economic rent from coal producers for the people of Queensland. It was arguably an economically efficient policy. New South Wales, the other major coal-producing State, maintained its flat structure that is independent of price.

However, during the CGC's 2025 Review, the method for assessing coal changed to Queensland's detriment. Despite this being an efficient policy decision that would see large financial benefits to the State (and the nation), they were penalised significantly by the CGC through an unprecedented decision to treat Queensland's high royalty earning coal differently to that of New South Wales.

Notably, the CGC has acknowledged there are concerns with the way mineral royalties are inconsistently treated under their methods, and that States may face a disincentive to increase royalty rates when they dominate a royalty.⁶⁴ Consequently, the CGC is consulting with States on this as part of the forward work program for the 2030 Review process.

⁶⁴ Commonwealth Grants Commission, *Issues Paper – Dominant state issues in the mining assessment*, page 2.

HFE impacts decision making

Whenever policies and agreements are evaluated in Western Australia, the Government always considers the GST impact. A policy with significantly negative GST impacts is not likely to proceed. Commentators who argue that HFE does not impact policy decisions are simply unaware because such decisions do not reach the public domain.

Prior to the reforms, there were multiple occasions where policy changes were not implemented because of resultant GST impacts, which were often significant. These policies may have grown industry bases (and been beneficial for the national and State economies) or improved compliance.

A selection of examples, which is non-exhaustive, follows.

Iron ore fines

In 2010, Western Australia decided to align the 3.75% iron ore fines rate in relevant State Agreements with the (then) 5.625% iron ore fines rate in the Mining Act 1978, so that all producers paid a 5.625% rate.⁶⁵ This could have resulted in the CGC reclassifying iron ore fines to 'high rate', which would have cost Western Australia more in GST revenue grants than the additional royalty revenue raised.

However, following a Western Australian request, the Federal Government instructed the CGC through its terms of reference to not reclassify iron ore fines in such a way. The terms of reference stated:⁶⁶

The Commission should ensure that iron ore fines remain in the low royalty rate group for the 2014 Update, pending the completion of the 2015 Methodology Review.

Western Australia has since further increased its iron ore fines royalty rate to 6.5% in 2012-13 and 7.5% from 2013-14 onwards, matching the iron ore lump royalty rate.

If the reforms had been in place, Western Australia would have been protected from the adverse impacts of the CGC's methods, without the need for federal intervention, which may not have been forthcoming.

⁶⁵ At the time, the CGC assessed revenue from mineral extraction under two groups, a high-rate and a low-rate group, with the demarcation at 5%.

⁶⁶ Terms of reference for the 2011 Update of State Revenue Sharing Relativities, Clause 11.

Iron ore production rental rate

In 2016, the National Party of Western Australia argued to increase the iron ore production rental rate, which had not changed since the 1960s. There was significant pushback from other parties on the basis that almost all additional revenue would effectively be redistributed under HFE.

At the time, the Minerals Council of Australia commissioned a report from Deloitte Access Economics to examine the effects of increasing a volumetric tax on iron ore production, which found:⁶⁷

The process of 'horizontal fiscal equalisation' would adjust the distribution of GST to account for WA's additional mining revenue. The net effect would leave WA with something less than a net \$300 million of the total extra of \$2.3 billion raised every year. That is, the State hardest hit by the tax would eventually see little benefit from the revenue it raised.

Given the trajectory of the iron ore price since this time, it is likely that the tax increase would not have been overly impactful to the iron ore industry. But the perceived political risk for relatively minor gains (due to CGC treatment) meant that the policy did not go ahead.

Introduction of a gold royalty rate

Prior to 1998, Western Australia did not impose a royalty rate on gold. However, under HFE methods, Western Australia was deemed by the CGC to be able to raise royalties on gold at the national average rate. When the Government realised this, the then Premier of Western Australia, Richard Court, stated:⁶⁸

It is important to note that the Grants Commission already operates on the assumption that we collect a gold royalty. In other words, the Commonwealth effectively penalises us by allocating \$70m of our grants to other States because it says we have the ability to apply a royalty. We have always been extremely reluctant to introduce a royalty for gold, but our current revenue position has left us with few other options.

As opposed to the next example, also related to gold royalties, this is an example of HFE incentivising a State to appropriately charge a royalty. However, it still shows that GST treatment can change policy.

⁶⁷ Deloitte Access Economics, *Western Australia iron ore royalty analysis*, Minerals Council of Australia, 7 November 2016, page 16.

⁶⁸ Hansard, Western Australian Legislative Assembly, 10 April 1997, page 1539.

Gold royalty rate increase

The Western Australian Government's proposed increase to the gold royalty rate in its 2017-18 Budget was consistent with the recommendations of the previous Government's 2015 Mineral Royalty Rate Analysis (MRRA). The MRRA reviewed the State's benchmark policy of a 10% return on the total mine head value of minerals, and how royalty rates fared in relation to the benchmark. The MRRA found that gold producers were not providing a fair return to the State, and that the gold royalty rate was low relative to other States and other commodities. An increase was recommended.

Despite the policy merits of this measure, attempts to raise the gold royalty rate were opposed by the National Party on the basis that roughly 60% of the additional revenue would have been lost through the GST.⁶⁹

On 12 September 2017, Hon Mia Davies MLA, Leader of the Nationals, asked in Parliament:⁷⁰

Why is the Premier pursuing a tax on jobs and small miners when the state only retains 40 per cent of what is collected for an improvement as part of the government's overall budget measures of \$3.5 billion to the state's coffers?

Liberal Party Members have also used this as a reason for opposing the gold royalty increase. On 29 November 2017 as part of Parliamentary debate, Hon Mike Nahan MLA argued that the perverse impact of the GST meant 60% of the proposed gold royalty increase would be redistributed to other States.⁷¹ In the same debate, Hon Dean Nalder MLA acknowledged the GST impact of a gold tax, saying he knew:⁷²

...after the first term of government and the redistribution of the GST, there would be about \$40 million in revenue from that new tax.

Other parties have also used GST losses as a reason for arguing against royalty rate increases. Hon Rick Mazza MLC, Member for the Agricultural Region, Shooters, Fishers and Farmers Party stated:⁷³

Another major reason I oppose this levy is that in another few years, 60 per cent of the money we raise out of this vulnerable industry will be given to other states and there will be a reduction in our goods and services tax returns. To me it does not make good mathematics to put an impost on our industry that will then bleed out to other states in a few years.

⁶⁹ ABC News, *WA Government confirms hike to gold royalty rate will send \$50m east in fresh GST blow*, 12 September 2017, <http://www.abc.net.au/news/2017-09-12/gold-royalty-rate-rise-sends-more-money-east-gst/8904180>.

⁷⁰ Hansard, Western Australian Legislative Assembly, 12 September 2017, page 3755.

⁷¹ Hansard, Western Australian Legislative Assembly, 29 November 2017, page 6298.

⁷² *ibid.*, page 6305.

⁷³ Hansard, Western Australian Legislative Council, Tuesday 28 November 2017, page 6106.

The Chamber of Minerals and Energy (CME) also argued that the gold royalty rate increase would be pointless due to the GST losses.⁷⁴ The CME argued that it would be better for the State to focus on growing the gold industry. Notably however, at its current gold royalty rate, the State loses roughly 98% of the increased royalty revenue from any increase in gold production (because this is a growth in the tax base).⁷⁵

Once again, this is a policy that made economic sense and would have seen additional royalties flow to Western Australia. However, even with the protection of the reforms, it is difficult to prosecute a policy change when it has already received such negative attention.

Queensland coal royalties

Queensland's increase to their progressive royalty rate on coal, introduced in 2022, has led to adverse GST impacts for Queensland (see discussion above). This has been much greater than was anticipated at the time of the decision due to subsequent changes to the CGC's methods for assessing coal at different values. The Queensland Resource Council (QRC) stated:⁷⁶

The QRC warned about the potential of losing a share of GST revenue and putting Queensland's long term prosperity at risk when the outgoing government introduced the World's highest coal royalty regime in 2022.

At the time of this warning, the expected impact would have been much less than what eventuated.

Tasmanian stadium

Tasmania has plans to build a stadium at Macquarie Point. To facilitate the development, the Federal Government pledged \$240 million towards the project. However, under the CGC's methods, Tasmania was set to have almost the entire amount redistributed to the other States via the GST system (Tasmania would have lost all but its 2% population share). It seemed that the Tasmanian Government had been unaware of this treatment, and at the time, it threatened to undo the decision to build the already unpopular stadium.

There were calls from the Tasmanian Government for the payments to be excluded from the GST system citing the impact it would have on the State finances. The then Tasmanian Treasurer Michal Ferguson stated:⁷⁷

It will affect funding for health, housing, cost of living relief and support for essential services in our state.

⁷⁴ The West Australian, *Gold miners warn on royalties*, 26 August 2017, [<https://thewest.com.au/news/wa/gold-miners-warn-on-royalties-ng-b88579636z>].

⁷⁵ Western Australia retains less than its 11% population share because its gold royalty rate is less than the national average royalty rate.

⁷⁶ Queensland Resources Council, 14 March 2025, [Queensland's royalty revenue a factor in the Commonwealth Grants Commission Proposal 2025-26 - Queensland Resources Council](#).

⁷⁷ ABC News, 24 May 2024, [Federal funding for the proposed Macquarie Point stadium won't be exempt from GST payments to the state - ABC News](#).

Initially, the Federal Treasurer did not plan to intervene on the Macquarie Point funding on the basis that:⁷⁸

Granting an exemption for the Macquarie Point precinct funding would be inconsistent with decisions taken previously, including the \$100 million Commonwealth contribution to the North Queensland Stadium in Townsville, which was not exempted.

Ultimately, in supplementary terms of reference provided to the CGC for the 2025 Review,⁷⁹ the Commonwealth Treasurer directed that the funding be exempt from the GST system, a move seen as highly political.

This is another instance where the Federal Government was called to intervene to protect a State from an outcome caused by the GST system. It is highly likely that this decision has set a precedent for any similar funding in the future.

Benefits from incentivising efficient economies

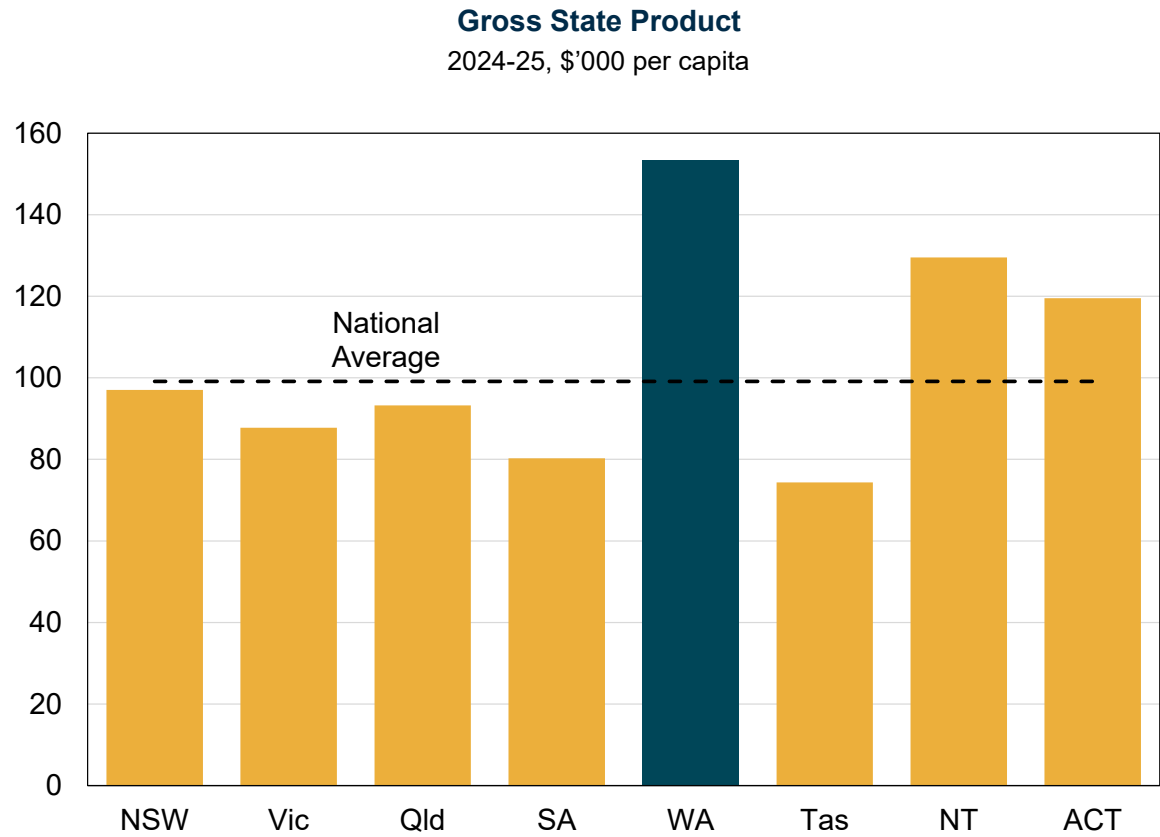
GSP as a measure of efficiency

The Western Australian economy is highly productive. Chart 3.2 highlights that Western Australia had the highest GSP per capita in 2024-25, which was significantly higher than the national average. In fact, real GSP per capita in Western Australia has been the strongest in the nation for more than 30 years, partly due to its highly productive mining industry.

⁷⁸ *ibid.*

⁷⁹ 2025 Methodology Review – Supplementary Terms of Reference, Clause 3e.

Chart 3.2



Source: WA DTF analysis, based on ABS data.

Some commentators have highlighted a lack of growth in Western Australia’s GSP since the introduction of the 2018 GST Reforms. But this a short-term, narrow view. Increasing productivity will always be harder to achieve in an industry that is already highly productive.

There are other measures that should be considered when evaluating the strength of an economy. For example, Table 3.1 shows business investment and goods exports as a share of GSP, from 1989-90 to 2024-25.

Table 3.1

Business Investment and Goods Exports as a Share of GSP/GDP

Nominal terms, 1989-90 to 2024-25

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Business investment (\$b)	1,636	1,281	1,192	1,166	349	81	72	131	5,907
Goods exports (\$b)	1,382	816	1,634	3,288	335	109	1	214	7,779
GSP/GDP (\$b)	14,581	10,638	8,164	6,519	2,781	770	903	570	44,926
Business Investment as a share of output (%)	11.2	12.0	14.6	17.9	12.5	10.5	8.0	23.1	13.1
Goods exports as a share of output (%)	9.5	7.7	20.0	50.4	12.1	14.2	0.1	37.5	17.3

Source: WA DTF analysis, based on ABS data.

Western Australia's business investment as a share of GSP has been around 18% over the long term (1989-90 to 2024-25), five percentage points higher than the national average. This has supported goods exports, which accounted for 50% as a share of GSP over the same period.

Supporting the industries that contributed to these results over this time has been crucial to the national economy. The system should incentivise growing industry bases in general, and specifically industries that are as productive as the mining sector, rather than penalising them or encouraging over-taxation.

Critical minerals and net zero

Critical minerals and the transition to net zero policies are increasingly becoming Federal Government priorities. Western Australia has some of the most significant critical minerals deposits in the world, including the majority of minerals on Australia's critical minerals list. It is a leading supplier of lithium, nickel, cobalt, manganese, mineral sands and rare earths. The existing capabilities that Western Australia has built through the mining industry will support this national priority.

Critical minerals are a crucial element in the development of technologies required to reduce emissions in high-emitting industries, like the mining industry. For the Federal Government to achieve net zero, the mining industry will be required to reduce emissions.

These emerging critical mineral industries will benefit from the already-productive mining industry present in Western Australia. However, without the reforms in place, the disincentives from the GST distribution system would also apply to these minerals. Currently, in the CGC's Mining assessment, the treatment of lithium and nickel sees Western Australia essentially lose all but its population share of royalties on these minerals, through a loss in GST revenue. This is a similar result to iron ore, as Western Australia has almost all of the national production of all three minerals.

Investing in these emerging industries is a risk, but one that Western Australia is willing to take. However, the inherent disincentives in the HFE system (without the reforms in place) will continue to threaten those decisions. This is disappointing given the chance for significant national gains if these industries succeed.

Western Australia requires greater investment

Further economic and social infrastructure investment in regional Western Australia, which supports the mining industry, is critical if our nation is to continue to compete internationally. Even though these communities have an outsized economic contribution, they face significant challenges owing to their remoteness.

For example, the cost of public works is significantly higher in these remote communities due to limited local capacity and the cost of importing resources. Current indications are that costs in some rural Kimberley communities are up to 90% higher than metropolitan Perth, around 60% higher in the Mid-West, and 25% higher the South-West.⁸⁰ Housing supply is also highly constrained — over the three months to December 2025, the median weekly house rent in the Pilbara and Kimberly were \$858 and \$867, respectively, compared to \$697 in metropolitan Perth.⁸¹

While the CGC does compensate for the additional construction costs in remote Australia, they dramatically underestimate these expenses. Under their methods, providing social services to residents of Port Hedland, 1,500 kms from Perth, is considered as expensive as providing services to those in Strahan, 300 kms outside of Hobart. Remote towns in Western Australia and Tasmania receive the same cost loading (the average of all States) despite the underlying data used by the CGC showing that construction in these locations was 26% more expensive in Western Australia. Without the reforms, Western Australia would struggle to invest in making these communities liveable, undermining their economic success, putting at risk the immense contribution they provide.

High population growth, combined with capacity constraints have put significant pressure on Western Australia's infrastructure. Western Australia's population grew by 16% from 2017-18 to 2024-25, which was the fastest of any State. To accommodate this, Western Australia will invest \$4 billion in communities, housing and land, \$5 billion in health, education and training, and \$11 billion in transport, from 2025-26 to 2028-29.⁸²

⁸⁰ WA DTF estimates based on industry cost loadings. Local market conditions and the nature of specific projects can vary cost loadings frequently and significantly. These estimates are not substitutes for advice from a Professional Quantity Surveyor.

⁸¹ WA DTF estimates based on rental bonds data.

⁸² Western Australian Government (2025), *Western Australia 2025-26 Budget, Budget Paper 3*, page 168.

While the CGC partly compensates States for population growth, they do not consider the unique circumstances in Western Australia. Having to compete with a strong mining sector and the inability to draw on builders from the combined east coast market, places significant strain on our construction sector. Recognising this, Western Australia has implemented policies to bolster building capacity such as sizeable investments in lower fee and fee-free TAFE, a subsidy for Group Training Organisations to fund the award wages of apprentices, and the Construction Visa Subsidy Program, providing grants to support skilled migration pathways into construction businesses.⁸³

Recent geo-political uncertainty and a global trend of greater industrial policy have increased the demand on all jurisdictions to support their industries. Examples of this include the Critical Minerals Strategy⁸⁴ and the bailout of steel smelters in South Australia and Tasmania.⁸⁵ However, the demand on Western Australia is particularly acute, given the globally exposed, concentrated and capital-intensive nature of our economy. Western Australia is also under pressure to invest in its critical minerals given their geo-political significance. Western Australia therefore needs the greater fiscal capacity provided by the reforms to meet global challenges.

The reforms allow Western Australia to invest in the national economy

Western Australia has used the additional funds from the reforms to invest in its economy, at the benefit of the whole nation. Supply chains extend from Western Australia through to the rest of the country and there are a substantial number of people who move from the east coast to Western Australia, permanently or on a fly-in-fly-out basis. Additionally, the economic uplift in our State is captured by the Commonwealth through higher income and company taxes.

The reforms increased economic investment

The reforms have allowed Western Australia to commit a record program of asset investment, a substantial share of which is dedicated to economic infrastructure such as utilities and ports. Western Australia's public infrastructure spend has risen to \$4,345 per capita in 2024-25, only behind the Northern Territory (whose per capita figures tend to be inflated due to their small population).⁸⁶ Investment in utilities, transport and ports represented 54% of State infrastructure spending in the 10 years to the reforms. Since then, it has risen to over 70% in 2024-25.⁸⁷

⁸³ WA Migration Services, at <https://migration.wa.gov.au/our-services-support/construction-visa-subsidy-program>.

⁸⁴ Commonwealth Government, Critical Minerals Strategy 2023-2030.

⁸⁵ ABC news, 5 August 2025, Nyrstar to get \$135 million bailout for struggling smelters.

⁸⁶ WA DTF analysis of total non-financial public sector infrastructure spending per capita, using the most recent budget data from States' publications.

⁸⁷ WA DTF estimates based on Asset Investment Program figures.

Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms

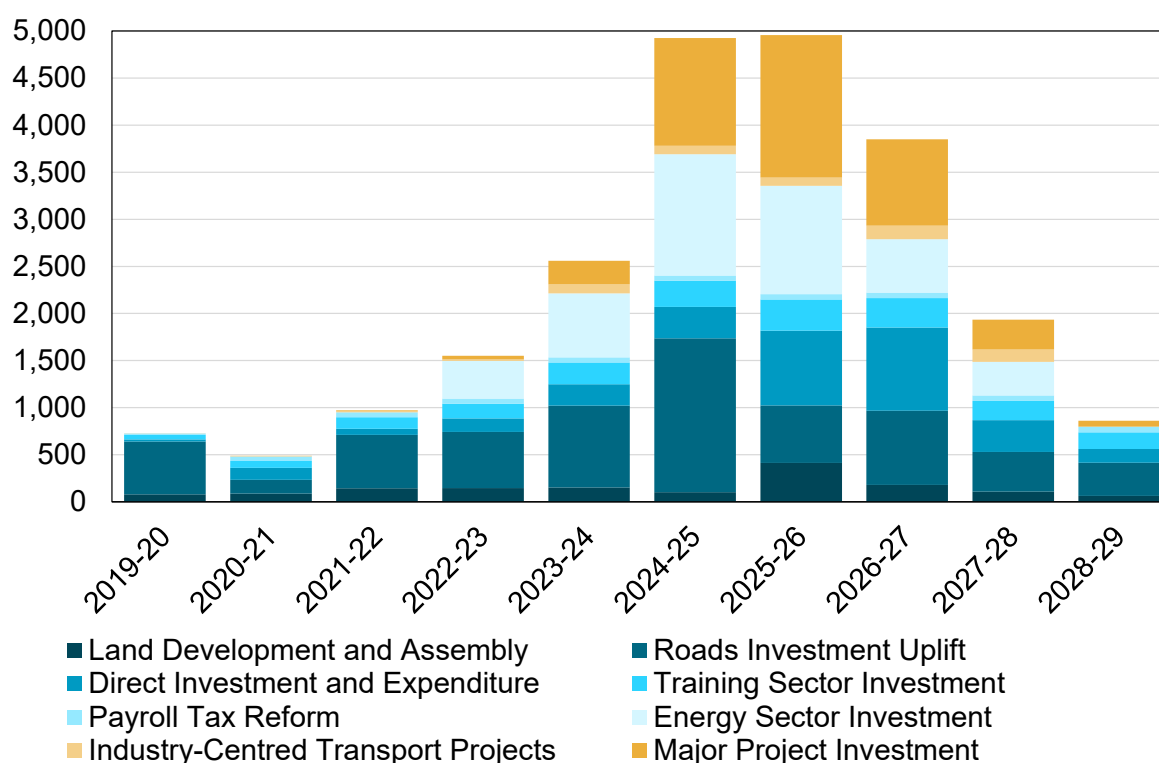
According to independent analysis being conducted by ACIL Allen, Western Australia invested an additional \$22.8 billion into projects from 2019-20 to 2028-29 that likely would not have gone ahead without the reforms. These are discretionary, capacity building projects, not business-as-usual services nor infrastructure Western Australia would be expected to provide in the absence of the reforms. The additional investment includes the following, and is shown in Chart 3.3:

- \$6.5 billion in roads investment;
- \$4.4 billion in energy sector investment;
- \$4.3 billion in major project investment;
- \$3.1 billion in direct investment and expenditure;
- \$1.9 billion in training sector investment;
- \$1.5 billion in land development and activation;
- \$0.6 billion in industry-centred transport projects; and
- \$0.5 billion in payroll tax reform.

Chart 3.3

Additional Western Australian Economic Investment due to the Reforms

Nominal price, \$ millions



Source: Analysis by ACIL Allen.

This economic investment benefits the whole nation

The reforms allow the Western Australian Government to make significant investments in economic infrastructure and programs, supporting new sectors and expanding existing industries. This generates additional revenue that flows to other States, through the GST, and to the Commonwealth through greater company tax and other revenues.

A high-profile example is the \$97 million contributed by Western Australia to the Lumsden Point General Cargo Facility and Logistics Hub. This is a significant upgrade to the Port of Port Hedland — the largest bulk handling export facility in the world. The existing berths are not equipped to handle growing trade volumes, especially in lithium and copper. ACIL Allen found that the Lumsden Point development would be a significant driver of growth, delivering a total of \$70 billion in economic output over its lifetime, equivalent to a 0.1% boost to GDP. The development is expected to provide a gain in real income of \$82 billion to the nation over its lifetime.⁸⁸ This income boost will be dispersed across the whole nation, through profits flowing to investors across the country and taxation revenue to the Commonwealth.

Other examples of significant investments include but are not limited to:

- \$2.8 billion for the Alkimos Seawater Desalination Plant to support Perth and Peel's rapidly growing population;
- \$1.7 billion for the Clean Energy Link Program to enable more renewable energy to connect and industry to decarbonise and expand;
- \$1.6 billion for the Collie Battery Energy Storage System to absorb additional renewable generation, including rooftop solar and wind generation to support energy security;
- \$1.5 billion for low-fee and fee-free TAFE to support enrolment, addressing skill shortages and growing demand from industries with growing demand;
- \$1 billion for the Strategic Industries Fund to provide common user infrastructure at Strategic Industrial Areas across the State to support diversification, including becoming a renewable energy powerhouse and making more things in Western Australia;
- \$539 million for the historic expansion of the Goldfields pipeline to support continued growth in the gold industry and other minerals in the region, as well as additional capacity for agriculture;
- \$364 million for the Dampier Multi-User Wharf and Facilities and Burrup Seawater Supply Scheme to enable the \$6 billion Perdaman Urea Plant and other future projects;
- \$350 million for the Geraldton Port Maximisation to facilitate the export of new commodities from the region;

Western Australia's submission to the 2026 Productivity Commission inquiry into the GST distribution reforms

- \$275 million for the Investment Attraction Fund to encourage those in new and emerging industries to grow in Western Australia;
- \$230 million for the Industrial Transition Fund to support the attraction of large-scale industrial projects that can provide long-term, sustainable jobs in Collie;
- \$132 million for Construction apprentice subsidies (GTO Wage Subsidy Program);
- \$75 million for the Neosmelt electric smelting furnace to enable the nation's largest ironmaking electric smelting furnace; and
- \$60 million for the Mt Holland mine access road to improve road safety and freight efficiency.

Moreover, in accordance with independent analysis currently being conducted by ACIL Allen, the \$22.8 billion in total investment due to the reforms will deliver up to \$67.8 billion in additional GDP over 2018-19 to 2038-39. Over the same period, this additional investment is expected to increase Australia's real income by up to \$52.7 billion.

The same analysis suggests that this economic uplift will also translate into up to \$16.2 billion in Commonwealth taxes. This compares to an estimated \$5 billion in additional interest costs to the Commonwealth on the debt used to pay for the reforms.

Western Australia has shown fiscal restraint

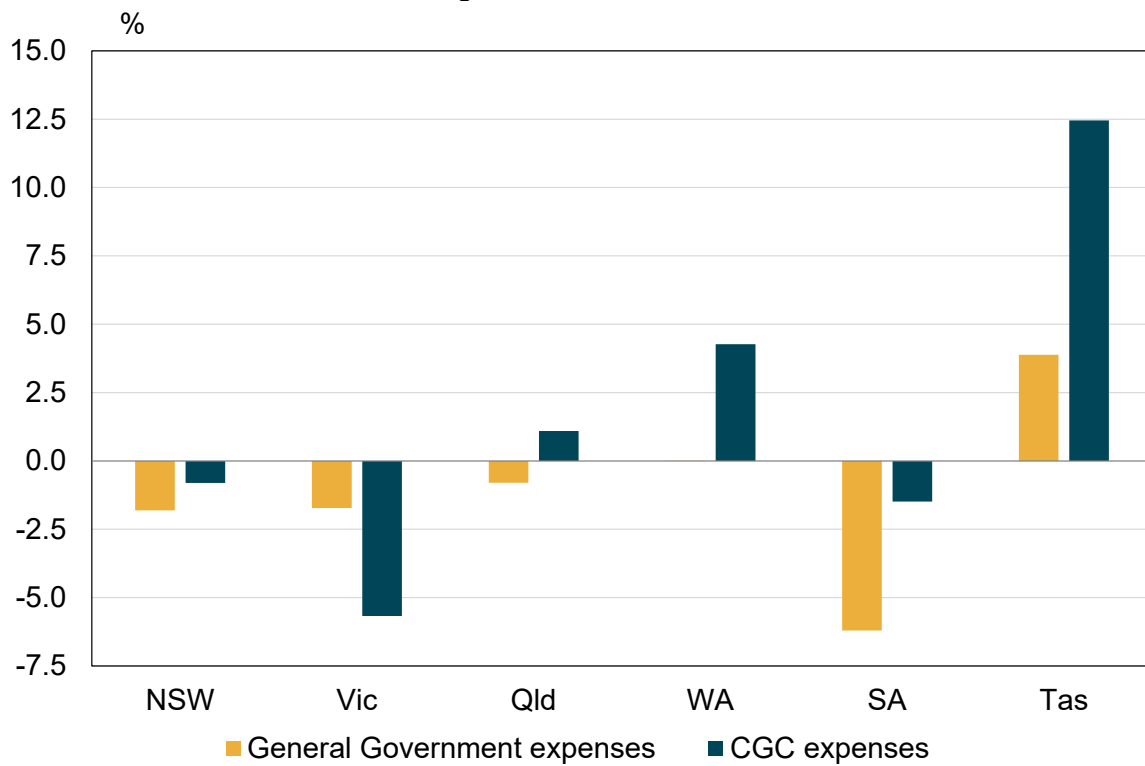
Western Australia has managed its finances responsibly throughout the introduction of the reforms. We have not 'gold plated' our services as some claim. In fact, as shown in Chart 3.4, our per capita operating expenses were almost exactly the national average, over 2019-20 to 2023-24. When you consider that service delivery costs in Western Australia are above average owing to our remote and Indigenous populations, then having comparable expenses demonstrates fiscal restraint on Western Australia's part. The CGC's assessments confirm this, estimating that Western Australia's expenditure needs were 4.3% higher per capita than other States, from 2019-20 to 2023-24 (shown in blue). In *Chapter 1*, we explained how this likely understates the true costs facing our State.

⁸⁸ Analysis by ACIL Allen.

Chart 3.4

Ratio of State Operating Expenses Per Capita versus National Average

Average of 2019-20 to 2023-24



Note: Ratio calculated as the average operating expense per capita for each State divided by the average of all States, over 2019-20 to 2023-24. Northern Territory and ACT omitted for visual clarity.

Source: WA DTF calculations using data from the CGC 2025 Review and ABS Government Finance Statistics, Annual, ABS populations.

4. Fiscal sustainability

- *To what extent are the current arrangements fiscally sustainable for the Commonwealth and States and Territories.*
- *Investigation into the interaction between GST payments and other Commonwealth payments to States, including the principles for exempting payments from the Commonwealth Grants Commission's assessments.*

KEY POINTS

The Western Australian Government is confident that the reforms are fiscally sustainable to the Commonwealth and all States.

- All States have benefitted from the reforms; and the extra funding the Commonwealth has provided to the States under the reforms has been more than offset by extra revenues.

We support the inclusion of non-GST funding in the CGC's assessments, and consider that the exclusion of particular payments should be limited, restricted to when the benefit extends beyond the grantee State.

The Western Australian Government lost many own-source revenue streams at the introduction of the GST, which supports the need to limit the degree of GST equalisation.

The reforms are fiscally sustainable

Examine the reforms in the long run

Any program or reform needs time to allow the impact of its outcomes to mature, to determine whether the objectives have been reached, and to what extent. Similarly, the full fiscal impact on States from the GST Reforms will take time to determine, partly because it needs to be weighed against the degree to which the outcomes have been achieved, and associated benefits are fully quantified. Hence, whether the GST Reforms are fiscally sustainable should be assessed under long-run conditions, or medium-term at least.

The transition, under the reforms, to the equalisation to the stronger State of New South Wales or Victoria has not yet completed its fifth year (of six). That is, the reforms have not yet been fully rolled out and will not have completed a full year of operation until end-June 2027. Arguably, to fully assess the impact and worth of the reforms, more than one full year of operation should be completed before any analysis is undertaken.

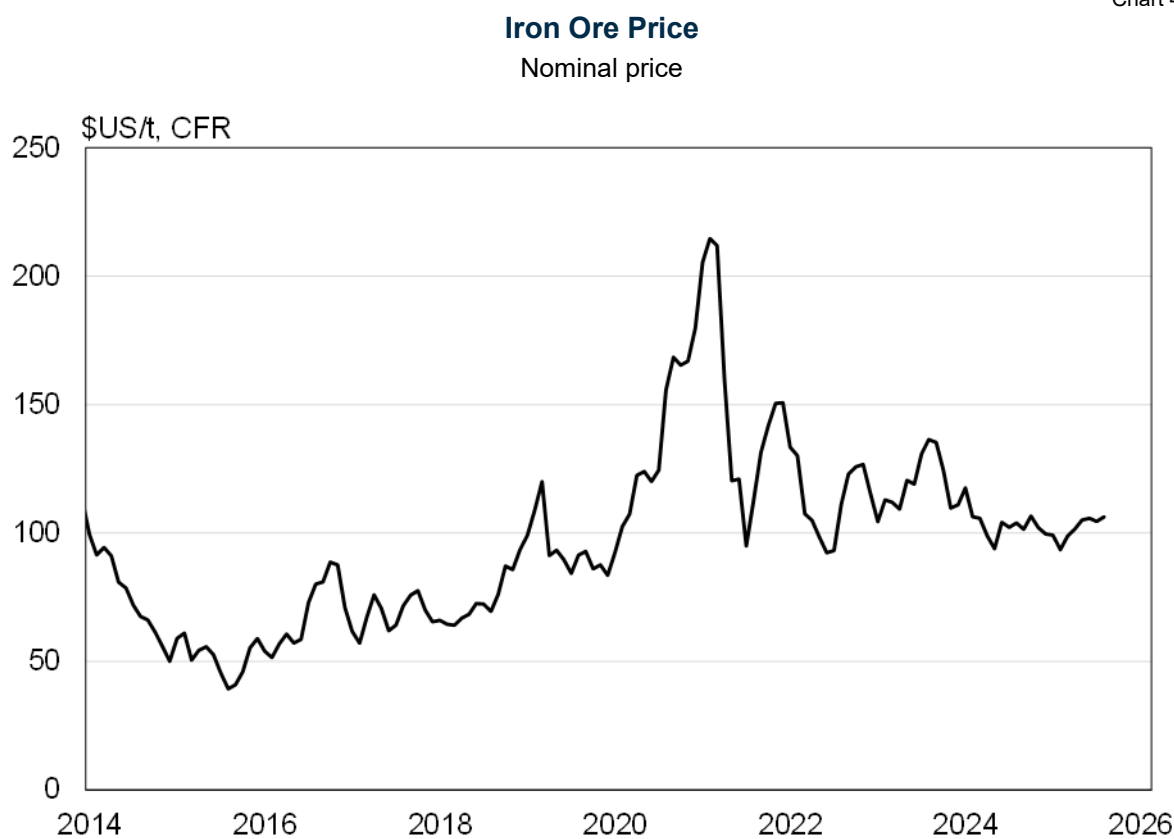
It is important that the PC remain cognisant that the period in which the reforms are transitioning experienced extreme scenarios (COVID-19 and sustained periods of high iron ore and coal prices), which have driven extreme pre-reform outcomes in the distribution of GST among the States.

It is therefore not an ideal period on which to base an analysis of the reforms, but it does highlight the importance of the reforms under such a scenario. Regardless, even under recent extraordinary conditions, as discussed below, the reforms are affordable and sustainable.

Projected iron ore prices

Iron ore prices are very volatile, having fallen from a high of \$US236/tonne in 2021⁸⁹ to a more recently-stable price, at a little over \$US100/tonne, see Chart 4.1.⁹⁰

Chart 4.1



Source: Argus.

⁸⁹ Western Australian Government (2021), *Western Australia State Budget 2021-22, Budget Paper No. 3*, page 29.

⁹⁰ Western Australian Government (2025), *Government Mid-year Financial Projections Statement 2025-26*, pages 49-51.

Iron ore prices are forecast to decline in the coming years due to easing steel consumption in China.⁹¹ This is due to the structural changes in China's economy and increases in global supply including from West Africa. Western Australia's iron ore export volumes are also expected to remain stable due to the relative cost competitiveness of Australia's production.

Industry forecasts show price forecasts declining between \$US81/tonne and \$US91/tonne from 2027-28 (as shown in Table 4.1).⁹²

Table 4.1

Industry Iron Ore Price Forecasts

\$US/t, CFR

	2026-27	2027-28
CBA	87	81
UBS	93	91
Westpac	85	86
S&P	90	-
Moody's	80-100	-

Source: WA DTF's analysis of publicly available commodity price forecasts from each of the above sources, current as of December 2025.

In its *2025-26 Mid-year Financial Projections Statement*, WA DTF assumed a iron ore price of \$US72/tonne from 2026-27 onwards, which was based on reversion to the long-run average. The Commonwealth Budget assumes a similar long-run price when converted to a cost and freight basis.⁹³

Chart 4.1 shows that following each State Budget, from 2021-22 through to 2024-25, the actual iron ore price has closely mirrored the fall predicted by WA DTF initially, before stubbornly rising again. Although the long-run price has not been reached in each instance, there is some validation for the projections.

Some commentators consider that the Commonwealth and Western Australian long-run predictions are too low. However, we note that even with noticeably higher iron ore prices, the NWOG would be substantially reduced.

A fall in the iron ore price is expected to increase Western Australia's GST relativity over time, *ceteris paribus*, which in turn decreases the cost of the NWOG.

⁹¹ Based on industry forecasts.

⁹² WA DTF's internal analysis of publicly available commodity price forecasts from Commonwealth Bank of Australia, UBS, Westpac, and S&P.

⁹³ Commonwealth of Australia (2025), *Mid-Year Economic and Fiscal Outlook 2025-26*, page 36.

Chart 4.2 shows the requirement for NWOOG payments under varying iron ore prices.

- \$US104.10/tonne = the average iron ore price so far for 2025-26.⁹⁴ If this price is maintained from 2026-27 to 2028-29, the estimated required NWOOG in 2030-31 (should it be extended) would be \$2.3 billion, reducing to less than \$800 million over the next two years.
 - To put this in context, the GST pool boost alone is expected to be almost \$1.4 billion in 2030-31, and the Commonwealth estimate (albeit highly simplistic) is for an NWOOG of about \$5.6 billion, each year to 2028-29.⁹⁵
- \$US92.36/tonne = long run average iron ore price over the period 2000-01 to 2024-25. Even if long-run projections of the iron ore price were in line with price trends over the last 25 years (i.e. \$US92.36/tonne), the reduction in the NWOOG would be significant, with the estimated required NWOOG in 2030-31 (should it be extended) being \$1.2 billion, with it no longer being required after two more years.
- \$US78.82/tonne = at or below this average price (from 2026-27 to 2027-28), the NWOOG would not be required after it expires in 2029-30.
 - It is notable that the iron ore price fell to as low as \$US79/tonne during 2022, albeit briefly.⁹⁶
- \$US72/tonne = Western Australia's forecast long-run average iron ore price. At this price, Western Australia's relativity would be around 0.800 (assuming other revenues and expenses to be in line with current forecasts) and would be similar to New South Wales (which we expect to be the Standard State in the medium term, with Victoria's relativity to remain higher). This would mean that no NWOOG payment would be required after 2029-30, and the boost to the GST pool through the reforms would mean all States are better off.

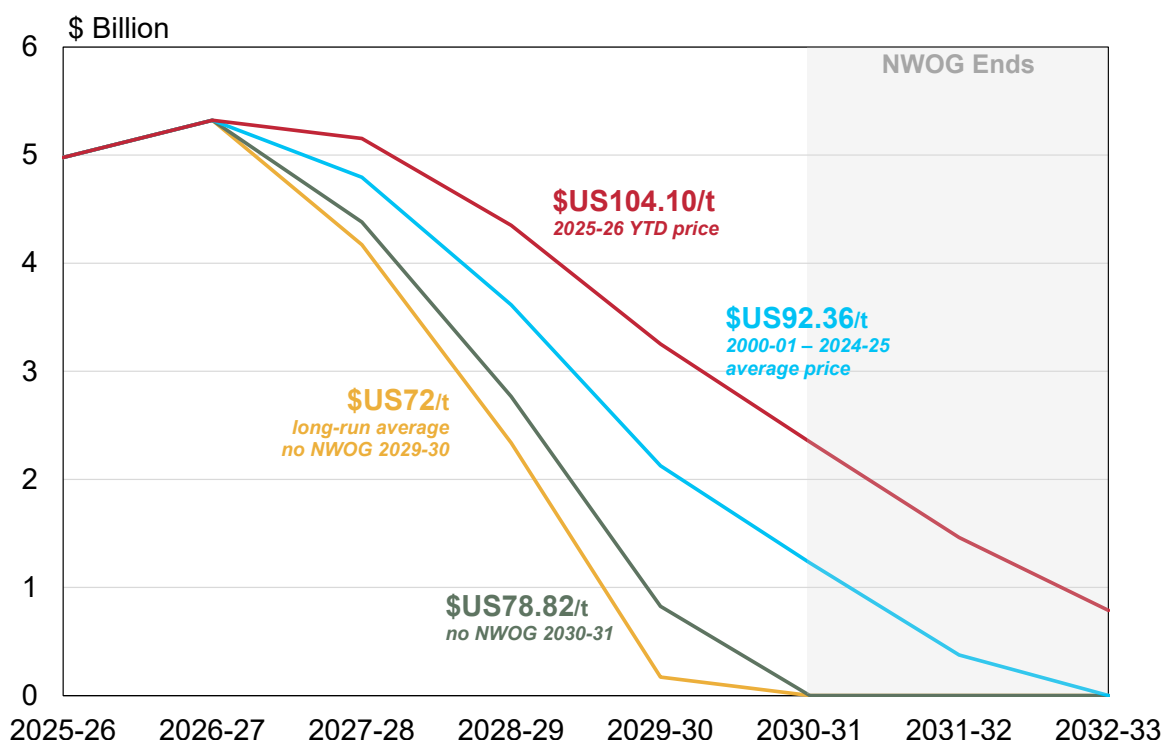
⁹⁴ Refers to the Argus 62%Fe (ICX) CFR Qingdao iron ore price in the financial year to 19 January 2026.

⁹⁵ Commonwealth of Australia (2025), *Budget 2025-26, Federal Financial Relations, Budget Paper No. 3*, page 121.

⁹⁶ Western Australian Government (2024), *Western Australia State Budget 2024-25, Budget Paper No. 3* page 29.

Chart 4.2

NWOG Payments at Varying Iron Ore Prices



Note: The iron ore price has been \$US104.10/t in 2025-26 and is forecast to fall to the expected long run average of \$US72/t from 2026-27. The Iron ore price is held constant at the select iron ore prices from 2025-26 onwards.

All States have benefitted since the reforms began

Over the first six completed years of the reforms (2019-20 to 2024-25), the Commonwealth has provided:⁹⁷

- \$2.9 billion to boost the GST pool (shared by all States);
- \$5.2 billion in GST floor payments (mostly to Western Australia); and
- \$17.5 billion for the NWOG (shared by all States except Western Australia).

Hence, due to the pool boost (essentially the built-in NWOG) and the NWOG, no States have been negatively impacted by the reforms.

In fact, all States are far better off than they expected to be in 2018 when the reforms were enacted. Every State has benefitted (and continues to benefit), through the GST distribution, from iron ore prices that have been appreciably higher than anticipated in 2018.

Due to iron ore prices to date being higher-than-projected than in 2018, other States can expect to receive \$30.8 billion in windfall GST over 2020-21 to 2028-29.⁹⁸

⁹⁷ Based on WA DTF analysis, from amalgamated Commonwealth Budget Papers.

⁹⁸ Based on WA DTF analysis.

That is, high iron ore prices have kept Western Australia's pre-reform relativity low, which forces all other States' pre-reform relativities to be higher (than they would be with lower iron ore prices). The NWOOG maintains those higher pre-reform relativities for other States. Victoria explicitly stated this in their recent Budget.⁹⁹

Victoria's GST relativity is affected by royalty revenue collected in mining states, and lower commodity export prices and volumes present a downside risk to Victoria's relativity.

Hence, to rely on the NWOOG is to rely on iron ore prices remaining high, because under a scenario where the iron ore prices fall, other States' relativities would fall, and the NWOOG would disappear. States have voiced their concerns over the cessation of the NWOOG if the iron ore price remains high, but if the iron ore price falls, their GST payments will reduce substantially.

Any claims by States that their current deficits or debt levels are a result of the reforms is false. In the period since the GST Reforms were introduced, the impact on States' fiscal sustainability has been positive given the flow through to other States from higher-than-expected iron ore prices, underwritten by the NWOOG.

In addition to this benefit, all States (and the Commonwealth) have gained from a more robust national economy than was expected in 2018, from Western Australia's strength and its enhanced ability to invest, due to the GST Reforms (see *Chapter 3*).

The NWOOG was always an appropriate temporary measure that provided States the opportunity to prepare for the commencement of the reforms without risk of reduction to their GST grant. The NWOOG was extended for an additional three years to allow States more time to do this. While we are ambivalent on whether the NWOOG is made permanent, we are of the belief that the existence of the NWOOG essentially evokes a sense that the reformed GST distribution is not a more reasonable equalisation standard, and hence other States need to be compensated. The reforms were necessary to mitigate inefficient, flawed and perverse CGC methods that have been used to distribute the GST among the States for some time (see *Chapter 1*) and there was previously a poor balance between equity and efficiency.¹⁰⁰ Additionally, the reforms were designed to transition States to a new paradigm, where the distribution is more reasonable, but making the NWOOG permanent does not support this position.

Also, as discussed in *Chapter 1*, each State's NWOOG has been moderate compared to the changes made in CGC method reviews in Table 1.1.

Other States claim they would not be fiscally sustainable without the NWOOG. However, this claim must reflect their own financial management, given the extra windfall funding provided to them since the GST Reforms started, through higher iron ore prices.

⁹⁹ Victorian Government (2025), *Budget Paper 2: Strategy and Outlook 2025-26*, page 58.

¹⁰⁰ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no.88, page 2.

The Commonwealth can afford the GST Reforms

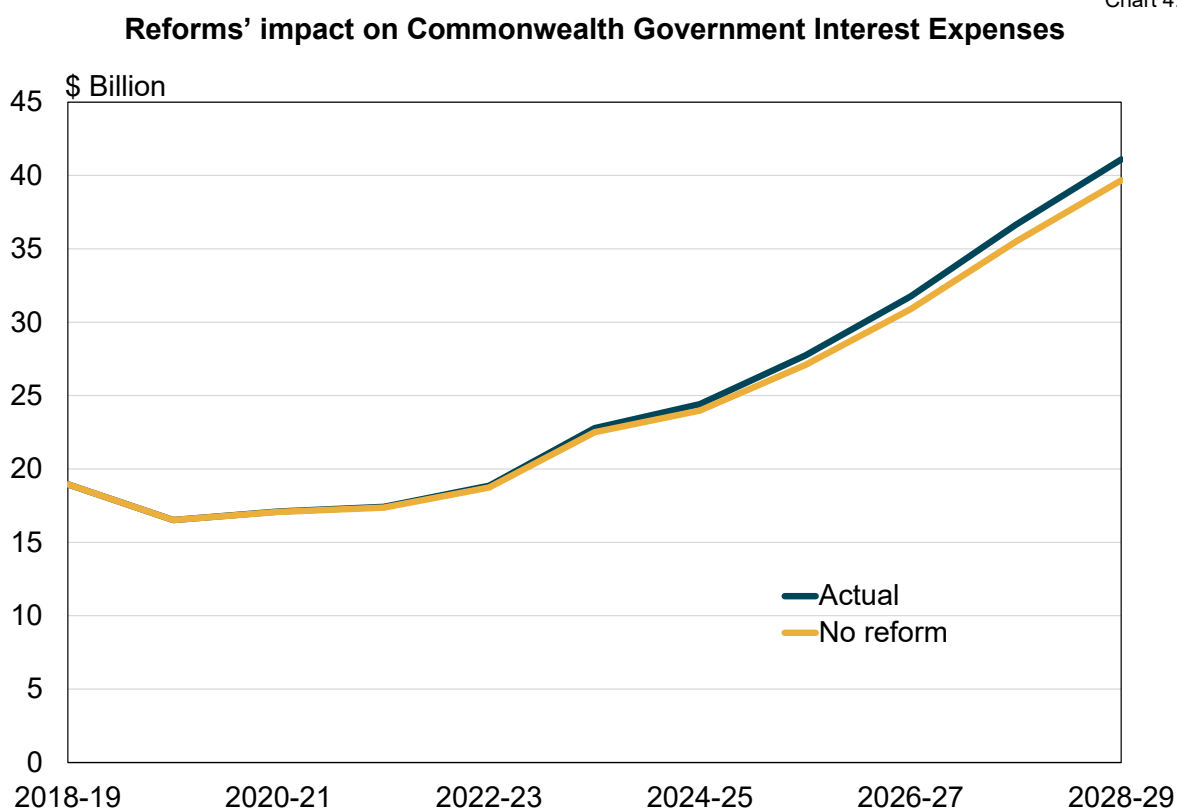
As noted above, over the first six completed years of the reforms (2019-20 to 2024-25), the Commonwealth has provided \$25.6 billion in funding through the boost to the GST pool, floor payments and the NWOG.

In 2025-26, the NWOG is estimated to cost the Commonwealth \$5.1 billion.¹⁰¹

To put these figures in context, in 2025-26, the NWOG represents just 5.2% of the estimated national GST pool of \$97.4 billion,¹⁰² just 2.5% of total Commonwealth payments to the States (\$200 billion),¹⁰³ and just 0.6% of the total Commonwealth general government sector expenses (\$809 billion).¹⁰⁴

Chart 4.3 shows that the cost of the GST Reforms to the Commonwealth is relatively small, when looking at the cost of servicing its debt.

Chart 4.3



¹⁰¹ Commonwealth of Australia (2025), *Mid-year Economic and Fiscal Outlook 2025-26*, page 305.

¹⁰² *ibid.*

¹⁰³ *ibid.*, page 297.

¹⁰⁴ *ibid.*, page 77.

Understanding the impact of the reforms on Commonwealth interest expenses is important to determine whether the Commonwealth can afford to maintain the reforms. It is estimated that, as a result of the reforms, the Commonwealth's annual interest expenses will have increased to \$1.4 billion in 2028-29, just 3.6%.¹⁰⁵

Some commentators argue that the cost is still substantially greater than other program cost overruns. However, the reforms essentially pay for themselves through increased revenues to the Commonwealth.

The cost of the NWOOG is driven by the Mining assessment, and thus correlated with high iron ore prices to a much greater degree than any other expense or revenue item affecting State GST relativities. In general, changes in Western Australia's GST relativities closely follow changes in iron ore royalties.¹⁰⁶

High iron ore prices provide greater profits and increased employment to iron ore companies. This, in turn, provides higher company tax and income tax revenue to the Commonwealth Government.

Hence, when the NWOOG costs more, the Commonwealth benefits from more revenue.

Indeed, the benefit to the Commonwealth substantially exceeds the cost. The increased cost to the Commonwealth of the GST Reforms from higher than forecast iron ore prices is much less than the increased company tax collections as a result of those higher prices.

The company tax paid by Western Australia's three largest iron ore producers to the Commonwealth in one year alone is more than the cost for the first five years of the GST Reforms. The average annual cost of the reforms to the Commonwealth over the first five years was \$3.3 billion, but the average annual company tax paid by our three largest iron ore producers during this period was \$18.9 billion, which when compared to the \$9.8 billion in company tax paid by these companies in 2018-19, before the reform period, indicates a substantial uplift in company tax.¹⁰⁷

- For every \$US1/tonne increase in the iron ore price, the value of production for iron ore would increase by approximately \$1.3 billion. This correlates to a \$396 million increase in company tax, while the NWOOG would only increase by \$95 million in 2030-31 (assuming this increase was sustained from 2026-27 to 2028-29).¹⁰⁸ This means that the benefit to the Commonwealth Budget through increased company tax revenue alone is estimated to be three to four times greater than the increased cost of the NWOOG.
 - In addition to this, income tax collections would also increase.
 - Some of this increase in collections might be offset by exchange rate impacts on other sectors of the economy, but exchange rate movements over the last decade show little correlation with iron ore prices.

¹⁰⁵ Analysis by ACIL Allen.

¹⁰⁶ Commonwealth Grants Commission (2025), *GST relativities 2025-26*, page 67.

¹⁰⁷ Company tax figures taken from company reports for the big three mining companies, BHP, Rio Tinto and Fortescue. These companies comprise the vast majority of iron ore operations in Western Australia.

¹⁰⁸ Calculation based on annual iron ore tonnage of 884 million dry tonnes, exchange rate of 67 US cents to the Australian dollar, consistent with WA DTF 2025-26 Mid-year Review forecast assumptions from 2026-27 to 2028-29.

- Moreover, compared to forecasts at the time of the 2022 Federal election, the Commonwealth Budget has outperformed expectations by a total of \$209 billion over the last three financial years.¹⁰⁹

In addition to these direct tax increases, the economies more generally of Western Australia and other States will increase through the supply of labour, capital and materials to the mining sector (see *Chapter 3*). This in turn will boost Commonwealth revenues.

Finally, the future expected cost of the NWOOG posited by some commentators is based on highly-simplistic Commonwealth extrapolations based on current GST relativities. The Commonwealth shows estimated NWOOG payments from 2026-27 through to 2028-29 as \$5.8 billion, annually.¹¹⁰ This is despite the Commonwealth's assumption that iron ore prices will return to their long-run estimate of \$US60/tonne,¹¹¹ which would lead to States receiving very different GST relativities, with substantial reductions in the NWOOG requirement.

Chart 4.2 above showed that even if prices maintain the current average for 2025-26 of \$US104.10/tonne, the estimated cost of the NWOOG would fall rapidly to around \$3 billion in 2029-30, the current NWOOG expiry date.

Commonly cited estimates of the cost of the NWOOG, and the reforms generally, are likely to be overstated.

The interaction between GST and other payments

The GST is the single largest Commonwealth funding transfer to the States, but for 2025-26, there are 181 other grants for specific purposes.¹¹² For 2025-26, these grants are estimated to total \$97 billion,¹¹³ a similar size to the \$96.6 billion national GST pool.¹¹⁴

While the spending by States on non-GST grants is usually specified, a State will enter an agreement for funding because it provides for services and infrastructure that the State must otherwise pay for itself, and (hopefully) conforms with the State's priorities and policy agenda. Hence, Commonwealth grants improve States' fiscal capacities, by partly providing State services and infrastructure. There are situations where States will agree to receive payments from the Commonwealth to achieve a policy goal that does not align with their agenda. As many Commonwealth agreements involve some amount of matched spending by the State, this can in fact reduce a State's fiscal capacity if the matched spending would be better spent elsewhere. In saying this, a State can negotiate the parameters of an agreement, or choose not to participate.

¹⁰⁹ Commonwealth of Australia (2025), *Final Budget Outcome 2024-25*, page 1.

¹¹⁰ Commonwealth of Australia (2025), *Mid-Year Economic and Fiscal Outlook 2025-26*, page 305.

¹¹¹ *ibid.*, page 36.

¹¹² There are also a sizeable number of smaller own-purpose grants that are provided to States to provide services or infrastructure on behalf of the Commonwealth, similar to Commonwealth agreements with non-government entities. They do not have an impact on State budgets. These are not published in the Commonwealth's Budget papers and are rightly not assessed by the CGC.

¹¹³ Commonwealth of Australia (2025), *Mid-Year Economic and Fiscal Outlook 2025-26*, page 297.

¹¹⁴ Plus \$5.1 billion in NWOOG payments – see Commonwealth *Mid-year Economic and Fiscal Outlook 2025-26*, Appendix C tables.

Given these agreements are negotiated at a high level by Ministers and staff at State and Commonwealth Treasuries, through both formal and informal channels, the presence of the GST Reforms and their public perception could potentially impact the outcomes of other agreements. Decisions to exempt particular agreements at the Commonwealth Treasurer's discretion could also be impacted, as no explanation is required to exempt a payment.

Because these grants are not distributed to States on a per-capita basis, or necessarily on a basis that matches need as assessed by the CGC, the increase in each State's fiscal capacity from its grants is not uniform. For this reason, the CGC should, and does, consider the changes to State fiscal capacities from Commonwealth grants by including their revenue and (implicitly) the subsequent expenditure in its assessments.

However, each year, through its terms of reference, the Commonwealth Treasurer will direct the CGC to exempt certain payments from its assessments. The reason for the inclusion in this list of each of the payments is not always clear. They tend to be payments supporting national priorities, reward payments for achieving specific reforms, and payments exempted at the discretion of the Commonwealth Treasurer. The latter could be for a valid reason, or due to intense lobbying from the State. There can be a lack of transparency in such decisions.

If a State's grant is not exempted, it stands to lose around all but its population share through a lower GST grant (give or take, depending on its needs for spending on that program). All the other States will receive around their population shares.¹¹⁵ Rather than lose all but its population share, the State that receives an exempted grant will lose none of it (its GST will not change due to the grant).

Hence, the advantage can be considerable to a State that successfully has its grant exempted, especially if it is a sizeable one. So, it is no surprise that States will lobby for such an outcome. A recent example of this was the political campaign by the Tasmanian Government to secure an exemption for Commonwealth funding for the proposed Macquarie Point stadium, which was initially rejected by the Commonwealth Treasurer.¹¹⁶

Only a small share of payments is exempted from the CGC process. In 2022-23, less than six per cent of the total value of Commonwealth payments for specific purposes were exempted by the Commonwealth Treasurer based on terms of reference requirements.¹¹⁷

¹¹⁵ That is, for every \$100 million of funding to another State, for example, Western Australia would receive around \$11 million and New South Wales would receive around \$31 million. This would not occur if the grant were exempted.

¹¹⁶ Tasmanian Government (2024), *GST exemption for Macquarie Point multipurpose precinct secured*, <https://www.premier.tas.gov.au/latest-news/2024/december/gst-exemption-for-macquarie-point-multipurpose-precinct-secured>.

¹¹⁷ Commonwealth Grants Commission (2025), *Commission's Assessment Methodology*, page 209.

In addition, the CGC identifies other payments that do not support State services, or for which expenditure needs are not assessed, and treats them so that they will have no impact on State fiscal capacities. The effect will be the same as if exempted by the Commonwealth Treasurer. The CGC consults States on these payments, and although States will not always agree with final decisions, there is a good degree of governance and transparency in the process.

In its 2018 review into HFE, the PC recommended that:¹¹⁸

The Commonwealth Government, in consultation with the States, should develop clear guidelines detailing the basis on which Commonwealth payments are to be quarantined from HFE by the Commonwealth Treasurer.

Its reasoning was the CGC has a clear framework on whether a payment will be discounted, included or excluded from their process, so that guidelines for the Commonwealth Treasurer would similarly help to set firmer boundaries and increase transparency and accountability of their decisions. It considered that the guidelines should establish that exemptions should be granted only in exceptional circumstances that are in the national interest, and should only be quarantined for reasons that would not already be considered by the CGC.¹¹⁹

Western Australia agrees with this, but has reservations as to whether they could accommodate all circumstances, or could be effective when confronted by political motivations. Nevertheless, we would like to see guidelines put in place.

While Heads of Treasuries and the Council on Federal Financial Relations gave consideration to this issue in 2021, it has not progressed further. The Commonwealth Treasury had previously circulated draft GST exemption guidelines, but States rejected those guidelines as being ill-defined and too broad.

- The Commonwealth's draft guidelines acknowledged that most payments should be included in the CGC process, and that the Commonwealth Treasurer will only exempt payments to States on an exceptions basis.
 - Those exceptions were where a payment is made solely and expressly for the purpose of allowing a State to temporarily provide above-average services in a particular area or it would be in the national interest.
 - Importantly, the guidelines state the Treasurer would not engage where the CGC had already considered a payment or for the purpose to provide certainty of the CGC's treatment of the payment.

¹¹⁸ Productivity Commission (2018), *Horizontal Fiscal Equalisation*, Report no.88, Recommendation 6.4, page 186.

¹¹⁹ *ibid.*

Under the first guideline above, the Commonwealth Treasurer would be able to exempt most of the payments to individual States for specific projects. Unless the Commonwealth Treasurer believes that there are significant flaws in CGC assessments of State expenditure needs, there should not be any need for the Commonwealth to allow a State to provide above average services for a standard State function, as any payment that was made to a State to carry out Commonwealth responsibilities would already be excluded within CGC assessments.

There are some obvious situations where payments from the Commonwealth to States should be exempt from CGC treatment, such as payments made as part of reforms to the GST distribution, like the NWOOG. However, there are many situations where exemptions have been applied arbitrarily and without any consistency with comparable payments made at other times. An example of this is the CGC exemption for *SPP188 – Pest and disease preparedness and response programs*, while similar agreements like *SPP693 – Management of established pests and weeds* are included in CGC assessments, and both agreements are active at the same time.

To limit the potential for State lobbying, the Western Australian Government proposes the Commonwealth and States develop, and adopt, sensible consistent guidelines for exemptions. An explanation should also be provided to States when an exemption is applied. The guidelines should be developed with input from the States, potentially through the Council on Federal Financial Relations.

Foregone revenues and the introduction of the GST

When the GST was introduced on 1 July 2000, States relinquished many taxes under an expectation that the GST would more than replace them.

- These taxes comprised almost half of the national GST pool amount in 2000-01, and provided direct revenue to the States.
- In addition, the GST replaced Financial Assistance Grants, which provided HFE adjusted grants on top of the direct tax revenue.

The GST is collected by the Commonwealth, with all funding distributed among the States, through the already-established system of HFE.¹²⁰

On 9 April 1999, the Commonwealth and State and Territory First Ministers signed the GST Agreement. The GST would be a broad-based tax of 10% on the majority of goods and services. It was touted as a growth tax; one that would see the States better off than the then current arrangements.

¹²⁰ The States would pay the ATO for the collection of the tax on a population basis.

In order to receive this new tax, States agreed to abolish a range of inefficient own-source taxes.¹²¹ In addition, States agreed that the Commonwealth would abolish grants to the States in lieu of Franchise Fees,¹²² and Financial Assistance Grants, its main bucket of funding to the States.

Hence, it was agreed that three sources of State funding were to be relinquished in return for what was expected to become a larger and faster growing pool of GST.

However, on 28 May 1999, the Commonwealth Government announced a number of changes to the GST to secure the passage of the legislation through the Senate, namely the exclusion of basic food and some health and education items from the GST revenue base. This substantially reduced the projected revenue from the tax, and impeded its growth, as the proportion of excluded items grew faster than of those included. Since the introduction of the GST, household spending on GST-free items has doubled, while spending on taxable items has only grown by 50%.¹²³

States were left with a smaller and slower-growing GST pool than had been agreed, which was not sufficient to cover the forgone revenue. Indeed, initial costings released in 1998 forecast GST revenue to be 14% higher from 2000-01 to 2002-03 than what was actually paid.¹²⁴ This led to a revised GST agreement in June 1999, where States were forced to delay the abolition of some of their taxes.

The foregone revenue from State own-source taxes and grants in lieu of franchise fees was equivalent to approximately \$10.5 billion in 2000-01 (franchise fees adjusted for prior year growth) for all States, while the total GST paid to States was \$24.4 billion (which was equivalent to the foregone tax revenue and Federal Assistance Grants). It shows that, if the GST had not been introduced, States would have received the equivalent of almost half of the GST pool in direct revenue, while still receiving HFE adjusted Commonwealth grants on top of it.

¹²¹ For example, bed taxes, financial institutions duty, debits tax, and a range of stamp duties.

¹²² States had been collecting Franchise Fees until 1997, when a high-court ruling declared this unconstitutional. They were deemed an excise tax, which only the Commonwealth could collect. In order to maintain the level of State revenues, the Commonwealth collected the Franchise Fees and distributed them all to the States along the lines of their own collections. It ceased this when the GST was introduced.

¹²³ Parliamentary Budget Office (2020), *Structural Trends in GST*, Report no.02/2020, page 7.

¹²⁴ WA DTF calculation based on actual GST payments to States and the 1998 Commonwealth Treasury release *'Tax Reform: Not a New Tax, A New Tax System'*.

This validates Western Australia's concerns about the unsustainably low GST relativities Western Australia received in 2015-16 and 2016-17 of 0.300, because these low relativities contradicted the original agreement between the Commonwealth and the States. If States were still receiving Financial Assistance Grants and the foregone own-source revenues, it is expected that their share of Financial Assistance Grants would not fall below zero (at an extreme), and they would still receive their own-source revenues. The Western Australian Government believes this provides justification for having a relativity floor – to ensure the GST relativity does not reach the unfathomably low levels (of 0.300) which undermines the original agreement between the Commonwealth and the States (when the GST was introduced).

Hence, when claims are made that the reforms are baseless, and the GST system was working appropriately prior to them, it shows a fundamental misunderstanding of how the GST system was introduced, and the revenue States gave up.

5. Alternative arrangement: Adding a mining discount

Would alternative arrangements better achieve some or all of these outcomes?

KEY POINTS

The 2018 GST Reforms should be retained, with the addition of a 25% discount to mining royalties. A discount would be easy to implement and transparent in its operations.

Policy consistency and policy neutrality

A discount to the Mining revenue assessments would be an appropriate response to the lack of policy consistency in States' revenue bases, and would help to address the lack of policy neutrality in the underlying Mining assessment. The CGC already takes this approach with a 100% discount for gambling tax.

Adding a discount to the reforms

While the 2018 GST Reforms have reduced the policy impacts for Western Australia, a discount is still needed to reduce disincentives for all States. Additionally, a discount would reduce the cost to the Commonwealth of the NWOG (while it is in place) which is currently overstated, due to the pre-reform baseline failing to address policy consistency and neutrality.

Aligning with international experience

A mining discount would bring Australia more in line with Canada and Germany, both of which apply a mining discount for reasons that are equally valid in Australia.

Addressing lack of policy consistency

As discussed in *Chapter 1*, the CGC fails to implement the HFE principle by not measuring revenue bases on the same policies for each State.

Instead, the CGC uses observed revenue bases, which are unreliable measures of policy-consistent revenue bases. Under the CGC's methodology for dealing with unreliable data, it should be discounting these revenue bases towards equal per capita. This would be achieved by the CGC discounting the revenue assessments.

The CGC already discounts for policy consistency

Discounting assessments on policy consistency grounds has been rejected by the CGC over many years. The CGC draws a distinction between the sources of uncertainty they 'should' discount (data and method unreliability) and the sources they 'should not' (State policies). But this distinction is flawed.

Firstly, there is no sharp line between the two categories. Not being able to source a policy neutral driver of expenditure is both a data and policy consistency concern — the dichotomy is arbitrary.

Secondly, the CGC already discounts gambling revenue where they cannot source policy consistent drivers, though it is not described in this way. In its 2025 Methodology Review, the CGC considered different assessment methods for gambling revenues, including using actual gambling activity or estimating the propensity of each State's population to gamble. The CGC concluded that:^{125,126}

*A lack of evidence on the propensities of different population groups to participate in different forms of gambling and the **significance of state policy differences** meant it considered none of the alternative assessment methods to be sufficiently reliable to support a differential assessment of state gambling taxation.*

The Commission proposed to continue to assess gambling taxation revenues equal per capita.

Assessing gambling revenues equal per capita is equivalent to a 100% discount. In essence, this discount was enacted because the best available drivers were either methodologically unreliable or policy influenced. If the CGC did not discount based on policy influence, then a measure using actual gambling turnover, which is reliably collected but clearly influenced by State bans on gambling, could have been implemented.

Therefore, given the CGC already applies a 100% discount to gambling, a partial discount to mining would be an easy and appropriate mechanism to employ, and would be transparent in its operation.

Discounting tax assessments

Policy consistency is an issue for all revenue sources, but it is particularly acute for mining royalties. Mining royalties are directly influenced by State policies more than most taxes. For example, the royalty impact of State development approvals for new mines are clearly identifiable, and the decision-making power is centralised in the State. Compare this to the indirect, nebulous and prolonged effect that decentralised land-use policies have on property taxes.

Hence, the main priority should be to discount the Mining revenue assessment.

¹²⁵ Commonwealth Grants Commission (2025), *2025 Methodology Review – Review Outcomes*, page 64.

¹²⁶ Emphasis added.

Improving policy neutrality

As detailed at length in *Chapter 3*, policy disincentives for mining are considerable in the underlying GST system and have undeniably influenced State policies in the past. Under the CGC's methods, States that dominate a mineral's production lose most of the proceeds from a royalty rate change or investment in their mining industry, through forgone GST. The degree of disincentive is unacceptable for an industry that contributes around 10% of national GDP and has a negative impact on national productivity.¹²⁷

As shown in Table 5.1, without the reforms, Western Australia would lose around 88% of proceeds from an iron ore royalty rate change in lost GST grants — one of the highest losses of any decision affected by the GST distribution. Queensland and New South Wales similarly lose around 48% and 20% for coal, respectively. Applying a 25% discount to mining revenues would meaningfully improve these figures. A 25% discount is applied by the CGC in cases where it has moderate concerns, and we consider that it would be an appropriate response to the degree of policy disincentive.

Table 5.1

GST Disincentives for a Royalty Rate Increase

Change in GST vs Revenue from a Royalty Rate Increase, Average of 2020-21 to 2028-29

	WA Iron ore	QLD Coal	NSW Coal
No reforms, no discount	-88%	-48%	-20%
No reforms, 25% mining discount	-63%	-31%	-7%

Source: WA DTF analysis, consistent with Western Australia's 2025 *Mid-year review*.

This disincentive against changing the rate is unique to mining royalties. The GST impact of rate changes from taxation sources is negligible, as their revenue bases are not dominated by one State, like iron ore in Western Australia.

Similarly, when States invest and grow their royalty bases they currently lose the vast majority of the proceeds through reduced pre-reform GST revenue. Table 5.2 shows the substantial pre-reform GST losses for Western Australia, Queensland and New South Wales. Applying a 25% discount would also meaningfully reduce these disincentives.

¹²⁷ Reserve Bank of Australia, Chart Pack, Industry Share of Output, 10 December 2025.

Table 5.2

GST Disincentives for a Royalty Base Increase

Loss in GST vs Revenue from a Royalty Base Increase, Average of 2020-21 to 2028-29

	WA Iron ore	QLD Coal	NSW Coal
No reforms, no discount	-89%	-76%	-81%
No reforms, 25% mining discount	-66%	-57%	-61%

Source: WA DTF analysis, consistent with Western Australia's 2025 *Mid-year review*.

Base disincentives are particularly problematic for mining royalties for the same reasons as discussed above in the context of policy consistency. Targeting disincentives with a mining discount would have a clear outcome for State decision makers, making it far more likely to reduce interference with policy outcomes.

Mining projects also require a level of integration between private and public investment not seen in other revenue sources. Mining projects are vast, have high common-user infrastructure demands, and are constrained across many regulatory areas. Additionally, the benefits from mining projects are highly volatile, have long time horizons and come with many social and environmental trade-offs. With so much at stake, mining States are highly sensitive to the perceived returns from their policies, so a mining discount is expected to have outsized influence.

Discounting mining and the GST Reforms

A discount is needed in addition to the reforms. The 2018 GST Reforms addressed many of the flaws in the GST system, including taking the first step to improve policy neutrality. However, there remains a need to further improve policy consistency and neutrality in the underlying GST system. A mining discount would achieve this.

Firstly, as shown in Table 5.3, the reforms significantly improve policy neutrality for States below the new equalisation benchmark but have more modest impacts for other States. This means that, while only Western Australia has notably benefitted to date due to it undergoing an economic shock, the reforms would have no impact once Western Australia's fiscal position moderates. A mining discount builds on the reforms by providing further policy neutrality improvements to all States, and outside of periods of outlier economic performance.

Secondly, the reforms are compared to the underlying GST distribution. Yet, that baseline is distorted through the flawed and unfair Mining assessment which has no measures to address the lack of policy consistency and neutrality. This inflates the cost of the NWOG.

Alternative arrangement: Adding a mining discount

A mining discount would reign in the perceived impact of the reforms and thus the cost of the NWOOG to a more reasonable and accurate level. This is clear from Table 5.4, which shows the impact of a 25% mining discount on the cost of the NWOOG. This modelling is highly dependent on the iron ore price forecast, so three iron ore scenarios are used. If a 25% mining discount was implemented for 2025-26 onwards, it would reduce the cost of the NWOOG by around \$9.4 - \$12.8 billion for the five years to 2029-30, with the NWOOG no longer required by the end of this period if iron ore prices fall to around \$US95/tonne or lower.

Table 5.3

GST Disincentives with the Reforms and a 25% Mining Discount

Loss in GST vs Revenue from Policy Change, Average of 2020-21 to 2028-29

	WA Iron ore	QLD Coal	NSW Coal
Royalty rate change			
No reforms	-88%	-48%	-20%
+ Equalising to the Standard State	no loss	-36%	-17%
+ 25% mining discount	+3%	-22%	-5%
Royalty base change			
No reforms	-89%	-76%	-81%
+ Equalising to the Standard State	no loss	-50%	-67%
+ 25% mining discount	no loss	-37%	-50%

Note: Equalising to the Standard State is applied without a transition from 2020-21. During this period, Western Australia is below the equalisation benchmarks, Queensland is also, at times, whereas New South Wales is the Standard State.

Source: WA DTF analysis, consistent with Western Australia's 2025 *Mid-year review*.

Table 5.4

No-Worse-Off Guarantee Payments with a 25% Mining Discount
at Varying Iron Ore Price Assumptions, \$ millions

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Iron ore profile 1 – Conservative (falls to \$US72/tonne)						
No discount	4,977	5,321	4,171	2,338	172	16,979
25% discount	2,610	2,779	1,744	439	0	7,572
Change	-2,367	-2,542	-2,427	-1,899	-172	-9,407
Iron ore profile 2 – Moderate (falls to \$US92.36/tonne)						
No discount	4,977	5,321	4,794	3,614	2,126	20,832
25% discount	2,610	2,779	2,211	1,208	0	8,808
Change	-2,367	-2,542	-2,583	-2,406	-2,126	-12,024
Iron ore profile 3 – High (remains at \$US104.1/tonne)						
No discount	4,977	5,321	5,153	4,349	3,253	23,054
25% discount	2,610	2,779	2,480	1,759	615	10,244
Change	-2,367	-2,542	-2,673	-2,590	-2,638	-12,810

Note: Indicated prices applied from 2025-26 onwards. Prices are: \$US72/t is the long-run average; \$US92.36/t is in line with the average iron ore spot price (in real terms) since 2000-01; and \$US104.1/t is the 2025-26 YTD price.

Source: WA DTF analysis, consistent with Western Australia's 2025 *Mid-year review*.

Impacts on States' GST distribution

Adding a 25% mining revenue discount to the reforms would have a manageable impact on State finances. As shown in Table 5.5, a State would at most lose 3.9% of their GST grant from a GST discount in 2025-26 and over the forward estimates, and for most States the impact is even more modest.

Table 5.5

Forecast Post-Reform GST, with and without a 25% Mining Discount
2026-27 to 2028-29, \$ billions

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
No discount	82.5	82.6	58.6	29.5	29.4	12.3	16.4	6.4
25% discount	82.1	79.5	62.9	29.5	28.9	12.2	16.5	6.2
Change	-0.5%	-3.9%	+7.3%	+0.2%	-1.6%	-1.2%	+0.6%	-3.6%

Source: WA DTF analysis, consistent with Western Australia's 2025 *Mid-year review*.

The impact of a 25% discount is negligible for Western Australia. The benefit is concentrated in Queensland, the other major mining State. Despite this, Western Australia strongly advocates for a discount to ensure that the GST system better reflects reality. Such an important feature of our Federation should not have this critical flaw at its core.

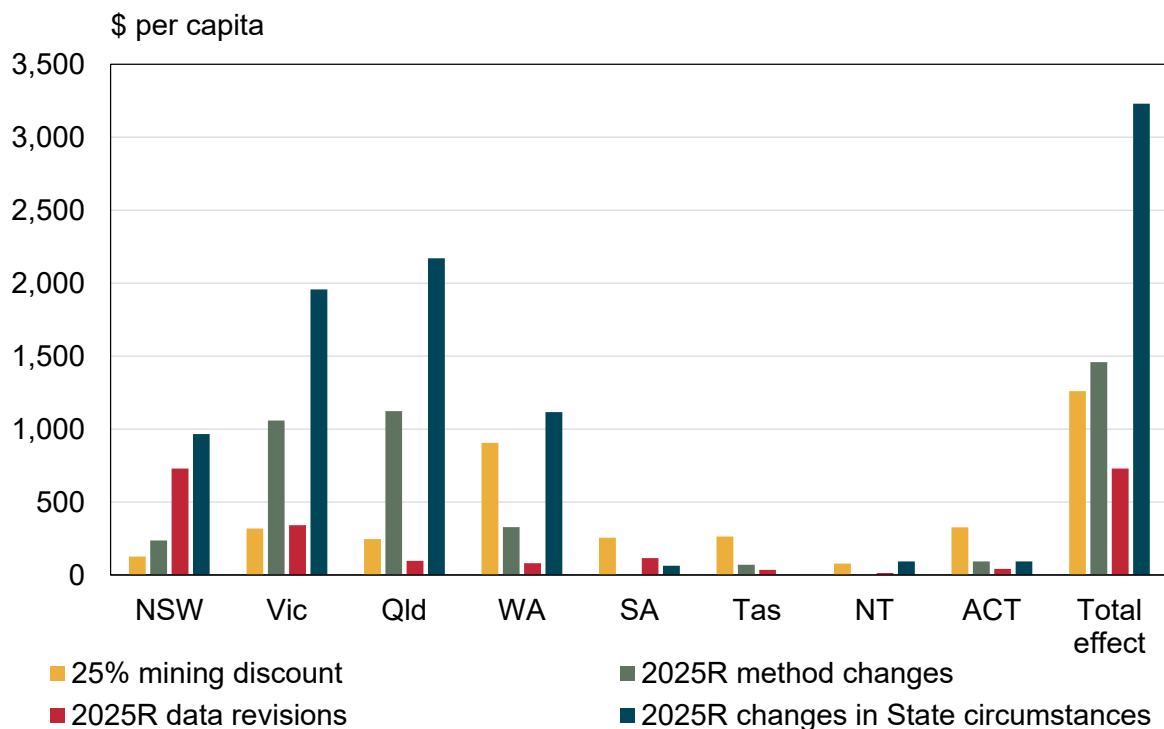
Alternative arrangement: Adding a mining discount

The impact of a mining discount is comparable to, or smaller than, variations States already manage, in particular changes to CGC methods and State circumstances. This is evident in Chart 5.1, which compares the pre-reform GST impact of a 25% mining discount (in yellow) with the impact of the CGC's 2025 Methodology Review. The overall impact of the mining discount is comparable to method changes from that review and dwarfed by the change in State circumstances (which States have to manage every year).

Chart 5.1

Absolute GST Impact of 25% Mining Discount vs CGC 2025 Review

2025-26



Note: Does not include the impact of the GST reforms.

Source: CGC 2025 Review, mining discount uses WA DTF analysis, consistent with Western Australia's 2025 Mid-year review. Total effect is the sum of all States' absolute impact, divided by 2.

However, restricting the analysis to just the next few years provides an incomplete picture of a mining discount. To get a better sense of the long-term impacts, Table 5.6 compares the total GST grants to States from 2000-01 to 2025-26 if the reforms were applied since the inception of GST, against if the reforms and a 25% mining discount were applied. That impact is modest, at most changing GST grants by 3.3% over 26 years. The impact on most States is well below 1% of their total GST grant.

Table 5.6

**Total Nominal GST Grants
with Retroactive Application of the Reforms and 25% Mining Discount**
2000-01 to 2025-26, \$ billions

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT
With reforms, No discount	394.8	320.1	282.4	129.9	129.8	53.2	68.1	27.0
With reforms, 25% discount	393.9	312.0	291.8	130.7	129.1	52.9	68.7	26.4
<i>Change</i>	-0.9 -0.2%	-8.2 -2.6%	9.3 3.3%	0.8 0.6%	-0.7 -0.5%	-0.3 -0.7%	0.6 0.8%	-0.5 -2.0%

Note: Found by fully applying the 0.75 floor and equalising to the Standard State, with a 25% mining discount to States' historic GST relativities. Uses three-year averaging throughout.

Source: WA DTF analysis, based on CGC data.

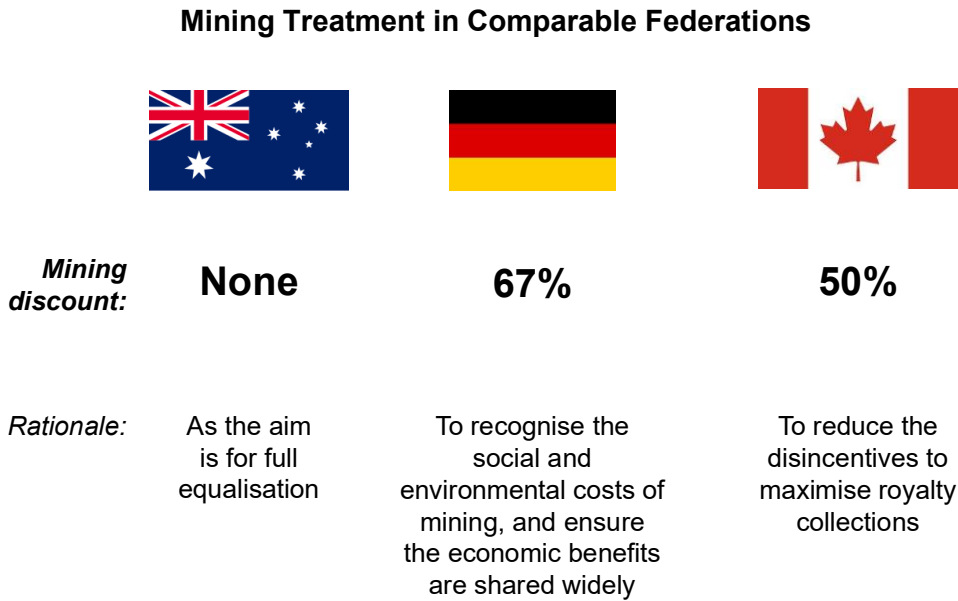
But even these modest changes are misleading as they compare a 25% mining discount to an underlying system that has no mechanism to address policy consistency and neutrality concerns in the Mining assessment. A mining discount should not be considered an aberration that moves the GST system away from its ideal form, but instead as correcting a long overdue fundamental flaw.

Aligning Australia with other OECD countries

Discounting all mining revenues by 25% would better align Australia with our OECD peers. Figure 5.1 shows Germany and Canada explicitly discount mining royalties from their HFE systems, at 67% and 50% (at minimum) respectively. Germany applies a discount to recognise that environmental and social costs are borne by the local community, and Canada aims to reduce the disincentives to maximise royalty collections.¹²⁸ These reasons are equally valid in Australia. Canada's system of HFE is particularly relevant given how similar our Federations are. More detail on how mining royalties are treated in Canada is in the box below.

¹²⁸ Commonwealth Grants Commission, *Research paper #3 - International themes in fiscal equalisation: an Australian perspective*.

Figure 5.1



Source: CGC, *Research paper #3 - International themes in fiscal equalisation: an Australian perspective*.

Mining royalties under Canadian HFE

Australia and Canada are very similar federations – both are industrialised middle powers with vast geographic distances that benefit from localised decision making enabled by their Federal systems. In addition, fiscal strength is similarly distributed across their States (or Provinces). Both have strong mining States, stable populous States, and poor, remote Territories.

Despite these similarities, Canada's system of fiscal equalisation differs from Australia's significantly. Canadian provinces receive equalisation payments from the national government but only if they are below the average fiscal capacity of all provinces. Provinces with above-average fiscal capacities do not receive equalisation payments. Unlike in Australia, expenses are not included in this assessment. Critically, revenue from natural resources are only partially included in Canada.

Like Australia, Canada has grappled with the treatment of natural resource revenues. The current system was developed as a response to a 2006 report by an Expert Panel on Equalization and Territorial Formula Financing. The panel found that fully discounting mineral revenues would not 'meet the fairness test for all Canadians'. But they also found that full equalisation was not justified as:

- Provinces are the constitutional owners of their resources;
- Provinces have significant control over resource development, and appropriate incentives need to be in place; and
- there are public costs associated with natural resources.

The panel found a 50% discount to natural resource revenues was found to be an appropriate compromise.¹²⁹

Mining Provinces in Canada see far less disincentives for developing their mineral bases or changing royalty rate policy than in Australia. The Canadian mining Provinces of Alberta and Saskatchewan, and until a recent downturn in oil prices, Newfoundland and Labrador, see no lost revenue from policy changes.¹³⁰

Canada's system of partial equalisation shows that the default preconception in Australia that mining royalties should be fully equalised is extreme, as all the arguments for discounting mining royalties made by the expert panel also apply in Australia.

¹²⁹ Expert Panel on Equalization and Territorial Formula Financing, *Achieving a National Purpose: Putting Equalization Back on Track*, May 2006.

¹³⁰ Édison Roy-César, *Canada's Equalization Formula*, Canadian Library of Parliament Research Publications, November 2008. Revised September 2024 by Michaël Lambert-Racine and Édison Roy-César.

A modest discount of 25% to mining would address flaws in the system but would still be less ambitious than in Canada (and far less ambitious than the 67% in Germany). Adopting a 50% discount would increase Western Australia's pre-reform GST grant by \$5.6 billion in 2025-26, compared to a \$2.8 million increase from a 25% discount.

Discounting mining has wide, long-standing support

In submissions to the 2018 Productivity Commission inquiry into HFE, key members of Australian industry supported a mining discount, typically at 25%, including:

- BHP;
- the Chamber of Commerce and Industry of Western Australia;
- the Chamber of Minerals and Energy of Western Australia;
- the Mineral Council of Australia; and
- Rio Tinto.

When recommending a discount, these groups cited the perverse incentives facing States for developing their mining industries, induced by GST. As BHP explained in their submission:¹³¹

The system's treatment of resources revenue, however, is problematic for the economy in that it dulls the incentives for States to stimulate development of their resource endowment. Over time, this is likely to result in less investment in the resources sector than would otherwise be the case. This translates to lost opportunity for jobs (including flow on opportunities for other businesses that support the resources sector), less activity in regional communities and, in turn, a less productive, efficient and robust national economy.

The Western Australian Government advocates that the opinion of these firms should be taken seriously, as they have the keenest interest in State mining policies, having experienced them on the ground over decades. Their strong support demonstrates that a discount is not a just fiscal concern for States, but will have a material impact on Australia's mining operations, and thus the economic wellbeing of the nation.

Conversely, incentives for resource sector development will grow the national economy. This results in increased royalties, shared with all States via the GST system, and increased revenue collections by the Commonwealth.

¹³¹ BHP Billiton, *Initial submission to the 2018 Productivity Commission inquiry into HFE*, page 1.



Appendix A – PC Information Requests

Answers to the Information requests from the PC's GST distribution reforms, Issues paper.

Information request 1

Further detail to the PC's questions for Information request 1 can be found in *Chapter 4: Fiscal sustainability* of this Submission.

How have the 2018 legislative changes impacted the fiscal positions of States and Territories?

As the NWOG is in place, no State has been negatively impacted by the 2018 GST Reforms.

Have other Commonwealth payments to States and Territories been affected?

It is difficult to quantify given there is no one clear specific list that transparently identifies all Commonwealth payments to individual States and Territories, but there is evidence in recent years that Western Australia has received less than its population share of other Commonwealth payments (e.g. infrastructure funding), which could reflect an assumption our State already benefits enough from the GST Reforms.

Has Commonwealth, State, or Territory revenue, service and infrastructure provision been supported or impeded by the changes?

No States have been negatively impacted by the changes due to the NWOG. In fact, States have been better off due to higher than expected iron ore prices and royalties that have been redistributed through the GST, with the full benefit underwritten by the NWOG. The Commonwealth has funded the reforms, but has benefitted from additional tax collections from iron ore companies due to high iron ore prices.

What would happen to Commonwealth, State and Territory revenue, services and infrastructure if the no worse off guarantee ceased?

It is unlikely that the cessation of the NWOG in 2029-30 would have a significant impact on State GST payments as Western Australia, the Commonwealth, and most industry forecasters anticipate a substantial reduction in iron ore prices, and according to our modelling, if the iron ore price drops to \$US78.82/tonne then no NWOG would be required.

Furthermore, the NWOG has been much smaller than the magnitude of changes in CGC method reviews.

Should other Commonwealth payments to the States, such as specific purpose payments and other general revenue assistance, be included in the Commonwealth Grants Commission's assessments?

Payments that support State service delivery should be included in CGC assessments.

Should some of these payments be excluded? If so, which payments should be excluded and why?

Many payments are excluded from CGC assessments as they are payments to provide services that are the Commonwealth's responsibility, and as such should not impact State fiscal capacity. These exclusions are done through the CGC methods and we consider them appropriate. Some exclusions made by the Commonwealth Treasurer, in the CGC update terms of reference, are not necessary as those payments support State service delivery and would affect State fiscal capacity.

When the States ask for a payment to be excluded, what criteria do they use to determine if an exemption should be sought?

There are no criteria used to determine if an exemption should be sought from the Commonwealth Treasurer.

Is additional guidance needed on which Commonwealth payments should be excluded?

Yes, it is not clear why certain payments are excluded by the Commonwealth Treasurer, as an explanation is rarely provided.

If additional guidance is required, what form should it take?

A set of guidelines should be developed through the Council on Federal Financial Relations. These guidelines should outline which payments are appropriate to exclude, and introduce a requirement to explain why an exclusion was granted within the CGC update terms of reference.

Information request 2

Further detail to the PC's questions for Information request 2 can be found in *Chapter 1: Reasonable level of HFE* of this Submission.

Have the GST distribution arrangements since the 2018 legislative changes delivered a reasonable level of horizontal fiscal equalisation?

Yes, the 2018 GST Reforms better balance the objectives of equity and incentivising productivity. The equalisation benchmark, to the stronger of New South Wales' or Victoria's fiscal capacity, is more generous to recipient States than equalising to the average fiscal capacity of the States, as proposed by the PC in their 2018 review.

How do you define a reasonable level of horizontal fiscal equalisation?

A reasonable level of HFE is one that:

- limits how much can be taken off any one State, given that HFE is actually unquantifiable, so should only ever be seen as an initial guide to GST grant shares;
- strikes the right balance between equity and incentivising productivity; and
- does not make any State a low relativity outlier.

This is necessary to retain community confidence in the GST distribution.

Should the PC look to international approaches to determine what reasonable fiscal equalisation is in Australia, and why?

Yes, it is notable that comparable federations including Canada and Germany seek to achieve partial rather than full equalisation, with the latter being unrealistic. These approaches are relevant (although not the sole guide) to determining reasonable HFE. This is because:

- it is the only way to get a broader perspective than just Australian experience; and
- it shows federations can achieve community confidence in equalisation without the comprehensive HFE approach that has been applied in Australia.

The relevance of comparable federations can be judged on whether or not the reasons for their HFE decisions are applicable in Australia.

Information request 3

Further detail to the PC's questions for Information request 3 can be found in *Chapter 2: Responsiveness and volatility* of this Submission.

Do the 2018 GST distribution reforms strike the right balance between responding to changing circumstances and providing certainty around revenue?

The reforms strike an appropriate balance. They are targeted only to periods of heightened economic volatility. The reforms curb variability when it is most needed, compensating for the difficulty in fixing the underlying GST system.

What changing economic and social circumstances are of most concern to States and Territories?

Western Australia is most concerned about potential future moderations in commodity prices. A gradual deflation in the iron ore industry poses a significant challenge to the State, but even more concerning would be a sharp fall brought about by Chinese policy or global uncertainty. The Western Australian Government is overcoming this challenge with significant investments in diversifying our economy.

Do the GST distribution reforms support States to manage the fiscal impact of shocks such as natural disasters or economic disruptions?

The treatment of most modest shocks, such as natural disasters, are minimally affected by the 2018 GST Reforms.

The reforms target major economic shocks that the underlying GST system has been ill equipped to handle. The reforms supported Western Australia through the unprecedented mining boom in the 2010s. This period saw Western Australia's relativity fall to 30% and would have fallen to below 10% if not for the reforms. Due to the delay in the underlying GST system, the decline in our GST share exacerbated our falling mining royalties.

Have changing economic and social circumstances affected revenues, and the provision of State services and infrastructure?

All States are facing an aging population (driving demand for health and aged care services), net zero commitments (increasing demands for energy rebates and infrastructure costs), and global uncertainty. With the latter of these two particularly having an impact in Western Australia given the energy needs of our resources industry, the requirement to deliver energy across a large geographical area, plus Western Australia's increased reliance (relative to other States) on royalty revenue versus taxation revenue.

Has the impact of these changing economic and social circumstances been more or less significant than the changes in GST distribution on the States' finances?

Without the reforms, changes in GST distributions were often very significant. After the reforms, GST distributions pose less uncertainty to the budget than other revenues and expenses.

Have the GST distribution reforms decreased or increased the volatility of State finances?

The 2018 GST Reforms have unequivocally decreased volatility in States' finances.

Can volatility in the States' GST shares be reduced, and if so how?

A mining discount can be introduced as mining revenues are the most volatile assessment. Thanks to the reforms, variability in iron ore prices are insulated from the GST system during periods of extreme volatility. However, more can be done to directly address the most volatile assessment, which would also reduce volatility outside of outlier periods and for other States.

How do the States manage volatility in their finances?

It is difficult for States to manage volatility, especially if deficits are larger than expected. States' expenses are primarily demand driven or planned significantly in advance. Therefore, it is hard for States to curb spending quickly. Making rapid changes to taxes and royalties is also challenging, as it dramatically increases sovereign risk for residents and businesses.

Larger than expected deficits pose real and asymmetric costs on States. There is the direct cost of a greater interest expense, but also the indirect costs of seeming to poorly manage the States' finances, which can decrease confidence in the State.

Importantly, given the introduction of the reforms have reduced volatility in GST revenue they have assisted in State financial management.

Are there other sources of volatility in State finances?

Mining royalties are the largest source of volatility in Western Australia's Budget.

Other sources include taxes, particularly on property. These also tend to follow the iron ore price cycle.

Have the GST distribution reforms impacted the ability of the States to undertake fiscal planning?

The reforms have improved the capacity for our State to plan our finances.

Lower volatility in GST revenues means we expect other States have less uncertainty in their fiscal planning process.

Information request 4

Further detail to the PC's questions for Information request 4 can be found in *Chapter 3: Improved incentives* of this Submission.

Do the current GST distribution arrangements impede States and Territories pursuing service delivery or revenue raising reforms?

No, under the current system, the reforms assist to mitigate the disincentives in the pre-reform GST distribution system. Prior to the reforms, GST distribution arrangements definitely impeded States pursuing service delivery or revenue raising reforms.

What are the elements of the current arrangements that impede the pursuit of reforms?

This is discussed in *Chapter 3: Improved incentives* of this submission.

Should there be amendments to the current arrangements to remove impediments to reforms?

Yes. A 25% discount to mining royalties should be introduced in addition to the 2018 GST Reforms to encourage States to develop their resources and grow the national economy, while better accounting for the investments in economic and social infrastructure and services to facilitate that development..

Should there be amendments to the current arrangements to provide support for reforms?

Yes. As per the response to the previous question.

Have States and Territories pursued service delivery or revenue raising reforms since the 2018 GST distribution reforms?

This is discussed in *Chapter 3: Improved incentives* of this submission.

Information request 5

Further detail to the PC's questions for Information request 5 can be found in *Chapter 5: Alternative arrangement: Adding a mining discount* of this Submission.

Should alternative arrangements for GST distribution be adopted? What could alternative arrangements look like?

A 25% discount to mining royalties should be introduced in addition to the 2018 GST Reforms.

Would adopting a mining discount on top of the 2018 GST Reforms: Result in a reasonable level of horizontal fiscal equalisation?

In the long run, adding a mining discount to the reforms would have a modest impact on GST distributions, with no State expected to see a change greater than 3.3% of their GST grant. The level of equalisation will be more reasonable, as the lack of policy consistency in State's mining policies would be addressed and there would be a better balance between policy neutrality and equalisation in the Mining assessment.

Provide stability and certainty to State and Territory budgets?

A mining discount would improve the certainty of GST payments by reducing the influence of the most volatile component of GST.

Provide incentives to, or not impede, the pursuit of policy reforms that lead to higher prosperity and productivity?

A mining discount would directly improve policy incentives for the most policy-troubled assessment. It would meaningfully reduce the GST induced disincentive for royalty rate changes and industry development for all States.

Require additional funding from the Australian Government or other States? Could the proposal proceed without this additional funding?

A mining discount would not require additional Commonwealth funding and would have a modest impact on State GST distributions. In fact, it would likely reduce the cost of the NWOOG if it is continued.

Retain the independent basis for determining the fiscal needs of States?

The CGC's independent assessments would continue unaffected.

Result in significant changes in Commonwealth transfers to states, in total and individually? If so, what are the likely transitional implications of the change?

There would be only modest changes in the distributions of GST to States so transitional arrangements are not recommended. These changes are potentially less than the grant impacts from the CGC methodology reviews that States currently manage.

Present any implementation challenges or risks?

A mining discount would be easy to implement and transparent in its operations.

Appendix B – Perverse CGC methods

Western Australia's longstanding issues with the CGC's GST distribution methods

The following is a non-exhaustive list of CGC assessments and outcomes that highlight some examples of Western Australia's longstanding concerns with the methods that underpin the CGC's GST relativity calculations.

The 2018 GST Reforms provide protection to States from these perverse outcomes. It is essential that these reforms remain intact to prevent the seriously perverse incentives and outcomes generated by the underlying GST distribution system.

Tax mix

- The CGC assesses each State's revenue capacity for individual taxes, not its overall capacity to raise revenues.
- States could change their tax mix, without any change in total revenue, and receive a different GST grant.
 - At the extreme, even with the reforms in place, Western Australia's GST grant would increase by about \$4 billion per annum if it abandoned its iron ore royalty revenue and replaced with equivalent revenues through increased payroll tax rates. However, this would not be in the best interest of Western Australia nor the nation.

A State's effort to increase revenues

- Western Australia has poured billions of dollars into developing its mining industry, but this is not recognised by the CGC.
 - However, the CGC fully assesses the resultant increase in revenue, with Western Australia losing all but its population share of that increased revenue.
 - Western Australia directly invested an equivalent of over \$12 billion in 2024-25 terms into the North West Shelf gas project. This cost has never been acknowledged by the CGC.

- Western Australia effectively loses 88% of its iron ore royalties because it mines nearly all the nation's iron ore. These royalties are redistributed to other States by population, meaning that New South Wales, Victoria and Queensland effectively receive more of Western Australia's iron ore royalties than Western Australia does.
 - In contrast, Queensland (another mining State) only loses 50% of its coal royalties, because coal is distributed across more than one State. Coal is also mined in New South Wales, but New South Wales loses only 20% of its coal royalties on average.
- The CGC uses observed revenue bases, which do not reflect the same policies across States, which is not consistent with the HFE principle.
 - The exception is that the CGC currently assesses States' capacity to raise gambling revenue as proportional to State populations. As a result, they do not affect States' GST distributions, with these revenue sources effectively receiving a 100% discount.
 - Other States that rely heavily on revenue from poker machines are not penalised through the GST distribution system despite the social harm caused, because gambling revenue is effectively excluded from the CGC's calculations.

COVID-19

- The CGC assesses State health expenditure and business support on COVID-19 based on States' actual costs.
 - It considers this spending was driven by circumstances outside States' control.
 - However, clear variations in State policy choices led to significant differences in case numbers and lockdown lengths, and therefore, the amount of spending.
 - But the CGC compensates States for their poor policies that led to high costs through increased GST, paid for by States with policies that kept costs down.
 - Victoria is now a net recipient of the GST distribution system, mainly because of their handling of COVID-19.
 - It was WA's handling of COVID-19 that allowed the State's resources sector to continue operating throughout the pandemic, for the benefit of the entire nation.
 - Without the reforms, Western Australia would have received \$375 million less GST revenue, due to the inclusion of COVID-19 expenses. By contrast, Victoria gained \$870 million for its mismanagement.¹³²

¹³² Commonwealth Grants Commission (2025), *GST Relativities 2025-26*, page 26.

Remoteness

- Tasmania was allocated \$1,401 per capita for costs related to remoteness in 2025-26, whilst Western Australia was allocated only \$234 per capita, despite a land mass almost 37 times larger.
 - Even with only a fifth of the population of Western Australia, Tasmania receives \$809 million **in total** for remoteness compared to \$714 million for Western Australia.
 - Strahan is classified as remote, despite being only 300 kilometres from Hobart.
 - Broome is also classified as remote, but is over 2,000 kilometres from Perth.

Indigeneity

- Socio-economic adjustments for Indigenous Australians cannot adequately differentiate service use among Indigenous Australians.
- The definition for Indigeneity uses self-identification, which is growing in the Eastern States without a corresponding rise in public service use.

Health assessment

- The Health assessment attempts to adjust for the level of non-State activity in each State. Where there are fewer private practitioners available, public services will have to pick up the slack.
- However, the formula for this adjustment is wrong. It applies substitutability rates for public sector procedures to the private sector, when they are not related.
- If the amount of non-essential, private cosmetic procedures increased in Western Australia, the State would lose money, even though this has no bearing on public hospital pressures.

Environmental protection

- The CGC assess the cost to maintain national parks and reserves, and the cost to control and prevent erosion of coastal beaches, based on the State populations.
 - However, Federal environmental law prohibits people to live in national parks, which are therefore unpopulated. Despite this, the CGC assess the cost to maintain these areas based on State populations, irrespective of the land area covered by each State's national parks and reserves.
 - This means that a park area that may be much larger in a State like Western Australia will be assessed to cost less to maintain than a smaller park area in a State such as Victoria, simply because that State has a larger population.

- Our submission to the CGC 2025 Review argued that larger national parks have greater maintenance needs. Those needs extend beyond tourism to the maintenance of roads and bridges, critical for weed and pest control, fire control, and other national disaster mitigation. To better capture the cost of maintaining national parks and protecting wildlife, the CGC should assess these costs based on the land area of parks rather than the State's population. However, the CGC rejected our proposal.
- The current method also provides GST revenue to the Australian Capital Territory, for the Territory to protect its coastline despite being landlocked.
- Our submission to the CGC 2025 Review argued that the spending on erosion to the foreshores is also not correlated to population, but rather on the beach that needs to be maintained. We proposed the CGC should assess spending by the length of the beach in affected areas rather than the State's population. This proposal was also rejected by the CGC.

Water quality

- The CGC makes no assessment for water quality, despite recognising the conceptual case.
- Western Australia spends around \$100 million per annum more than the CGC assesses for water subsidies, implying that Western Australia provides a higher standard of water supply, rather than just providing drinkable water to its remote communities.¹³³

Complexity and incomprehensibility

- Many States provide confidential data that can change GST distributions by millions of dollars without proper scrutiny.
 - The CGC has been unreceptive to suggested solutions to this problem, such as publishing amalgamated State data.
- The increasing complexity of the CGC's methods is leading to more errors and misinterpretations, increasing uncertainty. Recent data revisions during the 2025 Review process have resulted in hundreds of millions of dollars in redistributions.
- The CGC makes many judgement decisions that are inscrutable to the public and elected officials. These decisions are often highly contested and can cost States millions of dollars, but receive no scrutiny.
 - The CGC did little to inform the public on its most contentious decisions in the 2025 Review, such as arbitrary levels of discounting, the revised coal assessment and unfettered inclusion of COVID-19.

¹³³ WA DTF analysis using data from the CGC 2025 Review.

Appendix C – CGC capital assessments

Estimating pre-2010 Review capital assessments

The following discussion explains (in broad terms) how the CGC's capital assessments work, and how we estimated these prior to the 2010 Review.

How the CGC's capital assessments work

For each of fixed assets and net financial worth (NFW), the CGC calculates an opening value and a closing value that each State would hold if it had national average policy.

- For NFW, these assessed values are simply each State's equal per capita share of the national opening¹³⁴ and closing NFW values (using respectively opening and closing population shares).
- For fixed assets, the equal per capita shares of national values¹³⁵ are also multiplied by drivers of per capita demand (e.g. proportion of population that is school-aged) and relative costs (e.g. construction costs).

The expenditures that the CGC assesses States as requiring at average policy are the differences between their assessed closing values and assessed opening values.

These assessed expenditures are then compared to national average per capita expenditures to give GST grant adjustments (what the CGC terms 'assessed differences').

For NFW, a State's GST grant adjustment simplifies to:

national opening NFW *times* (State's closing population share *minus* State's opening population share)

If the drivers in the fixed asset calculations were all one (i.e. no differences among States), then a State's fixed asset GST grant adjustment would similarly simplify to:

national opening fixed assets *times* (State's closing population share *minus* State's opening population share)

This is referred to as the *population dilution* part of the fixed asset assessment.

However, as the drivers are generally not all one, the actual GST grant adjustments for fixed assets are somewhat more complex. We can provide the formula if the PC desires, but it is not necessary for the following explanation of how we calculated historical foregone capital assessments.

¹³⁴ The national opening NFW is calculated as the national closing NFW minus national net lending during the year.

¹³⁵ The national opening fixed assets are calculated as the national closing fixed assets minus gross fixed capital formation during the year.

How we estimated the CGC's capital assessments for earlier years

The CGC's 2010 Review spreadsheets contained calculations for the six years 2003-04 to 2008-09, although the CGC only used the last three of those data years. Our calculation used these results for the five years ended 2007-08, but with the 2006-07 and 2007-08 results discounted to reflect that they were partially assessed in the 2010 Review onwards.¹³⁶

For years prior to 2003-04, we constructed a historical series of national fixed asset stock. The ABS has published this back to June 2009. We extended this series back further using ABS national accounts data on gross fixed capital formation and its implicit price deflator, and consumption of fixed capital, using the ABS perpetual inventory method.¹³⁷

We also constructed a historical series of national NFW by linking two ABS published series. These went back to June 1989. The national NFW was positive in all relevant years. We conservatively assumed that national NFW prior to June 1989 was zero.

With these historical series, we then made the following calculations.

- Population dilution assessment was simple to accurately calculate using ABS population data.
- For fixed assets, the difference between total grant adjustment and population dilution grant adjustment was calculated as follows.
 - For the years in which the CGC has done comprehensive capital assessments (from the 2010 Review to the 2024 Update), the population dilution grant adjustment was subtracted from the total grant adjustment.¹³⁸
 - These differences were divided by Western Australia's population share of the national opening fixed asset stock.
 - These proportions were averaged across all years.
 - The average proportion was applied to Western Australia's population share of the national opening fixed asset stock prior to 2003-04.
- Prior to the 2004 Review, the CGC did not redistribute capital grants, but would have if it were doing a comprehensive capital assessment, so we calculated the redistribution of capital grants for each year prior to the 2004 Review.
 - This partially offset the above calculations.
- The limited debt charges assessments, that the CGC had actually made historically, were subtracted.

¹³⁶ The 2006-07 data year counted as one third of the 2010 Review three-year average and the 2007-08 data year counted as one third of each of the 2010 Review and 2011 Update.

¹³⁷ [Sources and methods - Annual | Australian Bureau of Statistics.](#)

¹³⁸ The CGC had commenced a depreciation assessment in the 1999 Review, so we did this calculation using both total grant adjustments including depreciation and excluding depreciation, to respectively apply prior to the 1999 Review and from the 1999 Review onwards.