QUEENSLAND TREASURY

Productivity Commission Inquiry into GST distribution reforms

Queensland submission to the Issues Paper

March 2026

DELIVERING FOR QUEENSLAND

Queensland Government

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Executive Summary

The 2026 Productivity Commission (PC) Inquiry into GST distribution reforms represents a ***generational opportunity to restore fairness*** to Australia's system of Horizontal Fiscal Equalisation (HFE). Change must not wait until it is too late.

Australia needs a HFE system that truly gives all Australians a 'fair go'—that is, the objective of HFE should be to enable all states and territories (collectively 'states') to have the fiscal capacity to deliver broadly ***comparable levels of services*** to their populations, regardless of where they live.

Since 2018, however, this reasonable level of ***HFE has been eroded significantly by the Australian Government's 2018 GST distribution reforms***, due to the arbitrary design of the new benchmark of equalisation to the 'standard state' as well as the GST relativity floor.

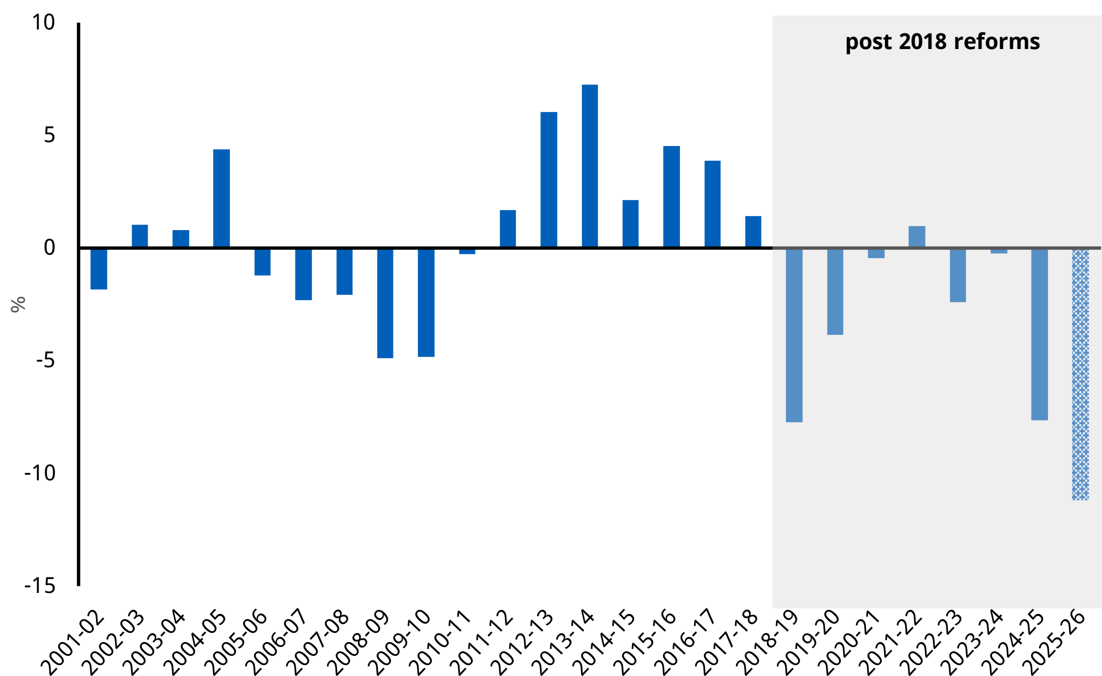
Between 2021-22 and 2024-25, the 2018 reforms caused ***$17.5 billion to be diverted away from addressing national issues***—such as health, aged care, disability, education, housing and transport.

By 2028-29, the Australian Government forecasts[1] the cumulative cost of the No Worse Off Guarantee (NoWO) will reach ***$37 billion*** while the cost of the GST pool top-ups will reach ***$7.5 billion***. When a total of ***$44.5 billion*** is to be diverted from addressing pertinent national issues, it is clear the 2018 reforms are not conducive to the national interest or fiscally sustainable for states, especially if the NoWO were to cease.

The ineffectiveness of the 2018 reforms in shielding states from excessive GST volatility (apart from Western Australia) is evident in how decreases in Queensland's GST share have become ***more frequent*** and ***more severe*** since 2018, than at any other point going back to the introduction of GST.

Before 2018, Queensland's relativity decreased in ***7 out of 17 years***, with an average decline of 2.5%. Since 2018, Queensland's relativities have decreased in ***7 out of 8 years***, with an average decline of 4.8%.

Annual change in Queensland's GST relativities



Source: Commonwealth Grants Commission

[1] Australian Government's 2025-26 Budget

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No other jurisdiction has experienced a greater number of declines in its relativity since the 2018 reforms were arbitrarily legislated by the Australian Government.

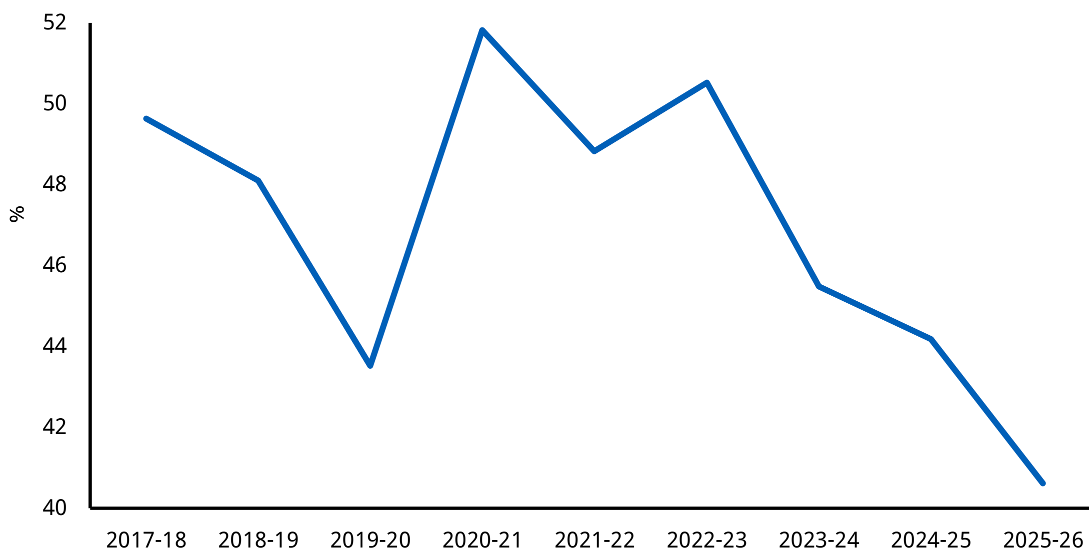
In 2025-26, the 2018 reforms were equivalent to applying around a 50% mining discount solely to Western Australia. If the Australian Government had introduced an appropriate mining discount in 2018 instead of the arbitrary GST legislation, it would have ***addressed the issue of GST volatility in a systematic way*** for all resource-reliant states, not just Western Australia.

More broadly, total Commonwealth funding (GST plus Commonwealth grants and other contributions) to Queensland has ***not*** kept up with Queensland's underlying expenditure needs.

As Australia's most ***decentralised*** mainland state, Queensland faces unique challenges in delivering equitable access to essential services across its vast geographic expanse and regional population centres. The higher costs of service delivery in rural and regional areas demand additional investment, yet these needs remain ***inadequately*** addressed under the current system.

When the 2018 reforms were being designed by the Australian Government, the ***total*** Commonwealth contribution to Queensland's expenses was 49.6%. This contribution rate fell significantly to 45.5% in 2023-24 and 44.2% in 2024-25, before dropping to 40.6% in 2025-26. This means the Australian Government contributes almost 18% ***less*** towards meeting Queenslanders' needs in 2025-26 than it did in 2017-18.

Commonwealth funding as a portion of Queensland's expenses

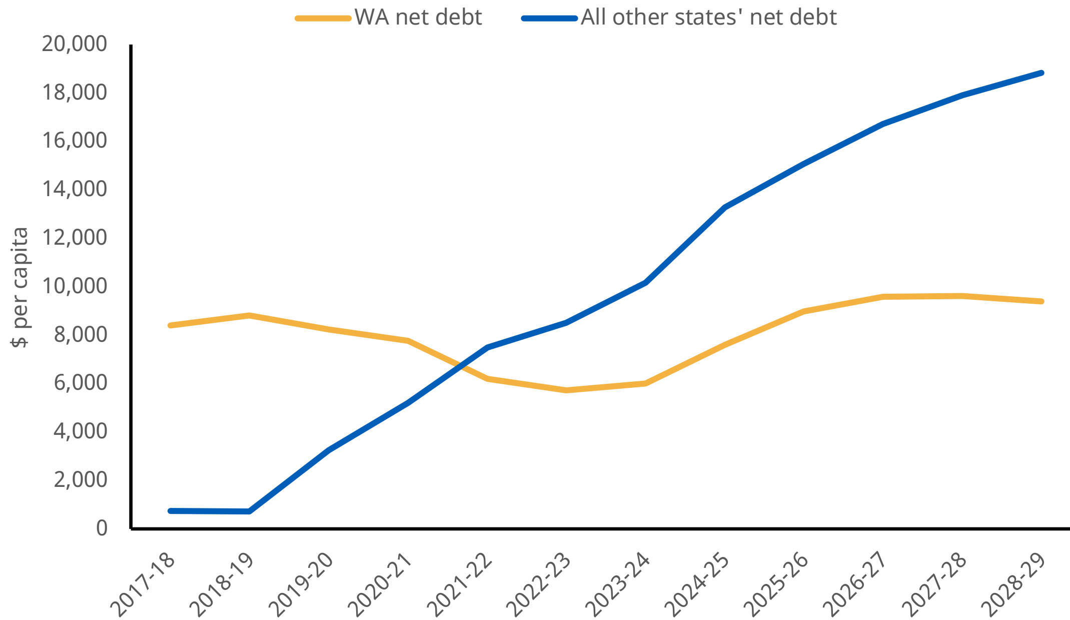


Source: 2025-26 Queensland Mid-Year Fiscal and Economic Review and Queensland Report on State Finances; Parliamentary Budget Office 2025-26 National Fiscal Outlook

Without changes to the GST system that more appropriately support a reasonable level of HFE or offsetting HFE arrangements in other Commonwealth payments funding essential services and infrastructure, risks to the financial sustainability of state and territory governments will continue to increase, with potential ***flow-on impacts*** to intergenerational equity and economic efficiency.

While Western Australia's net debt per capita has largely stabilised following the 2018 reforms, fiscal pressures are expected to continually put upward pressure on all other states' net debt.

Net debt per capita, WA vs all other states

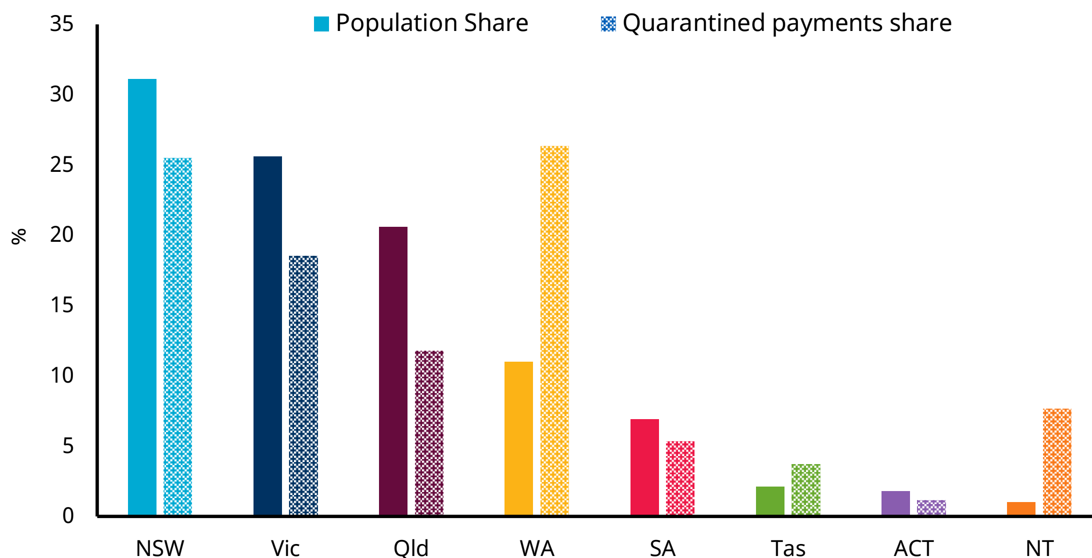


Source: State 2024-25 financial statements and 2025-26 mid-year reviews; Parliamentary Budget Office 2025-26 National Fiscal Outlook

Another key issue with the current GST distribution system is the level of discretion with which the Australian Treasurer has to 'quarantine' Commonwealth payments from impacting states' GST shares. This function is exercised at the Australian Treasurer's discretion without clear oversight or principled constraints, resulting in a process that is opaque and often inconsistent. For example, ***nationally significant*** infrastructure like the Bruce Highway and transport investment for the Brisbane 2032 Olympic and Paralympic Games (Brisbane 2032) have not been fully quarantined from GST impacts, while other types of infrastructure have been.

This has resulted in Queensland receiving far less than its population share of quarantined payments. As a proportion of population, Queensland has received less than any other state over the past decade.

Quarantined payments by state, percentage shares



Source: Commonwealth Grants Commission supporting data spreadsheets, MYEFO 2025-26.

Queensland is the only jurisdiction across the nation which will incur the cost of delivering the nationally significant 2032 Olympic and Paralympic Games supporting infrastructure. In recognition of this fact, the Australian Government should quarantine any relevant payments from GST impacts over the coming decade.

The 2018 PC Inquiry into HFE recognised the need for quarantining guidelines that should '*seek a balance between enhancing accountability and transparency, while not unduly affecting the ability of the Commonwealth Treasurer to quarantine payments in exceptional circumstances, where quarantining is in the national interest.*' However, this recommendation and other key recommendations from the 2018 Inquiry remain ***unaddressed***.

Aspects of the current GST distribution system that ***impede states and territories from pursuing economic reforms in the national interest*** remain firmly embedded, especially in terms of how the CGC's mining assessment disregards policy neutrality and rewards states for banning resource development.

States, like Queensland, should not bear an excessive fiscal burden through GST redistribution when they contribute the most to Australia's gas supply, for instance, while already bearing significant environmental, administrative, financial and other costs associated with resource development.

The erosion of HFE since 2018 has been ***significantly exacerbated*** by methodological decisions made during the CGC's 2025 Review, which disproportionately disadvantaged Queensland at an unprecedented level. Apart from the issues with the mining assessment covered above, the CGC's methods have also resulted in perverse ***regionality*** outcomes whereby the CGC considers the cost to Queensland Government to deliver services to Mackay (968 km from Brisbane) equivalent to the cost to the Victorian Government to deliver services in Ballarat (113 km from Melbourne). By regularly underestimating the higher costs of service delivery in Queensland's regional and remote communities, the CGC understates Queensland's GST need.

A further example of the CGC assessments not reflecting differences in state needs is in the approach applied to assessing the need for transport services, particularly ferries. The CGC assesses Melbourne as having twice the level of ferry need as Brisbane, despite data showing that negligible ferry passenger kilometres travelled in Melbourne while Brisbane has 29 million passenger kilometres each year.[2]

There are ***simpler, better GST arrangements*** that should replace the 2018 reforms, namely:

- ***a discount to the CGC's mining assessment***—the single largest source of excessive GST volatility—to address the core problem intended to be solved by the 2018 reforms in a systematic way, help achieve a more reasonable level of HFE, improve administrative efficiency and reduce the perverse GST disincentive states face in developing resources to support national fuel security and economic growth, as Queensland has been exploring
- ***discount/quarantine key Commonwealth payments from GST impacts***—especially where they are for purposes of national significance, such as fixing the Bruce Highway—to ensure the GST distribution process does not unwind state disadvantage, as well as incentives for innovative practices or reforms recognised through these payments. Brisbane 2032 venues have been fully quarantined. Games-enabling transport investments need to be quarantined too.

Implementing these two measures—discounting the mining revenue assessment and quarantining key Commonwealth payments from GST impacts—would make the GST distribution system structurally more ***effective, fair, and less complex*** for achieving HFE and alleviate the need for the 2018 reforms.

The cost savings to the Australian Government from unwinding the 2018 reforms and replacing them with Queensland's proposed alternatives, could be deployed more productively in other parts of the national economy. Doing so would also go a long way to ***restoring fairness*** in Australia's GST distribution system and better align the system with the ***original purpose and intent*** of HFE.

[2] Bureau of Infrastructure and Transport Research Economics 2023. Australian Infrastructure and Transport Statistics: Yearbook 2025.

Should the Australian Government choose to retain the 2018 reforms despite its flaws, cost overruns and unintended consequences, Queensland's proposed mining discount and quarantining of key Commonwealth payments remain beneficial reforms to add to the GST system. However, where any aspect of the 2018 reforms remains, ***the NoWO safeguard must be maintained and made permanent***.

Introduction

On 24 September 2025, the Productivity Commission (PC) was directed by the Australian Government to undertake an inquiry into the 2018 Goods and Services Tax (GST) distribution reforms.

The PC's Issues Paper, issued on 21 November 2025, outlined focus areas for the inquiry and sought submissions on the extent to which the current GST distribution arrangements:

- are fiscally sustainable to the Commonwealth, states and territories
- deliver a reasonable level of horizontal fiscal equalisation (HFE)
- appropriately balance responsiveness with reducing volatility in GST revenues
- impact states pursuing reforms for service delivery and revenue bases.

The PC is also considering whether alternative arrangements could better achieve these outcomes.

Queensland has prepared a detailed submission responding to the almost 40 questions contained across the five information requests within the PC's Issues Paper. While most of the questions have been answered sequentially, certain dependencies mean that a few questions have been responded to as part of a group of similar questions.

As noted by the PC in its Issues Paper, HFE has been the basis of distributing general revenue assistance (GRA)—and now the GST—since establishment of the Commonwealth Grants Commission (CGC) in 1933. For decades, achieving a reasonable level of HFE has meant ensuring that all states have the fiscal capacity to deliver broadly ***comparable levels and standards of services*** to their populations.

This reasonable level of HFE has been eroded significantly by the Australian Government's 2018 GST distribution reforms, due to the introduction of equalisation to the 'standard state' and the GST relativity floor. The 2018 reforms have caused billions of dollars to be redirected, each year, away from addressing national issues—such as health, disability, education, housing and transport—only to make ***the fiscally strongest state in the nation even stronger***.

Without any offsetting HFE arrangements in other Commonwealth payments, other states and territories (collectively, 'states') have not received the necessary Commonwealth support to meet the growing needs of each state and the cost of delivering essential services to their populations.

Net debt has risen significantly for those states since the 2018 reforms came into effect in 2021-22, ***negatively impacting intergenerational equity***. In contrast, Western Australia's credit rating was upgraded to AAA in 2021-22 specifically due to the 2018 reforms and the Commonwealth remains the only other jurisdiction with a AAA rating. The 2018 reforms have ***not been fiscally sustainable*** for jurisdictions, apart from Western Australia and the Commonwealth.

There are also certain longstanding issues with the broader GST distribution system that remain ***unaddressed*** by the 2018 reforms, despite being flagged in the 2018 PC Inquiry into HFE. Key issues include the level of discretion by decision-makers on what Commonwealth payments should be redistributed through the GST system and what supporting HFE principles should be upheld in the assessment of states' GST needs.

Discretionary decision-making can produce questionable GST outcomes and ***disincentivises*** states from pursuing ***beneficial economic reforms*** in the ***national interest***. For the broader GST distribution system to deliver a reasonable level of HFE, it needs a more robust set of supporting HFE principles that are applied consistently and transparently.

Given key drivers of the Australian Government's 2018 GST distribution reforms were to maintain and improve HFE and reduce GST volatility, it is unfortunate that the 2018 reforms have not shielded states and territories (apart from Western Australia) from GST volatility related to exogenous economic shocks and discretionary decisions made by the CGC in its 2025 Methodology Review. With GST volatility increasing for states since the

implementation of the 2018 reforms, it is clear the reforms ***do not strike the right balance between responsiveness and reducing GST volatility***.

A more appropriate and effective way to improve HFE and reduce GST volatility would have been to adjust assessment methods within the system, rather than by introducing simplistic and arbitrary 'band-aids' in the form of the equalisation benchmark and GST relativity floor. If reforms had been made within certain GST assessments to mitigate excessive GST impacts, GST volatility for states would have been significantly reduced, offering ***greater revenue stability and predictability***.

All aspects of the 2018 reforms have played a critical role in producing the GST distribution outcomes seen today. Furthermore, the full impact of the reforms will not be felt until the transitional arrangements end, from 2026-27 onwards. In this context, ***it is important that all aspects of the reforms are considered together*** and that certain aspects are not allowed to expire while others continue, especially as the risks around GST impacts remains uncertain. The No Worse Off (NoWO) safeguard was initially conceived as a transition measure that would not need to be called upon. However, evidence shows that the NoWO remains essential to allow states to continue to deliver services to a comparable standard across Australia. For this reason, the NoWO safeguard must continue if any other aspects of the 2018 reforms are retained.

However, the net negative impact the 2018 reforms have had on achieving a reasonable level HFE mean it would be more beneficial to ***economic efficiency, intergenerational equity and transparency*** for the 2018 reforms to be unwound and replaced with appropriates reforms within the GST distribution system, e.g. adjustments to assessments for mining and Commonwealth payments. The ***2018 reforms should not be mixed or replaced with overly simplistic alternatives***, such as an equal-per-capita (EPC) distribution of GST or pursuing HFE solely through Commonwealth payments for specific purposes. EPC approaches would entrench fiscal disparities between states. As put unambiguously by the PC in its 2018 Inquiry report, an "***EPC approach is inimical to the fundamental fiscal equality objective of HFE***".

The 2026 PC Inquiry into GST distribution reforms represents a critical opportunity to establish robust frameworks for HFE decisions and potential reforms to Australia's fiscal federalism. Queensland urges the PC to critically evaluate the impacts of the 2018 reforms and broader, fundamental aspects of the HFE system that are deeply interconnected with GST distribution decisions and outcomes. Only through a properly conducted review can the GST distribution system be made fairer and truly give all Australians a '***fair go***'.

Fiscal sustainability of the 2018 reforms

Information request 1

1. How have the 2018 legislative changes impacted the fiscal positions of states and territories?
    a. Have other Commonwealth payments to states and territories been affected?
    b. Has Commonwealth, state or territory revenue, service and infrastructure provision been supported or impeded by the changes?
    c. What would happen to Commonwealth, state and territory revenue, services and infrastructure if the no worse off guarantee ceased?
2. 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?
    a. Should some of these payments be excluded? If so, which payments should be excluded and why?
    b. When the states ask for a payment to be excluded, what criteria do they use to determine if an exemption should be sought?
3. Is additional guidance needed on which Commonwealth payments should be excluded?
    a. If additional guidance is required, what form should it take?

Overview

The fiscal sustainability of the 2018 GST distribution reforms needs to be considered carefully, not just in terms of how much the 2018 reforms ***have*** cost, but also in terms of how much they were ***intended to*** cost, based on the Australian Government's specific design, and the resulting quantum of funding that has been diverted away from national priorities in areas such as health, education, housing, infrastructure and public safety.

As noted in the PC's Issues Paper, the Australian Government expected that its GST pool top-up payments would suffice to ensure all states and territories would be at least as well off under the new GST distribution arrangements. At the time, the Australian Government considered the additional No Worse Off Guarantee (NoWO) safeguard within the reforms would not need to be called upon.

History has delivered a clear verdict on how flawed the Australian Government's expectations were. Between 2021-22 and 2024-25, GST pool top-ups totalled $2.9 billion. However, there were also $14.6 billion in NoWO payments to states and territories, meaning that the 2018 reforms cost the nation $17.5 billion over those four years, ***six times*** the cost initially anticipated. This cost reflects funds that instead could have been better targeted to meeting other national priorities as referenced above.

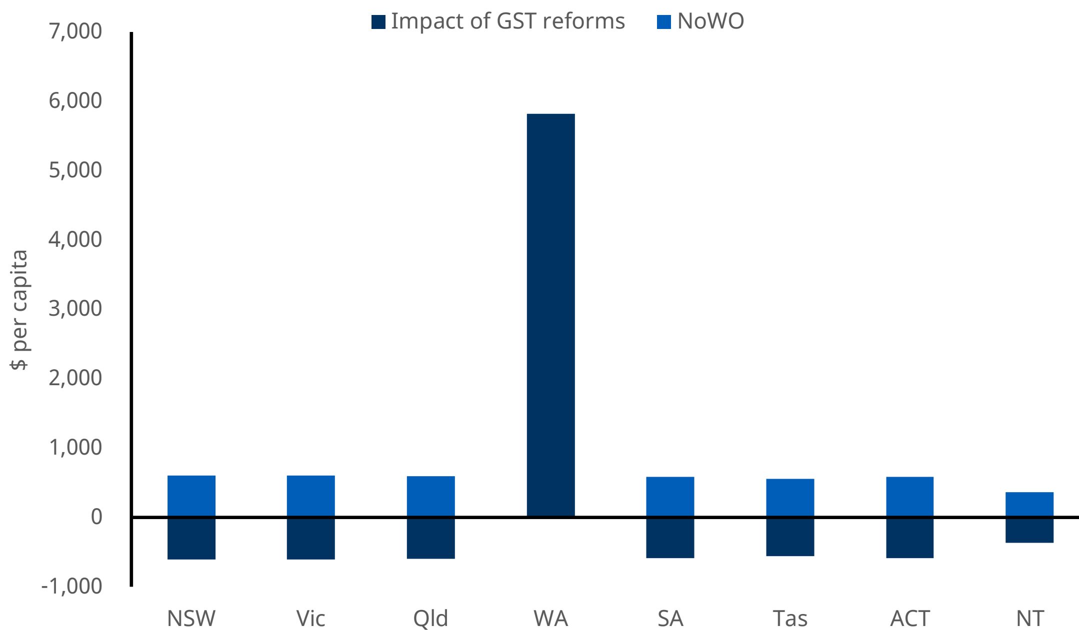
Further, due to the material Vertical Fiscal Imbalance (VFI) between the Commonwealth and states and territories, the fiscal sustainability of the current GST distribution needs to be considered ***holistically*** in the context of other Commonwealth payments—how they have evolved, how they have been treated in the Commonwealth Grants Commission's (CGC) GST assessments and the bases on which the Australian Treasurer has decided to quarantine selected payments from GST impacts. ***Significant reforms are needed*** if the interaction between GST payments and other Commonwealth payments are to be made fit for purpose.

How have the 2018 legislative changes impacted the fiscal positions of states and territories?

The 2018 legislative changes to the GST distribution system have ***significantly impacted*** the relative fiscal positions of states and territories across Australia, as all the additional funding contributed to the GST distribution system went to Western Australia, without offsetting HFE arrangements through other Commonwealth payments.

The additional $17.5 billion[3] in GST pool top-ups and NoWO payments between 2021-22 and 2024-25 effectively accrued to Western Australia, with ***zero*** net financial benefit to other states and territories within the GST system, compared to what those states and territories would have been entitled to under the previous GST arrangements. As noted, this also reflects funds that could have been used to deliver on national priorities.

Chart 1 – Impact of 2018 reforms, per capita, between 2021-22 and 2024-25



Source: Commonwealth Final Budget Outcomes from 2021-22 to 2024-25

Accordingly, GST revenue for Western Australia grew by 317% over the past decade, compared to the 75% growth in the national GST pool over the same period. The initial GST uplift to Western Australia from 2018-19 onwards involved initial HFE transition payments from the Australian Government, while the second, larger uplift is due to the benefit of the 2018 reforms to Western Australia.

Meanwhile, the 2018 reforms did ***not*** shield other states and territories from GST volatility, like it shielded Western Australia.

The growth of the GST revenue of other states and territories diverged strongly from the growth of the national GST pool, as the lagged impact of exogenous economic shocks and CGC methodology changes caused significant growth gaps especially in 2024-25 and 2025-26.

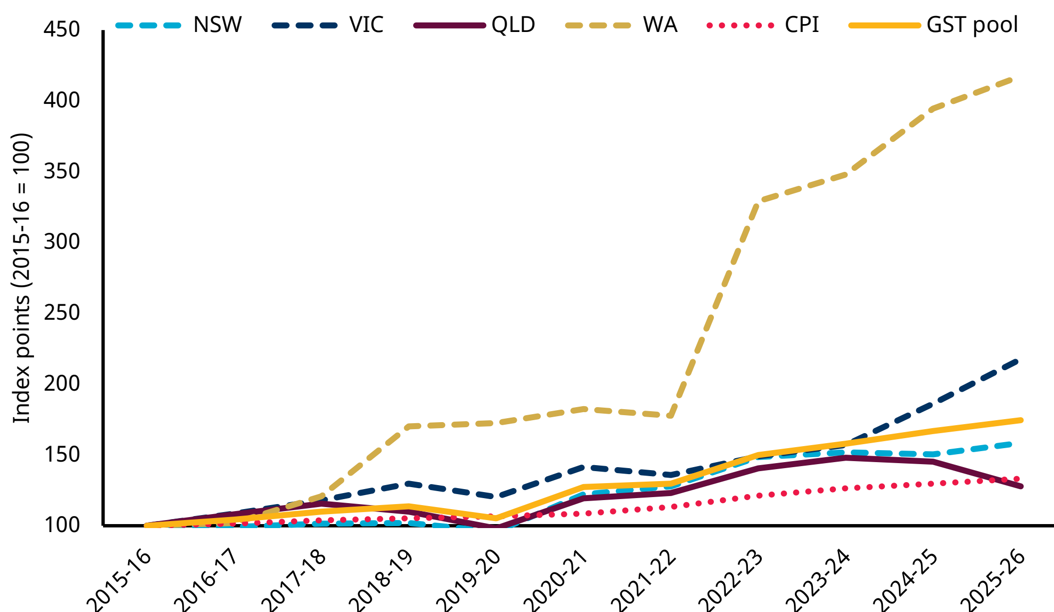
The net outcome saw Victoria's growth in GST revenue reach 118%—significantly above the GST pool growth, New South Wales' growth was 58%—slightly below the GST pool growth, while Queensland's growth was only 28%—significantly below GST pool growth and ***concerningly*** below inflation (33% over the past decade).

[3] Derived from the Commonwealth Budget 2025-26 and historical Final Budget Outcomes."

If the Australian Government's 2018 reforms had effectively addressed the issue of mining-related GST volatility in a ***systematic*** way for all resource-reliant states, the record GST reduction of $2.3 billion for Queensland in 2025-26 would not have eventuated.

Chart 2 illustrates how GST growth between jurisdictions has diverged, from the time the 2018 reforms were being contemplated through to the past five years following implementation of the 2018 reforms.

Chart 2 – Index of state GST revenue, national GST pool and CPI



Source: 2025-26 Queensland Mid-Year Fiscal and Economic Review and Queensland Report on State Finances

Note the GST revenue index in the chart ***includes*** NoWO safeguard payments. Without NoWO, the gap between Western Australia and other jurisdictions would have been materially greater.

How important it is that the NoWO is maintained if other parts of the 2018 reforms are kept

The 2018 reforms have created a system which only benefits what is already the state with the strongest revenue raising capacity and makes its fiscal position even stronger by equalising them to the GST relativity floor (which can be seen for example in the 2025-26 year when Western Australia's relativity was raised from 0.18 to 0.75) to the detriment of all other states. If the reforms are maintained, NoWO payments must also be maintained. Without this in place, states would be worse-off than under the previous system of full HFE, compromising on the objective of delivering the same standard and level of services to all Australians.

History demonstrates how ***materially*** worse off states and territories could be if the NoWO were to cease while other aspects of the Australian Government's 2018 reforms, including the shift in equalisation to the 'standard' state and the implementation of the GST relativity floor, were to continue without change.

The NoWO safeguard has been triggered ***every year, for every state and territory*** (apart from Western Australia) since 2022-23, and triggered for all bar two states and territories in 2021-22.

The NoWO was triggered for the majority of states even at one sixth of the transition to 'standard state' arrangements in 2021-22, the first year the 2018 reforms applied.

Without the NoWO safeguard, which states and territories fought hard to secure as part of the 2018 reforms, states and territories (apart from Western Australia) would have been $14.6 billion worse off in terms of GST payments between 2021-22 and 2024-25.

Looking forward, across the forward Budget estimates, the Australian Government estimates the cumulative NoWO payments will reach $37 billion by 2028-29. This forecast does ***not*** indicate the need for NoWO will be diminishing any time soon. The NoWO has been the ***only*** safeguard mitigating the substantial direct adverse impacts of the 2018 reforms on states and territories (apart from Western Australia).

The cessation of NoWO payments in 2029-30 would leave states and territories (apart from Western Australia) ***fully*** exposed to revenue shortfalls or other fiscal pressures underpinning the effective delivery of critical services and infrastructure.

Over the medium to long term, this also has broader implications for ***intergenerational equity*** and ***economic stability***.

Given the Commonwealth's strong fiscal position, relative to states and territories, it is both fair and feasible for NoWO payments to be legislated as a permanent feature of the GST distribution system if the 2018 reforms are maintained. It is only fair and just the NoWO remains in place, to ensure states are not left worse off due to the new equalisation benchmark and GST relativity floor.

Chart 3 shows the cumulative value of NoWO payments to jurisdictions between 2021-22 and 2024-25, and how critical they have been to all other jurisdictions (apart from Western Australia).

Chart 3 – NoWO payments between 2021-22 and 2024-25

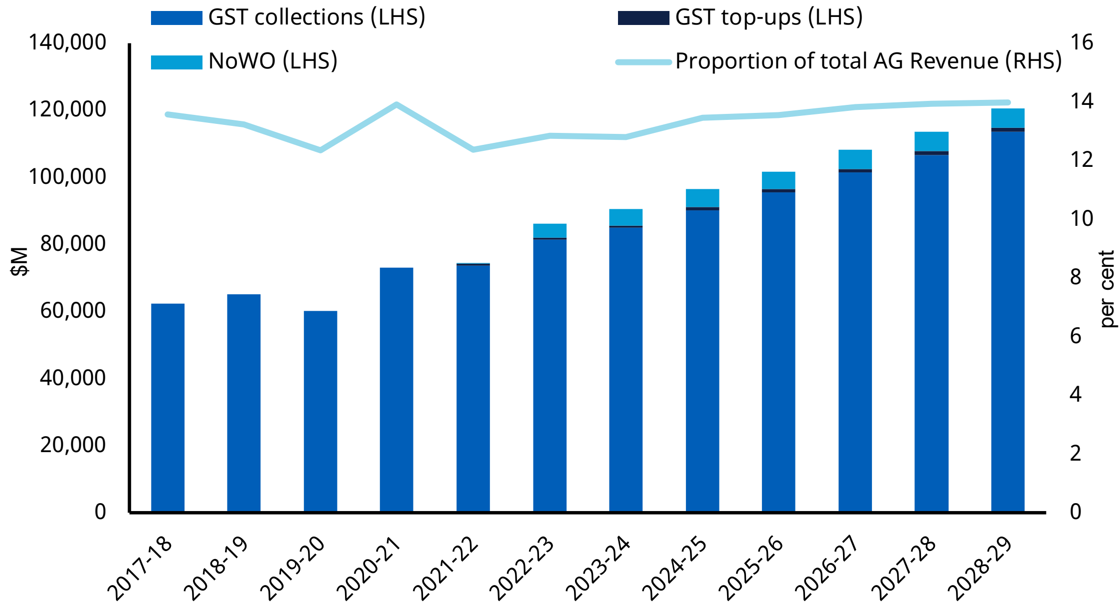
Source: Commonwealth Final Budget Outcomes from 2021-22 to 2024-25

In contrast to the fiscal reliance on NoWO for key states and territories, the Australian Government appears readily ***able*** to fund the NoWO. Total GST-related payments by the Australian Government remain broadly in line with ***long-term averages*** as a proportion of Australian Government revenue. The fiscal capacity for the Australian Government does ***not*** appear to have been materially impacted by the NoWO liability, with NoWO payments comprising less than 1% of total Australian Government expenses in 2025-26[4][5]

[4] Based on 2025-26 Commonwealth MYEFO numbers. HFE transition payments of $5.1 billion and total expenses of $809.2 billion in 2025-26

[5] Based on 2025-26 State Budget numbers. Total revenue of $433.928 billion.

Chart 4 – GST-related payments as a proportion of total Australian Government revenue



Source: Commonwealth Final Budget Outcomes ; 2025-26 Parliamentary Budget Outlook

The NoWO is especially critical for Queensland.

Importantly, the value of NoWO payments to Queensland in 2025-26 remains positive, at $59 million. This shows how, after the 2018 reforms ***failed*** to shield Queensland from GST volatility related to mining, exogenous economic shocks and significant methodology changes made by the CGC in its 2025 Methodology Review, the net outcome to Queensland of the new equalisation benchmark and GST relativity floor was still ***negative***.

The new equalisation benchmark, in fact, raised Queensland's assessed relativity by a small amount, but the wealth transfer from Queensland to Western Australia to lift its GST relativity up to the 0.75 GST relativity floor cost Queensland ***more***. After accounting for Queensland's small, 'virtual' entitlement to the GST pool top-up, there was still a net GST shortfall of $59 million relative to what Queensland would have been entitled to under the previous GST arrangements, i.e. equal to the $59 million in NoWO entitlement for 2025-26.

Notably, while Queensland is estimated to receive a payment of $59 million in 2025-26, this is not reflective of Queensland's likely NoWO entitlements going forward as 2025-26 GST entitlements were lower due, in part, to a period of strong royalty revenues in Queensland from 2021-22 to 2023-24, which will gradually flow out of the CGC's relativity calculations in future years.

Thus, the $1.2 billion in NoWO payments received in 2024-25 is likely to be a more reflective estimate of Queensland's annual NoWO requirements.

Consequently, the proposed cessation of these payments will have ***direct*** consequences for Queensland in its ability to provide services to their residents. For example, A NoWO payment of $1.2 billion represents essential funding for frontline services ***equivalent to 8,200 teachers, 3,400 doctors, 7,700 nurses, 6,700 police officers or 5,200 ambulance officers***.

8,200 teachers

3,400 doctors

7,700 nurses

6,700 police officers

5,200 ambulance officers

How the 2018 reforms have impacted jurisdictional revenue, service and infrastructure provision

As discussed previously, the 2018 reforms have directly cost the Australian Government $17.5 billion from 2021-22 to 2024-25, ***six*** times more than the $2.9 billion in GST pool top-ups that was expected to be sufficient to make all states and territories no worse off under the new GST arrangements.

The costs appear unsurprisingly minor relative to the depth of the Australian Government's balance sheet, and do not appear to cause overall GST-related payments by the Australian Government to deviate from ***long-term averages***, as a proportion of total Australian Government revenue.

Given ***no offsetting HFE arrangements*** were made to other Commonwealth payments, Western Australia was the only beneficiary of the $17.5 billion in extra GST-related payments arising from the 2018 reforms. All other states and territories received ***zero*** fiscal benefit and ***no*** shielding from GST volatility driven by exogenous economic shocks or by the significant CGC methodology changes in its 2025 Methodology Review.

The evolution of jurisdictional credit ratings since 2021 illustrates the ***divergence*** in fiscal health across the nation caused by the 2018 reforms.

Ratings agency Standard and Poors (S&P) noted when revising its outlook upward in 2018 and 2021 that *"A major factor behind Western Australia's improving fiscal position is the Commonwealth government's recent decision to provide additional untied grants to the state, beginning in fiscal 2020." "Importantly, we see downside risks to budgetary performance as being substantially mitigated by reforms legislated in 2018 to Australia's system of horizontal fiscal equalisation."*

In upgrading Western Australia's credit rating from AA+ to AAA in 2022, S&P further noted that "*The upgrade reflects Western Australia's continued budgetary outperformance compared with its domestic and global peers. The state is benefiting from elevated royalty revenues – without the previous downside of lower federal grants, thanks to the 2018 reforms to Australia's horizontal fiscal equalisation system – and growth in tax receipts.*"

Importantly, the disparity between Western Australia's fiscal position and other states and territories' fiscal positions would have been even ***more*** pronounced had the Australian Government not implemented the NoWO safeguard proposed by states and territories as part of the 2018 reforms.

Meanwhile, the credit rating for the Australian Government has remained at AAA throughout.

Table 2 – Jurisdictional credit ratings from 2021 to 2025

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT[2]	Australia
2021	AA+	AA	AA+	AA+	AA+	AA+	AAA	Aa3	AAA
2022	AA+	AA	AA+	AAA	AA+	AA+	AAA	Aa3	AAA
2023	AA+	AA	AA+	AAA	AA+	AA+	AA+	Aa3	AAA
2024	AA+	AA	AA+	AAA	AA+	AA+	AA+	Aa3	AAA
2025	AA+	AA	AA+	AAA	AA+	AA	AA	Aa3	AAA

1. S&P generally issue updated ratings every 6 months. Post budget assessments are referenced here (generally released July-October).
2. S&P do not provide a rating for NT. NT rating reflects ratings provided by Moody's

Source: Standard & Poor's and Moody's (NT)

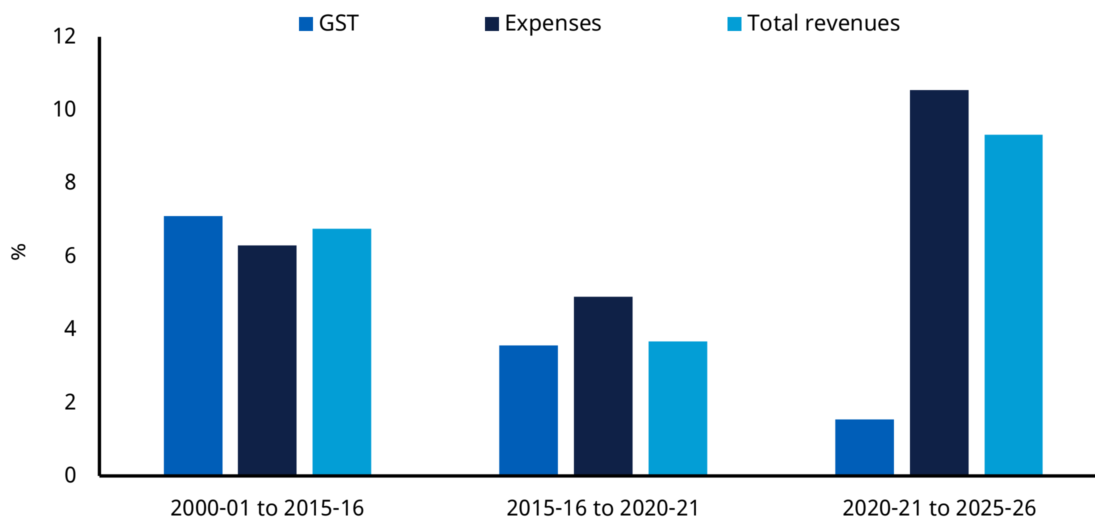
Implications for Queensland

Queensland manages its finances through a ***Charter of Fiscal Responsibility*** based on a set of robust fiscal principles. This includes (i) stabilising then reducing debt to revenue ratios; (ii) delivering operating surpluses with expense growth below revenues; (iii) delivering a capital program which supports a productive economy and population growth; (iv) maintaining competitive taxation settings; (v) fully funding long-term liabilities; (vi) targeting productivity improvement to lift living standards.

The current GST distribution arrangements, coupled with the lack of fiscal benefit or volatility protection provided by the 2018 reforms, have put significant pressure on Queensland's fiscal planning to deliver critical services and infrastructure to meet the needs of Queenslanders across the state.

As seen in Chart 5, between 2000-01 (inception of GST) and 2015-16, Queensland's GST and total revenues grew at 7.1% per year and 6.8% per year on average, broadly ***in line*** with, and ***slightly above***, expenses growth of 6.3% per year. However, this relationship deteriorated between 2015-16 and 2020-21 and further eroded between 2020-21 and 2025-26, with GST growing recently at 1.6% per year against expense growth of 10.5% per year. Even accounting for the increase in mining revenues associated with a temporary surge in coal prices in 2022-23, further decisions were made that distributed more GST away from Queensland.

Chart 5 – Average growth rates of Queensland's GST, expenses and total revenues



Source: 2025-26 Queensland Mid-Year Fiscal and Economic Review; Parliamentary Budget Office 2025-26 National Fiscal Outlook; Commonwealth Final Budget Outcomes

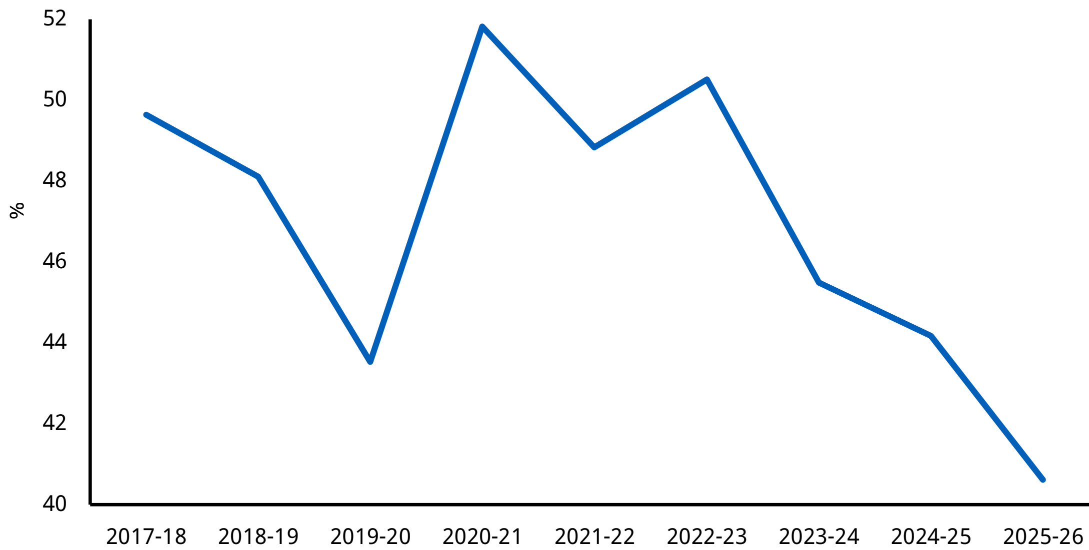
More broadly, total Commonwealth funding (GST plus other grants and contributions) to Queensland has ***not*** kept up with Queensland's underlying expenditure needs.

As Australia's most ***decentralised*** mainland state, Queensland faces unique challenges in delivering equitable access to essential services across its vast geographic expanse and significant regional population centres. The higher costs of service delivery in rural and regional areas demand additional investment, yet these needs remain ***inadequately*** addressed under the current system.

Chart 6 shows how in 2017-18, when the 2018 reforms were being designed by the Australian Government, the ***total*** Commonwealth contribution to Queensland's expenses was 49.6%. This contribution rate fell significantly to 45.5% in 2023-24 and 44.2% in 2024-25, before dropping to 40.6% in 2025-26.

This means the Australian Government contribution is 18% ***less*** towards meeting Queensland's total expenses in 2025-26 than it did in 2017-18. It is unequivocal the current GST system, and the 2018 reforms do ***not*** adequately support Queensland's needs.

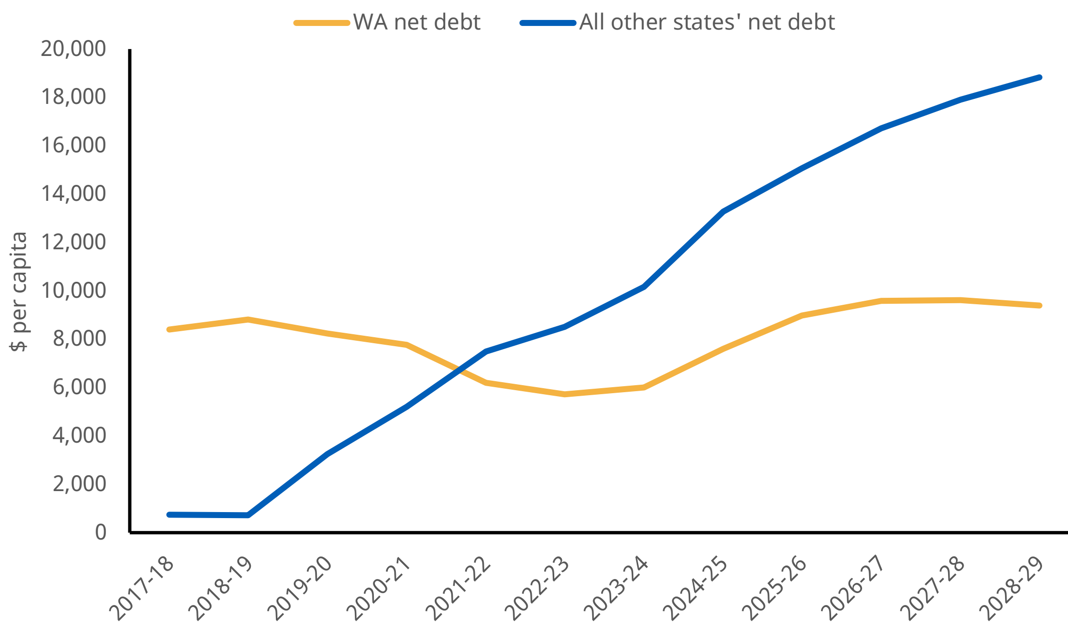
Chart 6 – Commonwealth funding as a portion of Queensland's expenses



Source: 2025-26 Queensland Mid-Year Fiscal and Economic Review and Queensland Report on State Finances; Parliamentary Budget Office 2025-26 National Fiscal Outlook

Chart 7 demonstrates the divergence in fiscal outcomes between Western Australia and all other states since the 2018 reforms. While Western Australia's net debt per capita has largely stabilised, fiscal pressures are expected to continually put upward pressure on all other states' net debt. Without changes to the GST system that more appropriately support a reasonable level of HFE—discussed in detail through the body of this submission—or additional funding from the Australian Government for essential services and infrastructure, this divergence in the trajectory of fiscal outcomes is expected to continue and increase significantly over the forward estimates, with potential ***flow-on impacts*** to intergenerational equity and economic efficiency.

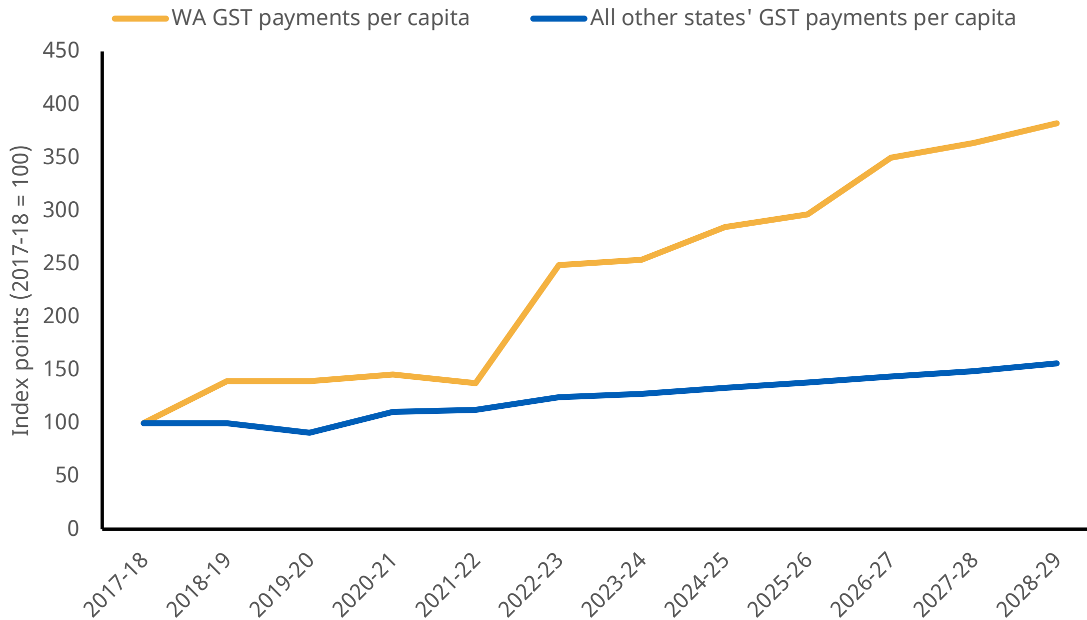
Chart 7 – Net debt per capita, WA vs all other states



Source: State 2024-25 financial statements and 2025-26 mid-year reviews; Parliamentary Budget Office 2025-26 National Fiscal Outlook

Meanwhile, Chart 8 illustrates that despite all states and territories other than Western Australia facing increasing fiscal pressures, the GST system has not delivered a reasonable level of equalisation. Western Australia's GST revenue was significantly uplifted by the 2018 reforms and is expected to continue to increase steadily alongside other states.

Chart 8 – Index of GST payments per capita, WA vs all other states



Source: Commonwealth Final Budget Outcomes (2017-18 to 2024-25), Commonwealth 2025-26 Mid-Year Economic and Fiscal Outlook

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?

Certain major specific purpose payments ***should be excluded or discounted*** within the CGC's assessments.

HFE should be considered more broadly, with needs recognised in other arrangements not unwound.

The vertical fiscal imbalance (VFI) which has long existed between states and the Commonwealth, persists under the 2018 reforms and has ***worsened*** with an increased shift in responsibilities onto the states.

Nowhere is this more prevalent than in the ***healthcare*** system. Healthcare provision is a responsibility shared by differing levels of government and issues in part of the continuum of care result in both upstream and downstream impacts. For instance, aged care patients waiting placement in an aged care facility (a Commonwealth-supported service) occupying a hospital bed (state-supported service) due to delays in placement. Because of this, services that should be provided by the Commonwealth are instead being met by public hospitals and funded under the National Health Reform Agreement (NHRA), where Commonwealth funding is capped and requires co-contributions from states.

Unfortunately, this is not an abstract example but a real and growing problem. There are more than 1,100 long-stay patients (patients unable to be discharged due to no other care options being available) currently occupying acute beds across Queensland, at a cost of up to $2.5 million a day.[6] Estimates prepared as part of Queensland's submission to the CGC's 2025 Methodology Review suggested that the total costs borne by Queensland from avoidable demand created by interface issues relating to Commonwealth supported

[6] Qld bears brunt of nationwide aged care shortage – Aged Care Insite '

services, amounted to, at that time, between $1.1 and $1.3 billion.[7] The avoidable demand related to low acuity emergency department presentations, potentially preventable hospitalisations and long stay patients puts pressure on public hospitals.

The latest agreement between the Australian Government and states and territories to inject an extra $25 billion into hospital funding is a welcome development but is only a step forward, with issues expected to ***remain*** until shortfalls can be addressed in other parts of the health system.

Queensland recommended to the CGC as part of the 2025 Methodology Review that NHRA payments should be discounted to reflect that states are in part supporting a service that should be provided by the Commonwealth. However, the CGC continues to assess the full impact of the NHRA payment, stating that the extent of the issue would need to be quantified before a change could be considered.

Specific purpose payments under major agreements already struggle to keep pace with growing needs. Growth caps on Commonwealth funding means states bear the risk of cost growth. For example, the annual limit on Commonwealth contributions under the NHRA means that the full burden falls to states to meet any shortfalls. Further, the Commonwealth has shown that it is willing to unilaterally cease funding when agreements expire, for example, the National Partnership on DisabilityCare Australia Fund Payments. A broader approach to equalisation and fiscal sustainability across all Federal-state financial arrangements is ideally needed. However, at the very least, need recognised through Commonwealth payments, such as block funding for small rural or remote hospitals under the NHRA, should not be unwound through the GST system.

What criteria should be used to determine if a payment should be exempted from GST impacts?

While the CGC make determinations on which payments do and do not impact GST, the Australian Treasurer decides what payments are excluded from GST calculations through a process known as 'quarantining'.

While Queensland is supportive of this in principle, the current approach to quarantining is ***flawed***. This function is exercised at the Australian Treasurer's discretion without clear oversight or principled constraints, resulting in a process that is opaque and often inconsistent. For example, ***nationally significant*** infrastructure like the Bruce Highway and transport investments for the Brisbane 2032 Olympic and Paralympic Games have not been subject to quarantining, while other types of infrastructure have been.

There are also discrepancies in how payments for similar purposes are treated. For instance, a $240 million payment for the Macquarie Point Urban Development (Tasmania's sports stadium) was quarantined, but other stadium developments, such as the Sydney Cricket Ground Redevelopment and North Queensland Stadium, were not. Historically, Queensland has also received less than its population share of quarantined payments, as seen in Table 3 and Chart 9, and has benefitted far less than other large states.

Table 3 - Quarantined payments ($M) by state, 2015-16 to 2024-25

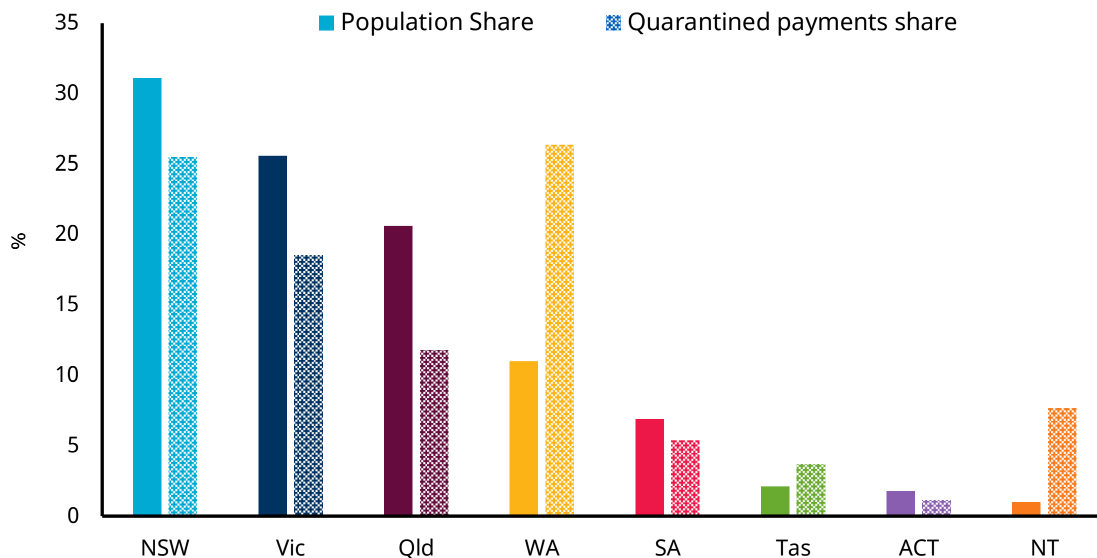
Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total	Share	Pop Share
NSW	72	1,142	1,004	1,042	873	1,193	886	1,046	1,404	**1,545**	8,662	25.5%	31.1%
Vic	61	9	44	1,553	511	915	555	1,058	1,159	**1,546**	5,865	18.5%	25.6%
Qld	20	9	66	44	577	1,022	296	748	788	**1,150**	3,570	11.8%	20.6%
WA	536	296	796	762	1,005	1,824	2,253	454	265	**2,361**	8,192	26.4%	11.0%
SA	98	70	67	373	93	196	108	262	276	**601**	1,543	5.4%	6.9%
Tas	28	750	31	163	23	53	36	123	99	**176**	1,305	3.7%	2.1%

[7] Commonwealth Grants Commission, 2025 Review consultation, Qld submission to Tranche 1 consultation papers, https://www.cgc.gov.au/sites/default/files/2023-11/Tranche%201%20consultation%20-%20Qld%20submission.pdf

Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total	Share	Pop Share
ACT	23	25	49	53	54	47	19	68	52	**69**	390	1.1%	1.8%
NT	365	195	423	252	460	183	217	299	429	**247**	2,824	7.7%	1.0%
Total	1,204	2,498	2,479	4,243	3,595	5,432	4,370	4,058	4,470	**7,694**	32,349	100.0%	100.0%

Source: Commonwealth Grants Commission supporting data spreadsheets, MYEFO 2025-26.

Chart 9 – Quarantined payments by state, percentage shares



Source: Commonwealth Grants Commission supporting data spreadsheets, MYEFO 2025-26.

The development of a principled approach is therefore essential to ensure that no jurisdiction would be unfairly advantaged or disadvantaged. To achieve this, a set of guidelines supporting the use of 'quarantining' of Commonwealth payments is considered necessary.

This was recognised in the 2018 PC Inquiry into Horizontal Fiscal Equalisation. Recommendation 6.4 noted that any guidelines should '*seek a balance between enhancing accountability and transparency, while not unduly affecting the ability of the Commonwealth Treasurer to quarantine payments in exceptional circumstances, where quarantining is in the national interest.*'

This recommendation was accepted by the then Australian Government. By 2020, work had commenced on developing guidelines, but COVID-19 priorities meant that these guidelines were not able to be finalised.

In Queensland's view, quarantining of payments should be applied on an exceptions basis and in instances where they:

- enable states to ***temporarily provide above average services*** in an area to meet a particular need;
- are made in the ***national interest***.

Sufficient regard should be given to the equity of states in quarantining, timely advice provided on any decisions to quarantine payments with the decision along with the reason provided in Terms of Reference to the Commonwealth Grants Commission. In addition to building ***transparency*** and ***accountability*** into an otherwise hidden process, this will allow states to have a benchmark for what is considered inherently quarantinable by the Australian Treasurer and a basis to request such quarantining.

Achieving a reasonable level of horizontal fiscal equalisation

Information request 2

1. Have the GST distribution arrangements since the 2018 legislative changes delivered a reasonable level of horizontal fiscal equalisation?
    a. How do you define a reasonable level of horizontal fiscal equalisation?
    b. Should the PC look to international approaches to determine what reasonable fiscal equalisation is in Australia, and why?

Overview

The GST distribution arrangements since the 2018 legislative changes have ***not*** delivered a 'reasonable' level of horizontal fiscal equalisation (HFE).

It has been Queensland's longstanding position that the objective of HFE should be to enable all states and territories to have the fiscal capacity to deliver ***broadly comparable levels of services*** to their populations. Queensland has consistently supported HFE as a sound policy principle that promotes equity and national cohesion by enabling equitable treatment of individuals regardless of where they live.

By delivering a substantially positive fiscal outcome for one jurisdiction at the collective expense of all others, the 2018 reforms have ***significantly detracted*** from HFE, which, as noted by the PC's Issues Paper, has been the basis of distributing general revenue assistance (GRA)—and now the GST—since establishment of the CGC in 1933.

As ***no offsetting arrangements*** have been made across broader Commonwealth payments to mitigate the negative effect of the 2018 reforms on HFE, the overall level of HFE delivered under Federal Financial Relations has been clearly and significantly eroded in recent years.

Other key issues preventing current GST distribution arrangements from delivering the objective of HFE concern the discretionary application of the ***supporting HFE principles*** that are intended to give context and guidance, so that GST distribution decisions can be reliable, robust and understood. In Queensland's experience, the CGC has sometimes disproportionately compromised its application of those supporting HFE principles, resulting in inappropriate and unfair GST impacts that call into question the integrity of specific GST distribution decisions. While Queensland understands that HFE remains the fundamental objective and that occasionally trade-offs may be required, such principles are important and must be appropriately reflected in the GST system.

Queensland also considers that, while the current set of supporting HFE principles remain essential and relevant, it is not sufficiently comprehensive. An ***expansion*** of the principles will support GST distribution decisions in delivering appropriate HFE. The concept of 'reasonable' HFE must ***go beyond simply achieving a reasonable level of equity***; it must also balance fairness, efficiency, transparency, and policy neutrality to ensure the system supports effective governance across the federation.

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

As discussed in the above chapter on the 'Fiscal sustainability of the 2018 reforms', the 2018 reforms have ***not*** delivered a 'reasonable' level of HFE. By delivering $17.5 billion of fiscal uplift for only one jurisdiction between 2021-22 to 2024-25, at the collective expense of all others, the 2018 reforms have significantly detracted from achieving the appropriate level of HFE.

One of the most significant issues with the 2018 changes is the shift in the equalisation benchmark from the strongest state to the stronger of the two largest states (New South Wales or Victoria). This adjustment, made unilaterally by the Australian Government, was intended to moderate the redistribution of GST revenue in the context of Western Australia's unprecedented fiscal strength during the mining boom.

However, by lowering the benchmark, the reforms have substantially reduced the level of equalisation achieved, leaving all other states with materially lower fiscal capacities relative to Western Australia. If not for the NoWO safeguard hard-won by states and territories, this change would have resulted in other states having substantially lower fiscal capacities than otherwise would have been the case under the previous arrangements.

States like Queensland face unique challenges, including higher service delivery costs due to dispersed populations, remote locations, and greater proportions of high-needs groups. The current arrangements fail to adequately address these structural disadvantages, undermining the core principle of equity that HFE is meant to uphold.

The introduction of the 0.75 relativity floor and equalising to the standard state has disproportionately benefited Western Australia, allowing them to retain a greater share of GST revenue despite their significant revenue-raising capacity. This further raises the capacity of the strongest state, allowing them to become even stronger, counter to the principle of HFE. It also creates an imbalance in the system, as states with weaker fiscal capacities and or higher expense needs are left to rely on a smaller share of GST revenue. Further, as noted by the Productivity Commission in its 2018 Inquiry on HFE, *"A relativity floor is not well targeted at the efficiency and fairness problems of the HFE system, such as disincentives to undertake major tax reform (efficiency) and receiving reward for policy effort (fairness)"* and that *"its influence on mining policy non-neutrality would most likely be incidental and only apply to one state, depending on the level at which the floor is set."*

The new arrangements, while providing fiscal stability and sustainability to Western Australia, do so at the expense of states with greater fiscal needs, exacerbating existing disparities and reducing the ability of these states to deliver essential services to their residents.

Given these issues, an ongoing issue is the expiry of the NoWO safeguard in 2029-30.

As discussed in the above chapter on the 'Fiscal sustainability of the 2018 reforms', the cumulative NoWO payments are estimated to reach $37 billion by 2028-29, based on Australian Government forecasts.

The proposed cessation of NoWO payments in 2029-30 will leave states exposed to substantial GST revenue shortfalls resulting from the legislated 2018 reforms, without recourse. Such an outcome would result in material risks and implications for the delivery of critical services and infrastructure, with broader implications for intergenerational equity and economic stability.

Given the Australian Government's strong fiscal position and revenue raising capacity, relative to states and territories, it is both fair, feasible and critical that NoWO payments are legislated as a permanent feature of the GST distribution system if 2018 reforms are maintained to any extent.

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

Reasonableness is multifaceted

A reasonable level of horizontal fiscal equalisation (HFE) should ensure that all states and territories have the fiscal capacity to provide their citizens with access to ***comparable levels of essential services***, such as healthcare, education, and infrastructure, regardless of differences in their revenue-raising abilities or service delivery costs.

A reasonable level of HFE must account for the ***inherent structural differences*** between states that impact their ability to raise revenue and deliver services.

Factors such as population, geographic remoteness, demographic composition and economic structure create disparities in both revenue-raising capacity and the cost of providing services. For example, states such as Queensland with dispersed populations or higher proportions of vulnerable groups, such as the elderly or Indigenous communities, often face elevated costs to deliver essential services. A reasonable HFE framework should recognise these material factors and ensure that states are not fiscally disadvantaged due to circumstances beyond their control.

Reasonable HFE should strike an appropriate balance by addressing significant fiscal disparities while allowing states to retain some benefits from their own economic development. This approach supports equity without undermining incentives for states to grow their economies or develop their revenue bases.

For instance, ***resource-rich states should not face disincentives*** to develop their natural resources due to excessive redistribution of mining royalty revenues, as this discourages investment, economic growth and the supply of critical commodities and energy that are clearly in the national interest.

States that facilitate resource development, such as Queensland, fully bear the associated costs while retaining only a small share of the revenues generated, whereas states that restrict resource development benefit from equalisation without cost. Elevating ***policy neutrality*** within the CGC's framework is essential to ensure states are not penalised for pursuing reforms or supporting the national economy.

Similarly, it is widely recognised among states[8] that GST assessment methods have become exceedingly complex with a lack of transparency around the outcomes produced. Reasonableness is as much a question of the ***HFE decision process*** as much as it is about the definition and objectives of HFE.

Supporting HFE principles need to be upheld consistently to ensure integrity

Apart from defining the objective of the GST distribution system to a 'reasonable' level of HFE, it is critical that supporting HFE principles are sufficiently comprehensive and properly applied in all GST distribution decisions.

The current set of supporting HFE principles comprises:

- **What states do –** methods should reflect what states collectively do, the average policy of all states.
- **Policy neutrality –** the equalisation process should create no incentives or disincentives for states to choose one policy over another, and no state should be able to directly influence its GST share through its revenue or expenditure policy choices.
- **Practicality** – assessments should be based on sound and reliable data and methods should remain as simple as possible.
- **Contemporaneity –** to the extent that reliable data will allow, the distribution of GST should reflect state circumstances in that year.

Queensland strongly ***supports*** all four principles and considers their consistent and appropriate application is essential to achieving the objective of HFE and ensuring that the distribution of GST revenue is fair, transparent, and effective.

The principle of **'What states do'** is fundamental to the HFE framework. By basing assessments on the average policy of all states, this principle ensures that the GST distribution reflects the actual policy environment in which states operate. Queensland supports this principle as it provides a fair and consistent benchmark for assessing fiscal capacities and ensures that the system remains grounded in reality.

The principle of **'Practicality'** is equally important, as it ensures that assessments are simple, reliable, and fit for purpose. While the CGC's has attempted to adhere to this principle, Queensland has raised concerns

[8] On 5 December 2024, all states through the Board of Treasurer sent a letter to the Commonwealth Treasurer on a range of governance proposals, including those which would enhance transparency and accessibility of the GST distribution system.

regarding the practicality of some methodology decisions, with the urban transport model largely not being fit-for-purpose. Regardless, Queensland supports its continued application, as simplicity and reliability are critical to maintaining the credibility of the HFE system and enabling stakeholders to engage effectively with the process.

The principle of **'Contemporaneity'** is sensible. The use of a three-year lagged average strikes a reasonable balance between reflecting current circumstances and ensuring predictability and stability in GST revenue distribution. This approach reduces data volatility and allows for the use of final audited data, which enhances the robustness of the CGC's assessments.

While Queensland has at times raised issues with the CGC's application of these three principles, disagreements regarding these principles are relatively minor. The CGC's general adherence to these principles supports robust, functional decision-making around GST distributions.

However, the principle of **'Policy neutrality'** is all too often diminished within the HFE framework, particularly in areas such as mining revenue and taxation reform, creating inefficiencies and distortions in state policy decision-making. The CGC applies this principle inconsistently, especially in relation to the assessments of mining revenue.

Queensland acknowledges there is sometimes a necessary trade-off between adhering to supporting principles and achieving HFE, but it is evident that the principle of policy neutrality has been disproportionately and severely compromised in several notable instances. These instances not only undermine the ***integrity*** of the HFE system but also create ***disincentives*** for states to pursue reforms that would optimise their revenue bases and deliver broader economic benefits, not just for the state but nationally.

When policy neutrality is disregarded, states face uncertainty and risk in their decision-making, which can discourage necessary reforms and exacerbate inefficiencies in the system.

Supporting HFE principles should be expanded to ensure HFE outcomes are fit-for-purpose

For a system that is set to distribute over $100 billion in revenue annually and serves as a cornerstone of Australia's federal financial relations, the principles underpinning the GST distribution must extend beyond the four basic supporting principles of HFE.

Queensland considers four additional principles to be critical in ensuring the GST remains an equitable, effective, and sustainable revenue source for states and territories over the long term.

- **Simplicity.** GST distribution definitions, methods and processes should be straightforward, have as few steps as possible and be easily understood by key GST stakeholders, namely states and territories. The current GST distribution system is highly complex, and a simpler system will better allow states and territories to forecast GST revenue and plan their budgets more effectively. It would also improve administrative efficiency, foster more confidence in the procedural fairness of fiscal outcomes and support better policy coordination and decision-making.
- **Transparency.** The CGC has often faced criticism for its opaque methods, complex modelling and discretionary adjustments which obscure how GST distribution outcomes are determined. Open data, accessible methodologies and clear, consistent provision of guidance by the CGC are necessary to rebuild trust, enable informed debate, and strengthen the integrity and accountability of the GST distribution system.
- **Predictability.** Linked with simplicity and transparency, impacts of economic and policy developments on GST distribution outcomes should be made more predictable, so states and territories can plan budgets with greater certainty. Predictable funding reduces fiscal risk, avoids sudden expenditure cuts, and supports consistent investment in infrastructure and services. Reducing uncertainty and volatility is critical to maintaining financial stability and confidence in long-term economic planning. The 2025 Methodology Review undermined this principle in that major changes were made to the coal

assessment after policy changes had been made and without indication that changes were being considered, leading to unprecedented impacts on Queensland's GST share.

- **Alleviating impediments to reform**. The GST distribution system should minimise or remove impediments to broader tax and economic reforms by encouraging efficiency, growth, and productivity across all states. GST distribution methods should not inhibit or discourage positive economic incentives, including those in the national interest.

Ultimately, a reasonable level of HFE is one that maintains equity across the federation while fostering cooperation and sustainable economic growth. It should ensure that all Australians, regardless of where they live, have access to comparable services, while also encouraging states to pursue policies that support innovation, investment, and development.

Robust, fair, and transparent methodologies are critical in achieving a reasonable level of HFE

The 2018 reforms have failed to deliver on the objective of achieving a reasonable level of HFE, and the ability to ensure comparable standards of service across states has been significantly undermined. These challenges have been exacerbated by methodological decisions made during the CGC's 2025 Review, which have disproportionately disadvantaged Queensland.

The clearest example of this is in the treatment of regionality in the CGC's assessment methods. The CGC use Australian Bureau of Statistics (ABS) remoteness structures which are based around broad remoteness categories. Despite cautions against being used for purposes such as funding allocation, their inclusion in assessment methods fails to properly reflect the true cost of delivering services in a vast and diverse state and results in millions in GST funding being foregone.

This unsuitable approach has produced perverse outcomes in which the cost weightings for delivering services in Ballarat (113 km from Melbourne) were similar to Mackay (968 km from Brisbane). This significantly understates the higher costs of service delivery in Queensland's regional communities. Likewise, the lack of an appropriate cost weighting to reflect the costs of service provision in extremely remote communities in northern Australia, which are noted at times to be inaccessible, also remains unaddressed.

The need for transport services is also understated in Queensland. By utilising a dummy variable to assess needs for ferry services, for example, differences between areas are not recognised. This has perversely led to Melbourne being assessed to have twice the level of need as Brisbane, despite data showing a negligible number of ferry passenger kilometres travelled compared to 29 million passenger kilometres each year in Brisbane[9].

Queensland is assessed to have lower costs of construction than other capital cities. The Rawlinson's Cost Index used in CGC assessments considers Brisbane as one of the cheapest major cities in Australia in which to build despite this being shown to be an outlier compared to other construction indices which consistently assess Brisbane as one of the two most expensive cities. Similarly, the ABS producer price index shows cost inflation in Queensland as significantly higher than average since 2011.

Another critical issue lies in the CGC's assumptions around the use of non-state services. The CGC considers non-state services to alleviate the burden on publicly provided services, but this assumption is flawed. It overlooks practical limitations such as capacity constraints and the lack of substitutability for public services in many regional areas. For example, in large parts of regional Queensland, the public sector remains the sole provider of critical health services, as private sector alternatives are either unavailable or insufficient. Furthermore, numerous academic studies[10,11] suggest that the existence of the non-state sector does not

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[9] Bureau of Infrastructure and Transport Research Economics 2023. Australian Infrastructure and Transport Statistics: Yearbook 2025.

[10] The Consequences of Private Involvement in Healthcare – The Australian Experience, Stephen J Duckett. Commentary: The Consequences of Private Involvement in Healthcare – The Australian Experience - PMC (nih.gov)

[11] Effects of private health insurance on waiting time in public hospitals – Melbourne Institute Applied Economic & Social Research, Ou Yang, Jongsay Yong and Yuting Zhang. https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0005/4721936/wp2023n09.pdf

significantly reduce activity, wait times or costs incurred in the state sector. Despite the weak interaction between the state and non-state sector it remains an essential assumption in the health assessment and non-state sector adjustments have resulted in Queensland losing an estimated $293 million in GST funding for 2025-26 alone, further straining its ability to meet the needs of its population.

Queensland and other states have raised these concerns throughout the 2025 Review process, but they remain unaddressed. The GST system must ensure that service delivery costs and needs in large, dispersed, and remote areas are fairly reflected. This is essential to uphold the principle of equity and to ensure that all Australians, regardless of where they live, have access to comparable levels of essential services. Addressing these methodological shortcomings is vital to restoring the integrity and effectiveness of the HFE system.

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

International models can provide valuable perspectives on simplifying equalisation methodologies, improving transparency, and balancing equity, efficiency and policy neutrality. Canada's model, for example, provides helpful insights into how the HFE impediments to states pursuing economic reforms in the national interest can be reduced in HFE decisions.

Canada applies a 50% discount to mining revenues in its equalisation formula. This approach recognises that resource revenues are a unique and contentious issue, given their potential to exacerbate disparities among provinces and the significant role they play in some provincial economies. The Canadian system balances equity with policy neutrality by ensuring that provinces retain a portion of their resource revenues, thereby mitigating disincentives for resource development.

If a 50% discount was applied to the CGC's mining assessment to address the core issue which drove the 2018 reforms—excessive mining-induced GST volatility—instead of applying the 2018 reforms as an add-on layer with benefits accruing only to Western Australia, fluctuations in Queensland's GST payments would have been significantly smoothed, providing greater revenue stability and predictability.

It is widely known that volatility caused by mining revenues, which are concentrated in a few states and subject to global commodity price cycles, is the single largest source of instability in the GST system. Addressing this issue through a mining discount would not only improve policy neutrality but also enhance the stability of the GST framework, including materially enhancing the stability of Western Australia's GST revenues. This would allow for more effective financial planning and ensure states are better equipped to deliver essential services and infrastructure.

While Australia's system is more comprehensive in its approach to equalisation than the Canadian system, the rationale behind Canada's mining discount highlights the importance of addressing policy neutrality concerns within the HFE framework, rather than my implementing an external layer of complexity, as was imposed by the 2018 reforms.

Other direct comparisons may be limited, given the distinct challenges faced by Australian states, including vast geographic disparities and remote populations. Nevertheless, the PC should explore international examples as a reference point but ensure that recommendations are grounded in Australia's commitment to achieving equity, supporting economic growth and maintaining the cohesion of the federation.

Balancing responsiveness with reducing GST revenue volatility

Information request 3

1. Do the 2018 GST distribution reforms strike the right balance between responding to changing circumstances and providing certainty around revenue?
    a. What changing economic and social circumstances are of most concern to states and territories?
    b. Do the GST distribution reforms support states to manage the fiscal impact of shocks such as natural disasters or economic disruptions?
    c. Have changing economic and social circumstances affected revenues, and the provision of state services and infrastructure?
    d. 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?
    e. Have the GST distribution reforms decreased or increased the volatility of state finances?
    f. Can volatility in the states' GST shares be reduced, and if so how?
    g. How do the states manage volatility in their finances?
    h. Are there other sources of volatility in state finances?
    i. Have the GST distribution reforms impacted the ability of the states to undertake fiscal planning?

Overview

The 2018 GST distribution reforms do ***not*** strike the right balance between responding to changing circumstances and providing certainty around revenue, particularly considering the core underlying reason they were put in place—to address Western Australia's GST volatility related to the assessment of mining revenue.

The 2018 GST distribution reforms, which introduced measures such as equalisation to the 'standard state', a GST relativity floor, top-up payments and five years of transitional arrangements, did not effectively reduce volatility ***within*** the HFE system. Instead, they added an unhelpful layer of ***complexity*** on an already highly complex GST distribution system.

While the 2018 reforms did stabilise outcomes for Western Australia, they left other states, including Queensland, exposed to significant fluctuations in GST revenues.

Queensland continued to experience significant GST volatility, despite the 2018 reforms, and the reforms did ***not*** protect Queensland from the significant GST distribution method and data changes made by the CGC during its 2025 Methodology Review.

The higher coal royalties Queensland received when coal prices were at record highs throughout 2022 and 2023 were only a ***partial*** contributor to Queensland's GST volatility. The Final Report of the 2025 Methodology Review showed how around ***half*** of the $2.3 billion record year-on-year reduction in Queensland's GST for 2025-26 was due to CGC decisions related to changes in its mining assessment and the CGC's decision to utilise the GST distribution system to compensate states for COVID-19 expenditure, which punished states that had more effective and more fiscally responsible COVID-19 policies.

Apart from Western Australia, the 2018 reforms do ***not*** appear to have shielded any state or territory from underlying GST volatility, including that related to the assessment of mining revenue or otherwise. For

Queensland, the substantial year-on-year volatility in GST payments have certainly impacted the state's fiscal sustainability and ability to undertake fiscal planning.

How have changing economic and social circumstances affected revenues and the provision of state services and infrastructure? (*Responding to sub-questions (a), (c), (d))*

Changing economic and social circumstances have ***significantly*** affected both revenues and the provision of state services and infrastructure. As noted above, fluctuations in global commodity prices, driven in part by geopolitical events such as the war in Ukraine, have had a profound impact on mining royalties.

These volatilities have also led to significant reductions in GST. However, due to the two-year lagged assessment of GST relativities, these reductions have also coincided with reductions in royalty revenue, exacerbating fiscal volatility, and created challenges in maintaining stable funding for essential services and infrastructure.

Global geopolitical factors, such as trade tensions, tariff policies, and conflicts in Europe and the Middle East, are also significant concerns. These issues disrupt supply chains, impact exchange rates and create inflationary pressures, which all have direct effects on the economy and state fiscal positions. For Queensland, the greater reliance on commodity exports than in most other states amplified the risks posed by these ***global uncertainties***.

Natural disasters, notably cyclones and floods, also impose significant costs on infrastructure, recovery efforts and service delivery.

The expansion of ***health service needs*** has also placed pressure on state budgets. Rising demand for healthcare, driven by an ageing population and the ongoing impacts of the COVID-19 pandemic, has resulted in a sustained increase in expenditure. However, the inclusion of National Health Reform Agreement Commonwealth payments in the GST distribution calculations has diluted the benefits of these payments, further straining state resources.

The ***volatility*** in GST revenues more broadly makes it more difficult for Queensland to plan and fund long-term infrastructure projects. The CGC's current methodology and ongoing methodology changes, including its approach to mining revenue for coal and gas royalty revenues, has exacerbated this issue by penalising resource-reliant states.

It is difficult to quantify whether the impact of changing economic and social circumstances has been more or less significant than the 2018 changes in GST distribution on states' finances. Both factors have undeniably shaped the fiscal landscape and their effects are ***intertwined***.

Importantly, while changes in global and domestic economic and social circumstances are often exogenous factors beyond the control of states or the Australian Government, the changes to the GST distribution system (and taking steps to address the substantial anomalies they introduced) were (and are) completely within the control of the Australian Government.

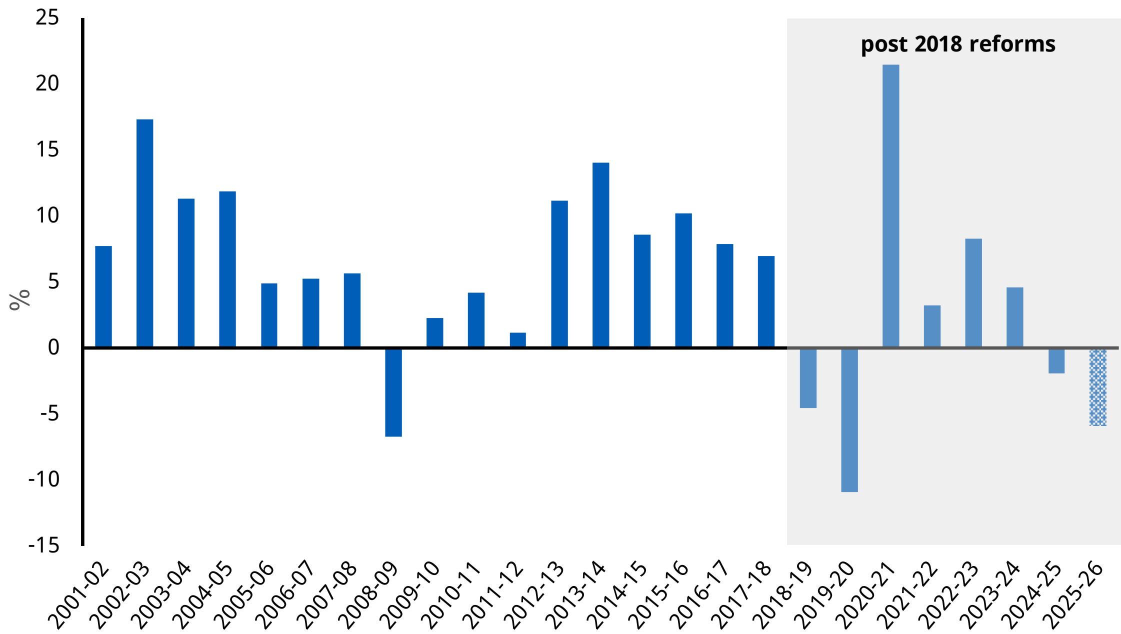
How material an issue is volatility in states' GST shares, and what can be done to reduce this volatility? (*Responding to sub-questions (f) to (h))*

Managing mining-related GST volatility

The mining revenue assessment is the ***leading cause of volatility*** in the GST distribution system. Accordingly, the cyclical nature of the mining industry, coupled with global factors has driven significant swings in revenue for resource-reliant states like Queensland.

This can be seen in the movements in GST revenue received by states (Chart 10). Since 2018, the annual change in Queensland's GST payments has swung from negative 11% (2020) to positive 21% (2021). This is a dramatic swing in, what is for many states, their largest revenue line and materially impacts state fiscal planning.

Chart 10 – Annual percentage change in Queensland's GST revenue

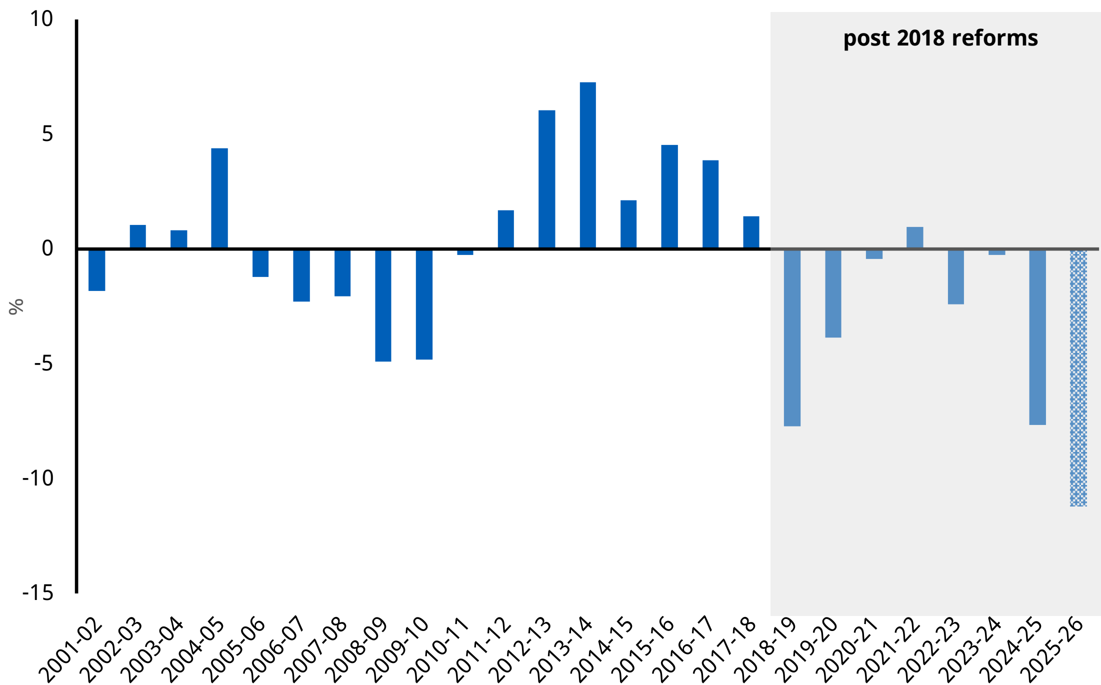


Source: Commonwealth Grants Commission, 2025-26 Queensland Mid-Year Fiscal and Economic Review

The issue is even more pronounced when considering changes in Queensland's GST relativities (Chart 11), which removes the usual softening impacts of increases to the GST pool. Prior to 2018, Queensland's relativities decreased in a total of ***7 out of 17 years***, with an average decline of 2.5%.

Since 2018 however, Queensland's relativities have decreased in ***7 out of 8 years***, with an average decline of 4.8% during these years. This demonstrates that, following the 2018 reforms, decreases in Queensland's GST share have been both ***more frequent*** and ***more severe*** than at any other point since the introduction of GST.

Chart 11 – Annual change in Queensland's GST relativities



Source: Commonwealth Grants Commission

A simple and effective solution to reduce this volatility is the introduction of a ***discount*** to the mining revenue assessment. As outlined in this submission, a mining discount would address the single largest source of GST volatility while also mitigating the over-penalisation of states that develop their resources sectors.

By smoothing out fluctuations in mining-related GST allocations, a discount would provide greater predictability in state revenues and allow for more effective budget planning. Additionally, this approach would promote policy neutrality and ***reduce disincentives*** for resource development, enabling states to pursue economic growth strategies, including those in the national interest, without the risk of significant GST redistribution penalties.

CGC methodology changes have contributed to volatility and have set an unhealthy precedent

A concern to Queensland is the impact that methodology decisions have had on GST outcomes. While GST outcomes are often determined based on sound approaches underpinned by robust data, in some cases the CGC are required to make assumptions and 'judgement calls' where data is not available or of a sufficient standard or where a reliable methodological approach cannot be easily derived. These types of decisions should rightly only have ***minor*** impacts.

This was not the case, however, in the 2025 Methodology Review where Queensland experienced a record $2.3 billion reduction in GST revenues in 2025-26, with around ***half*** of this driven by the CGC's methodology changes and data revisions, in particular decisions related to the mining assessment. This included the assessment of coal royalty revenues by price bands and inconsistent positions taken by the CGC on the treatment of gas royalty revenues.

The COVID-19 pandemic in 2020 was another example of a disruption which led to increased volatility driven by the CGC's method changes. In this case the decision to apply an actual per capita (APC) treatment (where what a state spends is its level of need) to state COVID-19 spending was contested by Queensland and other states, noting that the CGC's approach disregarded the highly policy influenced nature of COVID-related expenditures (with differences in approaches to quarantine arrangements, lockdown responses and business support), thereby ***punishing states that applied more measured and effective responses***.

Typically, APC treatments are used in limited circumstances where states have limited influence over the levels of spending and where spending occurs within a prescribed framework (such as natural disaster payments). These conditions were not met in relation to COVID-19 expenditure and, as a result, Queensland experienced an unfair and inappropriate $802 million reduction in GST in 2025-26.

Given that the redistributive impacts of these decisions by the CGC have significant impacts on GST revenues and, given the ***limited transparency*** behind many of these decisions, this makes the task of forecasting state GST revenues and managing the state's fiscal position far more challenging.

Have the 2018 reforms affected the volatility in states' GST shares, impacted the ability of the states to manage external shocks and/or impacted states' ability to undertake fiscal planning? (*Responding to sub-questions (e), (b), (i))*

Queensland has continued to experience significant GST volatility despite the 2018 reforms because equalisation to the 'standard state', a GST relativity floor, top-up payments, five years of transitional arrangements and even the NoWO safeguard do ***not*** protect Queensland from the significant GST distribution impacts resulting from method and data changes made by the CGC during its 2025 Methodology Review.

Further, unless material changes in underlying state fiscal circumstances result in a state becoming the strongest state or triggering the GST relativity floor, it is highly unlikely the 2018 reforms could reduce the volatility in that state's GST share, relative to the pre-2018 system. These circumstances have ***not*** been observed in practice for any state except for Western Australia since the commencement of the 2018 reforms in 2021-22. Accordingly, ***only*** Western Australia's GST volatility and uncertainty has been reduced by the 2018 reforms.

The NoWO safeguard has been positive for all jurisdictions (apart from Western Australia) in all years that the 2018 reforms have applied, demonstrating how the NoWO is the single aspect of the new system that has buffered all other jurisdictions (apart from Western Australia) from being even ***worse off*** compared to the previous GST distribution arrangements.

The nature of the NoWO, initially proposed to expire in 2026-27 and then extended to 2029-30 due to the substantial fiscal risks to states in the absence of the NoWO, underscores how much ***more*** volatile GST revenue will likely become for all jurisdictions (apart from Western Australia) if the NoWO expires in 2029-30, as currently proposed.

Without a permanent NoWO to accompany the other aspects of the 2018 reforms (should they, or key elements of them, be maintained), all states other than Western Australia will continue to face ***considerable fiscal uncertainty***, complicating their ability to plan budgets, invest in critical infrastructure and deliver essential services effectively.

This uncertainty is particularly challenging given the broader economic environment, which includes heightened global geopolitical tensions, volatile commodity markets, and domestic economic risks such as labour shortages and fluctuating consumer spending.

Western Australia's exceptionally strong budget position in recent years provides it with a substantial buffer against these risks, but all other states are not as well positioned fiscally. Consequently, the expiry of the NoWO will exacerbate fiscal disparities and undermine national equity principles, making it harder for affected states to manage economic shocks and maintain service delivery standards over the long term.

Stable and growing GST revenue is ***critical*** for supporting robust and responsible fiscal planning by states. When CGC methodology changes alone can reduce Queensland's GST revenue by $1.1 billion[12] in a single year, the current GST distribution system puts at risk the ability of the state to provide sustainable public services and increases the risk of debt burden on future generations.

A stable state fiscal capacity is ***necessary*** to ensure the effective delivery of essential services. It is also critical to enable a state to be resilient and responsive to unforeseen challenges such as global economic downturns or natural disasters without compromising its long-term fiscal sustainability.

More broadly, stable government finances are important to ensuring states remain an attractive destination for foreign and domestic investment which in turn supports economic growth and job creation.

Fiscal sustainability, reliability and stability is also important to support social equity by ensuring that policies can be designed to address inequality and support vulnerable populations without concern that sudden changes may disproportionally affect certain groups.

Further, accurate revenue ***forecasting*** is essential for states to effectively manage financial, economic, and social challenges. Reliable forecasts underpin the projections in state budgets and inform government policies and decision-making processes, which are critical to ensure the effective and sustainable funding of essential services, necessary economic and social infrastructure, and ensure public confidence in governments' financial positions and outlook.

[12] Commonwealth Grants Commission, GST Sharing Relativities 2025-26_Final.pdf, March 2025, accessed 9 January 2026

Impact of GST distribution arrangements on state reforms

Information request 4

1. Do the current GST distribution arrangements impede states and territories pursuing service delivery or revenue raising reforms?
2. What are the elements of the current arrangements that impede the pursuit of reforms?
3. Should there be amendments to the current arrangements to remove impediments to reforms?
4. Should there be amendments to the current arrangements to provide support for reforms?
5. Have states and territories pursued service delivery or revenue raising reforms since the 2018 GST distribution reforms?

Overview

The current GST distribution arrangements ***do*** impede states and territories pursuing economic reforms in the national interest, because of the GST implications of exogenous shocks or policy decisions regarding state revenues.

As discussed in previous chapters, this impediment exists especially around ***mining*** revenues and is exacerbated by the CGC's disregarding the ***policy neutrality*** principle within the mining assessment. This issue has had a disproportionate impact on Queensland's GST distribution outcomes, which the 2018 reforms did not protect Queensland against.

Importantly, the combined impact of appropriate ***discounting*** of the CGC's mining assessment and ensuring a consistent, robust application of all ***supporting HFE principles*** in GST distribution decisions would help reduce impediments to reform.

The potential for ***unintended GST consequences*** of reform remains a major concern. Unfortunately, it is not always clear what the GST implications of proposed reforms are likely to be, given potential methodological treatments, adjustments and changes are ultimately decided at the ***discretion*** of the CGC.

Greater ***transparency***, ***accountability*** and ***policy neutrality*** are needed in CGC decision-making to ensure states and territories are not penalised for pursuing reforms that improve efficiency and sustainability.

Do the current GST distribution arrangements impede states and territories pursuing service delivery or revenue raising reforms?

Yes, the current GST distribution arrangements impede states pursuing economically rational reforms.

In particular, the assessment of ***onshore gas revenue*** remains a significant area where the GST system creates disincentives for reform. The current methodology penalises states who have enabled or allowed development of their resource endowments by redistributing a large portion of mining royalties to other states, several of whom have intentionally prohibited or limited development of their substantial gas resources and reserves. As a result, the current treatment of gas revenues tends to discourage ***resource development*** and related revenue-raising initiatives, while incentivising states to not support development of their resources sector, even if such development would clearly be in the state and national interest.

There is an ***overriding focus on revenue raising capacities*** in the CGC's assessments, while the shift in focus away from policy neutrality increased through CGC decisions taken during the 2025 Methodology Review. These decisions have now firmly established ***precedents*** for states which may serve to deter beneficial economic reforms.

More broadly, the undermining of policy neutrality in the current GST distribution system creates barriers to economically beneficial reforms. The 2018 reforms have ***not*** adequately addressed these issues for any state or territory, except by introducing equalisation to the 'standard state' and the GST relativity floor in such a way as to enable Western Australia to retain more of the benefits of productive revenue-raising.

Illustrative examples of how current arrangements impede the pursuit of beneficial economic reforms in the national interest

Gas royalty scenario specifications

The hypothetical scenario outlined below highlights how the treatment of gas royalties under the current GST system impacts the GST distribution for three states: A, B and C and disincentivise logical and beneficial economic reforms and policy.

In this scenario, key variables such as population, actual and assessed revenue, expenses and investment, and GST pool are held constant to demonstrate how current arrangements impact the GST distribution to each state and impede the pursuit of economic reforms.

It is assumed that State A produces 4 units of gas, State B produces 1 unit of gas, while State C has banned gas projects.

Both State A and State B have a flat gas royalty rate of 10%, raising $4 billion and $1 billion respectively. With royalty rates harmonised across states with gas production, the gas royalty assessment would effectively result in an actual per capita (APC) assessment, with assessed gas royalty revenue for States A and B being $4 billion and $1 billion respectively.

Table 4 - State details

State	A	B	C	Total
Population	2,000,000	3,000,000	5,000,000	10,000,000
GST pool ($M)	-	-	-	30,000
Gas volume of production (units)	4	1	0	5
Gas royalty rate (%)	10	10	Banned	-
Gas royalties ($M)	4,000	1,000	0	5,000

Based on assumed levels of expenses, investment and revenue, the initial assessed GST requirement for all states is $3,000 per capita. This benchmark will illustrate the marginal impacts of reforms discussed in the examples below.

Table 5 - GST entitlement calculation

State	A	B	C	Total
Assessed expenses and investment ($pc)	15,000	14,000	12,000	13,200
Less: assessed revenue, borrowing and Cth payments (exc. gas) ($pc)	-10,000	-10,667	-9,000	-9,500
Less: assessed gas royalty revenue ($pc)	-2,000	-333	0	-500
GST requirement ($pc)	**3,000**	**3,000**	**3,000**	**3,000**
GST entitlement ($M)	**6,000**	**9,000**	**15,000**	**30,000**

Example 1 – impact of reform that increases production volume

Scenario: State A releases more land for gas development, increasing its production by 1 unit and, therefore, raising an additional $1 billion in royalties per annum.

As per the CGC's assessment methodology, total royalties across all states would increase to $6 billion and State A's volume of production would increase from 4 units to 5 units. However, since there is no change in the effective royalty rate, only State A's fiscal capacity would be impacted.

The increase in total revenue would then be redistributed on an equal per capita basis (with states receiving only their population share) to ensure that national GST need remains equal to the GST pool. Table 6 shows the GST impact on each state, with State A losing $800 million, or 80%, of the $1 billion in royalties it received.

The severe redistribution occurs despite State A bearing significant environmental, administrative, financial and community risks associated with the increased production. (Note: given the CGC’s three-year average, two-year lagged assessment approach, the full GST impacts would occur from year four after the land release and change in production).

Table 6 - Impact of volume increase in a single state

	State A	State B	State C	Total
GST requirement ($pc)	**3,000**	**3,000**	**3,000**	**3,000**
Less: assessed revenue from additional gas royalties ($pc)	-500	-	-	-100
Add: EPC balancing adjustment ($pc)	100	100	100	100
GST requirement ($pc)	**2,600**	**3,100**	**3,100**	**3,000**
GST entitlement ($M)	**5,200**	**9,300**	**15,500**	**30,000**
Change in GST entitlement from baseline ($M)	*-800*	*300*	*500*	*0*

Example 2 – impact of reform that increases royalty rate

Scenario: State A decides to increase its gas royalty rate from 10% to 12.5%, resulting in an additional $1 billion in royalties.

As per the CGC's assessment methodology, total royalties would increase to $6 billion. However, since each state's share of production remains unchanged, additional revenue would be assessed against each state according to their share of the total volume of production.

State A still sees the majority of additional revenue, raised through its policy decision, redistributed to other jurisdictions. However, the change in royalty rate would be less impactful on State A's GST revenue compared to the impact under the scenario where the volume of production increased.

The GST benefit to states that also undertake gas extraction, such as State B, would be slightly reduced compared to the previous example.

However, State C, which does not engage in gas mining due to a clear policy decision to ban mining despite having resources that could potentially be developed, still benefits the most from the GST system as a result of State A's policy decision.

Table 7 - Impact of royalty rate increase in a single state

	State A	State B	State C	Total
GST requirement ($pc)	**3,000**	**3,000**	**3,000**	**3,000**
Less: assessed revenue from additional gas royalties ($pc)	-400	-67	-	-100
Add: EPC balancing adjustment ($pc)	100	100	100	100
GST requirement ($pc)	**2,700**	**3,033**	**3,100**	**3,000**
GST entitlement ($M)	**5,400**	**9,100**	**15,500**	**30,000**
Change from baseline ($M)	*-600*	*100*	*500*	*0*

Key implications

Both examples of reforms above illustrate the ***perverse*** impacts of current arrangements in the GST distribution system where the CGC's assessment disregards policy neutrality. The CGC's discretion around applying this principle means the equalisation process creates ***disincentives*** for states with resource endowment to develop them, despite having the capability for it.

State A, which facilitates resource development, bears the ***full costs and risks*** associated with these activities, yet loses the majority of additional revenue raised through GST redistribution. Meanwhile, State C that restricts resource extraction benefits disproportionately from the system and is effectively encouraged by the GST system not to develop its gas industry, despite such development clearly being in the national interest.

Ideally, no state should be able to directly influence its GST share through its revenue or expenditure policy choices or where it is able to do so the extent of this influence is limited. Yet, the CGC's assessment process effectively ***encourages*** such as outcome, thereby impeding productive economic reform.

Further discussion on GST impediments to reform in the context of gas

Queensland's gas industry has been a critical contributor to the Australian economy, supporting jobs and ensuring stable energy supplies for households and businesses across the eastern states. Queensland has demonstrated a commitment to fostering the development of its gas resources through policy, land release programs and regulatory reforms.

Since 2010, Queensland has released over 160 areas for petroleum and gas exploration, covering more than 290,000 square kilometres. This includes 26 areas with the Australian Market Supply Condition (AMSC), which reserves gas for the domestic market. In 2025, land releases included nine new gas exploration areas located in the Cooper/Eromanga and Bowen/Surat Basins.[13][14]

In 2026, Queensland announced preferred tenderers for three new gas exploration areas near the Queensland-South Australia border, awarded exploration rights in the Taroom Trough, and released competitive tenders for 18 new exploration areas, including for petroleum and gas. Queensland also continues to work in consultation and collaboratively with key industry stakeholders to reduce red tape and improve the approvals system.[15][16][17]

These efforts have positioned Queensland as the backbone of the East Coast Gas Market (ECGM). The Australian Competition and Consumer Commission (ACCC) notes that by 2027, Queensland will account for nearly 90% of all east coast gas production, increasing to 96% by 2037[18]. Without Queensland, there would be no domestic gas market. In 2024–25 alone, Queensland supplied more than 29 petajoules (PJ) of gas to southern states, supporting their electricity networks, residential use, and industrial demand.

The economic benefits of Queensland's gas industry extend beyond the state. The increase in Qld production not only bolsters economic contributions across the Australian economy, it also extends the life of the Bass Strait and Gippsland gas fields by introducing an additional source of gas supply.

Total direct and indirect wages and salaries from the gas industry were approximately $4.4 billion[19] in the 2024 financial year, with annual investment to maintain production levels estimated at $3.5-4 billion. This investment supports local jobs, businesses, and regional communities, while also contributing to the broader national economy.

Concerningly, the CGC's onshore gas assessment treats states which choose not to develop their gas resources as not having any revenue raising capacity, effectively ***rewarding*** states that apply restrictive policies, such as bans or moratoria on gas development, while ***penalising*** states like Queensland that have actively pursued the development of their gas resources.

In its 2025 Methodology Review, the CGC decided on this approach despite initially consulting on a proposal to apply an equal per capita (EPC) treatment (where assessed revenue is set equal to average revenue across all states and no GST is redistributed) to gas royalties, which would have more appropriately upheld the principle of policy neutrality. This is particularly concerning given the significant role that policy restrictions play in limiting gas development in certain states.

Over the past decade, states such as New South Wales and Victoria have enacted various restrictions, including outright bans on exploration and extraction, which have stifled private sector investment and delayed the development of gas resources. Even where restrictions have been eased, the long lead times required to

[13] Queensland Government media statements, https://statements.qld.gov.au/statements/102398, 15 April 2025

[14] Queensland Government media statements, https://statements.qld.gov.au/statements/102626, 28 May 2025

[15] Queensland Government media statements, https://statements.qld.gov.au/statements/104627, 5 March 2026

[16] Queensland Government media statements, https://statements.qld.gov.au/statements/104470, 10 February 2026

[17] Queensland Government media statements, https://statements.qld.gov.au/statements/104397, 29 January 2026

[18] Australian Competition and Consumer Commission, Gas Inquiry June 2025 Interim Report

[19] Coexistence Queensland, https://cqld.org.au/shared-landscapes/chapter/economic-and-social-contribution/, accessed 11 February 2026

develop gas projects—up to 15 years according to some estimates—mean these states will continue to benefit from the current GST treatment, at the expense of Queensland, for years to come.

In its justification for this decision, it was suggested by the CGC that most gas reserves are located in Queensland. However, this view fails to acknowledge that reserves cannot be classified as commercially viable without pathways to development, which are absent in states with restrictive policies even if substantial gas resources are physically present.

The Gunnedah Basin in New South Wales, part of the stalled Narrabri gas project, is one such untapped opportunity with an estimated 2,261 petajoules of coal seam gas contingent resources[20]. According to the Future of Gas Statement, a scaled back Narrabri project would generate $3 billion in direct revenue and supply 50% of NSW domestic demand[21].

This situation is made worse by the fact that gas is considered to form an essential part of the country's energy transition under the Future Gas Strategy[22] and the Australian Government has noted that greater efforts are needed to address shortfalls in the Gas Market Review Report[23].

The gas industry creates jobs, generates tax revenue, supports manufacturers and other industries that rely on gas, and helps keep energy supply stable for households and businesses across the eastern states.

By failing to account for the deliberate policy decisions of states that restrict gas development, the current methodology substantially penalises Queensland and rewards other states through GST redistribution. This creates a perverse incentive for states to maintain restrictive policies, knowing that they will continue to receive higher GST shares as a result.

Neglecting to address the policy contamination in the gas assessment undermines an important supporting principle and acts against the national interest, given gas is a critical component of Australia's energy transition.

The ACCC has warned that declining reserves in southern states will increase reliance on Queensland's gas supply, yet restrictive policies in these states continue to deter investment in new supply and infrastructure.

This lack of investment has led to Commonwealth interventions, such as the proposed gas reservation policy, which will require LNG exporters to reserve 15%-25% of their production for the domestic market. While this policy aims to address supply shortfalls, it may impact Queensland's royalty revenues and further distort its GST share, exacerbating the inequities in the current system.

The CGC's disregard of policy neutrality is particularly evident in its ***diverging*** treatment of gas and coal royalties. While the CGC has proposed a price-band methodology for coal royalties to reflect policy differences, it has disregarded the significant policy influences on gas development. This ***double standard*** undermines the integrity of the HFE system and discourages states from pursuing reforms that align with the national interest.

Amendments to the current arrangements to remove impediments and increase support for reforms

Direct, in-system changes, such as a discount to the CGC's mining assessment, would go a long way to removing the impediments to reform discussed above.

A carefully considered discount to the mining assessment contrasts with the blunt approach of the 2018 reforms which served to benefit a single jurisdiction and did not address the underlying reform impediments themselves. Further details are available in the next chapter on 'Alternative arrangements'.

[20] Australian Government Geoscience Australia, Australia's Energy Commodity Resources 2025 – Gas, Gas | Geoscience Australia, accessed 19 January 2026

[21] New South Wales Government, Future of Gas Statement, https://www.nsw.gov.au/sites/default/files/2021-07/Future%20of%20Gas%20Statement.pdf, accessed 19 January 2026

[22] Australian Government, Department of Industry, Science and Resources, Future Gas Strategy, https://www.industry.gov.au/sites/default/files/2024-05/future-gas-strategy.pdf, accessed 19 January 2026

[23] Australian Government, Department of Climate Change, Energy, the Environment and Water, Gas Market Review Report, https://www.dcceew.gov.au/sites/default/files/documents/gas-market-review-report.pdf, accessed 19 January 2026

Have states and territories pursued service delivery or revenue raising reforms since the 2018 GST distribution reforms?

In its 2025 Methodology Review, the CGC implemented a change to assess coal by price bands. This was a significant change on the previous methodology which assessed all coal on a combined basis, and it differs from how ***any*** other minerals are assessed. Despite the fact that the CGC's assessments should be policy neutral, this change was implemented partly in response to Queensland's policy settings.

Queensland strongly objected to this change, noting that it could at certain price levels result in assessment outcomes being driven by a state's own policies. This represents a significant departure from the principle of ***policy neutrality***, under which other revenues are assessed against the average policy of all states.

Furthermore, the divergence in revenue capacity between states—a stated driver for the change—was always expected to be temporary. This has been confirmed by Queensland's lower coal revenues in subsequent years as prices have normalised as expected.

Reforms in the contemporary context of coal and gas are clearly ***disincentivised*** by the current GST arrangements, to the detriment of states that develop their resources and contribute to the national economy.

Alternative arrangements

Information request 5 – Are there better alternative arrangements

1. Should alternative arrangements for GST distribution be adopted? What could alternative arrangements look like? Would alternative arrangements:
   a. Result in reasonable HFE?
   b. Provide stability and certainty to budgets?
   c. Provide incentives or not impede policy reforms?
   d. Require additional funding?
   e. Retain the independent basis for determining fiscal need?
   f. Result in significant changes in transfers to states?
   g. Present any implementation challenges or risks?

Overview

Queensland considers alternative arrangements for GST distribution ***should*** be adopted to deliver a more reasonable level of HFE, remove impediments and disincentives to economic reforms, address GST volatility directly at its source and improve the integrity of the GST distribution system.

Firstly, to address the excessive mining-induced GST volatility that was the ***core*** problem intended to be addressed by the 2018 reforms, ***a discount should be applied to the CGC's mining assessment***. This would help achieve a more reasonable level of HFE, reduce GST volatility systematically, improve administrative efficiency and reduce the perverse GST disincentive states face in developing resources to support fuel security and national economic growth.

Secondly, key ***Commonwealth payments for specific purposes (e.g. health, housing, transport) should be discounted or quarantined from GST impacts***, as the GST current distribution process often unwinds state disadvantage, as well as incentives for innovative practices or reforms recognised through these payments. Importantly, this approach would follow the precedent set by the Australian Treasurer directing the CGC on 21 February 2025 to ensure the GST distribution process does not have the effect of unwinding the disadvantage, or differential funding proportions, in the Better and Fairer Schools Agreement (BFSA).

Implementing these two measures—discounting the mining revenue assessment and quarantining key Commonwealth payments from GST impacts—would make the GST distribution system structurally more ***effective, fair, and less complex*** for achieving HFE and negate the need for the 2018 reforms.

The targeted nature of Queensland's proposed measures mean they can be feasibly implemented in place of the 2018 reforms, in a way that delivers a high level of GST volatility protection for resource-reliant states, like Western Australia, while also ***lowering the cost of the NoWO***, allowing the Australian Government to redirect resources currently spent on the 2018 reforms to address real, pressing national priorities.

Should the Australian Government choose to retain the 2018 reforms despite the significant flaws, costs overruns and unintended consequences, doing so does not prevent or preclude the beneficial implementation of the mining discount or the quarantining of key Commonwealth payments.

However, if any key aspects of the 2018 reforms remain, the ***NoWO safeguard must be maintained indefinitely***. History has shown unequivocally what happens when decisions are made that underestimate the true need or diminish expectations around the true cost of the NoWO.

Should alternative arrangements for GST distribution be adopted, and what could such alternative arrangements look like?

The alternative arrangements for GST distribution outlined above and below ***should*** be adopted to deliver a more reasonable level of HFE, remove impediments to economic reforms, address GST volatility directly at its source and improve the integrity of the GST distribution system.

There are two beneficial and viable alternative arrangements

As discussed above, Queensland has identified ***two*** alternative arrangements that Queensland considers would help deliver ***fairer, fit-for-purpose HFE outcomes*** with ***less cost and complexity*** compared to keeping the 2018 reforms. Specifically:

- a discount should be applied to the CGC's mining assessment
- Commonwealth payments for specific purposes should be discounted or quarantined from GST impacts

In addition to these alternative arrangements, Queensland strongly contends that the legislated NoWO safeguard must remain in place indefinitely if the 2018 reforms (or key elements of them) are retained. The NoWO has been instrumental in protecting states from adverse fiscal impacts caused by the reforms, ensuring that all jurisdictions retain the fiscal capacity to deliver essential services and infrastructure.

Discounting the CGC's mining assessment

Queensland considers that a significant discount to the mining revenue assessment conducted by the CGC is a practical approach to addressing long-standing issues with the GST distribution system. This reform would address key concerns around ***volatility*** and ***policy neutrality***, which were identified in the 2018 PC review but remain unresolved under the resulting reforms. Mining revenue is the single largest source of volatility in the GST system, and a discount to this assessment would help mitigate volatility across the system as a whole, while also promoting enhanced fairness and stability.

The 2018 GST reforms, which introduced a relativity floor and other measures, were intended to address the volatility caused by mining royalties, particularly Western Australia's iron ore royalties. However, these reforms did not address the underlying structural issues within the mining revenue assessment itself, as evident in the fact that mining revenue (including changes in circumstances and methodology changes) reduced Queensland's GST by an additional $2.4 billion in 2025-26 from 2024-25.

Discounting the mining revenue assessment in the GST distribution process would deliver a more policy-neutral outcome by ***addressing disincentives*** for resource-rich states to develop their natural resources.

Under the current system, a significant proportion of mining royalties is redistributed to other states through Horizontal Fiscal Equalisation (HFE). While this promotes equity, it can unintentionally discourage resource-rich states from pursuing policies to maximise their economic potential, as they retain only a fraction of the revenue generated. By discounting mining revenue assessments, states would retain a greater share of their royalties, incentivising resource development and fostering economic growth without compromising fairness.

The GST distribution system also creates a disincentive for states to raise additional mining royalty revenue. Under the current methodology, any increase in mining royalties is largely redistributed to other states, reducing the financial benefit for the state that generates the revenue. This penalises states that actively develop their resources, disincentivising them from pursuing policies that could increase more economically efficient revenue streams.

A discount would mitigate this impact, encouraging states to develop their own revenue bases and pursue resource development policies that support economic growth, energy abundance and job creation. This is particularly relevant for resources such as gas, where current arrangements fail to provide adequate incentives for development.

A discount would also provide ***greater certainty and stability*** for states in their forward budget planning. Currently, states with significant mining revenue bases, such as Queensland and Western Australia, face considerable uncertainty in their GST allocations due to the volatility of mining revenue assessments, which are heavily influenced by fluctuating global commodity prices.

A discount would smooth these fluctuations, reducing the impact of short-term revenue changes on GST allocations. This would allow states to plan their budgets more ***effectively***, ensuring they can allocate resources to critical areas such as health, education, and infrastructure with greater confidence.

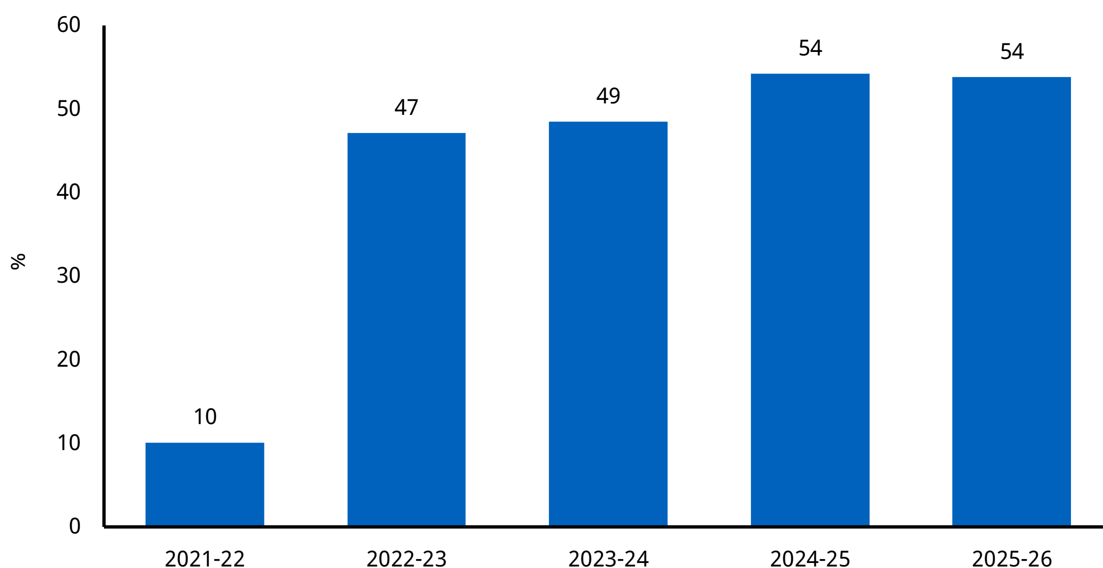
Furthermore, discounting mining revenue assessments would ***better reflect the costs and risks*** associated with resource development. Upfront investment requirements borne in part or in full by states such as environmental management responsibilities, and social infrastructure demands are not fully captured in the current GST distribution system, which focuses primarily on revenue-raising capacity. A discounted approach would provide a more balanced framework and recognise these unique challenges while still addressing fiscal disparities across states.

Discounting practices are ***consistent with international approaches***, such as Canada's equalisation system, which applies a 50% discount to mining royalties. This demonstrates that discounting can be an effective mechanism for addressing policy non-neutrality and volatility while maintaining a level of equalisation. Furthermore, a discount would address issues within the GST assessment methods themselves, rather than applying a blunt instrument, such as the 2018 reforms, that fundamentally changed the distribution outcomes away from a HFE focussed outcome. This would make a simpler, more transparent and more effective solution.

Queensland Treasury analysis shows that a discount of around ***40% to 50%*** would have provided Western Australia to achieve a similar financial outcome from 2021-22 to 2024-25 as it did under the 2018 GST reforms.

Chart 12 demonstrates the indicative discount required in each year to provide Western Australia with a similar fiscal outcome, as well as the estimated discount required in 2025-26. A discount at this level would provide a comparable level of equalisation while addressing the volatility and policy neutrality issues inherent in the current system. Queensland Treasury analysis also shows that a discount at this level would significantly reduce the Australian Government's liabilities under the NoWO safeguard, providing substantial fiscal benefits to the Australian Government.

Chart 12 - Discount required to mining assessment to achieve same outcome for WA



Source: Queensland Treasury analysis

This approach is considered superior to the current arrangements because it ***directly*** addresses the ongoing issues within the GST assessment methods, rather than relying on external adjustments to compensate for systemic flaws. By excluding a specific percentage of state mining revenue from the mining assessment calculations, the reform would be straightforward to implement and would significantly enhance the equity and stability of the GST distribution system.

Queensland urges the PC to consider this alternative arrangement, as it offers a ***fairer and more effective*** means of addressing the challenges posed by mining revenue in the GST distribution system. By adopting a discount to the mining revenue assessment, the Australian Government can ensure a more stable and equitable GST system that better serves the interests of all Australians.

More importantly, Queensland Treasury estimates that unwinding the 2018 changes, even alongside a lower 25% discount to the mining assessment (half of the equivalent discount in Canada), could ***save the Australian Government over $15 billion*** between 2025-26 and 2029-30.

If a 25% mining discount had been in place when the 2018 reforms were implemented, it is estimated the ***Australian Government could have saved over $30 billion*** over the period to 2029-30. A 25% mining discount would have systematically buffered all resource-reliant states from excessive GST volatility, including Western Australia, while costing the nation far less than the 2018 reforms.

Discounting or quarantining Commonwealth payments for specific purposes

Queensland proposes the quarantining or the application of a discount to key Commonwealth payments in the GST distribution system as a necessary reform to address the counterintuitive and inequitable outcomes of the current arrangements.

Under the existing system, the GST distribution process often offsets the benefits of Commonwealth payments, effectively ***unwinding*** the disadvantage recognised through these payments.

An appropriate discount applied to Commonwealth payments would help achieve a more holistic and equitable approach to federal-state financial arrangements by ensuring that equalisation is achieved through all means of support, rather than isolating the GST system as the sole mechanism.

The need for reform is particularly evident in the treatment of ***health reform payments***. These payments already incorporate substantial equalisation principles in their design, such as block funding for small rural or remote hospitals under the NHRA, as they are distributed based on need and activity. However, under the current GST distribution system, these payments are included in the CGC's calculations, which reduces the fiscal benefits they provide to states.

This is particularly problematic given the Commonwealth's ongoing failure to meet its own obligations in areas such as primary and aged care, which places additional financial pressure on states to meet ***shortfalls*** in critical service delivery, and Commonwealth payments may reflect Commonwealth priorities. Discounting health reform payments would ensure that states retain the full benefit of these payments, enabling them to better meet their health service delivery needs.

The need for a discount also extends to other major Commonwealth payments, such as those for infrastructure. For example, Queensland has raised concerns regarding the treatment of funding for the Bruce Highway, a project of national significance that serves as a vital transport corridor for Northern Australia.

Without appropriate reform to quarantine these payments, a significant proportion of this funding could be redistributed away from Queensland through GST, undermining the intended benefits of the investment.

Discounting or quarantining such payments would ensure that the fiscal support provided by the Commonwealth is not ***eroded*** through the GST system, allowing states to fully utilise these funds for their intended purposes.

Queensland notes that there is already a ***precedent*** for excluding certain Commonwealth payments from GST calculations. For example, the Commonwealth has directed the CGC to exclude payments under the Better and Fairer Schools funding agreement from GST relativities to preserve the recognition of educational disadvantage embedded in the funding arrangements.

Extending this principle to other major Commonwealth payments, such as those for health, housing, and critical infrastructure, would align with this precedent and ensure that the objectives of these payments are not undermined by the GST distribution process.

Addressing the core issue the 2018 Reforms sought to resolve

Queensland acknowledges that the 2018 GST distribution reforms were introduced to address key challenges in the GST system, particularly volatility caused by mining royalties. However, these reforms have ***not resolved the underlying structural issues*** within the GST distribution system, and they have introduced significant costs and complexity.

By implementing Queensland's proposed measures—a discount to the mining revenue assessment and quarantining key Commonwealth payments—the key objectives of the 2018 reforms can be achieved in a ***simpler and more effective*** manner. These alternatives would address the root causes of GST volatility and inequities in the treatment of Commonwealth payments, reducing the need for the 2018 reforms and their associated costs, including the $17.5 billion spent on NoWO payments and GST pool top-ups between 2021–22 and 2024–25.

A discount to the mining assessment would systematically reduce GST volatility, promote policy neutrality, and incentivise states to develop their resources, while quarantining key Commonwealth payments would ensure that tied grants are not undermined by GST impacts. Together, these measures would provide a fairer and more sustainable approach to GST distribution, achieving the intended uplift for resource-reliant states like Western Australia without requiring the continuation of the 2018 reforms.

If 2018 reforms are retained and no further material changes are made, the NoWO must be maintained

If the 2018 reforms (or key elements of them) are retained, it will be critical that a legislated NoWO remains in place indefinitely and a discount is applied to the mining revenue assessment.

This approach would better support a reasonable level of HFE than the status quo or other proposals, such as EPC, that could further exacerbate inequities and perverse incentives present in the current system.

It is noted that, recognising the ***substantial ongoing risks*** posed by the 2018 reforms beyond the initial end of the NoWO in 2026-27, National Cabinet extended the NoWO to 2029-30.

However, this extension is temporary, and the absence of a permanent NoWO creates significant ***uncertainty*** for states, particularly as the reforms have disproportionately benefited Western Australia at the expense of other jurisdictions.

Without the aforementioned proposal relating to mining royalties and Commonwealth payments, Queensland maintains that the NoWO should remain in place ***permanently***. The 2018 reforms represent a fundamental shift in the HFE framework, and the NoWO is a necessary protection against the adverse fiscal impacts of this shift.

In parallel, a discount to the mining revenue assessment would address the single largest source of volatility in the GST distribution system and mitigate the longstanding issue of over-penalisation of any state that develops its resources while rewarding states that restrict resource development. This approach would help smooth fluctuations in GST allocations, providing states with ***greater budget certainty and stability*** to plan for essential services and infrastructure.

Additionally, applying a discount to the mining revenue assessment would ***reduce the Australian Government's liability*** to provide significant top-up payments under the NoWO, which has been a major fiscal burden on the nation.

Alternative equalisation approaches that sound simple are indeed too simplistic

Views from other stakeholders to distribute GST on an equal per capita (EPC) basis or for HFE to be delivered through Commonwealth specific purpose payments (SPP) alone are ***not suitable or appropriate, and in the case of EPC, it would reflect a substantial departure from HFE***.

Why EPC GST distribution is unsuitable

The EPC approach ***disregards entrenched structural challenges*** faced by fiscally weaker states and overlooks the material differences in the costs of delivering essential services driven by factors such as geography and demographic composition.

States with widely dispersed populations or higher proportions of vulnerable groups—such as older Australians or those in remote communities—face significantly elevated per-capita costs to provide critical services like healthcare and education, compared to more urbanised and densely populated states.

Moreover, an EPC model fails to recognise the stark disparities in revenue-raising capacities across jurisdictions. States with lower-than-average revenue-raising capacity often lack access to the substantial revenue streams available to other states, such as lucrative property markets, expansive payroll tax bases or abundant mineral resources. Under an EPC framework, these states would struggle to generate sufficient revenue to meet the higher costs of service delivery, inevitably leading to a ***decline*** in public service quality and accessibility.

The resulting fiscal imbalance would place significant pressure on less affluent states, forcing them to increase state-based taxes or cut back on essential infrastructure and services. This could drive residents and businesses to relocate to 'wealthier' states, further ***deepening economic and social inequalities*** across the nation.

As put unambiguously by the Productivity Commission in its 2018 Inquiry report, "*EPC approach is inimical to the fundamental fiscal equality objective of HFE*".

Why HFE through SPPs only is unsuitable

Addressing HFE through SPPs only would ***increase*** the overall complexity, opacity and fragmentation of HFE decisions without delivering commensurately higher benefits in terms of better enabling states and territories to deliver comparable standards of services to their populations.

HFE, delivered through the GST distribution, is a ***whole-of-system*** approach that accounts for both revenue-raising capacity and expenditure needs across all states. In contrast, Commonwealth payments are negotiated on a payment-by-payment basis, with no overarching framework to ensure consistency or coordination between payments.

Unlike the GST system, which explicitly seeks to equalise fiscal capacity across states, Commonwealth payments are not designed to ***fully*** address disparities in revenue-raising capacity. While new payments may be negotiated annually to address emerging issues, such as economic shocks or natural disasters, existing payments are often rigid and locked in years in advance. This lack of flexibility and coordination undermines the ability of Commonwealth payments to respond effectively to changing circumstances or to achieve the same level of equity as the GST system.

Shifting equalisation ***only*** to Commonwealth payments would effectively transfer the work currently undertaken by the CGC in distributing the GST pool to a similar process, but potentially one that is more opaque and fragmented.

This approach would likely require the creation of a CGC-like body to assess and allocate funding, negating any perceived simplicity of the EPC model. Furthermore, as Commonwealth payments are subject to the discretion of the federal government, states would face increased uncertainty and reduced financial independence.

There is merit to considering simpler methods of equalisation but further work is needed

Other alternative options proposed by various stakeholders that are worthy of further consideration include a proposal to replace CGC calculations with a simple formula, in line with Recommendation 7.1 of the PC Inquiry Report into the 2018 Inquiry into Horizontal Fiscal Equalisation. For example, expense assessments could be replaced with ***simple loadings*** accounting for regionality and Indigeneity while revenue assessments could be replaced by a ***global indicator*** such as gross state product.

Such an approach could be devised in a way to achieve a similar outcome to the current GST arrangements (as a potential benchmark level), and with a suitable range of indicators could provide a good historical fit against majority of the states.

The main advantage of this option would be that it would reduce complexity and provide greater transparency in GST distributions. It would also reduce the false precision produced by imperfect assessment methods. Policy neutrality could also be achieved through the use of a simpler indicator which is seen to be less susceptible to state policy settings.

However, any move to simpler assessment methods would need to ***avoid bias*** against fiscally weaker states, or states with certain factors (remoteness, indigeneity, disadvantage).

Despite the merits in this option, Queensland recognises the substantial difficulties in implementing such an approach and does ***not*** currently consider it superior to the four proposed alternatives outlined above.

Any future arrangements will also require governance reforms

Regardless of any changes made to the GST distribution system, Queensland strongly advocates for the implementation of enhanced governance measures to improve the processes of the CGC.

The governance of GST distribution has historically faced significant shortcomings, stemming from insufficient guidance regarding the roles and responsibilities of the CGC. This lack of clarity has created ***vulnerabilities***, enabling a high degree of discretion by the Commonwealth over the CGC's operations and decision-making processes.

Such governance gaps have tangible consequences. For instance, the ***absence of robust governance*** structures allowed the former Australian Treasurer to delay issuing the terms of reference for the 2025 Methodology Review. This delay resulted in a substantially compressed review timeframe, which constrained opportunities for meaningful consultation with states and territories. The shortened process undermined the ability to thoroughly assess and address critical issues, ultimately leading to sub-optimal decisions that may have long-term implications for the equitable distribution of GST revenue.

Recognising these challenges, states and territories have already collaborated to identify and propose a range of improvements to the administration of GST distribution. These proposals, developed through the Board of Treasurers, have been submitted to both the Commonwealth Treasurer and the CGC.

While the CGC has considers some of these recommendations are being addressed, it is evident from the collective perspective of states that further action is required to ensure the system operates effectively and fairly.

Queensland emphasises that these governance reforms must be implemented in ***conjunction*** with any changes to the GST system to ensure a transparent, accountable, and equitable framework for all jurisdictions. Strengthening governance structures will not only enhance the integrity of the CGC’s processes but also build trust and confidence among states and territories in the administration of GST distribution.

Finally, regardless of how the GST system is reformed, it is critical that GST must remain an ***untied, general revenue source*** to provide states with the flexibility to address their unique needs and priorities.

This autonomy enables states to innovate, respond to local challenges, and deliver services in a way that best meets the needs of their populations.

Preserving the untied nature of GST revenue is critical to maintaining the integrity of Australia's federal system and supporting the accountability of state governments. GST must also remain a ***robust and reliable*** revenue source, providing states with the stability needed to plan and invest in essential services and infrastructure, while helping shield state budgets from volatility, ensuring fiscal sustainability and enabling states to meet the needs of their populations.

Conclusion

Queensland considers there is strong evidence that the 2018 GST distribution reforms have:

- not delivered a reasonable level of HFE
- not helped the GST system balance responsiveness with addressing volatility
- not alleviated impediments to states pursuing beneficial economic reforms in the national interest
- not been fiscally sustainable for states and territories (except for Western Australia) in the context of overall Federal Financial Relations
- been poorly budgeted for by the Commonwealth, even if the quantum of payments is sustainable given the Commonwealth's overall revenue growth and relative fiscal strength.

Instead, the only concrete outcomes of the 2018 reforms have been:

- the transfer of an additional $17.5 billion in Commonwealth funding to Western Australia
- less funding for other states and territories to address national priorities and to meet the specific needs of their populations
- no protection for states and territories (apart from Western Australia) from underlying drivers of GST volatility
- additional administrative complexity for the CGC.

Benefitting one jurisdiction to the exclusion of all others has been detrimental to delivering a reasonable level of HFE and has left Australia's HFE system in a far weaker state.

For these reasons, the 2018 reforms should be ***reversed without delay and replaced with simpler, better alternative GST arrangements*** which include discounts to the CGC's assessments for mining and Commonwealth payments.

Crucially, the issues with the GST distribution system identified by Queensland in this submission are not new. The 2018 PC Inquiry into HFE identified many of the same issues, including how the GST system created disincentives for states to pursue major tax reforms and desirable mineral and energy policies. The PC also identified the need for reforms in terms of GST governance and recommended the CGC use simpler, more policy neutral assessments. The 2018 reforms have not addressed these longstanding systemic because they were not properly designed to.

The GST distribution alternatives proposed by Queensland in this submission attempt to deliver a fairer outcome for all states and address key findings of the 2018 PC Inquiry in a structured way, through the GST system itself.

A discount on the mining assessment would significantly address issues of policy neutrality and encourage states to better develop their own resources. It would also address the problems of volatility in GST revenues by focusing on its largest source of volatility. In addition, quarantining major Commonwealth payments would address issues of state disadvantage recognised in major agreements being effectively 'unwound' through GST distribution arrangements.

The cost savings to the Australian Government from unwinding the 2018 reforms and replacing them with Queensland's proposed alternatives could be deployed more productively in other parts of the national economy. Doing so would also go a long way to restoring fairness in Australia's GST distribution system and better align the system with the original purpose and intent of HFE.

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