Response to the Commonwealth Government's Horizontal Fiscal Equalisation Proposal

Tasmanian Department of Treasury and Finance
October 2018
Key Points

The Basis of Horizontal Fiscal Equalisation (HFE)

HFE is a fundamental principle that binds the Federation, and ensures that all States and Territories (States) have a similar fiscal capacity to deliver services to their residents, and that the tax burden is similar on all taxpayers.

This is particularly important for the States with smaller populations and economies that face higher service costs and/or weaker tax bases than the States with larger populations and economies. It is a critical feature of Commonwealth-State financial relations to ensure equity between the States as differences in the economic, social and demographic features of a State can impact expenditures and revenue.

It does not compensate for differences attributable to policy, practice or relative inefficiency.

If States were not provided with a similar capacity to provide services through HFE, inequality within the Australian community would increase over time, because disadvantaged States would not have the capacity to compensate for their disadvantages and stronger States would have a greater capacity than required to meet their needs.

Through the fortunate abundance of natural resources, Western Australia was able to take advantage of world demand for these minerals and reap the unprecedented economic benefits. As a result, Western Australia has had, and will continue to have, extremely high royalty revenues compared to other States.

However, this boom came at the expense of other State economies. Tasmania, for instance, experienced the down side effects of the very high exchange rates on its own exports. In addition, the mining boom drove significant wage increases in the public sector, impacting on service delivery costs in a number of States.
Notwithstanding the reduction in Western Australia’s GST share, its total revenue per capita remained above the national average largely due to its increasing mineral royalties.

The CGC also estimated that it benefited from an additional $7 billion in GST revenue from 2010-11 to 2013-14 due to the lagged effect of the GST distribution.

The decreasing State relativity of Western Australia has drawn considerable attention over recent times and raised ill-informed arguments that it is bearing an unfair equalisation burden. It was also the major driver of the decision to task the PC with a review of HFE.

**Analysis of the Commonwealth Government’s Response to the PC Report**

The former Commonwealth Treasurer, the Hon Scott Morrison, has expressed the view that all States will be better off, both now and into the future, from the Commonwealth’s response to the PC Report. On 5 July 2018, he stated:

"as the Commonwealth Treasurer, it's my responsibility to ensure there's a better arrangement. At the end of the day, that means ensuring no State is worse off, and, indeed, making sure they're better off”.

Under the proposed changes, Western Australia will have a greater permanent and increasing fiscal capacity than any other jurisdiction and will be able to deliver a higher standard of services and/or lower taxes to its constituents relative to all other jurisdictions.

In fact, around 70 per cent of the GST pool boost and direct top ups of $6.7 billion will be distributed to Western Australia by 2026-27.
Key Points

Even if the Commonwealth’s proposal leaves Tasmania better off in the short term, it will set in place a system that will entrench a gap between the fiscally strongest State (Western Australia) and the other States.

This does not meet the fundamental principal of HFE to ensure an equitable outcome for all Australians, no matter where they live.

However, there are also significant risks associated with the Commonwealth’s proposal that would suggest that the former Treasurer’s commitment that all States will be better off will not eventuate.

The Commonwealth has presented one modelled scenario, which is likely to portray a “best case” for the States and significantly understates the probable benefits to Western Australia and the costs to other States on a permanent basis.

Alternative scenarios modelled by the States show that there are a number of feasible scenarios, based on different assumptions and more realistic relativities, which would appear to indicate that the proposed changes to the GST distribution may be detrimental to Tasmania’s fiscal position.

In addition, the Commonwealth’s proposal includes a number of other recommendations adopted from the PC’s report which have not been included in its modelling and will result in Tasmania being worse off than under the current system of full HFE.

A number of these recommendations will significantly advantage the larger States at the expense of the smaller States.
Key Points

No Worse off Guarantee

A formal guarantee from the Commonwealth will provide a greater level of confidence that States will not be negatively impacted by the proposal and will embed in legislation the former Treasurer’s commitment that all States will be “better off”.

It is proposed that the Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018 be amended to allow for this guarantee.

Given the complexity of the HFE methodology, it is proposed that any guarantee should be drafted in consultation with all States and Territories and the CGC to ensure that it is workable.

This will ensure that the Commonwealth Government delivers on the former Treasurer’s commitment

“to work in cooperation with States to reach a long term solution - one that leaves Australia with a more stable and predictable source of revenue for all States, while preserving the best features of our HFE system in terms of equity and leaving all States better off”.

5
PART A - Background to HFE and the Outcome of the Productivity Commission’s Inquiry into Horizontal Fiscal Equalisation
What is HFE?

Horizontal Fiscal Equalisation (HFE) is a fundamental principle that binds the Federation, and ensures that all States and Territories (States) have similar fiscal capacity to deliver services to their residents, and that the tax burden is similar on all taxpayers.

This is particularly important for the States with smaller populations and economies (smaller States) that face higher service costs and/or weaker tax bases than the States with larger populations and economies (larger States).

HFE is therefore a critical feature of Commonwealth-State financial relations to ensure equity between the States and has been an integral part of Australian Government fiscal policy since Federation.

This was confirmed in the 2011 Intergovernment Agreement on Federal Financial Relations between the Commonwealth and States, where it was unanimously agreed the Australian Government would continue to distribute revenue from the Goods and Services Tax (GST) among the States in accordance with the principle of HFE.

If States were not provided with the same capacity to provide services through HFE, inequality within the Australian community would increase over time, as disadvantaged States would not be provided with the capacity to compensate for their disadvantages and strong States would have a greater capacity than required to meet their needs. This would give the stronger States an ability to provide above national average standards of services and/or lower taxes relative to the other less stronger States.

HFE protects State autonomy and enables the provision of services to State communities, reflecting the specific and varied priorities of those communities. The nature of the GST revenue pool distribution is a "zero sum game" in that for a State to receive above population share, another has to receive below population share.
How does HFE work to distribute GST?

States require differing levels of GST revenue because they have different costs of providing the average level of services and different capacities for raising revenues.

If a State has a high capacity for raising revenue - like Western Australia - it will have high assessed revenue and will, therefore, require less GST. Similarly, if a State has a high cost of providing average service levels - like Tasmania - it will have high assessed expenses and will require more GST revenue.

Simply put, a State’s GST requirement is calculated as the difference between its assessed expenditure needs and the sum of its assessed own-source revenue capacity and its actual ‘tied’ Australian Government funding.

**Figure 1 - Stages of the HFE Process**

![Diagram showing stages of the HFE Process](image)
How does HFE work to distribute GST?

*What is a relativity?*

Relativities measure how a State’s calculated GST per capita differs from the average per capita GST.

If States had the same economic, social and demographic features and Commonwealth payments were distributed uniformly among them, the CGC would recommend that the GST be distributed equally per person. Each State would be allocated the same (average) amount per resident, and it would assess a relativity of one for each State.

However, some States are fiscally stronger than others - they have stronger tax bases, lower service delivery costs or receive above average Commonwealth payments. They need less GST revenue than other States if all States are to be fiscally equal.

That relative strength (or weakness) is measured by the State’s need for GST revenue, compared to the average, and is summarised in its relativity.
What does HFE mean for Tasmania?

GST is the single largest source of revenue for Tasmania representing 40 per cent of general sector government in 2018-19.

Tasmania will receive $1.1 billion more in GST revenue than its population share of $1.4 billion in 2018-19 because of HFE. This is 17 per cent of total revenue and almost the same as the amount received from the Australian Government payments for specific purposes. This represents 60 per cent of Tasmania's health expenditure, or 68 per of education expenditure.

The relative importance of each source of revenue for Tasmania is shown in the following chart.

**Chart 1 - Tasmanian Revenue Sources 2018-19**

- **GST (EPC + HFE)**
  - EPC - 23%
  - HFE - 17%
- **Australian Government Payments**
  - 23%
- **Taxation**
  - 20%
- **Sales of Goods & Services**
  - 7%
- **Dividend, Tax Equivalents**
  - 7%
- **Other Revenue**
  - 3%
- **Fines & Regulatory Fees**
  - 2%
Recent criticism of HFE

The ongoing debate about the integrity of the current HFE system has primarily been generated by the decline in Western Australia’s GST share.

Given the abundance of natural resources within it State boundaries, Western Australia has been able to take advantage of world demand for these minerals and reap the unprecedented economic benefits of the mining boom.

As a result Western Australia has had, and will continue to have extremely high mining royalty revenue compared to other States. HFE balances this out by allocating it a smaller share of GST grants.

It is incorrect to suggest that other States have profited from the GST redistribution that the mining boom generated while incurring none of the costs. Western Australia’s boom came at the expense of a number of other State economies.

A number of States experienced the down side of the very high exchange rates on their own exports. In addition the mining boom drove significant wages increases in the public sector, impacting on service delivery costs in some, if not all, jurisdictions.

The Western Australian Special Inquiry into Government Programs and Projects noted large remuneration increases across the public service in Western Australia and strong growth in key service delivery agencies.¹

¹ Government of Western Australia, Special Inquiry into Government Programs and Projects – Final Report (Volume 1), February 2018, pg.44.
As highlighted in the charts opposite, Western Australia had above average total and own source revenue per capita from 2010-11 to 2013-14.

Despite the decline in Western Australia’s share of the GST, its total revenue per capita remained higher than Tasmania until 2015-16. However, Western Australia’s total revenue per capita is forecast to once again exceed Tasmania’s in 2018-19 and 2019-20, largely due to the lagged effect of GST distribution.

Even when Western Australia’s GST share fell to around 0.3 of an equal per capita share as a result of its large increase in mining royalties, its total own-source revenue per capita remained above the national average.

Notwithstanding this, the Commonwealth Government has provided over $1.2 billion in top up payments to Western Australia since 2014-15, to effectively maintain Western Australia’s relativity at 2014-15 levels.
Recent criticism of HFE

Western Australia failed to take account of the CGC’s lagged assessments and did not budget for the sharp decline in WA’s relativity which coincided with the subsequent decline in its iron ore royalties post the mining boom.

However, Western Australia benefited from these lagged assessments when iron ore royalties were rising rapidly and its GST had yet to fully adjust downwards to reflect its higher royalty income.

The CGC has estimated that Western Australia benefited by about $7 billion in additional GST from 2010-11 to 2013-14 as a result of the lagged effect of mining revenue assessment.

The fact that Western Australia found itself in difficult financial circumstances is not the fault of HFE or the GST distribution methodology.

The lagged GST assessment and the decline in Western Australia’s share were predictable and well known by Western Australia. In its 2011-12 Budget, the Western Australia Government forecast that its relativity would reduce from 0.72 in 2011-12 to 0.33 in 2014-15, with a corresponding significant decline in GST revenue.

Despite Western Australia’s anticipation that the CGC would change its methodology and prevent a drop in Western Australia’s relativity, this did not eventuate. As a result, Western Australia’s financial position deteriorated significantly.

A key finding from the Special Inquiry into Government Programs and Projects, found that Western Australia’s Treasury warned of the potential negative impact on the State’s finances of the Royalty for Regions program prior to the formation of Government in 2008. Treasury also consistently predicted a fall in the State’s share of the GST revenue throughout the term of the Barnett Government. Its concerns with these matter, and the pace of the capital works program, were not given sufficient weight.2

Recent criticism of HFE

Rather than being financially prudent in the face of a declining relativity, Western Australia chose to increase its recurrent expenditure by historically very large rates on public sector wages and salaries, services and infrastructure. Much of this increased expenditure has become structurally embedded, such that it is very difficult to unwind.

Consequently, Western Australia faces major financial difficulties.

Chart 4 - Western Australia’s Recurrent Expenditure
HFE – working as it should

The following chart which illustrates the decline in Western Australia’s relativity as its own source revenues grew rapidly from the mid 2000s until 2013-14. As Western Australia’s need for the GST fell, the comparative needs of other States grew. However, with the 2014-15 correction in Western Australia’s iron ore revenues and strong growth in revenues projected in other States, Western Australia’s relativity is forecast to grow over the next three years to 0.617 by 2020-21. This would result in other States relativities experiencing a corresponding decline and a subsequent narrowing of the current divergence.

This demonstrates that HFE is working as it should without the need to drastically change the system.

In effect, HFE works as an automatic stabiliser to ensure an equitable level of fiscal capacity between the States.

*Chart 5 - Historic actual State relativities and Western Australia’s forecast relativities*
PART B - Treasury’s Analysis of the Commonwealth Government’s Proposal
Commonwealth Government’s Response


The Commonwealth has accepted all of the PC’s recommendations except the recommendation to equalise to the average fiscal capacity of all States.

The Commonwealth has instead proposed an alternative to equalise to the fiscal capacity of NSW or Victoria (whichever is higher) together with a range of measures to transition to the new arrangements. The Commonwealth’s singled modelled scenario forecasts the outcome set out in the table below.

In the document released by the Commonwealth, the then Treasurer, the Hon Scott Morrison MP indicated a willingness:

“to work in cooperation with States to reach a long term solution - one that leaves Australia with a more stable and predictable source of revenue for all States, while preserving the best features of our HFE system in terms of equity and leaving all States better off”.

| State by state impact compared to current HFE system - Commonwealth scenario using PC relativities |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                 | NSW    | Vic    | Qld    | WA     | SA     | Tas    | ACT    | NT     | Total  |
|                                 | $m     | $m     | $m     | $m     | $m     | $m     | $m     | $m     | $m     |
| 2018-19                         | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| 2019-20                         | 0      | 0      | 0      | 814    | 0      | 0      | 0      | 0      | 69     | 883    |
| 2020-21                         | 0      | 0      | 0      | 585    | 0      | 0      | 0      | 0      | 0      | 585    |
| 2021-22                         | 78     | 84     | 87     | 568    | 41     | 17     | 7      | 24     | 906    |
| 2022-23                         | 30     | 45     | 61     | 421    | 31     | 14     | 5      | 24     | 631    |
| 2023-24                         | 14     | 31     | 51     | 495    | 28     | 13     | 5      | 25     | 664    |
| 2024-25                         | 70     | 84     | 102    | 575    | 50     | 22     | 9      | 37     | 948    |
| 2025-26                         | 85     | 96     | 112    | 580    | 54     | 23     | 10     | 39     | 999    |
| 2026-27                         | 74     | 85     | 105    | 663    | 53     | 23     | 10     | 40     | 1 053  |
| **Total**                       | **351**| **425**| **518**| **4 702**| **257**| **112**| **46** | **258**| **6 669**|

17
In its Interim Response to the PC’s Inquiry, the Commonwealth Government has committed to provide short term funding over the three years from 2019-20 to 2021-22 to ensure that no State receives less than 70 cents per person per dollar of GST. In the same period, the Northern Territory will also be guaranteed at least its current share of GST.

The Commonwealth Government has also committed to inject an additional $600 million into the GST distribution in 2021-22, the first year of transition to the new equalisation standard. The expanded GST pool would continue to grow at the same rate as growth in GST collections each year.

This would be followed by a second injection of $250 million in 2024-25, half way through the transition to the new equalisation standard.

This will result in an additional $6.7 billion in top ups and boost to the pool based on forecast pool growth. However, around 70 per cent of this funding will be provided directly to Western Australia.

---

3 Australian Government, Productivity Commission inquiry into horizontal fiscal equalisation: Government interim response, July 2018, pg.21 (Tables 5 and 6).
Under the proposed changes, Western Australia will have a greater permanent and increasing fiscal capacity than any other jurisdiction and will be able to deliver a higher standard of services and/or lower taxes to its constituents relative to all other jurisdictions.

Western Australia could also increase its mining royalties, further increasing its fiscal capacity.

Even if the Commonwealth’s proposal leaves Tasmania better off in the longer term, it will set in place a system that will entrench a gap between the fiscally strongest State (Western Australia) and the other States.

As noted by the CGC in its response to the PC enquiry:

“the fiscally strongest State would receive more than it requires to provide the average level of service. If it remained the fiscally strongest State over the intermediate term, it would be able to:

- provide service in excess of the average; and/or
- provide services of a higher quality than the average; and/or
- levy lower than average own-source taxes and charges; and/or
- retire debt at a faster rate than other States."
Treasury Analysis of the Proposal

As indicated earlier, the Commonwealth’s proposal presented one modelled scenario that suggested that Tasmania would be better off under the new arrangement, compared to the current system of full HFE.

However, this modelling does not take into account the impact of the other recommendations and is therefore incomplete.

There are a number of alternative scenarios based on different assumptions which would indicate that the proposed changes may be detrimental to Tasmania’s situation.

Treasury’s analysis focuses on two key aspects of the Commonwealth Government’s proposal:

• the recommendation to equalise to the fiscal capacity of New South Wales or Victoria (whichever is higher); and

• the other PC recommendations accepted by the Commonwealth Government.
Treasury Analysis of the Proposal – Recommendation to Equalise to the Second Highest State

The PC’s “Consensus” Relativity Forecasts

The Commonwealth’s modelling is based on the PC’s forecasts of State GST relativities.

The PC sought relativity forecasts from each State to enable it to calculate an average of State relativities. Treasury provided the PC with its 2017-18 Tasmanian Budget relativity forecasts. These were restricted to the Budget and Forward Estimates period given the variability in relativities. A similar approach appears to have been taken by most other States.

In February 2018, Treasury commented on a PC paper that included initial forecasts of relativities for 8 years, among other things. It did not provide any detail of how the relativities were estimated and therefore Treasury was unable to undertake a comprehensive analysis of the data.

In a submission, Treasury expressed significant concerns with the approach to forecasting relativities and in particular, the approach to forecasting beyond the forward estimates period.

The forecast relativities, which trend to their long term average, would only occur if Western Australia’s mining royalties decline over the period - which is inconsistent with Western Australia’s current State Budget forecasts.

Also, while projecting an increase in Western Australia’s relativity, the PC fails to forecast a reduction in other States’ relativities - such an outcome is not possible under the “zero sum” principle of the distribution methodology.
Variability in Relativities

There is significant volatility in Tasmania's annual GST relativity. This can be driven by a range of factors, such as Tasmanian specific factors such as large Commonwealth payments which aren’t excluded from the equalisation process or external factors such as high iron ore royalties in other States during the mining boom.

Chart 7 – Variability in Tasmanian GST relativities
Variability in Relativities

Historic actual annual variability for Tasmania’s relativity is 2.2 per cent, with variations of up to 11.3 per cent. Annual variability has exceeded:

• one per cent in 13 out 18 years; and
• two per cent in 8 out of 18 years.

The average annual change in relativity over three years is 5 per cent.

The PC’s relativity forecasts for Tasmania are extremely stable, with an average annual variability of only 0.5 per cent. This is highly unlikely to eventuate.

A one per cent change in Tasmania’s relativity in 2018-19 is equivalent to approximately $25 million in GST revenue (or $33 million in 2026-27) based on the PC’s projections.

A five per cent change in 2026-27 could result in an unforeseen movement of approximately +/- $150 million.

Forecasting relativities beyond the Forward Estimates period also has the potential for a higher degree of error, as modelling becomes more reliant on forecast and projected data.
Treasury Analysis of the Proposal – Recommendation to Equalise to the Second Highest State

Alternative Scenarios

Treasury has modelled a number of scenarios to illustrate the range of outcomes that could result from the Commonwealth proposal.

Western Australia is by far the main beneficiary of the Commonwealth’s proposal.

Also under all the alternative scenarios Treasury has modelled, Western Australia is significantly better off under the Commonwealth’s proposal than under the existing methodology, through its increased share of the GST pool and direct top-ups.

Treasury’s view is that the single GST scenario modelled by the Commonwealth is only one of many possible scenarios, and it understates the benefits to Western Australia and the financial costs to all other States.

Scenario 1
In this scenario, Western Australia achieves rapid short term growth in mining royalties. This would only require a 20 per cent increase in mining royalties, which is modest compared to the variability during the mining boom (its mining royalties increased by 36 per cent from 2012-13 to 2013-14 and then declined by 24 per cent in the following year).

Scenario Analysis - Rapid Growth in Mining Royalties - State by state impact compared to current HFE system

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
</tbody>
</table>

Under this scenario, Western Australia would be significantly better off under the Commonwealth's proposal, and all other States significantly worse off than under the current system.
Treasury Analysis of the Proposal – Recommendation to Equalise to the Second Highest State

**Alternative Scenarios**

**Scenario 2**
This is a more conservative scenario that assumes a gradual return to 10-year average relativities by 2026-27. Under this scenario, Western Australia’s relativity hovers at around 0.50, which is consistent with its own current budget forecasts of stable mining revenues.

**Scenario Analysis - Return to 10-year average relativities - State by state impact compared to current HFE system**

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-3 316</td>
<td>-2 744</td>
<td>-1 914</td>
<td>18 086</td>
<td>- 528</td>
<td>- 125</td>
<td>- 150</td>
<td>404</td>
</tr>
</tbody>
</table>

Under this scenario, Western Australia would be significantly better off under the Commonwealth’s proposal and all other States significantly worse off than under full HFE.

**Scenario 3**
This scenario reflects a period of relative stability from the end of the current forward estimates period. The outcome over eight years is not significantly different from the Commonwealth’s modelling.

**Scenario Analysis - Stable relativities from 2020-21 - State by state impact compared to current HFE system**

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>- 32</td>
<td>146</td>
<td>231</td>
<td>4 689</td>
<td>219</td>
<td>90</td>
<td>28</td>
<td>787</td>
</tr>
</tbody>
</table>

This scenario demonstrates that very small changes in assumptions about relativities can result in some states being worse off, rather than better off. New South Wales and Victoria become progressively worse off than under the current HFE system over time, and the annual benefit to Western Australia grows progressively larger.
Treasury Analysis of the Proposal – Other recommendations

As part of its Terms of Reference, the PC was required, among other things, to consider options for simplifying the current system.

The other recommendations proposed by the PC are largely aimed at addressing a lack of understanding of the system and are generally administrative in nature and aimed at ensuring a more informed public debate of HFE.

They are generally supported by Treasury on condition that the Commonwealth Government consults with the States and the CGC in relation to the practical implementation of these measures.

However, a number of recommendations are of particular concern and will result in Tasmania being worse off than under the current system of HFE.

The financial impact of these recommendations is not included in the Commonwealth Government’s modelling.

Proposed Changes to Materiality Thresholds

One of the more significant recommendations is that the CGC should adopt a “significant” increase in materiality thresholds.

Materiality thresholds are currently used by the CGC to remove both revenue and expenditure factors from the equalisation process that do not exert a material impact on the redistribution process.

The current threshold is $30 per capita and the CGC is currently considering increasing the threshold to $35 per capita as part of the 2020 Methodology Review.

The Commonwealth Government has not provided details as to what constitutes a ‘significant’ increase. However, in its final report, the PC referred to an earlier proposal to quadruple materiality thresholds to $120 per capita.
Treasury Analysis of the Proposal –
Other recommendations

*Proposed Changes to Materiality Thresholds cont.*

Depending on the level chosen, any change could have a significant negative impact on Tasmania’s fiscal position.

*Impact on GST distribution per annum compared to Budget from increasing materiality thresholds*

<table>
<thead>
<tr>
<th>Materiality threshold (pc)</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>WA</th>
<th>SA</th>
<th>Tas</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$35</td>
<td>-$44</td>
<td>-$13</td>
<td>$25</td>
<td>$79</td>
<td>-$31</td>
<td>-$8</td>
<td>-$7</td>
<td>-$1</td>
</tr>
<tr>
<td>$50</td>
<td>$87</td>
<td>-$132</td>
<td>-$7</td>
<td>$120</td>
<td>-$25</td>
<td>-$54</td>
<td>$7</td>
<td>$3</td>
</tr>
<tr>
<td>$100</td>
<td>-$216</td>
<td>$246</td>
<td>-$329</td>
<td>$297</td>
<td>$86</td>
<td>-$63</td>
<td>-$24</td>
<td>$2</td>
</tr>
<tr>
<td>$120</td>
<td>-$21</td>
<td>$582</td>
<td>-$542</td>
<td>$75</td>
<td>$51</td>
<td>-$119</td>
<td>$25</td>
<td>-$50</td>
</tr>
</tbody>
</table>

If implemented, these changes are likely to result in a further significant reduction in HFE as greater simplification of the methodology results in less recognition of States’ disabilities and fewer assessments.

This will lead to a greater proportion of GST being allocated on an equal per capita basis and significantly advantage the larger States at the expense of smaller States.
A special Council of Federal Financial Relations meeting was held on 3 October 2018 to discuss the proposal.

In advance of the meeting, States and Territories were actively working together to understand the proposal and associated modelling.

A letter from the Board of Treasurers, signed by all Treasurers, was sent to the former Commonwealth Treasurer on 10 August 2018 seeking a binding guarantee that no State will be worse off under the proposed system compared to the current system in perpetuity.

A guarantee will require the CGC to continue to model the current system and produce two sets of relativities. However, this should not be an onerous process as the CGC will need to do this under the Commonwealth’s proposal in order to then equalise to the stronger of New South Wales or Victoria. This later equalisation is simply a subsequent step in the calculation of final relativities. This does not require the CGC to run two systems.

The draft Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Bill 2018 was provided to the States by the Commonwealth on 1 October 2018 in advance of the CFFR meeting which amends the Commonwealth Grants Commission Act 1973 and the Federal Financial Relations Act 2009 to give effect to key elements of the Government’s interim response.

The draft Bill itself also relies on two sets of relativities being calculated through the transition period.

At the meeting, all Treasurers reiterated their request that a formal guarantee be included as part of the legislation.

A formal guarantee from the Commonwealth would provide a greater level of confidence that States will not be negatively impacted by the proposal and will embed in legislation the former Treasurer’s commitment that all States will be “better off”.