

DECEMBER 2021

Secretary, Department of Treasury and  
Finance

# Inquiry into Commonwealth support for Victoria

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# The system of GST distribution aims to equalise the capacities of States

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## Horizontal fiscal equalisation

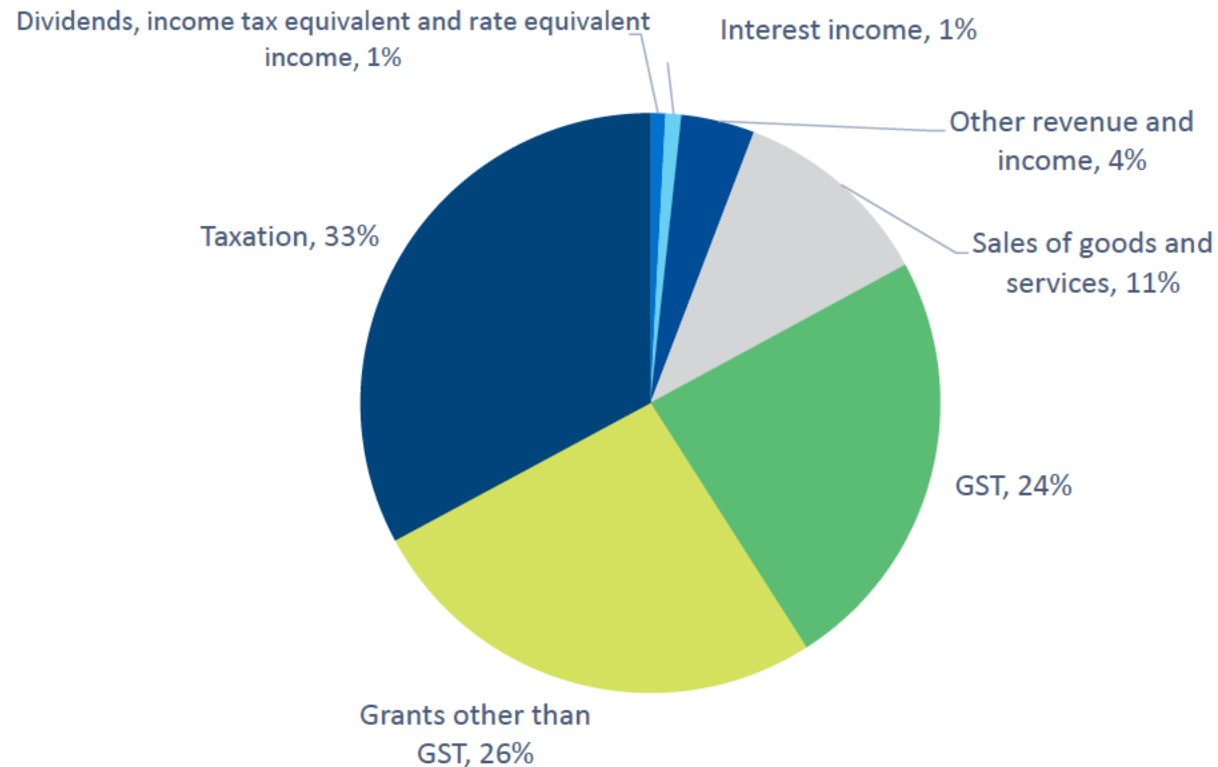
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*“To ensure that each of Australia’s States has a similar fiscal capacity, under average policies, to provide services and the associated infrastructure to its communities”*

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# GST forms an important part of Victoria's revenue base

Victorian Government revenue sources 2020-21



GST forms close to a quarter of Victoria's total revenue

Other Commonwealth grants comprise another quarter

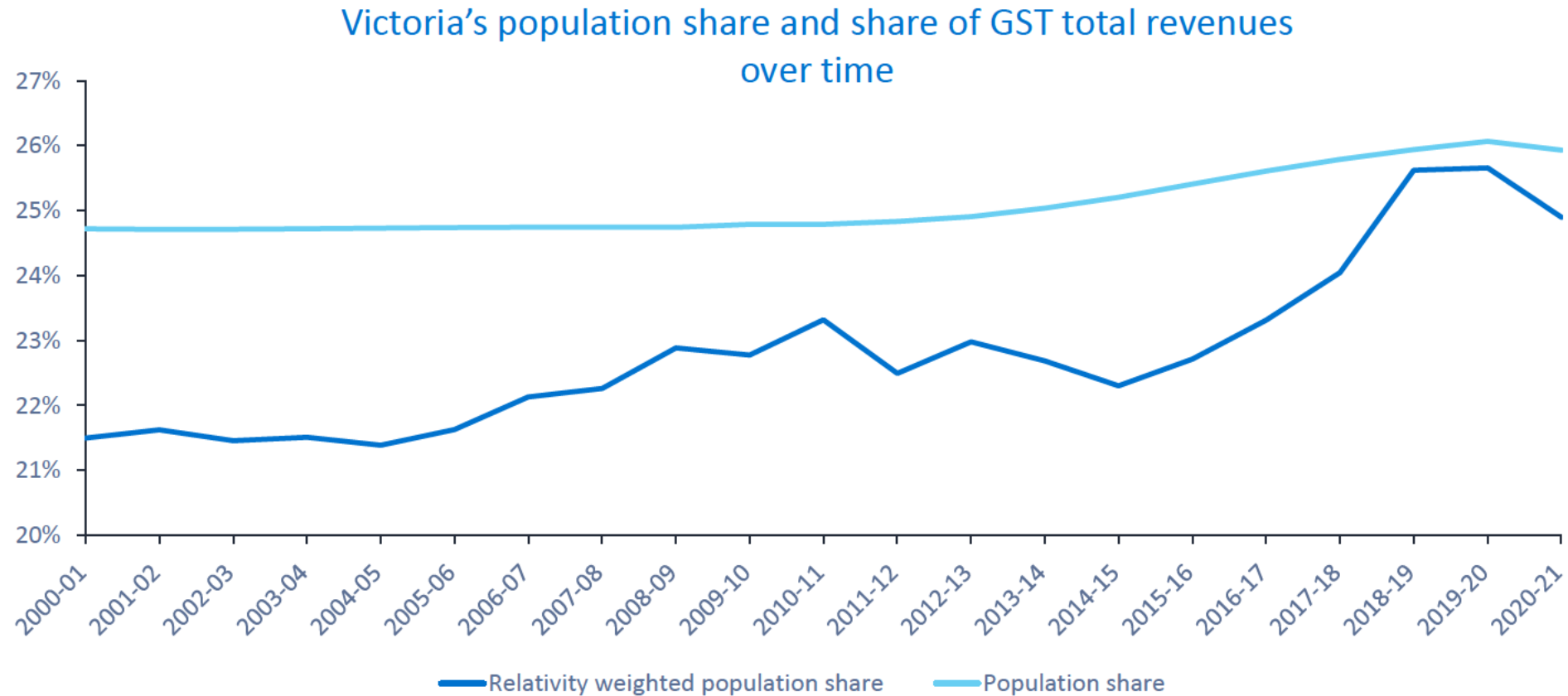
# Victoria's recent GST growth has been driven by the GST pool



Source: Department of Treasury and Finance, CGC 2021 Update Report

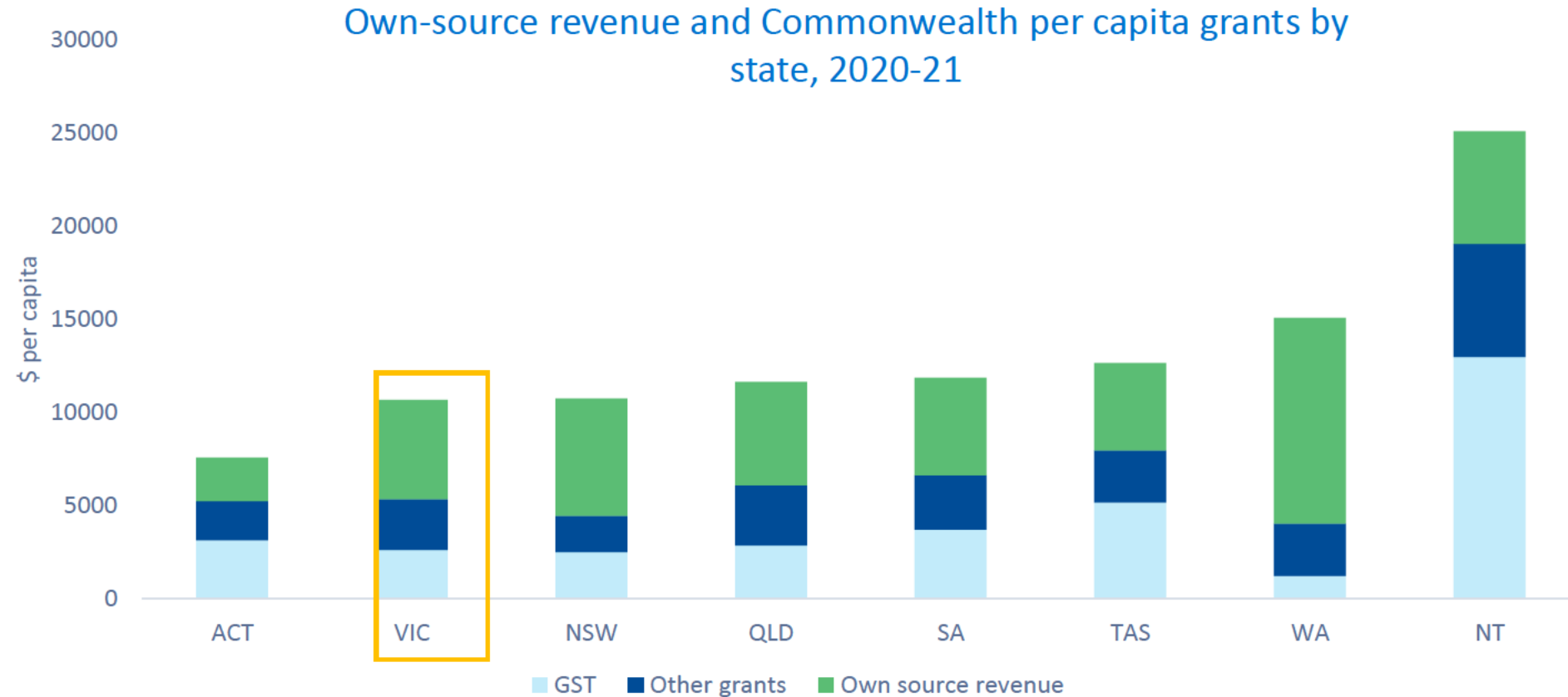
Note: Relativities presented here are under the former GST system prior to Commonwealth legislation in 2018

# Victoria has never received its population share of the GST



Source: Department of Treasury and Finance, Commonwealth Grants Commission Update Report 2020-21

# Victorians have access to the second lowest government revenue in Australia



Source: Department of Treasury and Finance, Commonwealth 2021-22 Budget and State and Territory 2021-22 Budgets except for ACT based on 2020-21 Budget

# The Commonwealth made significant changes to the GST system in 2018

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## Changes introduced include:

- New equalisation standard to stronger of Victoria or NSW
- Six year transition 2021-22 to 2026-27
  - Hybrid relativities of new and former system
- Floor on GST relativities of 0.7, paid separately by the Commonwealth until 2022-23 after funded from the GST pool
  - Rising to 0.75 in 2024-25
- Pool top-up payments of \$600 million with an additional \$250 million from 2024-25
- The no-worse-off guarantee legislated to end in 2026-27

# The new GST system fails to equalise States' fiscal capacities

Illustrative stages of the new horizontal fiscal equalisation process

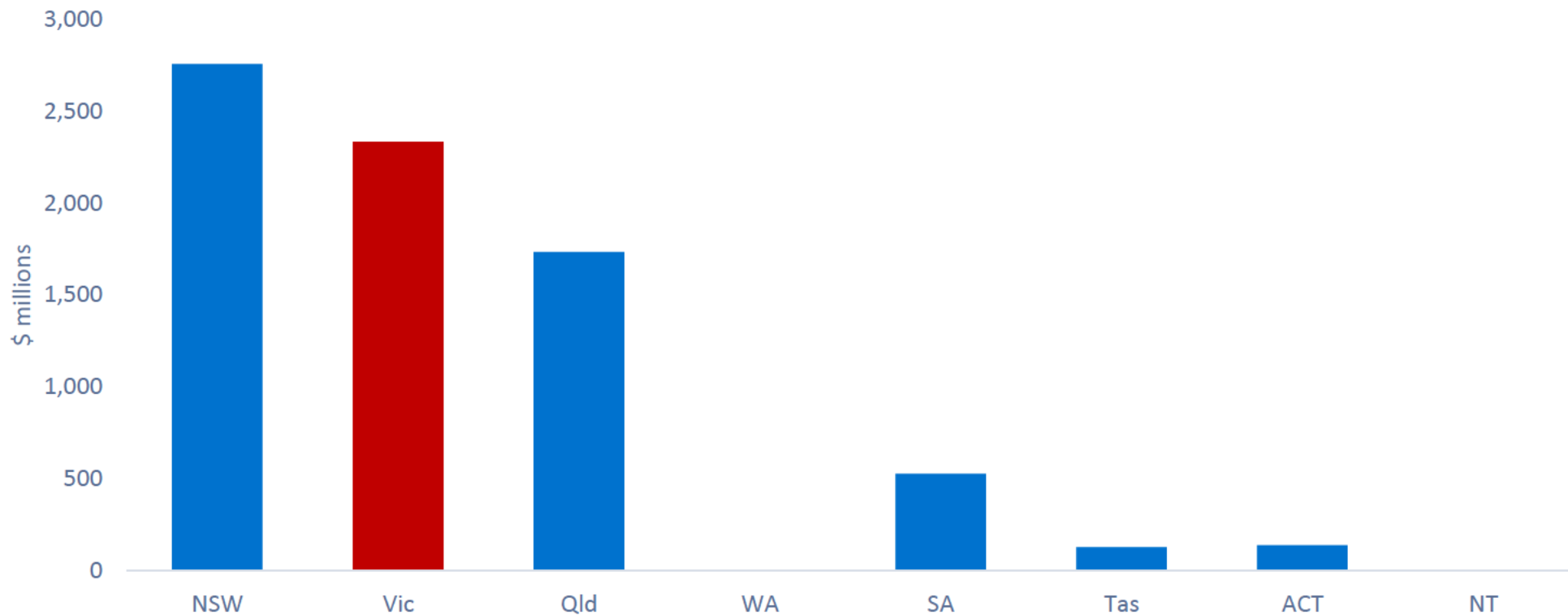


The strongest State now retains its advantage at the expense of all others



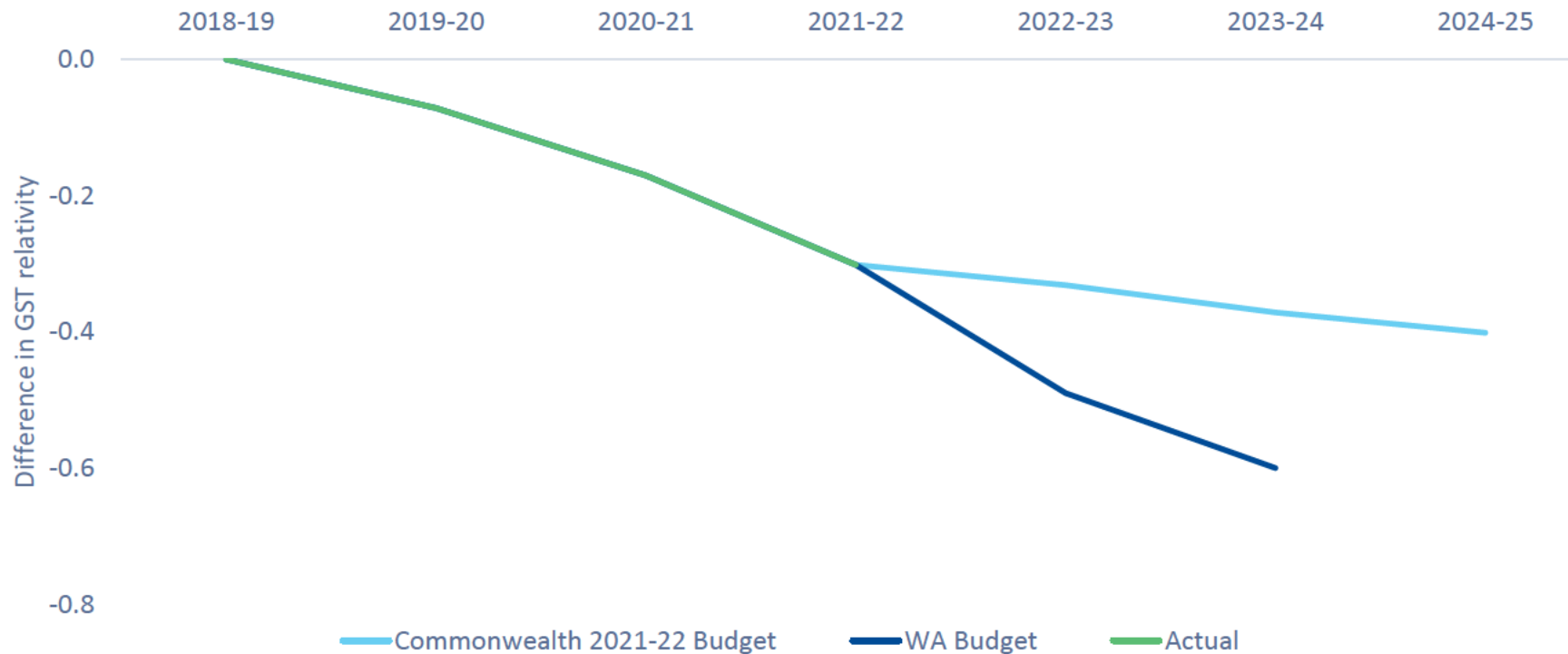
# It is clear States are already worse off from the new system

No-worse-off payments forecast in the Commonwealth 2021-22 Budget, 2021-22 to 2024-25



# Original forecasts of relativities have proven inaccurate

Difference to original Productivity Commission forecasts of Western Australia's GST relativity

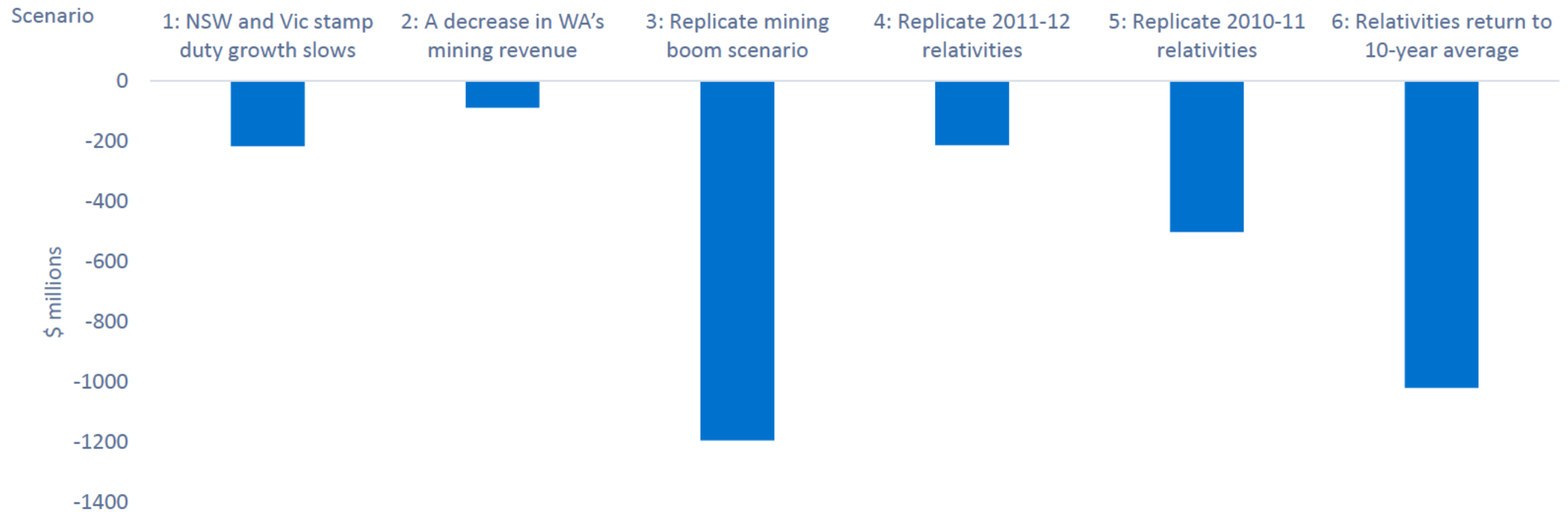


Western Australia's relativity has fallen far below original forecasts

# Modelling suggests States will be worse off after the guarantee ends

Impact on Victoria of the new system compared to the former in GST distribution, 2027

28



# Need to continue to address concerns with the new system

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## Options to consider include:

### Reviewing the current system

- Victoria is supporting South Australia in an inquiry into the new GST distribution arrangements
- Bringing forward the legislated PC review of the new system from 2026

### Advocating that the Commonwealth

- Make the no-worse-off guarantee permanent
- Reverses the changes made to the system in 2018 and reverting to the former system, with the Commonwealth supporting WA separately outside the GST system.

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