

GST distribution reforms

Submission to the Productivity Commission

6 October 2026

About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS consists of a network of approximately 4000 organisations and individuals across Australia in metropolitan, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

Purpose of this submission

We made a submission to this inquiry alongside seven Councils of Social Service, supporting equalisation rather than a per-capita distribution of GST revenue. While the present submission outlines the views of ACOSS, there is a high degree of consensus among Councils of Social Service on the need to restore the integrity of and trust in Australia's system of horizontal fiscal equalisation.

Horizontal Fiscal Equalisation (HFE) is important because it really makes a difference to people's lives and the quality of services they receive - especially for those facing disadvantage.

Our objectives for reform

We broadly agree with the Commission's objectives for reform of fiscal equalisation in its interim report. Our four key goals are as follows:

1. Fair distribution of resources among States and Territories that enables them to provide services and supports that are broadly equivalent across the nation;

2. States and Territories are encouraged to make effective use of fair and efficient revenue sources including returns from mineral resources;
3. The distribution of GST and other federal resources to States and Territories is as stable and predictable as possible;
4. Public trust and support for fiscal equalisation is restored.

The last objective is vital. At a time when trust in our public institutions is diminishing, this is not a time to promote divisions in the community. Whether people live in 'Western' or 'Eastern' Australia, everyone should have equal access to the quality services they need. This is the whole point of HFE.

We strongly support this principle and the allocation of GST revenue to that purpose. Australia is a world leader in the fiscal infrastructure that makes this happen.

We acknowledge that trust in equalisation was eroded by a historically low GST share for Western Australia, together with the volatility and uncertainty of mineral royalty revenue. It was further eroded by the previous Government's hasty response, and lack of consultation over the 2018 changes.

HFE now sits on shaky foundations, with heightened fiscal risks for the Commonwealth and majority of States and Territories. This will also impact Western Australia, since the present arrangements are not sustainable.

Recommended approach to reform:

We do not have a firm view at this stage on the Interim report's detailed recommendations. More information is needed on the likely fiscal impacts for the Commonwealth and States and Territories of each option, and the flow on effects for people facing economic or social disadvantage.

The main task of reform should be to restore the fairness and integrity of the fiscal equalisation system.

Recommendation 1

The Commonwealth government should progressively restore the pre 2018 fiscal equalisation system with any adjustments necessary to restore public trust in the system without undermining the goal of equalisation - that all States and Territories have the same capacity to meet the needs of their residents for essential services and supports.

We recognise that adjustments to the pre 2018 formula may be needed to restore trust in the system and address distortions due to 'dominant state

effects' identified by the Commission. In that event the Commonwealth could contribute additional funds to the equalisation pool to ensure that no State or Territory is worse off. However, in a fair equalisation system the need for additional contributions would be greatly reduced.

Recommendation 2

To the extent that adjustments are made to the pre 2018 equalisation system, the Commonwealth should contribute additional funds to the equalisation pool to ensure that no State or Territory is worse off.

During a fixed transition period, the Commonwealth government could assist Western Australia with direct payments outside the equalisation system.

Recommendation 3

The Commonwealth could support Western Australia through the transition to the pre-2018 system with direct payments outside the equalisation system, in recognition of the impact of 'dominant State' effects on its GST allocations.

Beyond the fixed transition period, the Commonwealth could make payments outside the equalisation system to compensate any State or Territory adversely impacted by distortions in the equalisation formula due to its 'dominance' of national revenue from a tax base, such as iron ore royalties in Western Australia.

The affected State or Territory could be required to make reasonable use of the revenue base available to it, rather than rely indefinitely on Commonwealth support. We do not propose a specific mechanism for achieving this aim but note that any 'discounting' of royalty revenues for equalisation purposes would be inconsistent with this objective.

Recommendation 4

Beyond the transition period, where payments are made by the Commonwealth to a State or Territory to offset distortions in the equalisation formula due to its 'dominance' of national revenue from a tax base, the Commonwealth Grants Commission or other Commonwealth authority should set a benchmark for that State or Territory's optimal (as distinct from national-average) revenue from that resource.

The Commission could contribute to public understanding of the role of fiscal equalisation in ensuring that people across Australia have access to the services they need by providing information on how the economic and social disadvantages that are taken into account in the equalisation formula are

distributed across the nation. In the absence of a fair equalisation, the capacity of States and Territories to respond to economic and social disadvantage - such as that face by First Nations people - would be diminished.

Recommendation 5

The Commission, along with the governments, should help improve understanding and restore trust in equalisation by revealing how economic and social disadvantage indicators used by the Commonwealth Grants Commission - for example, the needs of First Nations communities, the needs of older people for health care, and the extra costs of servicing remote communities - are distributed across different States and Territories, and the consequences of the removal of equalisation for their capacity to meet those needs.

Transparency of State and Territory spending on First Nations communities:

We note the Commonwealth government's announcement of a Productivity Commission review of the adequacy and effectiveness of Government funding directed towards Close the Gap targets.

While GST allocations are not tied grants, it is reasonable to expect Territories or States that benefit from higher allocations due to the disadvantage faced by First Nations people to transparently demonstrate their efforts to ease that disadvantage.

Recommendation 3

Whether through the fiscal equalisation system or by other means, State and Territory governments should be required to publicly report on a regular basis:

- **How much expenditure is devoted to assistance for First Nations communities, and how much actually reaches and benefits those communities;**
- **Whether and by what processes First Nations representative organisations are involved in decision-making regarding this expenditure;**
- **To what extent this expenditure strengthens the role of First Nations community-controlled organisations.**

Acknowledgements

This submission represents the views of ACOSS, building on our initial submission to the present review prepared jointly with seven State and Territory Councils of Social Service.

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