Commonwealth Grants Commission responses to questions on notice

Question: What role did the CGC play in the 2018 Productivity Commission Inquiry into HFE, and the subsequent legislation of the new system of HFE?

Answer: The Productivity Commission met with the Commonwealth Grants Commission's Chair and other Commissioners at the start of the Inquiry. The Grants Commission made two submissions to the Productivity Commission's Inquiry, an initial submission and another following the Productivity Commission's draft report. Both submissions focused on explaining the Grants Commission's procedures and methods. Staff of the Grants Commission responded to requests from the Productivity Commission throughout the Inquiry. These requests were largely focused on providing further information on the Grants Commission's procedures, providing data and checking calculations.

Question: Did the CGC provide any expert advice on the draft legislation as it was developed? Was this advice influential?

Answer: As noted in the Commonwealth Grants Commission's opening statement to the Inquiry, the Grants Commission has the specific role, namely, to inform the Commonwealth Treasurer's decisions on the distribution of GST through the provision of its assessments of the relative fiscal capacity of the states and territories to provide state services. The Commonwealth Grants Commission does not advise the Commonwealth Government on GST policy or the policy framework for the distribution of GST. As such, the Commonwealth Grants Commission was not involved in developing the 2018 legislation that introduced a new equalisation benchmark and a floor below which a state's GST distribution cannot fall.

Question: Does the new system pose any particular challenges or concerns for the Commission?

Answer: The objective of fiscal equalisation is set by legislation. The legislative changes in 2018 introduced a different equalisation benchmark, but this did not change the role of the Grants Commission. The Grants Commission continues to assess the relative fiscal capacities of the states, incorporating each state's relative capacity to raise revenue and relative cost of providing state services.

Question: The new system of HFE introduced by the Commonwealth in 2018 moves to what the Commonwealth characterises as a 'reasonable' standard of equalisation. Would it be fair to state that this 'reasonable standard' be characterised as 'partial equalisation', compared to full equalisation under the former system?

Answer: As noted in the Grants Commission's opening statement to the Inquiry, the framework for the Commission's recommendations to the Treasurer is established by Commonwealth legislation and the terms of reference that the Treasurer sets when the Commission updates its GST relativities each year and reviews its methods. The objective for equalisation is set by Commonwealth legislation. Prior to the introduction of the new equalisation benchmark in the 2018 legislative changes, the objective of equalisation was to give each state and territory the same fiscal capacity to provide state services as that of the fiscally strongest state. Under the 2018 legislative changes the equalisation objective is to ensure that each state's GST relativity is at least as high as the relativity of the fiscally stronger of New South Wales and Victoria, which is referred to as the 'standard' state. It is not the place for the Commonwealth Grants Commission to 'characterise' the previous equalisation arrangements or the new arrangements introduced with the 2018 legislative changes.

Question: Will the CGC still calculate the 'no worse off relativities' if the no worse off guarantee does not extend beyond 2026-27?

Answer: There is no requirement under the legislation for the Commission to calculate ‘no worse off relativities’ after 2026-27.

Outstanding question from Ms Addison

Question: Yes, thank you very much, Chair. I just welcome the opportunity to try and get an understanding. In its submission, the WA Government says that the Commission uses the last three years of available data to assess state fiscal capacity. They have argued or put forward that this makes budget management difficult because it does not reflect the volatility of iron ore royalty revenue. How valid is this point made by WA?

Answer: Since 2010, assessments of state fiscal capacities that are applied for the distribution of GST each year have been based on an unweighted average of relativities for the three years immediately preceding that year. In large part this is to ensure that the most reliable data are used. Consequently, there is a lag between the assessment of states’ fiscal capacities and the distribution of GST revenue in a given year. The Commission considers this approach strikes the right balance between achieving appropriate fiscal equalisation outcomes, drawing on reliable data and mitigating the volatility of state revenues on GST distribution. There is a trade-off between more contemporaneous assessments of states’ fiscal capacities and greater volatility in the distribution of GST from one year to the next. The current approach of a 3-year moving average has been supported by the majority of states, with several states noting that smoothing volatility is helpful to them in terms of their budgetary planning.