*Estimates 2023 - QTON No. 156

LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2023-2024
Mr Mark Parton MLA (Chair), Ms Jo Clay MLA (Deputy Chair), Mr Michael Pettersson MLA

ANSWER TO QUESTION TAKEN ON NOTICE
DURING PUBLIC HEARINGS

Asked by Mr Cain on 26 July 2023: Mr Barr took on notice the following question(s):

[Ref: Uncorrected Hansard Transcript 26 July 2023 [PAGE 36]]

In relation to:

Mr Barr: So what the "no worse off" guarantee is that if the system operated as it did prior to the Morrison government intervention to guarantee a minimum amount for Western Australia, they run that figure and that will produce a result, and then they run the figure as it results putting a fixed base in for WA, and the difference between the two figures is the "no worse off" guarantee, and that difference is about $81 million.

So to put it simple terms is that, for example, $1.7 billion, or $1.781 billion. That is the difference.

MR CAIN: Okay. But are you able to provide those other figures taken on notice?

Mr Barr: Yes. I think that we may need to provide some context because you are struggling to understand, clear.

MR CAIN: That would be helpful, thank you.

Treasurer: The answer to the Member's question is as follows: –

In 2018, the Commonwealth Parliament legislated *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018 (*the *2018 Act)*. Prior to the *2018 Act*, GST revenue was distributed to states and territories based on the principle of horizontal fiscal equalisation (HFE), as described in the *Intergovernmental Agreement on Federal Financial Relations*.

A jurisdiction's fiscal capacity is defined as its revenue raising capacity through taxes and royalties less its expenses in areas like education, health, and welfare as assessed by the Commonwealth Grants Commission. The principle of HFE ensured all states and territories received shares of GST revenue such that their fiscal capacities were equal to the fiscal capacity of the strongest state or territory. This is known as the full equalisation system and ensured that all Australians had access to comparable levels of government services no matter their State or Territory of residence.

Since 2009-10, Western Australia (WA) has enjoyed the highest fiscal capacity of any State or Territory, due to its sizeable mining royalties. Reflecting WA's ability to raise considerable own-source revenues that can far exceed any other State or Territory, and consistent with principles of HFE, WA has therefore been assessed as having the lowest requirement for GST revenue – from 2009-10, under the HFE evaluation mechanism that preceded the *2018 Act*.

The 2018 Act revised the equalisation principle to be predicated on the based on whichever was the fiscally stronger of New South Wales or Victoria – which insulated WA from the effect that its considerable own source revenue raising capacity would have in determining their GST entitlement. This change by the Commonwealth was at the expense of all the other states and territories.

The *2018 Act* will be fully implemented at the conclusion of its six-year transition period from 2021-22 to 2026-27. The *2018 Act* includes a permanent, indexed top-up funded by the Commonwealth to the GST pool. The *2018 Act* also provides a time-limited guarantee from the Commonwealth that during the transition period, no state or territory would be cumulatively worse off under the new system (ceasing at the end of the transition period, in 2026-27). At the time of the implementation of the *2018 Act* by the Commonwealth Government, the Commonwealth indicated to States and Territories that its top-up payments into the GST pool would be sufficient to ensure all States and Territories were no worse off, and hence that the 'no worse off guarantee' (NWOG) was unlikely to be triggered.

In contrast to this observation the table below shows the estimated NWOG payments to the ACT over the 2023-24 Budget forecast period as at 30 June 2023. These estimates are based on the latest fiscal capacity determinations by the Commonwealth Grants Commission[1] and GST entitlement pool and populations published in the 2023-24 Commonwealth Budget. It can be reasonably assumed that in the absence of an extension to the NWOG, the ACT will forego comparable amounts of GST revenue into the future.

Estimated NWOG payments to the ACT, 2022-23 to 2026-27					
$ million	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
ACT	81	96	103	110	136

Note: Estimates of the payments for 2024-25, 2025-26 and 2026-27 are based on current GST relativities and adjusted to take into account the transition to the new equalisation GST distribution system.

Approved for circulation to the Select Committee on Estimates 2023-2024

Signature: Andrew Barr

Date: 11.8.23

By Treasurer, Andrew Barr MLA

[1] Source: Commonwealth Grants Commission (CGC) *GST Revenue Sharing Relativities 2023 Update- GST Relativities for 2023–24*, March 2023, https://www.cgc.gov.au/publications/2023-update