

ESTIMATES COMMITTEE

Question Taken on Notice

Date: 11 June 2019
Subject: GST projections
From: Mr Gary Higgins
To: Treasurer, the Hon Nicole Manison MLA
Agency: Department of Treasury and Finance

Number: 2-2

Question: Could I get figures projected on what Treasury presumed we would get from GST, what the legislative changes are, what that is going to be and keep those updated?

Answer:

The Northern Territory's long-term average relativity, since the introduction of the GST, has been 5.10. Recent declines from 5.28 to 4.66 and then to 4.26 and 4.27 have brought the lowest GST relativity in the Territory's history, and are unlikely to return to the historical average level. As such, the Territory had advocated for the new national legislation to include, in perpetuity, a relativity floor for the Territory at the long-term average of 5.10. Instead, a three-year floor of 4.66 was guaranteed by the Commonwealth, to be effected through GST top-up payments. This guarantee concludes in 2021-22.

Legislative changes

- The *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* received Royal Assent on 29 November 2018 giving effect to the following items included in the Commonwealth Interim Response in July 2018 to the Productivity Commission's Final Report on Horizontal Fiscal Equalisation:
 - changing the basis on which GST collections are distributed between the states, equalising states to the fiscal capacity of either New South Wales or Victoria, whichever is highest, as opposed to the capacity of the fiscally strongest state, currently Western Australia
 - phasing in the approach over six years from 2021-22
 - introducing a minimum GST relativity of 0.7 for 2022-23 and 2023-24, increasing to 0.75 for 2024-25 onwards
 - permanently boosting the GST pool by \$600 million each year from 2021-22, indexed by the rate of growth in GST collections
 - adding a further \$250 million to the GST pool each year from 2024-25, applying the same indexation arrangements, and
 - a guarantee that each state and territory will get the better of the old distribution system or the updated distribution system over the transition period (2021-22 to 2026-27).

Non- legislative changes

- The Interim Response included provision of short-term transition payments to any state with a GST relativity below 0.7, and to the Northern Territory if its GST relativity falls below 4.66024 between 2019-20 and 2021-22. These short-term financial payments are given effect under existing laws, and were therefore not included in the legislation.
- The Interim Response indicated that the Territory would require top up funding in 2019-20 of \$69 million, however would not require top up payments in both 2020-21 and 2021-22 due to projections of a relativity higher than 4.66.
- As detailed in both the Commonwealth and Northern Territory 2019-20 Budgets, the Territory will receive GST top-up funding of \$252 million in 2019-20. This reflects the difference between the guaranteed GST relativity of 4.66024 and the Territory's actual 2019-20 GST relativity recommended by the Commonwealth Grants Commission of 4.26735.

Commonwealth Interim Response estimated GST parameters

- The Commonwealth Interim Response contained estimates of the GST parameters from 2019-20 to 2026-27 for all states and territories. The GST parameters include the GST Pool, states and territories share of the national population, and states and territories GST relativities.
- Commonwealth Treasury subsequently provided states and territories details of estimated GST revenues based on the Interim Response estimated parameters. The Territory's parameters and estimated GST revenues based on the Interim Response report are listed below.

Year	GST Relativity ¹	Population Share ²	Boosted GST Pool (\$M) ³	GST Revenue (\$B) ⁴
2019-20	4.54698	0.9642	69 790	3 067
2020-21	4.75153	0.9518	73 510	3 333
2021-22	4.66914	0.9396	77 870	3 426
2022-23	4.83909	0.9275	81 881	3 682
2023-24	4.85896	0.9156	86 114	3 840
2024-25	4.87783	0.9038	90 898	4 019
2025-26	4.89520	0.8921	95 769	4 198
2026-27	4.91058	0.8806	100 953	4 384

1: Source - PC Final Report – 5 July 2018

2: Source - Commonwealth 2018-19 Budget from 2019-20 to 2021-22, then the 2021-22 growth rate is applied for each of the remaining years.

3: Source - Commonwealth 2018-19 Budget from 2019-20 to 2021-22, Commonwealth Treasury forecasts from 2022-23 to 2026-27.

4: Source - Commonwealth Treasury calculations. Figures do not include the GST top-up for 2019-20 that was estimated at \$69 million, in the Commonwealth's interim response.

- The below table compares estimates of the Territory's GST revenue contained in the 2018-19 Territory Budget, the Commonwealth Interim Response and the 2019-20 Territory Budget.
- There is a significant difference between the Interim Response and the 2019-20 Territory Budget due to the downward revision of the estimated GST parameters.

Table: GST Revenue Estimates

	2019-20 \$M	2020-21 \$M	2021-22 \$M	2022-23 \$M	Source
2018-19 NT Budget	2 811	2 937	3 071		BP2 p.17
Cwlth Interim Response ¹	3 067	3 333	3 426	3 682	Commonwealth Treasury
<i>Difference from Budget</i>	256	396	355		
2019-20 NT Budget ²	2 763	2 858	3 003	3 346	BP2 p.21
<i>Difference from Interim Response</i>	- 304	- 475	- 423	- 336	

1: Figures do not include the GST top-up for 2019-20 estimated at \$69 million.

2: Figures do not include the finalised GST top-up payment for 2019-20 of \$252 million and the estimated GST top-ups for 2020-21 and 2021-22 of \$259 million and \$274 million respectively. 2018-19 – Budget Paper 2, page 17, 2019-20 Budget Paper 2, page 21

- The Territory's 2019-20 GST relativity, released by the Commonwealth Grants Commission, was 4.26735 compared to the estimate of 4.54698 in the Interim Response. The Territory's national population share estimate of 0.9620 per cent compared to the Interim Response estimate of 0.9642 per cent. The Territory's estimate reflects the Territory's local knowledge of major projects and one-off shocks that may affect migration levels and hence the Territory's population growth rate. The Territory's GST Pool estimates, sourced from the 2019-20 Commonwealth Budget, are significantly lower than those projected in the Commonwealth Interim Response, \$69.79 billion compared to \$67.2 billion.