Appendix C: Ideas considered but not adopted

Over the course of the eighteen months duration of the Review, the Panel has considered a wide array of ideas — ranging from preliminary and untested concepts through to well-developed concrete options. While many of these ideas have not been ultimately adopted, and the Panel has not thought it necessary to devote space to them in the body of the report, they are noted here for the benefit of future policy debate. Key options are discussed briefly in the text below. Additional issues are listed in Table C.1.

'No small State worse off' guarantee

Before reaching the position that options for 'less' equalisation (or partial equalisation) as well as a 'less precise' form of equalisation should not be pursued, the Panel set about considering how these options could be made to work in practice if necessary. In particular, the Panel considered how small States could be protected from any major cuts to their GST payments, should changes to the system result in less equalisation.

In this context, the Panel explored the option of using the growth in the GST pool to compensate small States for lower GST payments caused by a move towards 'less' equalisation. This approach was considered alongside proposals to stabilise the pool used for equalisation and, as a result, involved the possibility of applying discounted relativities to a stabilised pool. For example, the previous year's GST pool could be increased by real per capita growth, then the relativities applied (incorporating any move towards 'less' equalisation) to the new stabilised pool. However, as the GST generally grows at more than real per capita, GST revenue 'left over' could be used to compensate small States for what they 'lost' in the move towards 'less equalisation'.

Clearly, for this to work, the 'loss' would always have to be less than the pool 'left over', so this approach placed a natural bound on the degree of change that could be accommodated. Any GST remaining after small States were compensated could be distributed between the large States, or all States, on an equal per capita basis, or it could be shared with the Commonwealth if that were necessary to compensate the Commonwealth for bearing the downside risk if GST revenue growth drops below real per capita. The Panel considered this 'using the growth in the pool' option both as a permanent solution and also as a transition mechanism.

More minor changes

Other issues were considered, but not pursued as the Panel decided that they were in fact detailed methodological issues and were more appropriately considered by the CGC. The Panel also noted that its Terms of Reference required they avoid considering detailed methodological questions. Of course, some of these issues needed to be first considered before the Panel could conclude they were in fact methodological and that there were not broader conceptual issues. An example of an issue that fell into this category was the question of how best to escalate needs.

Currently, needs are calculated for assessment years and are then escalated to reflect the application year (this happens automatically when the three assessment year relativities are averaged and applied to the application year GST pool). It has been suggested that (effectively) increasing needs by GST pool growth means the needs are 'inflated' merely because of the growth in the pool, rather than necessarily any change in circumstances. In the pre-GST context when the general purpose grants pool (FAGs) only grew by population and inflation, needs in per capita terms were effectively escalated by CPI.

An alternative could involve consciously using a different escalation factor for needs (such as one based on spending growth or CPI) rather than GST pool growth. Various arguments can be put forward for alternative escalation factors. An escalation factor that grew more slowly than the GST pool would mean lower application year HFE redistributions occurring. However, just escalating needs per capita by CPI could be regarded as insufficient, since expense levels tend to grow faster than CPI. As with many other issues considered but not adopted, the Panel concluded that this was a methodological issue and did not require a recommendation from the Panel.

Table C.1: Other ideas considered by the Panel but not adopted

Idea	Short description
Changing the averaging period	Currently three annual relativities of past years are averaged to produce the recommended relativity for the upcoming application year. Options involved averaging *more* than three past years (i.e. returning to the past practice of averaging five years), or *less* (i.e. striving for even greater contemporaneity).
Fixing annual relativities	Currently of the three years of relativities that are averaged, the earlier two may be revised in subsequent years due to new data. This option involves not making any revisions to earlier assessment years.
Other options to limit relativity changes	Other options that aim to limit State's relativity changes. These include not allowing a relativity to fall by more than a certain percentage a year.
Freezing expenditure disabilities between reviews	This option involves the CGC calculating expenditure disabilities in each methodology review, but not updating them annually. The CGC would continue to update assessments of revenue and Commonwealth payments each year.
Removing adjustments for tax implementation differences	This option involves setting the 'average of what States collectively do' benchmark at one tax rate only, without various tax-free thresholds or exemptions. For example, the assessment for payroll tax would not take into account that States have tax-free thresholds for small businesses.
Equalising for major items only	This option involves reducing the number of expense and revenue categories assessed, and only considering a smaller number of 'core' services.
Partial equalisation of donor States	This option is also often called a 'donor recipient' model. There are many variants of this option, but they generally involve donor States providing support to recipient States but without the donor States necessarily all being fully and comprehensively equalised.
Broadbanding	This option groups similar States together at some point in the CGC's analysis of State fiscal capacities. For example, States with similar relativities could be banded together at the end of the process, or 'inside the process' by banding States at an assessment category or disability factor level.
Equalising revenue only	This involves equalising revenue capacity (both own source revenue and Commonwealth payments) but not expenses or capital.
Freezing relativities between reviews	This involves determining the relativities at each review and distributing the GST according to that relativity for every year until the next review.
Adopting measures to reward good policy	This involves setting aside some proportion of GST revenue to form a 'reward pool', to be distributed to reward States that undertake certain reforms.