



GST distribution reforms

Transcript of proceedings

Public hearing – Day 1

Monday 14 September 2026

Dr Alex Robson, Deputy Chair and Commissioner

Dr Angela Jackson, Commissioner

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PROCEEDINGS COMMENCED 10:15 AM AEST.

Introductory remarks

Dr Robson: Okay, we'll get started, I think. So good morning, welcome to day 1 of the public hearings for the Productivity Commission's GST distribution reforms inquiry. My name is Alex Robson and I am the Deputy Chair of the Productivity Commission, and one of the commissioners on this inquiry and Angela Jackson is the other commissioner on the inquiry.

I'd like to begin by acknowledging the Traditional Custodians of the land on which we meet today. I would also like to pay my respects to Elders past and present. I'm appearing from Brisbane today, the traditional lands of the Turrbal and Jagera peoples. The rest of the team is in Canberra on the traditional lands of the Ngunnawal and Ngambiri peoples, and in Melbourne on the traditional lands of the Wurundjeri people of the Kulin nation. Witnesses will be appearing over coming days from a range of locations around the country.

Before I say a bit about the inquiry, I'd like to offer a few pieces of housekeeping-related guidance:

These hearings are being recorded. The recording and a transcript of the proceedings will be made available on the PC website in the week following the hearings.

Only witnesses that appear before the hearings will have their microphones and cameras turned on.

We cannot take comments from the floor throughout the day but at the end of the day there will be an opportunity for anyone who wishes to do so to speak. I'll have more to say about that shortly.

Under the Productivity Commission Act people appearing as a witness are required to not provide false or misleading responses, and are required to answer the questions asked. If you believe this would require that you reveal commercially sensitive or otherwise confidential information we can organise for you to respond in private at another time.

Members of the media may record proceedings but are only permitted to share or broadcast these recordings for the purpose of reporting on the public hearings.

Witnesses will be invited to make some opening remarks of no more than fifteen minutes. Keeping the opening remarks brief will allow us the opportunity to discuss matters in participants' submissions and statements in greater detail.

At the conclusion of today's scheduled witnesses, I will ask if anyone would like to speak. You can email the team at gst.reforms@pc.gov.au during the day to indicate if you will want to speak at the end of the day.

People who have not already spoken will be prioritised in that part of the day, but anyone can indicate their interest in speaking.

If anyone wants to respond to evidence given today but they do not get a chance, you can email it to our inquiry team at the same email address: gst.reforms@pc.gov.au

In terms of the overall purpose, process, and timing of the inquiry:

- This inquiry started for us when we received our terms of reference from the Australian Government in September 2025.
- We released an Issues Paper and associated call for submissions in November 2025 and have since received 64 public submissions and 1 confidential submission. We have also received two confidential attachments for 1 of the 64 published submissions.

- In addition to receiving submissions, we have met with a range of organisations and individuals with an interest in the inquiry.
- We released our interim report on 14 August, which included a range of interim findings and recommendations. On the design of the GST distribution system itself:
 - Our first-best recommendation was that Australia return towards the pre-2018 system, but that the Australian Treasurer should direct the CGC to address costly dominant state effects where they arise
 - Our second-best recommendation was that Australia return towards the pre-2018 GST distribution system and that the Commonwealth make direct payments, outside of the GST pool, to states it considers materially affected by dominant state issues.
 - Our final recommended option was that if the government was minded to broadly retain the post-2018 system, the standard-state benchmark and the pool boost should be removed, and NoWO guarantee payments should be made permanent.
- These recommendations can be found on pages 86 and 87 of the interim report, and reflect a number of considerations that are detailed in the report, namely:
 - Our definition of reasonable equalisation - We have defined reasonable equalisation as the highest level of equalisation that can be achieved without creating material challenges to efficiency, sustainability, and certainty, that cannot be addressed by other tools available to government. This recognises that the agreed goal of the GST distribution mechanism is to drive HFE between the states, while also implicitly stating that this goal should not be pursued at all costs. That is, that it is reasonable to continue pursuing equalisation until it presents costly challenges to other goals that cannot be pursued by other tools. You will find this set out on page 39 of the interim report.
- We do not regard assessing reasonable equalisation by comparison to other countries as being particularly meaningful. Other countries have their own policy goals and institutional constraints. Our definition of reasonable equalisation is designed to reflect Australian policy goals and our institutional context. It is possible that if other countries pursued a level of equalisation that was consistent with our definition of reasonable equalisation that they would end up with different equalisation rates to ours.
- It follows that we are not simply recommending a return to the pre-2018 GST distribution system. Our first-best recommendation aims to capture what was good about our pre-2018 system, while taking a targeted approach to the key challenges that we believe came with it, rather than through wholesale changes to the GST distribution system that have proven unnecessarily costly.
- It also means that the PC has not simply repeated its recommendation from our previous inquiry into Horizontal Fiscal Equalisation. That decision partly reflects a different terms of reference. It is also a response to the lived experience of the 2018 reforms. The approach recommended in that report would have amplified some of the challenges the PC identified with the 2018 reforms and was therefore not fully assessed against the framework.
- Following the hearings that we are now holding, interested parties will have the opportunity to provide written submissions to the inquiry by 30 September.
- The final report will be submitted to the Australian Government by the end of December 2026.
- Participants and those who have registered their interest in the inquiry will be advised of the final report's release by Government, which may be up to 25 parliamentary sitting days after it is provided to government.

We are grateful to everyone who has taken the time to meet with us, provide submissions, and join us for today's public hearings. The strong engagement that we have received over the course of the inquiry is a reflection of the importance of the GST distribution to the Australian federation, the quality of public

services that Australian citizens can expect to receive in the states and territories in which they live, and the fiscal position of the states and territories.

The purpose of these hearings is to give people an opportunity to elaborate on their own submission, engage with the submissions of others and share their views on this inquiry in a public forum.

Thank you again for joining us for today's public hearings and with those administrative details behind us I would now like to welcome our first witness of the day.

For transcript purposes, we ask that once the video and microphone are on, that you please state your name, the state/organisation you are representing, and the capacity in which you are appearing as a witness. You will then be welcome to make an opening statement, no more than 15 minutes please, before we ask you some questions.

NSW Treasurer

So I think we're due to be joined by the New South Wales Treasurer in the first instance. So I will, he's online now. So welcome Treasurer from New South Wales. I think your video and microphone are on hopefully. So, if you could please state your name and the state territory organisation you're representing just for the transcript and then please make an opening statement and then we'll move to Q&A. So, welcome.

Hon Daniel Mookhey: Thank you. Daniel Mookhey, I'm the Treasurer of New South Wales. I'm representing the Government of New South Wales. Commissioners, thank you for the opportunity to appear today.

At its heart, Australia's federation is a promise. It is a promise that wherever Australians live, they have an equal claim on their country. Whether you are in Fairfield, Fortitude Valley, Footscray, Flinders Island, the Flinders Range, or Fremantle, you deserve the same fair go. The GST distribution system was created to honour that promise. It recognised that Australians live in states with different economies, different populations and different capacities to raise revenue. But it also recognised that those differences should not determine whether Australians can rely on a good school, a hospital bed or safe transport.

That was the principle, then came the global boom in resource prices. Western Australia's extraordinary minerals wealth drove its fiscal capacity far beyond that of every other state. Under the rules, its share of the GST fell to unprecedented levels. Western Australia raised a legitimate concern. The response, in 2018, was to rewrite the national rules. A floor was placed beneath Western Australia's GST share. More fundamentally, the system stopped lifting every state towards the strongest fiscal position in the federation. Instead, it began lifting states towards the stronger of New South Wales or Victoria. Western Australia was protected from the full consequences of its growing strength.

The Commonwealth promised that every state would be better off. That promise was expected to cost around \$5b by 2024-25. But Commissioners, as you have shown in your interim report, it cost almost \$23b and only one state materially benefited. Between 2018-19 and 2025-26, Western Australia received an estimated additional \$28.6b. In 2024-25, it received enough GST to meet 113% of its assessed fiscal needs. Every other state received 98%.

We are now asked to accept 2 propositions at once. We are told Western Australia is the powerhouse of the national economy, uniquely productive, exceptionally well managed and entitled to enjoy the rewards of its success. We are also told that this same state requires permanent protection from the ordinary operation of Australia's equalisation system. Both propositions cannot be true.

And Western Australia is not Australia's only powerhouse. New South Wales is the nation's largest economy. We generate almost one third of Australia's economic output. Our economy is nearly twice as

large as Western Australia's and far more diverse. It's powered by private investment across finance, technology, professional services, manufacturing, construction, education, agriculture and resources. We are a mining state too. New South Wales produces coal, gold, copper and the critical minerals that Australia and its partners will increasingly need. We are backing new critical minerals projects and building the processing and advanced manufacturing capacity that will strengthen Australia's economic security. Anything Western Australia can contribute to the national interest through mining and critical minerals, New South Wales can contribute too and at scale. If national policy supports Western Australia to bring those resources online, New South Wales is entitled to compete for that support on equal terms.

There is nothing wrong with Western Australia benefiting from its natural endowment, but a powerhouse economy should not require a privileged place in the federation. Success is not being punished when one state is asked to abide by the same rules as everyone else. This privilege is concealed by complexity, but its effects are real.

Commissioners, as your report has shown, if Western Australia becomes financially stronger, it can receive the same or even more GST. If New South Wales becomes financially stronger, the benchmark can rise and Western Australia can receive more GST. And if New South Wales becomes financially weaker, Western Australia can still receive more GST, while New South Wales may receive less. When New South Wales succeeds, WA can get more. If New South Wales suffers, WA can get more. The Commission has modelled a bushfire leaving New South Wales with an additional \$100m in costs. Under the present arrangements, Western Australia could receive another \$21m in GST, while disaster-affected New South Wales receives \$11m less than under the former system. That is not equalisation. It's the inversion of equalisation. The purpose of sharing national revenue should be to narrow the consequences of unequal fortune, not to compound them.

These figures ultimately represent choices made in the lives of Australians. In 2024-25 alone, Western Australia received an additional \$6.4b under these arrangements. Give any treasurer an additional \$6b and they can cut taxes, they can deliver larger surpluses and pay down debt, they can employ more teachers and nurses, they can build more schools, hospitals, homes and metro lines. That is the advantage the present system gives Western Australia. Without the temporary no worse off guarantee, New South Wales is estimated to be \$2b worse off in 2026-27. To understand the scale, that is comparable to the cost of around 13,000 extra nurses or more than 14,000 public school teachers. Those are not abstract figures. They are choices one state gets to make and the choices denied to another.

Every state has argued its corner. New South Wales has argued for New South Wales. Western Australia has argued for Western Australia. But now we have a thorough independent examination of the real mathematics and economics. Your interim report has found that the reforms achieved almost none of their objectives: they weakened equalisation; they made the system less equitable, less consistent and more complex; they cost vastly more than expected and only Western Australia benefited financially. The factual argument has been settled. What remains is the politics and the responsibility to find a settlement every jurisdiction can live with.

New South Wales has advanced a straightforward alternative. Distribute the GST according to population. Where smaller or fiscally weaker jurisdictions need further support, the Commonwealth should provide transparent top-ups from outside the GST pool. We recognise that the Commission has proposed different paths - its preferred model is not ours. The New South Wales is not here to insist that reform can only occur on our terms. We are prepared to work constructively on any model that restores genuine equalisation, removes the privileged standard state treatment and ensures that any special support is transparent and funded nationally.

Every state leader will advocate for their own citizens. But the national rules cannot simply be the prize awarded to whichever state extracts the greatest political advantage at a particular moment. They must express something larger than state self-interest. They must express the equal citizenship of every Australian. The question before this inquiry is ultimately a simple one. Will Australia maintain one set of rules for one prosperous state and another for everyone else? Or will we renew the promise of federation that wherever Australians live, they stand equal before their national government? New South Wales asks the Commission to find that balance. New South Wales stands ready to support one Australian standard, one transparent system and one fair goal for every Australian.

Commissioners, if I may conclude this way. New South Wales appreciates the work that you have done. I appreciate the work that you have done. You deserve considerable credit for the rigour, professionalism and independence you have brought to this inquiry. Commissioners, you and your staff have examined a difficult national question carefully, tested competing claims and explained their conclusions clearly. That is a valuable public service. The Commission has not endorsed every proposal New South Wales put forward. Our respect for its work does not depend on it doing so. Independent advice is valuable precisely because it tests the arguments governments prefer to take for granted. Australia is well served by institutions prepared to give frank advice on contentious questions. They deserve a thoughtful response to their evidence and the respect due to people doing their job in the national interest. The Commission has provided that service. Governments, including the one I serve, should now meet it with the same seriousness and good faith. Thank you very much.

Dr Robson: Well, thank you very much Treasurer. But Angela, go ahead. You had the first question, I think.

Dr Angela Jackson: Thanks, Alex, and thanks Treasurer for joining us this morning and kicking us off on these public inquiries that we're holding all week. It would be great just to hear a bit more elaboration. Obviously, we looked carefully at the pre-2018 system, particularly the issues around policy neutrality and we basically concluded that outside the mining assessment, those issues didn't seem to be material. But I would be interested in your reflections on that as a decision maker and about whether or not you're aware of any situations where NSW has not, or did not pursue a policy issue or a reform due to those policy neutrality issues. And look, just for the audience, this is around the impact that policy decisions state governments may have then on their GST distribution.

Hon Mookhey: Yes, so firstly, Commissioner, well aware that your first best option is to transition to the pre-2018 GST distribution system with some adjustment for mining outside the system. Our reflection on that is that that would be superior to the system we have right now. And we aren't going to make the perfect enemy of the good. We accept that we are yet to persuade you about the merits of an EPC model, but we accept the fact that your first best option is far superior to the system that we have now, not just for New South Wales, but for the Commonwealth and for the federation at large.

Secondly, you speak about the issues to do with policy decisions and policy choices, which I'll get to. But I will observe that we are a strong mining state. We are a major exporter of coal, we are a major exporter of gold and copper, and we are right now developing critical minerals. There are 2 instances where I can point to you of examples of where this government has adjusted its policy thinking as a result of the GST system that we currently have.

Some relate to the 2018 changes, some relate to the issues that existed prior to the 2018 changes. The first was when mining royalties adjustment. When I became Treasurer in 2023, we faced a question around whether or not there should be a change to New South Wales mining royalties. Particularly whether or not at that point in time we should either keep the system as it is, or secondly, adopt this proposal that was adopted by the previous Queensland government but is continued on by the current Queensland government. That is, a sliding scale, for want of a better term, for mining royalty charges. As we examined

that proposition in detail, we looked at a few factors that caused us to adopt a specific change. Firstly, not to adopt the Queensland model and instead simply increase the royalties charge. The reason why is we thought pretty much at the time that any changes we would adopt à la the Queensland model would see New South Wales benefit in the short term, but not in the long term because a lot of the gain would be redistributed out by the Commonwealth Grants Commission system. That's for we explicitly asked Treasury at the time to do the modelling and to do the work as to how would this interact with the GST distribution system. And it did demonstrate that what is effectively, it would be a short-term gain. We'd have to carefully calibrate what we set the royalty levels off, taking into account that if we went up, an increase in coal royalties in New South Wales with the new standard state arrangement, incidentally, would also have consequences for Western Australia. That was one of the first examples I can point to you where this is factored into consideration.

The second consideration that's to do with mining is to do with the development with the royalty regime charging for critical minerals. In my opening statement, I said to you that we have an abundance of critical minerals in New South Wales. In fact, I'm told by Treasury that if we theoretically were able to extract all critical minerals, they would be worth a current market value of about \$2 trillion. They are in hard to realise places of New South Wales that require substantial investments in our road networks and rail networks, amongst others. In order for us to properly understand whether or not we can meet the national objective of becoming a world-trusted supplier of critical minerals, we also have to factor in all the like costs that are similar to bringing on a resource industry online at scale. I can definitely tell you in terms of how we charge critical minerals royalty regimes, we're yet to settle the policy and equally, when it comes to the level of public infrastructure that is required in order to extract the resources, that remains a live consideration.

The final one I would point to you, where this has had serious policy consequences for us, are in to do with land tax and incidentally payroll tax, but although it would be a little less. One of the issues that the Commonwealth Grants Commission advanced as a reason for why they substantially changed our relativity in 2024 was their view that New South Wales should be charging higher land taxes. Now that's a simplification, but for the purposes of people who are watching, I don't want to go into the complete intricacies of how the CGC assesses it. But nevertheless, their view was is that we were insufficiently tapping our own source revenue when it comes to land tax and as a result, lowered our relativity. This is obviously taking place during a housing crisis and putting aside my obvious objection to a Commonwealth Grants Commission effectively telling us what a tax policy should be, put that aside, my view on that is that even if we were to adopt their suggestions, us increasing our own source revenue would come at the expense of our GST relativity and therefore asking me in what is the state that has the most expensive land to hike the tax when without getting surety of any additional income benefit for the people of New South Wales from the high tax and disturbing activities in the private sector wasn't an example that I was ready to relish.

And I'll finally conclude, none of those choices are easy for any state government, but they would be a lot easier if I obtained a \$6.8b additional subsidy per year.

Dr Angela Jackson: Point taken. So you alluded there to some of the issues around the mining assessment, which we are looking at in terms of obviously in our interim report we our first recommendation is return to that pre-2018 system with some adjustments to the mining assessment. Which we're recommending that the Treasurer direct the Commonwealth Grants Commission to undertake within the system as the first best option. One of the issues obviously is around this dominant state effects, which you alluded to where, you know, the mining activity is concentrated whether it's in coal or iron ore in certain states across Australia. And that means that individual states can effectively impact that average policy that the Commonwealth Grants Commission tries to assess through its processes.

In terms of that, you know, defining that dominant state because I guess one thing is you know you could define it and then just have a special or a certain approach for those dominant state circumstances or the other end of the extreme is you just have a mining discount that applies regardless of whether there is a dominant state or not, and these issues exist.

Do you see any way through in terms of that you know how you might think around what a dominant state is in terms of that assessment and that recommendation or that direction to the Commonwealth Grants Commission?

Hon Mookhey: Well, I mean, it's an incredibly technical exercise that really turns on which commodity and which part of the commodity cycle are you in, at its core. And really, everyone's views as to how permanently is that commodity pricing levels likely to be supported. So another way of perhaps putting it is that you are going to need to design a system that does ... you'd better off probably for your first proposition of rather than applying a mining discount, you'd be better off applying the first scenario would be my first view. But the second reason why is because in a scenario which New South Wales and Queensland faced in 2022, in the aftermath of Russia's illegal invasion of the Ukraine, in which there was a massive spike in global coal prices in which coal prices went to \$322 or thereabouts. New South Wales and Queensland could have argued equally that there was a dominant state effect that was being distorted by market forces. You need a system to be able to distinguish between effectively an exceptional scenario in the commodity markets and a relatively standard scenario. Now my view is that is that that's not too hard and that is capable of work. We work with you pretty constructively on it and I understand that as New South Wales Treasury appears, I think on Wednesday, I'm very happy to ask them to provide further details.

But I understand the point about the fact that commodity cycles can distort GST allocation and you do need to provide for correction. The question is whether you should do that through the pool whether you should do it outside the pool and our argument is pretty strongly that it should be done outside the pool. Now the fact that the Commonwealth has decided to supplement the pool via its con. fund means that the Commonwealth has effectively already put aside the money for that additional subsidy and as one of the mining states of the Commonwealth, we'd like to be able to compete pretty fairly for that too. Because we also experience commodity volatility, which has effects on us, it's not just limited to iron ore. I repeat here again, when WA gets an iron ore boom, they, in essence, get to keep it. When Queensland and New South Wales get a coal boom, we share it. And we are happy to continue to do so on the basis that everybody shares the gains of a commodity cycle, particularly for an economy like our nation's, which is so commodity linked. You'd be better off coming back into the light, Commissioner ...

Dr Angela Jackson: I know. We're energy saving here, unfortunately.

Hon Mookhey: ... I know the feeling.

But you'd be better off effectively using the additional \$6b that the Commonwealth has provided as a supplement to the pool to correct for mining, a dominant mining effect, on a basis that gives fairness to all mining states, including those states that are wishing to develop their mining industry.

Dr Angela Jackson: So that's effectively our recommendation or our option 2.

Hon Mookhey: Well, I think it's what you describe as your second-best option. It's not for me to characterise how you decide that, but either of those two options are superior to the system we have now.

Dr Angela Jackson: Alex, did you?

Dr Alex Robson: Yeah, thanks, Treasurer. I wanted to, I think you made some remarks on, you know, costs of investment and roads and infrastructure and those sorts of things in relation to mining. But it's, you know, you made it in the context of this, you know, national objective and very important for Australia

going forward in relation to critical minerals. And I get it gets to that point and I think you just sort of mentioned it around whether you know we can do that within or manage that those sort of incentives or disincentives within the pool or you know, outside the pool, which, you know, is our recommendation to and which you, you know, you've described it like that.

I guess the point I'm trying to get to is that, you know, are we sometimes asking too much of the distribution system? To deal with the issues that you're describing, rather than doing it outside the pool with tied grants or other sorts of, you know, national competition policy payments or other things. Where if it's truly a national objective, then, you know, that should be dealt with in some other way? You know, and I guess I just put that question to you, and it's in relation, I guess, also to your preferred option around EPC plus, and you know, does that come from the point of view of perhaps we're asking, too much of this distribution system. If we're saying that, you know, people in, you know, I think you said Fortitude Valley or other places should get access to the same services and it's got to encourage critical minerals mining and it's got to do this and it's got to do that. So maybe just ask for a few reflections on all of that.

Hon Mookhey: I have a few reflections on that, Commissioner. The first is that Rubicon was crossed in 2018 when all of a sudden we did decide to change the rules to bring in these concepts that did not exist prior, for the first 18 years of the GST's operation. Which perhaps is a way in which to return to real first principles here. The GST was introduced in part to replace state own source revenue that was deemed to be economically inefficient. And therefore, all the revenue was handed to the states on the condition that they remove taxes, duties and the like that were economically unproductive. But the part of the bargain that never changed is ultimately states answer to their people via elections as to how they use that money.

And the concept that a Commonwealth body can be using GST revenue to affect state decision making is something that was not a part of the system, for at least 18 years. And to be fair to the Morrison government, was not a part of their logic when they introduced the change in 2018, but has since been used by states, namely West Australia and the Commonwealth, to achieve other policy objectives. The moment that that becomes normalised in our national debate, then all states and territories should be able to compete for the additional Commonwealth subsidy to obtain their goals. But I remind everyone, ultimately, we answer to our electorates in state elections that decide how well or not we prioritise untied GST money. That remains still a very bedrock principle. To obtain the principles of horizontal fiscal equalisation, your report is quite right in saying that is an important feature of the GST system. But it's not the sole responsibility of the GST system. It is equally the responsibility of all our other funding arrangements, particularly our special purpose funding agreements, and namely health and education as being the two principal ones of scale by which we also achieve that.

Your point, Commissioner, that if you introduced further requirements of HFE within the GST, are you introducing further complexity? The answer is yes. And incidentally, a lot of the distortions that we saw prior to 2018 and since 2018 have nothing to do with the 2018 changes ... remain complex and should be subject to debate as to whether or not the GST pool system is the right way in which to achieve HFE. There's one argument that I know that a former Commonwealth Grants Commissioner has made, which might be that you'd be better off achieving HFE for Indigenous community using special purpose agreements to deal with Indigeneity than trying to achieve that through the GST pool system. Because the truth is, whether or not you're a First Nations person in Moree or you're a First Nations person in Alice Springs, the needs are complex, the cost of service delivery are incredibly complex and asking the GST system to solve is incredibly hard and I'm personally not confident that it does that particularly well.

So no I'm not looking for this system to do more, but since that has now effectively been rewarded, I'm also going to be arguing pretty strongly that we should have the right to compete for the same additional

Commonwealth subsidy, as West Australia gets for its mining industry, notionally, because we also have a pretty large one here and we'd like to develop it too.

Dr Alex Robson: Take us through your, you mentioned your proposal around EPC. I think we've called it EPC plus in our report. So maybe, so your relativity is currently around 0.82. So what would, happen under your preferred scenario for both, you know, well, New South Wales and Western Australia and other states? And then, you know, if you're saying that it's EPC plus, do you have an estimate of the cost of that? Have you done that modelling?

Hon Mookhey: I'm sure the Treasury officials can give, my Treasury officials at least, can give you more detail when they appear on Wednesday on the technical costs. We're happy to provide you with supplemental information. But the first point about the EPC plus model, which I accept that you have rejected pretty decisively on horizontal fiscal equalisation grounds. But it is actually in essence calling a spade a spade, which is this happens right now with the federal financial agreements between all of them and you need to look at them all of them together rather than each of them individually. Because the truth is we do provide additional, we do account for additional HFE, in our other funding agreements, it's just that they're equally as opaque as the one which we're dealing with now. And when you take the additional Commonwealth subsidy to the GST pool and if you were to offer even that exclusively, dare I say, to South Australia, the Northern Territory and the ACT and Tasmania, which benefit right now from the additional relativity and offer and simply offer that to them as compensation, you would find yourself in a scenario where at least you get more transparency and the additional subsidy is going to the fiscally weaker states, not the fiscally strongest states.

The other point, Commissioner, having now spent 3.5 years doing Commonwealth state financial agreements at great depth, the reality is we end up in scenarios that are almost the same as we would end up in an EPC plus model when you take all of them into their totality as well. It's just that there's no particular transparency, or for that matter, requirement even to spend the additional subsidy on the objectives of which the nation has agreed, in a manner which is accountable. And so from our perspective, that provides just a much more rational and much more transparent way in which to do it.

The other point, which you may not wish to take up, is that the truth is, is that the arrangement that we have with West Australia. In order to perhaps persuade West Australia to give ground, I accept their point. They're not going to give ground for an inferior model. So therefore, an EPC model that effectively sees them get paid more in the short term might be better off for the federation in the long term. I understand that that has been the view that their former Premier has adopted in his submission to your support. In essence, where he's effectively gone for a hybrid, which is make the population share as part of the things, a bigger part of the share and use that as a way in which to correct for the distortions. These are ways in which it's possible to reach compromise, but we accept very much that New South Wales, regardless of whatever system that you propose or the Commonwealth endorses, will always be a donor state. And we will always find ourselves supporting the smaller states for which we are happy to do so. We respect the fact that as the nation's largest economy, we have an economy that is 24 times the size of Northern Territories last time I checked. That is something that we accept that we should have to do. I would only argue that it shouldn't just be us, that West Australia, Victoria and other states that historically and are likely to be strong states going forward also have to support the rest of the federation, much like this state has done for 120 years.

Dr Jackson: To that point, the standard state benchmark which we spend some time on in the report, and you've already alluded to in your comments.

I guess it'll be good just to hear a bit more about your views on the way in which it's operating the whether or not you can see NSW ever benefiting from it.

I mean, one of the concerns we have is that you know effectively obviously you can, you know, NSW and Victoria can never benefit from its operation.

In and of itself, so just more of your thoughts around that and the way that's operating.

Hon Mookhey: Well, the concept of a standard state for the current purpose is absurd and unnecessary in my view. We used to have a view that we would physically equalise to the strongest state and that remains a much stronger current. This is meant to be the floor scenario. Well, the truth is, is it ... we'd be better off going back to the scenario we had pre-2018. As for the concept of a standard state, which can only be New South Wales and Victoria, by definition, therefore we can ever benefit from it. And as for the prospect of New South Wales ever not being the standard state, it would require quite a stunning change in scenarios in the short to medium term for us to ever lose that status to Victoria and even if we lose that status to Victoria, New South Wales doesn't benefit, West Australia just gets whatever Victoria gets. I do, when the GST standard state concept was agreed, I don't know what New South Wales's relativity was compared to Victoria. I do know what it was when I became Treasurer. We were getting 0.93, our relativity was 0.93, Victoria was 0.96. Now we're at 0.82 and they're at \$1.07. So, I don't see that relativity changing and us losing our status as a standing state for a very long time. This standard does not benefit us at all, and to be frank, only benefits West Australia. It's not like the other states are benefiting from it as well. It's not like, I mean, there was a scenario where I think for six months there was a thought in the aftermath of the coal, the metallurgical coal boom, that maybe Queensland would benefit as well from the equalisation. That never happened. So, I guess my way of saying is if a global energy shock in coal is not enough for another state to benefit from the standard state definition, then really all we've done is locked in permanent privilege for one part of the Commonwealth and not the others.

Dr Alex Robson: Just following up on that last point, Treasurer, thinking about long-term consequences of the current arrangements. I mean, you started out your presentation talking about the promise of the federation. What do you think the scenario looks like, you know, in, say, a decade or a couple of decades, if, if you know this was to continue? Noting that, you know, we do want to encourage competition between the states and provide better services and lower taxes and so on, but not if those decisions are distorted by HFE, I guess that's the point we're making. So maybe, yeah, what's your view on the on the long-term consequences of the current deal persisting.

Hon Mookhey: Well my answer to that, Commissioner, is that privilege compounds over time. If you give one state \$6b additional each year, every year, for nothing, their quality of services and therefore quality of life will compound over time. And you can already see that in the diverging fiscal paths of the state. Already, West Australia's debt to GSP ratio is half of what ours is, whilst their expense growth is roughly three times what New South Wales' is and materially higher than other states. Equally, West Australia should never have to run a budget deficit again, should never have any difficulty, any pay dispute with its workforce ever again, should not have any issues to do with taxation competitiveness ever again. They are on track to being one of the richest governments in the world. Add the factor of time to that privilege and that divergence between one group of Australians and another group of Australians will simply grow over time.

Now, Commissioners, you may not, I'm sure you may have seen that there has been a great degree of commentary about this position of the states and territories and their aggregate levels of fiscal prudence and their individual levels of fiscal prudence. And I'm not here to get into any of those arguments, but merely to point out that just as recently on Friday, we had one state that had a credit rating downgrade and my state had its status upgraded. That has been, you could identify specific policy decisions of each of the states and territories which led to those respective results. But the truth is, all seven states and territories are having to do a great degree of fiscal consolidation right now. One state is not. One state doesn't need to, has chosen not to and is in a position to therefore use that additional subsidy to compete

with the other states and lure away activity from our states. All at the same time that we are lectured about our fiscal prudence. I will simply say that every Australian deserves the same, but every state and territory should be able to compete for the same. And if we don't get that change, then in 10 years' time, 20 years' time, 30 years' time, you will see the benefit of massive subsidy that compounds overtime in the difference in living standards between one group of Australians and another.

Dr Alex Robson: Thanks

Dr Jackson: Do you also see differences in the policy choices that NSW will have available to it?

Hon Mookhey: Yes.

Dr Jackson:

Do you worry about the, yeah, what that will mean in our dynamic sense, in terms of ability to attract investment and economic.

Hon Mookhey: Yes, yes. I mean, right now I'm subjected to a campaign that our business community is rightfully arguing for, which is to lower payroll tax. And notwithstanding that New South Wales has the second most competitive payroll tax system in the country, it's often pointed to me as to why can't we do that when other states like West Australia have been able to offer a whole bunch of payroll tax incentives programmes like this. You explain to them that, well, we just don't get the additional \$6.8b per year. That's one example.

Another example that is recently featured has been the attempt by the West Australian Government to obtain the NRL Grand Final, in which they are using additional fiscal surplus to bid away for a game they don't actually even play. And we are having to face trade-offs between how do we keep our tourism industry alive, because it's not a moot point. The NRL Grand Final is a massive tourism lure. We are not in a position to compete for ... well, we've kept the grand final, but it comes at an opportunity cost. And each and every single time that we do this, we are simply being made to make base choices that, frankly, I would not need to make if we had an additional \$6.8b of subsidy per year. Now, even if you don't accept the idea of a subsidy and we simply go back to the 2018 model,

that would simply put us on an equal footing with the other states and with one state in particular. And if we were to simply revert back to the 2018 industry, it would at least mean that we have competitive neutrality between all the states and territories and then we are all free to compete on our respective methods and our value propositions.

I may have given you the more simple and retail examples of it, but the more sophisticated examples of this, is that we are absolutely needing to develop a capital-intensive industry here in New South Wales and solve a housing crisis at the same time. Anyone who's paying attention to global markets right now is that the cost of capital is being repriced. The fact that I have not got any latent funds lying around to meet the costs of bonds being repriced, that is therefore crowding out our capacity to put, for example, a whole bunch of water infrastructure in areas that are capable of developing housing or otherwise causing us to slow this down, means that we are having to effectively ration scarcity far more than another state right now. And that is having consequences for our levels of economic growth and our capacity to obtain activity here in this state. And these aren't small issues. From my perspective, the nation is trying to get inflation under control. A big part of that is rent. A big part of our capacity to get rents stabilised is to get more housing online. A big part of our capacity to get more housing online is my ability to fund roads, schools, hospitals, neighbourhoods, water infrastructure and not overly charge those who are trying to build housing, which otherwise causes them to go projects are not feasible. These are my examples, Commissioner, of how this affects decisions small and large.

Dr Jackson: Thank you. We have around 3 minutes remaining of our time together, so is there anything else you would like to raise issues with that you see with our interim report? You think we should be focusing on for the final, or any just closing remarks?

Hon Mookhey: No, all the closing remarks I have is the same I began with, which is I thank you and you Commissioners particularly for the rigor, independence and professionalism that you have shown. And I certainly apologise for the criticisms that you have been subjected to in respect to your independence that are undeserved. The Productivity Commission is a fine institution. I disagree with you as much as I agree with you on various matters, but I respect your expertise and I appreciate the fact that you have taken up one of the nation's most fraught debates in a manner which is so professional. And incidentally, have provided facts in a debate that so far has lacked them.

Dr Robson: Thank you very much. I think we'll good time to end this session and we'll be back at 11.30 to recommence. But thanks very much for your time today, Treasurer. We appreciate it.

Dr Jackson: Thank you.

Hon Mookhey: Thank you, Commissioners.

Western Tiger Corporate Advisors

Dr Jackson: Yes. So, we'd now like to welcome our second witness this morning from Damian Kelly from the Western Tiger corporate advisory. Now once you're ... I think your microphone and video are on. If you can just please state your name, state and territory or organisation you're representing for the purposes of the transcript, and you're then also welcome to make an opening statement. We ask that witnesses keep those to under 15 minutes to allow time for questions afterwards. So, welcome Damien. Thank you, I'll hand over.

Mr Damien Kelly: Thank you, I'm Damien Kelly. I'm from the state of Western Australia. I am the director of Western Tigers Corporate Advisors and that's the capacity in which I'm here. So, I can continue?

Dr Robson: Please, go ahead.

Mr Kelly: Thank you, Commissioners. I'm a corporate advisor with more than 25 years experience across corporate finance, strategy, governance and transactions, including as a director of ASX listed companies, including resources. I made submission 51 to this inquiry and I also appeared before the Productivity Commission on essentially the same issue in 2017. The central point I made then was that GST redistribution is only the tip of the iceberg when it comes to considering Western Australia's overall fiscal relationship with the federation. At that 2017 hearing, Commissioner Chester acknowledged that I was right, that GST was not the whole story. My concern is that, nine years later, I still don't think we have actually quantified or answered the rest of that story. WA Treasury each year estimates that the net redistribution between states through the Commonwealth Budget. That is, it estimates the Commonwealth revenues generated in each state compared with the Commonwealth expenditures for the benefit of that state.

When I appeared in 2017, the latest figure was about \$16b contributed by WA in a single year. In my February submission this year, the latest preliminary figure was \$39b for 2023-24. That's \$39b. We now have another year of data in the FY27 WA budget that shows that for the FY25 financial year, Western Australia's net contribution was still \$36b. That's \$12,000 for every person in WA, man, woman, child. NSW was the only other material net contributor at about \$1,050 per person. So, WA's contribution per person was still more than 11 times New South Wales. And WA has contributed to other states since federation, sorry, to the other states of the federation, that is, almost \$500b in total since 1986-87.

I think my figure one in my submission is particularly important, if that can be brought up now, please.

So, figure one, you'll see if we can zoom in on that chart, if possible. Anyway, figure one, it overlays WA's net fiscal contribution with the RBA Commodity Price Index for almost 4 decades. They are, the red line is the RBA Commodity Price Index and the blue charts is WA's net fiscal contribution to the other states of the federation. And of course there is a relationship where WA contributes more when commodity prices are high, and I'm not disputing that. But what I think matters more, much more, is what happens at the bottom of the cycle. If you see the wide sort of red, graded, red shaded area, that's a prolonged commodity downturn through the 1990s and early 2000s, for example. That's roughly 15 years of low real commodity prices. Yet WA did not swing from being a large contributor to being a large beneficiary, nor even a small beneficiary. It remained a substantial contributor and on per capita basis was still around double New South Wales at points near the bottom of that cycle. So there is volatility, but there is no observed symmetry. And in FY25, the GST-related component was only about \$2b of the \$36b total. That's only around 6%.

So, whilst WA may be above full equalisation, according to the Commonwealth Grants Commission's assessed needs measure, my question is how can broader judgments about equity, fiscal sustainability and federal financial relations be made without at least quantifying this much larger fiscal financial relationship?

I'm not suggesting that every tax dollar or every dollar of Commonwealth income tax, company tax or Commonwealth expenditure should simply be incorporated into the Commonwealth Grants Commission's formula. My point is much narrower. It's that if this Commission, or any commission is going to be making judgments about equity, fiscal sustainability and the appropriate distribution of resources within the federation and recommending arrangements potentially costing WA billions of dollars a year, I don't think this much larger net fiscal transfer can simply be ignored.

The interim report also notes that higher iron ore prices generate additional Commonwealth company and personal income tax revenue. It says the Productivity Commission has not estimated the net fiscal effect. So, that's essentially the analytical gap I'm asking to close in the in the final report.

There is then the second issue with the Commission preferred alternative.

The interim report's own modelling shows that under the pre-2018 methodology, a \$100 increase in WA iron ore royalty revenue from a policy change could reduce WA's GST by about \$90 over the Commonwealth Grants Commission assessment period. The Commission recognises the dominant state effect as a problem and identifies and models several possible corrections. But I can't see which correction the Commission ultimately proposes under its preferred option.

We can probably take down the chart now. So how much of that roughly \$90 effect would it remove? Would it be all of it, half of it, or something else?

And after making that correction, what is the actual annual fiscal impact on Western Australia of the Commission's preferred model?

It's important to know before recommending that the existing arrangements be replaced.

So, I have three requests for the final report, please. First and most importantly, quantify, or recommend that Commonwealth Treasury quantifies, the broader net Commonwealth fiscal incidence for each state over the full economic and commodity cycle. Second, specifically test the proposition in my in my submission, that is, whether WA ever approaches being a net recipient through a commodity downturn, rather than simply contributing somewhat less. And third, if the final report recommends returning towards the pre-2018 HFE model. Specify and model the dominant state correction and quantify its quantify WA's annual fiscal outcome under it. Nine years ago, I'll finish by saying that GST was only the tip of the iceberg when considering WA's overall fiscal relationship with the federation. The additional data since then has only reinforced this and makes the case for examining the rest of the iceberg considerably stronger.

Thank you, and I'm happy to take any questions.

Dr Robson: Well, thank you for that, Mister Kelly. I might actually bring up that chart again, if it's because I think it's really interesting.

Mr Kelly: Yeah.

Dr Robson: So according to this chart, and we're talking about the 2018 changes here, and that's the sort of main focus of our inquiry here.

Mr Kelly: Yeah.

Dr Robson: So, according to these numbers, so WA's contribution or net fiscal contribution was actually had fallen for a number of years prior to the 2018 change. Is that what and then it and then it took off after, notwithstanding the 2018 deal, the contribution is increased. I just want to make sure I'm interpreting..

Mr Kelly: Yes, yes, correct. Notwithstanding that the contribution, notwithstanding that the GST deal was changed, the contribution has still increased significantly. And this is my point about, it's only really the tip of the iceberg in that sense. And that's partly the reason it's become even a smaller proportion of that, perhaps because of the, or at least in part because of the 2018 changes. Because I think it was around the middle of the last decade, it got up to 30% of it, and that's because it was such a massive amount that was coming out of WA, and that was coinciding with, well, if you see the second red shaded area, where there was a significant commodity downturn, for example.

That was some pretty tough times in WA, yet we were still contributing a hell of a lot and way more than any other state at that point, and both on a gross and a per capita basis and that's when the GST, or it's not long after that, the GST changes came in. So, but yet despite that, we're still contributing significantly more to the other states, and it's only been growing, the trend has only been up generally.

Dr Robson: And I take your point, and I think we've done this in our report around, you know, we were asked to look at, you know, special purpose payments, and we've made some recommendations in those areas as well, and quarantining and so on, and it's in the spirit, I think, of your sort of opening statement that, you know, GST is only a part of, you know, roughly half of the money, the transfers that go from the Commonwealth to the states. But I mean, would you say ... yeah, would you go and taking these figures at face value, would you say that, you know, to the extent that this is showing a problem or an issue, that the 2018 deal from that perspective hasn't addressed the issue that you're talking about? Or is it just sort of muted it a bit but hasn't really dealt with the level as opposed to the change? Is that what you're saying?

Mr Kelly: It's lessened the impact.

Dr Robson: Yeah.

Mr Kelly: Because, without it, those blue bars would be significantly higher, basically, you know, essentially in rough, yeah, thumb-suck, approximate terminology, take whatever whatever the changes has. However, much W.A. is inverted commas better off because of the changes in 2018.

Mr Kelly: If you had that, yeah, you can pretty much add that to the charts if it wasn't the case, add that to the blue lines if it wasn't the case. So yeah, like in 2023, for example, you know, rather than being 20 ... \$39b, or thereabouts, in 2024, it probably would have been well over \$40b, for example.

Dr Robson: Mm. Yeah, and as the, and you know, the at least, you know, post mining boom, obviously it seems to be pretty highly correlated with the RBA's commodity price index of which iron ore, you know, is a fair share. So is this ... Am I right in saying that these estimates, at least the change in it, is being driven by higher company tax revenues in that respect, or is it other things doing?

Mr Kelly: One would expect it to be at least part of that. It'd be hard to, it'd be hard to think it's not part of it. If the iron ore price is high and the company taxes are higher, then WA's contribution would be higher and you'd think it would be less and the vice versa. So I mean, I haven't done the numbers on that, but that seems like a reasonable expectation.

Dr Robson: Yeah.

Mr Kelly: But yeah, but I guess the point is that even then though that even when it's the worst prolonged depressions and there's just never any symmetry. Never even, there's not, it's not even we become perhaps not the biggest gross contributor, but we're always we remain the biggest gross contributor and the biggest, and even more so, the biggest per capita contributor in that sense. I think in the early 2000s, you know, that where that around about the time where that the blue arrow pointing down around over that time, the net contributions from New South Wales, for example, might have been slightly, in gross terms, might have been slightly greater than WA, but on a per capita basis, it was, you know, it was streets apart. So yes, but even nowadays, but ever since then, it's never, even on a gross basis, and on that, during that downturn in the mid teens, you know, 15, 16, 17, even then, on a gross basis, WA was still by far the largest net contributor and streets ahead of everyone else. So, yeah.

Dr Robson: I mean, it is one thing we're thinking about in terms of the final report. You know, we've obviously focused on the notion of HFE, and I'll just make this point and ask you one more question, and hand over to the Commissioner Jackson, particularly around this idea of you know, contribution to the equalisation effort, I guess, for want of a better term.

But then to get a full picture of that, you know, this is obviously part of the picture, but then you'd also want to look at sort of, you know, how much of the WA's, for want of a better term, fiscal benefit is actually being sacrificed. So, it's not just an absolute dollar amount, you know, because WA's fiscal position is, you know, all the other parts of it are left. This is just showing the contribution, whereas the other part of it is, well, if, you know, if WA's fiscal position is also improving over this time, then over this period you were talking about, then from an equity perspective, you know, you might expect them to contribute more. So I guess that's the, you know, the things we'll be thinking about. But I wonder if you have any reflections on that? And then I'll hand over to Commissioner Jackson.

Mr Kelly: Yeah, I think if what I think you're saying, if I understand it correctly, is when commodity prices are high and WA is doing better, it makes, you know, that WA would presumably under any scenario, you think the WA were contributing more than when commodity prices are lower. If that's the case, yes, that makes perfect sense and I don't think anyone would really have a problem with contributing more when times are good and less when times are bad. The problem is that there's just no symmetry at all with that. But there was a bit of an, there was a, there's a corresponding, there's a narrative I often hear about, oh, WA is only complaining because, you know, we've only, it's only been sort of I think since 2007 or thereabouts when, when the GST, the benefit of the GST distributions, you know, flipped in WA's favour. Again, that is only the tip of the iceberg. It is, as far as I can see on the records, you know, it was well over 40 years at least, or a minimum of 40 decades thereabouts, that we've been essentially supporting other states and territories. And ACT isn't included this, by the way, in these figures.

And even in the 90s, during the 1990s and early 2000s, I remember everyone was talking about the mining industry is dead, the future is, e-commerce, tech, biotechs, you name it, and the resource industry was dead. So it was a dinosaur industry. The future is tech. No one was interested in resources and, geologists are driving taxis, now they're driving Ubers when the times are bad, you know. Yet even then, WA was still a major contributor and on a per capita basis was even the biggest net contributor to other states of the federation. And this is like a ... zero, the way these figures are calculated in WA Treasury, it's a zero sum, zero sum game. Yes, that's your long answer.

Dr Robson: Yeah, thanks, Angela?

Dr Jackson: Thank you. And look, thanks for your submission and engaging with us again. It's nice to have that sort of connection through time, in particular for us in terms of the way we might look at some of these issues and assess sort of the impact. I guess it'd be good to get your feedback.

So we've looked at, and we've been asked to look at, this question around the reasonable level of fiscal equalisation. And you know, come to a, I guess, in order to do that, we've had to come to a sort of a framework for doing that and the way in which we've assessed it is you know the, you know, maximising in effect the level of equity that the system can achieve without significant costs for efficiency.

Your arguments seem more predicated on an issue around, I guess fairness that that the sense that the previous the pre 2018 system wasn't fair in terms of WA, whereas our view of that is really you know, we would see that through more an efficiency lens. Rather than that sense of, where you should get to keep more of what you produce and where we see equity as about, you know, what are the outcomes in terms of ensuring that all Australians have an equal, or broadly equal, because it's not equal, but capacity to state governments have a broadly similar capacity to deliver services for their population. I guess it would just be good to hear a bit more about how you conceive that and where you see this system going. You know, we've done analysis obviously in our report that shows that WA's fiscal capacity is now at around 113% of the fiscal ... of its assessed fiscal needs. Which means it's got much greater capacity to deliver services and higher quality services, whether that's in healthcare or education. And what that might mean over time in terms of, you know, the operation of the federation. I guess that core objective of what horizontal fiscal equal equalisation is about is meant to achieve and what you see as its core objective.

Mr Kelly: Yeah, the I guess on that part with the you're doing the terms of reference for this for this inquiry do include, you know, Jim Chalmers says the inquiry will also examine ways in which the federal fiscal, the federal financial relations system can best promote fiscal sustainability outcomes for all members of the Australian community. Sorry, sorry, fiscal sustainability across the states and territories of the Commonwealth. So that's, I guess, the first point I'd make. Second all, the inquiry itself says that further in the terms of reference to investigate and under the scope of the inquiry to what extent the current remains are fiscally sustainable for the Commonwealth and states and territories. So this comes down to the sustainability for, yeah, just WA, not just the government, but WA itself. The interaction between GST payments and the Commonwealth payments to the States. So, it sort of can partly come under that and but also further in your report on page 5, just under the section which says there have been minimal efficiency gains from the reforms, the last paragraph, literally just above where it says the system needs to change on page 5. The changes, this is the 2018 changes, have created ongoing challenges for harmonious and productive federal financial relations and impose a large ongoing cost on the Australian Government. In terms of challenging harmonious and productive fiscal relations, whether it's between the Commonwealth and the states or between the states, this chart just shows how completely unsustainable and unharmonious it is, and sort of the need for that to be addressed, because there's already automatic stabilisers, you might say, in the federal budget in the federal budget via, you know, tax revenues and expenditures. So, that's one thing that needs to be addressed, and it's in the holistic notion of what is fiscally sustainable, what is harmonious for the federation, and what incentives WA has just generally to cooperate with other states, but also to for its own incentives. When that much money is coming out of the state every year, it's something that can't be ignored in the total concept of, yes, fairness, but it's also, it's not just fairness, it's about sustainability of the system itself.

Dr Jackson: And when you talk about sustainability, do you mean the fiscal position of WA like in terms of that fiscal sustainability or are we talking about the public acceptance of the system?

Mr Kelly: I'm talking, well, mainly about the public acceptance of the system, the actual public acceptance of the system. There is also some, yeah, some flow-on effects to the to the state coffers and the, you know, the literal state budgets, because it can't not be an effect on that when you extract, when there's that much money coming out of the state from its economic activity, that will inevitably have some sort of direct and indirect consequences on state budget as well. But also just in terms of the actual public acceptance of it as well. I mean, it's probably no surprises, there's often rumblings about secession and things like that. All, all these sort of things do they give credibility to that, and then, and that, that, that would be the biggest, for example, threat to the sustainability model. But even then, if there's political impetus, which there certainly was in 2017, there was a lot of dissatisfaction among the people of Western Australia and they were prepared to fight for it and they got the result of the 2018 changes, but even that doesn't go far enough.

Dr Robson: But so in terms of your, the way you're conceiving of this, I mean, would you accept that, you know, in the current circumstances, West Australia should make some contribution?

Mr Damien Kelly: 100%.

Dr Robson: Yeah, and so it's a question about, I guess there's two questions. One is sort of the, you know, the level and what's sustainable, but also the way that that contribution and, you know, changes over the mining cycle or whatever it is. Okay, all right.

Mr Kelly: Yeah, look, it's even when we've been in the worst, you know, the prolonged downward commodity cycles with, you know, serious suffering. Like I say, it's when it's on and commodity cycles are high, geologists have got plenty of jobs going around. When it's on, when it's off and it's dead quiet, which it is sometimes, especially in those early 2000s, there was a lot of taxi drivers that were geologists, for example, and in the mining industry. Even then we were the largest net contributor on a per capita basis, and was contributing, for starters, which there was no symmetry even then, so there wasn't even any money coming back this way, but we were also the biggest on a per capita basis as a contributor. Well, I think it was more than double New South Wales. So, that's what I mean. Yeah.

Dr Robson: So then I guess my, yeah, I mean, I guess my next question then is, you know, to taking the level of sort of redistribution as given for the moment, we can come back to that. But then if you're saying that WA should contribute less, I mean, that would imply then, given the distribution effort, that other states would have to contribute more. And so that's where the rubber really hits the road, you know, in terms of the policy debates and so on. So do you have a view on that or is it more that the Commonwealth should tip in more or?

Mr Kelly: Well, it's a zero, these figures, it's a zero-sum game. So it's not, it's treating the federation as a federation of states and Northern Territory is treated as a state for that purpose. ACT is not treated as a state because it's, you know, it's the centre of government. So I'm sure I think you got the W.A. Treasury entourage later in the week, they'll be able to go into more detail about how the numbers have come up with, but like the ACT, for example, it's the expenditures that are in the ACT that would be for the benefit of the ACT, essentially distributed among the WA, sorry, among the states. I think it's on a population basis. Remember, I've got the, that'll be able to be answered, but yeah, on a population basis. So, yeah, so that, so that's counted as a benefit of WA.

Dr Robson: Yeah, and then I guess then my next question is, you know, if we were to put ourselves in the positions of state treasurers in a room and you're, and you know, if you're from WA saying they should contribute less and I'm from, let's say, you know, Victoria or Tasmania, are you saying to me in that hypothetical situation that I as a Victorian or a Tasmanian should accept less? Given that WA is contributing less. I guess my question is, you know, where is it going to come from? If the proposal is taking your argument seriously around fairness and the other things. So, what, you know, what then, I guess, is the is

the next question. Yes, WA pays less. What happens to the other states and are you saying that they should get less? And if you are saying that, then which states?

Mr Kelly: Well, that's where, yeah, that's a very good point, which states. So the problem is, as I say it, no one is quantifying, apart from the sort of the best efforts of WA Treasury, no one is quantifying what each state is ... the contributions and the benefits that it is receiving from the federation in that sense. WA is doing it, and it sort of does it for the other states as well. There's no, it is actually a job which is probably best placed for the Commonwealth to do, and they would actually have more access to the data to do it, and probably access to ... I suspect that there's even problems assessing at the moment because of just the data and access to data, some of those figures. So, you know, there'd be no doubt there's some imputations in these figures, but it's sort of a best attempt to quantify. And the same thing should happen for the whole federation, in my view then you can have a debate and a discussion about, well, what is fair? And okay, what states do pay more or less and that matter. So, I think first of all is having the quantity and knowing what the present situation is and what are the drivers of that present situation, and then the solutions can come out of that. But as a zero-sum game, there would be no doubt some need for that, and it might be a whole, actually, I won't get into all the potential solutions and that, because it's just opening a can of worms.

Dr Robson: Yeah, there's a bit of an unfair question, but I think you're right. I think the first step, would be to get to do what you're saying. I think that's a good answer. Sorry, yeah.

Mr Kelly: Yeah, yeah.

Dr Jackson: Because I mean the only solution to the problem you've identified ... I mean you rightly pointed out the GST distribution is a very small component of it. Arguably it would be differential rates of income tax or company tax across the states and territories, right? So, you would have lower of income tax in WA and company tax from profits now. And then these get into, we are very fundamental questions, I would say that maybe, as economists, we're not well equipped to deal with around what is a nationhood and what does it mean? You know, in terms of, you know, to be a federation and to be ... to live under, I guess 1 central government and what do we expect from that? But yeah, look, I. There you go. No, your point.

I would just preface that with the private benefit obviously from the mining boom is also largely concentrated in WA to the extent that it leads to obviously better employment outcomes, higher incomes and this not to provide you anything, but there are a lot of private benefit that flows from the from the mining boom as well.

That obviously isn't necessarily accounted for in your figures, we're just looking at the impact on public finances. But from a private citizens point of view, that the people of WA, rightly so, this is certainly not saying that that shouldn't be the case, but clearly also benefit and higher property prices and other flow on effects as a result of that mining boom.

Mr Kelly: Yeah, can I? You mentioned a couple of things. Central government, I mean, I guess in terms of philosophy, it's a central government, but it is a federal government in that sense as well. It exists for the benefit of the states in that sense, if you go back to the whole point of federation. I mean, something that would probably go some way to addressing the imbalance would be reform, you know, of the vertical fiscal equalisation in terms of the ability of states to actually have the revenue raising ability to reform that. So it's not so dependent on discretionary or legislated Commonwealth grants to actually fund their own operations, that would be a key attribute. And just from a, this is where it really gets to, I guess, Productivity Commission, you know, productivity matters is, you know, where you've got accountability, you've got better, where you've got sort of the accountability, you tend to have better performance. And so if an own state is responsible for more of its own revenue raising efforts, there are direct policy

implications for that, which affect that state and it can be tailored to that state and you have a more productive outcome for that for that very reason as well.

Yeah, so, I'm just thinking online here, but yeah, but some thought to reform of the vertical fiscal equalisation would be worthwhile. Now, there was a white paper that was going to be brought down, I remember about, I think it was about 2014- 15 on reform of the federation. I think that Commission of Audit in 2014 did touch on all this as well to some degree. So that would probably be a decent resource to start with and also the, yeah, there was a proposed white paper. I think it was, it was discussed, and then it was binned, it was put to side in about 2015 or 2016. That ought to be reinvigorated and that then feeds in the whole productivity and of the states. And just from a just again a governance perspective, the more if you're accountable for your own revenues and expenditures, you tend to spend it more wisely and you'll raise it more wisely with a view to what is the policy impact on your local state population and economy. And also just with the GST and the contribution, for example, you're saying, and with the quantifying it. The GST per capita, everyone sort of measures GST per capita, as that's the kind of the baseline for the 75%, 70%, whatever. And this goes back to the whole question of, what's fair among the states? I would imagine, as you say, because WA has a mining strength and a greater economy and it's, we've got 11% of the population, but we've got presumably a lot more than that in terms of the proportion of the economy. So my guess is that WA is actually contributing more than what the per capita share would suggest in terms of GST revenues, do that's something else to factor into the equation as well. So ... or, at least, right, at least raise a question as a recommendation to address if it can't be done in the scope of this Inquiry now.

Dr Robson: I mean, you've hit it on 2 fundamental points there. One is, you know, the vertical fiscal imbalance, which we did discuss in our report and how various, high court, and other decisions have, you know, changed that over the over the years. Again, you rightly point out, you know, various explorations and of that issue over the last couple of decades. You know, income tax sharing arrangements and so on, or the ability of, you know, states to raise their own income taxes. For this inquiry, it does go a bit beyond our scope in terms of those larger questions, as important as they are. But you've hit upon something very important. The other point you raise around, you know, the, for want of a better term, you know, state of origin of GST. Yeah, we've identified that as a, you know, as you have, I think, in your remarks, as a something which, there's no data published. It's impossible to estimate accurately. You could do it on a, you know, share of economy or share of a population basis, but it is a Commonwealth tax. We've said in our report and it's, and you know, going back to the 2000 agreement between the states, you know, was it you know, there were parameters around how it would be shared on the basis of HFE and so on. So, again, that is something where, you know, that is beyond the 2018 deal, which didn't really change those more fundamental things, you know, at large, it did have some changes that we've been exploring. But yeah, the issues around wholesale VFI change and also HFE more broadly, you know, those are much bigger questions as important as they are, than we can answer in this report. But I would suggest to you that they are things that governments are going to have to think about over the coming years, particularly as these fiscal sustainability issues bite a bit more. Angela, did you have any other questions for Mr Kelly? I think we're almost out of time.

Dr Jackson: Yeah, we are almost out of time. So I'll sort of thank you again for your time and for you know, presenting the evidence. We have had a look at this sort of issue around attribution. It is unfortunately, the nature of tax statistics.

It's somewhat complicated. It can, I think, when we first looked at this, we thought it was something that would be possible to look at that sort of relationship even between the sort of the commodity price and the NoWO payments, and you know the net fiscal and company tax receipts. But it's ... you can do back of the envelope, but the type of work that we try and do at the Productivity Commission is a bit beyond that. So we try and you know, as you can understand, just the nature of the team here and the way they like to

do things. So there are back of the envelope sort of calculations, but in terms of really identifying those company tax receipts and exactly where they come from and the link, it's slightly more complicated just because of the nature of tax statistics. Unfortunately, the ATO sees us as sort of one, it doesn't look at the sort of individual states as Alex said. So in terms of the GST or in fact I think single touch payroll, for example, has all Bunnings employees in Australia or in Perth, for example. Now we know that's not the case, but it's just the nature of the way in which you know our tax laws are administered. But we will keep endeavouring to try and do more in that space as we move towards final. So thank you for what you've presented today. Did you have anything final you wanted to add before we?

Mr Kelly: Yeah, I guess just if there are things that kind of are, particularly if they're relevant, but you can't, yeah, but you, I guess you can't or don't have the opportunity to deal with, I guess, in a matter of finality in the report. If there are recommendations to be made to that effect, for starters, would be good. And that might include things like, for example, the Commonwealth, OK, if the data is not available, then let's find a way to make that sort of data available or at least have some sort of proxy data that makes it easier to estimate that data. Yeah, yes, but essentially, yes, the GST is just the tip of the iceberg. That's the main thing, as I said nine years ago, and I'll reiterate the same thing now. Thanks.

Dr Jackson: Thank you again for your time today and we do really appreciate the engagement and ongoing engagement with inquiry and our work at the Productivity Commission.

Closing remarks

Now that concludes today's I think scheduled proceedings, but now it is an opportunity for anyone who wants to speak to do so. If you have not already done so, please email gst.reforms@pc.gov.au to indicate whether you'd like to speak. Do we have anybody? Is that a no from the team? Definitive. No. OK.

But so, but with the inquiry team not receiving any more calls to speak, we will adjourn the hearings for today. Thank you very much for the participation of all, everybody online and our witnesses today. We will reconvene on Wednesday ... and now I'm going to be asked for the date. This coming Wednesday 16 September at 9:30 AM I believe. So, we will see you back online then. Thank you everyone. Enjoy the rest of your Monday.

ADJOURNED 12:17 PM AEST.