



GST distribution reforms

Transcript of proceedings

Public hearing – Day 2

Wednesday 16 September 2026

Dr Alex Robson, Deputy Chair and Commissioner

Dr Angela Jackson, Commissioner

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Introductory remarks

Dr Angela Jackson: Good morning and welcome to day two of the public hearings for the Productivity Commission's GST distribution reforms inquiry. My name is Angela Jackson. I'm one of the Commissioners on this inquiry alongside Alex Robson, who's deputy chair of the Productivity Commission and is also a Commissioner on the inquiry.

I'd like to begin by acknowledging the traditional custodians of the lands on which we meet today, and I would like to pay my respects to elders past and present. We are appearing from Melbourne today on the traditional lands of the Wurundjeri people of the Kulin nation. The rest of the team is in either Canberra on the traditional lands of the Ngannawal and Ngambri peoples. And witnesses, of course, will be appearing over the coming days from a range of locations around the country.

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

- I'd like to note that these hearings are being recorded for transcription purposes.
- The transcript of the proceedings will be made available on the PC website, likely to be in around a week or so 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 witnesses are required to not provide false or misleading responses and are required to answer the questions asked. If you believe this will require that you reveal commercially sensitive or otherwise confidential information, we can organise for you to respond in private at another time.
- Witnesses should be aware that any media representatives may be present during these hearings may be using social media and other internet mechanisms to convey information online and in real time, including participants' remarks.
- If any media representatives are present, please do let our team know by emailing gst.reforms@pc.gov.au indicating your name and affiliation. Media representatives will need to observe some rules if you are attending from media, which we have provided in the chat.
- Witnesses will be invited to make some opening remarks of no more than 15 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 want to speak at the end of the day and we'll make sure that occurs. People who have not already spoken will be prioritised in that part of the day. But anyone can indicate their interest in speaking at that time. If anyone wants to respond to evidence given today but they do not get a chance you can email it to our enquiry 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 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 the 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 GST distribution system, but that the Australian Treasurer should direct the Commonwealth Grants Commission 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, they should remove the standard-state benchmark and the pool boost should be removed, and the 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 which can't be addressed by other tools available to the government. This recognises that the agreed goal of the GST distribution mechanism is to drive horizontal fiscal equalisation 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 the 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 require necessarily assessing reasonable equalisation by comparison to other countries as being particularly meaningful. Other countries have their own policy goals and institutional constraints. Our different definition of reasonable equalisation is designed to reflect Australian policy goals and our own 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 our own.
 - 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 the pre-2018 system while taking a targeted approach to the key challenge that we believe came with it rather than wholesale changes to the GST distribution system that have proven unnecessarily costly. It also means that the Productivity Commission has not simply repeated its recommendations from our previous inquiry into horizontal fiscal equalisation. That decision partly reflects a different terms of reference. It also is a response to our experience of the 2018 reforms. The approach recommended in that report would have amplified some of the challenges the PCs 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 the 30th of September. Participants and those who have registered their interest in the inquiry will be advised of the final report's release by the government, which may be up to 25 parliamentary sitting days after we provide after provided to the government.
- We are very 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 states and territory governments. The purpose of these hearings is to give people an opportunity to elaborate on their own submissions, engage with the submissions of others and share their views on this inquiry in a public forum.
 - We do conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. The transcript will be made available to participants and will be available on the Commission's website soon after the hearings finish, likely within a week.
 - Thank you again for joining us for today's public hearings.
- And with those administrative details behind us I would like to now welcome our first witness of the day who I believe is the Queensland Treasurer who has just popped up on my screen. Good morning, Treasurer.

QLD Treasurer

The Hon David Janetzki: Good morning and thank you, Commissioner, and thank you to the Productivity Commission for an opportunity to appear today. I've got an opening statement and then we can explore some of the issues as well. This inquiry presents a rare opportunity to repair Australia's system of horizontal fiscal equalisation before temporary national protections expire and today's perverse GST outcomes become permanent. As Queensland has already submitted, all Australians should have the same access to hospitals, schools, police, roads and essential services, regardless of the state or territory in which they happen to live.

The Productivity Commission's interim report has exposed a simple truth. The Federal Government's 2018 reforms have largely failed to achieve their intent. Instead, they have added cost and complexity, produced perverse outcomes, and benefited only Western Australia. The reforms recommended in the Productivity Commission's interim report, echo what Queensland has been saying for some time. Australia needs to move back towards the pre-2018 system and introduce an appropriate remedy for the excessive GST redistribution that is driven by dominant state effects plaguing the Commonwealth Grants Commission's mining assessment.

The battle is not with Western Australia, it is with the unfair GST distribution, and we are seeking a similar recognition for our contribution to our nation's prosperity. The scale of today's GST inequity is difficult to overstate. The interim report found that in 2024-25 alone, jurisdictions other than Western Australia would have needed \$47 billion in additional federal funding to be equalised to WA's fiscal capacity. And that's after accounting for the \$6 billion in GST pool top-ups and No Worse Off Guarantee payments as evidence that states have been protected.

But Australians understand that if you owe \$53 billion and only pay \$6 billion, the remaining \$47 billion does not simply disappear. Filling a \$47 billion per year federal funding gap would require the federal government to raise more than seven times the additional tax it expects to reap from its changes to capital gains tax, negative gearing and tax on trusts announced in the federal budget with all the proceeds going to jurisdictions other than WA.

The federal government cannot credibly argue that making seven states and territories no worse off under the former arrangements is the same as treating all 8 jurisdictions fairly. The original promise of the 2018 reforms was that all states would be better off. Queensland's experience proves otherwise:

- In 25-26, Queensland's GST was cut by over \$2 billion, even as the national GST pool rose by almost \$6 billion dollars, and other jurisdictions collectively received almost \$8 billion dollars more.

- The 2018 reforms did absolutely nothing to protect Queensland from excessive GST redistribution related to mining. While a moderate recovery is expected in 26-27, Queensland's GST remains only 1.5% higher than three years earlier while national GST payments over the same time have grown 21 percent. Queensland is the only jurisdiction receiving less GST in 26-27 in real terms than it did three years earlier. Contrary to the incomplete picture put forward by the federal Treasurer, the Commonwealth Grants Commission GST allocations for 26-27 are only \$290 per capita higher than 25-26, well below the year-on-year GST increases of \$431 per person for Western Australia, \$496 per person for Tasmania and \$1,446 per person for the Northern Territory. The defective 2018 reforms were designed, legislated and implemented by the federal government at extreme cost to the Australian taxpayer.

Of course, Western Australia should benefit from its economic success without mining royalties being excessively redistributed through the GST. But just as WA's mining sector has been recognised for its contribution to the nation, so too should Queensland's mining sector be recognised for advancing the national interest. Queensland is simply asking for a consistent approach.

We need to fix the cause of excessive mining-related GST redistribution, namely the CGC's principal safeguard for policy neutrality. National average policy breaks down when one state dominates a mineral revenue base. Where production is highly concentrated, that state's royalty settings can materially influence or effectively determine the national benchmark against which its own revenue capacity is assessed.

During the 2025 methodology review, Queensland implored the CGC to address dominant state effects within the mining assessment. Despite Queensland's evidence, the Commonwealth Grants Commission refused. Had the PC conducted this inquiry beforehand, this detrimental outcome could have been prevented. Instead, the inconsistency between the CGC's treatment of coal and onshore gas continues to compound the dominant state issue. For onshore gas, the assessment relies on observed production and does not adequately recognise the effect of state restrictions on resource development.

That redistributes GST away from states that facilitate production towards states whose policies constrain it. Yet for coal, the CGC changed its methodology in response to Queensland's royalty settings. In the gas assessment, policy restrictions are largely set aside. In the coal assessment, policy differences expressly impact GST distribution. The result is a system that can punish a state for developing its resources while strengthening the position of states that restrict development. That is not policy neutrality. The standard state benchmark and relativity flaw within the 2018 reforms addressed the consequences experienced by Western Australia but ignored unreasonable GST outcomes affecting other mining states. Rather than adding another blunt layer to an already large and complex system,

A principle dominant state solution should operate within the mining assessment itself. Such a solution should satisfy 4 tests.

- Firstly, it should materially reduce excessive redistribution from highly concentrated resource revenues.
- Second, it should preserve meaningful equalisation overall.
- Third, it should apply consistently across all states and commodities.
- And fourthly, it should be simple, predictable and robust to future changes in mineral production and CGC methodology.

Against those tests, Queensland's preferred approach is a broad 25% discount to assessed mining revenue. Crucially, 75% of mining revenue would continue to be recognised in assessing state fiscal capacity, preserving the core intent and function of horizontal fiscal equalisation.

- A 25% mining discount is a measured response to the efficiency, policy neutrality and volatility problems created when the GST system attempts to redistribute virtually every additional dollar of highly concentrated and volatile mining revenues. A broad discount is superior to other dominant state

adjustments as it is rule based, commodity neutral and administratively efficient. It would apply consistently to iron ore, coal, gas and other emerging minerals of importance without recurring disputes over which state is dominant, how narrowly a commodity should be classified, or when dominance begins and ends. It would also remain effective if the CGC subsequently changes its commodity classifications or mining assessment methodology.

- And importantly, it recognises that the national interest is served when states facilitate productive investment, energy supply, employment and exports. In comparison, a commodity specific dominant state adjustment is directionally sound, but would require contested decisions about dominance thresholds, commodity coverage, discount rates and review arrangements. Commodity bundling could dilute the influence of an individual mineral, but its effect would depend on how commodities are grouped and weighted. The degree of protection could also change from year to year without any transparent or stable limit on excessive redistribution.

The remaining options flagged in the PC's interim report may be conceptually interesting but are operationally inferior.

- A hoteling rule-based adjustment would depend on contested estimates of resource stocks, economic potential, depletion, future prices and discount rates.
- A sustainable income approach would assess states as if they paid royalties into a sovereign wealth fund, relying on hypothetical investment returns and withdrawal rules rather than actual state revenues.
- A pure endowment-based assessment could attribute revenue capacity to resources that are uneconomic, inaccessible, or prohibited from development, with challenges around data availability and comparability.
- A profitability-based assessment may sound appealing, but it would replace observable royalty revenue with volatile and contestable measures of company profits or economic rents.

Each of these approaches would add significant complexity without providing a clearer, more predictable or more policy neutral outcome. Yet, doing nothing is not an option when we are faced with a system that can penalise a state for developing a resource, while strengthening the relative position of states that restrict development. The national GST system can do much better than accept the current fragmented approach to assessing mining revenues. Queensland reiterates the need and value for a broad 25% mining discount to apply without delay.

Now, beyond reversing the 2018 reforms and addressing dominant state effects, there are other issues with the GST system that need fixing. Some of the CGC's methodologies used to allocate GST do not accurately reflect the real circumstances and costs faced by states and they are independent of the 2018 reforms altogether.

For example, Queensland is the most decentralised jurisdiction in Australia, delivering health, education, policing and other services across a state spanning almost 1.8 million square kilometres which inevitably involves higher costs than other equivalent services being delivered to more concentrated populations in other states. Yet the CGC's methodology struggle to adequately capture those realities.

Similarly, construction cost assessments continue to produce outcomes that are difficult to reconcile with market realities. Brisbane is frequently identified as one of Australia's most expensive construction markets, yet CGC assessments have at times assumed materially lower costs and comparable cities elsewhere.

These examples are not raised to relitigate individual methodologies, but they illustrate a broader principle. If the CGC's assessments do not accurately measure either the costs or the states face, all the revenues they can reasonably raise, then equalisation outcomes will inevitably be less accurate than intended. That is why GST reform should begin but not end with addressing dominant state effects for mining.

Queensland has previously submitted to the inquiry and to these inquiry reforms to also improve the transparency, robustness and responsiveness of the methodologies that underpin the system itself. A similarly coherent approach is needed when it comes to the way the CGC assesses Commonwealth payments for GST impacts.

When the federal government announces funding for a nationally significant project, or to recognise a particular disadvantage Australians reasonably expect that funding to achieve, it will achieve its stated purpose. Yet a substantial portion can subsequently be redistributed through the GST system. The federal government has already accepted this principle for schools. It directed the CGC not to unwind the different funding shares under the Better and Fairer Schools Agreement.

- The same principle could apply consistently to other major payments, including health funding that recognises differences in activity and rural and regional service delivery costs. Otherwise, one federal mechanism simply defeats another. A live example is the federal government's \$7.2 billion commitment for Bruce Highway safety upgrades.
- Without protection from GST distribution, approximately \$2.9 billion of that funding could be distributed away from Queensland in the coming years. Queensland supports the Productivity Commission's recommendation that decisions about quarantining become more transparent and that reasons be published. But transparency alone does not correct the underlying problem. A transparent clawback remains a clawback. What we are seeing is a problem, not just of transparency, but also of accountability and policy coherence.

A payment should be protected where it already reflects relative need, addresses a structural disadvantage not adequately captured by the CGC, supports a nationally significant objective, or would have its intended purpose materially frustrated by GST redistribution. Rather than relying on ad hoc exchanges of letters, Queensland proposes a clear and consistent test.

Finally, Deputy Chair, Commissioner, contrary to some views, this inquiry should not be reduced to a contest between Western Australia and other states. It raises a larger national question. Do we want a GST system governed by consistent principles for every state and territory, or one that requires increasingly costly exceptions to deal with unreasonable and perverse outcomes. This inquiry provides an opportunity for meaningful reform to provide a fair and consistent deal for all states and territories. As such, Queensland suggests a more coherent GST distribution architecture would comprise three key elements:

- Firstly, a 25% discount to the CGC's mining revenue assessment, the principal discounting or quarantining of key Commonwealth payments and governance reforms that make the CGC's GST assessments and decisions more transparent, coherent and accountable.
- The Productivity Commission has shown that the status quo is neither costless nor neutral, and it's critical that the Productivity Commission's final report contains a clear and implementable pathway back to genuine equalisation, a direct and durable remedy for dominant state effects, and principal protection for Commonwealth payments whose purpose would otherwise be undermined by GST redistribution.
- Queensland is not asking for special treatment. We are asking for consistency and consistent principles. One federation deserves one coherent approach to an equalisation that delivers one fair standard for every Australian.

Thank you very much for the opportunity to speak today.

Dr Robson: Thank you, Treasurer, and thank you for those remarks and for engaging with the report. I might go to the mining question first, but can I just play back what you started with it, and I think it's in relation to our recommendation 1 around returning to towards the pre-2018 system, and then having the Treasurer direct the CGC to address the dominant state issues. So I just wanted to confirm, so you largely agree with that recommendation that the PC has put forward?

The Hon David Janetzki: Yeah, so certainly our view is that the Productivity Commission interim report has stated the case as we see them. So the options one and two, you know, obviously, you know, we probably lean towards option one, but certainly it's clear that the inequity that has been now built into the system has been appropriately identified in the interim report and probably the options, you know, our view is very much that we keep progressing towards a fairer outcome. Option one is where we lean towards you know, but I accept that there's a long way to go in the process.

Dr Robson: And I might just say, you set it out in terms of the four principles, which I, you know, I think is a good approach. You know, materially reduce the redistribution, but preserves meaningful equalisation, it should apply to all commodities and then be robust and simple and those sorts of things, which I think is a good place to start. So, I mean, we've identified, as you have, the dominant state issue as you know, potentially conflicting or you know, it becomes an issue regarding policy neutrality.

But then, what's the case then for extending that to all mining rather than just mining or indeed just where dominant state issues arise? Is it just as you said, the simplicity rules-based system, or is there something else going on?

The Hon David Janetzki: Well, probably, certainly the Queensland position is that, you know, like we said, it's not a Queensland, we're looking for a consistent approach. Certainly, we don't see it in terms of one state against another. It really is finding a consistent application and one of the challenges that we always raise is, you know, the need for us to be, you know, Queensland obviously is a pro-resources state. We're determined to continue investing into our resources sector and that includes coal and gas.

We want to make sure there is investment coming into Queensland and I often call it the GST washing machine in that, you know, if Queensland was to invest, develop, progress our gas industry and raise an additional billion dollars in royalties, petroleum royalties in Queensland's case, we would actually lose \$800 million in that GST washing machine, but then also half of that would go to for a jurisdiction that would potentially be constraining or restraining resource development in their own state. So for us, you know, we are very pro-resources state and we want to make sure that you know, the right incentive signals are there, so people are feeling comfortable to come and invest, and we believe that to be in the national interest, national prosperity, national wealth. And I think at a more technical level, certainly, you know, the dominant state effects are economic in characteristics and it's not a concession that should be just reserved for one commodity. It should be applied equally across all commodities. And so for us, that obviously includes coal and gas in addition to iron ore, for instance. So it again, it is that consistent approach, regardless of the mineral, that encourages the right kind of investment that Queensland submits creates national wealth.

Dr Robson: I might just test you on a couple of things and then Angela, I think, has got a couple of questions. So, I mean, I accept, you know, and we've said this in our report, we've looked at, you know, changes in different royalty rates and how that can affect GST payments. I guess the, you know, where the rubber hits the road is around evidence that that has been actually the marginal thing that's changed a government decision, because that's where really, you know, we're very concerned about that particular issue and evidence around it, as you would have seen in the report, you know, is difficult to find it in terms of data.

And, you know, maybe in your submission, you can, if you're going to make a further submission, talk about examples. But that is where, maybe just get you to reflect on you know, yes, you mentioned the billion and the 800 million, but I guess the question is really, you know, do you feel that that is the thing that holds, you know, decisions back or affects decisions, given that there are, you know, so many other things that play other than GST revenue in a in a decision on whether to proceed with development or not?

The Hon David Janetzki: Yeah, probably a couple of things to unpack there, I'd say. So, you know, our, it's more a political statement than a submission now, but we've certainly, our second budget, we delivered another budget of no new increased taxes. So, we're not of a view in this budget to be increasing taxes. So, but certainly, it's true that former government in Queensland lifted coal royalties and there has been redistributive impacts because of it. Now, I obviously wasn't part of those discussions that the former government had and whether they considered the longer-term consequences.

But certainly, you know, they did take \$15 billion in one year alone and obviously that's now longer-term average and coal royalties and the Queensland budget are forecast to be \$5 to \$6 billion. So there has been an impact. But certainly when Queensland says, you know, we live through the largest distribution away of GST in the history of the GST last year, there were a range of other factors that flowed into that distribution. And it sort of leans more into some of the points that we've made and around, for instance, NHRA, around, you know, the state in that roundabout, in that washing machine, losing a billion dollars or more effectively for the state to be stepping in to be providing federal services when it comes to stranded Australians, for instance, so Queenslanders and other jurisdictions have the same challenge, sitting in state hospitals, it could be in aged care, so the state stepping in.

It's also equally applicable to, you know, when we talk about, I raised in my opening submission again around Bruce Highway payment quarantining. So, we've got \$9 billion is the announcement is the commitment, but then we have a situation where potentially \$3 billion of that will be lost to the state because of GST distributions away. So, there is obviously that impact where you're leading, Deputy Commissioner, around state-based taxes making that flow through impact that longer term consequences, but it runs far deeper than that, far deeper than that. And whether it be, you know, those couple of examples I've given then.

I've got, you know, other examples that I've used over the time from. It's not really, you know, I think the five-year methodology review from the CGC is likely to begin next year. But there's a range of other anomalies in the Commonwealth Grants Commission that I've talked about, whether that's a failure to recognise, for instance the cost of transporting a service, transporting someone to have a service received. It's very different in Queensland, 2,493 kilometres between Brisbane and Weipa, a stark contrast to 75 kilometres between Geelong and Melbourne. Another practical example of some of those GST anomalies out of the CGC.

So it's some of those longer-term impacts of state-based taxes, they play a role, but it is not the full picture. And certainly our position is across the board, there needs to be a way of making a more equitable system in the future.

Dr Robson: Sounds like you're describing a washing machine inside a washing machine. Anyway, one last question, then I'll hand over to Commissioner Jackson.

So the 25%, is that sort of based on any modelling that you've done? I mean, if you tested different you know, if you put that in your submission, any further details on that. But is that sort of based on anything, or is it, more just a sense of, you know, a Goldilocks kind of number in the bigger scheme of things?

The Hon David Janetzki: Well, a couple of things to unpack there probably in that. Firstly, you know, we think it's a simple and fair approach. It still keeps 75% of mining revenue outside. So, 25% also aligns with Western Australia and Northern Territories submissions. So, we believe there's a simplicity to it. It finds the right balance. I think from memory over time Western Australia has probably had 40% to 50%, could be as high as 60% now that's been set aside. Our 25% was in a line, we think it's simple, we think it's efficient and we think it appropriate in the circumstances. But, it's in alignment with Western Australia and Northern Territory submissions. We also think it's, you know, if you look at the Canada model, which we've referenced previously, that's at 50. So we think it's a balance that strikes an appropriate degree of relativity.

Dr Robson: Thanks, Angela?

Dr Angela Jackson: Yeah, thank you, treasurer. And look, I might just ask a few more questions around mining and the discount and when it applies or not. Obviously, our sort of main, I guess economic focus of addressing the dominant state issue is around new development or new policy. Do you think or is it conceivable that you could apply whether it's a, a discount just to changes or to, you know, increases in production rather than moving forward rather than sort of the base?

The Hon David Janetzki: Well, certainly our submission and you know, I understand you know, Queensland Treasury will have further opportunities to make additional submissions and I think to the 30th of September. So, we're happy to explore some of those aspects further, but certainly at this stage, our submission is, you know, pretty straight up and down in terms of the 25% discount that we're proposing.

I think the message and I've alluded to it already, but certainly the clear message that we want to be sending is that, you know, we're not looking for a special deal here. It's a fair deal we're seeking and due recognition of the resources sector in Queensland. and encouraging an investment environment and I think it always comes home to me. I actually also am Queensland Energy Minister, so I spent a lot of time talking about the gas market here and obviously there's a significant political debate going on right now in our country around the East Coast gas market and, you know, we want to see a solution and an environment there where we do encourage more investment into the Queensland gas industry. So I, and I think, you know, we're currently supplying about 90% of the east coast gas market. That'll be 96% of the east coast gas market by 2037.

So certainly Queensland has significant opportunities to help power our country and deliver more investment and economic growth and wealth for our country. Look, our submission is the 25 percent. I think what needs to be made clear though is that is want to get the investment settings right and it apply equally. You know, that's the point of about 25% is that it can be applied consistently across the country. And that's part of not a special deal, but a fair deal that I think can apply right across the board, regardless of mineral and regardless of jurisdiction.

Dr Angela Jackson: The operation of the standard state benchmark. So it's one of the things that we've recommended in our sort of final best option that it be removed. Have you had any thinking around the impact of that on QLD? It has been put to us that there is an incentive there for states to get below that benchmark and then they get to benefit from effectively the 2018 deal. Is that something that Queensland keeps in mind in terms of policy choices?

The Hon David Janetzki: Well, certainly the Queensland view is that if any of the 2018, you know, arrangements were to remain, the permanent No Worse Off Guarantee, you know, must remain, but it's obviously in our submission that that's not sufficient. But that sort of the work that we've that we've added into it is very much that that's our position and obviously we are hopeful that the Productivity Commission ultimately will deliver options and solutions that take us beyond that conversation, but let's wait and see.

And I, but certainly the only other thing I'd say is, you know, we do support moving back. If that was to be the case towards the pre-2018 system, but to do that, you know, the mining assessment process, that needs to be addressed in Queensland submission if that was to be the outcome.

Dr Angela Jackson: More broadly we're thinking, obviously we're focused today quite a lot on mining and we've flagged that, you know, in our interim report but broader examples and concerns around policy neutrality. I think are one of the things that we looked for certainly as we were working towards the interim report but struggled with, were specific examples of where the state governments hadn't or had pursued different policy directions based on the GST distribution. This is just another opportunity for any examples

where that you know, has been, I guess, a dominant consideration against other considerations that you might have as a government.

The Hon David Janetzki: Look, I think probably, and I know, there's been some mention, I think the New South Wales Treasurer talked about certain decisions that they decided not to make in relation to coal royalties. I think when Danielle Wood spoke on Monday, you know, certainly like I said, you our position is we want to keep this as fair and broad and even across the country.

And that is why, you know, that 25%, the mining discount is clear. Obviously, every state will make their own decisions in relation to their revenue base. Queensland's position has been no new increased taxes. I just think that what we need, the ideal outcome, is due recognition of, you know, obviously the involvement of the resources sector to national wealth. And I think for us to reach a conclusion where, and that is why the submission with the mining discount and the submissions we've made are in fact trying to drive that fairness and that evenness. Because I think it's fairer for our country and I think for us to Queensland's approach to we could power our country and our economic development and I think for us to have a GST system that recognises that and certainly, you know, the pie has grown significantly larger over the last decade, over the last three years, we're the only state that's fallen behind in real terms. You know, I think for us to land a GST system that recognises the wealth that is created from Queensland, I think that is, and all jurisdictions that have resources in them, is an appropriate way forward.

Dr Angela Jackson: Alex, would you have any other?

Dr Robson: Yeah, Treasurer, you spoke about the quarantining issue today and then also in your submission, so I'm keen to just explore that in the remaining minutes that we have. And I think, you know, you set out a set of principles in your remarks today, which again, I think is, you know, at the PC, we're very much attracted to principles-based approaches to things.

So, are you arguing for a set of guidelines or is it more hard rules or what's the sort of mechanism that you think would implement those principles in relation to quarantine?

The Hon David Janetzki: Yeah, I think some principles-based approaches would be ideal. And like I said in the opening statement, the exchange of letters can lead to inconsistent or unpredictable outcomes. And you know, probably the Bruce Highway example that I gave is probably the best Queensland example we've got. So that ultimately that will, you know, what started off as an 80-20 split between the federal and state government by the end of the GST washing machine could end up more 50-50. In fact, the state contributing ultimately more to that. So, it's an important, like it's an important aspect, I think, that the Productivity Commission can tease out further because you know, we, left to the whims of exchanges of letters, will lead to further perverse outcomes and unexpected outcomes when, you know, when people reach agreements, jurisdictions reach agreements, and then for it to be undermined in that way or is not, again, providing a fair and equitable GST distribution system across the country. So I think it's important.

I appreciate the Productivity Commission investigating into it because I think it's one of those hidden ways, some of the subtle cost shifting, as I often call it, that doesn't attract the attention, but I do think it's an opportunity if the Productivity Commission was to reach some principles on that, it would be gratefully received.

Dr Robson: Yeah, I mean, I guess the issue we encountered in the process of putting together the interim report was that, you know, it has been tried in some sense before in terms of guidelines and the issue was that none of the states could agree. And so, the spirit of our recommendation and you pointed to transparency, and it's not just a transparency issue, and I agree with that, but the spirit of the recommendation is, you know, by making it more transparent, the sort of implicit rules that are actually occurring in practice would become part of accepted practice over time then so that the sort of principles

or guidelines that we're talking about would evolve hopefully in a natural way and there'd be some kind of, you know, implicit acceptance of that rather than, you know, trying to get the states to all agree on a formal set of guidelines, which is probably the first best, but maybe not achievable, so that's yeah, that's the background to it.

The Hon David Janetzki: Well, and I think in terms of that, like, you've seen it, you know, recognised in education funding. So, you know, but to have a more broad-based principled approach across the board in terms of, you know, how payments are quarantined, or, you know, GST distribution applies or not. I think the piecemeal approach that we've seen and, you know, we've talked about education, I've mentioned health, Bruce Highway, you know, to have a consistent principles-based approach, I think would be good for transparency.

Dr Robson: Angela, did you have any more questions?

Dr Angela Jackson: No, thank you. Yeah. Look, I think we, I think as Alex said, we did look at this quite closely and whether ultimately, you know, principles can be in place. But they can be, people can get around principles as well. Like there's nothing we can do to force a certain approach from the executive, you know, on decisions into the future and so having greater transparency will at least ensure that you know, if you know Queensland's got an issue, it can go well you know, this is consistent with what happened with NSW or with, you know like it creates that account in the system which are hopefully improve things and lead to greater consistency.

I think one of the other I guess questions that we've got is the sort of thinking forward in terms of the real world or the impacts of keeping the current system in perpetuity, and I think, particularly around the mining sector and mining investment and what that might mean and just what you're thinking is in terms what distortions you're saying in terms of what the current system might be delivering and what that might look like if it continues sort of 10, 20 years into the future?

The Hon David Janetzki: Yeah, I think it sort of feeds into probably an energy question most of all for Queensland in that we have the opportunity, you know, in Queensland to really make that contribution and we want to get investment settings right. And if I think about the gas market in particular, you know, we want to see increasing investment into the gas market and gas industry here in Queensland and because we believe we can play a vital role in gas development and whether that's gas generation for data centres or additional gas generation into the system or firming renewables. What we believe Queensland has a significant role to play for the gas industry. So, to get the settings right, obviously, you know, there's other issues at play as well to get the investment settings right. But I think as a state again, if we are making these significant contributions to national wealth, then we should have a GST that encourages investment into those industries that create national prosperity, not penalises it.

And certainly, that's Queensland's view is, you know, right now, and I gave that example, which we'd included in our original submission to your inquiry around that if we were to raise that billion dollars extra in royalties because of our support for the gas industry, we'd lose \$800 million and \$500 million would be then distributed away to a jurisdiction that has actively sought to constrain the development of the gas industry in their jurisdiction. That's not fair. And certainly, to have a system, a GST system that recognises that if a state or territory steps in to encourage growth, encourage investment, then they won't be penalised for it.

Dr Angela Jackson: Okay. Thank you and thank you very much for your time today and for the ongoing engagement of your government and your officials in the inquiry.

The Hon David Janetzki: I thank you.

Dr Angela Jackson: We really appreciate that, that engagement. We'll now be moving on, I believe, to your companions.

The Hon David Janetzki: Thank you very much for the opportunity. Thank you. Thanks, folks.

Dr Robson: I think we're going to take a quick break.

Dr Angela Jackson: Oh, we're going to take a quick break.

Dr Robson: Yeah, the Tasmanian Treasurer's not quite online yet, so we'll take a quick break and come back when that's ready.

Dr Angela Jackson: We'll commence in probably 5 minutes or so. Thanks.

Dr Robson: Yeah, thanks.

TAS Treasurer

Dr Robson: Thank you, Treasurer. If you could just state your name and where you're from, and then for the transcript, and then if you make an opening statement of no more than 15 minutes. And so, I think we've scheduled 45 minutes for this so if somebody could contact the next speaker and just let them know that we're running out of time, but we'll give you the full allotment of time, Treasurer. So please proceed. Welcome.

The Hon Eric Abetz: All right, thank you very much. Eric Abetz is my name. I'm the Treasurer for the State of Tasmania and to the Commissioners, thank you for the opportunity to submit on behalf of the people of Tasmania. I can confidently say that this is one of those rare occasions where I can assert I speak on behalf of a unified Tasmania, because our House of Assembly has unanimously passed 2 motions relating to GST distribution.

Firstly, to support the principle of horizontal fiscal equalisation, which underpinned the GST in more recent times, and just very recently and respectfully backing in option 2 of the Commission's interim report. A report, if I might observe, is robust, evidence-based, and not worthy of some of the inappropriate criticisms from quarters whose embarrassing financial position has nothing to do with fiscal rectitude and everything to do with creations, gifts and endowments, especially of the mineral kind.

One of the numerous benefits of being in public life for a little while is that I was there at the GST elections and debates of 1993 and 1998, the implementation of the GST, the 2018 changes with all its attendant promises based on faulty modelling, and now here, 33 years later, advocating that everything old should be new again. In other words, the 2001 system was not broke. It didn't need fixing, but "fix it", in inverted commas, we did.

The need for the No Worse Off Guarantee and the substantial payments under it is proof positive that the changes are not working as intended. And in fact, the fix was based on cheap short-term politics and not economics or fairness.

The collection of GST funds was always to be put into a pool, which would be distributed by the Commonwealth Grants Commission, a body with experience and acumen, determining a fair distribution to ensure we didn't have a two-tiered federation, which we do today: Western Australia and the rest of Australia.

While interesting propositions are put forward as to which states raise how much GST, it is exceptionally difficult to quantify. Many goods and services are bought from central operations and the larger the state, the more likely it will be that it will have a central operation from which people from all over Australia make their purchase, thereby accruing GST revenue to that particular state, although purchases are situated throughout our continent. Arguments as to how much GST is raised in or by a particular state or territory

may be interesting, but definitely not material in determining from where it actually emanated and definitely not in determining distribution.

A further issue, which is often overlooked in that debate, which I believe should not be entertained, but an issue which is often overlooked is the fact that there are substantial GST reimbursements for business inputs for the mining sector, and of course, no GST is collected because of exports. And of course, from that, that state then gets substantial royalties and pay roll tax.

For Tasmania, 40% of our state budget is derived from GST revenue. It's vital to our capacity to provide the services Tasmanians need. The original, well-crafted GST was based on horizontal fiscal equalisation. It worked well, objectively, it worked well. One entity complained because of its good fortune, and that was Western Australia.

Rather than engaging in undignified name-calling, as some have, Tasmania would respectfully draw your attention to an excellent fact-filled submission provided by Corinna Economic Advisory. That submission, I believe, does not in fact need to be brought to your attention, as its rationale has found its way into the Commission's compelling interim report.

The distribution methodology was designed to ensure all Australians had access to a basic level of service delivery based on previous federal allocations. Assertions about reform laziness or rewarding policy stagnation is debunked and debunked effectively and convincingly in the Corinna submission to which I've previously referred. States are separately incentivised through things like the National Competition Policy payments and the like.

The wheel of economic fortune does turn. Our brothers and sisters in the West were once beneficiaries of Commonwealth support and horizontal fiscal equalization. Today, despite the rivers of gold and iron ore derived from nature, not economic prowess, they are unnecessarily and unfairly still the beneficiaries of substantial Commonwealth largesse. As all the other states and territories grapple with budget shortfalls, the West enjoys a revenue stream propped up by Canberra and to the disadvantage of the rest.

The recently contrived two-tier system has created a two-tier federation. Something which is not in the national interest or in the interests of individual Australians. Each state and territory has its unique issues, accidents of history, geographic placement, capacity and political decisions. For example, 50% of Tasmania's relatively small landmass is locked up in heritage areas and parks, much of which is the result of federal intervention.

This impacts economic growth and potential. Tasmania has genuine issues with which we are dealing, but:

- We can't change our geography and isolation.
- We can't change our demographics and health needs.
- We can't change our narrower tax base or that 50% of our land mass is conserved into world wilderness precincts and parks.

Every state and territory has its unique issues and every state and territory will accordingly advocate, which is where the Commonwealth Grants Commission comes into the scene and determines a reasonable distribution based on the prevailing factors. The No Worse Off Guarantee was added to the new methodology to placate the doubters and with unjustified assurance that it would not be needed and if it was, it would be of marginal impact. Time and experience has shown that to be incorrect.

To put it bluntly, the 2018 changes were not established to rectify any injustice. It was established for populist political posturing to entice favouritism of the ballot box in the west, and the No Worse Off Guarantee was added to placate the rest. The modelling has been exposed as flawed. The ongoing need for the No Worse Off Guarantee is surely enough evidence.

The public debate was shallow at the time in that the assertions made to change the fundamental underpinning were not challenged and exposed. The assertions, shallow as they were, have now been exposed as not only shallow but deeply flawed through the lived experience that we have seen. And again, references made to the Corinna submission, which has not been credibly challenged.

While each state and territory might have nuanced requests or submissions, the underlying common theme is that the 2018 changes need to be set aside or reversed because of the principles of fairness and equity, which are well established public policy principles in Australia. Thank you for your time and your consideration. Tasmania will be furnishing the Commission with a final submission shortly.

Dr Robson: Well, thank you, Treasurer.

The Hon Eric Abetz: Should you wish, Commissioners, the Secretary of Treasury would like to make a brief statement if that is in accord with your wishes, or we could go to questions.

Dr Robson: That's fine. That's fine. Yeah, absolutely. Please go ahead.

Secretary Gary Swain: All right, Gary Swain, the Secretary of Treasury in Tasmania. Given your structure, I'll try and keep this brief, and I'll try to add detail to the points the Treasurer has already made. So, confirming the support for option 2 specifically, Tasmania seeks 2018 reforms are revoked. The GST system is restored to the pre-2018 reform distribution of full HFE and any recognition of benefits to the nation from WA's mining industry delivered transparently outside the GST system as proposed in that option.

We note that the statutory purpose of GST remains full equalisation and that the 2018 reform should be assessed against that enduring purpose as you are currently doing and the benchmark is whether every state can provide comparable services with comparable effort.

As noted in the interim report, GST distribution is not intended to incentivise or disincentivise states undertaking reforms. And states are not obliged to undertake reforms, although if you look in Tasmania's case, there is quite a lot of reform currently proceeding.

The Commission's interim findings that the reforms of 2018 have not delivered their intended outcome is supported by Tasmania. In particular, the intention that all states would be better off, which is running against the evidence of a structural disadvantage for one state at the expense of the others temporarily abated by the No Worse Off Guarantee.

The Commission has found that reforms did not deliver these intended outcomes that the system needs to change. Tasmania supports this. As raised in the Tasmanian Government submission at the time, 2018 reforms have entrenched fiscal divergence, particularly through the inclusion of the floor and the floor is not supported by Tasmania in any form and I'll come back to that in a little bit more detail.

And we think there is evidence of this through the debt positions of the states, as you, I think, would have access to the data that's showing the WA's debt position per capita has dropped over time since the reforms, whereas that of all other states and territories have increased substantially.

Grappling with that in Tasmania, we think that is likely to have long-term effects and implications for service levels across jurisdictions directly and indirectly that will compound over time. And I can expand on that if required. And it has not supported one of the intended aspects of the 2018 reform, which was to increase the resilience of states outside of WA. to an economic or fiscal shock.

On the revenue side, I think you'd be well aware WA started off with an advantage in terms of own source revenue that has not been a temporary outcome and has continued on. In fact, that own source revenue advantage has increased since the reforms were introduced in 2018 through to 24-25. Whereas over that same period, the payments of GST have been in excess of the HFE calculation requirement in every year,

and that has been paid for by the other states, albeit offset by the no worse off guarantee on a temporary basis. So I guess I'm just reinforcing the dual, the dual Australia outcome.

Turning again to the floor, as you'd be well aware, the floor is currently set at an arbitrary rate that is about 7 times higher than that which would be the relativity that would be determined through a full HFE. And the arbitrary level of that floor is just not based on evidence or calculated in any way. It's an arbitrary floor. We don't think that the No Worse Off Guarantee, even if extended in perpetuity, would fully offset that disadvantage that comes from that differential over time. In terms of dominant state effect, I think it's acknowledged in your report that mining dominance does not erase mining revenue, and we would support that fiscal capacity should be assessed on evidence and not overridden by policy direction. In that regard, any direction by the Commission or the Australian Treasurer to the CGC, we think will start to undermine that approach.

In terms of the institutional settings, Tasmania is very supportive of the CGC role, its independence, its transparency and its robust methodologies, which I think is consistent with your interim findings, particularly finding 5.1. We would support that any governance reform should not constrain the CGC in the application or the implementation of its role on an ongoing basis.

In relation to the alternatives, in option one, the return to full HFE is definitely welcome. The direction, as I've indicated, is not supported on the basis that it does seem to be inconsistent with the Commission's own finding that the CGC has the structure, procedures and capabilities to undertake its role well.

In relation to option 3, as I've stated, we have a fundamental flaw with the notion of a floor. We see it as a permanent reduction in flexibility in the system, an intervention that was designed to deal with a particular circumstance. A circumstance that may exist in some years, but the intervention will currently apply in all years and if there is a problem, a problem that can be dealt with in other ways outside of the GST system. Which takes me back to where the Treasurer began, which is we are supportive of option 2, as it is described for the reasons given. And yeah, I think I'll just stop there and thank the Commission for the opportunity to make a few comments.

Dr Robson: Thank you, Mr. Swain and thank you, Treasurer. I might just begin, and thank you for your comments in relation to the to the interim report. I might just go straight to option 2 and I was going to ask you, you know, why you think that is your preferred option, but I think you've explained that pretty well.

I mean, there's different, we haven't specified in our interim report, you know, that amount of money that might go to affected states. Are you saying that it would, you know, potentially address these issues in relation to all states where there's potentially dominant, costly dominant state issues arising or is it just confined to Western Australia or do you have a view on that at all?

Secretary Gary Swain: Look, I might jump into that one. I think we think that a return to full HFE would deal with that issue foundationally, so for all states, but that principle that you could, the Commonwealth, if it is the beneficiary of an outcome emanating primarily from one state, can at any time choose to enter into a bilateral arrangement with that state. So that general proposition we think can broaden outside of WA and a particular mining outcome.

Dr Robson: Yeah, okay, and then what about the quantum? So, one of the you know one of the concerns and questions we have even about the current system is to the extent that it continues, say, in 10 or 20 years' time, the different sort of fiscal capacities that that would then lead to and we've identified and the extent to which that would, you know, create this sort of two-tier system. I mean, option 2, you know, are you concerned that adopting option 2 might also have that same outcome depending on the quantum of money, of course, or is it just the inbuilt flexibility that would potentially allow for that to be, you know, identified if and when it arises.

Secretary Gary Swain: I think we would take the view that that arrangement offers flexibility to deal with changing circumstances around the nation over time. So that combination of a year by year calculation with bilateral arrangements in parallel as needed.

Dr Robson: Okay, Angela, did you?

Dr Angela Jackson: Yeah. I mean, I think, I guess it's a question of whether with that option 2, it is an assessment effectively made that is somewhat independent or is it just a political call that you know the Commonwealth government can make at any time. I think we'd probably want to see it relate to the existence of a dominant state issue within mining, so that there was at least from our angle anyway, a policy rationale. And in many respects, we probably see it as similar to option 1, but that there is just additional money provided rather than it's within the pool, the sort of add-on, if you like from in terms of almost who pays for it is how it could be seen.

On the issue of mining and the issue of the dominant state and the policy neutrality issues, obviously. You know, arguably policy neutrality is somewhat of an issue throughout the revenue side of the Commonwealth Grants Commission's assessments just because you know the ability of state policy to affect the revenue base on which they then assess capacity to raise revenue.

In terms of mining and that issue around the dominant state, are you saying that you don't see it as an issue or that you think that we that we shouldn't be concerned about it or that it's that in solving that issue that there are there's too big of a cost in terms of the equity implications.

Secretary Gary Swain: I think what I was saying is the GST was designed for a particular purpose and it shouldn't be bent away from that purpose. I mean, the Commonwealth in reality now can always deal with any specific circumstance in a state if it chooses to right now. And just related to the revenue comment, you would be aware that we did a financial sustainability report recently in Tasmania. We did, I just think you might find this of interest, we did look into the optimal, this is a treasury view, not a government view, the optimal mix of measures that might help with fiscal repair in this state, and the point that where we got to was a view that the optimal mix was 65% expenditure, 25% capital expenditure, and only 10% revenue. So yes, there is an incentive and requirement for the states to look at their own revenue, but in that separate piece of work, I think where we got to was the overriding driver of our fiscal outcomes would be expenditure base. So yes, so even if you accepted that there is a lower incentive or that there should be some consideration around the link between GST revenue and reform incentives.

I just note that in our own work, what we came up with was the bulk of the work needs to be done on the expenditure side, which is the bit the state government has the greatest control over.

Dr Robson: And you don't see any, you know, we talk about potential disincentives on the revenue side, but on the spending side, is there any penalties or disincentives for spending reform from HFE, from the HFE system as you see it? Or it's other, I mean, it's other, obviously other barriers and incentives are important, but anything in particular on the HFE side that encourages or discourages that, in your view?

Secretary Gary Swain: If I could, Treasurer, the current arrangement, I think we would be worried. We've had this conversation with the Treasurer that you could, if your debt position is rising significantly and that is of concern to rating agencies, you can be aware that there might be a long-term spend, like I'll take preventative health, that might be in the interest of the long-term fiscal outcomes of the state. But it's nevertheless non-attainable because you are, because there'll be a lagged effect between that investment and a return. So, you might have a 10-to-15-year lag where you're funding health as it currently is, and you would need to fund preventative health as well. We would note that under the current post-2018 world, WA is uniquely placed to fund both, to fund those investments that over time will put you in a very, very

different position. So, I think we definitely see that in relation, to answer your question, we definitely see a detriment to the two-tier arrangements that currently exist post 2018 in relation to that issue.

Dr Robson: Yeah, okay. If you have any comments on the recommendations around quarantining or governance or those border issues in relation to the CGC.

Secretary Gary Swain: We could, if I could, we think that the IGA is pretty fit for purpose. We think that the current institutions possibly could be used more. So CFFR and the framework under the IGA, we're very, as I've said, very supportive of the CGC in its role. We think it's very robust and I think as the Treasurer said, our starting point was the system wasn't broken and the fix has not been a fix. The fix has actually taken us to a worse position.

Dr Robson: That's very clear. Angela, any other questions?

Dr Angela Jackson: No. Look, I think it's good, I think. Are there any issues do you think in terms of and thank you for your overall positive comments it's nice to hear, obviously, and for the team as well. Is there anything in the interim report where you think we haven't quite got it right that you'd like to draw our attention to or we haven't quite understood the issues at play?

Secretary Gary Swain: The only other one that springs to my mind looking at the Treasurer is the direction in option 1, and part of the issue around that is we worried that it might repeat the mistake of the floor in the 2018 arrangement. So, by that I mean in a year, that direction might make some sense, but year after year, it may not make any sense and it's also subject to a lot of implementation risk that it could be, the direction could take a lot of different forms over time, which is unknowable for each state and territory.

Without that direction under option one, with just a return to full HFE, the Commonwealth has the ability to consider it a periodic on a periodic basis, the terms of reference for the CGC. So, we think there is a risk, you know, a particular risk with the direction in option 1. In one, its implementation could vary dramatically, and two, it may be totally unnecessary for periods of time, and in that regard, we see it as analogous to the floor, which was intended to deal with a circumstance which has largely not been applied since it was introduced.

Dr Robson: And do you have any particular concerns?

Secretary Gary Swain: Restrictive and not flexible where the base arrangement is highly flexible.

Dr Robson: Do you have any particular concerns around the standard state benchmark? And I appreciate that, you know, option 2 gets rid of that, but is there, yeah, is there anything that you'd like to say about that standard state benchmark, you know, equalisation to the, you know?

Secretary Gary Swain: I think there are in your report, so the dual federation outcome and also some of the perverse outcomes that I think are identified where you can get an increase in a state's GST payment for reasons that, you know, are contrary to the original intent of equalisation of HFE.

Dr Robson: Any other questions, Angela?

Dr Angela Jackson: Yeah, just whether you had any other comments as well around some of the other options we looked at in the report, I think one of them was around EPC plus.

So that's sort of where you top it up in terms of addressing some of the fiscal inequities from the Commonwealth and whether you'd had a look at some of those other options and how you think they may compare, you know, one of the things we highlight I think in the report is that it doesn't necessarily directly support states to address those structural disadvantages and whether you know Tasmania sees that there could be some benefit in in shifting that system or not.

Secretary Gary Swain: I'll have a go unless if the Treasurer would want to comment. I think again, you've got such a, you've got a very wide divergence of outcomes under that model. I think we would accept and we listened to New South Wales's contribution, that it was intended as a genuine contribution, but again, it could be implemented in a wide variety of ways.

And I think we come back to the previous system, pre-2018, best aligns with the notion of a federation. And it's understandable and it's certain, and it's adaptable to circumstances. So again, you could look for another alternative, but you inevitably would have winners and losers, and you would put an enormous amount of energy into coming up with a system which is to be compared with one we would argue wasn't broken in the first place.

Dr Angela Jackson: Thank you. Alex, did you have any other questions?

Dr Robson: No, that's it. So I think, yeah, go ahead.

Dr Angela Jackson: Yeah. And look, thank you again for the work of your officials in engaging with the inquiry. I know the team has really benefited from that and for the quality of your submission, we look forward to continuing to engage as we sort of finalise but I think we're done unless you have anything else you wanted to add before we wrap up.

The Hon Eric Abetz: Look, thank you very much for enabling us to make this submission. We will be putting in a further written submission, and we may well amplify some of the answers provided that coming back, the system wasn't broken. It was a political fix, not an economical, fairness or justice fix. It was all about the politics of the time and the modelling on which it was based has been shown to be flawed. And, you know, there's the old saying, if it ain't broke, don't fix it. Well, this was a classic case of something not being broke, being fixed, and now us living with consequences of it, and to echo Saul Eslake's view that this may well have been thus far at least the worst public policy decision in the 21st century, and it was all exceptionally livable with prior to 2018, and going back to that system as much as is possible is the best, the fairest and most appropriate, especially given that we can rely on the Commonwealth Grants Commission to make appropriate determinations in distribution. So, thank you very much for your time and all the best with your deliberations.

Dr Robson: Thank you, Treasurer.

Dr Angela Jackson: Thank you very much Treasurer Abetz. And thanks for persevering to join us. Thank you. I believe the next witness, yes.

Chamber of Minerals and Energy of Western Australia (CME)

Dr Robson: Good morning, where you are, well, where we are as well.

Aaron Morey: Good morning.

Dr Robson: Yeah. So, Mr Morey, if you could just state your name and where you're from for the purposes of the transcript, and then happy to take an opening statement if you've got one, no more than 15 minutes, and then we'll get to Q&A. Welcome.

Aaron Morey: Thank you. Yeah, Aaron Morey, the CEO of the Chamber of Minerals and Energy WA. So, thank you, Commissioners, for the opportunity to appear today. CME represents WA's mining and energy sector and the way Australia distributes the GST matters greatly to us. We supported the 2018 reforms because they introduced some balance into a system that it produced outcomes that were increasingly difficult to explain or defend. And so, we therefore have concerns with the direction of the Commission's interim report.

Our principal concern relates to the approach the Commission has taken to investigate concerns that HFE disincentivises states from reforming and growing their economies. The Commission concludes there is limited evidence the GST system influences state policy decisions. But when we look at how the Commission gets there, we think there's a gap in its assessment framework. In particular, Section 3.3 sets up efficiency and with much of the incentive analysis as a test of policy neutrality, does a state's tax rate or its spending decision change its GST relativity. That's the main lens through which the Commission examines whether this system rewards or punishes state effort, tax and expenditure changes.

Then in the equity section, the Commission says in effect that the question of whether WA was rewarded for developing its economy is answered by that same efficiency assessment. Did a tax rate or a spending line move? There's no separate lens in the report for investment attraction, approvals reform, land release, project facilitation, or the dozen other things a government actually does to grow production and exports without touching a tax schedule or a budget line.

Where mining does get a mention, it's still filtered through that same narrow lens. Box 3.1 and interim finding 3.2 acknowledge that dominant state effects can reduce the fiscal return to state policy effort and make the GST consequences of mining decisions uneven and uncertain. But immediately after making that admission, the report falls back on the claim that the system, and I quote, was, and is broadly policy neutral for most expenditure decisions and incremental non-mining tax changes. So, while the admission is about mining, the reassurance is about everything except mining. And even where mining is directly addressed, policy effort is considered principally through royalty rate settings, rather than the approvals, exploration and infrastructure decisions that determine whether a resource in the ground becomes a mine that pays royalties at all.

Footnote 7 lists CME's submission alongside the WA Government and CCIWA among the parties that raise this disincentive argument. In responding to that argument, the Commission draws on evidence about whether HFE stops governments changing tax and royalty rates. That's an important matter to consider, but it's not our argument. Our argument is about what happens before the royalty exists. Clawing back the fiscal return on production growth can blunt the incentive to approve, invest in and expand projects in the first place. That's an entirely different claim. We don't consider the report has adequately tested it. It's tested at a narrow version of the disincentive argument and treated the result as an answer to the broader question.

So, when the report concludes there's limited evidence of a disincentive effect, we think the Commission needs to be much clearer about what it has actually established. It may have established that HFE has limited influence on particular tax and expenditure decisions, but it has not in our view, established that HFE has limited influence on the incentive for states to develop industries and grow their economies. So, we encourage you to revisit that in preparing the final report.

We think some real-world examples would help. I note the Tasmanian Treasurer Eric Abetz comments in his opening address half an hour ago. He claims that he can't change his geology and that WA's success has nothing to do with fiscal rectitude and everything to do with minerals endowment. I refer to the Office of the Tasmanian Coordinator General, which says, and I quote, Tasmania has remarkable geological diversity and an abundance of rich and high-grade mineral deposits that are easily accessible and close to transport and infrastructure. So instead of seeking to maintain a budget 40% of which relies on GST funding, Tasmanian government should crack on and develop its resources like WA has.

The current energy problems playing out on the east coast are also instructive to the Commission. From 2012 to 2021, Victoria prohibited onshore gas exploration and development. The CGC therefore assessed Victoria as having no capacity to raise royalties from that gas. The consequence was more GST for Victoria. Compare that with a state that facilitates development. It does the approvals work, it makes land available, supports

exploration, facilitates infrastructure, investment occurs, production begins, royalties flow, and the additional fiscal capacity created by that effort is then substantially equalised through the GST distribution.

The state that develops the resource can lose much of the fiscal reward. The state that prevents development faces no equivalent fiscal consequence. The Productivity Commission itself identified the problem in 2018. It concluded that treating policy decisions to restrict extraction differently from policy decisions to facilitate extraction may distort state incentives; we struggle to understand why the same issue received so little weight in the interim report.

AEMO is now warning that Victorian gas production would decline sharply from 2029, with annual consumption forecast to exceed Victorian production from 2030. Commonwealth, as you know, is now moving to introduce mandatory gas reservation. There are many reasons the east coast finds itself in that position, but the experience demonstrates the fundamental point that resources in the ground do not develop themselves. Governments make choices that help turn those resources into productive industries or make that development more difficult. They're the sort of choices that fall outside the boundaries of the Commission's assessment framework for whether HFE influences state policy decisions.

I want to conclude with some observations on reasonable HFE. As you're aware, the terms of reference don't ask the Commission how Australia can achieve the fullest possible HFE. They ask what constitutes a reasonable level of HFE. Full HFE sounds precise in theory, but to achieve it, the CGC has to somehow measure the fiscal capacity and expenditure needs of eight vastly different jurisdictions and determine what each would raise and spend if they applied comparable policies. That requires lots of judgments.

Take the judgement made about gambling. CGC considers whether states should be assessed according to actual gambling activity or the propensity of their populations to gamble. It concluded that differences in state policy combined with other methodological problems meant neither of those approaches were reliable. So, gambling revenue is assessed equal per capita. The WA government points out that this is effectively a 100% discount on gambling revenue. Yet state policy can fundamentally shape the gambling revenue base. WA, for example, prohibits poker machines outside the casino. Tasmania, among other places, allow it. So, states can make very different policy choices about gambling and raise very different amounts of revenue from it. But because those policy choices make the revenue base difficult to assess consistently, the methodology effectively puts the revenue to one side.

Now compare that with mining. Whether a mine exists is also affected by state policy. Yet when WA succeeds in developing a mine, the resulting royalty capacity is identified and substantially equalised. One revenue base is considered too affected by state policy to assess reliably. Another revenue base, also affected by state policy, is treated very differently.

The treatment of remoteness provides a different example. The WA Government submission points out that WA receives only one-sixth of the per capita compensation Tasmania receives for the costs of regional service delivery. That's despite WA being 37 times larger than Tasmania and the distances involved in delivering services to regional services and remote communities, obviously being vastly greater.

All this is to say we should be realistic about our measurement of fiscal equality. The more fundamental point is that even if full HFE could be measured perfectly, we don't accept that it represents reasonable HFE. Full HFE seeks to equalise away differences in fiscal capacity. But some of those differences exist because states make different choices about developing their economies. If the additional fiscal capacity created by the first state is fully equalised away, the connection between economic development effort and fiscal reward becomes weaker. That's an undesirable principle for a federation. There should be some reward for states that grow their economies and their revenue bases.

There should be an incentive to compete for investment, improve regulation and develop economic opportunities. So, our concern with full HFE exists at 2 levels. The first is a matter of principle. Full equalisation can weaken incentives for states to grow. The second is a matter of measurement. Full equalisation cannot in any event be measured with the precision its name implies. The examples of gambling remoteness demonstrate that. The benchmark is the product of judgments, proxies and assumptions about vastly different jurisdictions. It is constructed, not discovered.

Put those two things together and we think the case for reasonable HFE becomes compelling. Reasonable HFE accepts that equalisation matters while recognising there should be limits to how far it is pursued and that there are limits to how precisely it can be measured. It allows us to provide Australians with a reasonable degree of equality in government services while preserving some connection between the economic opportunities a state creates and the fiscal benefits it retains. That's what the 2018 reforms did. Rather than abandon equalisation, they drew a line. We know where the previous approach took us. WA reached a GST relativity of around 30 cents in the dollar.

What the methodology at that point was effectively saying was that it could not reliably assess gambling revenue, because state policy had too great an influence on the revenue base, and it could not adequately capture the costs of remoteness, with WA receiving only one sixth of Tasmania's per capita compensation, despite being 37 times larger.

Yet it could determine, apparently with sufficient confidence, that WA should receive around 30 cents in the dollar. So, we believe that should give you cause for pause. And before recommending Australia unwind the 2018 reforms, the Commission needs to demonstrate not merely that fuller HFE produces more equalisation, but that it produces a better federation. On the evidence in the interim report, we believe that case is yet to be made. Thank you.

Dr Robson: Well, thanks, Mr Morey, for those opening remarks. I might take you up on the points that you made in relation to our analysis of, you know, tax and spending decisions, and I think you make a good point around your quick other decisions in relation to, for want of a better term, let's just call it the tax base so, exploration and licences and approvals and so on.

Can you, is there any specific examples? I guess there's two questions that I'm interested in. Since the 2018 deal, have there been examples that you can point to where approvals or licences or changes to the base have gone ahead, which wouldn't have under the old system?

So that's the first question. And then the second question is pre-2018, were there changes to the base that didn't go ahead because of that system? So, you know, in principle, is asking really 2 comparative questions there.

So, because our recommendation 1, as you would have seen it, it doesn't recommend a full return to pre-2018. What it says is that the Treasurer should direct the CGC to deal with these so-called dominant state issues. And so, we're interested in, for the purpose of the discussion today, how to frame that direction, whether it be, you know, around purely around royalty rate settings or as you've said, around questions relating to the base and so on. So it would be good to get a feel for, you know, from the WA evidence in that regard and maybe there's, you know, other states that you can point to as well, you know, Queensland and New South Wales are also have significant mining industries. But I might open with that and look and explore that.

Aaron Morey: Yeah, a good question, Alex, and I think the NT government might have made some comments in its submission as well. Look, ultimately those questions are ones for government. Certainly, three years in a treasurer's office would suggest to me that it absolutely can influence some decisions there. But like the majority of the commission's work, and I spent seven years there, many inquiries, I'd say

the majority, you don't observe the counterfactual. And hence why a really robust assessment framework, whether it be Chapter 2, 3 or 4 and bringing to bear a range of evidence is going to be really important in that context and it's certainly what I think the 2018 report set out and challenged itself to do.

One of the examples for, you know, I mean, one of the debates, one of the debates that WA government has been frustrated with a very long time with the Commonwealth Grants Commission is, for example, around the Northwest Shelf. Now, I appreciate it's a historical example. It doesn't go directly to your question. But no one can deny that the Western Australian Government undertook significant, significant fiscal investment in making that project, in making that project come to life, not just the Dampier-Bunbury gas pipeline, but also all the financing to underwrite the original investment.

There was an agreement, WA would get two-thirds of the royalties, the Commonwealth will get a third. The Commonwealth Grants Commission have forever argued that that would have been developed irrespective of anything the WA government did. It would have magically appeared. And now we have a situation where after equalisation, Western Australia gets 7% of the royalties after equalisation. So, it's 11% population share, two-thirds of that.

You can't tell me that a government would make that sort of investment today with that knowledge that you wouldn't see significant conversations occurring at an intrastate level and at a federal state level as well. It's a real untenable situation. If we think about where we are as a country and what we want to achieve as a country, you know, the government's Future Made in Australia ambitions, we're talking about green steel, you know, we're talking about green ammonia, advanced manufacturing, you name it. The country has ambitions to open up new giga-scale industries, much like what the Northwest Shelf project represented for natural gas.

And so I don't think it's a theoretical exercise to suggest that this is pretty important in terms of getting the incentives right, because it's very much the state governments that are in the driving seat for these sorts of decisions. I hope that helps, Alex. I appreciate that it doesn't directly go to the question, but yeah it's what I've got.

Dr Robson: So, I mean, we heard from Queensland this morning around a mining discount. I don't know if you saw the remarks and their sort of approach, you know, 25% across the board for you know, all mining commodities at a discount.

And, you know, I appreciate your position on the 2018 deal, but do you have any views on that proposal specifically around a mining discount versus other things like blending, you know, or aggregating mining activity, you know, to address dominant state issues?

You know, as opposed to something like a broader instrument of what we have at the moment, like a 75% floor or a floating floor or whatever it might be, or do you have any, does CME have any opinions on those sorts of things?

Aaron Morey: Yeah, no, I mean, yeah, as you say, we support the current system. We don't have a view on that sort of Canadian Alberta sort of model. The area that I do think warrants consideration to even further enhance the incentives that I talked about in the first part of my submission is equalisation to the average. I think that's what should be looked at and that what would even further help to develop that set of incentives around states getting a hand up but still having an incentive to get ahead. So yeah, no position on the mining discount, but yeah, I think equalisation to the average is one of the interesting areas that should be considered in greater detail and preparation of the final report.

Dr Angela Jackson: So, I mean, you just sort of I guess, articulated clearly that you thought our report didn't deal with economic efficiency well and have argued pretty strongly that you know that the previous system created huge disincentives for states to develop their mineral resources.

I'm just wondering on congruence of that to not being concerned with the impacts therefore on the mining industry in Queensland or New South Wales, that the current policy or the current system is is, yep, I can see that it creates incentives in terms of development in WA, although noting haven't provided any examples of policy changes that have resulted from those reforms or specific examples, which is what we continue to really look for and grapple with.

But what framework exists where you have a system that you claim to be economically efficient for one state and that that is this is the thing that we really struggled with in terms of the reforms overall. In the sense of we could say that there was this problem, which is why our top recommendation is that in returning to that pre 2018 system we address that issue around mining and the issues around dominant state that really, I guess WA argued for but that the reforms have really only solved those problems. One state, and so we are left still with those issues in Queensland and New South Wales, so I guess just from a policy perspective, what would, you know, if those issues really are material, shouldn't we be just as concerned about how they're operating in Queensland and New South Wales?

Aaron Morey: Yeah, yeah, no, it's a good question and I go back to the previous answer. I mean, the equalisation to the stronger of New South Wales and Victoria essentially enhances those incentives for the quote unquote strongest state. But equalisation to the average would open that up to other states as well. And the other point is, is that if one does choose not to develop their resources, then the pressure and the incentive should grow over time. I mean, a lot of the investments we're talking about here are 30, 40, 50, you know, investments, lifetimes, and can take 10, 15 years to actually go from discovery to first production. So, I think it was always unlikely that sufficient time would have passed by this point that you would have the sorts of things you're looking for. But as I said before, that's where the art of the robust conceptual framework comes in and the myriad and innovative ways that the PC can look for non-direct pieces of evidence to support its analysis.

Dr Robson: Do you have comment on the kind of perverse outcomes that we've identified in our report that relate to the standards, the, you know, the standard state benchmark. You know, so that that system as opposed to say a 75% floor?

Aaron Morey: Sorry, Alex, what in particular, sorry?

Dr Robson: So, I mean, there's an example in the report where, you know, under the current system, New South Wales was to experience, say, a bushfire, its relativity goes up, but under the standard state benchmark, Western Australia's relativity also goes up because of the weaker New South Wales fiscal position and it's, and so it's this sort of perverse outcome or anomaly where you know you wouldn't get that under a flat floor, but because we've got this floating floor, under the current system, you know, you can get these potential outcomes and this is the first year in which, noting it's the first year in which it's been operating.

But, you know, when something happens to New South Wales that increases their relativity, which is typically, you know, they've got a lower fiscal capacity, so their relativity goes up in that scenario and Western Australia benefits. And so, this is one of the concerns we've raised in the report with the current system and recommendation three says, you know, if you didn't want to do anything else, you want to sort of address those kinds of perverse outcomes at the very least.

Aaron Morey: Yeah, that's a that's a really interesting and important issue, and I think it's really pertinent because it is so, like talking about the bush fires, for example, like I think about the principles that underpin the Productivity Commission's recommendation a long time ago to establish the NDIS. You know, there's a principle there, things that cannot be foreseen, people should not have to incur, you know, that they should be supported for those sorts of unfortunate random things that happen in life. And the parallel here is that something of that nature, like a bushfire, for example, is probably a more pertinent example to

the sorts of principles you're talking about in your set of options, where, you know, I'm sort of looking at it now, across that first and second-best option, you sort of seeking to sort of carve out quote unquote special kind of treatment for, in this case you say dominant state effects, but that those sorts of effects from those random sort of events that no one can predict or foresee are probably more relevant to that sort of special treatment, but it shouldn't take away from the need to develop a system that incentivises states and doesn't overplay its hand in thinking it can achieve true full horizontal fiscal equalisation.

Dr Robson: And I mean, part of it is also, I mean, do you have any concerns around how the current system would operate if the iron ore price in Western Australia was to fall? Because there is, you know, that's a potential scenario where, you know, the current system deals with that differently from what it may have relative to the pre-2018 system.

Aaron Morey: Yeah, and look, it's something that we need to be alive to. Africa is emerging as a significant supplier. China is increasingly recycling steel. That is, you know, that is not something that, yeah, we should certainly discount as a potential future scenario and that's why the state thinks that the floor system is highly appropriate because it enables a development minded state to continue to invest whether it be in green hydrogen or all the sorts of new industries that the federal government is keen to see developed.

Dr Robson: Angela, do you have any other questions?

Dr Angela Jackson: Yeah, just like interested, sort of over time, obviously you know the system as it is today means that WA has much greater fiscal capacity than the other States and territories. Do you envisage that you know over time that will lead to even, sort of I guess, greater economic advantage you know in terms of obviously the capacity you've already commented on some of the capacity issues and the sort of new industries, the capacity to invest will be greater over time, I know you're the point around incentives, but obviously capacity is the other side of that and other you know, we've just heard from the Tasmanians that they would like to be able to invest in preventative health for example, but they simply don't have the capacity to do that. Given their current fiscal situation how do you see that playing out over the sort of medium to long term?

Aaron Morey: Yeah, I mean, ultimately, you know, we see the system incentivising those governments to develop their resources. I don't agree with the claim made previously that other states are victims of geology and misfortune. I mean, you saw it, you see it there in the Tasmanian government's own Coordinator-General. The resources are there, just like the resources are there in Narrabri, just like the onshore gas resources are there in Victoria. If you choose not to develop those resources, then you need to be accountable to your people through a political process.

Dr Angela Jackson: You wouldn't say that there's any natural variation in resource endowments across Australia?

Aaron Morey: Of course, there's natural variation, absolutely, but I don't think I don't think anyone's missed out.

Dr Angela Jackson: Well, some have. I mean, yeah, we could probably go on and on about that, but I think there's clearly some have done a bit better than others. And yes, there are also choices that you know, we've heard from Queensland this morning already about the choices that they're making, but I guess the question is, yeah, whether or not in returning to that pre 2018 system, in particular, we're interested in understanding the impacts of the dominant state issues that you know you've alluded to and how we might better resolve them directly so that they're resolved across the federation.

And you know, every state can then benefit and also we benefit obviously as a country from that. So that's sort of our approach, so it's not necessarily discounting or the points that you've raised, but it's just in terms of what's the, what's the best policy mechanism for addressing that. And at the moment, what we

can see is that it's a very expensive policy mechanism that really is only addressing it for one state, whereas you know there are other potential mechanisms to address it across the federation and to incentivise the exactly that that extraction and reward that effort.

Dr Robson: Okay, well we might wrap up there. Thanks for your time, Aaron. It's always good to talk to a former Commission Alumni and get your views and analysis. So, and we look forward to any further submissions you've got to make.

Aaron Morey: Thank you.

Dr Robson: So, we'll wrap up and break until 1pm. And just to reminder that if anyone wants to make a statement at the end of the day, can you please communicate that via the email address gst.reforms@pc.gov.au. So, we'll return at 1 o'clock. Thanks.

[LUNCH BREAK]

VIC Treasurer

Dr Robson: Okay, we will restart things. So, we are scheduled to speak to the Victorian Treasurer and Treasury officials. There you are. So, welcome. Alright.

So, yeah, if you can just say the first for the speakers or the Treasurer, where you're from and your names for the transcript, and then we welcome an opening statement no longer than 15 minutes, and then we're happy to take responses to questions. Welcome.

The Hon Colin Brooks: Thank you very much, Deputy Chair and Commissioner. Hope you can hear us all right there. Colin Brooks, Treasurer of Victoria, and I'll introduce the Secretary of Department of Treasury and Finance, Camille Kingston, and Paul Donegan, Deputy Secretary for Economics, in the room with me today as well. So thanks for giving us time to have a bit of a talk about this important piece of work.

You happy for me to kick off?

Dr Robson: Thank you. Please go ahead.

The Hon Colin Brooks: Yeah, thanks very much. Well, firstly, I just wanted to thank you for the work you've done on this inquiry and for the opportunity today to present on behalf of Victoria. I'll outline our response today to the interim report. At the outset, I just want to indicate support for.

Recent comments on the independence, the quality of the Productivity Commission, any public comment on the character of people involved or staff has no place in this important public debate.

Even though we might disagree on some issues, it's clear we're all working towards the best outcome for all Australians and of course we're focusing particularly here on the outcomes for Victorians as well. Go to the next slide.

DTF Deputy Secretary Paul Donegan: I think we're just having a.

The Hon Colin Brooks: Can you see the slides all right?

Dr Robson: We can now.

The Hon Colin Brooks: I just begin by acknowledging traditional owners and pay my respects to elders past and present. So, on to slide 2. Victoria welcomes the initial reports findings, and I want to commend you and your staff on a high-quality piece of work. Victoria's position has been clear since the initial discussions back in 2017. The changes to the GST distributions in 2018 should never have been made. They

have no policy rationale and only serve to take revenue away from other states to give the fiscally strongest and resource rich state, Western Australia, more.

As the interim report notes, the changes were motivated by political pressure rather than a principled policy case. While Victoria has been saying it for years, it is gratifying to see the Productivity Commission's independent analysis now deliver this verdict for the 2018 changes. We agree that the 2018 changes invert the logic of horizontal fiscal equalisation and are not operating efficiently, effectively or as intended.

The additional funding of around \$23 billion the Commonwealth provided has come at a significant opportunity cost. As Victoria has previously shown, the 2018 changes don't achieve a reasonable level of equalisation, have not encouraged any productivity enhancing reforms, have not improved budget management for anyone other than Western Australia and are not fiscally sustainable.

GST is a significant part of the revenue source for Victoria. It's critical for our ability to plan our budgets and deliver the essential services and infrastructure Victorians rely on every day. GST was Victoria's single largest revenue source in 24-25, making up nearly a quarter of total revenues. As a state, Victoria has less ability than some other states to raise its own revenue. Unlike some other states, Victoria does not have large mineral resources to bring in significant revenue. Victoria also receives less Commonwealth funding for some specific needs. As you can see, ABS data shows that Victoria has the lowest revenue per capita of all the states, in 24-25.

As your interim report rightly notes, without the No Worse Off Guarantee, the 2018 changes would have had serious fiscal consequences for all states other than Western Australia. Without the guarantee, Victoria would have been \$4.3 billion worse off since 2018. In total, states other than Western Australia would have lost \$14.6 billion. Over the same time, Western Australia has been \$22 billion better off from the 2018 changes, while posting surpluses of \$26 billion.

Looking into the future, with the Commonwealth's own forecast, the states are predicted to continue to require significant, no worse off, guaranteed payments. The Commonwealth forecasts it will need to pay states \$27 billion in guaranteed payments from 2025 to 2030, \$8.3 billion of that going to Victoria. Victoria cannot absorb this drop in revenue when the No Worse Off Guarantee ends. The no worse off guarantee ending is especially hard to justify, given your report found there is no clear policy basis or need for the additional funding to Western Australia.

No special treatment is being sought by Victoria. All that's required is a return to the fair funding arrangements that applied previously pre-2018. This is about returning equalisation across Australia, so everyone can have access to the same level of essential services and infrastructure.

Consistent with the Productivity Commission's findings, it's difficult to justify an outcome where Victorians and other states lose part of their revenue base while Western Australia receives far more than the fair and independent assessment says is necessary.

The 2018 changes and the potential expiry of the No Worse Off guarantee are a severe risk for planning for the next Victorian budget to be released in May next year. The looming threat of the expiry of the No Worse Off guarantee will enter all our forward estimates in 2030-31 in next year's budgets. As your interim report makes clear, this uncertainty makes it difficult for us to properly plan. Victoria calculated in its initial submission that the loss of the No Worse Off Guarantee was equivalent to the salaries of 17,000 teachers, nurses or police officers in 25-26 alone.

I strongly support the Interim Report's finding that the Commonwealth is best placed to bear any cost from this system, that the No Worse Off Guarantee must be continued at a minimum. So, I urge you to go further in the final report: the Commonwealth unilaterally acted, enacted the 2018 changes with no policy basis. And I suggest your final report make it clear that if it is needed, the No Worse Off Guarantee must be

permanent, legislated and ironclad. It can't be used to trade off other concessions from states or replace any other funding. We were promised as much back in 2018, but we need stronger assurances.

As Victoria has consistently maintained on a principled and evidence-based assessment, the 2018 changes have failed. The 2018 changes were originally justified by the purported volatility of GST revenues. I agree with your finding that states have the tools to manage and forecast fluctuations in GST revenues.

Others have claimed the changes are needed because GST disincentivises them from policy reform. I'm glad to see in the interim report that it shows that these incentives for reform are theoretical, and don't justify the 2018 changes. Victoria's initial submission showed that in practice these concerns around reform incentives have not eventuated. Since 2019, Western Australia has been insulated from the disincentives the arrangements were designed for, and yet it's the other states that have led the way on revenue policy reforms. Victoria, on the other hand, is proud of its record of productivity enhancing tax reform. For example, in 2024, we abolished stamp duty on commercial and industrial property and business insurance duty. Other states have also made significant revenue reforms, including changes to royalties in Queensland and New South Wales, the Northern Territory and South Australia abolishing economically inefficient duties.

Victoria's position remains that the best solution is a return to the previous GST distribution system. While we welcome the interim report, I encourage the Productivity Commission to revise its preferred recommendation to be the full return to the previous arrangements. Victoria completely agrees with the interim report that equalisation is the primary objective of the GST distribution system. The former system achieved the fullest extent of equalisation. The interim report also found the former system provided states a reasonably predictable source of revenue that did not significantly hinder policy reform.

Victoria supports the interim report's findings that the Commonwealth Grants Commission manages the GST distribution well. States' voices are heard and the Grants Commission is best placed to adjudicate on its methods as the independent technical expert. The 2018 changes revealed the risks states face from the GST. The Commonwealth has near total unilateral discretion to set the GST distribution, base and rate. I encourage the Productivity Commission to consider further for its final report how these sovereign risks can be mitigated for states. We will strongly contest any outcome that leaves states unfairly disadvantaged. We understand the Commonwealth is concerned about funding outcomes for Western Australia, but it should be equally concerned about ensuring Victoria, New South Wales, Queensland and other states receive an equitable share as well.

While Victoria's preferred position remains a reversal of the 2018 changes to a return to the former system which upheld the principle of equalisation, our initial submission recognised there may be political will to continue to provide additional funding to Western Australia. We recommend that if the Commonwealth provides Western Australia additional funding, it should do this transparently and without diverting GST funding away from other states. Additional funding to Western Australia should not be tied to the GST distribution.

We support in principle the interim report's first fallback recommendation 4.2. If the Commonwealth wishes to provide more funding to Western Australia, it should come out of its revenue and not impact other states and broader equalisation. Making this a separate payment will allow it to be transparently reviewed and monitored. We believe this will make clear its limited rationale while removing fiscal risk to the other states.

We also support in principle recommendation 4.3, that if elements of the 2018 changes are maintained, then the Commonwealth must ensure other states are no worse off. I encourage the final report to include, as I said before, that the No Worse Off Guarantee must be ironclad, permanent and legislated, and not require states to trade off other funding.

I note that, as you rightly called out in the report, these options will continue the fiscal advantage Western Australia currently has, with little proven benefit to the nation.

While generally supportive of your findings, Victoria does not agree that there's a need for changes for dominant state issues. There are a number of reasons we don't support adjustments for mining dominant states:

- But firstly and importantly, dominant state adjustments are a departure from fiscal equalisation. They deliberately understate a state's capacity to raise revenue from a base it has a significant advantage in, and every other state pays for the difference.
- Second, it's not clear that GST materially influences states' decisions to undertake policy reform. It's a common assertion, but as outlined in our submission and in the interim report, it's not demonstrated. Since 2019, Western Australia has not made any changes to iron ore royalties. During the same time, Queensland and New South Wales have increased their coal royalties, despite GST impacts.
- Third, the Commonwealth Grants Commission is best placed to determine GST shares with its expertise, data access, regular reviews and transparent consultative methodology. Victoria considers the Commonwealth Grants Commission as the expert independent umpire, best placed to judge any method and balance the primary goal of equalisation, with supporting ideas like policy neutrality.

The Commonwealth Grants Commission has consistently determined not to apply a dominant state adjustment. It made these decisions after thorough processes in consulting states and territories. The Grants Commission found that the available methods for making an adjustment were not practical or reasonable. It also decided that any adjustments were not worth it if they would significantly weaken equalisation. In fact, the Commonwealth Grants Commission has made its assessment more granular, with majority support from the states. In 2015, it introduced assessments by mineral type. In 2025, it further split different kinds of coal revenue. These are all motivated by the most accurately capturing the core aim, equalisation.

We support most of the other recommendations that were made in the interim report on issues separate to the core question on GST distribution. We agree with the recommendation on broader Federal Financial Relations, including to update the overarching intergovernmental agreement. It's important to note that the original collaborative intent, the agreement of the agreement, has not been realised and flexibility for states has been eroded over time. If the agreement is updated, the original provisions around state flexibility, independence and genuine collaboration must be retained. We also support in principle most of the other recommendations. The equalisation system is designed to be policy neutral and retain state autonomy, independent of outcomes.

The system has already failed if it provides one state an outsized fiscal advantage, whether this translates into measured outcomes or not. The fact that Western Australia has received \$22 billion above its equalisation requirement since 2018-19 is proof enough that the system isn't working.

We'll provide more detailed comments on these in our written submission. I want to thank you once again for the opportunity to provide Victoria's views on this highly important issue for the nation's finances, for our state's finances, and the services and infrastructure we all provide to our citizens. While we have some suggestions on the detail of your recommendations, we strongly support your key findings and the thorough principled assessment that you've conducted. Thanks again for the opportunity to make those remarks.

Dr Robson: Thank you. Treasurer, I might kick off with a couple of questions and then hand over to you, Angela. Treasurer, you mentioned, you know, you sort of go further than our recommendation one in moving back towards the 2018 system, in the sense that you wouldn't have the second component of that, which is getting the Treasurer to direct the CGC regarding dominant state issues. So our vision or definition of reasonable HFE is you know, it depends on the extent to which it does create costly impacts in terms of, you know, efficiency and volatility and sustainability and other issues that can't be addressed by other policy tools.

So I guess in that context, are you saying that you don't think that that trade-off, you know, that that we're pretty, you know, going fully back to the 2018 system gets that trade-off right and those efficiency and other concerns are sort of overdone in that respect. Is that, and is that what you're saying about recommendation one really, or is it something else?

The Hon Colin Brooks: Well, I think at the outset I'd say that we are concerned to ensure that our on this matter that the principle of equalisation is the core principle that we want to achieve, we want to get back to those pre-2018 changes. In terms of the specific question you asked, I might ask Paul to add to my answer.

DTF Deputy Secretary Paul Donegan: So, I think you've rightly identified in your report that something like any change for dominant state effects would undermine equalisation. We're not convinced there's a real world issue to solve around dominant state effects in mining assessment. The 2018 changes were a response, were a response, so kind of a mining discount in another name. And we've not, as the Treasurer outlined in the presentation, seen evidence of a step change in WA supporting its fiscal capacity or promoting productivity in its mining sector. Whereas you see states that haven't been insulated from dominant state effects related to mining, like New South Wales and Queensland, like in the real world, they've improved their fiscal capacity, they've increased royalties on coal since 2018.

Maybe like just stepping back from mining what I think we've all observed is governments will ordinarily develop industries to grow their economy, create jobs and that kind of thing, and they make tax changes to support their budgets and collect revenue more efficiently rather than to game or to second guess the GST distribution. So, while there's probably an interesting conceptual distinction between mining revenue and other revenue, it's kind of a distinction without a difference. You know, we've seen real world reform happening, notwithstanding those dominant state effects described in the recommendation. And so, we propose that you give more weight to that real world evidence, that reform is happening, notwithstanding some of the conceptual issues identified.

Dr Robson: And what do you say, that is, I want you to take this in the spirit of, you know, the hearings, but what do you say to the criticism from certain commentators and others around, you know, gas in Victoria explicitly, and that specific example we've heard already this week and also in other submissions, you know, the treatment of not only gas, but potentially other mining issues as well around, it's not just production that may be relevant, but it's sort of, you know, resources that remain unexplored or unexploited, those sorts of things. So what, how do you respond to that sort of commentary.

The Hon Colin Brooks: Well, I'm interested to know what the commentary was, what the assertions were.

Dr Robson: Well, it's, I guess it's the point that it's not just decisions around, say, you know, royalty rates or which, you know, you've provided examples on, it's also decisions on whether to actually approve projects or, you know, grant licenses, things like this, which, you know, conceptually, you know, I think there's a there's a point to be made there, but you know, specifically the issue around Victoria has, you know, perennially comes up as an as an example that's given to this Commission as an example of that. So wondering if you had any response?

The Hon Colin Brooks: Yeah, just, just in general terms, I mean, I think it's important to say that we are approving gas exploration and permits for further gas production. There's, I think, probably a public misconception that there's been an anti-gas stance, but if you look at the evidence, our government has approved a range of gas exploration production permits. Woodside, I think, are right now drilling off the Kipper fields in the Gippsland Basin. In terms of gas, we acknowledge that our gas reserves that have served our state so well for many decades are depleting, so those extra reserves are important.

But I think they're more political, sort of, more political commentary than anything that we tested in evidence that would have stood in the way of any gas exploration. I think there was definitely a

moratorium placed on onshore gas, both conventional and unconventional, by a previous government and the conventional gas, moratorium was removed by our government some time ago. And as I say, it's an important part of our energy mix going forward.

We have a very aggressive approach to the exploration and production of critical minerals, particularly antimony at the moment, but we don't simply have the level and quantity, for example, of mineral resources that Western Australia has, 83%, I think it is, of iron ore deposits are in the west. So, the scale is different. It's also important, I think, to say over those past few decades or many decades we've utilised our gas reserves. It's helped to build a manufacturing sector here in Victoria, which is very strong. It's been the bedrock of our economy, the biggest manufacturing workforce in the country.

And so I think it's also important not just to focus on the mining industry and minerals and extraction, but also the other industries that are really important that every state's economy needs to progress. And so Victoria's mix is different to Western Australia, we understand that. Education is important, skills are important, manufacturing is important. And I acknowledge that's different around every state, but I certainly don't think it's fair to criticise us for not having the same mineral outputs that Western Australia has.

Dr Robson: Thanks. And I guess you hit upon the point that, and I'd be interested in a response to this on, you know, the extent to which those decisions that you talked about, you know, either way they're going, the extent to which, you know, changes in GST revenue in practice enter into those. And I think you pointed to broader impacts on manufacturing or other issues, which I think, you know, it's part of what our report gets to is that, you know, notwithstanding the fact that you may or may not have GST impacts, there are other issues at play when governments make decisions and they do it for a whole host of reasons. So that's yeah, just interested in exploring that a bit with you.

The Hon Colin Brooks: Yeah, I think Paul touched on this a moment ago in his comments too. And it bears out the point that I made in the opening remarks that we don't as a government, and this is just, I suppose, general political practice, make decisions based on how we think it will impact our GST outcomes. You make decisions based on the policy outcomes on the basis of, you know, revenue decisions here in Victoria. So, yeah, I'd just say that's probably the way in which these decisions are made, and I'd be surprised if it wasn't the same in most other states, I don't know, Paul, if you want to add to that?

DTF Deputy Secretary Paul Donegan: I think that's right. The only other addition I'd make is that typically in our treasury and in my experience in all Commonwealth and State Treasuries, costings of policy decisions won't include second round effects, like whether that be GST impacts or tax transfer system, labour market, economy and it's really focused on the more direct impacts on businesses, households, the economy.

Dr Robson: Angela, did you want to ask some questions?

Dr Angela Jackson: Yeah. Just to clarify that. So, in your budget estimates budget process you wouldn't include the likely GST impact of a policy decision? That would be considered a second-round effect?

DTF Deputy Secretary Paul Donegan: Ordinarily, that would be the practice. That's right.

Dr Angela Jackson: Sorry, I've just got team members here. I want them to note that down. Just going back to the sort of moratoriums sorry, it's just that it is raised repeatedly by other states and territories in terms of the sort of different impacts and mining and the incentives that might be at play. There is, I understand, a moratorium or a banning of non-conventional gas so coal seam gas, colloquially termed in the constitution in Victoria and it is raised that, you know, Queensland has spent quite a lot of money and, you know, allowed exploration and developed that industry. But effectively they face, you know, a reduction in GST as a result and their sense is that that's not, getting the incentives quite right and that I think their position at the moment is a 25% mining discount would sort of account for those policy differences. Is there any response to that to that policy stance and how the system sort of responds to that. And I just

note that for people listening that generally speaking, when all states are doing an activity, it's average policy and so it's a fairly policy neutral system. But where states dominate, such as in mining individual states can affect the average effectively, so it's not policy neutral, but just what your response is to that particular policy issue.

The Hon Colin Brooks: Yeah, and again, I'll say that each state will take a different approach to growing its economy and looking after its people. But, in the consultation around conventional and non-conventional onshore gas exploration and exploitation some years ago now I remember very clearly the policy rationale was around, and this came through extensive consultation, particularly with regional communities and agricultural communities that they were concerned about the impact that coal seam gas, non-conventional gas exploration and production would have on their industry and on the reputation of Victoria produce. And so, it was a decision at the time that was partly based on supporting our clean green reputation in terms of agricultural production, listening to those communities.

It's entirely appropriate if another state wishes to take a different decision. What we're arguing here is that that should not come into consideration for GST distribution. That should be something that states can do outside of that and if they argue that they should be compensated or there should be special policy provisions for that from the federal government, those payments or support should be made outside of the application of the GST distribution. The GST distribution should be, as it was originally envisaged back when people signed off on this, I think it was 1999, based on making sure everyone around the country could expect the same or similar levels of services, and that's a principle I think we all want to see maintained.

DTF Deputy Secretary Paul Donegan: I think you've covered it, Treasurer. The only point I had is that a 25% mining discount is a very, very blunt instrument. And I think we've seen that with the kind of de facto mining discount that the 2018 changes have put in place. As the Treasurer said, if the Commonwealth were minded to foster development of an industry, whether it be unconventional gas or any other, then these mechanisms that you identify in your report, like National Competition Policy payments or, you know, the array of policy levers that the Commonwealth has at its disposal that don't undermine equalisation.

Dr Angela Jackson: In our report, we also raised the issue around the standard state benchmark. Now it's the fiscally stronger of Victoria, I think or NSW and at the moment, obviously it's NSW that is the standard state. Have you got any sort of particular observations on that and how it's operating? We note that, I guess one of the concerns that we have is that as opposed to using a floor, a fixed floor, obviously NSW and Victoria can never really benefit from that standard state benchmark in the same way, but just sort of interested in any other observations you might have about how that standard state benchmark is operating or may operate in the future.

The Hon Colin Brooks: Yeah, I think the short answer is, if the Commonwealth won't revert to the pre-2018 arrangements, then that's a recommendation we would support in principle. So, Paul, is there anything you'd want to add again?

DTF Deputy Secretary Paul Donegan: I think, whether you have a standard state benchmark or floor, it does dramatically undermine equalisation. So I think our fundamental message is don't do it. Were you minded, for the reasons the Treasurer has outlined in this submission and elsewhere, if you were minded to, I think the kind of criteria in your draft report make a lot of sense and so it's really which of those has the lowest detrimental impact on equalisation.

Dr Angela Jackson: Alex, did you have anything?

Dr Robson: Yeah, I did want to explore, so in the in the report, we did explore a number of a range of alternatives, so you know, equal per capita and EPC plus and a range of other ideas. So some jurisdictions have proposed things along those lines. So do you have any views on that part of the report or is it more,

as you've said today, just the 2018 system, pre-2018 system is the way to go and we don't need to consider any of these other possibilities?

The Hon Colin Brooks: Yeah, I'm going to, at risk of repeating myself, I think you've anticipated that. Absolutely, we think the pre-2018 arrangements were the best and fairest, and we would argue that we should move back to those, and there's no other system really that provides equalisation and that fair system that we talked about before around making sure that people have, across the country, wherever you are, have the ability to have the same level of services, which are really important. So this is a position we've argued, as I understand it, I've only been treasurer for a short period of time, but I understand we've been arguing this the whole time and have been supportive of this, so it's been a consistent position in Victoria and we would be sticking to that.

DTF Deputy Secretary Paul Donegan: Yeah, that's right. We've always supported equalisation, I think the report argues that very well, and we don't have a whole lot to add to that. Deputy Chair and Commissioner, I might just add a little bit to the response to your last question, though, around options for relativity floors and different equalisation benchmarks and the like. I think the further point that we'd want to make is that while we don't support any other method of reducing equalisation, if there is an intent to provide an advantage to any fiscally strong state that we'd recommend it be done with funding outside the GST, kind of along the lines the Treasurer outlined in the beginning. And as a fall back to that, were it done within the GST, then just as the 2018 changes were detrimental to equalisation and so were accompanied by a No Worse Off Guarantee, we'd propose that any different kind of compromising that objective of equalisation done within the GST system also be accompanied by a No Worse Off Guarantee.

Dr Robson: Yeah, understood. Do you have any view on, you know, if the current system is retained with none of these changes, say in 10 or 20 years time, you know, the discrepancy in service provision or fiscal capacity or whatever it might be. Do you have any view on, you know, where things might be headed in that regard and particular concerns around that, given the current state of affairs?

The Hon Colin Brooks: Yeah, a long way off. As I indicated in my opening remarks, I'm more concerned about that fiscal cliff for all the other states other than Western Australia that we're going to be dealing with in our budgets next year. So that's the immediate concern and I don't know, I haven't seen projections, but I could only imagine that the inequities and the distortions in the system will get worse. I mean, you guys have probably done that work.

DTF Deputy Secretary Paul Donegan: Treasurer, I reckon you've told that story better than we could that the sort of variance between WA and all other states, you know, it's very sensitive to the iron ore price that's shown on page 60, but differences compound. Right now, it's kind of 98% versus 113%. You add that year on year on year on year on year and I think it was a previous participant today who talked about, you know, different classes of citizen or different economies, and is a very sensible conclusion.

Dr Robson: Any other questions, Angela?

Dr Angela Jackson: No. Look, I think it's pretty clear where Victoria's response and the position, I guess it's just that question around in making our recommendations around the direction to the CGC just some thought, and I note your point around not wanting to interfere with their independence so just the nature of what that might look like.

I think from our perspective, obviously the CGC's primary objective is achieving horizontal fiscal equalisation and it has supporting principles, but it sees its, you know, the objective that it is trying to fulfil is HFE. So, it's that those supporting principles, particularly around policy neutrality, won't necessarily shift that. It's not a balancing exercise if you like.

And in our view with the dominant state issue as we put in the interim report as it relates to the mining assessment in particular, there is a need for some balance there and that's our view of reasonable equalisation is yes, you want to achieve the maximum you can but there are trade-offs and and you don't want those costs to be too significant. And our concern is that in the mining assessment, perhaps that balance isn't quite right, just some thought to the nature of what that direction might look like to ensure, because we're not trying to interfere with the CGC's process here, but it's really about I guess giving them in this particular instance that role to have a bit more of a judgement call between those competing priorities, if you like. And we're grappling at the moment with the nature of what that direction might look like in terms of defining what the policy issue is, I understand that you might not see it as that issue, but the extent to which you can engage with it would be helpful for us in your submission.

The Hon Colin Brooks: No, that's really good. Thank you. We'll take that on board and feed it through our submission process.

DTF Deputy Secretary Paul Donegan: I think the point around discretion though is an interesting one because leaving aside that our contention is that the trade-offs are more theoretical than real, we went through the CGC's consideration of this in its methods review. This has been a thorough exercise and we appreciate it, but we made 11 different submissions and other states similar kind of territory to the last methods review. And I think the CGC's conclusion was that there wasn't like a viable or robust method to account for these issues. I think it would be, it's certain that the CGC is going to come back to these issues in 2030. Other states have been quite clear in their advocacy and we look at that, but I'm not sure a direction is going to be able to overcome that challenge that the CGC identified that even if you did want to do something here that they didn't consider there was a robust method or sort of something that was viable to act on it without making the system worse.

Dr Robson: And then around recommendation 2 which I think you've talked about as a sort of fallback recommendation, do you have any sense of, you know, I appreciate you've sort of been doing, you know, answering this, you might be doing part of the Commonwealth's job for it, but any principles around, you know, if there are these additional payments to be made, you know, what would that look like, I guess?

You know, and would it, along the lines of what Angela was talking about in relation to mining discounts, because you could come up with a set of principles that would be sort of equivalent in both, but in one, in recommendation 1, it's being done within the system, and in recommendation 2, it's being done outside the system. So that's sort of where we're coming from. And I guess then related to that is the is the quarantining recommendation that we have talked about and transparency and so on, which is, you know, related to that a bit in the way in which, you know, the Commonwealth makes payments to the states and the extent to which they're counted or not counted in GST allocations.

DTF Deputy Secretary Paul Donegan: On the first point, reaffirming, one, that we definitely consider outside is better than inside the GST system for the reasons already elaborated. We'll give it some more thought and we'll make sure our submission covers those issues. Off the cuff, the National Competition Policy arrangements have been agreed to by all governments. There's an architecture there that might be foundational. We respect if the Commonwealth were minded to do it a different way, though, we get that. And then on the, as the Treasurer outlined in his presentation there's in principle support for that.

Dr Robson: I think we're done unless you want to add anything else. It's been good talking and thank you for engaging with the process and look forward to your further submissions.

The Hon Colin Brooks: Appreciate your work. Thank you.

Dr Robson: Thanks for your time.

Dr Angela Jackson: Thank you. We'll just take a 15-minute break now and be back with the next appearance at 2 o'clock.

NSW Treasury

Dr Robson: Well, welcome back. So I think we've got officials from New South Wales Treasury. So welcome. So if you could please state your name and where you're from just for the transcript and then we're happy to take an opening statement of no more than 15 minutes and then we'll discuss some questions. Welcome.

Elizabeth Livingstone: Thank you. Liz Livingston here, Acting Secretary of New South Wales Treasury.

Alex Heath: And Alex Heath, Deputy Secretary for Economic Strategy and Productivity, New South Wales Treasury.

Elizabeth Livingstone: Thank you, Commissioners, for the opportunity to participate in your inquiry into the 2018 GST distribution reforms. To start, I'd like to acknowledge that we are joining this call today from the lands of the Gadigal people of the Eora Nation. I am paying my respects to Elders past and present and celebrate the diversity of First Nations peoples and their ongoing cultures and connections to the lands and waters of New South Wales.

This inquiry is important for Australia's federal financial relations system. It's important for helping to reach a GST distribution arrangement that is equitable, efficient and fiscally sustainable for all states and territories and the Australian government. We appreciate the transparency and rigour of this inquiry and welcome your preliminary findings that the 2018 changes are not working efficiently, effectively, or as originally intended.

We agree that the current system is less equitable, less transparent, and more complex than the previous arrangements.

The 2018 changes sought to ensure that Western Australia received a fair share of GST and to reduce the volatility of the GST distribution.

The 2018 changes did not reduce volatility for any other state except Western Australia. The result of these changes is that Western Australia has received a permanent fiscal advantage that will compound over time in response to the impact of cyclical changes in iron ore prices. Other states and territories have received a temporary, no worse off guarantee, which is scheduled to end after 2029-30. This creates considerable uncertainty for us, with implications for our funding and policy choices.

I'll touch briefly on some of the points we raised in our initial submission, as well as some of the issues and preliminary recommendations you've raised in your interim report.

As you know, under the previous arrangements, the Commonwealth Grants Commission determined states and territories' shares of GST based on full horizontal fiscal equalisation, attempting to achieve equity between the average citizen in each state and territory with the intent they have access to a comparable standard of public services and infrastructure and a comparable level of taxation, regardless of where they live.

Fluctuations in the value of iron ore production and the associated value of iron ore royalties resulted in fluctuations in Western Australia's relativity, which fell to 0.3 in 2015-16. Due to the timing lag in the GST system, this fall in Western Australia's relativity occurred as Western Australia's economy was struggling to adjust to lower commodity prices.

The 2018 changes sought to reduce this volatility for Western Australia and to increase its GST share, delinking it from the strong growth in iron ore prices. The cost of the associated no worse off guarantee for

other states and territories has been significantly higher than was anticipated by the Australian Government at the time of reforms, primarily because the expected decline in iron ore prices did not eventuate.

From 2018-19 to 25-26, these changes have provided Western Australia with \$28.6 billion more GST than they would have received under the previous arrangements. This additional funding means it's possible for Western Australia to deliver a higher standard of public services and infrastructure than other jurisdictions. It has allowed Western Australia to maintain relatively lower debt and its AAA credit ratings, in contrast to the fiscal trajectories of other states.

At the same time, Western Australia's multi-factor productivity declined by around 0.1% on average per year from 2018-19 to 24-25. This contrasts with national average multifactor productivity growth of around 0.5% per year over the same period. Prior to 2018, there was no net cost to the Australian Government of the GST distribution. The 2018 changes have cost the Australian Government \$28.8 billion from 2018-19 to 25-26. This includes GST pool top-ups, transition payments to Western Australia and the Northern Territory, and the no worse off guarantee. From 2030-31, the cost of these changes will shift to all states and territories, except Western Australia.

The 2018 changes also shifted the equalisation benchmark from the fiscally stronger state to the fiscally stronger of New South Wales or Victoria. Since 2024-25, New South Wales has been the standard state as Victoria's fiscal position has weakened.

As you observe in your interim report, this change introduces perverse outcomes that run counter to the intention of the system.

For example, if New South Wales experiences a natural disaster, Western Australia's GST share could increase. If the next census finds that there has been an increase in the distance Sydneysiders travel to work relative to other capital cities, Western Australia's GST share could increase. If Sydney's property market fell by more than other capital cities, reducing New South Wales' relative ability to raise transfer duty, Western Australia's GST share could increase. These outcomes were not the intention of the 2018 changes and should be addressed.

New South Wales has advocated for a population-driven distribution of GST, with Australian government-funded top-ups for fiscally weaker states, which would achieve a reasonable level of equalisation that is predictable and more contemporaneous than other methods. However, New South Wales also recognises the need for consensus to underpin national GST arrangements and is willing to consider any compromise position that meets 3 principles.

First, more equalisation compared to the current arrangements, the removal of the standard state benchmark, and thirdly, additional Australian Government funding should be transparent and from outside of the GST pool. These principles can support a GST distribution that is fairer for all Australians. New South Wales is prepared to work with the Australian Government and all state and territory governments to change our GST distribution system so that it is equitable, transparent and sustainable.

There are other issues that we'd like to raise with you today that we consider important for the GST distribution system to achieve both equity and efficiency.

First, addressing dominant state issues, including policy neutrality concerns.

We recognise that Western Australia's dominance in the iron ore mining assessment was a key driver of the 2018 legislative changes. This dominance results in two distinct, though related, issues. Firstly, the extreme GST relativity outcomes for a dominant state when commodity prices are cyclically high, with the additional complication that the lags in the GST system can lead to these effects being pro-cyclical, and then secondly, policy neutrality concerns, whereby any additional revenue raised from an increase in

royalty rates, particularly when commodity prices are high, is likely to result in lower GST distribution, significantly reducing the net effect on revenue.

To address the first issue of relativity extremes, New South Wales has proposed the restoration of pre-2018 arrangements with a relativity floor of 0.5 funded by the Australian Government from outside the GST pool. This would ensure a defined minimum GST distribution to protect any state or territory from receiving an extremely low relativity, as experienced by Western Australia.

We consider that the lower relativity floor is likely to be activated only in rare circumstances and would therefore be considerably less costly to the Australian Government than the current arrangements. A lower relativity floor would also increase the equity of the system. To address the second issue of the efficiency implications, New South Wales has proposed the introduction of a temporary discount on the additional revenue raised as a result of a policy change by a dominant state. Under our proposal, 100% of any additional revenue from a policy change by a dominant state would be excluded from the Commonwealth Grants Commission's calculations in the first year, with this percentage declining by 20 percentage points in each subsequent year.

This would allow the dominant state to retain a meaningful share of the policy gain initially, reducing the disincentive to increase royalty rates. Over time, the assessment would return to full equalisation. This is a temporary and targeted measure that would mitigate the disincentive for policy change, while preserving the integrity of the horizontal fiscal equalisation system.

New South Wales does not support a permanent discount of mining revenues, which would permanently reduce equity and only partly address efficiency concerns that arise in particular circumstances. A permanent mining discount would apply to all mining revenue, including revenue generated by commodity prices and historical policy decisions. It would create ongoing distortions, providing a continuing GST benefit to a dominant mining state, even when no relevant policy changes occurred. This would transfer GST away from other states on an ongoing basis.

Another issue I'd like to touch on is elasticities. The GST system largely assesses a state's revenue raising capacity based on the revenue it could raise if it applied the average national tax rate to its assessed tax base. We note that there are situations where the behavioural responses to tax settings can affect the assessed tax base and the associated GST relativities in such a way that there are disincentives to pursue tax reform. The size of these behavioural changes depends on demand and supply elasticities.

When these changes are significant, differences in tax rates between states distort the accurate policy neutral measurement of a state's tax base relative to other jurisdictions. For example, the higher average stamp duty on property transactions in Victoria relative to New South Wales suppresses Victoria's tax base, as measured by the Commonwealth Grants Commission, and contributes to the assessment that Victoria has a smaller revenue raising disadvantage. This provides an incentive for Victoria to increase stamp duty tax rates on property transactions further, because this will increase own source revenue and increase its GST distributions.

The equity of the system of horizontal fiscal equalisation relies on accurately measuring the taxable capacity of each jurisdiction on a policy neutral basis. New South Wales supports the introduction of elasticity adjustments to recognise that changes in the assessed tax base can arise from changes in behaviour as a consequence of a change in policy parameters, rather than just be evidence that the state's revenue-raising capacity has changed.

In the interim report, the Productivity Commission suggests that elasticity adjustments are beyond the scope of the review and are an issue to be addressed by the Commonwealth Grants Commission's methods to

address reform incentives. We suggest that the Productivity Commission could recommend this issue be addressed by the Commonwealth Grants Commission, through the 2030 Methodology Review.

The final thing I'd like to touch on is GST forecasting. All states have GST relativity forecasting models, which rely on forecasts of the relative physical capacities of all states and territories. The accuracy of these models could be improved by the earlier provision to states by the Commonwealth Grants Commission of key data.

Revenue data are provided by the states to the Commonwealth Grants Commission in October to inform GST relativities that are published the following February. This data could be made available to the states around that time for input to their GST forecasting models. It would allow states to update their GST revenue forecasts for inclusion in half-year reviews and provide a further base for budget deliberations.

Currently, the Commonwealth Grants Commission only recommends GST relativities for the upcoming financial year. They have previously noted that forecasts of a state's GST share beyond one year would be highly uncertain, as they would depend on expectations about revenue and expenses, non-contemporaneous data, and assumptions about the movements of all these factors across all states.

While there is a high degree of uncertainty when forecasting relativities, the Commonwealth Grants Commission is better placed than individual states and territories to provide GST relativities forecasts as they have full access to all states and territories' revenue and expenditure data. Thank you for the opportunity to make that opening statement. We're happy to answer any questions that you may have.

Dr Robson: Well, thank you for that statement. I might ask a few questions on the mining discount proposal, because I think that's pretty interesting and does go to one of our recommendations.

So if we, I mean, if we think about, say, in the example of royalty revenue, it's a product of the royalty rate and then the base and prices consider like quantity and volumes and prices conceptually. So you're saying that you would isolate any discount in the first instance to a policy change and would that apply to both the royalty rate and things that have been raised with this in relation to you know, changes in the base, for want of a better term, say, in relation to exploration and approvals and those sorts of things, or are you just thinking about the royalty rate as the policy change?

Alex Heath: So in the first instance, we are just thinking about changes in the policy rate. We haven't looked at a broader range of policy parameters, as you've just provided examples of. That's something that we could do, but I think the fundamental question is whether there is a disincentive created by the way things are set up for policy change and we recognise that there could be disincentives around the rate in particular and this would be a way of doing it in a temporary way rather than hard-wiring changes into the GST rules for essentially a temporary problem. And I realise that when we're talking about the iron ore commodity price cycle, it's been quite a long-lived cycle.

But fundamentally what we're talking about is cycles now driven by commodity prices. The reason the original costings were based on a declining iron ore price is because, and this is kind of well documented at the federal level as well. You know, there's always a tendency to expect iron ore prices to revert to something closer to marginal cost because, well, you know, if we're looking at current circumstances, you know, I think it's reasonable to say that people are expecting the growth of demand from China to be less of a force. And for as long as I can remember, there's been predictions of increasing supply from other parts of the world.

When I was doing these sorts of things at the RBA, it was around Brazilian supply, but more recently it's been around mines in Africa, I think it's Guinea, the Simandou mine. So I think there are reasonable ... there are reasons to expect this to be a temporary phenomenon, so you don't want to solve a temporary situation with a hardwired solution that kind of bakes in a benefit for all for all mining states in perpetuity.

Dr Robson: Yeah, I guess what I was getting to was if we sort of look forward and take a forward looking perspective around you know, something like, say, critical minerals, where you know the decisions around, you know, what to explore and what to exploit and when and are still to be made, whereas iron ore, you know, and even coal to the same extent have largely been made and the policy question really is then around the royalty rate, which, you know, and I think then your rule, you know, makes sense. But then I guess, and the question that's been put to us is, well, it's a bit more than that in terms of your policy decisions in the broader sense. And so, yeah, you could have a rule around royalty rates and, you know, that might be a start, but in terms of forward looking, it may not be enough to address a potential dominant state issue, that's the issue.

Alex Heath: Yeah, so as I say, we haven't actually thought that through, but my immediate reaction is to think about the question of how you actually define a dominant state. And if you, well, based on my understanding of critical minerals, there are actually a large number of states who have significant endowments of critical minerals. So if you think about critical minerals as a set, I guess the first question I would ask is whether or not it's likely to end up with a dominant state.

Would it meet a dominant state definition? I don't think we have a very specific dominant state definition, but if you think about critical minerals, I think pretty much all states with possibly one or two exceptions have critical minerals. So would we be dealing with a situation that looks like the current iron ore Western Australian situation in the first place?

So I think that's a relevant question and yeah, I think, can we, I hate to use the phrase take it on notice, but I think that is an interesting question and we can go take that away and think about it a little bit further.

Dr Robson: Yeah, no, I'm not proposing to solve it all today. It'd be good if we could. But yeah, I mean, I think I'm just trying to think through your proposal in the light of other things we've heard. So I think, yeah, and it helps us in our thinking as well, thinking about, yeah, dominant state.

Is it in volumes or is it in exploitable and available reserves? Or not with, you know, because you do make a good point that there are critical minerals in a number of states, but if the rules were set up to disincentivise certain states from exploiting those, then it might be that you know, the first mover becomes the dominant state if it's defined by production, and then we have a problem. And so that's the kind of issues that I think are worth thinking through. I mean, in terms of the sort of declining value you know, declining discount, so is that really your thinking there, that where the costs of any of those decisions formed by a particular state are largely upfront and then they're sunk once that happens, and so you can afford to have a sort of declining discount over time, and that would get to that point around, you know, it's the policy decision that needs the sort of least disincentive and then other things over time sort of matter less and less?

Alex Heath: Yeah, and I guess this is also a question of degree. So if we ended up in a situation where there is another mineral that leads to a dominant state situation, I think you have to think about the proposed floor as interacting with this. So, you know, that sort of, I guess the way we're viewing that is that there is some justification for floor because beyond some point you lose social licence and that sort of is where we all started this conversation. And in some sense that provides a degree of insurance should you end up in a situation where people are,

you know, if commodity prices are very strong, so the value, so the quantity times the price that you're receiving and therefore your ability to earn income from that is very, very high.

My understanding of critical minerals as well is that the value of critical minerals is not likely to get to the same sort of quantum as what we've experienced with iron ore as well. So I think combined with the distribution being more broad, again, I haven't looked at this very, very recently, so I would have to kind of

check that. But I suspect that the degree of the problem that was manifesting in Western Australia is unlikely to be realised elsewhere anytime soon.

Elizabeth Livingstone: I think the other rationale for that recommendation of ours is to allow horizontal fiscal equalisation to be attained over time. So by the 20% discount each year over a few years, it doesn't mitigate the incentive for policy reform entirely, but nor does it exclude mining revenues from the calculations entirely. We're not sure why you'd isolate just that one revenue stream and exclude it forever and a day. So that's part of the rationale. It also gives the time for a jurisdiction to adjust gradually to a change.

Dr Robson: And would it be symmetric in that, you know, we can imagine a discount applying to, you know, proposals to increase rates? Would you get a symmetric thing on the other side of proposals to reduce royalty rates?

Elizabeth Livingstone: It's a good question; we didn't think of that scenario, but we should, yes.

Dr Robson: Yeah. Yeah, something to think about. Yeah. I won't hold you, Alex, to your prediction around the value of critical minerals, but anyway, we'll ...

Alex Heath: Yeah, but I think this does speak to the fact that we do have to be very careful, I think, in discussing this not to frame everything in terms of the past that we've lived through, although that's obviously quite an important data point.

And we have to recognise that, you know, I've sat and thought about, you know, what other things could create a similar kind of situation. And it's very hard to go past commodity price cycles as something that causes something so acute. And creates so much volatility. And I guess to the point I made before, commodity price cycles are notoriously hard to predict. And, you know, we've got any number of those hairy graphs that show how poorly these things have been predicted. So I think in thinking about how we set up the GST distribution system to be robust to a range of possible futures. It's really important to design something that ... Yeah, is robust to different possibilities. So, you know, it may be the iron ore prices hold up for another three years. It may be that by the time we get halfway through next year, the prices are falling dramatically. It's just incredibly hard to know how these things would work out. So I think one of the things that's been very striking in the way the history is described is everyone expected this to be, you know, \$5 billion. It's turned out to be a lot more expensive because the possibility that iron ore prices may be higher for longer was never considered.

So I guess I'm advocating for designs that are robust to a range of possible scenarios for the sorts of issues that we're thinking about. So your question about critical minerals, I think, is very much in that vein of saying, well, rather than just think very specifically about the problem we've just had, let's try and think hard about the possible things that we might want to be resilient to in the future.

Dr Robson: Yeah. Angela?

Dr Jackson: I note that the sort of the proposal that you put on the table relates to the rate and Alex already asked around these questions, but I'm just gonna ask the question again and a bit more pointedly just to try and draw out where we've had some other evidence that sort of is, I guess, counter to the evidence I think that you're presenting today which, it's really only the increasing rate that the state governments are influencing from a policy perspective. We have had it put to us that state governments have to put in a lot of effort.

To encourage or to support mining investment and production in their states, and that the current system doesn't, I guess support that, or disincentivises that and you know that's a justification for either you know the current arrangements or having some type of mining discount, but obviously NSW is also quite a big

mining state, you've got a big coal industry. From your sort of I guess experience, what role does the government play and does, you know, does the GST play into that in terms of incentivising or not mining production and that support of the industry?

Alex Heath: Yeah, I think the answer to that was really addressed by the Treasurer in his evidence. He made the point, it is true that we have coal. New South Wales also has critical mineral resources. So a part of the question for a state government is how do you make sure that the relevant infrastructure is available to allow those.

So, you know, state governments are in the business of providing infrastructure to support the development of various industries, including the mining industry. I guess my, well, my reaction to that is it would be very strange to bake that into the GST arrangements, because I would have thought that was a lower level question for the way that the GST distribution is considered rather than the high level considerations we're talking about today, which is, well, we've basically agreed with you that the standard state piece should we should move on from that.

But you're really asking the question about whether factoring this into the dominant state question is relevant, and I guess it's just very hard to dissect, I mean, governments are kind of providing infrastructure for all sorts of things, for all sorts of industries, and for a state like New South Wales that's relatively diversified, mining is but one state, one industry in that complex, whereas perhaps for Western Australia, the infrastructure conversation is more dominated by iron ore or gas. So I think it's ...

Elizabeth Livingstone: The other thing I'd add, if you think about the principles we outlined, it was if there is going to be additional revenue available, like there currently is for WA, make it transparent and available to other states to compete for, essentially, because we might have a good case to say if we have some of that revenue, we could contribute to economic growth by investing in more infrastructure that will enable these industries more so than trying to bake that into the GST formula distribution formula.

Alex Heath: And it does come to questions about definitions. So what would you include in such a calculation or a consideration or what would you exclude? You know, being very, a little, well, let's say a little bit provocative, you know, if critical minerals are the mining industry of the future, should we actually be putting more weight on that than, you know, the mining industries of the past?

Dr Robson: I guess what we're, yeah, what we're asking is, yeah, imagine a hypothetical scenario today where a government is sitting down and trying to work out, well, should we approve this mine or this licence or this facility, and they work out that, you know, GST will be X in the absence of those decisions and less than X in the presence of that decision. In practice, you know, is that in your experience, have you seen that drive some decisions or is it all these other things that you're talking about? Because at the end of the day, if it doesn't, if that's not the marginal thing, appreciating that it still could be significant, but there's other things that are overwhelming that decision in terms of jobs and economic growth or other tax bases might change as a result. So I guess that's the question we're getting to because at the end of the day, that's really the policy neutrality question is that you don't want HFE to affect these decisions one way or the other.

Elizabeth Livingstone: Yeah, if you're talking about the, and I might still be misinterpreting, but the planning system and decisions around strategy for expanding an industry in the state. I think GST considerations don't weigh heavily on those decisions when we're, say, publishing our strategy for critical minerals. It would be at the margin, if at all, is my answer.

Alex Heath: Yeah, and forgive me if I am misremembering your report, but from memory you go through a bit of a discussion about policy neutrality and make the case that it really doesn't seem to be, or GST considerations don't seem to be a first order importance for expenditure type measures, which I think is

restating what Liz just said, where it really can come into the mix is in the revenue side. So I think we would broadly agree with that statement.

Although you have raised a couple of additional points in the previous questions that we will go away and think about and make sure we say something, speak to in the submission. But yeah, I think it's fair to say that it's much more of an issue on the revenue side than the expenditure side.

Dr Robson: Okay. Yeah, okay. I've got a question around elasticities. So we've got 4 economists online and not sure who else is watching. So I'm going to ask a question on.

Elizabeth Livingstone: I should put my hand up. I'm not an economist, but I might have an opinion regardless.

Dr Robson: Okay, all right. Well, 3 economists and one other person. So the issue you're talking about there is that, so the CGC works out average policy, let's say it's a royalty rate, and then applies that to a base that's existing and doesn't make an adjustment for the fact that, well, if you applied a higher tax rate, the base would go down or a lower tax rate and the base would go up and vice versa. And so is that the adjustment that you're talking about for this purpose?

Alex Heath: Yeah, so it's, I guess it's from our perspective, more apparent in kind of land related or housing related taxes. But yes, to the extent that a higher tax rate leads to behavioural change that reduces the tax base and that's not taken into consideration, that can lead to a situation where the tax, the fiscal capacity is deemed to be at a marginal disadvantage, when in fact, it's partly the result of decisions about, you know, policy parameters leading to behaviour change affecting the tax base. Without that consideration, you can I guess, inappropriately assess that as being just all about fiscal capacity.

Dr Jackson: And that is an issue across a number of revenue assessments that the CGC undertakes and including in mining, where you know it's actual activity rather than what the true base is if you can even define that. And land tax or stamp duty is the strongest example where there is clearly an underlying, you know, say that it's just the whole value of your property portfolio is your base, whereas it's just defined as the transactions in a year.

Those issues across the revenue assessments in your view, does it point towards that, you know, there is a degree to which policy neutrality is, I guess, yeah, it's not policy neutral? The assessments on the revenue side compared to the expenditure side and I mean we've obviously said, let's look at mining, but do you think there is a case for looking more broadly at some of those revenue assessments?

Alex Heath: Yeah, so basically, as Liz said before, we think there is a case for considering the role of elasticities in these assessments. It is, I think it's pretty clear where those elasticities are most likely to be material. So you know, I don't think it's a case of doing that work across, you know, every component of the assessment, but I think land in particular, mining, as you say, is related to this as well. The conversation would benefit from a better understanding of how these things work.

And as Liz said, we were proposing that, you know, for you to recommend that this becomes a part of the Commonwealth Grants Commission's 2030 methodology review. So you know, more work would have to be done to make it clear what the evidence base is, make an assessment of whether it is material or not material, really get under the skin of how that behavioural response can affect policy neutrality. But our sense is, yes, there are other areas where that would be a better way or an important thing to do to have comfort that we are really dealing with a system that is taking account of the most important elements of policy neutrality.

Dr Jackson: Yeah, I mean, you'd be aware the, you know, the Commonwealth Grants Commission is open to in, you know, looking at elasticity. I mean, I think it indicated that to NSW when you were looking at your reforms around stamp duty. The issue is, and as economists think we understand this, measuring elasticity

is very difficult and fraught and often changes quite substantially based on the data points used. And I know for example in the ACT case where you know, they've been phasing out stamp duty. You know there's no, you know, measurable impact in terms of from you know an elasticity response. So it's a tricky space. You know you can theoretically say it should have, but actually identifying the impact and certainly having, I don't know the number of sort of elasticity responses to sugar taxes for example, I mean anything, any area you get such a huge range and then when you start using something that can be so imprecise in this area it can also cause issues. I think that's been the issue for the CGC to date.

Alex Heath: Well, I guess a couple of observations. A lot of policy is based on difficult empirical assessments. If they were easy, we wouldn't be having this conversation, and I think, you know, at some level, the complexity of the situation of all the moving parts and how to think about them. And I know we're not here today to talk about the kind of deep inner workings of all the CGC assessments. But, you know, I think one of the motivations for promoting something like the EPC Plus is to say, well, actually, we all spend a lot of time looking at very narrow, very small pieces of this puzzle. And there are advantages to having a bit more of a top-down sense check to see, you know, what are the most material elements of this assessment? What are the things that are truly going to make it feel like this is a fair assessment of horizontal fiscal equalization? So that kind of, you know, at some level, everyone, you would expect the distribution, you would expect things to be a deviation from EPC per capita, sorry, I've just double, equalisation, equal per capita distribution, sorry.

But having that top-down view on kind of what that is and how important those things are and how they might kind of interact as a system, I think, so we know that there should be more, you know, this remoteness is an important consideration. We know indigeneity is an important consideration, thinking about those two things separately risks a double counting situation because the two pieces intersect, particularly for some states. So just that kind of transparency piece and a focus on a degree of simplicity for the kind of first order of what feels fair, I think motivates some of the things that we've suggested and sort of speaks to some of the points you were just making, Angela.

Dr Jackson: Yeah. I mean, one of the concerns like the EPC plus, obviously you've noted that one of the principles should be that it wherever we go, it's more equal than it is currently is that it would actually be less equal than where we are currently even with the yeah, the WA deal and that loss, noting it would be a lot simpler system, that that loss of equity was a concern for us certainly in the framework that you were you discussing at the back and so just noting that. But Alex, did you have a final question?

Dr Robson: Yeah, just sorry, one more on the forecasting issue. So is the proposal around, you know, the CGC, I think you said sort of being this clearinghouse for revenue estimates and then all the revenue estimates are provided to the states. Is that sort of a, so it helps states forecast what the relativities might look like. But does averaging, the current averaging, sort of solve that issue in some sense? Because you've already got, by the time you know your relativity comes out, you know, at the end of the averaging process, you've already you had some guidance as to what the previous weights would be and you already know that data. So is that helpful in respect or is it something different you're talking about?

Elizabeth Livingstone: Look, I mean, it's helpful in a respect, but I think the point is more, we do need to make a bunch of assumption and rely on sourcing data ourselves or some coming from the CGC and every state's modelling their own. It just seems a really clunky way and not the most effective way to get forecasts that we know are uncertain, but we think the CGC is a better place to do than each individual state.

Alex Heath: Yeah, so I mean, we effectively have to forecast and as you say, the moving average or the averaging piece gives you a bit of guidance for the first couple of years of that projection horizon. But we're effectively forecasting what we would normally think of in terms of what we need to understand our forecast for New South Wales. But relativities requires us to think through, you know, what's the housing

market going to do in all the other states and territories? You know, so a full assessment requires us to effectively duplicate the effort, obviously not to the same degree of detail, and it just would be a lot more efficient given that each state is doing that job as diligently and as carefully as they can, and presumably, as a general statement, we all do a better job of understanding our own states. To have that information available would just reduce the volatility and the forecast errors that we have in our revenue forecasting. And as you would be aware, volatility and revenue forecasting can make it very difficult for policy making.

Dr Robson: Yeah.

Dr Jackson: I mean, would that be a better role maybe, I mean we talk about, you know, sort of an IGR type for the states or fiscal sustainability reporting, which I know you guys have just done yours you're probably like no, no, don't makes us do another one. And we thought about the role the PBO might have in that. Now it's difficult because that's obviously associated with the Commonwealth Parliament, and so there is that sort of where does it sit within the federation? And the PBO obviously performs a important function at the federal level. But with that type of forecasting support and consistency, is it something that the federal like you kind of need it at a federal level and whether the CGC is the right person, they would say don't put us in the middle of that, we've got enough trouble here, and nor is it nor are they really in the fiscal, you know, the forecasting world necessarily, as opposed to, say, the PBO. Anyway, note our next.

Alex Heath: Yeah, yeah. I don't think we're particularly dogmatic about it being the CGC. I think it's really just making the point that this is a difficult exercise for everyone and it's replicating a lot of effort and some states will have, and you know, New South Wales may be one of the states has more capability and capacity to do that than other states. So it's really just about finding ways to leverage the good work that everyone's doing to just take a little bit of uncertainty out of the forecasting job that we all have to do. Is that a fair assessment?

Elizabeth Livingstone: Absolutely.

Dr Robson: All right, well, thanks very much. Appreciate your time today and yeah, we look forward to reading further submissions. So thank you. We'll take a short break now and resume at 3:00.

Alex Heath: Thank you.

Elizabeth Livingstone: Thank you.

Dr Robson: Thanks, bye.

NT Treasury

Dr Jackson: Thank you for joining us and welcome back to those online. This is the public hearings of the inquiry into the GST distribution reforms. We're joined this afternoon by I think the Deputy Under Secretary in NT, who will be providing an opening statement? If you can just provide your name and where you're from and organisation at the start of that statement and what we're doing is people are running through a sort of 15 minute opening statement and then we'll ask some questions for the remainder of the time, if that's OK. But feel free to take as long or as short as you would like.

Mick Butler: No problem at all. So, hi, I'm Mick Butler, Deputy Under Treasurer from the Northern Territory Department of Treasury and Finance. Good afternoon, Commissioners. I have with me today Tarrant Moore, who is the Executive Director of Budget Strategy in the Northern Territory Department of Treasury and Finance. Northern Territory's Treasurer and Under Treasurer are an apology for this meeting due to travel commitments, but I'd like to express on their behalf the Territory's strong support for the Productivity Commission's interim report.

I would also like to thank the Commission for the consultation undertaken with the Treasurer and senior officials as part of the process today. I'd like to use the time today to make a short statement on the Northern Territory Government's response to the interim report and more detailed commentary will be provided in our written submission later this month. And I refer to our initial submission, which we made in February, which sets out the scene for our positioning.

I'm pleased to inform this hearing that the Territory strongly supports the Productivity Commission's interim report. We commend the report. The Productivity Commission has adopted a sound analytical framework that is backed by clear and robust evidence. We agree with the Productivity Commission's main finding that the 2018 reforms are not operating efficiently, effectively or as intended. The 2018 reforms were intended to leave all states and territories better off. This has not been the case.

Change is now required to prevent the unsustainable fiscal cliff facing most states and territories, which will occur if the No Worse Off guarantee expires in 2030. The Productivity Commission's interim reports analysis has highlighted the significant pressures already facing most state and territory budgets, which will materially worsen without change. The interim report's recommendations seek to resolve this unsustainable fiscal pressure in a fair and balanced way.

We support the Productivity Commission approach to assessing the GST distribution.

We strongly support the explanation of why horizontal fiscal equalisation is important to the Australian Federation, particularly that it supports equality of fiscal opportunity, social cohesion and national unity. In our opinion, equity must remain the overriding consideration in any GST distribution. Equity is critically important for jurisdictions like the Northern Territory, where we face much higher costs to provide an average standard of services to remote, dispersed and disadvantaged populations.

However, we do acknowledge the challenges to the GST distribution that arose from the additional royalties raised from Western Australia's mining boom. While a key feature of horizontal fiscal equalisation is that a state with a higher revenue raising capacity requires less GST. We appreciate that the magnitude of Western Australia's GST reduction was unusually large by historical standards. But the 2018 reform approach is not the best way to deal with this. The 2018 reforms are not equitable or efficient, are having a much larger cost than was intended and give too great of an ability for one state to deliver better services than its peers. We note the Productivity Commission's finding that Western Australia is funded to 113% of the capacity of all other states. This has created a postcode lottery for Australians, which will significantly worsen if the no worse off guarantee expires.

We agree with the Productivity Commission that the best way to address what are effectively mining revenue assessment related issues is through targeted changes to how mining capacity is calculated by the Commonwealth Grants Commission. That is, we support option one of the interim report of reverting to the pre-2018 arrangements with a mining methodology adjustment. Specifically, we support a 25% across the board discount being applied to the assessment of mining revenues.

Consistent with our initial submissions, launched earlier this year. We will make further comments on the possible mining method adjustments as part of our written submissions. We also support options 2 and 3 to revert the pre-2018 arrangements with either Commonwealth support to Western Australia or an indefinite no worse off guarantee. Those options are important as it is not sustainable for seven of the eight states and territories to continue to face the fiscal cliff threatened by the no worse off guarantee expiry in 2030.

Going beyond the three recommendations, we also strongly appreciate the Productivity Commission's independent and evidence-based statements on correcting the record about horizontal fiscal equalisation. It is important to recognise that horizontal fiscal equalisation does not reward states for poor fiscal

management or reflects higher assessed costs or lower revenue bases to deliver the same average state of services. The territory welcomes the public commentary that HFE is not designed to address structural disadvantage and that these matters can be addressed outside HFE through specific purpose payments as well as Australia's tax and transfer system.

The Territory agrees that the Commonwealth Grants Commission's assessments of its spending needs and revenue raising capacities are broadly policy neutral.

The Territory notes its GST funding is almost entirely dictated by the policies, spending and circumstances in the other states and territories, due to the territory representing a small fraction of the national population, expenses and own source revenues.

Finally, we note that the 2018 reforms have been supported by some stakeholders on the basis of promoting economic growth. It is important to note the current arrangements only support economic growth in Western Australia to the detriment of minerals and energy investment and activity in other states and territories. This fails to rate either equity or broader economic growth. There are fairer ways to address the issues that precipitated the 2018 reforms, as evidenced by your interim report.

Overall, I wanted to affirm our support for the interim report and commend the Productivity Commission on their approach. We look forward to the final report in December.

Dr Robson: Well, thank you for that opening statement, I might just go straight to your proposal around supporting recommendation one and then the 25% mining discount. Just tell us a bit about, is there anything special about the 25% figure and would it apply to all, you know, mining and gas and commodities? And then, and also I guess maybe taking a step back is maybe you could tell us a bit about how important those sorts of industries are for the Northern Territory economy, just to get a sense of, you know, why you're proposing that discount.

Mick Butler: Okay. Perhaps I can deal with the issue in sort of sequence in terms of our submission of applying across the board. So fundamentally, from the Northern Territory's point of view, the issue in the mining assessment category has two main facets that need to be addressed. The first facet, is around the dominant state issue.

Now, while it's clear that particularly through iron ore that Western Australia is a dominant state, we would suggest that identifying a dominant state in a revenue category, particularly in mining, is not a bright line issue or easily susceptible to definition. It can occur through the bundling or the unbundling of certain mineral commodities in the CGC assessment process. But equally, there can be temporary or transient dominant state issues arising where mineral prices are such that the revenues flowing are increased for a state to become a dominant position, particularly where production follows any sort of sustained level of pricing.

So we would say that there's a dominant state issue, but there's also a second facet of that, which is why we talk about the need for a methodology that deals with an across-the-board assessment of mining. And that is the fact that the mining assessment is based off production. So, in a hypothetical, perfect information state, you know, mining assessment would be based on the jurisdiction's natural mineral endowment, and we would say the unavoidable costs of extraction. Now, that can't be done, that information isn't available.

So, we recognise production being a pragmatic method for measuring in this assessment basis. But what it does mean is that a state that bans, restricts, or reduces investment in its mineral extraction necessarily is assessed as having a lower capacity and has a higher GST share. So, we would say that the methodology to deal with this is an across-the-board discount. And I think an interesting counterfactual that can be used when you look at this statement is a state with restrictions for whatever reasons on mineral extraction is assessed with a lower capacity for mining revenues.

This doesn't occur across any of the other revenue bases. So particularly in the Northern Territory, for policy reasons, government does not impose a land tax. The CGC is able to quantify the capacity of the Northern Territory to impose a land tax and to assess the level of revenue that it would get from that. So the territory makes a decision not to impose land tax for policy objectives and economic growth in its state, despite the adverse outcomes in the GST distribution methodology. That doesn't occur where similar decisions to not undertake an activity or to impose a tax on a mining industry occurs in other state.

So from an overriding equity position, you need to make sure that those revenue outcomes occur. And we would say that an across the board discount, given the nature of the production-based assessment basis, is the most pragmatic way of doing it. In terms of the 25% number we landed on, I probably would turn to Tarrant to give an explanation of where.

Tarrant Moore: Thanks, Mick. As we've mentioned in our written submission, the Commonwealth Grants Commission has an existing discounting framework. It uses 12 and a half percent, 25 percent and 50 percent. Having a look at some of the examples of discounting used in the CGC processes, we've had a look at the geography assessment, where they have some data, but they have to impute data for the geography assessment and apply it sort of more broadly.

We think that has, and they use a 25% discount in that assessment. We think that that has some similarities to the mining assessment, which is based on production as an imputed, you know, measure of revenue raising capacity, but not a perfect one. And so we think there are, you know, some natural alignments with using a 25% discount. And there's an existing framework, though we do note that inevitably there will be an element of judgement in any discounting, you know, rate chosen.

Dr Robson: Angela, is there any questions?

Dr Jackson: Yeah. Just in terms of, I guess, one of the rationales. And you know, look, a mining discount obviously is you know, fairly easy to understand and potentially to implement, but we've also had, you know, proposals put forward, I think from the NSW government around only applying a discount to changes in policy, so say royalty changes and then reducing that over time. And that sort of gets towards the policy neutrality issue. I guess the concern about having a 25% discount and that it's permanent and it's on the whole revenue base is that you're kind of mixing up different issues and it's quite an expensive way in terms of the equity implications to get at the issue at the margin about state policy choices and policy neutrality.

I'm just interested in your views on that and what some of the other approaches might be in terms of addressing the issue. I know that, for example, the Commonwealth Grants Commission, in its last review, looked at - it didn't progress this - but looked at, just where there were changes in state policy, so you know where there was a state that was dominant, which you did struggle with, you know, just finding what that might look like. But just applying a discount to changes rather than to the whole base.

Mick Butler: Yeah, so I guess it comes back to our fundamental basis around the second then rather than the dominant state issue. I think that approaching, applying a discount for policy changes is attempting to get towards a policy neutrality position. But it doesn't deal with the issue, as we saw it, which is that the assessment needs to recognise that, absent actual production or reduced production, the assessment of the states' actual now is underrepresented. So I think making it a discount in regards to policy changes is trying to attempt policy neutrality in terms of government making revenue reform decisions. It doesn't deal with the fundamental underlying under assessment, I think, of states with restricted mining activities.

Tarrant Moore: Yeah, I just I think just to add to that is I think the proposal that you've discussed there commissioners, focus more on the rates that are applied. I think what we're saying is that there's a broader

issue with the base and therefore the discounting solves for both the dominant state issue and that base issue and is a much simpler and easy to understand mechanism to address it.

Dr Robson: But could you have a, you know, a broader definition of policy decisions, which would include both the rate, once the production is occurring, but also a policy decision to grant an exploration licence or an approval or something like that, and that might get at your, you know, the base issue. I mean, I recognise from what you say and from other things we've heard, you know, that is a policy issue, but I guess what we're saying, and echoing what Angela said, is that once, so, you know, if we look at, say, the situation today, all of those, well, many of the decisions to, you know, open up mines and so on have already been made, but you would be granting a discount on those past, effectively, those past decisions, whereas theoretically, and even in practice, a less expensive way of doing it and provide even more higher powered incentives would be to say, well, if you decide to, you know, exploit these resources, and even if a mine is open, expansion and so on, that would, that's really the decision we're getting to, not to the past decisions in terms of the fiscal cost of these things.

Mick Butler: I'd suggest that the counterfactual of that requires an assumption that the assessment of capacity of states is correct now and that you're working towards policy neutrality of future decisions. So a state with a restricted investment or ban on a mineral commodity exploitation now isn't assessed as having that capacity what we're trying to correct for that. If you only do with future policy decisions, that state benefits from the ban being lifted and only being assessed on the proportion or discounted proportion of that new policy, but that's coming off their lower assessed capacity base in the first instance. We're trying to correct for a situation for where we are now, where states who produce have an assessed capacity and those that don't have reduced are not assessed. So I think you can't solve for that problem without an across-the-board discount of the assessment process, which in effect, transfers some of that there to recognise that states have an endowment in place that they are not, for policy or other reasons, exploiting. So I don't think it works because it requires that assumption that the current assessment process is right. And if that was correct,

Dr Robson: Yeah, yeah, understood. Ange, you have other questions?

Dr Jackson: In terms of I guess that policy neutrality issue. So we've kind of addressed it in terms of mining, but broader than that, do you, does the NT have any concerns about policy neutrality in the pre 2018 system outside of mining? And just I guess, we've, you know, we did some analysis, obviously, in the report that looked at the marginal impacts of policy decisions and found that broadly on the expenditure side, it was minimal, you know, close to 0 and that on the revenue side, you know variable but quite high in mining, which is why the focus on mining as we move towards the final, but just more broadly, it's been put to us that the pre 2018 system disincentivises, I guess states to pursue economic growth more broadly. And just what your reflections on that are, as I guess the territory that receives the most assistance. Is it your sense that that means you know you're not incentivised to have economic growth or how is that viewed within the Northern Territory?

Mick Butler: No, I would say that we are broadly comfortable outside the mining assessment that the CGC's assessment process is policy neutral. I would make the point that, you know, as you said, in terms of receiving the most assessment, that arises from the expenditure side assessment for the Northern Territory, far more than in any other state. For other states, really, it's the assessment of revenue that moves the needle. The Territory is an assessment is really predicated on expenditure patterns. And as we said, expenditure patterns are decisions made by other states because the Territory does not contribute significantly to determining average state policy, of course, any sort of expansion pattern given the small population.

In terms of economic development, I would say no, but the, well, well, our government, sorry, I should say, our government is aware when it makes decisions about possible GST outcomes, and we particularly do

that, I think, in the revenue reform space, more than the expenditure space. But it's just part of the decision making focus. This government is very focused on economic development in the Northern Territory and it first and foremost develops policies that leads towards population growth, economic development, creation of jobs. It has been focused on developing its mineral extraction industry, regardless of GST outcomes and has seen a number of quite large projects significant to the territory of revenue base and economic activity come to financial final investment decision in the last sort of 12 to 18 months. But even on the revenue side, the government pursues what it finds to be economically efficient revenue reform, regardless of GST outcomes. So an example is this current government, when it came into office, made a fairly significant amendment to the payroll tax base by lifting the tax-free threshold to ensure that small territory businesses can grow and invest in Northern Territory, and did so knowing that you know the likely outcome in a GST sense is adverse because you are reducing your average tax rate.

Dr Robson: Hmm. I do want to take you back to the land tax point you made. So the Northern Territory doesn't have that, but then is assessed as if it does. So the flip side of that is that if you did introduce a land tax that was at the average, you wouldn't lose any GST, so it would sort of come for free, is that fair enough to say?

Mick Butler: Basically. Yeah, I think in broad strokes, I'd be comfortable saying that a state average policy land tax would be would have.

Dr Robson: Yeah. Yeah. So that's an interesting example where ... Anyway, worth worth us thinking about, but ... Yeah, okay. Any other questions?

Dr Jackson: What? So what's the rationale for not having a land tax? Says the economist, who off the record would say it is a relatively efficient form of taxation?

Mick Butler: Well, I think it's probably outside the terms of this area, but that's a policy decision that this government has taken and brought into the when it came into power as part of its election commitments, and it's one that it has made knowing to the outcomes in terms of the GST. So, it's predicated on, I guess, increasing investment in property in the Northern Territory and certainly providing, I guess, a lower cost of doing business in the Northern Territory for those that would invest in property.

Tarrant Moore: just add to that, that's a that's a long-standing policy of various successive governments in the territory. And is an example of a policy that's done to encourage economic growth, you know, at some cost to the GST outcome. And it's a very clear contrast to the way that mining is currently assessed.

Dr Jackson: And you have, but you do have Stamp Duty.

Tarrant Moore: Yes.

Dr Jackson: So you might be ... Anyway, I won't give you free economic advice.

Dr Robson: What about, I did want to explore options two and three. So, you know, you have said expressed broad support for our recommendation one, but what are your thoughts on two and three. And then also, maybe it's worth exploring what you see as the longer-term consequences of the current deal continuing in terms of disparities between service provision across states and the long-term implications of that if you've done any thinking about it in the deliberations.

Mick Butler: Yeah, I guess, so starting with the longer-term ramifications, obviously, as I said in my opening statement, it does create a two-tier standard of capacity to deliver services to residents between Western Australia and all other states. The other longer-term consequence is totally predicated on the continuation or not of the no worse off guarantee. Obviously, if the current arrangements are retained and the no worse off guarantee expires as it's due to do in 2030, then seven of the eight states and territories

will face significant fiscal cliffs when that support is reduced because seven of the eight states would be worse off under those arrangements.

In terms of options two and three, they have the Territory's support because obviously the most important part of that is returned to the 2018 or pre-2018 CGC assessment requirements. We would, I guess, suggest that they are of a lower preference than option one. I guess simply noting that, you know, option two continues support for the Western Australia, but at a cost to the Commonwealth and therefore Australian taxpayers. Option three is, again, similarly a sort of indirect support, but also requires ongoing commitment to the no worse off guarantee arrangements. So I guess does come with some greater amount of risk than Option 1 in terms of sovereign risk or future changes to decisions to fund that no worse off guarantee by the Commonwealth Government. But all are the better options than current arrangements.

Dr Robson: Okay.

Dr Jackson: Did you have any sort of specific comments that in terms of the option 3 which relates to, you know, if the federal government was minded to largely keep it? You've spoken about the NoWO payments, but the standards state issue? And like whether or not a lower floor would be preferable?

Tarrant Moore: I think we supported option three on the basis that it's better than the current arrangements, which allow the NOWO to lapse. But in general, we're not supportive of a floor. That comes at the expense of equity and just requires that to be addressed, some of the complexity to be addressed through the NOWO payments. So our support for that is around continuing the NoWO so that states avoid a fiscal cliff. I would also add that option 3 introduces increasing complexity every year because we've got to continue to calculate the NoWO on the basis of going back to the, you know, what occurred to the 2018 reforms and that gets more and more complicated the further away you get. So, so it's not, you know, in comparison to options one and two, it's a lesser preference for the territory, but it's better than a lapsing NoWO.

Mick Butler: Yeah, and again, retains, I guess, states being no worse off without dealing with the fundamental equity issues that is the main. Yeah.

Dr Robson: Okay. Any other questions or anything else you wanted to add?

Mick Butler: Sorry, was that directed at us?

Dr Robson: Yeah, yeah, yeah, yeah. Anything else?

Mick Butler: No, I mean, again, we broadly support the interim findings and particularly option one. We will provide further submissions, particularly around the mining assessment. We think it's particularly useful for us to provide some pretty more detailed thoughts on what we see as really those two fundamental issues in the mining assessment, and it's not one issue that we're trying to solve for, it is 2, and some further information around decisions around an appropriate discount rate.

Dr Robson: Yeah, I mean, it would be good. We have heard different proposals. So I think Queensland's proposal is similar to yours, if not the same. But then New South Wales has a different proposal. So to the extent that you could engage with those and in your submission that would be interesting to get views on that as well as we develop further develop particularly and the sort of the wording or the you know the content of the direct Treasurer's direction to the CGC what that might look like.

And we're interested in views on that as well, because, you know, the CGC is an independent organisation and so, you know, we're mindful of that. But, you know, the spirit of that recommendation is to provide some sort of guidance, and analysis in our final report, the idea is to provide some guidance around the kinds of principles and analytics you need to think about with respect to mining discounts and dominant state issues.

Mick Butler: Yeah, yeah, and I would just hasten, so I think I think us and Queensland are a very similar minded to solution to this. I would suggest that other solutions that are narrower in focus, particularly around the discount or focus on a discount for the dominant state issue, aren't dealing obviously as the two limbs of the issue in the mining revenue assessment, and that's why an across-the-board discount is an appropriate outcome.

Dr Jackson: Yeah. And I think just keeping in mind that it's likely that the nature of our direction won't be like prescriptive down to the policy solution, but more in terms of what the issues, you know need to be weighed up if that makes sense. I mean, we haven't quite got there yet, but just thinking in terms of your submission one step back. Because we're, we'll, we'll be conscious about the independence of the CGC. And while we might ask, you know, direct, ask them to look at certain options, we certainly wouldn't be directing them to implement, you know.

Mick Butler: Yeah, I think we will continue to emphasise that was one of the one of the important points we wanted to bring to this hearing was our view that the underlying policy dilemma was bifold and not a single issue. Although we've seen it come to play through WA's dominance, that's not the single issue that we're trying to solve for. I think those principles we've enunciated today and we will continue to do throughout the next issue.

Dr Jackson: Yeah. So it may be looking at that issue around policy neutrality and that balance and the way the CGC implements it sort of guiding principles if you like and supporting principles.

Mick Butler: Yeah.

Dr Jackson: Thank you. We will be back again. Sorry for the regular breaks those online, although maybe that's good for a cup of tea. We'll be back in 25 minutes with our final, final attendees today. Who is, I think ACOSS and NCOSS. Who will be appearing before the inquiry, so we'll see people back and look forward to having further conversations.

Mick Butler: Thank you.

Dr Robson: Thanks.

Australian Council of Social Services (ACOSS) and NSW Council of Social Services (NCOSS)

Dr Jackson: Good afternoon and welcome back to everyone online. Just to remind witnesses that this is a public hearing under the Productivity Commission Act. As a result, all proceedings will be transcribed and available on the Productivity Commission's website in around a week's time. The way that we've been running things today is relatively informally, but we like to give witnesses an opportunity for our opening statement and then we'll just ask some questions and feel free to also ask questions of us about our interim report. I'm joined today by Dr Robson, Deputy chair of the Productivity Commission, and I'll hand over who's leading the way to introduce yourselves and your organisations and then we can get underway.

Peter Davidson: I think I'm going first. Is that right, Cara?

Cara Varian: Yep, it is.

Peter Davidson: We're in different, we're in different buildings, okay. Thank you for the opportunity. I'll make a brief statement and then Cara has a few words to say as well. At ACOSS, NCOSS and other COSSs, our job is to advocate for people affected by poverty and inequality and for access to decent community services. Fiscal equalisation is important because it really makes a difference to people's lives and the quality of the services they receive. Especially for those facing disadvantage. Trust in public institutions is

vital at this time. We don't always agree with the Productivity Commission. But trust was undermined by some of the responses to your report, including those directed against commissioners personally. This is not a time to promote division in the community. This is not about Western Australians versus Eastern Australians. Public services are for the benefit of all. The whole point of HFE is to ensure that as far as possible, people have equal access to quality services wherever they live. We strongly support that principle and the allocation of GST revenue to that purpose. Australia is a world leader in the fiscal infrastructure that makes this happen.

We acknowledge that trust in equalisation was eroded by a historically low GST share for WA, together with the volatility of the mineral royalties cycle. It was further eroded by the previous government's hasty response and lack of consultation over the 2018 changes. HFE now sits on shaky foundations with heightened fiscal risks for the Commonwealth and the majority of states and territories, and indeed for Western Australia since the present arrangements in our view are not sustainable. I'm here to put ACOSS's views. My colleague, Cara Varian, will present the views of NCOSS. We collectively made a submission to this inquiry alongside 7 councils of social service, supporting equalisation as distinct from a per capita distribution model of GST revenue. There is a high degree of consensus amongst state and territory councils of social service on these issues and we may make another joint submission.

Our 4 objectives for reform are:

- fair distribution of resources among states and territories to provide broadly equivalent services across the nation.
- Two, states and territories are encouraged to make effective use of fair and efficient revenue sources, including returns for mineral resources.
- Three, the distribution of GST and other federal resources to states and territories is as stable and predictable as possible and
- four, public trust and support for equalisation is restored.

And these are pretty much your own objectives in the interim report, which on the whole was a great report. Congratulations.

Our recommended approach to reform, again, four points.

- The Commonwealth should progressively restore the pre-2018 fiscal equalisation system with any adjustments necessary to restore public trust in the system without undermining equalisation.
- Two, to the extent that such adjustments are made, to the pre-2018 equalisation system, the Commonwealth should ensure that no state or territory is worse off, but in a fair equalisation system, the need for such payments and the fiscal risk for the Commonwealth should be greatly reduced.
- Three, the Commonwealth should support Western Australia through this transition, to the pre-2018 system with direct payments outside the equalisation system in recognition of the impact of dominant state effects on that state, and
- fourthly, beyond the transition period, where payments are made by the Commonwealth to a state or territory outside the system in recognition of its dominance of a national revenue source, the CGC or other Commonwealth authority should set a benchmark for that state or territory's optimal, as distinct from national average, revenue from that source. In other words, the affected state or territory should be required to make reasonable use of the revenue base available to it, rather than rely indefinitely on Commonwealth support outside the system.

Finally, we welcome the Australian Government's announcement of a Productivity Commission review of the adequacy and effectiveness of government funding directed towards Close the Gap targets. This is also relevant to today's proceedings. While GST allocations are not tied grants, it's reasonable to expect

territories or states that benefit from higher allocations due to the disadvantage faced by First Nations people to be transparent about and accountable to

their own communities for their efforts to ease that disadvantage. How much expenditure is devoted to assistance for First Nations communities, and how much actually reaches those communities? Does it strengthen community-controlled organisations and are they involved in the decision making around that expenditure? Now this is obviously the subject of a separate inquiry by the PC, but we make that point in relation to the fiscal equalisation formula.

Speaking more broadly, the Commission, along with governments, could help restore trust in equalisation by revealing how economic and social disadvantage, including the needs of First Nations communities, the needs of older people for aged care, the extra costs of servicing remote communities, how those needs are distributed across different states and territories, and the consequences of the removal of equalisation or the erosion of it for their capacity to meet those needs. Because after all, that is fundamentally what equalisation should be about. Thank you.

Dr Jackson: Thanks Peter. Cara?

Cara Varian: Thank you very much. I am joining you today with a bit of a cold from the lands of the Wangal and Gadigal people, and I acknowledge the traditional custodians of these lands and the lands that we're joining from. I'm the CEO of the New South Wales Council of Social Service and we're the peak body for the community services sector in New South Wales, and our members work with people experiencing poverty and disadvantage all over the state from homelessness services, domestic and family violence, community legal services and neighbourhood centres.

And I mean, you've heard over the last couple of days from governments and economists, but the reason why I wanted to come talk to you was because the GST carve up is actually eventually about people and we want to make sure that is part of the conversation. State budgets fund the services people rely on every day, schools and hospitals, child protection, housing and community services, and when a state's share of the GST stops flowing, it doesn't mean the need disappears and it lands on those people and the communities that are already doing it the toughest. And so we are calling for a change to the current system because we can see that the changes that were made in 2018 have failed to put equity at the centre of this conversation and that is in line with the findings of your interim report.

It was expected that this was going to cost about \$5 billion and we're already at about \$23 billion and every state's worse off except Western Australia. So I guess just to make the point about the community services, the human services are often the area that gets kind of tightened when budgets get tightened and we see that that means early intervention is less likely to happen, which is an incredibly costly loss, because the loss of early intervention also means that we aren't kind of benefiting from addressing issues early. And in New South Wales, we've done recent research to show and it shows that 47% of people living below the poverty line have gone without meals because they're short of money, and many are struggling to pay the rent and finding themselves homeless, so when that no worse off guarantee will expire in 2030. And that's going to mean about \$6 billion on current forecasts. And in New South Wales, that's \$2.1 billion, which is the equivalent of our state's entire out-of-home care system.

And my concern is that's going to lead to or translate into the reduction of community services, which is going to reduce homelessness services, domestic violence, family violence services, and importantly, those kind of community building organisations that keep our communities connected and resilient. The final thing that I want to kind of make the point about is transparency to back in what ACOSS has just said.

The first, they've talked, Peter just talked about First Nations funding and the formula that applies to First Nations funding disadvantage must reach First Nations communities and the organisations they control and

NCOSS fully endorses that position. We want to say that the test of this reform is not which government wins, but to make sure that this national programme serves the nation and its interests and a fairer GST should make Australia fairer. And we want to see a country where all communities can access the same level and standards of service. So, that's my opening statement, and looking forward to the conversation.

Dr Robson: Thank you for those statements. Peter, I might just pick up on a couple of things you said and then I'm sure Angela's got some questions. So we've been talking a lot today about our recommendation one, which is going back towards the pre-2018 system, but you know, having the Treasurer direct the Grants Commission around dominant state issues if they're costly and in particular around mining. And you raised an interesting sort of alternative or, you know, proposal in that regard, which was to set some sort of quote unquote optimal benchmark.

And I guess, you know, the one aspect of that is, well, but you know, by definition, if it's if it's sort of, you know, exogenous to policy decisions, then it's going to be policy neutral, however you define optimal, whether it's by international comparison or you come up with some formula or some idea. So, yeah, I'm interested in just exploring that a bit more. So you're not really proposing a mining discount as such, although, you know, in practise it could operate as some kind of discount, you know, depending on where the benchmark sits in relation to actual policy. But yeah, I think that's an interesting idea. And you know, I guess the difficulty in terms of the optimality part would be, you know, to work out what exactly is optimal, but you know, in some sense, that may not matter so much as the fact that it would be invariant to policy choices and that's really the thing that might matter more for efficiency and the things we're talking about. So yeah, just maybe get your reactions to that.

Peter Davidson: Sure. Well, the problem here, as you know, is averages don't work where there are dominant state effects. By definition, averages don't work. And so you need another, a different standard or benchmark. I guess we're not searching for a mining discount, I guess we're approaching it from a different angle, which is that if the Commonwealth is on the hook to support through the HFE system, or more desirably, through a payment separate from the HFE system, a state impacted by dominant state effects, they shouldn't be on the hook forever if that state could, you know, resolve its fiscal problem by, for example, taxing mineral resources more.

So it's kind of the opposite view to a discount to incentivise greater use of greater use of that resource. How would how that would be implemented? We haven't worked out, and of course it's, of course, it's tricky because you do want to incentivize states to make the best use of, you know, reasonably efficient tax bases. But you don't want the Commonwealth to be on the hook forever to sort of subsidise that.

Dr Robson: I might, let me give you this as a provocation and see how you react. So, I mean, on some views, you know, you know, let's take a state, say Victoria and gas, that may not be, that may not be quote unquote optimal if it's being banned or moratorium on exploration and so on, some people might argue that. So I guess, and you know, and that then, you know, how would it work in that kind of example? And then I guess the risk is, you know, if you think about it more broadly, is, you know, if somebody at the Commonwealth level is defining what's optimal, that may no longer even be policy neutral or it may not give the states the autonomy that they should expect to receive in relation to those sort of policy choices.

If there's a focal point out here saying, well, this is what we think you should do, even if it's not what you think should be done, but it's, you know, it might come to be interpreted as, oh, this is the, you know, the world's best practice in relation to something. You know, these things have a way of taking on a life of their own. So, yeah, just thinking that through and getting your reactions to that.

Peter Davidson: Yeah. I think the definition of optimal should probably include environmentally optimal, responding to your provocation. And yes, it's tricky. I mean, another option would be for the Commonwealth to raise the revenue and share it with said state. That would be another option. WA, for

example, doesn't have capacity to levy royalties on offshore gas, the Commonwealth does, and the PRRT isn't working as it ought to be, but that, you know, that takes us into territory that has been controversial in the past, partly because the Commonwealth wasn't seemingly willing to share the proceeds with states at the time. So, yes, we don't have, we don't have the answers. This is, we just put this on the table. Another option would be some form of transitional Commonwealth payment that gradually reduces, which in itself provides an incentive to search for, you know, own revenue sources, that would be a cruder approach.

Dr Robson: And then I've got another, just a question on something else you said and then, and then Angela just got some questions. It was around your point around sort of the consequences of moving away from, we've called it reasonable equalisation, but you know, you could say, well, the pre-2018 system, and you mentioned, I thought something that was interesting, which was, you know, quantifying the extent to which that might affect payments for services, you know, that have a specific equity component. And so I guess what I'm getting to, I thought that was really interesting because we in our report have talked about equity of various systems as a, at a much sort of more aggregated level, I guess, as, you know, comparisons with various overall standards of equalization. Whereas what you're saying is, well, another way to think about equity would be to take it even down a step further and say, well, you know, the reality is that, you know, you could have sort of dollar impacts, but the value of those dollar impacts might be even greater than what's indicated by the pure dollar impact. So I thought that was that was interesting and I don't know if you want to react to that, but in terms of measuring equity of different systems. I thought that was a good point.

Peter Davidson: Yeah, and Cara may have a response to that as well. We were really thinking about how to restore trust in equalisation by going back to the basics of why it's needed, who's affected, if there isn't equalization, then you could take the example of the United States, and say well, folk in Alabama who are poorer than, you know, people in the average, people in New York, for example, are getting lousy services because, in part because they don't have our system of equalisation and that state has a lower revenue capacity. I guess the challenge here is converting that into actual impacts on the ground, because what states do with the money. And you know, for example, what is Northern Territory doing with the extra money, seemingly allocated through equalisation to assist First Nations communities? That's an open question.

But I think our thinking was that this is a way to demonstrate the need for fiscal equalisation in more concrete terms. And so you could look at each of the factors on the expenditure side that are taken into account, older populations, remote populations, First Nations populations, I don't have the whole list in front of me, and just explore what would happen to fiscal capacity at least as distinct from outcomes, in different states and territories where there is a much larger share of older people, for example, Tasmania and South Australia, First Nations people, for example, Northern Territory.

What would be the impact on fiscal capacity to meet those needs. So it's really getting back to the basics of why we have this world-leading equalisation system and moving away from just dollars and cents to what the what the impacts might be, but I think in the formula itself. Ultimately, you have to aggregate all of that and come up with a you know, a percentage share for each state and the swings and roundabouts all work their way through the system, but it was more for explanatory reasons, I think.

Dr Jackson: Thanks Peter, thanks Cara. I guess we have focused a, I guess we have focused a lot on sort of these issues around inequities and the potential sort of future issues that this current arrangement might present. It would just be interesting to get your observations both of your observations about. I guess Cara from the NSW perspective, what say a 13% increase in fiscal capacity might mean for services in the state to people experiencing disadvantage and to people that your members serve?

But more broadly, Peter, just what the differences you see as ACOSSs as well around the level of need across the different states. As obviously a lot of discussion around, you know, WA and the fairness and benefiting from the mining boom, but just how the strength of its economy has or you see it through the

services that your members provide has benefited or not different members of the Community in WA. And then how these reforms maybe are playing out in terms of both demand for services, but also the sort of capacity to provide those services in WA, so Kara might start with you. Just what are the, what are the gains here that could potentially be had or what do we stand to lose?

Cara Varian: Yeah, so I think, I mean, I've already mentioned that kind of the issue around out-of-home care and the kind of scale that we're talking about at a state level. And in New South Wales, we are going to have the biggest of most of those systems, so this would apply to all of the other states, I would say. And I guess the area that I would kind of focus on here is we have had challenges to increase the targeted early intervention in New South Wales, even though we can see that there would be significant benefits to be gained by being able to bring forward support for families and communities that are experiencing poverty or trauma. And I think we're seeing these clear trends across Australia around growing concentrated disadvantage, as well as wealth inequality.

And so state governments and through state government processes, not-for-profits ability to be able to support those communities and build, rebuild some of the inequities will be, you know, severely disrupted by that guarantee ending, or us not being as a whole country being able to resolve this issue, and I guess to just talk more broadly around that equity issue, this GST discussion is happening kind of within a bigger context here and building systems that improve equity, but also improve trust, I think is really going to be important for Australia's future. And so the reporting that's required at both a Commonwealth and state level that lets people understand the real impacts that this has on the people that are affected, I think is a mechanism to be able to improve trust, not just of GST specifically, but overall, how governments spend money and how governments make decisions about money.

So yeah, we have seen in New South Wales, in our most recent survey of people experiencing poverty, that a third of the people that have come to be experiencing poverty in the last couple of years for the first time and I would expect through the ABS data that will be released early next year that we will have some clear evidence that the number of people overall in Australia living in poverty and there isn't a clear kind of process at the moment for governments to respond to that changing kind of inequality within the society.

And I guess the last thing I would like to say on this is that we have recently done work on the consequences of children living in poverty in New South Wales and there has been, like it was made clear through that research that if we don't address these things that it ends up costing governments quite a lot more. And I guess the highlights of that research is that it's costing the New South Wales economy \$60 billion a year because of the children living in poverty at the moment. And the statistic that really sticks out for me is that the costs associated with children living in poverty, 93% of those costs are experienced by when those children become adults. So there is a significant cost for us to not think about this in the way that we deliver services in Australia.

Dr Jackson: Thanks Cara. I won't say anything about the research. Peter.

Peter Davidson: OK, so we can't speak for our colleagues in the Western Australian Council of Social Service. I expect when looking at disadvantage, social disadvantage in that state, they would focus to a fair degree on remoteness, and the north of that state and in particular First Nations communities in that area.

However, it's clear from your report, that fiscal capacity of the West Australian Government is much, much stronger than any other state or territory at the present time. I think they're the only state or territory running budget surpluses at present. And so, you know, it's self-evident that at present their fiscal capacity is relatively strong. I'm just looking for some data from research we are undertaking with colleagues at UNSW Sydney on poverty in Australia, we produce a regular report on the incidence of poverty, including by state and territory, capital city versus region. And it hasn't been released yet; we can send it to you once it is, but certainly, the incidence of poverty is defined by household income below 50% of median after

housing costs is generally greater in regional areas across the country, as distinct from capital cities. But is also relatively high in a number of capital cities where housing costs are highest and you can guess you can guess where they are.

But we can send through that information once published. I'd also add, as I mentioned earlier, that there are states that have relatively large populations of older people, and I'm looking especially at Tasmania and South Australia, who should not be required to take out the begging bowl for additional support from the Commonwealth, that should be accounted for fully in the equalization formula in our view.

It's worth also looking at the incidence of disability across different states and territories. We don't have that data handy and I can't recall to what extent that's taken into account by the Grants Commission, but to some degree it is correlated with age, in any event. So, yes, worth examining each of those factors, I think.

Dr Robson: One of the recommendations in our report, Peter and Cara, is around opening up the CGC's consultation process to a broader cross-section of the public and so, you know, the part of the intent of that would be organisations like yourselves could actually engage on these issues, you know, on a more regular and fulsome basis. So, if you were to, if you think about making another submission to this inquiry, there's a series of recommendations there around that one and then and other things that the CGC does, which you may or may not have a view on, but that, you know, and in particular, your comments around you know, the Northern Territory, government, and indeed other governments around, you know, spending on First Nations people, you know, we have received similar comments along those lines and part of the hope of that recommendation is that issues like that could be engaged with on a more regular basis with the CQC.

Peter Davidson: Yeah, we hadn't we hadn't clocked that recommendation. That's an interesting one. The challenge for us and probably our COSS colleagues as well, and I'm finding this because we've set up a working group between ACOSS and State and territory councils of social service to examine this issue and to inform, you know, that joint submission that we put in previously is that it's a real struggle for us and for state and territory councils of social service and I think for our sector generally just to get our heads across this stuff. And that is part of the reason there perhaps hasn't been as much engagement as ideally there would be from the likes of us and from our sector on these issues. It's a big black box that people, people do struggle to understand, and that leads to, that leads to submissions along the lines of, oh, can't you just simplify this and, that leads to problematic outcomes, as I think your report clearly pointed out. You can simplify, but the effect is, you know, less effective equalization.

So if there was a way that we and others from our sector could engage, just by providing information on, you know, relative disadvantage in different states and territories and parts of states and territories, and perhaps feedback on what states and territories do or are doing to alleviate that. If there was a straightforward process by which we could do that, I think that'd be great.

Dr Jackson: Don't sell yourself too short. I will say that the quality of your contribution is certainly up there today.

Peter Davidson: Oh, thanks.

Cara Varian: And I guess to just add on to what Peter is saying, part of that is resourcing, not because we're not able to get across a complicated issue, but also another part of my role at the moment is as a civil society member of the Open Government Australia Partnership. And there is through that, I have learnt there is a significant appetite for additional consultation and people feeling like they can be part of government decision making. I'm going to stop there.

Dr Jackson: Yeah, I hope you're feeling better, Cara.

Peter Davidson: A lot of people have come down with this.

Dr Robson: Yeah. Well, it might be a good time for us to wrap up for the day, unless you've got anything to add, Cara or Peter.

Peter Davidson: I don't, I don't think so, except to say, if now, in the preparation of your final report, the more of that information on real-world impacts, in terms of social and economic disadvantage that you can gather, the better. And the more information you can gather on the fiscal impacts of different, you know, the different options you've put forward, I mean, for example, on the face of it, if there was a seventy-five percent floor, there would still be a need for a quite substantial, no worse off guarantee to ensure that states and territories aren't worse off. Others have suggested, look at 50%. We don't have a view, partly because we don't, we can't see clearly what the implications are, so you know some more information on those sorts of things would be helpful for us and no doubt, no doubt helpful for yourselves, but I think, I think the more that you can kind of reveal the impacts of the change that occurred in 2018 and subsequently, and the fiscal risks it imposes on different players and therefore the risks that may be imposed on the people we're concerned about, the better. And the report has, I think, done a good job. The interim report has done a good job on that front, hence some of the responses to it. But we really need to keep this conversation going because the present system is just not, it's just not sustainable.

Closing remarks

Well, thanks very much, both of you today and we'll wrap things up. It's been a long day. So we haven't received any calls to make statements from the floor. So I will adjourn the hearings for today. If you'd like to make a statement, but don't wish to do so on screen, can you please email it to our team at gst.reforms@pc.gov.au. So thanks again for everyone's participation today and we will resume on Friday the 18th of September at 10.45am. Thank you.

ADJOURNED 04:45 PM AEST.