



GST distribution reforms

Transcript of proceedings

Public hearing – Day 3

Friday 18 September 2026

Dr Alex Robson, Deputy Chair and Commissioner

Dr Angela Jackson, Commissioner

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Introductory remarks

Alex Robson: Okay, so good morning. Welcome to the third and final day of the public hearings for the Productivity Commission's GST distribution reforms inquiry. My name is Alex Robson. I'm the Deputy Chair of the Productivity Commission and one of the commissioners on this inquiry. I'm joined by Angela Jackson who is the other Commissioner on the inquiry.

I'd like to begin today by acknowledging the traditional custodians of the lands on which we're all meeting and pay respects to elders past and present. I'm appearing in Brisbane today on the traditional lands of the Turrbal and Jagera peoples. The team is in Canberra on the traditional lands of the Ngunnawal and Ngambri peoples, and in Melbourne on the traditional lands of the Wurundjeri people of the Kulin Nation. Witnesses will be appearing today from a range of various locations around the country.

Before I say a bit more about the inquiry that's been underway, I would like to offer a few pieces of housekeeping related guidance for those who are just joining us today who may not have heard this guidance on previous days. So the first thing is that hearings are being recorded. This recording and transcript of the proceedings will be made available on our website in the weeks following these hearings. Only witnesses that appear before the hearings will have their microphones and cameras switched on. We can't 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, and I'll talk more about that shortly.

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

Members of the media may record proceedings but are only permitted to share or broadcast those recordings for the purposes of reporting on the public hearings. We will invite witnesses to make some opening remarks of no more than 15 minutes and the reason for this is so that the opening remarks are sufficiently brief to allow us the opportunity to discuss matters and topics in participant 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 our team at gst.reforms@pc.gov.au during the day to indicate if you would like to speak at the end of the day's proceedings. People who have not already spoken will be prioritised in that part of the day. We haven't had any speakers at this point, but anyone can indicate their interest in speaking if you email that address. If anyone wants to respond to evidence given today, but they don't get a chance, you can also email it to our inquiry team at the same email address that I just mentioned, gst.reforms@pc.gov.au.

So that is a bit of housekeeping. In terms of the overall purpose and process and timing of this inquiry, it started for the Commission when we received our terms of reference from the Australian Government last year in September. We then released an issues paper and an associated call for submissions in November last year, and we've since received 64 public submissions and 1 confidential submission. We've also received 2 confidential attachments for one of the 64 published submissions. In addition to receiving submissions, we have met with a range of organisations and individuals with an interest in the inquiry. We released our interim report on the 14th of August, which included a number of interim findings and recommendations. And I'll just briefly mention those now to place today's hearings in context.

On the design of the GST distribution system itself, our first best recommendation was that Australia should move back towards the pre-2018 system, but that the Treasurer should direct the Commonwealth

Grants Commission to address costly dominant state effects when they arise. Our second-best recommendation was that Australia return towards the pre-2018 GST distribution system and that the Commonwealth could make direct payments outside of the GST pool to jurisdictions it considers materially affected by dominant state issues. Our final recommended option was that if the government was minded to broadly retain the post-2018 system, the standard state benchmark and the pool boost should be removed and the so-called NoWO payments, no worse off guarantee payments, should be made permanent.

Those particular recommendations can be found on pages 86 and 87 of our interim report and they reflect a number of considerations that are detailed in the report, namely and most importantly, our definition of reasonable equalisation.

So we have defined reasonable equalisation as the highest level of equalisation that can be achieved without creating material challenges to efficiency, sustainability and certainty that cannot be addressed by other tools available to government. This recognises that the agreed goal of the GST distribution's mechanism is to drive horizontal fiscal equalisation between the states, but it also implicitly states that this goal should not be pursued at all costs. In other words, it is reasonable to continue pursuing equalisation until it presents costly challenges to other goals that can't be pursued by the use of other policy tools. And you will find that particular discussion and definition set out on page 39 of our report.

We do not regard assessing reasonable equalisation by comparison to other countries, given that definition, and we don't- as being particularly meaningful exercise. Other countries have their own policy goals and institutional constraints. Our definition of reasonable equalisation is designed to reflect Australian policy goals and Australia's institutional context. It is possible that if other countries pursued a level of equalisation that was consistent with our definition of reasonable equalisation, that they would end up with different equalisation rates to ours.

It follows that we're not simply recommending a return to the pre-2018 distribution system, as some have claimed. Our first best recommendation aims to capture what was good about that pre-2018 system, while taking a targeted approach to the key challenges that we believe came with it, namely those dominant state issues, rather than through wholesale changes to the GST distribution system that we believe, and we have shown, that have proven unnecessarily costly. It also means that the Commission has not simply repeated its recommendation from our previous inquiry into horizontal fiscal equalisation. That decision partly reflects a different terms of reference, but it's also a response to the lived experience of the 2018 reforms. The approach recommended in that earlier report would have amplified some of the challenges the PC identified with the 2018 reforms and was therefore not fully assessed against the framework.

Following the hearings that we are now holding, interested parties will have the opportunity to provide written submissions to the inquiry by 30th of September. Our final report will be submitted to the Australian Government by the end of December this year and participants and those who have registered their interest in the inquiry will be advised of the final reports release by government, which may be up to 25 parliamentary sitting days after it is provided to government.

Let me just say we're very grateful to everyone who's taken the time to meet with us, including those appearing today, those who have provided submissions and those who are joining us for today's public hearings online who may not be speaking as well. The strong engagement that we've received over the course of the inquiry, we think, is a reflection of the importance of the GST distribution system to the Australian Federation as a whole, the quality of public services that citizens can expect to receive in the states and territories in which they live, as well as the fiscal position of the states and territories.

So 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. So thank

you again for joining us for today's public hearings, and with those administrative and other matters behind us, I'd like to welcome our first witness of the day. For transcript purposes, we ask that once the video and microphone are on, please state your name, the organization or state that you're representing, and the capacity in which you're appearing as a witness. We'll then ask you to make an opening statement of no more than 15 minutes, please, and then we'll ask you some questions. So I believe we're joined first by Lisa Bennetto. So welcome, Ms Bennetto, and happy if you could just state your name and where you're from for the transcript and happy to take an opening statement and then we'll start with questions.

Greater Hobart Councils Partnership

Lisa Bennetto: Thank you.

Good morning, Professor Robson and Doctor Jackson. Thanks for the opportunity to appear today. My name's Lisa Bennetto, I'm the Executive Officer of the Greater Hobart Council's Partnership, which is the partnership of Clarence City Council, Glenorchy City Council, the City of Hobart and Kingborough Council. We lodged submission 55 in February as the Greater Hobart Strategic Partnership, but we now operate under the council's partnership name.

Together, our councils represent around 212,000 people, or 37% of Tasmania's population. Our starting point today is straightforward. We strongly support restoration of full horizontal fiscal equalisation. That was the position in our February submission and it remains our position today. It's also consistent with the Tasmanian government's position. We welcome the Commission's finding that the 2018 arrangements are not operating efficiently, effectively or as intended and its conclusion that there are better alternatives. Today, rather than repeat the broader Tasmanian case for full HFE, I want to focus on what the system looks like from local government. There are three points that we particularly ask the Commission to carry into its final report.

The first is that there must be no 'no worse off cliff.' Our preferred outcome is a return towards full HFE. However, the most immediate risk for us is the possibility that neither of the Commission's preferred reform options is implemented before the current no worse off arrangements expire on the 30th of June 2030. That possibility deserves particular attention.

We support the Tasmanian government's preferred position – restoring full horizontal fiscal equalization – while addressing dominant state effects separately and outside the GST distribution system. If neither the Tasmanian government's preferred approach nor the Productivity Commission's preferred option is adopted, recommendation 4.3 provides an important safeguard making the no worse off guarantee, or broadly equivalent payments outside the GST system, permanent. Our hierarchy is therefore clear: full HFE remains our preferred destination, but the irreducible ask is that the no worse off guarantee cannot expire while the existing system remains in place.

The Tasmanian government's made the consequences of that clear. It argues that the present guarantee is what temporarily shields states other than Western Australia from the fiscal effects of the 2018 reforms and that allowing it to expire without other reform would deepen the fiscal divide.

From a council perspective, a reduction in state fiscal capacity does not stay on the state's balance sheet alone. It can appear downstream as delayed co-investment, constrained infrastructure programmes or greater pressure on councils to meet community needs. So while local governments don't receive GST distributions themselves, we're not insulated from their consequences.

Our second point is practical, relatively simple and potentially useful to councils across Australia. The Commission's interim report confirms that the Commonwealth payments to local government distributed through the states are generally excluded from GST distribution because those payments don't support

state government services. It's a technical point that has real world significance. There's a persistent perception in intergovernmental funding discussions that direct Commonwealth investment in council infrastructure might adversely affect a state's GST position. To the extent that misconception influences funding decisions, it can discourage sensible projects for no good fiscal reason. So we ask the Commission to make the position explicit and durable in its final report.

Commonwealth funding genuinely provided for local government purposes should not reduce the state's GST entitlement and that treatment should be clearly understood across all three tiers of government. The clarification costs the Commonwealth nothing, and changes no state's entitlement, but it could remove an unnecessary source of friction from intergovernmental investment.

Thirdly, good federal funding should encourage regional collaboration, not inadvertently penalise it. We support the Commission's objective of, reduced- reducing fragmented, low-value funding agreements. But there's an important distinction between a collection of small local grants and a genuinely regional program. Greater Hobart councils increasingly work across municipal boundaries because transport networks, housing markets, economic development, disaster recovery, resilience and community infrastructure do not stop at council borders. A program covering several councils through one business case, one governance structure, and consolidated reporting, is not fragmentation. It's an attempt to reduce fragmentation. We therefore ask the Commission to make clear that efforts to consolidate low value agreements should not inadvertently discourage regional aggregated programs.

And there's a related issue. Governments are increasingly asking councils to collaborate regionally, develop business cases, coordinate implementation, monitor outcomes and report across jurisdictions. And those functions require capability. If federal financial relations increasingly favour larger and more strategic regional arguments, funding models should recognise the modest government- governance and coordination capacity necessary to make those investments succeed.

And they should consider whole-of-life costs of infrastructure. Capital funding can create an asset, but someone must operate, maintain and renew it. Where those costs migrate to the level of government with the narrowest revenue base, we've not solved a fiscal problem, we've just moved it.

Finally, we encourage the Commission to look below state averages. Greater Hobart is home to approximately 37% of Tasmania's population, yet our 4 councils receive only around 13% of Tasmania's financial assistance grants allocation. All 4 receive a statutory minimum general purpose grant. The same 4 councils account for around 39% of Tasmania's full-time equivalent employment and generate around 45% of the state's gross value regional added between 2016 and 2023.

But we're not suggesting that economic contribution should determine grant entitlement, nor are we arguing that Greater Hobart should receive funding at the expense of rural Tasmania. Our point is narrower. Capital city regions have structural costs of their own, statewide serving facilities, population growth, non-rateable land, transport pressures and regional service demand. State level averages can conceal those differences. The Commission proposes regular monitoring of whether HFE settings are contributing to divergent outcomes between the states. We encourage it to take the next step and consider whether Commonwealth reporting can also reveal material divergence within states. That would give governments a better evidence base for funding decisions. In closing, our message is this: the partnership strongly supports Tasmania's call for restoring full horizontal fiscal equalisation while addressing dominant state effects separately and outside the GST distribution system. But whatever reform pathway governments- government ultimately choose, there must be no 'no worse off cliff' in 2030. Beyond that threshold issue, we ask the Commission to use this inquiry to make federal financial relations work better for local government by clarifying treatment of Commonwealth funding to councils, supporting genuinely regional rather than fragmented funding arrangements, recognising whole of life and delivery costs and

making regional fiscal outcomes more visible. Those reforms would improve transparency and accountability without undermining horizontal fiscal equalization. Thank you. I welcome your questions.

Alex Robson: Thanks very much. Angela, did you want to start with some questions?

Angela Jackson: Yeah, look, thank you very much. Thank you for your submission and the engagement. We really appreciate it and hearing, you know, the perspective and how these issues then flow through. I guess, on the no worse off guarantee – and you've, sort of, noted some of the challenges that came from the changes – and argue that they be made permanent. Is that, does that go far enough in the in, I guess, the context of the Tasmanian situation, in your view? And how would you see that discontinuation potentially affecting local government in Tasmania?

Lisa Bennetto: Really, I think because, I defer to the Treasury to, kind of, quantify the impact on Tasmania overall. But really the effect that it has at the state level trickles down, if you like, it affects us, because a constrained state government leads to constraint of the ability to local government to fill some of the gaps that that eventually results in.

Angela Jackson: In terms of, I guess the operation of HFE more broadly, is there a case do you think for some sort of quantification down at the local government level? I mean you just, sort of, raised some statistics in your presentation that, sort of, 37% of the population, but only 13% of the grant. Is there any concern from you that, you know, different parts of Tasmania may attract- or different, you know, parts of the local governments, may attract different levels of grants for reasons beyond just need?

Lisa Bennetto: Yeah, that's kind of the point that I'm making. The kind of unavoidable servicing costs of a capital regional city, non-rateable land assets, daytime population well above the residential rate base, is an issue for us and equally it can be an issue in regional levels. I guess, the argument is that it needs to be measured. We're not seeking any kind of redistribution away from rural councils – we're asking whether capital city and regional centre cost disabilities are recognised to a comparable standard and whether there's enough published for anyone, really, to even answer that. Does that answer your question?

Angela Jackson: Yep.

Alex Robson: It is, I guess, you know, we have talked in this inquiry – and it's our main terms of reference – around Commonwealth payments to the states and, you know, equalisation on according to various, you know, methodologies and approaches. But, you know, and what we're talking about now is sort of, you know, state governments doing potentially the same thing with respect to local governments. And, I guess, one of the, you know, one of the arguments or concerns we've looked at in this inquiry is the extent to which you know, if the state is fiscally strong, it's, you know, untied grants fall and that's how HFE is supposed to work and vice versa. Do you find that that same dynamic or a similar dynamic at the local government level? So for example, is there a disincentive for local governments to say increase rates or reduce rates on the basis of payments they're getting elsewhere? So, you know, this bigger problem that we're dealing with, is it replicated at the state and local government level, or maybe just comment on the interaction between the rates that that you raise and the and the grants that you receive, or are they totally sort of separate things in your experience?

Lisa Bennetto: I'm not sure I understand the question, I'm sorry.

Alex Robson: So, I mean, I guess, take the following example: you know, suppose that, you know, a local council was to raise its rates and it, you know, it raises more revenue and it looks fiscally strong and the state or Commonwealth then turns around and says, “oh, you look pretty fiscally strong, so your fiscal need has gone down, so therefore we're going to reduce your grant payments”. Is that a dynamic, in your experience, that plays out or it doesn't work like that at the local government level?

Lisa Bennetto: I don't know that I'm able to answer that. I don't have much experience at, in individual council kinds of experience. So, I'm not, yeah, I'm not well placed to answer that. I could ask and provide it back to you, take it on notice.

Alex Robson: Yep. Yeah, it's an interesting question from our perspective as to how, you know, because the promise of HFE, you know, we've heard in this inquiry is that all Australians, you know, should be, you know, should expect the same quality of services no matter where they are. But if there's some sort of, you know, unravelling or reinforcing of that at the local government level versus the state level, then that's something that goes to that point. So I guess that's a particular point that we're interested in is, you know, what is really happening in terms of, you know, similar dynamics playing out at the local government level, as some have said, playing out at the state and Commonwealth level. But anyway, if you can take that on notice and provide us with ...

Lisa Bennetto: Yeah, I'd be more than happy to give you some, get you some specific examples and get them back to you for sure.

Alex Robson: Great, thank you. Angela?

Angela Jackson: Has there been, sort of, any- because obviously the main way that local councils are raising revenue is through rates, I assume that's the case? Sorry, we haven't gone into depth into the revenue raising of each single local government across the country, so it's useful for us to use this as an opportunity to gain a better understanding of how it works. So, your- it's largely through rates? Is that correct, that you're raising revenue at the local Council level?

Lisa Bennetto: Yes.

Angela Jackson: Yes. And in terms of your rate setting policies, I think what Alex was getting to was that when Tasmanian government looks at its allocation of the federal assistance grants or grants to local government, it looks at- it assesses each local government as if you were raising the average level of rates across Tasmania. In terms of then what your capacity is to raise revenue and for the stronger councils, they might get a bit less and the weaker councils might get a bit more. Is there, you know, we're certainly seeing in some parts of the country where state governments are influencing that rate setting policy at the local government level or, influencing might be a softer term, directing or capping even?

Lisa Bennetto: Capping?

Angela Jackson: Yes, has that occurred in Tasmania as well?

Lisa Bennetto: Rate capping hasn't occurred as far as I know. I'm new to Tasmania though, so I know it was a big issue in Victoria. So, yeah, that's one thing that happens. But I think the real point is that, you know, equalisation is addressing capacity to raise revenue, which is the focus of rate capping and all of those kind of things, but the issue that I'm trying to raise is that cost disability addresses the unavoidable expenditure, and that's really not looked at very methodically and very equally. Whether it's in regional areas or in metropolitan areas. So looking at those things that are beyond rating, beyond population, there- other kind of unavoidable costs that we have that aren't measured effectively.

And I think that's a key point for us looking at, you know, how do we fairly equate the extra burden, if you like, that capital cities have in serving populations that come in to work here, that we don't get rates from them. We've also got properties, other state government buildings and so forth that aren't rateable properties – hospitals and so forth – so that reduces our rating capacity as well. There's- those kind of things aren't taken into consideration well, and I guess in rural areas it would be, you know, maintenance of assets that isn't, kind of, taken into consideration in the same way. So it's, really, it's like we're only looking at half of what's happening.

Alex Robson: I think you mentioned that the councils in your grouping, or some, if not all of them, received the minimum. Can you tell us a bit more about that?

Lisa Bennetto: Correct.

Alex Robson: And so that's, is it a 30% floor, and then what's the, yeah, what's your, you know, do you have any reflections on the appropriateness of that as a number and how that plays out?

Lisa Bennetto: Well, I think that is the point that I was trying to make previously, that looking at the revenue that it generates, that each of those councils generate, we understand why that we would be at the kind of minimum for those grant amounts. But what it doesn't take into consideration is the cost component that we're facing. So yes, we have greater revenue because we've got a greater population and we have some revenue that comes from non-rateable, non-rates things, fees and things. But it's not- that's not kind of taken into consideration. So we're looking for, rather than just saying, well, "you earn a lot of money from rates, therefore you're a wealthy council, therefore you get the minimum". We want those other cost components to be taken into consideration when those, when those levels are set.

Alex Robson: I mean, for the sake of argument, if costs were taken into account and, you might, a benchmark was set at 30% of, or roughly that number of, some sort of, you know, calculation done on that basis, then, you know, that would be an improvement in your case, do you think?

Lisa Bennetto: Yeah.

Alex Robson: Yeah, OK.

Lisa Bennetto: Look, it's really also about as the city grows, how, especially if the state is constrained, how do our councils maintain the services to an increasing population without an increased revenue? And how does that, and then, the flow on effect of that is if we don't have a really thriving capital city in Tasmania, what impact does that have on our regions of Tasmania as well? So, and it's not just isolated to Hobart, it also occurs in other regional centres and hubs around Tasmania.

Angela Jackson: Yep. I think historically, and maybe we'll have another look at this, Commonwealth Grants Commission used to provide some advice in this space. Is that right? Again, yeah, I think we'll-

Unknown participant in the waiting room

Yep, so we've got the hearing coming-

Lisa Bennetto: Sorry?

Angela Jackson: By the way, I think that was just the next witness, sort of-

Lisa Bennetto: Oh. Ok, so, it's, yes, they, I think they do look at it. Look, I'm not fully across it, but I think that. No, I'm not going to comment because I'm not fully across it.

Angela Jackson: OK. I think we'll follow that up. I'm just, it's just a note to the team just so we've got that full information. I think there was some role previously, but perhaps not for a while. And in terms of assessing, you know, that consistency of a national approach to assess the needs of local governments and how they might vary across geography and social demographic etcetera, I think there may have been a role for CGC. Yes, I've got a thumbs up from someone in the room, but we'll look at that.

Alex Robson: I might-

Lisa Bennetto: Right, and if I can, if I, if you would like me to come back with information, I could certainly seek some advice from LGAT, who would be right across that.

Angela Jackson: No, look, that's fine. We can follow that up with our, it's just a note for the team to follow that up after today's hearings.

Lisa Bennetto: Sure.

Alex Robson: We do have a little bit more time. I wouldn't mind taking you back. So, you've said you support the Tasmanian government's approach, which I think, broadly, was our, sort of, option 2, so, go back towards the 2018 system, but address dominant state issues outside the system. But I think, you know, you did, and maybe this is putting words in your mouth, but you did sort of frame it, you know, in the context of NoWO payments, you know, not being made permanent. But I guess, you know, a broader point is that, you know, the pre-2018 system, you know, I mean, in principle, you know, if Tasmania's fiscal capacity improved, they could get less GST. I mean, that's how the system works. And, I guess, I wanted to ask you whether, you know, you have pointed out, you know, the fiscal cliff, but, you know, if we did return to the pre-2018 system, it could, you know, there is many scenarios where Tasmania could actually get less GST, you know, if its fiscal capacity was to improve. So I just wanted to, you know, put that scenario to you and, you know, ask, you know, are you willing and happy to, sort of, you know, take those swings and roundabouts that the 2018 system has embedded in it under the principles of HFE?

Lisa Bennetto: Oh look, I think I'd really have to defer to the Treasury's position because I don't have the technical judgement to comment on that. So, yeah, I'd have to defer to the Treasury on that.

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

Angela Jackson: No. Look, I think it's, you know, it's good to get, sort of, the perspective from local government. Obviously it's, you know, an area which, you know, we have horizontal fiscal equalization working at that sort of national-state level, but it's good for us to get, I think, the perspective on how that then trickles through and down to local government and to services on the ground. So, thank you very much and your submission was very useful in that regard. And I think, well, yeah, we'll reflect a bit more about, you know, how the system, you know, is working in terms of its intent and the inclusion or not of local government in it, and whether or not that's another area for us to think a bit more about going towards the, sort of, final report and what that might look like in terms of a direction if not a recommendation. So, look, just thank you very much for your time and for your work, and please do reach out if there's anything else you think would be of use to us.

Lisa Bennetto: Thank you.

Angela Jackson: Yeah, but obviously our submissions are due by the end of the month, so, you know, I'm not calling on you to do another submission – I know you guys are probably pretty busy – but you know any other information that you wanted to provide, whether it's through a formal submission or or just to us as a team, that would be really welcomed.

Lisa Bennetto: Certainly, and I will put in a further submission just reiterating the things that I've raised today and answering some of the questions that you've asked me that I couldn't answer.

Angela Jackson: Thank you.

Lisa Bennetto: Alright. Thank you.

Alex Robson: Thank you. We'll take a short break and resume at 11.30.

Chamber of Commerce and Industry of Western Australia (CCIWA)

Alex Robson: So we are back. I think we've got our next witnesses from CCIWA in the green room. So welcome. So if you could please state your name and the organization that you're from, and then we're

happy to take an opening statement of no more than 15 minutes, and then we'll get on to questions, welcome.

Will Golsby: Good morning, Commissioners. Thank you for the opportunity. Will Golsby, Chief Executive Officer, Chamber of Commerce and Industry, WA.

Daniel Kiely: And Dr. Daniel Kiely, Chief Economist at the Chamber of Commerce and Industry of WA. Thank you for your time.

Alex Robson: Thank you. Do you have an opening statement?

Will Golsby: Yes, that'd be great. Thank you, Commissioners, for the opportunity. The Chamber of Commerce and Industry is the peak business organisation in Western Australia. Our members range from large organisations to non-for-profits, or mum and dad businesses, and of course our important local chambers. And we do represent businesses across all industries, including construction, mining and resources, manufacturing, as well as the healthcare, the community care sector, retail trade and professional services and education. Our members employ hundreds of thousands of Western Australians every day. Our vision is to make WA the best place to live and do business. To inform our advocacy, we undertake a range of initiatives. Importantly, we engage our members, including in quarterly business and consumer confidence surveys. And we're the only chamber which captures both business and consumer insights.

Today we're here to talk about the way the goods and services tax pool is shared amongst the states and the territories and the changes made in 2018. The legislation which enabled changes to the distribution required this review and the Federal Treasurer has set out terms of reference to enable the Productivity Commission to undertake this task. We take our initial submission as read.

To assist and summarise against the definition of reasonable equalisation rather than full equalisation, we believe that the legislation is working efficiently, effectively, and, as intended. We've always had the view that the GST is relevant for economic development, and also, importantly, for productivity. It is in the interest of every Australian that the growing economy occurs when there are incentives for states to be competitive. The 2018 reforms were holistic and in the national interest. Today we will outline our key concerns with the interim report, address the findings and also the recommendations, and outline why we believe that the legislation is meeting the intent and suggest opportunities for further consideration in your final report.

Moving to our concerns, CCIWA has five key concerns, we believe, and ultimately led to the Productivity Commission's conclusion. The report fails to fulsomely consider the broader economic and productivity narrative. The report diverges from previous definitions, and the report puts excessive emphasis on equity at the expense of all else, namely efficiency, fiscal sustainability and also, certainty. And clarity, confidence and stability are critical for our members and the business community. The report does not wholly consider the role of the Commonwealth Grants Commission towards enhancing clarity and confidence in the process. And there is a lack of focus on peripheral matters, or the flaws, which many submissions have already highlighted. I would like to go through these now in more detail.

The first concern relates to the broader economic and productivity narrative. GST is a key lever for incentivising productivity enhancing reforms. The intent of the GST was to remove a suite of inefficient state taxes and replace with a more productive taxation model. As such, the cost of GST distribution should be considered in the context of full revenue and budget costs. Instead, we believe the Productivity Commission has framed topics such as the no worse off guarantee as a cost burden to the Federal budget. However, the no worse off guarantee is not net cost. Company tax receipts are higher than expected because the price of commodities is higher than expected. This is a structural hedge against volatility. WA Government has estimated that as iron ore prices go up, causing an increase in no worse off guaranteed

total, there's three times more revenue for Federal Government from company tax receipts. If we look at per capita contribution alone, WA contributes the most per capita and receives less back per capita in GST. There is a net economic contribution per person. Returning to full HFE discourages economic investment and encourages over-taxation. States lose the vast majority of the proceeds from policies that grow their economy and increase their revenue base, but lose very little from a tax rate increase. We suggest that for the final report, the Productivity Commission considers the full economic and productivity narrative for the GST share.

A second concern is a divergence from previous Productivity Commission views. In 2018, the Productivity Commission strongly agreed with the view that the GST should be a productivity lever. Reasonable equalisation was the recommended outcome, rebalancing equity, efficiency, sustainability and importantly, certainty. For example, the Productivity Commission said, and I quote, "while Australia's HFE system has a number of strengths, it also has several deficiencies. In particular, it can provide disincentives to desirable tax and resource development policies, and, to the extent that states do not reap much of the rewards of their own policy efforts, this detracts from fairness." And it goes on to say that a system of full and comprehensive equalisation is overly complex and lacking in transparency and accountability, does not address concerns about fairness, reward for policy effort and risk taking, and imposes efficiency costs by discouraging major state tax reform.

Productivity Commission also found in 2018 that the commodity volatility is a concern which the GST distribution system can fix. A 2018 report stated that any state that developed contentious mining activity would bear the full social and political cost of the development, but only retain its population share of the royalties. These points are still very valid. Reverting to full HFE will only cause these issues to reappear. However, the interim report does diverge somewhat from these positions by placing equity front and centre.

CCI's third concern relates to putting equity above all else. We, like many in WA, were quite surprised to see that the Productivity Commission reversed course. Productivity Commission has decided to review the 2018 reforms to the GST distribution and whether alternative arrangements would better deliver on the objectives of equity, efficiency, fiscal sustainability, and certainty. Of these, equity has been weighted as the primary outcome. As found in 2018, equity does not incentivise productivity. It redistributes wealth with no value add. We suggested that equalisation of the average would solve for these issues, reward states to invest in growing the national economy and the GST pie and ensure a reasonable level of services are met across the states. On the back of the 2018 PC report, the then Federal Government solved this issue differently, the introduction of a floor and shifting the benchmark to fiscally strong states. The 2018 reforms went ahead because the GST system needed to be fixed for the other three factors, efficiency, fiscal sustainability and also certainty and efficiency.

A fourth concern relates to the GST calculations. We absolutely support the CGC being an independent authority with absolutely a clear remit. However, the calculations for GST remain a massive "black box". We identified 5 flaws in the system, which I will get to shortly. We assume these are flaws because we don't know how the GCC calculates GST shares. In 2018, the Productivity Commission suggested the CGC take on more of an education role. The CGC released a series of occasional papers from 2020 to help achieve this purpose, which we absolutely welcome. We'd like to seek further and broader outreach with, for example, outreach of the CGC with members of Parliament, remote communities, or engaging in education reform around civics and law. It is important that the CGC is appropriately funded to ensure public awareness of what they do and to provide greater understanding and confidence in what is a very important system.

A fifth and final concern relates to the lack of commentary on the flaws in the interim report. As we have said, we believe these flaws, which could be fixed and addressed in the final PC report. Revenue distortion

needs to be addressed through an industry neutral approach to calculations. Industry development is a result of policy decisions. This is arguably more important for states seeking to unlock mining and resources. A mining discount embedded into the CG formula could help to provide baseline revenue. Regionality and remoteness are oversimplified, and there should be a general degree of nuance for factors which are not policy decisions. Finally, further consideration should be given to the treatment of gambling revenue and GST calculations and how its omission may encourage states to support gambling over developing other sectors. The PC commented on a mining discount to some degree, but not the others. We urge the PC to read our initial submission, which expands on how we think flaws could be actually fixed.

I'll now turn our attention to addressing the findings and the recommendations. As we said, if the test is weighted to equity, then the findings and recommendations will be weighted against the current system. That's because the current system does not seek to achieve equity. It also seeks to achieve productivity and certainty. Every state has an opportunity to meet a clear benchmark, New South Wales or Victoria. These are achievable if a state invests in a growing economy. Some of the report's recommendations we do not disagree with. Instead, we believe some slight tweaks which will enable a much better outcome.

If we focus on the first three recommendations, which suggest the return to full HFE, you won't be surprised that we disagree. We also do not consider the suggestion that the CGC looked at resolving dominant state effect is an adequate solution. There are a lot of uncertainties with that proposal, for example, when, how, and the full economic impact. No community and no economy needs uncertainty. We all need stability and clarity. Our submission in response to the interim report will expand on our views in much more detail. We encourage the Productivity Commission to consider our suggested revisions in detail. Finally, we believe that the legislation is meeting its intent and we suggest opportunities for further consideration in the final report. As outlined with a definition of reasonable equalisation as put in 2018, the legislation has worked. The Productivity Commission highlights the 2018 reforms had four objectives.

Guard against the negative effects of economic shocks on states' GST revenue by moving to an updated HFE system.

Maintain and improve the HFE system with minimal disruption, now and into the future.

Provide a long-term solution with more stable and predictable revenue for all states, while preserving equity in the HFE system and leaving all states better off.

And transition Australia's HFE system in a fair, reasonable and sustainable way that leaves no state worse off.

We believe that these four outcomes have been achieved. While it has been characterised as a blunt instrument, the floor has guarded against the negative effect of the economic shocks, with the price of iron ore remaining sustained beyond Commonwealth and WA Government predictions. HFE is now considered against a reasonable standard, not the highest standard, making a marked improvement to the HFE system. The bar to achieving the standard is lower and arguably more cost effective as a result. Moving to a reasonable standard was phased in over the period from 2018 to 2027, providing ample time for states to plan their own budgets accordingly. Equity is preserved, the principle of HFE remains, just not to the highest standard. Western Australia still receives the least amount of GST per capita and state shares of GST have remained relatively consistent except for Western Australia.

There was a six-year transition with a blending of relatives between 2021 and 2027. As outlined by the CGC, a no worse off guarantee operates during the transitional period. This ensured that over the transitional period, no state will receive a lower amount of GST than it would have received under the previous arrangements. The onus to grow economies still remains with the states. The timeline for review was set in legislation, which has limited the time for the Commission to review and provide comment. With this in

mind, we reiterate our support for the Productivity Commission to seek more time and consider GST as productivity lever in more detail.

We'd like to really thank you again for the opportunity to be with you. And we're happy, very happy, to take your questions. Thank you, Commissioners.

Alex Robson: Well, thank you for that statement. There's a lot to get through there. So I might start with the, yeah, so we've defined reasonable equalisation as that which, you know, can be achieved without costly impacts to efficiency and stability and, you know, certainty and sustainability that can't be addressed by other policy tools. So, are you saying that really, the primary objective of the system, you know, shouldn't be couched in those terms, it should be a different weighting? And how do you conceive of, or define, you know, those other things, you know, efficiency and certainty and sustainability? Is it a precise formulation that you've got in mind or is it just a more, you know, that the hierarchy should be different in your view?

Daniel Kiely: Look, in our view, we felt that in the interim report, there was too much weight given to equity and not sufficient weight then given to the other elements. For WA, and we know pre-2018, the system was hugely uncertain, and to Will's earlier comments, as you would well appreciate, for the business community, uncertainty is not wanted. We want the government to have certainty in their budget so that they can deliver the infrastructure and the services that are required to enable growth, diversification and productivity. And we know that it's a critical time for productivity growth here for the nation. So, again we feel that the current model is better than what's currently being proposed, and any reversion back to pre-2018 would not achieve on this other values as the Productivity Commission itself found back in 2018.

Alex Robson: Obviously, yeah, I mean, so productivity growth is important to us, it's in our name. We did hear from New South Wales Treasury the other day some figures around, you know, productivity growth among Australia's jurisdictions and, you know, they had said that multi-factor productivity growth in Western Australia was the lowest out of any jurisdiction since 2018. So I just, you know, wouldn't mind a reaction to that, and then also, you know, one of the issues we've looked at in this report is, you know, the extent to which the 2018 changes, you know, have encouraged productivity growth relative to what the pre-2018 situation did. So, we're looking, I guess, for examples of, you know, policies that, well policy changes that didn't go ahead pre-2018 that probably should have gone ahead, but didn't because of the system that was in place, and then changes that did happen after 2018 that probably wouldn't have happened. So if you've got any examples of those things, because it really is, you know, the evidence base that we're looking for. And noting in that, you know, that, you know, our recommendation 1 doesn't say just return to the 2018 system. It does say go towards that system, but have a direction from the Treasurer to the CGC to address those dominant state issues, because we think that that's where, if there is any efficiency, cost, or lack of policy neutrality, you know, that is, you know, those are the places to look. So, yeah, I might get your reaction to all of that.

Daniel Kiely: So a couple of things there from me. So, I guess, on productivity and various measures, again, it's measuring productivity is difficult. We notice various measures of that. You mentioned multi-factor productivity, labour productivity, but there are other ways of looking at the productivity measure as well. And I think another important point on productivity is it often takes time to see productivity growth. So we have seen a transition phase at the moment with how the current reforms have been introduced. WA has only had a couple of years where we're getting closer to that floor as those transition periods have occurred. So, again, one of our recommendations in what we talked to in our submission is that it takes more time to fully evaluate the current model and that's why we don't think now is the time to change. It

hasn't fully embedded yet, and therefore, any reforms that may have taken place on the back of it, you may not yet see the productivity outcomes on the back of those.

That said, again, it's for the government to really talk to the decisions that they have made and how they have come to those decisions in terms of their expenditure. But what we will say is that we have seen reforms take place here in WA around approvals, around regulatory settings, we've seen industrial development areas being developed here in WA. So there's a lot of really good things happening here trying to diversify our economy, because we know we can't rely forever on iron ore prices. We can't assume that it's always going to stay high and we know that we're in a very competitive global economy and there's a lot of uncertainty taking place there as well.

And if I could, just on, Commissioner Robson, on your other point around correcting for any efficiency issues. I guess equity issues could also be fixed outside of the GST pool. There are other ways that if we have groups in our society that are particularly disadvantaged and need additional support, of course, we would welcome any measures that would support them. But, again, it's not to say that you can't address productivity within the GST carve up as well. And we have concerns with leaving it to Treasury or the black box that already is the CGC, around how that might be developed. For us, again, it doesn't tick the certainty box. It leaves further uncertainty. And again, that's very hard for State Governments, to budget appropriately and again give certainty to the business community that we hear every day from our members.

Will Golsby: In addition too, if I could please, Commissioner, around the last few years around, obviously, everyone's experienced it through the COVID pandemic, we've had some supply chain issues in the recent Middle East crisis as well, the fuel crisis and the impact and that has also been a major impact, as everyone is aware, but also that stability and certainty is absolutely critical from our point of view, which I've outlined. But I think that those sorts of impacts also need to be considered in that discussion as well.

Angela Jackson: Could I just follow up on that quickly? So one of the issues that we raised with the reforms, the, and I've got 2 questions – so one around that certainty question and then one around the productivity question – is that now if there is a commodity price shock in WA, so say we see Chinese demand drop, the WA budget will incur the full impact of that in terms of reduced mining royalties onto the budget bottom line. So, yes, GST revenue won't change as a result of that, but because GST revenue won't change as a result of that, the WA budget will take the full hit. What sort of risk do you see of that to the broader Western Australian economy? So, whereas under the pre-2018 system, any drop in iron ore mining royalty revenue would have seen an adjustment and an upward adjustment in GST revenue, under the current arrangements, there would be no such adjustment. So, you would just, the full impact through to the WA budget. Do you see any risks from that in terms of the Western Australian economy and those broader macro impacts?

Daniel Kiely: Look, I think that there's always risks. We know that resource economies go through boom and bust periods. So absolutely, that's a risk. And that's why, now, even though the iron ore price is high, we need to maintain a solid GST share so that we can invest in diversifying our economy and looking for additional opportunities. Every economy has a risk, though. Any economy, depending on what their main sectors are, we could have construction crisis in certain economies or the housing price collapse in other economies. There's always risks to economies, irrespective of what they have as their primary industry. But again, that's why we've also called for over, if you were to look at, I guess, the gold model, the ideal model over the longer term would be equalisation to the average, because again, irrespective of where your economy is in and the boom and bust periods that any economy can go through, you are ensuring that all states have the ability to get a reasonable level as defined by equalisation to the average level of infrastructure and service delivery across their state.

Angela Jackson: And I guess, more broadly on the productivity question, I note, and look, we really welcome any evidence because we have struggled in terms of where the reforms have led to sort of economic reform or any change of incentives, I guess the question then is well, why would we just limit that benefit to Western Australia? So, these reforms come with a big price tag and the incentives for other States and territories have not changed. If it is such a boom and it's such a productivity driver, and as you say, you know, can really help drive economic growth, why wouldn't you be arguing for equal per capita so that every state and territory benefits from that, noting, you know, the impacts on equity, but there are other ways, obviously, you could address that? Any views on that and about whether or not, I mean, I note, you know, recommending a 25% discount on mining, but that broader incentive, obviously, you know, states like Victoria are much more diversified, New South Wales does have a big mining sector, but much more diversified? Shouldn't we be, you know, if that is such a big impact and if you can demonstrate that, and again, we've struggled with the evidence base on that, which we note in the report, so the extent to which, you can, you know, shine a light on that would be beneficial, but wouldn't equal per capita therefore be beneficial more broadly to the Australian economy? And why would, you know, I guess a reform that only benefits one state be considered sort of the optimal?

Daniel Kiely: Well, equal per capita is not something that we're in favour of. It doesn't address, again, that incentivisation for governments to develop policy that helps to grow the pie. So we need to have incentives there for all states to have good policy that helps lift their state and grow the pie, as I said, for GST. So therefore, again, I point to equalisation to the average being a better approach in that regard.

In terms of WA being the only one that benefits from the current reforms, I think we need to be careful there and how that's framed because that might be the case right now in terms of, well, it's the case right now that WA has the highest fiscal capacity, but again, that could change at any time. Other states could grow their economies and be in the same situation. The floor provides certainty for all states in that regard.

So again, I think, and the other point, sorry, that I would like to point to is, there's talk around the no worse off guarantee and the cost of that, but we must remember WA didn't get 1 dollar from the no worse off guarantee. And in fact, the cost of the no worse off guarantee went up because our iron ore prices were higher than what were forecast. But you also got, on the other side of the ledger, higher revenue receipts for the Commonwealth budget. So WA, along with New South Wales, are the only two states that are net contributors, net positive contributors to the Federal budget. So again, it's important that we don't disincentivise, or hurt the economy, that is currently delivering for the nation.

Alex Robson: Sorry. On the, you know, the incentives for states and the floor, I mean, I must admit, I am a bit confused as to what you say, because it can't be the case, just by definition, that all states have a relativity of 0.75. I mean, that makes no sense mathematically and analytically. So, I can concede the point that, you know, you could have one or two or three, or, but it can't be the case that all of them can achieve a relativity less than one because the system doesn't work that way. So I just make that point. But then, I guess, the other point, well, two other things. One was, you mentioned equalisation to the average. So is that, and I think you mentioned gold, that's your sort of gold standard. So, is that something that CCIWA is advocating? That we should scrap the 2018 changes and move towards equalisation to the average?

And then, I guess my final question for this part is around provision of incentives for productivity growth. I mean, would it be a better system, in your view, rather than having, you know, this year, I think the payments are around \$6 billion to Western Australia and they're effectively untied. Would it be better from that incentive point of view to actually have that money tied by the Commonwealth to achieve productivity enhancing reforms? And also, while we're at it, we could make the NOWO payments tied to achieve productivity enhancing reform. Is that, you know, something that should be considered?

Daniel Kiely: Can I just clarify, first of all, if it came across as though I thought everyone would get 0.75, that was not my intent. What I'm saying is that at any point in time, you have economies have good periods, bad periods, the floor protects every State and it could do at any point in time. That is the point I wanted to make there.

Alex Robson: That's good. OK.

Daniel Kiely: So, I absolutely agree with you that it wouldn't be mathematically correct if they were all at 0.75. That's not what I intended in my earlier comment. In terms of, yes, we do agree that, long term, and it's been in our submission and, by the way, we've been really consistent with this over the years, so if you look at CCIWA's submission, back in 2017 for those 2018 reforms, equalisation to the average is what was called for. We still believe that is the best model to look for because there's an incentive for everyone to lift and grow the pie and not lose out on GST share necessarily because of the growth in the pie. In terms of scrapping the 2018 reforms, we're not calling for that at all. As we've clearly said, we want to retain the current reforms. And as I said, that's because it's still going through that transitional phase. It hasn't been fully embedded yet and we haven't fully seen the rewards that could be achieved through the current system. It's too early, in our view, to throw it out and it's too early to create greater uncertainty. And again, we are living in a world, and we can't look at GST in and of itself, we're living in a world with huge global uncertainty, the Middle East crisis, now is not the time to throw another curve ball at State Governments and at the Federation by changing the GST system.

Alex Robson: And then, sorry-

Angela Jackson: In terms of the no-

Alex Robson: I just, there was that, the question around whether the NoWO payments and other payments should be tied rather than untied, if, you know, if the, if we wanted to put more weight on productivity and efficiency, do you think that's something that could be considered? Or do you think that should be left to the states to determine how best to spend that money?

Daniel Kiely: I think you need to give states some ability to determine that for themselves. But, you know, I guess the flip side of that is you could tie equity payments equally. So, again, I don't see why we're arguing against the productivity measures. But certainly I do call for the PC to look further at, what are the incentives and what is the behaviour of State Governments? Because certainly here in WA, the economy is delivering, as I said, this huge contribution to the Federal budget and, you know, we need to reward that.

Angela Jackson: So does it, I mean, one of the things we're obviously looking at in terms of, you know, that option one is around, you know, mining and the dominant state effects. Obviously, you know, Queensland's the other example and, in terms there's a, you know, quite a big mining state making, you know, large contribution and dominating in a number of different, sort of, natural resources, but obviously the GST system means that, you know, its population and its population needs means that it's relatively isn't as low as Western Australia that's obviously got similar level of, you know, natural resources in different areas, but has a lower population share. And I note the mining discount, so you're, obviously Western Australia wouldn't benefit now directly from a mining discount in terms of it wouldn't affect, you know, at the margins, sort of, decisions by State Governments, wouldn't incentivise anymore because you're obviously below the floor, but do you think that a mining, how do you see that mining discount playing out in those other, I guess, mining States and I mean, I note that mining does occur across the federation, but, you know, particularly for, sort of, Queensland and New South Wales, do you think that that, would it create similar incentives in terms of, from the, sort of, Western Australian perspective in terms of incentivising some of that reform that you've alluded to or is it not enough in terms of to produce those benefits?

Daniel Kiely: I'm unsure of what the full effect would be, but, you know, I certainly think in its concept, a 25% discount does provide an incentive for, you know, governments to engage in mining activities that they may not otherwise do because of the impact it would have on their GST share. So, I think it's certainly something worth investigating further and again, whether that's 25% or some other percentage, again, I think the independent analysis that you bring is really important there to look into that further and see what would that look like.

Alex Robson: You did mention that, you know, there is, in some sense, it is a bit too early to tell what some of the impacts of the 2018 changes might be. And I think that's an understandable perspective. I mean, the issue we have is that, yeah, we do have to be forward looking. There are important issues around, you know, critical minerals and other, you know, policy issues that Australia is grappling with. I mean, do you think then, you know, that these changes are sort of ripe for another review in you know, a number of years, say five years time? Is that something that CCIWA would advocate for? Or, you know, is that, you know, is that something where governments could just keep an eye on it and review it at some, you know, foreseen time in the future.

Daniel Kiely: I think it's definitely worth having, I guess, a lens on this that, you know, obviously the mining sector, we know that can have very impactful dominant state effects. But, you know, there could be other industries that emerge in the future. So I think it's important that we have that flexibility to be able to look and review these things from time to time. But again, you know, constantly changing the system and when, again, the system hasn't been fully bedded down, as you said, you know, I think just leads to uncertainty across the business community.

Will Golsby: I understand it too, Commissioner, it's not what your intent of the question, but that, sort of, around, just reviewing from time to time, you know, that creates more uncertainty. You know, it creates, it's really the structure around these things. You know this, but I just wanted to comment on it because that's part of the stability, the certainty investment programmes that governments can get on and do and what their long term, I think, you know, what we're seeing is, in some cases, if there's short-term ad hoc approaches to these things, that actually creates much more uncertainty as well on top of everything else.

Alex Robson: And so do you think, let's just entertain for the sake of argument that, you know, if there was to be another review, it's better to say, well, let's do it in X year's time, you know, 5 or 7 or 10 or whatever it might be, rather than just leaving that as an open question. Not trying to pin you down on a time frame, but it'd be better to make that, you know, certain in terms of the time horizon that that could, further review might occur.

Will Golsby: Is that a, sorry, was that a question? Sorry.

Alex Robson: Yeah, it was.

Will Golsby: Oh. Sorry, sorry.

Alex Robson: Well, I guess I was just trying to reinforce, well, get your view on, you know, if there was to be another review, would it be better to say, well, let's do it in 5 years time or 7 years time rather than just saying, oh, there should be another review whenever.

Will Golsby: I think when everyone's making long-term investments, looking at, you know, all across any, and that's why I mentioned the diversity and the breadth of membership that we have across our organisation, anything that provides certainty to make sure that people can, and businesses and the community, and as I mentioned, we've got not-for-profits, we've got the care economy within our business community membership, it provides-, anything that provides certainty that they can get on and invest with confidence, understand the systems and understand what's happening. It's probably an obvious statement

to make to everyone on the screen and in the room, but that is critically important for any business organisation in the economy as well.

Alex Robson: And so then do you think that, you know, if the current arrangements were to continue, it would be good to provide certainty to the other jurisdictions to make the NoWO payments permanent?

Daniel Kiely: I think that's a decision really for the Treasurer to make. But again, I would just point to the fact that, you know, we need to look at both sides of that ledger. There is a significant cost there, but the higher iron ore price in turn then delivers significantly to the fiscal balance for the Commonwealth. So again, that's really a question, in my view, for the Treasurer.

Angela Jackson: So you wouldn't have views about what the impact of the NoWO payments on productivity or incentives or anything more broadly?

Daniel Kiely: Look, again, as you know, the no worse off payments were supposed to come to an endpoint. They'd been extended and that was something that occurred outside of, you know, the 2018 arrangements. As I said, they're more than covered by the additional cost. WA does not get a dollar from that. But you know, the other states benefit from it, but again, that that's a broader question around fiscal capacity.

Angela Jackson: We also make recommendations around the standard state and how that's currently operating in the report. I note that you supporting the continuation of that. What's in your view, and noting that you've argued for, sort of, an average, that to be changed to the, to an average of all states relativity, in terms of the current arrangements, what justification do you think there is for, you know, having New South Wales or the stronger of New South Wales or Victoria rather than a fixed floor of 0.75, as we, sort of, allude to as being preferential. And how do you see around getting around some of those perverse outcomes that we've outlined in the report.

Daniel Kiely: So the perverse outcome that you talk about is a natural disaster in New South Wales and how WA would benefit potentially from that situation. I guess another perverse outcome on that would be if there was a huge boom in the housing market, for example, in New South Wales and WA would get less. So, you know, we can pick examples there that argue both sides. So, I think it's important that they're reflected too in the report.

Again, you know, the two large states, New South Wales and Victoria, I think it's appropriate if we are using the current model, you know, the type of approach we have currently, that, you know, they're the large states with large economies, that it's appropriate that there's some kind of benchmark. But, I do go back to the point around equalisation to the average being a better model, but again, now is not the time for the change.

Angela Jackson: I guess, and that's kind of the point, isn't it, they are large economies, important, again, for the national economy. Obviously, New South Wales would argue very important. I think the New South Wales Treasurer made that point a few times.

The fairness argument, which you know is, I guess, central to a lot of what Western Australia's, I guess, issues with the pre 2018 system, is it fair that, you know, all other states other than New South Wales and Victoria can benefit from the standard state benchmark, but the two biggest economies in the country, and arguably drivers of, you know, economic prosperity since Federation can't ever benefit from that? Is that a fair part of the system, do you think?

Daniel Kiely: I think it's important that, and this is the equity part, we're not at all against equity and ensuring that all citizens have a reasonable standard of service delivery and infrastructure. And again, WA has been the state that has received the least on a per capita basis, the least amount of GST per capita. So, you know, we're very happy to support other states and other sectors of the community during periods

where their economy is, maybe, not doing as well. It may be the case that in 10, 20, who knows, years time, we may also get that in return if our economy takes a downturn. So, you know, I think, again, having a reasonable level is, rather than trying to achieve full HFE, is appropriate.

Angela Jackson: And so in your view, is a reasonable, I mean we, sort of, note in the, a reasonable level at the moment places Western Australia at 113% of the assessed needs of other states and territories, so that is a reasonable level for the system to deliver, so that one state has that greater fiscal capacity than all other States and territories?

Daniel Kiely: Well no other state has been worse off because of these reforms. And again, WA gets the least amount on a per capita basis. So again, you know, I'm interested in that chart in your report. It would be good to see a breakdown because it compares WA to the total of all of the nation. It'd be interesting to see that-, a breakdown of that by state. Again, we don't have access to the full black box, so again, of the CGC to be able to work that out.

Angela Jackson: Yep. I guess it's just, you know, we've obviously got a definition of what reasonable is and our, you know, definition is achieving the highest level of equity possible without these sort of negative consequences. And you've indicated that that's not a good balance, so, but we don't have any evidence in terms of the impact of these reforms on efficiency or productivity like we, you know, and certainly, obviously, given its only impacted incentives for WA, there aren't those broader impacts, by definition. But on equity grounds, we can see they have resulted in much lower levels of equity, which is why we find they haven't fulfilled their objective. But I guess you are saying that you don't think 13% higher, effectively fiscal capacity, and ability to deliver services is, you know, an unreasonable level, or that is the benchmark that we should be aiming for. Or, you know, if it got up to 50% higher, would that be still a reasonable outcome from the system? Like, what level would you see as, sort of, reasonable in terms of equity?

Daniel Kiely: Well, I think I've covered that in saying that over the long term, ideally go to equalisation to the average. But I'd also like to point, there are other issues with the carve up, take regionality as an example. WA is a vast state. It has this huge cost with delivering infrastructure and services across the state. I'm not sure if that's incorporated into this calculation of the 113%.

Angela Jackson: It is. Yes. It is.

Daniel Kiely: But I guess, yeah, but it's the treatment of the regions in WA is comparable to Strahan in Tasmania, for example, when the geographical distances and the complexity and the cost of delivering services are very different. So, again, this 113% you refer to, I don't know what's fully going on behind that. And if it's assuming the CGC methodology is perfect, and we know, and this is not a go at CGC, it's a complex model, it's a complex situation. But, we need to be aware of these statements and know that it's based on a certain set of assumptions and a certain methodology.

And if I could also just point, the WA Government, in their submission, have clearly pointed to reforms that have occurred and additional investment and has occurred on the back of WA getting a greater share of the GST. And they also had an ACIL Allen independent study look at the productivity outcomes of those. So, again, that's not for me to comment on, it was work commissioned by the WA Government, but again, looking at that, there appears to be evidence that there have been reforms that have led to productivity growth and attempts to diversify the WA economy.

Angela Jackson: I think we're at time.

Alex Robson: We're at time. Yeah. Thank you very much for your statements today and for your time. And we wish you well, and we look forward to further discussions and submissions.

And we will take a short break now and return at 1pm.

Will Golsby: Thank you for the opportunity. Thank you.

Alex Robson: Thank you.

[LUNCH BREAK]

WA Treasurer

Alex Robson: Okay, we're back. So apologies for that slight delay. So we'll now get the hearings underway again. So we have the Western Australian Treasurer and other representatives. So if you could please just for the transcript, state your name and where you're from, and then we're happy to take an opening statement and then we can get on to questions. And if the opening statement could be no more than 15 minutes, please, and that will give us plenty of time for questions. So thank you for joining us and welcome.

Rita Saffioti: Sure, Rita Saffioti, Treasurer. I'm not in the same room as the other WA representatives, so I'll throw it to Michael Barnes and Michael Court.

Michael Barnes: Thanks, Treasurer. Michael Barnes, GST Project Director for the WA Department of Treasury and Finance.

Michael Court: And Michael Court, acting under Treasurer, the Department of Treasury and Finance.

Alex Robson: Thank you. So please, if you have an opening statement, Treasurer, we'd be happy to hear that.

Rita Saffioti: Yeah, so I'll make some introductory remarks and throw to Michael Barnes, who will throw back to me as part of the opening statement. So thank you very much for the opportunity to attend this hearing today and for the ongoing engagement in the review process to date. As you're aware, West Australia's very clear position is that the current GST distribution arrangements must be retained. We felt that many of the arguments in our extensive submission were not considered adequately by the Productivity Commission in its interim report. And this is despite WA having by far the most to lose of any state. West Australia's population share of the GST

has fallen to just 30% prior to the reforms, and would have fallen to just 10% if the reforms weren't in place. This year would be just at 24%. No other state has been anywhere near that level, and no other state has been below 80% of their population share.

Without these reforms, WA would be over \$6 billion per year worse off. We have reinvested our additional GST into investments that continue to grow our economy and also the national economy. Independent analysis by ACIL Allen has shown we have invested an additional \$23 billion into economic infrastructure that boosts the national economy by up to \$68 billion over 2 decades. Western Australia punches above its weight economically, accounting for almost half of the nation's exports, 50% above our population share of economic output, and almost double our population share in business investment.

And this is no accident. We have spent decades developing our mining industry to one of the leading jurisdictions in the world. Other states want to treat West Australia as the nation's cash cow, with over 90% of our royalties for major commodities, 90% including iron ore and lithium redistributed via the GST. At an individual level,

who would accept a marginal tax rate of 90%. This equates to around \$11 billion per year in mining revenue redistributed by the GST to other states over the past four years, compared to \$5 billion per year before the reforms were initiated. No other state experiences the extreme redistribution away of revenue.

Queensland has around 40% of its coal royalties redistributed. New South Wales, around 20% of its coal royalties redistributed. The Productivity Commission's interim report acknowledges the dominant state

effect, but without a plan to deal with it. The Commonwealth Grants Commission hasn't been able to find a solution in two decades.

But the 2018 reforms effectively address this issue.

In contrast to mining revenue, which is disincentivised in the current system, states are incentivised to grow revenue from pokies, which is excluded from the Commonwealth Grants Commission assessment. In terms of its marginal tax rate, it's tax-free.

How is it fair that WA can start a new iron ore lithium mine and we lose 90% of those royalties generated to other states, while another state could allow a thousand pokies but not lose a cent of the gambling revenue generated?

The next point I'll make is no state has been worse off due to the No Worse Off guarantee and we have supported and continue to support the No Worse Off guarantee continuing.

In fact, relative to when the reforms were initiated, other states and territories have benefited, have been \$34 billion better off due to the benefit of WA's higher iron ore revenues being redistributed to other states. The Commonwealth No Worse Off guarantee has effectively underwritten the pass-through of 90% of the benefit of higher iron ore prices to other states.

While some say that this has come to a cost to the Commonwealth at the same time, it has also received three to four times the benefit in windfall company tax collections due to higher iron ore prices, far outweighing the cost of the reforms. If the iron ore price averaged 10 US dollars a tonne higher for the year, the no worse off guarantee increased by \$950 million, as in the cost of the no worse off guarantee increased by \$950 million, which reflects the pass-through of higher prices to other states, while the Commonwealth would receive \$4 billion in higher than expected company tax revenue.

Other states also don't acknowledge that a strong part of the reason our budget is in surplus is also the fact that we have had the lowest expenditure growth per capita of any state or territory since the reforms were in place. We believe that 2018 reforms provide a reasonable balance between supporting the other states and territories while not punishing states like Western Australia for growing, developing and diversifying their economies. The Productivity Commission's 2018 report recommended equalising to the average fiscal capacity of the state. The Commonwealth decided to go with a solution of the standard state benchmark and WA is comfortable with that.

The reforms bring Australia more into line with every other federation in the OECD, all of which have varying models of partial rather than full equalisation. WA is still making the largest per capita contribution of the states with a GST subsidy relative to our population share of over \$2 billion per annum. A 75% floor for all states and equalisation to the standard state represents a reasonable balance between equity and productivity. Unlike New South Wales, we are not calling for equal per capita.

The GST is just one part of WA's overall net fiscal subsidy to the Federation, such as company taxes, which is by far the largest of all states, and this is never acknowledged.

This debate can't just be how we divide up the existing pie. It must also consider how we encourage states to grow the pie, how we incentivise growing our economic base, how we incentivise productivity and further developments and jobs. This is essential to the future economic growth and economic opportunities for our nation.

And now, I'll throw to Michael Barnes.

Michael Barnes: Thanks, Treasurer. I'll now turn to some of the detail in the Commission's interim report. Section 2.2 of that report, which starts on page 25, lists 5 impacts of the 2018 GST reforms that the Commission describes as primarily negative. I just want to address each of those five impacts in turn briefly.

The Commission's first stated impact of the 2018 reforms is that they have reduced the level of HFE achieved in Australia. And that is, of course, by design, with the Australian Parliament deliberately moving to a system of partial equalisation to better balance equity and economic objectives.

The Commission suggests that WA is now receiving more GST revenue than it needs, estimated at 113% of what is needed to provide the average level of services. However, this uses the Commonwealth Grants Commission methodology as the unquestioned benchmark against which to assess need. For all the reasons and examples outlined in our February submission, we have significant concerns with this benchmark.

Moreover, the Productivity Commission's analysis of needs in its interim report ignores the dominant state issue that the Commission itself has identified as a problem that needs to be addressed. We believe the interim report is internally inconsistent in this regard. To illustrate just how much WA's dominance of iron ore production impacts the HFE system, if the state were to cease collecting iron ore royalties and make up the lost revenue through increased payroll tax, the CGC would assess that rather than needing just 24% of our population share of the GST, WA would now need around 100% of our population share, even though our total own source revenue would have remained unchanged.

This is obviously a hypothetical example, but it clearly illustrates the dominant state problem that the CGC has been unable to address for over 20 years and that the Productivity Commission has not reflected in its analysis of WA's needs.

And finally on this point, the interim report notes that despite the lower level of HFE under current arrangements, it still compares favourably in terms of equity to international comparators. Given that, it's not clear why the Commission believes the current arrangements don't strike a reasonable balance between equity and the other objectives.

The Commission's second stated impact of the 2018 reforms is that they have introduced perverse outcomes to the GST distribution system. The interim report focuses heavily on one very selective example to make that point, which is the example of a bushfire or other natural disaster in New South Wales, leading to an increase in WA's GST share in line with New South Wales, but a decrease in other states' shares.

We believe the Commission should be more balanced in its commentary on this by providing other examples that show a reduction in WA's GST share, while other states' shares would increase. Examples like another property boom in New South Wales, which would decrease their and hence WA's GST share, while increasing other states' shares.

And also, in the CGC's 2024 update Kiama, Googong and Stanwell were reclassified as major cities, which reduced WA's GST share in line with New South Wales, while increasing other states' shares. These are equally perverse examples, as the one used by the Commission, and illustrate that being pegged to the standard state benchmark cuts both ways for WA.

Furthermore, these so-called perverse outcomes would not even eventuate if instead of equalising to the fiscally stronger of New South Wales or Victoria, we equalised to the average of all states, as recommended by the Commission in its 2018 report. Curiously, however, this option isn't even mentioned in the interim report. We believe this is a significant shortcoming that needs to be addressed in the Commission's final report.

The Treasurer touched on the greater perverse incentive in the underlying GST methodology relating to the treatment of mining revenue, with WA effectively experiencing a 90% marginal tax rate for commodities including iron ore, lithium and North West Shelf petroleum grants.

No other state experiences such a high degree of redistribution of revenue. Queensland loses around 40% of its coal royalties and New South Wales loses just 20%. While WA has had pro-resource policies for decades and makes significant investments to support mining activity, there is no consequence for states not choosing to develop their resource sectors.

WA's submission includes the additional recommendation of a 25% mining revenue discount in addition to the 2018 reforms, which does not provide any additional benefit to WA, but reduces the cost of the no worse off guarantee to the Commonwealth and provides a better return for states that choose to develop their resource sectors such as Queensland. The Productivity Commission's interim report didn't acknowledge this.

The Commission's third stated impact for the 2018 reforms is that they have had mixed impacts on states' fiscal positions, with WA being better off and other states no worse off. As the Treasurer said, in fact, all jurisdictions have been better off since the 2018 reforms were implemented due to higher than expected iron ore prices. Through the GST distribution system, other states have still received their population share of WA's increased iron ore royalties, underwritten by the Commonwealth's No Worse Off Guarantee. The impact of higher iron ore prices is expected to result in other states receiving around \$34 billion in additional GST over the period 2020–21 to 29–30.

There is also a common misconception that WA's budget is in a strong financial position purely because of elevated iron ore prices and the 2018 GST reforms. These factors have obviously helped, but in contrast to many other states, the WA government has consistently demonstrated disciplined budget management over the last decade. For example, between 2017-18 and 2024-25, WA had the lowest growth in general government expenses per capita of all states, at 4.1% per annum compared to 5.8% for other states. Had WA's expense growth been at the average rate of other states over this period, the state's finances would be in operating deficit.

And in reaffirming the state's AAA credit rating earlier this year, both Moody's and S&P Global highlighted the government's strong financial management and robust expenditure control, with Moody's highlighting our 'well-entrenched framework of fiscal discipline that extends beyond cyclical revenue windfall gains'.

The Commission's 4th stated impact is that the 2018 reforms have come at a significantly higher cost to the Australian Government than expected. This is true, but only because iron ore prices have been significantly higher than forecast in 2018. These higher prices have delivered a revenue windfall to the Commonwealth that is more than offset by a factor of three to four times the cost of the 2018 GST reforms.

This is only very briefly and somewhat begrudgingly acknowledged in the Commission's interim report and certainly isn't quantified. We would like to see more analysis of this in the final report. We estimate that for every one US dollar per tonne increase in the iron ore price, the No Worse Off guarantee to underwrite the pass-through of this revenue to other states increases by \$95 million. While the company tax revenue benefit to the Commonwealth is \$396 million dollars.

The Commonwealth's forward estimates are internally inconsistent in this regard, with their estimates of the future cost of the No Worse Off guarantee not aligning with their iron ore price forecasts. If the iron ore price fell to US \$60 by March 2027 as per the Commonwealth's budget, then the cost of the No Worse Off payments would be significantly lower than forecast.

Conversely, if the iron ore price remained at current levels, the Commonwealth would receive a significant revenue windfall that would more than cover the cost of the No Worse Off payments.

And finally, the Commission's fifth stated impact is the 2018 reforms have increased the complexity of the GST distribution system, making it less transparent.

The pre-2018 system of HFE was a black box that was fully understood by only a handful of people across the country. Returning to this system would do nothing to improve understanding or transparency. As the PC itself said in 2018, the system is poorly understood, lending itself to a myriad of myths and confused accountability. And at that point, I'll hand back over to the Treasurer to conclude.

Rita Saffioti: Yeah, so just the final comments in our introductory remarks.

What we'd like to see in the final report of the Productivity Commission is to address some key points. The Productivity Commission's 2018 report found significant weaknesses in the pre-2018 system. It recommended equalisation to the average fiscal capacity of the states and that there had to be a better balance between equity and efficiency. It talked about productivity and also economic wellbeing. And we would like to see a final report acknowledging these issues and understand why the interim report strayed so far from the 2018 report.

The interim report indicates that our GST relativity of 82% is unjustifiable and cause for the reforms to be round back. At the same time, the report acknowledges the need to address the dominant state issue, which would presumably bring WA's relativity above 24%. And again, what would the Productivity Commission recommend to address that?

The interim report mentioned a mining discount as an option to address the dominant state issue, noting that the Productivity Commission itself found a 50% mining discount would cost the Commonwealth more than retaining the reforms. So again, we'd like to see how the Productivity Commission would address this in its final report.

And finally, I'd like to reiterate the earlier point, that WA supports the current arrangements, which will continue to see WA support other states and territories by providing a continued subsidy through the GST of \$2 billion per year, in addition to the billions of additional funding that we support through company tax and other revenue sources.

Some states have argued for a full per capita share of GST. We have not argued for that and believe the current arrangements are something that we would support. And of course, we also support the other states in the No Worse Off guarantee and note that their cost to the Commonwealth is only triggered when there is significantly higher commodity prices which flow through to the Commonwealth bottom line by increasing company tax. Thank you.

Alex Robson: Thank you for those statements. So we'll have some questions.

So is it WA's position that notwithstanding any dominant state issues in the pre-2018 system, that those have now been adequately dealt with by the 2018 reforms?

Rita Saffioti: Yeah, we would say that the 2018 reports highlighted this issue and came up with a number of recommendations. Of course, the Commonwealth Government chose a particular path that we support, but we believe that having the floor and then pegging is a way of dealing with that dominant state issue.

Alex Robson: How does it deal with that issue in relation to other states like New South Wales and Queensland and acknowledging the fact that the rates that you mentioned, retention rates, are different in those states from WA but they're still significant. Is that dealt with by the 2018 changes in those particular states?

Rita Saffioti: Well, we believe so, because the rules are applicable to every state. And so, I think Queensland in particular, in relation to its floor and some of its movements. So we believe that the current

system, because it's just not for WA, it's for every state. So it helps support the dominant state issue, in particular if other states experience similar issues to us.

And I just want to make a point and then I'll throw it to Michael Barnes too, because I think this is a very interesting point and stat that we would like to put out there again. Since the GST came into place, the GST paid, or the redistribution of GST compared to per capita, from WA since the year 2000 has been \$62 billion, up to 29-30, which is an incredible amount in relation to even after the reforms, \$62 billion since the GST came into place, has been redistributed compared to our per capita share. That is an incredible amount. That's even after the reforms are in place. But I'll throw to Michael in particular about the dominant state issue.

Michael Barnes: Yeah, thanks, Treasurer. So, Alex, obviously, the 2018 reforms address the dominant state issue for WA. For Queensland, not currently, but it has the potential to do so for Queensland. Effectively, the standard state benchmark is a floating floor, right? So let's say it's New South Wales for the foreseeable future has the stronger fiscal capacity of the two. As their relativity changes, it's a floating floor so that provides assurance to Queensland and others, but Queensland is the closest to it, that it cannot fall below that floating floor. So that would address, if that were to eventuate in coming years, that would address the dominant state issue for Queensland.

In addition to that, as you know, we recommended in our submission retention of the 2018 reforms plus the mining revenue discount. And the mining revenue discount would further help other states like Queensland in terms of that dominant state issue.

Alex Robson: How would it help New South Wales? If they're the stronger of New South Wales or Victoria, so how does that work?

Michael Barnes: Well, it won't, but that's by design, right? As you know, the largest state in the country, I mean, that was what Parliament decided, others should be pegged to with the standard state benchmark. But I mean, that was it, that was explicitly by design and the intent of the change.

Alex Robson: Yeah, OK.

And so then is it WA's position then that the NOWO payments should be made permanent in line with our recommendation 3, putting those other parts aside of that recommendation 3, but what's your view on the No Worse Off guarantee?

Rita Saffioti: Well, as we've explained, I think, publicly in our submission and for many, many years, we believe that the Commonwealth Grants Commission formula is deeply flawed. And that formula is the one that drives the value of the No Worse Off guarantee payment. So, whether it be, whether we introduce a discount for the mining royalties, but on the expenditure side, we have argued many, many times that WA is not particularly serviced in relation to the definition of remote and rural. And we give the example of towns a few 100 kilometres away from Hobart having the same category in relation to remoteness as remote Aboriginal communities in the Pilbara or Port Hedland.

So in relation to the No Worse Off guarantee, yes, we support it, but I would say the reason why it is so significant is because of the notional GST breakup, the share, and the fact that WA's, we believe, expenses in servicing such a significant state aren't properly recognised and we gave that example in relation to remoteness. And then again, of course, in relation to the revenue, that we are unfairly penalised for growing the economic base. So we support the concept of the No Worse Off Guarantee. Its value is determined by the Commonwealth Grants Commission formula, which we have been working on for, I think, decades, trying to change to better reflect the costs of delivering in regional WA and also trying to move away from the penalising of growing our economic base through the resource sector.

But we support the No Worse Off Guarantee. And as we have pointed out, and as I think Michael just raised, the key point on the No Worse Off Guarantee is the cost of the No Worse Off Guarantee is more than compensated for by the fact that the No Worse Off Guarantee increases when the iron ore price increases, and then the revenue to the Commonwealth that flows from increased company tax from those iron ore royalties is 3 to 4 times the cost of the No Worse Off Guarantee. But I'll throw to Michael Barnes for any supplementary information on that.

Michael Barnes: Nothing further that's right, Treasurer. That's I agree with everything you just said.

Alex Robson: I'm sorry, two more, sorry, one, sorry, two more questions then, and then Ange I'll throw to you. On the mining discount, in addition to the current arrangements, have you got a calculation for, or a number for what would happen to WA under that scenario? Have you assumed any particular sort of percentage mining discount or anything like that?

Rita Saffioti: Well, my understanding, I'll throw to Michael Barnes if he's got the number, is that it doesn't affect our distribution, it just reduces the cost of the No Worse Off Guarantee, but I'll throw that to Michael.

Michael Barnes: Yeah, so Alex, we had recommended a 25% discount on the mining revenue assessment. That would have no additional benefit to WA. So as I said, 25% discount on top of the 2018 reforms, that would have no additional benefit to WA in terms of our relativity. We recommended it because we think it makes, it helps make the reforms more financially sustainable over time for the Commonwealth. Plus, it also provides a more direct incentive for other jurisdictions. And going back to your earlier question, including New South Wales. So even though they're the standard state benchmark and they don't, they're stuck with being the standard state, the 25% mining revenue discount would still help jurisdictions like New South Wales. So it kind of achieves 2 things, but with no additional benefit to WA.

Rita Saffioti: But we think from a policy sense, and again, our key theme through the submission and through everything we're saying is we believe we need a system that better rewards productivity and increasing the economic base. We've argued right through the submission that we can't have a system that rewards increasing tax rates, but doesn't reward actually increasing your economic base. And so this is why we believe the system needs to better encourage economic development and increasing the base. And this is why we support the 25% discount, even though it wouldn't directly benefit us, but as a policy lever to support further development across the state and encourage and incentivise other states – we believe it's the right thing to do.

Alex Robson: One, sorry, Ange. The net fiscal contribution numbers that are in the WA budget. Could you provide us, and just maybe take this on notice, with the sort of methodology around that, even if it's in the form of a spreadsheet or something? That would be handy. Sorry, Ange. Go ahead.

Rita Saffioti: Sorry, absolutely, absolutely, we'll do that. We'll provide the full spreadsheet. What it does is calculate all the income from the rest of the nation into WA, and then all the all the income that we send over east, primarily company tax, other royalties through the North West Shelf and other significant payments that flow eastward.

Alex Robson: Thank you.

Angela Jackson: Thank you. Thanks, Treasurer and thanks Alex. Just to explore a bit more, so as I understand it, some of the criticisms of our interim report go to us not properly accounting for the productivity and the broader economic benefits of the reforms.

I guess one thing I'd just I guess like to pursue a bit more around that and in terms of what you're recommending and I guess the logic behind it is that these reforms have meant that now, when WA's base increases or its economy increases, it no longer suffers a reduction in GST revenue. And so that

incentivizes more economic reform and economic activity in Western Australia, and that's a good thing for obviously the Western Australian economy. It's a good thing more broadly for the Australian economy. Am I right that's your?

Rita Saffioti: Yeah, I'd say a couple of things. WA is a very large state, as you know, and we do have a significant resource base. But to actually develop that resource base, there is a lot of infrastructure, and both in the approvals end to the hard infrastructure required to support that development. Now, that economic infrastructure is primarily done by the state. We own our energy and water utilities, our port utilities, and so we need the capacity to do that. And I'd say as a government, we've been able to invest in the economic infrastructure that has supported projects that give a national economic benefit. And the ACIL Allen report shows that the GST reforms have facilitated \$23 billion in additional investment in economic infrastructure that has boosted national economic output by \$68 billion.

Now, without the capacity to do that, as every state knows, we've got enormous pressures both on the building hospitals, healthcare, economic infrastructure. Without the capacity to boost that economic infrastructure, those developments would not have occurred.

Now, I know there's a lot of questions and the interim report said, questioned this whole, the validity of our submission on this, by saying that the Commonwealth Government could pick winners and then subsidise a particular project. But I say in relation to economic development, you need to create the platform for that investment. That means things like native title, land use agreements, an approvals process. You need to be able to invest at that front end to actually even get the project near feasibility. And then there's economic infrastructure. And I'll give the example of the current project, which is the Perdaman Urea project, a \$6 billion project.

Now to get that project off the ground, we've spent hundreds of millions of dollars to support the expansion of a port. We've also, through roads, approvals and other agencies, would have spent 10s of millions of dollars in supporting this project. Now the majority of the revenue of this goes to the Commonwealth.

If we don't have the capacity to deliver that economic infrastructure, that project would never have got off the ground. And not only is it an incredible import replacing product that will support our resilience in relation to the agricultural sector, it is also going to provide significant revenue to the other states.

So that's the argument. The argument is that we need the ability to deliver economic infrastructure to support new developments. And that by all assessment, even when we commissioned the analysis by ACIL Allen, they've all identified that economic infrastructure fuelling new developments brings significant benefits to the national,

I say not only the national bottom line, but the national economy. Like the inputs to some of the project in that North West project are coming from Queensland. So the benefits are economic wide and nationwide. So that's our very strong argument, both through the independent analysis, but also the list of projects we can go through, and explain why we need this fiscal capacity to be able to do that. Michael?

Michael Barnes: Oh, all good Treasurer, couldn't agree more.

Angela Jackson: Yeah, so I guess, so that goes to capacity and I note that obviously in our report we note that Western Australia now has around 113% of the fiscal capacity of the assessed need. And I note your points around the Commonwealth Grants Commission's assessment. So it does have that greater capacity. In some ways, though, what you're saying is that to grow your economy, you need more fiscal capacity. So the counter argument or you could take a different logical approach to that, which is we should be providing, which we do do through horizontal fiscal equalisation, that fiscal capacity to states with lower economic development so that they too can develop their economies and lift their productivity.

But your argument seems to be, and I could be wrong about this, that you want to create an incentive for other states to grow their economies. And we want a system that encourages and rewards economic development. With that in mind, and this is I guess, where we landed as a Commission wasn't saying that we could clearly see that the incentives had been improved for Western Australia, but more broadly, the system hasn't changed. And the incentives haven't changed for any other state. So yes, we can see that there are potentially incentives or capacity, however you look at it for Western Australia, from this arrangement, but more broadly for the Australian economy, nothing has changed. Nothing has improved. That's why we say it hasn't met the intent of the reforms.

Shouldn't we be looking at an equal per capita? Like if our prime objective should be productivity, efficiency. You would have seen in our report, we assess the different reforms and we did that with a mindset which was you're trying to achieve the maximum level of equity without major impacts on efficiency and productivity and we found that in fact the pre-2018 system didn't overall at the margins anyway have that big impact.

But your argument seems to be oh no, it did have a big impact. It did have a big impact in terms of productivity and efficiency and capacity. Shouldn't we be looking to a system then of equal per capita so that across the country, whether in New South Wales or Queensland or Victoria, the system of GST distribution doesn't disincentivise economic growth and growing that base.

Rita Saffioti: Look, there's a number of responses to that. So first of all, from the outset, do we have a system that talks about an existing pie and just carving it up differently? Or do we have a system that encourages us to grow the pie so everyone's better off? So I'll make that key point.

The idea that somehow just giving, sucking more money out of WA and putting it to another state is an economically sound thing to do is, I think, false. What we have to do is have a system that grows the pie. Do you support a state by just subsidising it more, or do you support a state by giving it the incentives to go out and undertake development? So I'll say number one, because I think a system that goes on about ripping dollars out of a successful economy and further subsidising economies that need to actually not just get more money from WA, but actually go out and grow their economy. So I think having a system that is always talking about the existing pie and not growing the pie is completely where we don't want to be as a nation. We have to be supporting economic development and productivity, number one.

Number 2, the 113% figure is based on what we believe is a Commonwealth Grants Commission distribution formula that is completely not sound. And we've explained a number of times, it doesn't reflect the actual regionality and remoteness of Western Australia compared to other states, and it doesn't properly reflect our revenue earning capacity.

Oh, sorry, it doesn't actually incentivize the revenue earning capacity. The third is in relation to the other states. Again, I point out, how do we have a system? Now, if we were to go to our tax system and say to anyone, for every dollar you spend, we'll take 90% of it. There's 0 incentive.

So this whole idea that nothing's changed over the past 10 years, I'd say a lot has changed. A lot has changed. We have poured significant into economic infrastructure. We have supported things like, as we said, the \$6 billion Perdaman Urea Project. We're supporting lithium. Lithium projects that weren't even on the horizon 10 years ago, but we've been able to support them through our commitments to economic infrastructure. We've grown the economy. We've, again, supported the national federal bottom line and also national economic growth.

So I say fundamentally the idea that we have a system which looked at such a big part of our state revenue, national revenue, that we would have a system that disincentivizes. Now, we talk about incentives. What the system without the reforms does, it creates 0 incentive to develop projects.

Angela Jackson: So this is my point.

Rita Saffioti: Now, but longer term, if someone explains to me how a state could go every day and choose, if you have some choices in relation to your revenue base, that you go and support an economic development project where basically the majority of the benefits flow out of the state compared to funding health. That won't happen. It can't happen. It's not fiscally or politically sustainable to happen. So that's why you need a system that encourages economic development.

Angela Jackson: So I guess and this again, and I'll put this there and note we're almost out of time, but you've noted the issues with the Commonwealth Grants Commission. It's fundamentally flawed and has been for a long period of time. You've noted the importance of incentives, which you note that only WA now faces. Those pure incentives, if you like, where it gets additional revenue and it gets to keep it. Why not support equal per capita on that basis?

So move to a system that says we will remove, and we find equal per capita to be the most efficient system in our report. Why would WA effectively be supporting a system at the moment, which is this mix system where effectively for Western Australia, you face none of these marginal impacts or disincentives, but every other state and territory does. Why wouldn't you support a move to equal per capita? Remove the CGC from the system. Remove all those distortions and support a more efficient system.

Rita Saffioti: Okay, I'll answer that in a second. I just want to first move to the point about only WA keeping its revenue. We make the point about pokies and one that I think demonstrates a flawed system. Any state could go and put 1000 pokies in a club and generate revenue, and they keep the entire amount?

We start a new iron ore mine and 90% of that gets redistributed. So let's, if you want to talk about mining revenue, I think the other states collected about \$6.5 billion in pokie revenue. So if you talk about horizontal fiscal equalization, why isn't that included in the fact that we don't do that. Shouldn't we be rewarded for not penalising low-income earners in relation to pokies?

But so I want to put that point. The whole idea that our revenue is redistributed, but every other state who has pokies isn't redistributed is a fundamental flaw. The second, as we said, we support partial HFE and 2018 actually delivered partial HFE. I mean, if New South Wales is arguing equal per capita, and that's where people want to go, we would benefit more. But we were wanting to have a middle ground where we support the partial HFE and not full HFE. That's what we've argued many, many times. So I think it's, I'm sort of querying why that's been put to us. Of course, we'd get another \$2 billion per annum. So, I mean, we'd, but we, as we said, we've always supported partial HFE, but I'll throw to Michael Barnes.

Michael Barnes: Yes. Sorry, can I just, I just want to add to a couple of points in response to Angela's question. So in terms of incentives, Angela, so I'll go back to the mining revenue discount again, where that's a direct incentive on top of the 2018 reforms for every jurisdiction in that space. The other point I'd make is one of the fundamental flaws that we see in the underlying HFE system is the fact that the CGC uses observed revenue bases and not policy consistent revenue bases as a fundamental flaw. So if that issue were addressed, and that issue basically says any revenue gains or all revenue gains that a jurisdiction makes from broadening a revenue base, are effectively attributed to natural capacities rather than underlying policy drivers, as the Treasurer is saying. I mean, we're putting a lot of policy work and a lot of direct investment into building our revenue base.

Now, if other jurisdictions were to do that too in a policy consistent way, as opposed to just their observed revenue bases, that would make a massive difference to their incentives.

So that's the second point. Third point is the old equalising to the average provides incentives for everyone, even those below the average. So I'll raise that again. So I think you can still have the 2018 reforms with a

reasonable degree of equalisation and address incentives through other mechanisms like the ones I just mentioned.

Alex Robson: I think we're just running over time. Have you got any more questions, Angela?

Angela Jackson: I just had one. So with the standard state and the, I guess the linking Western Australia's effectively per capita GST share to that of New South Wales. You've noted that there are, we do highlight in the report one instance – and to be fair it was trying to be an example that was easy to understand – but that there are other examples where NSW could experience I guess a strengthening of its fiscal position, and that would affect Western Australia's GST share. I guess that's additional volatility and perverseness. We will try and bring that out in the final report.

The other area we are somewhat concerned about and look very quickly is if there is a drop in iron ore revenue in mining revenue for Western Australia. You know the benefit of obviously the pre-2018 system or the current system for all other states and territories is HFE sort of creates I guess a buffer against changes in revenue and fiscal capacity that WA currently now doesn't have. And what sort of what impact do you see that going forward?

So say you suffer a \$2 billion fall in mining royalties next year. There'd be no buffer created by the HFE system for that and how you then plan for that in terms of the certainty of looking forward.

Rita Saffioti: I might throw to Michael on that, but my view would be that the system gives us certainty, it gives us a floor more generally that-, I'll throw to Michael on that one, because I probably have to think about the full implications, so Michael.

Michael Barnes: Yeah, I'm not sure I've got more to add Angela. I'm not quite sure the point of the question because obviously from a GST point of view, we're protected by the floating floor that is the standard state benchmark. Are you talking more about other...

Angela Jackson: I mean in terms of your overall revenue. So whereas previously if you had a fall in iron ore revenue or mining revenue, you would have seen an adjustment in your GST, whereas under the current arrangement you won't see that.

Michael Court: But I mean, we try and take a pretty conservative approach to our revenue forecasts and our iron ore price assumptions go to the long run average quickly so that we're not building in potentially higher than expected expenses.

Angela Jackson: So you'd be able to withstand that. So say next year, I don't know I mean, I'm not going to project forward and anyone who tries to project iron ore prices, I know it's a fraught game, but say you suffered a billion dollar, \$2 billion reduction in your mining iron ore royalties, you'd be able to handle that within your normal budget processes. So it wouldn't be a stress on your budget?

Michael Barnes: So I think I now understand. I think I now understand what you're saying. So previously we had a natural hedge built in where if our iron ore royalties fell down, declined because of a fall in the iron ore price, with a lag, our GST grant would increase. So that's a natural hedge. So OK, now I get what you're saying. So that natural hedge isn't there anymore, I suppose, is what you're saying. We do have the other natural hedge, though, of the exchange rate. So that movements in the US dollar exchange rate tend to over time, tend to offset movements in the US dollar iron ore price. So we already have that inbuilt natural hedge within our budget. As Michael said, we also budget very conservatively, like the Commonwealth does on the iron ore price. So, I think for those two reasons, we would have sufficient buffers still built into our forward estimates.

Angela Jackson: OK, thanks. Thank you. And we better go so that we're ready for the next.

But thank you once again for engagement and it's nice to see you guys again, not in person this time, but virtually and obviously we're here in terms of providing that information. I think yeah you've committed to providing that spreadsheet which would be very useful for us just to see the way in which you've gone about that calculation in particular and we look forward to further interactions as we obviously look at submissions at the end of the month and then finalise our report by mid December.

Rita Saffioti: Thank you. Thank you.

Michael Court: All right. Thank you.

Michael Barnes: Thank you.

Alex Robson: Thank you very much.

Michael Barnes: Cheers, bye.

SA Treasurer

Angela Jackson: Who's kicking off? Oh, me. Oh, sorry.

Hi, welcome back everyone. Sorry for that short break and sorry for keeping you waiting, Treasurer. So we're running these relatively informally, but we would ask that you provide maybe a 15-minute sort of overview or opening, and then we can go to Q&A. Because we're recording this for our transcript, if you could just start with a name, position and state that would be fantastic and we'll go from there.

But it's nice to see you all again.

Tom Koutsantonis: Good to see you too. My name is Tom Koutsantonis. I'm the Treasurer of South Australia. And look, before I start, I just wanted to thank the Commission for what I think, regardless of what occurs through the political infrastructure or architecture about what is implemented at the end of this, that people looking back at this report will have a reference point about what HFE was actually designed to do.

And the idea that this is actually a condemnation that we have to ourselves and these state lines drawn on a map sort of distinguish us as South Australians or Western Australians or Queenslanders, but in fact we're all just Australians, which would be the focus of my submission to you.

I don't see GST distribution as though it's a contest between states. I see it as a way to ensure that Australians, no matter where you live, have access to a reasonably comparable public service, so we all enjoy the benefits of nation equally.

Now, your objective, the Grants Commission's objective, has been to ensure that each state has the capacity to provide services at a similar standard and a similar effort. And it's got a deep a deep root in the Australian tradition. And I think Prime Minister Paul Keating said, and I quote, I want each Australian to have the opportunity to pursue with dignity and hope a fair share of our national prosperity, end quote.

Now, those words remain, I think, relevant today. And I think they're essential to the core of Australia's Federation. Australians, no matter where they live, should have an equal access to service. And the question for us is not whether South Australia, Western Australia, or any other state receives more or less in any given year. The real question is whether Australians should be disadvantaged because of the state in which they happen to live and where the boundary was drawn on a map at Federation.

Now, our state's position, our government's position is straightforward. We support a GST system that recognises the diversity of our federation and ensures that people can access quality hospitals, schools, police, roads, essential services, regardless of what state they live in.

It's not about being special, it's about fairness. And as Keating understood, fairness is ultimately not between governments, it's about, between Australians. So it's not about whether the South Australian government has fair treatment with the Victorian government. It's about whether South Australians, whether Australians are treated fairly amongst themselves.

And that's why equalisation matters and it's one of the ways we ensure that every Australian shares in our national prosperity and the benefits of our federation are available to all, not just because those that live in the most populous or resource rich parts of the country. It's against that principle that the 2018 GST reforms should be judged.

The question is not whether they have benefited one state or another. The question is whether they have strengthened or weakened the goal of ensuring that every Australian lives somewhere where their government has the potential to provide them with the same access to services.

The sole objective of GST distribution as agreed by all state and territory governments, and the Commonwealth in the Intergovernmental Agreement on Federal Financial Relations is that horizontal fiscal equalisation or HFE.

And, based on an objective analysis of the 2018 GST distribution reforms, the Commission's interim findings are that the reforms are not operating efficiently, effectively, or as they intended.

And I think it's consistent with the conclusions everyone's reached except for your previous respondents.

Now, we believe that the 2018 GST distribution reforms are a complete failure, and have introduced a range of undesirable features into Australia's equalisation system.

In essence, the 2018 reforms have resulted in Western Australia receiving funding over and above what they assessed as needing through HFE, worth about \$6 billion a year.

Other states or other Australians continue to be disadvantaged by this handout relative to Western Australia.

Now, our state has worked hard to invest in growing the state's economy now and into the future, delivering quality core government services and investing in the necessary infrastructure to support our growth while achieving a sustainable budget position.

It's pretty obvious we could provide significantly better services and an even more competitive tax regime whilst delivering a stronger fiscal position if we too received the annual benefit Western Australia was receiving through the reforms implemented in 2018.

The benefit that WA received and continued to receive will be even more stark if the Commonwealth does not continue its No Worse Off guarantee, which would require us to fund the windfall benefit Western Australia is receiving.

In our submission to the inquiry, we demonstrated that the 2018 reforms are inconsistent with HFE. The 2018 reforms were designed to provide more GST revenue to Western Australia, fiscally the strongest state, at the expense of all other states and territories. In fact, the stronger Western Australia becomes relative to other jurisdictions, the more GST it receives.

This isn't HFE, it's the opposite.

When the reforms were introduced in 2018, the Commonwealth Government at the time assured the nation that all states and territories would be better off compared to the previous full HFE system.

Just 8 years in, only one state is better off to the tune of \$22 billion and counting.

To put this into perspective, this is roughly the equivalent of our state government's forecast general government capital expenditure over the next four years.

Other states and territories are much worse off compared to WA because of the approximate \$6 billion handout it receives under the current arrangements each year.

Other states and territories have so far maintained what they would receive under the previous HFE arrangements. This is only because of a temporary arrangement with the Commonwealth Government. If the no worse off guarantee isn't continued,

90% of Australians who don't live in Western Australia will be expected to accept a lower standard of public services in order to finance provisions and better services and/or lower taxes in Western Australia.

It's not treating us as an island continent. It's treating one state as a favoured state.

Now, it's entirely conceivable that people will decide where to live and work based on the level of public services, and the law of lower taxes rather than where their labour is most productive.

We have to ask ourselves what sort of Australia we want to live in and the inequitable legacy we want to leave for future generations.

The current system of partial HFE sets the equalisation benchmark to a single state, a fiscally strong state of either New South Wales or Victoria. The Commission interim reports demonstrated how this arrangement can create perverse outcomes. As you've shown, the fact that the current system links Western Australia's GST relativity to New South Wales means that if New South Wales relativity increased due to a significant natural disaster, which they are becoming more prone to because of

climate change, this improves Western Australia's GST share. Despite there being no additional needs arising in that state, it's just completely an indefensible outcome.

In contrast, under the pre-2018 arrangements, a significant natural disaster in New South Wales would result in a reduction in GST share of all other states and territories, including Western Australia, recognising the additional support required by Australians living in New South Wales in their time of need. It made complete sense. And that reflects our vision of being one country, where Australians are granted support where they need it. That's the principle of the fair go.

Now, this is a bit more interesting. It's the dominant state effects I want to talk to you about as well. Now, given that our state is a long-standing supporter of full HFE, the pre-2018 full HFE arrangement sought to ensure that all Australians had the opportunity to access the same standard of public services and infrastructure regardless of where they lived. And the pre-2018 arrangements were more equitable than the current arrangement, but they're not without its challenges and controversy.

The uneven distribution of our mineral resources meant that issues arise where in a case of a single state dominating the production of a particular mineral, in theory, it's possible for a dominant state to lose much of their additional benefit of its royalty policy through HFE redistributions.

And there was a view among some jurisdictions that this created disincentives for resource rich states to fully support the development of their mining industries in the national interest. And I'm assuming that was the main reason of the PC inquiry into HFE.

However, the 2018 reforms were not an appropriate response to the genuine concerns raised. Now, we have an important opportunity as part of the current inquiry to consider ways to address the dominant issue through a thoughtful way that remains true to the overall objective of HFE.

Now, while our state continues to be an advocate for the pre-2018 system, we're open to sensible changes to address dominant state effects in a fair and equitable way, aligned with the principles of HFE. So, we'd be guided by these following principles.

Consideration of dominant state issues should be led by the CGC in consultation with the states and territories, recognising the CGC's role as an impartial and respected expert body on HFE. There should be a recognition that Australia's mineral wealth is a national resource that should benefit all Australians, not just those who happen to live on the right side of any particular state border. And I say so in particular, of course, with copper, given South Australia's dominant role there.

And finally, but probably most importantly, equity must remain at the core of GST distribution. Addressing dominant state issues does not come at the expense of achieving equity. Options such as wholesale discounts to CGC's mining assessments or unreasonably large discounts would compromise equity, and South Australia would therefore strongly argue that they would not be appropriate.

If the special arrangements introduced for Western Australia continue, which I think they will, I don't think political architecture will change that. And the Commonwealth Government is not inclined to reform the system, which I don't think it will, it must make the No Worse Off Guarantee permanent for all states and territories. And we're in this awful situation now where the political architecture is trapped. I think only the No Worse Off Guarantee being made permanent can guarantee that Australians will continue to have the opportunity to access at least some of the same standards of services that they are currently entitled to.

The two measures were introduced as part of a single reform package. It was designed to ensure that Western Australia received a higher GST share than it would have received under the previous fairer arrangements. And the others were decided as a political fix to ensure that no other state or territory will be financially disadvantaged as a result for a period of time.

It would not be equitable to retain one while removing the other. But I do note that one was time limited and the other was not.

South Australians respect the contribution Western Australia makes to the national economy. Like many sectors across the nation, efforts of respective state governments, the strength of the resource sector, has generated jobs, investment, national income, and they benefit all of us as a country. But Australians and other states should not be asked to fund a permanent carve out for one state through reduced capacity to deliver services in their own communities.

This would be the result if the No Worse Off Guarantee is not extended. If the Commonwealth believes there remains a national interest in providing Western Australia with a permanent GST floor, it must be accompanied by an equal, durable commitment to all other states to maintain what they would have received under the previous HFE arrangements.

We look forward to making further submissions to this inquiry, and we'll continue to engage with the Commission as we work towards delivering the final assessment. I suppose in closing, I'd say I think your report is courageous, honest, and will stand the test of time.

I think unfortunately politics will intervene and not give us the economically sensible decision because of the way it's been politicised. But that's the way the Federation was structured and that's the way the founders wanted it to occur and Western Australia has done an exceptional job of weaponizing HFE for its own benefit, and then they're now reaping the benefits of it and the rest of the country is paying for it. It is a very difficult situation, but I think you can be very proud of what you've done, despite the name calling and the political rancour that's occurred. But I think the biggest test will be what future generations will look back on when they read this report, especially students who are studying economics and studying how our system was established, to know that this Productivity Commission got it right. And I want to

personally thank you for your courage because you've put to the Commonwealth Government a very difficult decision to make. And if they ignore it, I think thinking people will know why they've ignored it. And I think it's a great testament to you and the Commission.

Alex Robson: Thank you very much, Treasurer, for those remarks. I might start with a question around the dominant state issue, but thinking about it in a different way. I appreciate your comments around the equality of fiscal opportunity and I think you had the quote from former Prime Minister Keating around the quality of services and so on. I mean, is there anything in your experience on the spending side, say in health or education, where South Australia discovered a productivity improvement in the delivery of hospitals or medical improvements or the way in which education is delivered. In our report, we pointed out that, well, states aren't penalised in the GST, by and large, on the spending side, if those kinds of things come along. So,

is there anything you could say with respect to that, where productivity improvements as hard as they are to come by, are they being held back in those particular sectors on the spending side via the HFE system?

Tom Koutsantonis: Are you asking me whether or not we would not spend money to improve productivity because it might hurt our ...

Alex Robson: Yes, exactly.

Tom Koutsantonis: No.

I'll ask, I'll point to the under-treasurer who hates spending money. Have you ever not funded a productivity measure, because it might wreck our relativities?

Tammie Pribanic: No, and in fact, in this budget, we've continued to pursue productivity measures across the public service to continue to drive that with no real consideration to what it meant in a HFE context, but just what it meant in the efficient delivery of public services.

Tom Koutsantonis: We want to get to the nationally efficient price, right? Because that means we can use that money for other things. I mean, why would ...? This idea of laziness on the basis of HFE is the most insulting of all the arguments that I hear. I mean we gave, we are working at pace to try and unlock our copper deposits in South Australia, expending enormous amounts of money of which we ultimately will not be the beneficiaries of, because we want the jobs here. We want the wages here, not just because of payroll tax, but because of the standard of livings that it delivers, the investment it gets into our state, the opportunities it affords our citizens. I mean, I've never understood that argument. I mean, you're like me making an argument that the Western Australian Treasurer doesn't care about overspends anymore because of the GST floor. It's just not, it's just not accurate. Treasury, governments always want to be as efficient as possible, so we can make, we can spend more money or raise less debt. I just can't imagine that scenario.

Alex Robson: And then one sort of maybe more philosophical question from me and then I'll hand to Angela. But your remarks, we have had a sort of bit of a contrast at times in this inquiry in relation to the concept of equity. I think it's a, notwithstanding all the other things, it is an interesting debate to have around the purpose of HFE, which you said is around equality of fiscal opportunity, but a different way of thinking about equity, not only in this setting, but other sort of ways to think about it is equal sacrifice or equal contribution to the fiscal, to the equalisation task. And so it seems to me that those two different views do come at loggerheads somewhat in this debate. But I guess I'm asking you to reflect on if we were to consider a move to looking at the sacrifice or contribution to the equalisation task, that would be a very different system than we have now that was envisaged under the 2018 reforms and thinking about HFE because that's not HFE, it's something else.

Tom Koutsantonis: The 2018 reforms, if they go unchanged, will ultimately lead to, they'll lead to a system that will, excluding the idea of unfairness, it will mean that Australians could lose national identity, which is what concerns me the most. So when you talk about equity, the way I view it and sort of effort is when the system of equalisation works efficiently, it's Australia at its best and it's dealing with the system as if we are one country. The idea of equalisation on the basis of state borders through sort of the idea that mineral wealth determines, or lack of mineral wealth determines, what you get, the level then of the states being able to deliver a system that encourages equal effort across the entire federation would be lost, I think.

But I don't think we really know long term what the consequences will be if this system is not changed, even with the No Worse Off Guarantee. Because currently, the No Worse Off Guarantee could be changed by either policy or legislation. And I have concerns about what it will mean structurally for the Federation, which is why I'm so worried about this, not as a South Australian but as an Australian. I think we will see a fracturing, politically as well as socially. And I'll go a step further. I said in the US, in the south versus the north of the country, and the political divide that it's created and the political outcomes it gives. HFE has probably been the biggest anchor to the centre of moderate reform and moderate governance this country's ever had and has guaranteed it. And the removal of it will give us perverse, not only economic outcomes, but political outcomes.

That doesn't answer your question, but I suppose the part that I want to go to is I'm really worried about the country 40 years from now if we don't fix this today. Because you will see changes in effort. You will see changes in service delivery, which will see a very much two-tiered nation and a two-speed economy that could fundamentally change the country forever.

Alex Robson: Angela.

Angela Jackson: Thank you. I might just explore a bit more with you around the sort of impacts of the dominant state issue in mining and whether or not you think there were broader policy neutrality issues with the pre-2018 system. I mean in our assessment of it, we could only really identify mining as being the main one where dominant states exist. We could see that those policy neutrality objectives of the system are somewhat breached. What type of responses do you think could address it? So I think you've said like a blanket mining discount would go too far, at least a large one. And I know a number of states proposing a sort of a 25% discount, and in some cases where that might phase out over time I think is NSW's proposal. But what type of policy solutions? Obviously, we're working through at the moment the nature of a direction as per our sort of preferred option. But what types of policies do you think could address that while getting that balance with equity objectives?

Tom Koutsantonis: Well, I think, as I said to you in my opening remarks, I think the best body to determine this will be the Commonwealth Grants Commission on the basis of fairness and equity. I mean, you can't ask the state that is dominant or the states to probably come up with a solution because, again, self-interest gets in the way. I mean, we're about to become the dominant state in copper. Now, it won't happen immediately, but it's going to happen. So that doesn't stop us from spending billions and billions of dollars to try and unlock those copper resources and trying to unlock the value of the benefit of it. But ultimately, I think the sensible outcome would be for the CGC to look at this through an equity and equalisation principle. I don't know if you want to add anything to that, Tammie, but that's how I thought we would be best structured to have this dealt with.

Tammie Pribanic: Yeah, our thinking has been principles lead. We really liked the prism by which the interim report looked through in terms of equity, fairness, etc. And we think that's something that the CGC should use as a mechanism to assess that. We haven't had a chance to consider in detail the option raised by New South Wales that you referred to. We liked at a concept stage the idea that it being time limited and targeted. That was something that we thought made sense if you were trying to look at these kind of

impacts of policy adjustments. But we would need to see the implications of that in more detail. And we'd be interested in looking at it in the context of how you assessed some of the other dominant state. But our lens will always be on the impact on equity. And at this stage, the ones that were in the report, we would argue the impact was too large.

Angela Jackson: OK. Because I mean, and you've spoken a bit today and we understand by your submissions around the amount of effort that's going into development of copper industry in the state. And I guess there's different things that that dominant state approach could look at. One would just be looking at the royalty rate. The other would be looking at the amount of activity and the other would be looking at price. And I guess it would be good to get your view as on one side like as you're doing this work, is there that policy effort that goes into creating the base in terms of that copper industry and the state? Because I think the real concern I guess with the dominant state issue is that more broadly the system accounts well for policy effort –

it doesn't dissuade policy effort – but when it comes to a dominant state, perhaps it has no way of accounting for that.

And so whether it's a temporary discount or some sort of approach that accounts for that policy effort, in your view, is that base – and not to get you to agree with WA, we're not trying to, we would like to get the federation a bit closer together, but one of their main arguments is they put in a lot of effort to develop this industry and they should get the benefits of it now. Obviously we've made comments about how far or not we think the reforms went, but where would you see that there'd be policy rationale for the CGC to act in terms of that dominant state? Is it across the whole revenue base or is it only for when royalty rates change or is it only when there's that base increase?

Tom Koutsantonis: I suppose I'll answer it this way. I mean, the idea that... I suppose my Treasury would argue that policy work on increasing royalties is effort. And I accept that. But I also note that Australia has to remain competitive and royalty rates are set to be internationally competitive because we are competing for capital. Right now, BHP has got, for example, 4 targets for its copper investments of about \$60 billion US. We're targeting 1/3 of that 60 billion, we want it spent in Australia. And they've got 4 targets. One's going to miss out. The United States, Chile, Argentina and us. Someone's not going to get it. And the question for us is, if we could make the argument that we can lift royalties to a point, but we also become uncompetitive. So royalties, in an effect, are limited by the international competitiveness of the country. So once they're in the mining, you could make the argument, but we do long-term indentures with our mineral rates. And I'll also point out that the effort that occurred in Western Australia was shared. I mean, this idea that it wasn't a shared effort by the entire country to unlock the iron ore resources is just not true. I mean, I would argue that the iron ore boom cost us the car industry. That's a shared effort. I mean, the Australian dollar being at an uncompetitive rate because of iron ore exports being artificially high during the 80s and was it not the 90s, late 2000s, because of the iron ore booms. Well, I lost 1600 jobs in Elizabeth, and a lot of that disadvantage now is entrenched.

But it was an Australian effort to grow the iron ore industry. It wasn't a Western Australian effort. And it will be an Australian effort to grow copper resources in this country. And sort of the accident of mineral wealth being assigned to states rather than the Federation doesn't mean we should treat sort of that effort separately.

So my view is that states are not best placed to make the suggestion. I think Tammy is absolutely right, it should be principle based on equity and it should be done independently by the CGC. Now a future treasurer sitting in my chair, a future mining minister sitting in my chair 40 years from now when we're receiving billions and billions of dollars for an asset that has gone from \$9,000 Australian per tonne to \$20,000 per tonne, as it is now. Being at \$60,000 per tonne in 20 years' time might have a very different argument, but it'd be no different to Rita sitting here and arguing for what she's arguing for.

So my point is, don't trust us on this. You need to have this done independently by the CGC who understands fairness, treating us all as Australians equally. This is, we are not, this is not the United States where we have a confederation of states forming a republic. We're a Commonwealth. And we have, we're one country.

Angela Jackson: And just to follow on, so we've again had different and you know some of the criticisms of our interim report really go to that we didn't focus enough on productivity and efficiency and that the 2018 reforms have increased I guess the incentives for investment in Western Australia primarily. But they would argue more broadly because every state and territory can theoretically benefit from the reforms if they get fiscally strong enough to get below the stronger of NSW or Victoria.

The flip side is there have been also arguments again from WA that their capacity to invest has also improved as a result of the reforms and that's led to economic growth, which would tend to be also an argument, I guess for HFE because it's about improving the fiscal capacity of all states and territories. I'm just interested how much of, and I think you've already alluded to this, but how much of the economic development you can support, or the South Australian government can support, is an incentive issue versus a capacity issue? Because I think for us we've found at the margin at least that the current system doesn't impact incentives that much at the margin, and certainly not in a material way. But I'm just interested when you're making decisions about sort of economic reform or investments, is it a capacity issue or are you thinking about the amount of GST you may or may not receive?

Tom Koutsantonis: I don't think we've ever thought about how much GST we would receive on the basis of trying to grow our economy. I can't think of a single scenario. I mean, I abolished, I conducted a tax review in 2014 or 15, and we ultimately ended up abolishing commercial duty on real and non-real property to try and increase the efficiency of our economy. And we're the only state that's done that. And I don't remember a single time ever considering our GST relativities on the basis of that investment or our investment in trying to upgrade steelworks in Whyalla or trying to unlock copper resources by building a multi-billion dollar desal plant to get water to parts of the dry south...We can get more copper mining operational. I just can't think of a single piece of evidence that would back up the argument that, the idea that GST relativity would any way impact your ability to want to go out and grow your economy and grow jobs. Can you think of an example?

Tammie Pribanic: We have seen, like you, very little to no evidence that it impacts pursuing economic opportunity. There are so many more broader issues that we consider when we're pursuing economic opportunity for the state, for employment, for the community, than we consider in the context of GST and its relativity. It just, it doesn't feature in that broader discussion. And we have those discussions regularly and as part of our budget process and never around the Budget Cabinet Committee do we talk what's the impact on our HFE relativity.

Tom Koutsantonis: I mean the main driver of attracting economic wealth or investment on the basis of trying to grow the economy is political. I mean, what politician is going to get re-elected on the basis of, hey, if we do nothing, everyone else will subsidise us? I mean, who wants to live in that state? No one. I just, I think there are enough other considerations that we consider as a political architecture, to know that that is an unsustainable policy to have. Tasmania is a great example of that. The Tasmanian Liberal government, of not my political persuasion, who have one of the most difficult political systems to get elected in, are able to maintain political power, not because of their GST relativity, but because of their economic effort. Because people are seeing them attempting to grow the economic pie in Tasmania. I think politicians are rewarded by effort. They're not rewarded by what we think the GST will deliver us.

Now, the difference in Western Australia is that they've made GST into a form of martyrdom. They've quite cleverly in a sort of bipartisan way, have weaponized the sense of injustice on the distributions of HFE in

Western Australia and politicised it for political gain. But the idea that they would stop investing economically because of GST windfall is not true. And you can see it through their investments that they're making as well. So whether it's on the upside or the downside, all governments invest on the basis of a political narrative and a political need driven by their populations. No population in Australia would ever wear that type of government. It would not last.

Alex Robson: I appreciate your comments, Treasurer. I mean, do you see a role, though, if the Commonwealth has national objectives, say, in relation to something like national competition policy, where incentives and payments could be made, that is a better vehicle for doing that kind of thing rather than via the GST system?

Tom Koutsantonis: What do you mean, incentive payments rather than the GST system?

Alex Robson: Well, so there's an argument that we've heard throughout this inquiry that in addition to equalisation or perhaps even instead of equalisation, the GST distribution system should actually provide incentives for things like better competition or productivity improvements that states may not otherwise want to do. Whereas an alternative way of thinking about it is, well, let's not make the GST distribution system do too much, but stick with equalisation, but then if you do have these other objectives that might be better achieved by using some other tools outside the GST system. I guess that's the question I'm getting to.

Tom Koutsantonis: No, I think you're right. I think you're right. I think that would be a probably a more efficient way of the Commonwealth achieving the outcomes it would want to achieve, but yeah, I think that you make a good point there. And I think the Commonwealth probably recognises that anyway, and they do do that. You see that through their budget process. So, I think you absolutely, you've got that right.

Angela Jackson: I guess one other part of my question, sorry and I know I talked about incentives but also capacity. So obviously we now have a situation where WA's fiscal capacity, or one state's fiscal capacity, is at sort of 113% of the other states. What would it mean for South Australia to have that additional fiscal capacity? So I think and you've alluded to this sort of divergence over time, but for you as a state, if you had those additional resources available to you in terms of economic growth and productivity going forward, what type of choices would that potentially open up for a state like South Australia?

Tom Koutsantonis: We could cut taxes to incentivize more business activity. We could invest in more critical infrastructure to grow our economy. We could make better investments to improve the productivity of our economy. We could do all sorts of things with that extra money. But importantly for me is, I've been a treasurer and an infrastructure minister. We're a state, a landmass the size of France and Germany combined. We have 10,000 kilometres of sealed roads, 15,000 kilometres of unsealed roads, and 1.8 million taxpayers to fund it. I mean, improving critical infrastructure would grow the economy, grow the efficiency of the economy. There are all sorts of things we could do with greater capacity. My concern about service delivery is you will start to see people acting rationally in an unrational system, and start moving to Western Australia. You'll see perverse economic outcomes. So I think you would see a greater level of economic activity in individual states where the capacity is the same. Naturally, we'll borrow to meet the difference and then run out of capacity to borrow anymore. This is the other problem we have. There's a reason why Western Australia's got the highest credit rating in the country. And it's not because of fiscal management.

Alex Robson: Any other questions, Angela? I think we're at time.

Angela Jackson: I think we are at time.

Alex Robson: Yeah. Thank you very much, Treasurer, and thank you for your submissions and look forward to receiving perhaps another one before the deadline on 30th of September. But yeah, very much appreciated. And we'll take a break now and be back at 3:00.

Tom Koutsantonis: Well, take care.

Alex Robson: Thank you.

Angela Jackson: Thanks guys. Thank you.

ACT Treasurer

Alex Robson: Okay, we are back. So welcome to our colleagues from the ACT. Before we just close off this last session, I would like to remind those listening that if they do want to make a statement at the end of the day, they can communicate their desire to do so via the email address, gst.reforms@pc.gov.au. So if you do want to do that, please email our team before 3.30 and we can accommodate that.

But in the meantime, I'd like to welcome the ACT Treasurer. So if you could please state your name and position just for the transcript Treasurer and then happy to take an opening statement of no more than 15 minutes, and then we'll move to questions. So, welcome.

Chris Steel: Thank you, Chris Steel, ACT Treasurer, and I'm joined by Michelle Dowdell, Acting Under Treasurer, and Chris Roberts, who leads Treasury's Federal Financial Relations area in the ACT Government.

Before I commence, I'd like to firstly acknowledge the traditional owners of the land we're meeting on today here in the ACT, the Ngunnawal people, and pay my respects to elders past, present and emerging.

And I'd also like to thank the Productivity Commission for your considerable work in preparing the interim report. I'd like to put on my record that, in my view, your work has been factual, unbiased and pragmatic. And I think it has been incredibly sad to see some of the unpleasant critiques that have been directed towards you. The Productivity Commission occupies an important place in Australia's policy landscape.

Strong independent institutions matter, particularly at a time when governments are confronting difficult choices and significant fiscal pressures. So your report demonstrates the value of rigorous evidence-based analysis and has made an important contribution to the debate that has generated a lot of heat.

In recent days, we've heard from other jurisdictions around Australia, and while different jurisdictions naturally bring different perspectives to the issue of horizontal fiscal equalisation, I've been encouraged by the broad support for the fundamental promise made to Australians throughout Federation, and that is that every Australian should be able to access public services of a comparable standard regardless of where they live. And that promise isn't abstract, it's expressed in the services that people rely on every day, whether it's attending a school, attending our healthcare system or other services available to them.

In pre-2018, Australia's horizontal fiscal equalisation architecture was arguably globally leading. And your interim report provides compelling evidence that the 2018 reforms have harmed our Federation. They have weakened equalisation, increased complexity and imposed substantial fiscal costs while delivering only limited gains in efficiency or certainty.

The ACT agrees with the findings of the interim report and they align closely with the concerns that we've consistently raised. Importantly, the inquiry is about whether governments across Australia have the capacity to provide public services of a comparable standard regardless of geography. And restoring confidence in our federal financial relations system through ensuring arrangements are fair, transparent and fit for purpose.

The principle underpinning HFE is straightforward. Australians should not be disadvantaged in their access to essential public services simply because of where they live. And this principle reflects one of the defining characteristics of the Australian Federation, the practical expression of fairness, equality of opportunity and national cohesion, and the ACT strongly supports that principle. And the ACT therefore considers that the starting point should be to restore full horizontal fiscal equalisation and return to the system that operated before 2018.

There are two key reasons for this position. Firstly, the 2018 reforms have produced an unacceptable erosion of the equity principle that underpins HFE. There simply is no economic, fiscal or practical rationale for providing a GST subsidy to the fiscally strongest state in our federation, with some of the best performing fiscal and economic indicators of any federated state in the world.

The fiscal contrast is significant. Western Australia's net financial liabilities as a share of their gross state product are the lowest of any Australian jurisdiction. At the same time, the ACT and other states face growing costs in health, disability services, infrastructure and justice, with much less capacity to absorb revenue losses. The standard state benchmark has also introduced the possibility of the system producing perverse outcomes. Any worsening of HFE risks driving states to less efficient taxes to fill funding gaps. Western Australia and indeed all jurisdictions should be free to benefit from their natural resources and endowments, industry structures, economic strengths and policy choices. But, this success must not come at the expense of all other governments and citizens of Australia, nor does it justify permanent and preferential treatment within the national distribution system.

The same rules should apply to every state and territory to ensure the Federation is maintained equally for all Australians. Secondly, the current arrangements are not sustainable without the No Worse Off Guarantee. The Commonwealth recognised this when it established and later extended compensation for all jurisdictions that would otherwise lose from the reforms in 2018. The No Worse Off Guarantee is material. Without it, jurisdictions face the unenviable decision of lowering services, raising additional revenue or adding to debt.

The significant impact on the ACT could see, if we would lose the No Worse Off Guarantee, could see a reduction in 900 teachers, which for a small jurisdiction like us would be substantial.

Paying WA for the 2018 reforms is also unsustainable for the Commonwealth Government. It ties up the Commonwealth balance sheet and possibly constrains it in other areas, which means that other jurisdictions may be worse off as a result of the Commonwealth not being able to make grants to jurisdictions across a range of different areas above and beyond what is provided in the No Worse Off Guarantee. While I welcome the Productivity Commission's findings, we do not support any recommendations that dilute HFE.

Finally, I just want to comment on one issue, and whilst the Productivity Commission report is robust and deals very well with the issue of HFE, one omission in the report that I wanted to highlight was the consistent systemic undercount of the ACT's population, and while I'm definitely not advocating for a per capita distribution of the of the GST, population still forms an important part of our HFE system. And in the ACT, our population in between censuses has been consistently and systemically undercounted by the Australian Bureau of Statistics. And that results in us losing GST revenue as a result, which we should otherwise have been given and that true population figure should have been factored into the GST distribution methodology. And what we've seen is a growing undercount over censuses. There was a significant undercount in the 2011 census. It has since grown in 2016 and 2021, and we expect it to be significant when the 2026 census is released. And ACT Treasury estimates that population underestimation reduced ACT GST grants by approximately \$550 million between 2016–17 and 2022–23.

Fixing this issue would have cost the Commonwealth a fraction, a 7th of as much on a per capita basis, as it is now spent on subsidising the residents of Australia's fiscally strongest state for investments and reforms the PC has now found to be inconsistent with the intended purpose.

Ensuring jurisdictions receive their fair share requires not only consideration of a principled approach, but also pragmatic considerations about the timely reconciliation of significant population estimation errors.

In our submission in relation to your interim report, we will provide some further information about those areas. But the fundamental reason why the population, particularly as it relates to net interstate migration, is being undercounted in the ACT is because the data used for the estimates of resident population is based on Medicare addresses and no one is updating their Medicare addresses at the moment. And so this needs to be fixed, and with a population undercount that has gone over

5.1% of the ACT's total population, it has a significant impact on making sure that there is a fair distribution of GST relative to the relativities and our share of population. I'll finish there and happy to take any questions together with officials.

Alex Robson: Thank you very much. Angela, did you want to start with any questions?

Angela Jackson: Thank you very much and thank you for your comments and thank you very much for the engagement of your officials with the inquiry.

I guess it would be interesting or good for us to hear a bit more around what you -and we might talk a little bit about the population issue. I note we haven't, we've tried to stay away from some of these methodological issues.

Now, I get there is, I guess, a principle there about the back casting or not of GST payments and how that might work. Like would you take money off other states, etcetera? And that's possibly outside our scope.

And, in terms of the Medicare addresses, that might also just go to the way in which the Commonwealth prompts people or not to update those addresses when claims are made in different states, for example. And whether there isn't some way you might be able to address that through the Department of Human Services rather than the CGC, which from experience doesn't have a lot of sway over the way in which the Commonwealth collects data – it has to use what's available to it.

So it's a difficult situation for it to be in, in terms of what it can recommend and its methods with regard certainly to population estimates.

It would just, I guess, to reflect on what you see sort of going forward if the current system stays in place and what that might mean for your relative fiscal capacity and ability to support economic growth in the ACT versus other jurisdictions. I note there isn't, I think, is there any mining industry in the ACT given your...

Chris Steel: Not that I'm aware of.

Angela Jackson: And I know that perhaps you're not supportive as a result of the sort of addressing the dominant state. But just more broadly, I guess around those issues around policy neutrality and thinking forward about how we might improve some of the incentives that were at play in the pre-2018 system.

Chris Steel: I can address the issue of the dominant state. The Commonwealth Grants Commission's role is to independently assess the relative fiscal capacity of states to use the consistent methodology, which assesses policy neutrality against national averages and dominant state effects are inherent to using a relative yardstick.

Dominant state effects arise because of the interaction between highly concentrated resource endowments and the GST system, not because the CGC has incorrectly applied its methodology.

Asking the CGC to make policy judgments about how much revenue should or should not be recognised, risks compromising the integrity and independence of the assessment process, and applying a discount or any of the other dominant state methodologies proposed is just like putting wings on a car that doesn't fly and it would introduce ongoing uncertainty about which commodities qualify, does it extend beyond mining when a state becomes dominant, and the appropriate size of any adjustment.

So we think that if the Commonwealth Government wishes to recognise nationally significant resource development, that's ultimately a policy decision for that government. It could be managed outside of HFE rather than as a technical assessment issue for the CGC.

We do not support using CGC methodology to deal with policy neutrality for that reason. And if we want improved outcomes for mining revenue and investment, then direct transparent agreements with the Commonwealth outside of HFE are the most appropriate form.

Alex Robson: So in that sense, Treasurer, our recommendation 2 is in that spirit and intention. Is that something that the ACT would support as it's currently framed in the interim report?

Chris Steel: Yes, that would be our preferred option, option two, which I understand some other jurisdictions also support.

Alex Robson: Yeah, okay. And then I think Angela's other part of the question was around, if we maintain the current system going forward, post the 2018 deal – if we look sort of 10, 20 years ahead, do you have any concerns around the relative ability to deliver services in the ACT versus other jurisdictions? Noting in our report that we calculated that even with NoWO payments, that brings every state other than Western Australia up to 100% of their needs, but Western Australia is currently at 113%, so we do have this discrepancy. And so, NoWO takes you from 98 to 100 on average, but it still doesn't get you to the level of Western Australia. So, maybe some reflections on the long-term consequences of that if it was to continue?

Chris Steel: Well, if the No Worse Off Guarantee continues, then we wouldn't notionally be worse off, except that the Commonwealth may be constrained in being able to provide additional grants above and beyond the GST distribution arrangements to be able to support additional funding for hospitals, additional funding for schools, a whole range of other grants that they might have had the fiscal capacity to be able to provide, but for the huge amount of money that is flowing to Western Australia to fund them beyond their needs.

Alex Robson: Are you concerned?

Chris Steel: So I think that's the main concern is that it may, that it would affect the fiscal capacity of the Commonwealth to be able to do other things that might be able to support state level services.

Alex Robson: That's good.

Michelle Dowdell: Oh, I must add to that extent also to economic reform. I mean, one of the examples we've seen is the national competition policy payments, where again, the Commonwealth is prepared to contribute on the conditions that the states meet and undertake some reforms. To the extent that it continues to fund WA for the sake of WA's current circumstances, then it can't undertake that broader economic reform and it can't acknowledge some of the other challenges that small states have in terms of lack of scale, being less efficient service delivery or recognising the higher costs that other states might have. So that is, I think, the broader stage that we're in and to the point that would require us, as we did in the 2025-26 to introduce a health levy, which in some ways is a very inefficient, economically inefficient levy to fund those service needs.

Angela Jackson: One of the main arguments we've had, or criticisms I guess of our report, was that we hadn't accounted enough for the potential productivity improvements or the productivity gains from the

reforms, and I guess that's on the basis of dual arguments. One is that it created greater incentives for states to grow their economy, to then benefit from the reforms. And secondly, it provided Western Australia with the capacity to invest in economic infrastructure and reform to grow their economy.

The ACT – and this is not a criticism – obviously, is heavily reliant on public sector and and the Commonwealth is, I imagine, your biggest employer in the state in the territory? Yep. So in some respects, the private sector and that private economic growth isn't the main contributor, but in terms of when you're sitting down and planning and looking at policy options and reforms. How much of that is an incentive issue? How much of it is driven by the need to create additional jobs? How are those incentives playing out? Are you thinking, well, we won't do this because we'll just lose GST, for example, at the margin? Or is it a issue around what capacity do we have as a territory to in to invest in this economic infrastructure or to invest in this economic reform?

Chris Steel: Firstly, there's absolutely no doubt that being the home of the federal government contributes strongly to our economy. But for our budget, for the ACT's budget, we can't tax our largest employer and so that means that we aren't able to receive particularly payroll tax revenues as a result, and that is taken into account through the through HFE GST distribution methodology.

But look, we were a progressive tax reform jurisdiction prior to the 2018 reforms and we continue to be continuing on the path of reform. So nothing's changed in that respect. Having said that, if the No Worse Off Guarantee ended, it would put a significant strain on the ACT's budget and would mean we would have to scale back services massively, whether it's in health, education, a whole range of areas that might also contribute to economic growth as well. So that is obviously a non-negotiable for us. That has to be, if the current arrangements are going to stay in place, the No Worse Off Guarantee, which is due to end in 28-29, I believe, needs to continue. And that's just critical for us to be able to make sure that we can balance the budget and also contribute to the growth of the territory, given that we're not able to tax our largest employer, the government.

There are already incentives in place because of that fact, that means that we do need to support economic diversification in the private sector to grow. But the ending of the No Worse Off Guarantee would have a major detrimental economic and fiscal impact on the territory. I don't know if you want to add anything else, Chris.

Chris Roberts: Oh, yes. Thanks, Treasurer. I was just sort of reflecting on the heart of the question, and it really is sort of going to whether or not HFE and GST allocation systems actually stimulate or harm economic reform.

I think what we've shown in the ACT's case is that we're completely agnostic. So pre the reforms, pre the 2018 reforms, we undertook progressive tax reform. Similarly, post reforms we are still doing that. In the case of when the 2018 reforms came through, we can look across to what's happened in Western Australia.

And \$23 billion dollars was sent across there with no requirement for reform whatsoever, so it's completely untied. And you say yourself if a government is fiscally much stronger – is there an incentive to do any other reform? You could look at other mining royalty regimes within Western Australia. I think their gold tax on production is 2.5%. Is that set at the right rate? Because what's the incentive to change that rate if they're receiving \$23 billion without a reform request.

But going a step further, what concerns me about the hearings is that there has been a hyper fixation on the dominant state issue. Now, we have explored this across jurisdictions during the 2025 Methodology Review. Policy neutrality was raised. A common theme in responses from states was that the first order issue is fiscal equalisation. A second order issue is this policy neutrality. And I will argue that policy

neutrality is a little bit of a misnomer. But sort of going back to my primary question – did the pre-2018 reforms actually result in states not being equalised properly?

The way that policy neutrality works doesn't actually harm HFE, which is the first order issue for us with GST allocations. I would argue that it doesn't. And when we look at its operation, I think it's proved itself out and I think the reforms have harmed it. I'll pause there to see if there's any follow-up questions, but I'm happy to talk about policy neutrality as well.

Alex Robson: Yeah, sorry, go ahead.

Angela Jackson: I was just going to ask around, just we might go to the dominant state issue a bit more, but just around stamp duty and the reforms in the ACT. I've given this advice to a number of treasurers, free economic advice that it's a good reform and it's a good switch. Unequivocally positive by almost any economic sort of study you want to look at. ACT has undertaken that reform, and just where the GST implications which potentially I know there hasn't been a, it's been hard to measure elasticity. But GST implications aside, how you viewed that at the time, and whether or not again was-, it's the nature of the reform is such that it can have quite significant GST implications, obviously. But was that a consideration or were those broader economic benefits obviously dominating?

Chris Steel: I'd say that GST wasn't a significant consideration in the decision to embark on tax reform or any other major policy decision. But I just want to reiterate, if the No Worse Off Guarantee ended, that would be a very significant consideration about what we would need to do in relation to both expenditure and revenue raising in the territory. But no, the GST system, the HFE system as it existed then when tax reform was being embarked on was not with a phase out, a gradual phase out of residential and commercial conveyance duty towards land-based taxation was not significantly influenced by GST at that time.

Angela Jackson: All right, Alex.

Alex Robson: I just wanted to take up the question around equalisation, and from what you were saying it seemed like you – you can tell me if I'm wrong – sort of agreed with our approach and definition of reasonable equalization, which was do it to the extent that it doesn't create significant costs in terms of efficiency or certainty or sustainability that can't be addressed by other policy tools. So it's a sort of multifaceted, we're not saying pursue equalisation at all costs. We're saying, well, to the extent that there are significant costs that you can't address with other policy tools, that's when you may need to modify or change that approach to equalisation. I guess that's the first question, is do you broadly agree with that? And then I guess what you're saying though is that you don't think that we're on the wrong side of that trade-off. That actually the dominant state issues don't seem to create these costs, or at least if they do, we could address them by other policy tools.

Chris Roberts: Yeah, I think there's a lot in those questions and the recommendations.

First up, yes, we agree with the position that you come to about this reasonable equalisation, and the reason why that we would prefer recommendation 2 over the others is because if there was a truly nationally significant investment that needed to be undertaken – that could be done through other mechanisms that the Commonwealth currently sponsors, such as National Competition Policy. They're quite transparent processes. There's usually a requirement in return for that investment, and it is national building, its nationally significant. Those processes currently exist. There's no reason to complicate further an already complicated HFE arrangement. And we think that would be the fairest outcome. And then each of those investments could be then judged on their merits.

Alex Robson: So you think, and then in terms of option two, if we were, we're hoping to go further in the final report around the principles you might put around those payments. Do you think that sort of architecture or at least principles are already there in things like

national competition policy or other approaches that can be drawn upon, there's no need to necessarily reinvent the wheel? I mean we have cost benefit analysis, we have business cases, we have all of these tools available to us. And so it's just a matter of applying those, the things that we already have rather than ...

Chris Roberts: Yeah.

Alex Robson: Yeah, doing something new.

Chris Roberts: I think one thing that we came to as a conclusion when reviewing these, is that if any particular jurisdiction, one or more, suddenly become outsized of other jurisdictions, there is usually calls from the undersized jurisdictions to seek equalisation through other mechanisms. They want to see that all Australians are benefiting and can have access to comparable services. It can either happen inside the HFE system or outside of it. So I think, though, when jurisdictions can see a transparent process and then an investment through NCP is based on its merits, there is agreement and support for that.

Alex Robson: Angela, any other questions?

Angela Jackson: Yeah I think, just to be, I think clearer about our recommendation 1 and our sort of current preferred option. The way we saw it really was that the CGC's primary objective is HFE which is absolutely within the legislation and their remit, and that they have supporting principles, but the way in which that's implemented there's not a trade-off ever there. Necessarily its achieving HFE to the fullest amount possible and so addressing this dominant state issue does probably involve some trade-off between efficiency and equity. And really, it's around the nature of that direction to give them the direction to, in this instance, to address this dominant state issue which does cause issues clearly with policy neutrality. I mean, whether a 90% effective marginal tax rate, it's on one side, on the revenue side while on the investment side, it's sort of averaged out so they're not getting, they're not necessarily getting the additional GST on one side, but they're losing up to 90% of additional revenue on the other. It's hard as an economist to look at that and go that needs, there has to be some incentive effect there, right?

Chris Roberts: The ACT will lose 98%. I mean ...

Angela Jackson: Yeah. In a similar scenario, yes.

Chris Roberts: Absolutely. So, we're not arguing for that. This is how this, so, I just really want to sort of unpack how revenue neutrality works in practice and what it really is. And I think it's probably a good time to pick up on that. The way HFE works, it essentially looks at your assessed revenue share of total revenue in Australia for a revenue line. And if your assessed revenue share is greater than your population share, whatever's over is redistributed back to the other states based on their populations.

Now what it does, that assessed revenue base – I've been careful with my words – is based on what we term as revenue neutrality. In essence, it's just an average of the rate, weighted average of the weight of the rate. Is that fair? Well, it's elegantly simple and easy to implement and is without judgement. Does it cause problems? Well, it does, and it does on the expenditure side as well. I'll give you a good example. So if one of the largest states chooses to do something in the expenditure category, it will change the GST allocation to the ACT through no change in our policy. That's not revenue neutral. We've done nothing. GST has not altered because of this weighted allocation on the rate.

Now, in the case of iron ore, the average happens to be the actual, because it's 100% or almost 100% in one state. That is it. That's effectively what policy neutrality is. And I understand that that means that if the actual equals the assessed, whatever is over the population share will be redistributed back out.

Now, the question I put back to you was the question I asked myself at the very start. Should this dominant state issue have a higher order than HFE? I think it should not. And I don't think that HFE has been damaged by how the policy neutrality operates.

within the HFE system. And not only that, but it applies to all revenue lines. So we're focused on mining, but the CGC looks at all revenue and total revenue. Essentially what it's saying in its assessment is that there is a revenue capability in a particular state that is way over its needs to deliver comparable services. That's the assessment. I don't think that has been wrong as a primary issue.

Alex Robson: We have had a similar view put to us. I think Victoria had a similar view and our response was that notwithstanding that view for the final report, if you did want to engage with our option 1 and provide any suggestions that would be helpful. Not telling you what to do, but it would be helpful in our deliberations to get different views around that. Recognising your position, but just in fairness thought we'd convey that to you because we conveyed that to Victoria as well. So yeah. Any other questions? Sorry, go ahead.

Chris Steel: If I can just dive in, sorry, again, just to address the comments made on the population undercount issue. Absolutely understand that you don't want to do a deep dive of your own into the ABS's estimated resident population methodology as part of your review.

But I think the principle matters, and that's why I raise it for you to consider in developing your final report, because if there is a significant error in the estimated residential population, which is used as a primary piece of data that goes into the GST methodology, then that means that the HFE outcomes are not going to be achieved as they should. And what we're talking about here is a 5.1% error in the ACT's total population. Now that is significant for any state and territory. And it is significant for our territory where it is occurring partially because we've got a transient population, is the main reason for that. But we have an actual population that is not being reflected in between censuses and there is no mechanism at the moment to be able to true up or reconcile the GST payments that we should have received during those intercensal periods. I hand over to Chris just to provide a bit more detail about that.

Chris Roberts: Yeah, thanks Treasurer. I mean, when we raised the population issue, it was really around the integrity of the HFE allocation process. So as you know, it's based on three key drivers. So the GST pool, the population, and of course, the relativities. Much of the discussion in the hearings have been solely on the relativities. Now, we know that the GST pool is reconciled every year at the end of the financial year. And we know that relativities are based on actual data and there's also an opportunity to revise that data with updates. So of the three, there are processes in place to make sure they're as accurate as possible and to true them up. However, population estimates are estimates, and we know that actuals come through at Census, yet there's no reconciliation as part of that process. Now, in some cases, it may be up and in some cases it may be down. But I say this because it does result in a misallocation of payments to jurisdictions, which undermines HFE. We think there's a simple way-, path forward for this and we've raised this in this forum to get that done.

Alex Robson: Any other questions? Go ahead, Angela.

Angela Jackson: Yeah, I mean we will think a bit more around those issues. I mean, I think the issue we'd probably have is that opening it up, there's a lot of possible, what do you do when there's a methodological change, for example? You know there's a lot of examples where things change and then do you go back? The COVID payments is one example where the methodology change means that Victoria has now been, and NSW compensated somewhat for the additional expenditure, but not obviously the whole amount so that hasn't been back cast, but would you back cast? And what would you know like-, what those issues might be?

Chris Steel: Well, we're certainly thought about these and there's certainly elegant...

Angela Jackson: One of the things that might be interesting for you to think about, though, and this is more broadly, is, this is a very important process for state governments in terms of revenue yet I know within the system the CGC's data needs – and we could think about wages, for example. I can think about a number of areas where with better data provided by the Commonwealth, the CGC could do a better job in terms of assessing states' fiscal capacity, but those needs aren't really prioritised within the system – across the education system, this population issue, there's also wages.

There's a lot of different areas where it would require additional investment, but it would lead to more accurate assessments of need. It might be interesting to reflect on that in your submission as well about where things could be improved with a greater focus on this, and given the impact it does have on state government budgets and improving accuracy it may be an area worthy of additional Commonwealth investment to strengthen the system of HFE and to strengthen the extent to which these assessments, I mean going to the population, there are things the Commonwealth could do to be honest. Like you look at it and you go well, if it's Medicare numbers, why don't we give people prompts when they claim the first time they go to the GP or the second time they go to the GP in the ACT, they get a prompt of have you changed your address here?

Chris Steel: Guess who doesn't go to a GP? Young people. We tried all voluntary stuff to get people's details.

Angela Jackson: Well then there's data matching you could do with HECS. You know there's different processes at play. There's potentially more heavy lifting there that if you know the extent to which ...

Chris Steel: Yeah. Well, the radical option is to make the single source of truth for every single thing in ACT government is the Medicare address and just force everyone to change their medical address by, because they can't get a licence until they actually change their Medicare address so it matches their ACT residential address.

That for me is completely unnecessary when this issue could be fixed through a simple and elegant mechanism to simply adjust and have a reconciliation period. So I think the least coercive method is what we're looking for and appreciate that that's not necessarily all within your remit. It's a continued discussion with the CGC, it's a continued discussion with ABS about the best methodology going forward, but we have got an actual specific mechanism that we've put forward options, which we can put in submission. In relation to your other question or comment around further work by the CGC to take into account state specific or small jurisdiction issues. I mean that is something that has been done outside of the HFE GST distribution process recently in the National Health Reform Agreement, recognising

the high price of delivering episodes of healthcare in small jurisdictions. And there is some work underway by IHACPA at the moment, the Independent Healthcare Pricing Authority, to actually provide a greater evidence base to then inform future payments under that agreement. So it can be done outside of the GST system for specific federal financial agreements, but we're not certainly opposed for having the CGC do more of that work in-house.

Alex Robson: Ok, well, I think we're close to time. Is there anything else you'd like to mention, and we might wrap up?

Chris Steel: I think we've covered it. Thank you.

Angela Jackson: Thank you.

Closing remarks

Thank you very much for your time. So that brings us to the end of today's proceedings and indeed the hearings as a whole. We haven't received any calls to make statements today, so I will officially bring these public hearings to a close. If you would like to make a statement, but haven't been able to do so, please email the team at GST.Reforms@pc.gov.au.

So on behalf of fellow Commissioner Jackson and the team here at the PC, I'd like to thank all of our witnesses over the last three days. As I've said before, transcripts and recordings of the hearings will be available on our website over coming days. And just a reminder that submissions in response to the interim report close on 30th of September and in advance of our final report being given to government by the end of this year. So thank you again for your participation today and enjoy the weekend everybody. Thank you.

Chris Steel: Thank you.

ADJOURNED 03:45 PM AEST.