



THE HON JIM CHALMERS MP
TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

The Hon Mark McGowan BA LLB MLA
Premier and Treasurer of Western Australia
13th Floor Dumas House
2 Havelock Street
West Perth 6005

Dear Premier

I am writing to you regarding the Commonwealth Grants Commission's (CGC) Report on GST Revenue Sharing Relativities: 2022 Update (2022 Update Report) which you received on 17 March 2022.

Consistent with the *Federal Financial Relations Act 2009*, I am consulting you and the other states and territories prior to determining the GST revenue sharing relativities for 2022-23. I would be grateful if you could provide your comments on the 2022 Update Report by 8 July 2022.

If I do not receive a response from you, I will assume that you have no further information for me to consider when making my final determination.

I have written in similar terms to all state and territory Treasurers.

Yours sincerely

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The Hon Jim Chalmers MP



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TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

The Hon Matthew Kean MP
Treasurer of New South Wales
GPO Box 5341
SYDNEY NSW 2001

Dear Treasurer

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The Hon Jim Chalmers MP



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TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

Tim Pallas MP
Treasurer of Victoria
Level 4, 1 Treasury Place
EAST MELBOURNE VIC 3002

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The Hon Jim Chalmers MP



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Ref: MS22-000876

Wednesday, 29 June 2022

The Hon Cameron Dick MP
Treasurer of Queensland
GPO Box 611
BRISBANE QLD 4001

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The Hon Jim Chalmers MP



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TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

Michael Ferguson MP
Treasurer of Tasmania
Level 10 Executive Building
15 Murray St
HOBART TAS 7000

Dear Treasurer

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The Hon Jim Chalmers MP



THE HON JIM CHALMERS MP
TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

The Hon Stephen Mullighan MP
Treasurer of South Australia
GPO Box 2264
ADELAIDE SA 5001

Dear Treasurer

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The Hon Jim Chalmers MP



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TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

Mr Andrew Barr MLA
Chief Minister and Treasurer of the Australian Capital Territory,
GPO Box 1020
CANBERRA ACT 2601

Dear Chief Minister

I am writing to you regarding the Commonwealth Grants Commission's (CGC) Report on GST Revenue Sharing Relativities: 2022 Update (2022 Update Report) which you received on 17 March 2022.

Consistent with the *Federal Financial Relations Act 2009*, I am consulting you and the other states and territories prior to determining the GST revenue sharing relativities for 2022-23. I would be grateful if you could provide your comments on the 2022 Update Report by 8 July 2022.

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The Hon Jim Chalmers MP



THE HON JIM CHALMERS MP
TREASURER

Ref: MS22-000876

Wednesday, 29 June 2022

The Hon Eva Lawler MLA
Treasurer of the Northern Territory
GPO Box 3146
Darwin NT 0801

Dear Treasurer

I am writing to you regarding the Commonwealth Grants Commission's (CGC) Report on GST Revenue Sharing Relativities: 2022 Update (2022 Update Report) which you received on 17 March 2022.

Consistent with the *Federal Financial Relations Act 2009*, I am consulting you and the other states and territories prior to determining the GST revenue sharing relativities for 2022-23. I would be grateful if you could provide your comments on the 2022 Update Report by 8 July 2022.

If I do not receive a response from you, I will assume that you have no further information for me to consider when making my final determination.

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Yours sincerely

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The Hon Jim Chalmers MP



TREASURER

Parliament House
State Square
Darwin NT 0800
minister.lawler@nt.gov.au

GPO Box 3146
Darwin NT 0801
Telephone: 08 8936 5566
Facsimile: 08 8936 5576

The Hon Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600


Dear Treasurer

I refer to your correspondence of 29 June 2022, seeking comments on the Commonwealth Grants Commission's (CGC) *Report on GST Revenue Sharing Relativities: 2022 Update* prior to your determination of 2022-23 GST relativities. The Territory is supportive of the 2022 Update and the 2022-23 GST relativities recommended in the report.

The Territory recognises that the 2022 Update has been challenged by the implications of the COVID-19 pandemic, however supports the methodology applied in the 2022 Update as it recognised that the significant complexities in making a differential assessment could create perverse outcomes and incentives.

In previous correspondence, I requested that Commonwealth funding in relation to the Beetaloo Sub-basin be exempt from the CGC's GST assessment. While this was not an issue in the 2022 Update, I formally request your consideration to exempt Commonwealth funding in relation to the Beetaloo Sub-basin from the CGC's GST assessment in the 2023 Terms of Reference.

Thank you for consulting with me on the 2022 Update. I look forward to meeting with you at the next Council on Federal Financial Relations meeting and further discussing opportunities for productivity and economic growth.

Yours sincerely



EVA LAWLER

- 8 JUL 2022

Deputy Premier
Treasurer
Minister for Infrastructure and Transport
Minister for Planning

Level 10, Executive Building, 15 Murray Street, Hobart
Public Buildings, 53 St John Street, Launceston
GPO Box 123, Hobart TAS 7001
Phone: (03) 6165 7701; Email: Michael.Ferguson@dpac.tas.gov.au

FOI 3319
Document 10



The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

8 JUL 2022

Dear Treasurer

A handwritten signature in blue ink that reads "Jim".

Thank you for your letter dated 29 June 2022 regarding the Commonwealth Grants Commission's (CGC) Report on GST Revenue Sharing Relativities: 2022 Update (2022 Update Report).

I have no comments to raise in regard to the CGC's recommendations for 2022-23 GST sharing relativities.

However, I note that the recently released 2021 Census population data shows a marked increase in Tasmania's share of the national population, which is expected to have a material impact on Tasmania's GST allocation in 2021-22.

While I appreciate there are challenges associated with accurately capturing annual population movements, weaknesses in the current methodology for the intercensal period have understated Tasmania's population growth over the past five years. I am concerned about the continuing impact of the current methodology on the implications for the GST distribution, which for a smaller state such as Tasmania, could be particularly material.

Tasmania looks forward to further engagement with the relevant parties on this issue.

Yours sincerely

A handwritten signature in blue ink that reads "Regards".

A handwritten signature in blue ink that reads "Michael Ferguson".

Michael Ferguson MP
Deputy Premier
Treasurer



THE HON JIM CHALMERS MP
TREASURER

Ref: MS22-001428

Wednesday, 20 July 2022

The Hon Eva Lawler MLA
Treasurer of the Northern Territory
GPO Box 3146
Darwin NT 0801

Dear Treasurer

I am writing to inform you that following consultation with the states and territories, I have decided to accept the GST revenue sharing relativities recommended by the Commonwealth Grants Commission in its *Report on GST Revenue Sharing Relativities – 2022 Update*.

These relativities, which is the second year of the transition to the new equalisation arrangements, will be used to calculate state and territory GST entitlements for 2022-23 in a manner that is consistent with the principle of horizontal fiscal equalisation.

I have attached a copy of the *Federal Financial Relations (GST Revenue Sharing Relativities for 2022-23) Determination 2022* for your reference, which is also available at www.legislation.gov.au.

Yours sincerely

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The Hon Jim Chalmers MP



Federal Financial Relations (GST Revenue Sharing Relativities for 2022-23) Determination 2022

I, Jim Chalmers, Treasurer, make the following determination.

Dated 18 July 2022

Dr Jim Chalmers
Treasurer

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Part 1—Preliminary

1 Name

This instrument is the *Federal Financial Relations (GST Revenue Sharing Relativities for 2022-23) Determination 2022*.

2 Commencement

- (1) Each provision of this instrument specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table. Any other statement in column 2 has effect according to its terms.

Commencement information		
Column 1	Column 2	Column 3
Provisions	Commencement	Date/Details
1. The whole of this instrument	The day after this instrument is registered.	

Note: This table relates only to the provisions of this instrument as originally made. It will not be amended to deal with any later amendments of this instrument.

- (2) Any information in column 3 of the table is not part of this instrument. Information may be inserted in this column, or information in it may be edited, in any published version of this instrument.

3 Authority

This instrument is made under the *Federal Financial Relations Act 2009*.

4 Definitions

Note: Paragraph 13(1)(b) of the *Legislation Act 2003* has the effect that expressions have the same meaning in this instrument as in the *Federal Financial Relations Act 2009* as in force from time to time.

In this instrument:

the Act means the *Federal Financial Relations Act 2009*.

Section 5

Part 2—Determination of GST revenue sharing relativities for 2022-23

5 GST revenue sharing relativities for the 2022-23 payment year

For the purposes of subsection 8(1) of the Act, each item of the following table sets out a factor that is the GST revenue sharing relativity, for the 2022-23 payment year, for the State specified in the item:

Item	For this State:	The GST revenue sharing relativity for the 2022-23 payment year is:
1	New South Wales	0.95065
2	Victoria	0.85861
3	Queensland	1.03377
4	Western Australia	0.70000
5	South Australia	1.28411
6	Tasmania	1.85360
7	Australian Capital Territory	1.09250
8	Northern Territory	4.86988



THE HON JIM CHALMERS MP
TREASURER

Ref: MS22-001428

Wednesday, 20 July 2022

Tim Pallas MP
Treasurer of Victoria
Level 4, 1 Treasury Place
EAST MELBOURNE VIC 3002

Dear Treasurer

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Level 10 Executive Building
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The Hon Jim Chalmers MP

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The Hon. Matt Kean MP
Treasurer
Minister for Energy

Ref: P22/1677

OFFICIAL

The Hon Dr Jim Chalmers MP
Treasurer
Jim.Chalmers.MP@aph.gov.au

Dear Treasurer, 

Thank you for your correspondence of 29 June 2022 regarding determination of the GST revenue sharing relativities for 2022-23.

As you know, the *2022 Update of GST Revenue Sharing Relativities* (the 2022 Update) was the first time the Commonwealth Grants Commission had to meaningfully consider and attempt to account for the impacts of COVID-19 on state and territory (state) GST needs. Indeed, COVID-19 was the biggest driver of changes in state spending over the period assessed in the 2022 Update – 2018-19, 2019-20 and 2020-21.

While COVID-19 impacted all states, clearly the timing and magnitude of impacts differed considerably across states. The activities and spending states undertook in response were broadly proportionate to the risk of community transmission and number of active cases.

In this context, the current methods used by the Commission measure the impacts of COVID-19 on states' fiscal needs poorly. This is because the traditional drivers of cost used to assess GST needs (including population, age, remoteness, and Indigeneity) poorly correlate with the drivers of COVID-19 expenditure. Under current methods, a four-month lockdown like that experienced in Victoria would have no effect on how much a state needs to spend on business support. Furthermore, in the 2022 Update the Commission noted "The drivers of COVID-19 state health spending likely differ from the Commission's usual approach for assessing health expenditure."

Only by enabling the Commission to make method changes can these COVID-19 impacts be appropriately accounted for and an outcome consistent with Horizontal Fiscal Equalisation be achieved. NSW have already proposed appropriate and practical adjustments to account for COVID-related expenditure through the 2022 Update process.

The Commission were precluded from making necessary adjustments as part of the 2022 Update by the terms of reference issued by the Commonwealth Treasurer. This makes it even more critical that you issue terms of reference (ToR) that ensure this can be corrected as part of the forthcoming 2023 Update. This should include any necessary retrospective adjustments.

Failure to take COVID-19 impacts into account risks undermining the credibility of GST distribution arrangements, punishing states for delivering the level of support needed to protect the lives and livelihoods of their residents and businesses. The ToR for the 2023 Update can ensure this unjust outcome is avoided.

Yours sincerely,



The Hon. Matt Kean MP
Treasurer
Minister for Energy

27.7.22

OFFICIAL



TREASURER

Parliament House
State Square
Darwin NT 0800
minister.lawler@nt.gov.au

GPO Box 3146
Darwin NT 0801
Telephone: 08 8936 5566

The Hon Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear ^{Jim}Treasurer

I refer to your correspondence of 20 July 2022, advising of your decision to accept the GST revenue sharing relativities recommendations by the Commonwealth Grants Commission (CGC) in its *Report on GST Revenue Sharing Relativities – 2022 Update*. As I advised when I wrote to you in early July, the Territory supported this approach.

I look forward to providing further comments in response to future requests, including the Territory's request that Commonwealth funding in relation to the Beetaloo Sub-basin be exempt from the CGC's future GST assessments.

It was a pleasure meeting with you recently at the Council on Federal Financial Relations meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Eva Lawler'.

EVA LAWLER

24 AUG 2022



TREASURER

Parliament House
State Square
Darwin NT 0800
minister.lawler@nt.gov.au

GPO Box 3146
Darwin NT 0801
Telephone: 08 8936 5566
Facsimile: 08 8936 5576

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear *Jim* Treasurer

I am writing to you in anticipation of the Northern Territory making submissions to the Commonwealth Grants Commission on the 2023 Update, and your formal consultation with states and territories (states) on 2023 Update Terms of Reference.

I am seeking your support to not amend the GST Update Terms of Reference to include a requirement for the Commonwealth Grants Commission to make changes to state fiscal capacity assessment methods due to the COVID-19 pandemic, in recommending 2022-23 GST relativities.

The Territory is of the view that the implementation of differing state COVID-19 prevention policies contributed significantly to individual state expense outcomes, and GST assessments should not create perverse incentives to reward states with higher community transmission. The Territory does not believe that COVID-19 can be likened to natural disasters as proposed by New South Wales, which by their very nature are not as enduring as a pandemic which allows for government decision-making to significantly influence outcomes.

The Territory should not be penalised for making tough decisions in recognition of its high proportion of at risk population, particularly First Nations people, such as hard border closures, resulting in the delayed spread of COVID-19 which ultimately minimised enduring detrimental social and economic impacts.

Notwithstanding the measures, the Territory contributed strongly to the national response to COVID-19, particularly the repatriation of Australians through the Centre for National Resilience.

Yours sincerely

EVA LAWLER

- 8 NOV 2022



A2647787

Treasurer
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Hon. Dr Jim Chalmers MP
Treasurer
PO Box 6022
Parliament House
CANBERRA ACT 2600

s 47E(d) [@treasurer.dtf@sa.gov.au](mailto:treasurer.dtf@sa.gov.au)

Dear Dr Chalmers 

I write in relation to the Terms of Reference (ToR) for the Commonwealth Grants Commission (CGC) 2023 Update.

I understand that all jurisdictions will have the opportunity to provide feedback on the draft ToR before they are finalised. While that is the case, following the recent release of the *2023 Update: New Issues* discussion paper by the CGC, I felt it was important to write to you now and outline my concerns about the potential scope of the ToR.

As you would be aware, the long-standing practice in relation to the ToR is that a major review of CGC assessments is undertaken approximately every five years. These reviews are undertaken over a number of years, providing sufficient time for a thorough review of any methodology changes, and importantly, an appropriate level of consultation. The last review was finalised in 2020 and the next review is expected to be completed in 2025. Annual updates are undertaken between these major reviews and consider things such as the release of new data. Changes to assessment methodologies are not considered as part of an annual update process.

It is understood that some jurisdictions have requested that the ToR for the 2023 Update be changed to allow the CGC to alter its assessment methodology.

South Australia does not support changes to the ToR for the 2023 Update to allow the CGC to consider method changes outside of a major review process.

Allowing method changes in the 2023 Update would not provide sufficient time for the consideration and development of alternative assessment methodologies. This point has been highlighted following the recent release of the *CGC 2023 Update: New Issues* discussion paper.

Given that some jurisdictions have raised the potential for methodology changes, the new issues paper outlines the CGC's preliminary view on what it may do in the 2023 Update if the ToR allow method changes in response to the impacts of COVID-19.

The COVID-19 pandemic has required governments at all levels to respond to the health implications of COVID-19 and the economic impact of restrictions on business activities. While that is the case, expenditure on the COVID-19 health response and business support was significantly influenced by the suppression and restriction approaches adopted in each jurisdiction. This includes restrictions and lockdown decisions, quarantine administration, accommodation arrangements, contact tracing policy, and business support programs.

One of the main principles of the GST distribution system in Australia is policy neutrality. That is, jurisdictions should not benefit or be penalised for policy decisions. This requires a policy neutral indicator to determine any additional costs faced by jurisdictions in responding to COVID-19.

No reliable, policy neutral method of assessing COVID-19 health expenditure or business support has been identified to date. While the CGC have considered a reduction in hours worked as a proxy for business support, even if this was considered appropriate, the data sources currently available are not suitable for an assessment due to small sample sizes and limited survey dates not corresponding with periods of lockdowns in all jurisdictions.

On this basis, if the CGC is allowed to consider method changes as part of the 2023 Update, it appears that it will use an actual per capita assessment approach for expenditure under the COVID-19 health response and COVID-19 business support national partnerships. Actual per capita assessments are only appropriate where there is complete policy consistency between jurisdictions. This is not the case with COVID-19 given policy differences between jurisdictions.

Given the limited time between issuing the ToR for the 2023 Update and its implementation, there will be insufficient time to examine these issues with the CGC and to undertake the further work required to identify appropriate and accurate policy neutral indicators of COVID-19 related costs. This highlights the issue with allowing method changes in an annual update process.

South Australia strongly supports the independence of the CGC. Where there are differing views, there must be arrangements in place for these views to be put forward, considered and responded to. The long-standing practice of methodology changes only being considered as part of major method reviews supports this best practice approach. Allowing method changes in an annual update will compromise this approach and the integrity of the GST distribution system. For this reason South Australia does not support method changes being allowed under the ToR for the 2023 Update.

Thank you for considering South Australia's position on this matter.

Yours sincerely



Hon. Stephen Mullighan MP
Treasurer

14 November 2022



The Hon. Matt Kean MP
Treasurer
Minister for Energy

OFFICIAL

Ref: TA22/1390

The Hon. Jim Chalmers MP
Commonwealth Treasurer
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Treasurer, *Jim*

I am writing to provide feedback on the draft terms of reference (ToR) for the Commonwealth Grant Commission's (the Commission) *2023 Update of GST Revenue Sharing Relativities (2023U)* and the *2025 Methodology Review of GST Revenue Sharing Relativities (2025R)*.

Changes required to draft 2023U ToR to account for the impacts of COVID-19

Following my correspondence on 25 October 2022, I am requesting the 2023U ToR be amended to allow for method changes to account for the impact of COVID-19 on state expenditure. Failing to do so risks undermining the credibility of GST distribution arrangements, punishing NSW for delivering the level of support needed to protect the lives and livelihoods of their residents and businesses. This included over \$10 billion in business supports in response to the Delta outbreak, required to fill the gap when JobKeeper ended.

In its Discussion Paper for 2023U, the Commission acknowledged that the current methods do not adequately account for the impact of the pandemic on state expenditure. Based on Commission estimates, current methods could understate NSW's GST needs for COVID-health expenditure and COVID-business supports by \$715 million per annum – equating to approximately \$2 billion over three years to 2025-26.

NSW supports the Commission's proposal that an actual per capita based assessment would be the simplest, most practical and fair way to deal with COVID-related expenditure and would be consistent with the treatment of spending on other natural disasters like bushfires and floods.

The impacts of events like COVID-19 on state revenues and expenditures are intended to be accounted for through the annual update process. This is why, through the 2021 Update, the Commission made adjustments with respect to COVID-19's impacts on state revenue. The ToR should enable the Commission to take the same approach to expenditure in the 2023U, and should allow for retrospective adjustments so that states' 2021-22 COVID-19 experiences are appropriately factored into GST distributions.

Considerations following completion of 2023U and looking ahead to 2025R

Given the impact of COVID-19 on the 2021 Census Journey to Work data, NSW supports using 2016 Census data for the urban transport assessment in the 2023U. However, it is important that the Commission is enabled to develop and apply necessary retrospective adjustments prior to the 2025R, as per the NSW Treasury response to the Commission's 2023U New Issues Paper in November 2022.

OFFICIAL

The need for such adjustments is already reflected in the draft 2025R ToR, which give the Commission the flexibility to consider alternative methods for unanticipated shocks, such as pandemics. I note the draft 2025R ToR are otherwise similar to the previous 2020R ToR.

Yours sincerely,



Matt Kean MP
Treasurer
Minister for Energy

7.12.22

A2689071

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Hon. Dr Jim Chalmers MP
Commonwealth Treasurer
Parliament House
CANBERRA ACT 2600

s 47E(d) [@treasury.gov.au](mailto:treasurer.dtf@treasury.gov.au)


Dear Dr Chalmers

I refer to the draft Terms of Reference (ToR) for the Commonwealth Grants Commission (CGC) 2023 Update and 2025 Methodology Review that was circulated to Treasury officials late last month.

I understand that while there may be no formal correspondence from you seeking comments, all jurisdictions are welcome to provide feedback on the draft ToRs.

South Australia strongly supports the proposed ToR for the 2023 Update.

The proposed ToR for the CGC 2023 Update does not give the CGC approval to consider alternative methodologies for the assessment of COVID-19 related expenditure. South Australia believes that this is consistent with the long-standing practice that method changes should only be considered as part of a CGC Review process and not as part of an annual Update process. This allows for full consideration of all relevant issues and assessment approaches.

As stated in my previous correspondence on this issue, and South Australia's submission on the CGC 2023 Update New Issues Paper by the Department of Treasury and Finance, no reliable policy neutral method of assessing COVID-19 health expenditure or business support has been identified to date. The proposed ToR for the 2023 Update will maintain support for the policy neutrality principle of horizontal fiscal equalisation and ensure the integrity of the GST distribution system.

South Australia also supports the Terms of Reference for the 2025 Methodology Review.

While the proposed ToR for the 2025 Methodology Review is largely consistent with the initial ToR for the 2020 Review, I note that a new requirement has been included. The proposed new requirement requests the CGC to consider if they should be given the flexibility to consider potential method changes in response to any significant unanticipated shock (such as pandemic) or major policy reform undertaken in between reviews. Major method reviews are the appropriate place for

these issues to be considered and debated among jurisdictions and the CGC. On this basis, I support the inclusion of this requirement.

Thank you for considering South Australia's positions and comments on the draft ToR for the CGC 2023 Update and 2025 Methodology Review.

Yours sincerely



Hon. Stephen Mullighan MP
Treasurer

7 December 2022

Deputy Premier
Treasurer
Minister for Infrastructure and Transport
Minister for Planning



Level 10, Executive Building, 15 Murray Street, Hobart
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12 DEC 2022


The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600
Via email: s 47E(d) [@treasury.tas.gov.au](mailto:s 47E(d)@treasury.tas.gov.au)

Dear Treasurer 

I am writing in relation to the draft Terms of Reference for the Commonwealth Grants Commission's 2023 Update and 2025 Methodology Review.

I note that the scope of the draft Terms of Reference for the 2023 Update is in line with that of past Updates. While in general I support this general approach, I consider that the draft Terms of Reference should be amended to direct the Commission to exclude the financial arrangements for Marinus Link and any associated projects from its calculation of GST relativities, given the significant benefits from these projects to the broader National Electricity Market.

The Tasmanian Government should not be penalised for delivering on this important initiative. This should include all funding provided under the Federation Funding Agreement Schedule *Support for Project Marinus & the delivery of Tarraleah Hydro Power Scheme Redevelopment*, as well as any support provided under the *Letter of Intent - Marinus Link, North West Transmission Developments and Battery of the Nation* recently agreed between the Australian and Tasmanian Governments.

This would be consistent with the approach taken by the former Australian Treasurer in relation to the Project Agreement for Project Marinus and the commitments made by the Prime Minister and the Minister for Energy in the recently agreed Letter of Intent, which stated "that the financial arrangements under each of these initiatives are not intended to, and will not, adversely impact Tasmania's GST allocation". This Letter related to both the Marinus Link Project, as well as Battery of the Nation (including the Tarraleah Hydro Power Scheme redevelopment). 

I therefore request that you write to the Chair of the Commonwealth Grants Commission advising him of your decision to exclude these initiatives from the calculation of GST Relativities for both the 2023 Update and 2025 Methodology Review. I would also appreciate your confirmation that you will amend both Terms of Reference to include this direction. I note that for the term of these projects, a formal direction of this nature will be required in the Terms of Reference for each GST Relativity Update.

s 47B(a)

Thank you for the opportunity to comment on the draft Terms of Reference.

Yours sincerely *Regards*

A handwritten signature in blue ink, appearing to read "Michael Ferguson".

Hon Michael Ferguson MP
Deputy Premier
Treasurer



Treasurer of Victoria

Minister for Trade and Investment
Minister for Industrial Relations

1 Treasury Place
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FOI 3319
Document 26

D22/210186

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

s 47E(d) [@treasury.gov.au](mailto:jim.chalmers@treasury.gov.au)

Dear Treasurer

Jim,

TERMS OF REFERENCE FOR THE COMMONWEALTH GRANTS COMMISSION'S 2023 UPDATE AND 2025 METHODOLOGY REVIEW

I have received the draft Terms of Reference (ToR) for the Commonwealth Grants Commission's (CGC) 2023 Update and 2025 Methodology Review, provided by Commonwealth Treasury officials through the Deputy Heads of Treasuries forum.

I am disappointed to find the draft ToR for the CGC's 2023 Update do not include any provision for the CGC to adjust its methods for states' COVID-19 expenditures. Without this, I cannot support the proposed ToR for the CGC's 2023 Update.

As raised in my previous letters on this issue, the CGC's current treatment of COVID-19 expenditures is a significant impediment to achieving horizontal fiscal equalisation. Additional state spending on health and economic supports for Victorians were driven by the unavoidable circumstances of the pandemic. These circumstances are not accounted for in the CGC's current methods which were set in February 2020, before Australia's pandemic response began.

Without the ability to change its methods, the CGC's recommended GST distribution for 2023-24 will again fail to account for the disproportionate burden some states faced from the uncontrollable and random effects of the COVID-19 pandemic. This must be resolved now to avoid further disruption to horizontal fiscal equalisation.

The CGC has already publicly stated its current methods do not account for the pressures COVID-19 placed on states. The CGC's 2022 Update report notes "the Commission's existing method of assessing state health expense needs does not align with the drivers of COVID-19 related health spending" and "State spending to support businesses during the COVID-19 pandemic is distinctly different from states' usual business development programs".

The policy rationale for allowing the CGC to change its methods is clear. Regardless of the decision it makes on its methods, as the independent arbiter, the CGC should be allowed to adjudicate the right course of action, weighing the views of states as it does on all other issues.

This is a material issue for distribution of the GST, that if not resolved will mean hundreds of millions of dollars in GST revenue are distributed based on drivers the CGC itself has stated are inappropriate. In its 2023 New Issues Discussion Paper provided to states, the CGC



estimated Victoria would lose \$880 million in 2023-24 alone if its methods were not changed.

I support the draft ToR for the CGC's 2025 Methodology Review. I am particularly happy to see they include a provision for the consideration of flexibility between review periods to respond to significant and unanticipated shocks, specifically mentioning pandemics, as well as major policy reforms enacted between reviews.

In my experience the GST system does present a significant barrier to states undertaking productivity enhancing reform, due to potential losses in GST revenue. This needs to be addressed to achieve our shared goal of improving the efficiency and effectiveness of our economies.

While this is positive, it does not resolve the significant current issues with the GST distribution and the COVID-19 pandemic. By the time the 2025 Methodology Review is concluded, much of states' COVID-19 expenditure will have already flowed through the CGC's assessments. I agree there is merit to providing flexibility for the CGC to deal with significant events. However, while the draft ToR for the 2025 Methodology Review recognise this, unfortunately those relating to the 2023 Update do not. To resolve this inconsistency, I ask that the same principles apply in both ToRs, and that the CGC is given the ability to consider flexibility in its methods for the coming 2023 Update.

Yours sincerely



TIM PALLAS MP

Treasurer

13/12/2022



Andrew Barr MLA
Chief Minister
Treasurer
Minister for Climate Action
Minister for Economic Development
Minister for Tourism

Member for Kurrajong

Dr Jim Chalmers
Treasurer
Australian Government
via email: s 47E(d) [@treasury.gov.au](mailto:s 47E(d)@treasury.gov.au)

Dear Treasurer ~~Chalmers~~, ^{Jim}

Thank you for the Commonwealth Treasury's correspondence to the ACT Treasury of 28 November 2022 seeking state and territory feedback on the draft Terms of Reference for the Commonwealth Grants Commission's 2023 Update of Goods and Services Tax Revenue (GST) Sharing Relativities and 2025 Methodology Review. I note that the 2023 Update and the 2025 Methodology Review will commence concurrently.

Regarding the 2023 Update, I reiterate the observations that ACT Treasury officials have shared with the Commonwealth Grants Commission (CGC) in relation to the CGC's assessment of the National Partnership on COVID-19 Response and National Partnerships on COVID-19 Business Support Payments.

As you are aware, the draft terms of reference for the 2023 Update do not allow the CGC to alter their assessment methods of GST relativities in relation to these National Partnerships. This materially disadvantages the ACT and other states and territories, who were obliged to undertake action to mitigate risks associated with the pandemic. I therefore recommend that the draft Terms of Reference for the 2023 Update be amended to allow the CGC to consider method changes for assessment of both National Partnership on COVID-19 Response and National Partnerships on COVID-19 Business Support Payments. Specifically, the Terms of Reference should allow the CGC to assess National Partnerships on COVID-19 Business Support Payments on an actual per capita basis.

While the ACT Government acknowledges that there is no legislative role for the CGC to review the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018*

and the effects that it has on final GST distribution outcomes, the ACT Government will continue to raise the need to discuss the continuation of the No Worse Off Guarantee as a key issue requiring resolution through the Council of Federal Financial Relations.

I have no additional comments on the draft Terms of Reference for the 2025 Methodology Review.

I look forward to receiving the final Terms of reference for the 2023 Update of Goods and Services Tax Revenue Sharing Relativities and 2025 Methodology Review.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Andrew Barr', is positioned above the typed name.

Andrew Barr MLA
Chief Minister
14 December 2022

CC: Dr Steven Kennedy
Secretary to the Treasury
Australian Government
via email: s 47E(d) [@treasury.gov.au](mailto:s 47E(d)@treasury.gov.au)



TREASURER

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The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear *Jim* Treasurer

I refer to the Commonwealth 2022-23 October Budget in which your Government committed \$319.8 million in funding for critical water infrastructure in the Territory from 2022-23 to 2025-26 through the National Water Grid Fund, predominantly for Darwin region water supply through the Manton Dam Return to Service project. I would like to express my thanks for your Government's significant contribution to supporting the Territory's long run economic and social development through these essential infrastructure projects.

As you may be aware, Commonwealth funding can impact state and territory GST entitlements. I am advised that, as a general rule, funding for projects of a similar nature to the Manton Dam Return to Service plan will negatively impact a jurisdiction's GST revenue if that jurisdiction receives more than its population share of available Commonwealth funding.

The Territory comprises 0.9% of the national population, however the allocation under the National Water Grid Fund from 2022-23 to 2025-26 is 19.3% of total funds. This sizeable difference means that there is a likely potential for around 95% of the Territory's funding under the National Water Grid Fund to reduce Territory GST entitlements.

The impact on the Territory's GST entitlements reflects differences between the Territory's needs as assessed by the Commonwealth Grants Commission under their population-share methodology, contrasted with the specific detailed assessments made by the National Water Grid Fund. While some divergence in assessments is reasonable, the magnitude of the difference in this case is exceptional and leads to inequitable outcomes due to a unique combination of a small population size, high fixed costs of capital and historic infrastructure deficits compared to other jurisdictions.

To assist the Territory in ensuring that National Water Grid Fund projects do not have adverse and unintended GST impacts, I seek your support to exclude all or part of the Territory's National Water Grid Fund projects from GST distribution assessment processes through a terms of reference exclusion from the 2024 GST Update and onwards, subject to the usual consultation processes for GST matters.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Eva Lawler', written in a cursive style.

EVA LAWLER

22 DEC 2022



OFFICIAL

Your Ref: A5613013
Our Ref: / .

The Hon Dr Jim Chalmers MP
Treasurer
PO Box 6022
Parliament House
CANBERRA ACT 2600

Dear Treasurer *Jim*

I am writing to confirm aspects of the Commonwealth – New South Wales (NSW) Memorandum of Understanding on Energy (MoU).

I refer to the Prime Minister's correspondence dated 18 December 2022 to the Premier, the Hon Dominic Perrottet MP, and the Premier's response dated 19 December 2022, which provided the NSW Government's in-principle agreement to the MoU. I have enclosed the correspondence for your reference.

The Premier noted that the NSW Government's in-principle agreement to the MoU was subject to a several conditions. I would like to seek your confirmation of a number of those conditions that sit within our respective portfolios.

1. GST

Commonwealth payments to NSW as a result of this MoU will not affect the state's GST revenue sharing relativity. This is consistent with the Commonwealth Grants Commission's treatment of Commonwealth payments where the payments do not support state services.

2. No liability under international trade and investment agreements

The Commonwealth Government will not seek any recovery or remedy from the NSW Government with respect to any direct or indirect liabilities that may be accrued under a Free Trade Agreement (FTA) or Investment Protection and Promotion Agreements (IPPAs) (or similar) due to actions agreed within the MoU (and related actions).

For the avoidance of doubt, no action, claim or demand lies, or may be taken against or in favour of the NSW Government in relation to any damage, loss or injury under an FTA or IPAA (or similar) that is sustained because of:

- a) the enactment of the MoU; or
- b) Schedule 3 of the Energy and Utilities Administration Act 1987; or
- c) any actions taken by the NSW Government to give effect to or in compliance with the above matters.

OFFICIAL

3. Appointment of the Australian Energy Regulator as Regulator under the EUA Act

I seek your in-principle agreement to appoint the Australian Energy Regulator (AER) under Schedule 3, clause 10 of the Energy and Utilities Administration Act 1987 (NSW) ("the EUA Act") to perform the regulator functions set out under section 11 of that Act.

I welcome your progression of the regulatory changes needed for the NSW Government to confer the functions on the AER under the Competition and Consumer Act 2010 (Cth). Officials from our relevant agencies will work together to develop an agreement regarding how the AER will exercise its functions under the EUA Act.

I would be grateful if you could please confirm your agreement to the above by return letter.

In addition to this MoU, I also look forward to further working with you to help put downward pressure on energy prices for the people of NSW and Australia through the implementation of energy price relief.

Yours sincerely,



The Hon. Matt Kean MP
Treasurer
Minister for Energy

CC: The Hon Dominic Perrottet MP, Premier

CC: The Hon Chris Bowen MP, Minister for Climate Change and Energy



The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

via email: s 47E(d) [@treasury.gov.au](mailto:_____@treasury.gov.au)

Dear Treasurer ^{Jim}

On behalf of the Board of Treasurers (the Board) I write to you regarding the discussions at the 9 September 2022 meeting of the Council on Federal Financial Relations (CFFR), on the GST no-worse off guarantee.

The fiscal pressures exercise that was undertaken jointly through CFFR highlighted the expenditure pressures that all governments are experiencing. This work also acknowledged the risk to State and Territory finances from the impending cessation of the Commonwealth-funded GST no-worse off guarantee from 2027-28.

All State and Territory Treasurers support the GST no-worse-off guarantee being made a permanent and ongoing element of new arrangements. This request is subject to all other elements of the 2018 GST reforms remaining in place, which are considered critical by Western Australia. Accordingly, I request on behalf of my colleagues that you make the no-worse-off guarantee a permanent feature of the new arrangements as soon as possible.

As you are likely aware, at the time the *Treasury Laws Amendment (Making sure every state gets their fair share of GST) Act 2018* was implemented, your predecessor advised States and Territories that the GST Pool Boost payments were sufficient to ensure that all jurisdictions would be better off as a result of the changes to Australia's HFE system – I attach this correspondence for your reference. Concerns were raised by States and Territories at that time about the underlying assumptions that supported the Commonwealth's forecasts. The GST Pool Boost Payments have not been sufficient as claimed, triggering the GST no-worse off guarantee. In the October 2022-23 Commonwealth Budget, the guarantee was estimated to cost \$15.7 billion over the four years to 2025-26. This cost will fall to states through the GST distribution system after 2026-27 and will impact states' forward estimates from 2024-25 state budgets.

I would welcome further discussion with you on this matter to resolve it in the interest of all Australians. I propose that at its next meeting, CFFR discuss a process and timeframe for resolution of this issue.

Yours sincerely



Andrew Barr MLA

*Chief Minister and Treasurer of the Australian Capital Territory
Chair of the Board of Treasurers*

30 January 2023

cc. Hon Matt Kean MP, Treasurer of New South Wales
Mr Tim Pallas MP, Treasurer of Victoria
Hon Cameron Dick MP, Treasurer of Queensland
Hon Mark McGowan MLA, Premier and Treasurer of Western Australia
Hon Stephen Mullighan MP, Treasurer of South Australia
Hon Michael Ferguson MP, Treasurer of Tasmania
Hon Eva Lawler MLA, Treasurer of Northern Territory