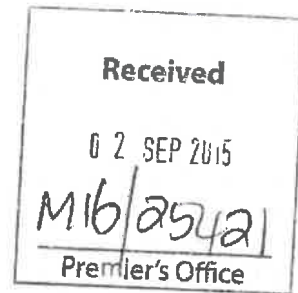




PRIME MINISTER



24 AUG 2016

The Hon Will Hodgman MP
Premier of Tasmania
GPO BOX 123
HOBART TAS 7001

Dear Premier *Will,*

I write in relation to my recent my recent speech which, among other matters, referred to the mechanism for distributing GST revenue between jurisdictions and the need to consider, at an appropriate time, the potential to establish a minimum percentage share for all jurisdictions.

It is manifestly in the public interest, and that of all jurisdictions, for there to be high levels of public confidence, nationally, in the fairness of GST sharing arrangements.

Australians in all jurisdictions very much support the principle of horizontal fiscal equalisation (HFE), to ensure that all jurisdictions have the means to deliver comparable public services. Australians accept that consequently some States will receive less of their per capita GST share and others more.

The GST was designed as a reliable source of revenue growth for all States and Territories, to help ensure that funding for important State and Territory services was put on a more sustainable foundation for the future than under the preceding arrangements.

However, when one jurisdiction ends up receiving less than a third of what they would receive if GST revenue was distributed on a per capita basis, as has recently occurred, this unquestionably challenges public confidence as it has done in Western Australia.

Based on Commonwealth Grants Commission data starting in 1981, prior to the recent period in WA's history, no other jurisdiction has had a relativity below four fifths of their equal per capita share.

And while neither of us were involved in politics at that time, it is hard to believe that the outcome currently experienced in Western Australia would, or could, have been foreseen.

In a few years' time, the operation of the current formula will result in an increase in Western Australia's share of the GST to a much higher level.

Once we have reached that stage, where the system has rebalanced, I am suggesting that we take the opportunity to consider a percentage floor below which no States' or Territories' share of GST receipts can fall. This would be done only after that level has been exceeded, which would mean that no other jurisdiction would be disadvantaged based on their projected GST revenue shares at that time. However it would help restore confidence in the GST sharing arrangements in Western Australia and across the federation.

Furthermore, given the historically unprecedented nature of the mining boom experienced over the past decade in Western Australia and the effect it has had on GST sharing arrangements – and the fact that a boom of that scale is unlikely to be repeated – it is most unlikely that any jurisdiction would ever fall below such a floor in the future.

However, such a floor would nonetheless be a valuable measure in restoring confidence in the system – in every jurisdiction – and would be done in a way and at a time, as I recently noted, that ensured no jurisdiction was worse off.

I would encourage you to reflect on this issue and to do so recognising that each jurisdiction has a vested interest in the GST sharing arrangements being seen as fair everywhere in Australia and not viewed solely through the prism of short term self-interest.

This is not an issue which needs to be, or can be finally determined, in the near future. The circumstances I foreshadowed will not arise for some years. However, nonetheless, I have asked the Treasurer to commence a discussion within the Council of Federal Financial Relations at an appropriate future time and have asked him to write to his counterparts in similar terms to this letter.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Malcolm Turnbull', written in a cursive style.

MALCOLM TURNBULL



PREMIER OF TASMANIA

23 SEP 2016

Hon Malcolm Turnbull MP
Prime Minister
Commonwealth Government
Parliament House
CANBERRA ACT 2600

Dear Prime Minister

I write in response to your letter of 24 August 2016 proposing a future change to the GST distribution methodology.

As previously stated, my Government will fiercely resist any changes to the existing arrangements for the distribution of GST.

The very principle of horizontal fiscal equalisation ensures that each state in the Federation has the fiscal capacity to provide an average level of services to its residents. The GST distribution methodology is designed to achieve this outcome, and it has proven to do so very effectively.

Any move to adjust the current GST distribution model places the principle of horizontal fiscal equalisation at risk and as a consequence would lead to States receiving GST allocations less than they are otherwise entitled to.

I am advised that a move to a per-capita model of GST distribution, for instance would cost our budget around \$1 billion per year.

I note that you have proposed that the matter be placed on the agenda of the Council of Federal Financial Relations, notwithstanding you envisage no change in the near future.

In light of all the above circumstances, I suggest that the matter not be placed on that agenda, nor that of future COAG meetings.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Will Hodgman'.

Will Hodgman MP
Premier

Copy: Peter Gutwein MP, Treasurer