



11 December 2015

Senator Cory Bernadi
Chair
Senate Finance and Public Administration Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: fpa.sen@aph.gov.au

Dear Chair,

Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to comment on the proposed Private Member's Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015 (Cth).

CCI is the peak organisation representing business in Western Australia. With a membership of about 9,000 businesses across all sectors of the economy, CCI aims to build a competitive and productive business environment in Western Australia by promoting free enterprise through advocacy and essential services that make it easier to do business. CCI's vision is for Western Australia to be a world leading place to live and do business.

The distribution of the Goods and Services Tax (GST) is based on the principal of horizontal fiscal equalisation (HFE). This aims to ensure that States have the fiscal capacity to provide infrastructure and services at the same standard given significant differences in local economic conditions. Whilst the principles of the current system are sound there are numerous problems and many factors are not considered in the distribution of the GST.

Recently, notable declines in commodity prices have significantly affected the revenue raising capacity of Western Australia and other large commodity producing States. The current distribution of GST does not reflect the actual revenue raising capability of commodity producing States given it is calculated on a three year average of mining revenues.

Western Australia is currently faced with a declining GST relativity because of an assessed higher ability to raise revenue to fund infrastructure and services. At the same time, however, the capability to raise revenue has actually fallen because of declining mining revenues. This outcome is clearly contrary to the principles of HFE and undermines the credibility of the current distribution of the GST.

This is clearly a flawed implementation of HFE. A declining GST share at the same time that royalty revenues are rapidly deteriorating leads to very high degrees of volatility in the State budget that can severely impact both current and future spending decisions. The GST distribution process should be reformed to better align States' revenue and spending capabilities.

The current arrangement also distorts the incentives for economic development across all States. Rather than improving economic performance to increase the provision of services, States can rely on the fiscal equalisation process in order to fund services. States looking to undertake reforms, or considering significant investment, face uncertain payoffs given they are unable to rely on the benefits of higher future revenue. The current system should be reformed to remove the disincentives to economic development and promote economic success.

The process by which the Commonwealth Grants Commission decides the distribution of GST is complex and completely lacking in transparency. GST grants to the States are also distributed based on inadequate data and subjective judgment. Assessments are often discounted because of a lack of data certainty and the Commonwealth Grants Commission only partially assesses these functions. Many factors in the HFE are not considered in the distribution including national park expenses revenue. States with large geographic areas, such as Western Australia, are likely to have large national parks expenses particularly given the biological diversity in fragile areas.

The current equalisation process also does not recognise the need to improve low service and infrastructure provisions in remote areas that are home to some of Australia's most disadvantaged Indigenous communities.

The present Commonwealth Grants Commission framework does not account for the highly cyclical nature of the Western Australian economy, compounding situations where revenue and spending capabilities are severely mismatched. Altering the calculation for GST distribution for mining revenue from a three year average to an annual basis aligns a State's GST grant for a particular year with the actual fiscal capacity in that year and allows for improved economic and social outcomes.

The CCI supports Senator Wang's proposed amendment to the *Commonwealth Grants Commission Act 1973* (Cth) which would require the Commonwealth Grants Commission to calculate the capacity of each State to raise mining revenue from a three year average to an annual basis.

Yours sincerely,

Dale Leggett,
Director, Policy