

Report

Referral

1.1 On 12 November 2015, the Senate referred the Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015 (the bill) to the Senate Finance and Public Administration Legislation Committee (committee) for inquiry and report by 16 March 2016.¹

Purpose of the bill

1.2 The bill is a private senator's bill, introduced by Senator Zhenya Wang on 13 October 2015.² The bill seeks to:

[instruct] the Commonwealth Grants Commission (CGC) in preparing its annual recommendation on GST distribution when considering mining revenue to only take into account the most recent completed financial year data available.³

Conduct of the inquiry

1.3 Details of the inquiry, including links to the bill and associated documents, were placed on the committee's website at www.aph.gov.au/senate_fpa.

1.4 The committee directly contacted a number of relevant organisations and individuals to notify them of the inquiry and invite submissions by 11 December 2015. Submissions received by the committee are listed at Appendix 1.

1.5 The committee prepared its report on the basis of submissions received. The committee thanks those who assisted by providing submissions to the inquiry.

Views contained in submissions

Western Australia Chamber of Commerce and Industry

1.6 The Chamber of Commerce and Industry (CCI) supported the bill, commenting that the current three year assessment and distribution of GST does not account for the true revenue raising capability of Western Australia (WA).⁴ For this reason the CCI summarised that:

Altering the calculation for GST distribution for mining revenue from a three year average to an annual basis [would align] a State's GST grant for a particular year with the actual fiscal capacity in that year and [allow] for improved economic and social outcomes.⁵

1 *Journals of the Senate*, No. 126, 12 November 2015, p. 3373.

2 *Journals of the Senate*, No. 122, 15 October 2015, p. 3258.

3 Explanatory Memorandum (EM), p. 1.

4 *Submission 2*, p. 1.

5 *Submission 2*, p. 2.

Western Australian Government

1.7 The Western Australian Government supported the intent of the legislation. However, it had concerns about the specific proposal in the bill and instead suggested another way to address the time lags in the CGC process.⁶

Tasmanian Government

1.8 The Tasmanian Government concluded that it is inequitable to 'make significant one-off changes to benefit one or two states at the cost of all others.'⁷ Tasmania indicated that it:

...strongly believes that the current three-year averaging of assessment years achieves an appropriate balance between the competing principles of attaining a contemporaneous assessment of States' circumstances, whilst also ensuring the assessment is practical and reliable and delivers a level of stability in States' shares of GST revenue.⁸

Queensland Government

1.9 While the Queensland Government expressed concerns about revenue volatility under the current GST system, they did not support the bill, indicating that:

...the bill is too narrowly focussed on providing special treatment for mining royalties and may result in a piecemeal and partial approach to the revenue difficulties of States.⁹

Conclusion

1.10 The committee notes that as a result of the 2010 review, after extensive consultation, the CGC shortened the averaging period for assessments from five to three years.¹⁰ The CGC explained:

The averaging process smooths the effects of data irregularities and short term events thereby making State shares of the GST less volatile. Many States value this over a more up-to-date assessment because it provides some stability in a major source of revenue, despite volatility in State own-source revenue.¹¹

1.11 The committee further notes that since 1985, the CGC has regularly reviewed the methods used to distribute payments,¹² and since the 1988 review 'the calculations have been updated annually by applying the methods from the latest review to the

6 *Submission 4*, pp 1-3.

7 *Submission 1*, p. 3.

8 *Submission 1*, p. 2.

9 *Submission 3*, p. 1.

10 Commonwealth Grants Commission *GST Revenue Sharing Relativities, 2010 Review*, p. 4.

11 Commonwealth Grants Commission *GST Revenue Sharing Relativities, 2010 Review*, p. 38.

12 In 1988, 1993, 1999 and 2004.

most recent data'. The CGC states this process 'is intended to ensure the current circumstances are reflected in the distribution and the methods used to calculate it'.¹³

1.12 In the committee's view, ad hoc legislative amendments to address declining revenue in a specific area, is contrary to the CGC process agreed by states/territories.

1.13 The committee notes that the Commonwealth can operate outside this system and in the 2015-16 Budget, Western Australia was provided with \$499 million in infrastructure funding in response to the 'special circumstances facing Western Australia as a result of their GST revenue shortfall next financial year (2015-2016)'.¹⁴

Recommendation 1

1.14 **The committee recommends that the Senate does not pass the bill.**

Senator Cory Bernardi

Chair

13 Commonwealth Grants Commission *GST Revenue Sharing Relativities, 2010 Review*, p. 22.

14 The Hon Tony Abbott MP, Prime Minister, the Hon Warren Truss MP, Deputy Prime Minister and the Hon Mathias Cormann, Minister for Finance, *Joint Media Release*, 'Commonwealth Support For Infrastructure Projects in Western Australia', 6 May 2015.

