

## **Additional comments by Senator Dean Smith, Senator Chris Back, Senator Linda Reynolds and Senator David Johnston**

1.1 It is abundantly clear that the present formula used by the Commonwealth Grants Commission (CGC) to determine GST allocations has having a significant, ongoing and deleterious impact on Western Australia.

1.2 If revenue distribution is intended to meet current needs, then logic compels us to conclude it should be based on current circumstances.

1.3 The problem with the present formula used by the CGC is that it is based on data that is between two and four years out of date.

1.4 This means that far from acting as a revenue stabiliser – which was the original purpose of the tax – it is instead generating revenue instability in the case of Western Australia.

1.5 Perversely, this means that when Western Australia's mining royalties fell in 2014-15 and 2015-16 as a result of the slump in the iron ore price, so too did Western Australia's GST share.

1.6 The WA State Government estimates that the use of this out-of-date data will see Western Australia lose \$2.1 billion per annum in revenue over the period 2014-15 to 2018-19.

1.7 In effect, the current formula means WA's revenue capacity is being significantly overestimated. In fact, WA is forced to borrow money to make GST payments to other States and Territories, based on mining royalties that don't actually exist.

1.8 The Commonwealth has effectively conceded this point, and has already had to take remedial action to address the situation.

1.9 For example, in May 2015, the Commonwealth provided a payment of \$499 million to Western Australia for use on road infrastructure, to make up for a significant decline in GST revenue.

1.10 Some of the projects supported by this arrangement included the extension of the Mitchell Freeway from Joondalup to Clarkson, the upgrade of Reid Highway and the NorthLink WA project.

1.11 It appears that another such payment is likely again this year. On 2 March 2016, the Minister for Finance told the Senate:

"Our commitment to Western Australia is that we will consider what might be required in a similar fashion this year."<sup>1</sup>

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<sup>1</sup> Senate Hansard, Wednesday 2 March 2016, p. 53

1.12 The WA State Government has suggested a modification to the instructions given to the CGC by the Treasurer that may negate the need for these adjustment payments in future.

1.13 The WA State Government has suggested the Commonwealth Grants Commission be instructed to prepare first estimates of each jurisdiction's GST entitlement in February for the upcoming year, using State mid-year review revenue estimates.

1.14 These relativities could then be reviewed twice within a financial year, in line with the content each State and Territory Budget and mid-year review.

1.15 A further final correction could then be made in the following financial year, once each State and Territory's final budget outcomes were released.

1.16 This approach is easy to understand, and would be far more transparent, given it is based upon data that is both current and publicly released by the States and Territories themselves.

1.17 Adoption of this methodology will reduce the impact of time lags that bedevil the current system, and ensure that each jurisdiction's GST entitlement is based on revenue reality, rather than the air of unreality that pervades the current calculations.

1.18 If we are now in a position where the Commonwealth is required to make adjustment payments to an individual jurisdiction each year, the system is clearly not working as originally intended.

1.19 There is little merit in having an independent process for determining the GST revenue entitlement for each State and Territory if the Government is then required to intervene every year to address imbalances in the results the process delivers.

1.20 At a minimum, the Government should request that the Productivity Commission undertake its own, independent, wholesale review of the current GST distribution model, which could then make recommendations for reform that would improve the transparency and efficiency of the system.

**Senator Dean Smith**

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