



Premier of Western Australia

Our Ref: 59-018552

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Ketter

Inquiry into the Governance and Operation of the Northern Australia Infrastructure Facility

Thank you for your letter on 4 July 2017 inviting the Western Australian Government to make a submission to this inquiry.

There has been substantial investment in the north of Western Australia, and the Western Australian Government is committed to supporting initiatives which will build on this investment and support jobs, economic growth and the building of capability in communities. This includes working collaboratively with the Commonwealth Government (and other jurisdictions) on initiatives in northern Australia.

With regard to the Terms of Reference for this inquiry, Western Australia's response is primarily focussed on item (f) 'the status and role of state and territory governments under the NAIF, including any agreements between states and territories and the Federal Government...'

Economic Importance of Northern Western Australia

As you would be aware, Western Australia, and in particular its northern regions, has experienced a period of historically-high investment and export growth since the early 2000s. This has led to this State contributing well above its population share to the economic and financial prosperity of the nation as a whole.

Recent estimates released by the Australian Bureau of Statistics indicate that over the past decade (2006-07 to 2015-16), total gross fixed capital formation (i.e. investment by business, in dwellings and by the public sector) in mining in Western Australia amounted to around \$412 billion. Over that period, this equates to around 47% of national mining investment and around 10% of total investment nationally.

In the year to May 2017, Western Australia's exports accounted for 41.8% of the national total (nominal value), including 98.8% of iron ore and 60% of LNG (in the 2016 calendar year). This highlights that Western Australia, in particular the northern region of the State, will continue to make a strong contribution to the national economy.

However, despite the significant State expenditure required to support this investment, a significant proportion of the fiscal benefits flow to the Commonwealth or other State and Territory Governments through direct payments or via the fiscal equalisation system.

Analysis by the Western Australian Department of Treasury estimates that in 2014-15, the Commonwealth derived \$54.1 billion in revenue from Western Australia (including company tax, personal income tax, and mineral extraction taxes and royalties), while expenditure for the benefit of the State totalled only \$31.4 billion, yielding a net contribution to the Federation from Western Australia of around \$22.3 billion, or around \$8,850 per capita. On a per capita basis, Western Australia's contribution was more than 30 times greater than New South Wales and more than 40 times greater than Victoria, the only other contributors.

In 2017-18, Western Australia will effectively contribute around \$4.4 billion of GST to other States through the fiscal equalisation process, compared to if the GST were distributed on an equal per capita basis.

The equalisation system unfairly penalises jurisdictions such as Western Australia that have borne the burden of developing their States and acts to hinder the State's ability to continue to invest in important infrastructure for the benefit of the nation.

Principles for Participating in the NAIF

Notwithstanding the already significant investments that have occurred in the north of Western Australia, the Western Australian Government will work cooperatively with the Commonwealth Government on its various Northern Australia initiatives. This includes the Northern Australia Infrastructure Facility (NAIF) scheme. However, any investment that might be facilitated by the NAIF is likely to be quite minor relative to the magnitude of infrastructure spending over the past decade.

For Constitutional reasons, the Commonwealth requires the involvement of the State and Territory Governments to facilitate its loans and guarantees to private projects in Northern Australia.

The Western Australian Government has yet to enter into agreement with the Commonwealth Government to participate in the NAIF scheme, but has been engaging constructively to understand the benefits, costs, risks and other implications for the State. Priorities in this engagement are aimed at ensuring:

- NAIF involvement will not impact on the State's balance sheet or credit rating;
- the State will be sufficiently reimbursed for any costs it is required to incur to support the NAIF scheme and loan or guarantee arrangements entered into under the scheme;

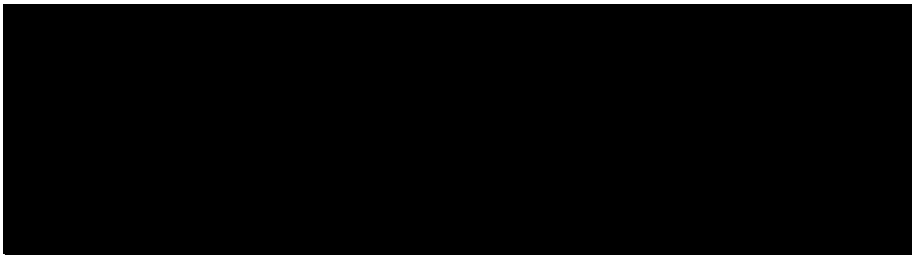
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- the State will have sufficient and early engagement with the NAIF on projects under consideration to allow identification of any unintended impacts or risks that could arise for the State from facilitating particular project loans or guarantees;
- the State will have sufficient discretion to agree or decline to facilitate particular project loans or guarantees;
- sufficient legal due diligence is conducted by the State, including ensuring the scheme will work within the context of Western Australian legislation and administrative frameworks; and
- the governance framework guiding the interaction of the NAIF, the Commonwealth Government and the State Government is sufficiently clear, comprehensive and robust.

State agencies are continuing to work constructively with the NAIF and the Commonwealth Department of Industry, Innovation and Science to identify a way forward on these important issues.

I thank you for the opportunity to provide a submission to this inquiry.

Yours sincerely,



Mark McGowan MLA
PREMIER

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