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Tasmanian Government Submission to the Senate Inquiry into Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015

December 2015

Introduction

According to the Senate's explanatory memorandum, the Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015 instructs the 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. The Bill makes no other change to the assessment and distribution of GST revenue to the States.

Tasmanian Government's submission

The Tasmanian Government recognises that the mining boom, in addition to demographic and other structural changes, have contributed to substantial changes in the distribution of GST revenue among the States in recent years. However, this demonstrates that the HFE system is working effectively and as intended — appropriately capturing and responding to changes in state circumstances, albeit with a lagged time frame.

Tasmania 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.

Reducing the number of assessment years will increase the level of volatility in States' shares of GST revenue. The use of three-year averaging is designed to deliver a level of stability through effectively "smoothing" the impact of large movements in circumstances and data irregularities, and preventing "one-off" anomalies from having a large effect on the GST distribution.

The assessment years were reduced from a five-year average to a three-year average during the 2010 Review. The Commission concluded that this balance was preferred over an even more contemporaneous assessment because it provides some stability in State shares of the GST, a major source of revenue, despite volatility in State own-source revenue[1].

[1] Commonwealth Grants Commission Report on GST Revenue Sharing Relativities – 2010 Review – Main Report, pg.38.

Indeed, Western Australia noted in their submission that "predictability in GST revenues is very important"[2], and ACT stated that they considered "stability of GST revenue... more important than the stability of total State revenue"[3].

During the initial stages of the mining boom, Western Australia was a clear beneficiary of the GST system, with a significant surge in mining royalties, yet a "delayed" impact on GST revenues. The Commission has quantified this benefit, estimating that since 2010-11, Western Australia has received around $7 billion in additional GST revenue as a result of the time-lagged assessment methodology. The Commission states that "while the equalisation system has redistributed significant parts of Western Australia's royalty revenues to the other states, the lags have provided it with a large and ongoing benefit."

Further, this issue is temporary in nature. As Western Australia's mining royalties decline its share of the GST will rise again. The Western Australian Mid-Year Financial Projections Report (December 2014) and the 2015-16 Budget show that it will be compensated through higher GST grants from 2016-17 and will be fully compensated in 2018-19. If actual mining royalties are below these projections, the increase in GST will occur earlier.

At a time when they were a beneficiary of the GST distribution system (2006), Western Australia argued against changes to the balance between contemporaneity and other supporting principles of the assessment methodology, referring to the inherent time lags as "largely irrelevant."

Given the "zero-sum" nature of changes to the distribution of the GST pool, it is inequitable to make significant one-off changes to benefit one or two States at the cost of all others (as shown in Attachment A of the Senate Explanatory Memorandum).

The Tasmanian Government is particularly concerned that any intervention to mitigate the impacts of one particular issue, regardless of its cause or severity, could set a dangerous precedent, opening the door for requests from other states for similar favour in future.

[2] Western Australia's comments on the Architecture of Horizontal Fiscal Equalisation, July 2006, pg.7.

[3] ACT, Submission to the CGC's Issues Papers: 2006/04 Contemporaneity, July 2006, pg.14.

Tasmania believes the Commission's independent role in recommending GST relativities is vital to the integrity of the GST distribution system, and should not be interfered with in applying HFE principles.

It is also important to note that HFE has a disproportionate financial impact on the smaller States. Small adjustments to GST relativities that may seem immaterial at a national level can have very real impacts on the budgets of smaller States such as Tasmania.

Tasmania notes that the principle of HFE will be explored through the White Paper on the Reform of the Federation. Any move away from the current practice of HFE prior to this exploration is pre-emptive, and risks undermining the HFE system.