

HFE AND EFFECTS ON GST DISTRIBUTIONS

There is no obligatory formula nor framework for applying HFE principles but the CGC has chosen to apply it to both the dollar cost of Services and to Revenue-raising capacity. This has reflected for recent years in an extreme, exaggerated decline in WA's annual GST distributions causing concern that the system and the HFE application may be faulty in principle.

The CGC has been selective in subjecting Services and Revenue to HFE and perhaps only a half of all Services and Revenue may be significantly affecting the GST Distributions, but I consider exemptions from HFE for Revenue should be extended further, even to 100%.

The CGC's exemptions for Services are mainly based on whether the items are measureable or material to equalisation but I believe the involvement of HFE in principle should reflect an aim of ensuring a typical (not necessarily every) citizen of any State, has access to commonly available and needed basic services at standard cost (average \$ amounts spent by a State may alone, not be a satisfactory criterion of common availability and need; Gonski used several more indicators for school education need.

However, whilst the CGC approach for Services is reasonable, applying HFE to Revenue is more questionable. Accuracy in measuring Revenue "Capacity" Revenue is always dubious because of variance in State and community policies and influences. Imposition of equalisation is usually unwise as it impinges on State rights/decision-making, entrepreneurial speculative initiatives (such as in mining) and community preferences (as in gambling facilities). There is no need I consider, for seeking links between the HFE adjustments for Services and Revenue because it is appropriate that the total net differences in amounts reflect in GST and State budgets.

A reasonable compromise solution to the present problem posed to the PC by the Cwlth./Treasurer could be resolved I consider, by applying HFE to the CGC's chosen range of Services, but limiting the range of Revenue to the order of 50% (or above), but in so doing, to ensure a sensible pattern of GST Distributions amongst the States by trial and error. WA and SA are indicative of donor and recipient States and their results are summarised in Table 1 below. The attached Tables 2 & 3 may also assist. The data for States is summarised from the CGC's 2015 Review pgs.15-20 but is not available for the Territories, ACT & NT. As these are creations of the Cwlth. itself, it is considered the Cwlth. should also be responsible for their fiscal deficiencies as priority.

To sum up, whilst CGC's equalisation for common, basic Services is supportable, for Revenue, there are two schools of thought. One thesis emphasising State rights and community influences, is not to apply HFE at all, giving WA a high \$9.6B GST in 2015-16, and SA a low \$3.9B. A second approach to apply HFE to such common, basic Revenue as represents 50% of total, would restore modest GST levels to \$5.8B and \$4.7B respectively. Thus the issue for CGC revolves around the key choice of common, basic Revenue items deemed worthy of equalisation, certainly exempting WA's unique iron ore problem.

John P McAuley,

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THE HFE EFFECTS ON GST DISTRIBUTIONS IN 2015-16 \$B Table 1

CGC's Revenue Assessment: % Adjustment

	0%	-10%	-25%	-50%	-100%
WA (GST per cap. basis=\$6.4)					
Revenue adjusted	-7.7	-7.0	-5.8	-3.9	-3.2
Resultant GST	1.9	2.6	3.8	5.8	9.6
SA (GST per cap. basis =4.1)					
Revenue adjusted	1.6	1.4	1.2	0.8	-0.1
Resultant GST	5.5	5.3	5.1	4.7	3.9

Example for SA (WA): GST on per cap. basis would have been 4.1(6.4) but after CGC's HFE adjustments including for Revenue 1.6 (-7.7), GST was 5.5 (1.9), but this became 4.7 (5.8) if Revenue was adjusted -50%.

Note: The Table assumes proportionality. Rounding differences may occur.
Comparable data for the other four States given in Table 3.

CGC's GST and HFE ADJUSTMENTS IN 2015-16 4B TABL
 FOR VARYING PROPORTIONS OF REVENUE ADJUSTMENT - OTHERS BEING UNCHG

	WA	NSW	VIC	QLD	SA	TAS			TOTAL STATES	ACT	NT	NT/NT	TO
A. GST per capita CGC assessed	6.4	18.2	14.2	38.8	11.5	4.1	1.2	16.8	55.6	0.9	0.6 ↑ check!	1.5	5:
<u>CGC's REVENUE % ADJUSTED/DEDUCTED</u>													
0%	-7.7	1.6	3.4	-2.7	0	1.6	0.7	2.3	-0.4	na	na	na	
B. GST	1.9	17.3	12.8	32.0	13.0	5.5	2.2	20.8	52.8	1.0	3.4	4.4	57
10%	-7.0	1.4	3.2	-2.4	0	1.4	0.6	2.1	-0.3			na	
C. GST	2.6	17.1	12.6	32.3	13.0	5.3	2.1	20.5	52.8				
25%	-5.8	1.2	2.4	-2.0	0	1.2	0.5	1.7	-0.3			na	
D. GST	3.3	16.9	12.0	32.7	13.0	5.1	2.0	20.2	52.9				
50%	-3.9	+0.8	+1.7	1.4	0	+0.8	+0.4	+1.2	0.1			na	
E. GST	5.8	16.5	11.1	33.4	13.0	4.7	1.8	19.5	52.8				
100%	-3.2	-2.5	-4.8	-4.2	1.6	-0.6	0.7	1.7	-2.5			na	
F. GST	9.6	15.7	9.4	34.7	13.0	3.9	1.5	18.5	53.2				

GST AND CGC'S HFE ADJUSTMENTS IN 2015-16 \$B TABLE

	WA	NSW	VIC	DONORS WA, NSW, VIC	QLD	SA	Tas.	RESIDENCES Q, SA, Tas.	TOTAL STATES	ACT	NT	Tc
<u>3</u> GST: equal p.a. Cap. NO SUSTAINING	6.4	18.2	14.2	38.8	11.5	4.1	1.2	16.8	55.6	0.9	0.6	5
1 Services exps	2.3	-2.5	-4.8	-5.0	1.6	0.3	0.5	2.4	-2.6	na	na	
2 "Other REV" ex pns	0.9	0	0	0.8	0	-0.4	-0.2	-0.7	0.2	na	na	
1+2 Services & Other Rps	3.2	-2.5	-4.8	-4.2	1.6	-0.1	0.3	1.7	-2.5	na	na	
3 Revenue missing	-7.7	1.6	3.4	-2.7	0	1.6	0.7	2.3	-0.4	na	na	
1+2+3 Total Adjusts	-4.5	-0.9	-1.5	-6.9	1.6	1.5	1.0	4.0	-2.9	0.1	2.8	
4 <u>GST: CGC's</u> adjust	1.9	17.3	12.8	32.0	13.0	5.9	2.2	20.8	52.8	1.0	3.4	59
5. GST, incl. No/loss = $4 - (1 + 2 + 3) / \text{per cap.}$	6.4	18.2	14.2	38.8	11.6	4.6	1.2	16.8	55.6	0.9	0.6	
6 <u>GST after Rps</u> = $4 - 3$	9.6	15.7	9.4	34.7	13.6	3.9	1.5	18.5	53.2	na	na	