



Our Ref: 02/04/0006  
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Mr Peter Harris AO  
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Dear Chairman,

The Town of Port Hedland wishes to draw to the Chairman's attention our ongoing concerns with regard to issues surrounding the GST and Horizontal Fiscal Equivalence (HFE). In particular we wish to highlight the impact of the current situation on local government in WA and Port Hedland.

## Context

As an introduction it is worth noting that Port Hedland is the location of the largest bulk handling port in the world. The port continues to deliver outstanding performance with close to half a billion tonnes shipped in 2015/16 comprising nearly 60% of WA's iron ore exports. This in turn is about 10% of Australia's total exports – going through just one port in the Pilbara. It is a port that is a vital link in the WA and Australian economy.

It is also home to about 14,500 residents of which nearly 2,500 are Aboriginal and Torres Strait Islanders. A relatively small population that delivers massive results for the State and the Nation.

Infrastructure investment and maintenance, particularly with regards to all forms linked to transport and the operations of the port, is critical to not only sustaining this level of operations but also fulfilling the future expansion plans.

Regarding the future of the port, there is a major development plan for Lumsden Point, the development of a multi user facility, and in time construction of a new outer harbour. All of this is ultimately aimed at doubling the overall capacity of Port Hedland and also providing port facilities to a range of users including small miners, agriculture and livestock thus diversifying the range of beneficiaries. To bring this major strategic development to fruition will require collaborative financing from State Government, Pilbara Ports Authority and the Town of Port Hedland. The failure by WA to get a substantial review of the GST directly impacts on the ability of State and Local Government to commit to this plan.

WA State Government is not in a position to commit to the strategic development of Port Hedland due to budget stress. If, for instance, GST share was based only on a pro rata population calculation, WA would receive approximately an additional \$4 billion per year – enough to resolve the budget problems.

There are also longer-term consequences, as the proposed port developments would foresee land release and the revenue from this would feed into the Town's "Sovereign" Wealth Fund. This Fund would future-proof Port Hedland from resource sector boom and bust scenarios and enable the civic leaders to sustainably provide the community with necessary services in perpetuity. This vision for the future is at risk without the infrastructure investment referred to above. Other capital renewal projects are also being placed at risk.

### **Key Issues**

While we fully acknowledge the ongoing review being undertaken by the Productivity Commission on GST and HFE, and the outcome of that review is eagerly awaited, we wish to draw the Prime Minister's attention to the following key issues:

We strongly support the view expressed in the submission by the WA State Government to the Productivity Commission Inquiry that "the current implementation of HFE disincentivises States from undertaking fiscal reforms or developing their economies, and makes it extremely difficult for States with volatile revenues to manage their budgets."

In particular, the system generates the following perverse outcomes:

- States that need to increase their revenues currently have an incentive to raise their tax rates above the national average rather than to grow their underlying revenue base. This is because (apart from royalties) States keep most of the additional revenue from higher tax rates, but if they increase their underlying base they lose most of the revenue gains to other States.
- There is a reduced incentive to undertake difficult microeconomic reform (such as tax reform) that requires compensation for the 'losers' from reform. Recipient States are encouraged to adopt a welfare mentality. The motivation to undertake reform is diminished by the resulting reduction in their high share of grants and the fact they do not need to reform.

Resource-rich States are discouraged from getting an appropriate return for minerals as increased royalty rates lead to lower GST grants – especially where one State dominates a particular mineral base and effectively sets the national average royalty rate on that mineral (as in the case of Western Australia and iron ore).

There is a large disincentive to develop industry, as most of the fiscal benefits are redistributed to other States but there is no sharing of much of the costs of development.

### **Impact on Port Hedland**

There has been a very significant investment into the physical and social infrastructure in Pilbara towns such as Port Hedland as a consequence of the State's development policies (such as Pilbara Cities and through Royalties for Regions). However this was often only to overcome the significant shortfall in such infrastructure in our towns, which was exacerbated during the mining boom due to

an influx of workers (both resident and FIFO) and pressure on all aspects of local government service delivery.

Now the critical question is whether our local council can sustain a level of service delivery as well as invest for the future when the State Government's fiscal position is under immense strain. If not then there are seriously negative possible situations where future development and growth does not happen – to the detriment of not only Port Hedland but also the State and ultimately the Nation, and when the next commodities cyclical upward swing occurs we are faced with similar service delivery constraints as during the last boom.

Port Hedland as with other Pilbara towns has been at the forefront of forward thinking policies in concert with State (and Federal) Government to achieve social and economic development. This is now being placed under jeopardy by the inequitable nature of HFE, its utilisation of the GST revenue and WA's low share of Commonwealth infrastructure grants. The core objective of growing sustainable towns and cities in the WA regions such as the Pilbara is being undermined. We do not have a welfare mentality, which discourages investment and growth and relies on hand-outs, but equally we need an equitable share of tax revenues (all forms) commensurate with our role in the State and National economy. In essence state and local government's investment costs in social and economic development need to be fully recognised in how Federal Funds and Grants are assessed and distributed.

In addition, Port Hedland like other remote and regional towns in the Pilbara and the Kimberley are seriously affected by high costs of doing business compared to that in metros such as Perth. Housing, education, health services, utilities, transport, consumer goods all cost more. Local councils have to manage these costs. But it appears that the investment that has taken place to meet the needs of our communities, and in particular for our Aboriginal population, has not been duly recognised in the overall fiscal equalisation process and the expenditure incurred by both State and Local Government.

## **Way Forward**

There are numerous recommendations and approaches that could be adopted to mitigate the negative consequences of HFE. The Town of Port Hedland would like to suggest that the principles of fairness, transparency and reward for innovation and endeavour should be the guiding principles.

We would propose three options for consideration, none of which are mutually exclusive:

### **Simplify the current complex methodologies for arriving at the HFE**

For example, if the annual National GDP and State GSP per capita was used in combination with population statistics as the benchmark for allocations. GDP and GSP are well-recognised and understood measures of national and state wealth, they are consistently measured by the ABS and are comparative in nature.

### **Quarantine a percentage of mining royalties from the HFE calculations**

There has been strong support from a number of institutions both political and business for this approach. It has a number of benefits as it does not penalise states that encourage and support mining resource development, it adds some fairness to the system where for example gambling revenue is not factored into a state's income, and it mitigates the massive fluctuations in royalty income caused by commodity price swings. The percentage to be quarantined would need to be negotiated but between 25% and 50% have been proposed by key stakeholders.

### **Incentivise infrastructure investment by federal grants matching dollar for dollar a state's investment in infrastructure**

This could possibly be achieved by reviewing how state infrastructure expenditure is brought into the overall HFE calculation.

### **Our Appeal for Urgent Action**

We recognise that Port Hedland is a small town in terms of influencing the national agenda, however it also a very important cog in one of the most vital industries in Australia. As such, we feel that our Town plays a critical part in ensuring the competitiveness of our nation.

We hope that you will take this into consideration and provide the leadership required to urgently influence ~~the~~ the direction of the decisions on the future of HFE and the GST share for Western Australia.

Yours faithfully,

**David Pentz**  
**Chief Executive Officer, on behalf of the Town of Port Hedland Council**

15 December 2017