LEADER OF THE OPPOSITION

Submission on the Draft Report of the Productivity Commission into Horizontal Fiscal Equalisation

CONTENTS

Summary of the key points of the NT Opposition submission on the Draft Report of the HFE Inquiry

The NT Opposition believe that the current arrangements for HFE were agreed to by all States and Territories. They have been reviewed many times since the introduction of the current system of HFE. The durability of system is such that it is in a position to weather the storms, and provides a 'fair' share over the long run. In practice this means that while a State like WA is currently in a situation where the settings of HFE are potentially amplifying a domestic recession, there will come a time when the effects of HFE will magnify the upswing of economic expansion. It is the NT Opposition position that to rewrite the objectives of HFE, effectively in consequence rewriting the principles of Federation, is suboptimal, unfair and misguided.

The Productivity Commission Draft Report must consider that in relation to the Northern Territory that there are extremely high expenditure requirements when it comes to provision of services, particularly when it comes to regional and remote areas.

The NT Opposition would like the Productivity Commission to note that while the Draft Report is a significant body of work and welcome, it must not be read in isolation. The NT Opposition makes reference to how any change to GST revenues would impact on the delivery of the Defence White Paper, the White Paper developing North Australia or the bi-partisan commitment to 'Closing the Gap'.

The NT Opposition submission also gives an overview of the NT budget, highlighting the critical importance of sustainable and predictable revenue streams.

In the Northern Territory maintaining "equal" (as opposed to "reasonable") services in the NT will help attract more people. For the NT to grow and achieve sustainable population growth will require levels of service provision comparable to competing Australian jurisdictions. It is important to note that the NT, while having one of the largest social provision obligation challenges, has the smallest taxable base of any jurisdiction. Similarly, the fiscal capacity of the NT must also be viewed in light of the fact that significant sections of land in the NT are subject to some form of Native Title, likewise the coastal waters.

Background - Fiscal equalisation

Fiscal equalisation is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost. Its principal objective is to allow sub-national governments to provide their citizens with similar sets of public services at a similar tax burden. Fiscal equalisation can be seen as the natural companion to fiscal decentralisation as it aims at correcting potential imbalances resulting from sub-national autonomy.

Many well-thought and balanced proposals to improve fiscal equalisation do not survive the lengthy and strenuous process towards political acceptance by all or at least a great majority of sub-national governments.

Its primary policy objective is horizontal equity among the residents of different jurisdictions, i.e. ensuring that, subject to local decisions, all persons or organisations in a country can obtain comparable public services at comparable tax rates.

Fiscal equalisation may help support macroeconomic stabilisation, insuring regions against asymmetric shocks they may not be able to cope with if left alone.

The current fiscal equalisation settings achieve more than one goal, and a plurality of associated positive spill-over effects. The current settings work well when viewed through the lens of national development perspective.

In the absence of a national spatial or development strategy the current equalisation settings greatly support the development of a new and developing economy like that of the Northern Territory.

Presently, the Commonwealth Grants Commission (CGC) recommends a distribution of GST revenue according to the following:

“State governments should receive funding from the pool of goods and services tax revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.” (p4, Draft Report, 2017)

Productivity Commission (PC) Review into Horizontal Fiscal Equalisation (HFE)

The Commonwealth Government has asked the Productivity Commission to undertake an inquiry into Australia's system of Horizontal Fiscal Equalisation (HFE), which underpins the distribution of GST revenue to the States and Territories (States).

The inquiry is to consider the influence the current system of HFE has on productivity, efficiency and economic growth, including the incentives for the States to undertake fiscal (expense and revenue) reforms that improve the operation of their own jurisdictions.

Initial submissions were due by 30 June 2017. The NT Opposition note that the NT Government failed to make a submission by the 30 June deadline.

History and Importance of GST to the NT

The NT Opposition always puts the Territory first. It goes without saying that when GST revenue makes up over 50% of the NT's annual income, any change to the way the GST is distributed is a matter of great significance to the Territory.

Marshall Perron, the Northern Territory Chief Minister from 1988 to 1995 said, *"…Horizontal Fiscal Equalisation, the glue that binds the federation together."*

In Canada, Horizontal Fiscal Equalisation is often referred to as the "mother's milk of Federation" [1].

To demonstrate the significance for the NT it is worth reflecting on the fact that combined GST and direct Commonwealth funding account for 71% of NT income in Budget 17/18. Or put in other words receiving $4.66 for $1 raised the NT has the most to lose from any changes to the current system of HFE.

In effect, the current system amplifies pro-cyclical fiscal policy (i.e. it makes the boom times "boomier" and the down times worse). A case in point is WA, because of the time lag when WA should have received less GST during the height of the mining boom it was still receiving above decade average GST payments.

Hence, there are structural issues with the way the GST is calculated and timing of distribution.

The Draft Report into HFE was released Monday (October 9, 2017). When the Draft Report was released there were no public hearings to be held in the NT.

Initially, it was disappointing to note that the Productivity Commission had overlooked the NT. The NT Opposition spoke with Peak Bodies and Industry Associations, about the need to have a public hearing in the NT. The Opposition subsequently wrote to the Productivity Commission requesting that they add the NT to the list of public hearing venues.

Simply put, the NT Opposition thought that two public hearings being scheduled to be held in WA and none in the NT was not good enough. Effectively this was contrary to the Treasurer's Directions.

The Treasurer's Directions issued to the Productivity Commission on 5 May 2017 state that, "it (the Commission) should consult widely, including with State and Territory governments'. Yet this is not what we have seen from the initial public hearing listings made public on the Productivity Commission's website. There was no mention of any Territory.

At 34c in every dollar contributed, WA has the most to gain from changes to the current formula. With the NT receiving $4.66 for every dollar raised, the NT has the most to lose.

---

[1] https://ec.europa.eu/info/sites/info/files/file_import/dp014_en_2.pdf
Tax, Order, and Good Government: A New Political History of Canada, 1867-1917(E.A. Heaman,2017)

How much GST each State or Territory get back is based on a backward looking rolling three year assessment period. The GST amount is based on 30 separate and specific measures such as population, cost of delivering services, Aboriginal and Torres Strait Islander disadvantage.

Fiscal capacity is one of the 30 weighted measures used to calculate the annual GST received. In effect, the current system amplifies pro-cyclical fiscal policy that makes the boom time “boomier” and the down times worse. A case in point is WA, because of the time lag when WA should have received less GST during the height of the mining boom, it was still having another decade average GST payments. Hence, there was a structural issue with the way the GST is calculated and the timing of the distribution. The NT Opposition are concerned by some of the content included in the Draft Report, which was released Monday, October 9. In particular, page 16 which seeks to change the objective of the HFE. To quote the Draft Report:

“Equalisation should no longer be to the highest state, but instead the average or the second highest State — still providing States a high level of fiscal capacity, but not distorted by the extreme swings of one State. Any material change to HFE in the current extreme environment will lead to significant redistributions of the GST. Timing and careful transition are paramount, especially to ensure the fiscally weaker States are not significantly disadvantaged.”

The NT Opposition note that it says States and not Territories. The Opposition understand the rational that underpins and informs this review and it is frustrating that resource rich States and Territories, like ours, are not doing all that they can to help themselves economically. Page 17 of the Draft Report, “The incentives for the States to undertake fiscal (expense and revenue) reforms that improve the operation of their own jurisdictions”.

The NT Opposition strongly support the existing methodology and philosophy of horizontal fiscal equalisation and disagree with page 30 of the report which states: “Overall, the current HFE system goes too far in the pursuit of equalisation and much beyond what other federations do. Arguably it also goes beyond what a unitary government would.”

Interestingly, the Northern Territory Government’s submission to the HFE review, spoke of creating superfluous positions in Canberra. The HFE professional examiner—the Northern Territory Government’s submission on page 51 stated that proposed alternatives to the current HFE system would result in more complexity and less administrative efficiency, instead proposing that a HFE advocate explain the intent of equalisation and the distribution methodology to the public in simple terms. The NT Government has also failed to reply formally to the New South Wales (NSW) initial submission to the HFE Inquiry—a smack down of Northern Territory Government results in the area of Indigenous disadvantage. Quoting from page 216 of the NSW submission:

“Participants have raised several accountability concerns with the HFE system, more specifically. One concern discussed in chapter three is that a lack of direct accountability for the spending of GST payments means that some states do not deliver services to the national average level, despite being provided the fiscal capacity to do so. For example, the Northern Territory’s very high GST relativity is driven by its high proportion of Indigenous and remote Territorians, yet critics have argued that its GST payments are not spent on improving outcomes for Indigenous people.”

There are situations where the NT would win under the proposed reforms. It is incumbent upon the NT Opposition to work with all interested parties to advance the case for these changes. It will take a whole of community approach, politicians, industry associations, and business to make the case to counter parts in the other States and Territories.

Ultimately, all States and Territories need to sign off on any change to the way the GST is distributed. This was the case when the GST was introduced. All States and Territories got together initially to agree the 'rules of the game'. Likewise, in 2001, a review into the 'rules of the game' found disquiet in some quarters but no broad consensus.

So making the case to other State and Territories is critical. The Northern Territory is a small jurisdiction, with approximately 1% of the national population.

On page 242 of the Draft Report of the HFE Inquiry, under the heading Expenses and Revenue-only Equalisation shows how the Northern Territory could improve its current share of the GST distribution:

"Expenses-only equalisation removes all distribution of GST payments associated with differences in States revenue-raising capacity along with receipts of other Commonwealth Government payments. States vary significantly in their revenue-raising capacity, so this approach leads to increased payments for states with strong revenue-raising capacity that also have high service delivery costs which continue to be equalised under this approach. For example, WA's GST payments would increase by $2480 per capita while the Northern Territory would receive an increase of $1380 per capita."

To reiterate it is the Territory's higher expenditure needs rather than the lack of its major revenue raising effort which drives the Territory's high need for GST revenue. The Northern Territory uses this GST and Commonwealth tied funding to provide critical government services in the Territory, such as health, education, police, and roads.

Elaborating on the reason why cost of service delivery is higher in the Northern Territory one must consider not only the demography but the geography of the Northern Territory. The population of the NT is approximately 245,000. Approximately one person every 5 kilometres.

There are vast distances of open road with no people between population centres. 130,000 or 57% of our population are in Darwin, Palmerston and the Rural Area. Alice Springs with around 28,000 people and Katherine with around 10,000 are the next biggest population hubs in the NT. The remaining 70,000 people are spread across the rest of the Northern Territory, across a vast region and very remote from urban centres.

As one can imagine, this makes service delivery in the Northern Territory much more expensive per head of population than any other jurisdiction. Travel costs are high due to the distances Territorians have to travel. The ability to attract and retain staff in remote areas is always difficult and an ongoing issue. The cost of attracting and retaining staff and constructing and maintaining the necessary infrastructure in remote areas is far more expensive than in urban areas, which contribute to higher service delivery cost. The other key reasons why per capita government service living costs are more expensive in the Northern Territory than other jurisdictions, is that more than 90% of the 70,000 referred above as living outside of the major population centres are Indigenous Territorians.

The Commonwealth Grants Commission, in its 2017 update report calculated that the Northern Territory is having an accessed expenditure of $19 072 per capita. This nearly doubles the second highest jurisdiction of WA at $10 198. In contrast, the CGC assessed revenue per capita of the Territory of $5029 is very close to the national average of $5121, higher than that of Victoria, which is $4688, Queensland at $4960, South Australia at $4241, Tasmania at $3847, and the ACT at $4275.

It is the Territory's higher expenditure needs rather than the lack of its major revenue raising effort which drives the Territory's high need for GST revenue. The Northern Territory uses this GST and Commonwealth tied funding to provide critical government services in the Territory, such as health, education, police, and roads.

Structural fragilities in the NT Economy

The NT Opposition have concerns with what could be considered as an over-reliance by the Territory economy on construction. We highlight the sectoral contribution to Territory Gross State product (GSP) found in the Budget Paper Economy Overview.[2] Chart 8.1 of Budget 17/18 Budget Paper 2 shows a 19.3% of GSP directly attributable to Construction.

The NT Opposition recognise the importance of a clear economic plan. Going forward there is a need to further diversify the economy, reduce the importance of any one sector and hence reduce the likelihood of prolonged downturn.

Recommendations of the Draft Report of the HFE Inquiry

The NT Opposition welcomes the Draft Report of the Productivity Commission into HFE, and thanks the Productivity Commission for their efforts to date.

The NT Opposition has read in full the Draft Report and the recommendations contained therein. The 277 pages of the Draft Report have not convinced the NT Opposition of the need to move away from the current system of HFE. It is unclear as to how this report values fairness.[3] As a philosophy the NT Opposition strongly believes in the principle of open, transparent public engagement based around frank public consultation. Expanding on the point about fairness, it is difficult to see how a move away from a full equalisation distribution model to a second best or “reasonable equalisation” model is fair in a Territory context.

The NT Opposition also notes the usefulness of the Commonwealth Grants Commission (CGC) 29 September 2017 publication “Principles of Horizontal Fiscal Equalisation”. In this paper, the CGC rightly points out that the role of the CGC is to develop the architecture and administer HFE.

NT Opposition concerns regarding policy neutrality are reflected in the CGC submission in the Draft Report on HFE by the Productivity Commission. This is especially true when it comes to the mining assessment. More can be done to ensure that Governments do not indefinitely lock up their resources, outsource decision-making or shirk the challenge of economic reform.

The NT Opposition recognises the importance of policy neutrality when it comes to HFE, and further acknowledges the desirability of a system of a GST distribution that does not inhibit, delay or dis-incentivise wealth generating, growth enabling economic reform.

On this point there are many current policy debates for example the development of a well-regulated onshore gas industry in the Northern Territory. The HFE architecture should support and enable Governments to be innovative, agile and bold in advancing economic growth enhancing reforms over the medium to long term.

---

[2] https://budget.nt.gov.au/home
[3] http://www.pc.gov.au/inquiries/current/horizontal-fiscal-equalisation/draft

It is of the utmost importance that the Productivity Commission record that the NT Opposition, having consulted widely, rejects any move away from the current distributional model for HFE. Changing the objective of HFE from distributing GST revenue streams from “full” to “reasonable” or partial equalisation.

The NT Opposition point out that it would be exceptionally useful in understanding and considering the Draft Report for there to be clarification around the definitions of “reasonable” and “partial”. The NT Opposition note that the CGC submission in the Draft Report acknowledges that an “equal per capita share is inimical to achieving core equity rational underpinning Horizontal Fiscal Equalisation.”

The Opposition understands the alternative approaches outlined in the Draft Report of the PC HFE inquiry. Prima facie, many of the partial equalisation distribution approaches would entrench disadvantage. The idea of a ‘strong State premium’ is incoherent with the philosophical foundations of the Federation. It would in practice widen the gap between the strongest State and the rest. The partial equalisation 90/10 option which sets up a winner’s bonus would see ‘the Rest’ fall quickly into relative decline. The effects of the winner’s bonus will compound annually and exponentially. The NT Opposition do not support this option or philosophy.

The NT Opposition believes that HFE is a requirement for the sustainability of self-government over the medium term. The NT Opposition strongly believes in the existing model of HFE. Similarly, the NT Opposition believes that the current precepts and methodological framework critically underpin the viability of self-government. Any deviation from the hereto agreed tenets of HFE and the foundations of self-government become challenged.

Challenges/Opportunities

The NT is a small developing economy. It is an economy with rich mineral resources but very significant geographical challenges. There are a number of challenges unique to the Northern Territory, and the NT Opposition would like to restate these at this time, namely Indigenous disadvantage (Closing the Gap), remoteness and Developing the North agenda.

HFE has served the Commonwealth, the States and Territories well for many decades and the case to change has yet to be demonstrated or proven. In addition, critics of the current model have failed to provide a workable alternative.

In the Northern Territory there are several opportunities that HFE directly benefits and unlocks. The first of these is the geography of the NT. The NT is less than 2 hours by plane from our major trading partner Indonesia. Maintaining “equal” (as opposed to “reasonable”) services in the NT will help attract more people. Critically, providing a nationally comparable level of service and amenities will keep people in the Northern Territory.

Ensuring the long run viability and sustainability of the NT is very dependent on the ability of the jurisdiction to attract and maintain population numbers. This is projected to fall by 0.3 per cent next financial year. One of the very important considerations in relation to attraction and retention is the provision of services and infrastructure.

For the NT to grow and achieve sustainable population growth it will require levels of service provision comparable to competing Australian jurisdictions. It is important to note that the NT, while having one of the largest social provision obligation challenges, has as a corollary and consequence the smallest taxable base of any jurisdiction. This has obvious negative effects on the ability of the NT Government to raise own source revenue.

Similarly, the fiscal capacity of the NT must also be viewed in light of the fact that 50% of land in the NT is subject to some form of Native Title, with 80% of coastal waters being under Native Title. This is not necessarily an insurmountable barrier or impediment to economic growth. It is however an important consideration when it comes to some of the challenges of development, potential to develop, and the knock on consequences for NT Government revenue.

This review into the HFE framework comes in the wake of sustained criticism of the current model from New South Wales, Victoria, and in particular WA. The NT Opposition recognises the challenges that each of these States face with respect to financial and economic management, as well as the long term certainty and sustainability of revenue streams.

However, abandoning a heretofore workable framework for providing a level of services across the country because of temporary opposition from some jurisdictions could be viewed as ill judged. Indeed, it could be viewed as knee jerk and would not address the underlying issues around productivity, competitiveness and sectoral make up at play in those economies.

The NT Opposition also notes and supports the WA Government acknowledgement on page 9 of their submission to the Productivity Commission (PC) Review of HFE (2017) when they state that:

"Western Australia agrees that States that have a weaker fiscal capacity, through no fault of their own, need financial assistance so they can provide an acceptable standard of service to their communities".

There are better and more appropriate ways, means and forums to resolve inter-State tensions over the equity of GST revenue distributions than by discarding a longstanding and successful methodology. The NT Opposition does not support any change to the current principles and practice of Horizontal Fiscal Equalisation.

Addressing Draft Report recommendations

'While the specific practice of HFE has always been debated, it is now under significant strain as Western Australia's share of the GST has fallen to an extreme low.'p2 Draft report.

While the above is a true statement of the current position, it is a temporary situation. In the past there have been highs and lows, such is the cyclical nature of distributions. In fact, the system is set up to act as an automatic stabiliser with cycles designed to run counter to the prevailing economic conditions in States and Territories.

There is a question about the effectiveness of the current methodological architecture underpinning HFE. Arguably the current system is very poor at catering for economic transition, or transitioning economies i.e. do the settings respond quickly enough when an economy goes from growth to recession.

The NT Opposition note and question the pessimism inherent in the statement that HFE now 'embodies an undeliverable ideal' p2 Draft Report.

Yet, it is worth looking at the GINI index of regional disparity for international comparisons. Greece, Sweden and Japan all attain better scores, or have less disparity between regions, in effect demonstrating a better, more complete, more 'ideal' horizontal fiscal equalisation (OECD, 2007).

In 1933, and following the threat of Western Australia's succession, the Commonwealth Grants Commission (CGC) was established to make recommendations on these special grants. This was done on the basis of making it possible for a claimant State 'by reasonable effort to function at a standard not appreciably below that of other States.'

In recent times as Western Australia's share of the GST has fallen to an unprecedented low. This 'new low' has been anticipated since 2011, but arguably not at the time the GST distribution deal was struck in 1999.

The NT Opposition finds it most interesting to note the following statement found in the Draft Report:

'Extreme conditions eroding confidence in the system' (Draft Report, 2017).

This is an interesting statement when viewed in the light of the current prevailing macroeconomic environment. The NT Opposition observes Reserve Bank of Australia (RBA) operations have kept the cash rate at 1.5% for an unprecedented 15 months. The Volatility Index (VIX)[4] has stabilised from the dramatic movements seen during the Global Financial Crisis (GFC).Additionally, Quantitative Easing (QE) programs across the world are being rolled back in response to improve business and consumer confidence. This wind up of QE programs is being led by the United States Reserve Bank.

This point about "extreme conditions eroding confidence" directly relates to a specific State (Western Australia) at a specific time (present). It is worth noting that recommendations should be based on evidence over a long run period and over many jurisdictions. This observation in the Draft Report seems more a point to cater to the political exigencies of the day than to assess the long run merit or otherwise of the current system of HFE.

The NT Opposition contends that WA's poor fiscal predicament is the result of that State's own poor fiscal management. In per capita terms, the State's total nominal expenses increased by 94 per cent, compared with 80 per cent for the rest of Australia from 2000 to 2015, and it went from being the second lowest paying State government to the second highest. While the WA Government's increased fiscal capacity likely played a role, market driven forces (for example, competing with the mining sector and the need to attract workers to more regional locations) were also a significant driver.

The Draft Report makes reference to how "mining poses particularly large problems for policy neutrality" (p13, Draft Report) and goes on to cite iron ore production as an example. This point is obviously directly referencing WA.

The Draft Report states that,

"Mineral and energy resources are very unevenly distributed across States. For example, over 98 per cent of all iron ore production is in Western Australia. In such extreme situations, Western Australia's policy is average State policy — and the mining assessment is not policy neutral because the State's own choices directly influence the level of GST payments Western Australia receives."

If the above is accurate, it could also be considered somewhat selective, misleading and problematic as it does not give a full or fair picture of mining operations across the Commonwealth. That is to say that while iron ore production is a key commodity mined for export, it is not the only one mined across Australia. Here we cite examples of rare earths, bauxite, gold, coal, nickel, salt etc.

Simply put to say that "mining poses particularly large problems" but proceed to cite only one commodity is at very least problematic.

[4] The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500index options, calculated and published by the Chicago Board Options Exchange (CBOE).

'The current system is beyond comprehension by the public...lending itself to a myriad of myths and confused accountability.' (Draft Report, 2017). Arguably, quantum physics or neurosurgery is beyond comprehension by the public but the public would not want either of these important areas changed.

'Timing and careful transition are paramount, especially to ensure the fiscally weaker States are not significantly disadvantaged.' (Draft Report,2017).The NT Opposition recognises the importance of this acknowledgement from the Productivity Commission that any move away from the current system of HFE will have significant and lasting consequences for States and Territories. We would further submit that the true effects of any changes have not been modelled, forecast or understood in any great detail.

Less contemporaneous equalisation can exacerbate the budget cycle where State fiscal situations change abruptly — as happened to Western Australia during the mining boom. In this instance, the three-year assessment period and two-year lag in the system resulted in declining GST relativities coinciding with falls in royalty revenue, thereby exacerbating the effects of the economic cycle on WA's budget.

At the same time, averaging provided WA with above standard levels of service when the boom was ramping up. Something similar occurred to New South Wales years earlier when a property boom and stamp duty revenues collapsed.

2001 Review into HFE

New South Wales, Victoria and WA argue that HFE disadvantages them. In November 2001, they commissioned a Review of Commonwealth/State Funding to examine the methods used to allocate Commonwealth grants among the States including the application of HFE.

Focusing on average levels of service and delivery, critics argue that HFE does not provide an incentive to improve efficiency. The Victorian Government submission claims that States that undertake reform to cut costs are penalised while inefficient States are 'compensated' for under-performance. There is, however, no consensus on how to integrate incentives that reward efficiency into HFE assessments.

White Paper on Federation- A better way to resolve inter-State tension

Going into the 2013 election the Liberal Party led by Tony Abbott promised a White Paper on Federation. The White Paper on Federation is relevant and important because it was intended to be a 'blank slate' review that would fix relations between the Commonwealth and the States/Territories.

This was an important body of work that was seeking to address some of the issues that are underpinning the current HFE inquiry. Questions around taxation powers, responsibilities and subsidiarity were all to be addressed in the White Paper. The NT Opposition believe there is merit in revisiting this work and re-asking some of those questions.

The NT Opposition further flag the possible constitutional implications brought about by changes recommended in the Draft Report i.e. changing the objective of HFE hence undermining fundamental constitutional principle of subsidiarity in a jurisdiction like the NT by in effect cutting capacity to deliver on locally made decisions.

Unintended Consequences

Given the geostrategic importance of Darwin, and the Northern Territory more generally, it is surprising then to note that the Draft Report of the HFE Inquiry suggests a move from ‘full’ to ‘reasonable’ equalisation be considered. The question it begs is how would any such move from ‘full’ to ‘reasonable’ equalisation effect, if at all, the roll out of the Defence White Paper (2016).

Under scenarios modelled in the Draft Report the Northern Territory could see significant reductions in annual income from GST distributions. The magnitude of these reductions is in the order of hundreds of millions to billions of dollars. In the context of a small developing jurisdiction with an annual income of approximately six to seven billion dollars such massive reductions in income would severely impact the ability of the NT to deliver essential government services and functions.

If the NT is unable to provide essential services or functions, for example adequate and/or sufficient police coverage, what impact will this have on the delivery of the White Paper roll out as is. If military assets cannot be secured or critical transport infrastructure maintained what effect will this have on Defence and their operations in the Northern Territory.

The roll out of the Defence White Paper does not just address Defence but also nationally agreed objectives such as ‘Closing the Gap’ by addressing Aboriginal disadvantage.

Observations on HFE

When GINI Index for Regional Disparities is used one can see that Australia under the current HFE system performs well (very well) but there are countries ahead of Australia e.g. Japan and Sweden. The average Gini index for 26 OECD countries is 0.15 (OECD, 2007).The central features of fiscal equalisation systems can be assessed using a few key variables (Dafflon and Vaillancourt, 2002). It is interesting to note what the current system has achieved in an international context.

The NT Opposition believes that the HFE improves resource allocation by encouraging decentralisation and thus reducing the 'diseconomies' of large cities.

Conclusion

The NT Opposition, having consulted widely, rejects any move away from the current distributional model for HFE which seeks to change the objective of HFE from distributing GST revenue streams from “full” to “reasonable” or partial equalisation.

To restate, the NT Opposition believes that HFE is a requirement for the sustainability of self-government over the medium term. The NT Opposition strongly believes in the existing model of HFE. Similarly, the NT Opposition believes that the current precepts and methodological framework critically underpin the viability of self-government. Any deviation from the hereto agreed tenets of HFE and the foundations of self-government become challenged.

The NT Opposition note that while jurisdictions can oscillate from millionaire to mendicant, and can go from being GST ‘winners’ to ‘losers’, these differences are equalised in the long run. To amend a system that has served States and Territories over a considerable period well through full economic cycles, would appear misguided and myopic. There are also alternative approaches that may be considered to mollify inter State tensions.

It is evident that any change to the current method of distributing GST and/or alterations to the formulae that underpin HFE, and hence GST revenues, will have a dramatic impact on the Northern Territory economy. (Effectively, it would mean 'the end of the Northern Territory as we know it'.)

On behalf of Territorians the Northern Territory Opposition believes that the current system of HFE is working effectively. Those seeking to move away from the current model have yet to demonstrate clear evidence of a more certain, efficient, effective, or equitable model. For this reason, among others, we request that there be no change to the current methodological framework around GST distributions.

Reference Material

- Fiscal gap - the difference between revenue raising capacity and expenditure needs
- Vertical fiscal imbalance - the difference between own tax revenue and own expenditure of a jurisdiction
- Vertical equalisation - the transfer of fiscal resources from the central government to sub-central governments