



Australian Government
Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO HORIZONTAL FISCAL EQUALISATION

MR J COPPEL, Commissioner
MS K CHESTER, Commissioner

TRANSCRIPT OF PROCEEDINGS

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5 **MR COPPEL:** Good morning, everyone, and welcome to the public hearings for the Productivity Commission's Inquiry into Horizontal Fiscal Equalisation. My name is Jonathan Coppel. I'm one of the Commissioners on the inquiry and I'm joined by Karen Chester, the other Commissioner on the inquiry and Deputy Chair of the Commission.

10 I would like to begin by acknowledging the traditional custodians of the land on which we meet today, the Whadjuk people of the Noongar Nation. I would also like to pay my respects to elders, past and present.

15 This is the first day of public hearing, first of two days of public hearings in Perth. We will also hold hearings in Melbourne, Darwin, Adelaide and Hobart in the next three weeks, and we will then work towards completing a final report which will be submitted to the Australian Government in early 2018.

20 Participants that have registered their interest in the inquiry will be advised when the final report is released by the government, which may be up to 25 Parliamentary sitting days after completion.

25 Just some brief points on the conduct of the hearing. The purpose of these hearings is to facilitate public scrutiny of the Commission's work, and to get feedback on the draft report. We would like to conduct the hearings in a reasonably informal manner, but I do remind participants that a full transcript is being taken and for this reason comments from the floor cannot be taken. But at the end of the day's proceedings I will provide an opportunity for anyone
30 who wishes to do so to make a brief presentation.

Participants are invited to make short opening remarks. We ask you to keep those brief, in the order of five to seven minutes. This will allow us to discuss matters raised in submissions in greater detail and follow up on the
35 brief introductory remarks.

Participants are not required to take an oath, but are required under the Productivity Commission Act to be truthful in their remarks. Participants are also welcome to comment on other issues raised in hearings today or in
40 submissions.

The transcript that is being taken today will be available from the Commission's website following the hearings. That usually takes a couple of days. Also participants' submissions to the inquiry will be available, or are
45 available, on the website.

On another matter of inquiry process, are there any media in the room here today? Yes, okay. We do have some general rules that apply and, if you haven't already done so, speak to one of our staff to get what those rules are. Most importantly though there is no video or audio recording of participants allowed past this point without our prior permission.

Now, before we continue in order to comply with the Commonwealth Occupational Health and Safety legislation you are advised that in the unlikely event of an emergency requiring evacuation of this building, alarm tones will sound followed by an announcement alerting everyone to evacuate the premises. So please follow all instructions from hotel floor wardens and do not use the lifts.

They are the introductory formalities. Now I would like to invite participants representing the Chamber of Commerce and Industry of Western Australia to come to the front, and when you are ready and comfortable if you could give your name and affiliation for the purpose of the transcript, and then a brief opening statement. Thank you.

MS WILLMOTT: Good morning. My name is Deidre Willmott and I am the Chief Executive Officer of the Chamber of Commerce and Industry of Western Australia.

MR NEWNHAM: And I am Rick Newnham. I'm the Chief Economist at the Chamber of Commerce and Industry.

MS WILLMOTT: So on behalf of the members of the Chamber of Commerce and Industry of Western Australia I would like to thank you, Commissioners, very much for making the journey to Perth and for engaging with the Chamber of Commerce and Industry and other interested parties in Western Australia about this issue that is very important in Western Australia, and we thank you for your draft report which we believe makes some very important comments, observations and potential findings that we would like to discuss with you in detail this morning.

Perhaps if I can just give a little bit of background to the Chamber. We are the peak industry organisation of Western Australia. We have 9,000 members across every industry and every region of the state, and our members are very much focussed on the State Government, on good financial management within the State Government, and are very focussed on those taxes that impose on business in Western Australia.

Following this year's state election we surveyed our members as to their top three priority policy areas that they would like us to focus on for the balance of the year, and number two was GST. And when we drilled down it was that businesses in Western Australia were very concerned at the growing deficits and debts of the State Government, and that the GST was not returning in the

way that we expected that it would after we had worked through very high royalties in the previous two to three years.

5 So we have spent the time since that survey focussing very much on GST,
but very much on how GST can be reformed in a way that is in the economic
interests of the whole nation. We understand that reform is not going to happen
because Western Australians are unhappy, but when we look at the GST
system as a whole we believe that there is a very real question as to whether it
10 is operating genuinely in the national interest in terms of promoting economic
growth. And certainly there has been a growing concern in Western Australia
about the ability of our Government to manage a budget that has, as one of its
primary sources of revenue, a very volatile source of revenue, and the impact
that that is having on our share of the GST.

15 So the work at the Chamber has been led by our Chief Economist, Rick
Newnham, who has, with his team, worked almost full time on this issue since
that survey result came back to us in March, so I would like to hand over to
Rick.

20 **MR NEWNHAM:** I just want to make a couple of points about our original
submission and then our second submission, which we can come back to and
discuss in more detail, if you like. As Deidre said, our starting point for this
was looking at the GST from an overview of how does it impact on the national
economy, and so our remit has fit very well into the PC's process, we think,
25 with that scope. We are not involved in this because we think that WA
deserves more or that there should be a greater share because it's fair. We are
doing this with a national economic overview, and particularly looking at the
incentives that each State has to develop under-developed industries and
undertake tax reform that will grow the economy in the long run. So that's our
focus.

30 In doing so, our initial submission highlighted that the current system is
under significant strain and that incentives have been diminished under full
equalisation to the leading State, and one of our recommendations was that you
equalise at a point lower than full equalisation, and equalise to the average. So
35 we're very pleased to see the PC draft report has drawn a similar conclusion
and has also floated equalising to the average on that basis.

40 In the draft report you also make the recommendations to look at and
discuss equalising to the average of the donor States, or to the second leading
State. We think both of those have fatal flaws and they should be dismissed in
the final report, the key reason being that equalising to the second leading State
is still exposed to the extreme outcomes that equalising to the leading State
falters under, in that if you have a simultaneous pulling ahead of the two
45 leading States you can then put the system under significant strain. One
example might be that you have another resources boom where both
Queensland and WA coincides in cyclical or structural increases.

5 Equalising to the donor States takes the recipient States out of the game,
and they then have no skin in the game or incentive to develop their own
economies because they will still be raised to the donor States. But more
critical is that equalising to the average creates a marginal incentive, or an
incentive at the margin, for all States to develop their own capacity and
advance their own capacity, because in doing so they take themselves closer to
the point of equalisation but they also raise the point of equalisation at the same
time. And that's why equalising to the average is superior to the other options,
because every time a State develops it will still lose a portion of GST but that
10 is smaller because they will shift the average at the same time. And I think
that difference is quite significant.

15 Our transition arrangements for GST have focussed on ensuring that every
State can trust and have faith in their own forecasted revenues, in their budgets.
Every State Government budgets on four years, so we have looked at those
forward estimates from the point when a change would be announced, which
we recommend should be early next year, and then the Government should top
up States that will lose out compared to their forecast revenue over the
following three years.

20 Most of the States have indicated they are comfortable with the current
variance in GST revenue, so the variance between their forecast revenue and
what they actually receive, and we have calculated that the average error in
that forecasting range is about six per cent for all the States. So, given that
25 they're comfortable with that forecast range, we've said they should be topped
up to that level and we have suggested that they should all have a minimum of
95 per cent of their forecast GST revenue.

30 Now, for every single State except for one that means they'll receive 99
per cent of their forecast revenue over the forward estimates, and for one State
it's more than 98 per cent, which we think is well within the normal variance
for a State budget. That will cost \$5 billion to the Government, and there's a
few ways that they might be able to fund that. So they're our opening
statements. We would be very happy to take questions.

35 **MS WILLMOTT:** I should just clarify. That's \$5 billion over three years.

MR NEWNHAM: \$5 billion over three years, yes.

40 **MR COPPEL:** Thank you, Deirdre. Thank you, Rick. I wanted to focus a
little bit on those transition issues that you've brought up, particularly in your
post-draft submission. This is an area - any reform will have winners and
losers, but with HFE, given the nature of how the system works, you'll always
have some winners and losers. Whether you have considered what would be
45 the impacts on some of the smaller or fiscally weaker States from a move to
less than full equalisation, other than those pure impact numbers in terms of
what the change in the distribution would be that are there today?

5 **MR NEWNHAM:** Yes. We have been very careful to ensure that every State can have confidence in their forward estimates forecasts, and that's the basis on which they do their current planning. And so we have said that should be the focus for transition arrangements, those following through years. And after that point for every subsequent budget after a change is announced the State Governments can then budget within those new parameters and expectations. So it's up to each State budget, or each State Treasurer and Premier to understand the impact of the change, and then to budget appropriately. But that's up to them.

15 **MR COPPEL:** But on that point, if I understand correctly, what you're saying is that on average there's a forecast error in budget revenue estimates of the order of about 5 per cent, and you've calculated that over a period of years?

MR NEWNHAM: Yes.

MR COPPEL: But those errors can be positive and negative errors?

20 **MR NEWNHAM:** Correct.

MR COPPEL: But what you are saying is that let's suppose that they are systematically 5 per cent or lower, and I am wondering what's the connection between looking at an average over an historical period and then looking forward say that systematically they are able to take a 5 per cent variation?

30 **MR NEWNHAM:** Yes, so the average variation, or the average error, in the forecast is 6 per cent, plus or minus 6 per cent. So that's the band in which every State has to expect that their GST revenue will fall. Whether they do it consciously or not, that's the band in which their GST forecast falls. So we've said no State should be worse off than the worst forecast error, which is minus 6 per cent. So we've said the top is 95 per cent, and then every State will have a minimum of 95 per cent of their forecast GST revenue.

35 **MR COPPEL:** For a run of years?

MR NEWNHAM: For the forward estimates.

40 **MR COPPEL:** For the forward estimates, three years.

45 **MR NEWNHAM:** For the next three years, yes. So, I mean that's within the band that they already will fall. They will already be expecting plus or minus 6 per cent, and so that's their expectation. And many of those States have put in their submissions that they believe that they are comfortable with that variance that now exists. There has been a complaint from WA that it makes it very difficult for WA to forecast, given the change in GST forecast to actual. And the other States have said, "No, there's no problem with that. We're very

comfortable with that.” So that’s been our basis for what they would expect to be guaranteed under that system.

5 **MR COPPEL:** I don’t want to labour the point, but when you say plus or minus 6 per cent, are you not assuming over each of the three years of the forward estimates that it is just a minus 6 per cent?

10 **MR NEWNHAM:** If you look in our - you’ve got a copy of our submission there. You can see the methodology that we’ve put in place. So it’s the root means square error, and you can see each State’s forecast error there over, you know, one year behind, same year, a year ahead, two years, three years ahead, and you can see that as the years - the further out that you forecast the States get worse and worse at forecasting their GST receipts. But that band is plus or minus 6 per cent, and we’re saying as a minimum every State should expect 15 95 per cent, so they won’t be any worse off than their worst possible forecast error, given the seven year average.

20 **MR COPPEL:** Okay. Could we get the workings that lie behind the calculations?

MR NEWNHAM: Sure. We will submit that afterwards, yes.

25 **MR COPPEL:** And one of the things you mention in terms of a transition in your submission is the pace of transmission, and you contemplated having an accelerating pace of implementation and then exclude that from consideration. Can you elaborate on why you’ve done that?

30 **MR NEWNHAM:** Well, if you take top up payments out of the equation for a moment and you look at the difference between current, a State’s current GST expectations and what they would receive under equalising to the average, over a very short period of time it’s a zero sum game. So if you draw a line between where we are now and where we want to be under equalising to the average, you have to transfer relatively sums between States. So you can either gradually move 25 per cent equalising to the average and 75 per cent full 35 equalisation, gradually move that up to where you want to be, 100 per cent equalising to the average, and you can change the pace of that, so you can go fast or you go slow. But at any point in there some States will lose out relative to their forecast.

40 So we very quickly came to the position that you need to top up States to give them certainty about their current budget expectations, but you may apply pacing to those top ups. So we’ve said \$5 billion is what would be required to top up to 95 per cent. If that was too much you might ask Western Australia and New South Wales, who would be recipients in the process, to pitch in some 45 of the amount that they will have as windfalls into those top up payments. So you could halve the amount that the Federal Government has to put in by

asking WA and New South Wales to halve the amount that they - or pitch in half the amount that they would receive. So that's what we mean by pacing.

5 If you take top ups out of the system altogether, and you do that over - you model that over the forward estimates, the States lose out somewhat so we have decided against that option.

10 **MS CHESTER:** So I knew Jonathan would cut to the chase and get straight to transition path and numbers, and I guess we've got the benefit of having had an earlier copy of your draft submission, and thank you for that. And thank you for the earlier submission and for the meetings that we've had. It's been very helpful.

15 And I know that you will share this post-draft report submission some time later today - - -

MR NEWNHAM: Correct.

20 **MS CHESTER:** - - - but just so we can understand what is being proposed and then I would like to come back to a couple of Deidre's opening remarks. So effectively we get to equalising to the average effectively in three years forward estimates plus, I guess, and as you've just said there's a - if you go for your 95 per cent confidence there's about a \$5 billion bill to keep people happy or whole during that, 95 per cent whole during that three year period.

25 **MR NEWNHAM:** Yes.

30 **MS CHESTER:** And you have now suggested that there could be an option for those that stand to benefit from a quick move over that three year period, New South Wales and WA co-funding with the Commonwealth to foot the \$5 billion bill. I guess where Jonathan's coming from is that getting to it in three years' time, just to understand that, because we are suggesting what could be quite a material change to the current way the GST relativities are calculated, why you didn't look at doing it over a more gradual period of time such that 35 the funding task of keeping people whole is a more gradual one?

40 **MR NEWNHAM:** Well, the funding task becomes greater. If you go for immediate implementation and then you transition with top ups over a longer period of time, you have additional payments to be made to those States to keep them whole. So it becomes more expensive to do a top up over a five year or a ten year period of time, and that then becomes too great a task to undertake for any one budget.

45 **MS CHESTER:** But I think that highlights the point that you're only keeping people whole for three years as opposed to a longer transition period, given it is such a material change. Thus you'd expect it to be more costly if you're keeping it to do the smaller States, which is one of our guiding principles for a

gradual transition hub, keeping them not significantly disadvantaged for a longer period of time. So effectively your driver here is it's only three years of keeping you whole, whereas if you're keeping them whole for a longer period of time it is going to be more expensive.

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MR NEWNHAM: Well, keep in mind you're keeping them whole for what they've budgeted for so far, so they don't have any budgets set outside the forward estimate so there's no committed expenditure for that. The other point being that equalising to the average returns the States to their - essentially before the structural change in WA's relativity it returns States to their average relativities at that point. So if you look at that chart early on in our submission - - -

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MS CHESTER: Yes, that was a really neat figure. So Figure 2 for those when they finally get to have a look at the document we've got.

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MR NEWNHAM: Yes, and so the point being that every State has received major GST windfalls in the last five years thanks to WA's iron ore production, and that's been what you would think would come from the system. But returning, changing to equalise to the average, returns States to those average relativities. So it would not be anything out of the ordinary if you take a long term view since the introduction of the GST as to what the States would expect to receive in their GST. So it's simply returning them to a pre-boom normal of what they would receive.

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MS CHESTER: Okay, well we'll leave it to you to convince the other States that that's what their expectation should be after three years. But when I actually look at that figure it makes me think, when you look at where WA stands across their long term average, you could look at that and intuitively think that there is a greater role for WA to fund a longer transition period. So I've only just raised it as a thought because we've only had a chance to read this yesterday as well.

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MR NEWNHAM: Yes.

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MS CHESTER: So do you think that would be a reasonable thought for someone who is from the eastern States?

MR NEWNHAM: We've said if you immediately changed to equalising to the average then there might be a role for WA to play in funding the transition from its change in GST receipts from that point.

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MR COPPEL: Another option, and I don't know if you've considered it, is that the policy change may be announced imminently with effect from a period say at the end of the forward estimates. That would give recognition to the way the system works with a bit of catch up. WA is a State that benefitted during the upswing of the boom period and it's now part sort of compensating

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for that. Did you look at how these numbers change by having the policy announcement with an implementation start date delayed for a period of years, which would also bear on that initial starting point for the relativities?

5 **MR NEWNHAM:** Yes. I mean, a point I probably should have made in my opening remarks is that WA's position relative to other States is a structural change. We will not return to our relativity levels of ten years ago. We now have increased capacity of iron ore production which is 60 or 70 per cent higher than what it was in 2012/13, and with a low price it looks as though we are
10 now heading back to normal relativity levels. But with 70 per cent more production in iron ore the iron ore price only needs to get back to \$75 for us to return to the same royalties as we had in 2013/14.

15 2013/14 is significant because WA was assessed as having a single year relativity of .08. So we came very close to receiving - being assessed as requiring no GST in that year. And that means that if we get to \$75 or more in iron ore, or above, WA will come very close to receiving, or being assessed to be eligible for zero or less than zero in GST. And this is significant because
20 it's the point that your draft submission comes back to, is that the system is under significant strain and will continue to be so for the next three or four decades as WA's iron ore production will likely stay where it is for that period of time.

25 And so coming back to your question which I've talked around, the implementation point, we believe, should be immediate and that you should transition immediately because implementing four years out simply just exacerbates the problem and you don't really get the relief that I think we all are expecting, for WA to return to a high relativity that then makes it easy to transition from that point. I think our relativity will stay quite low and may
30 even fall further than we've seen in the last few years.

MS CHESTER: I think there are two factors at play there I would suggest, Rick. So firstly - and it's a question that we put to you to try to help us and it's a question that we posed in our draft report. To what extent is WA being an
35 outlier State or a royalty sense, the new norm or a blip? And I think we're getting some comfort based on information from you and others that it is a structural change and it is here for the foreseeable future, and thus that pressure that the HFE system is under, the rubber band is being stretched so far, it's here for the foreseeable future. I guess the issue though is that there is a forecast
40 increase in the relativities for WA, and the cost of the implementation and the start date that Jonathan is getting to, is much greater if it's an immediate implementation than it is if we wait a couple of years for it to recover.

45 Which kind of brings us back to Deidre's opening remarks about the Chamber being very focussed on the good financial and fiscal management of the State, and I think it's fair to say certainly in your original submission and in our draft report we did have some very frank commentary around budget

management of WA which has sort of contributed to the current fiscal position, as opposed to just being solely because of GST relativities doing some significant swings and roundabouts.

5 So that does make us pause for a moment if WA is not funding that transition path as to should we hasten a little more slowly so the cost of that transition path is less as the relativities begin to recover, and it's an open question.

10 **MR NEWNHAM:** It leaves you exposed to a big risk in that if you have a big increase in iron ore price you won't get back to that easy point of transition that you're expecting. You only need one year of \$120 and you're back down to 30 cents again. So next year if we get to 50 cents or wherever the forecast is, that may actually be the easiest or the best time to transition, given the risks
15 that are exposed. Yes, I take your point though that if the relativity does increase up to 75 cents or 75, then it makes it - the task of transition becomes smaller but I think it's still very exposed to the price risk for iron ore.

20 **MS WILLMOTT:** I think the way that we were looking at it was that a practice has developed now where Western Australia is being topped up by the Federal Government because of our very low GST relativity, and we've said, "Well, if we're going to fix this system in the long term and remove the
25 remarks on the West Australian budget to absorb the volatility in the iron ore revenues, why can't we do that now and apply those top ups to the other States rather than keep topping Western Australia up in a system that is fundamentally broken?"

30 **MS CHESTER:** So I think we agree that we want to deal with the architectural longer term problem, it's just our starting point is such a very diverse band of relativities that the cost is very high and, I guess, coming back to the point, Rick, that you made it's how do we sort of share the pain of that cost? And hastening slowly with the pacing might be one way. And WA has been pretty good at forecasting relativities. Anyway, we will talk some more detailed numbers later.

35 Just coming back to the point about good financial management though, we did have some frank commentary around that in our draft report and I just wanted to know if you felt we'd got anything right or wrong there?

40 **MR NEWNHAM:** I think that's probably outside the scope of our submission, I would think. We've made it very clear that we're not doing this because of WA's current state of finances. We're doing this because of the incentives, perverse incentives it creates across other States. So it's not within our remit on HFE to comment on the WA State finances.

45 **MS WILLMOTT:** But as a matter of principle we are certainly very supportive of the initiatives that the current Government has put in place to

rein in spending, particularly the wages policy and also their targets around numbers in the public sector. These are important reforms that do need to be made.

5 Western Australia as a State was like a lot of other organisations in our State in that while we were managing such a huge inflow of investment we had a lot of pressures, a lot of skill shortages, a lot of people being employed out of the public sector to go and work in the mining industry, particularly on the construction projects. We had 600,000 people come into the State. So there
10 was certainly a lot of demand, a lot of challenges and like many organisations the public sector grew very fast, their expenses grew very fast, and the challenge has been for the public sector to find the levers to take those costs out of their services and their structures, as many businesses have had to do.

15 **MS CHESTER:** I guess it's fair to say we've had submissions from other interested parties around the fiscal management, from the fiscal management perspective, and looking at the CGC numbers of the \$7 billion earlier wrinkle on GST revenues, if that had been sort of preserved in some way for the future where you knew that the relativities were going to be falling away, the budget
20 situation would be quite different. And again, we're just sort of trying to take into account all of these factors when we look at what's the best way forward in managing a transition path.

25 **MS WILLMOTT:** Our fundamental argument would be that the GST system is broken and that that volatility is something that the West Australian budget is going to have to continue to absorb. And regardless of the financial management that led into the situation, we now have a federation where one State is running deficits between \$3 and \$4 billion, increasing its net debt, in order to transfer funds to other States to top up their budgets. And that does
30 not seem like a sustainable or reasonable expectation for the long term.

MR COPPEL: In your initial submission you had a number of options that were different from the status quo of equalising to the strongest State, including equalising to the average. Have you landed on that as your preferred option
35 because of the draft report or are there intrinsic factors from your analysis that lead you in that direction? That is one question, and the second is do you see alternatives other than those that are mentioned in the draft report that also characterise a distribution that is akin to less than equalising to the strongest State - - -

40 **MR NEWNHAM:** Yes. Our original submission - we had three proposals. Equalising to the average, discounting mining royalties and discounting overall revenue. Now, all three of those we believe create stronger incentives for States to develop, and trade off equity for efficiency, or a more balanced trade-off
45 between those two.

5 Mining royalties, we still believe there is an error in the assessment of mining royalties and that there's no potential capacity to produce - the potential capacity to produce is completely missed by the current assessment in that if there is no production whatsoever out of a State that's considered to be zero capacity, which we believe is an error, and that you could go some of the way to fixing that by discounting royalties. And I know the draft submission, the draft report, dismisses that argument but we still believe that that's the case.

10 Discounting revenue was seen as a way to incentivise development across all industries. So not just focussing on mining, oil and gas but across the entire industry. And we don't go into that.

15 But equalising to the average, we think, is - the more and more we have thought about this and the more we have studied, the more we have narrowed in on equalising to the average because particularly around its ability to remain flexible over the long term and to withstand extreme circumstances in the long run. We believe that for those reasons it's the superior option of the three.

20 **MS CHESTER:** In your post-draft report submission - well, the draft version that we've got at the moment and you touched on in your opening remarks - you sort of describe equalising to the second highest State as fatally flawed. The two Fs. I just wanted to talk a little bit about the efficacy of that statement and do you really envisage a situation where you'd have two outliers, being Queensland and WA? It's not something that Queensland anticipates. So what insights do you have that Queensland doesn't have about its future royalties?

30 **MR NEWNHAM:** If there's one thing we should have learned through this entire process it's that we must expect the unexpected out of our system, and that for one State to not foresee a particular outcome is not a reason to forge ahead with a system that is potentially flawed under extreme circumstances. So that's what we should have learned. And so it is entirely feasible that both - the two States, whether it's Queensland and WA or two others, pull ahead at the same time and we'll be left with the same very large equalisation task for those States. So I don't think we can rely on the current forecast from States to build a system that needs to last us say another 50 or 100 years.

40 **MS WILLMOTT:** As we thought it through too, we thought well, we don't want to leave the leading State with a premium that is just there, and if the leading State does have a really good year all States would benefit by and increasing the average. So we're not disconnecting other States from the fortunes of the leading State.

45 **MS CHESTER:** I guess some may look at our draft report and say our key conclusion really is don't equalise to the highest when you have such an outlier. So you can go to a world of equalising to the average, now we'll go to the world of equalising to the second highest, which during that period that

matters, sort of 2008 plus, it does reduce the equalisation burden as it has blown out.

5 If the extreme unanticipated circumstances of Queensland and WA both going gangbusters and being the outliers were to emerge, you could still then consider the Government instructing the CGC to say equalising to the second highest now is nearly equivalent to equalising to the highest, and thus we'll move to equalising to the average.

10 So I'm just trying to think through our key finding was don't equalise to the highest when you've got an extreme outlier. Equalising to the second highest really still does reduce that burden and it makes a much easier transition path, and indeed during the period 2000 to 2007 there's really no difference between equalising to the second highest and the current
15 arrangements, which makes it a little more acceptable to other States and Territories in an intuitive sense. So you can see where I'm kind of heading there with the logic. It would be good to get your thoughts on that.

MR NEWNHAM: I think the long term, the focus needs to remain on the
20 long term, not the ease of the transition arrangements. If it makes the transition arrangements easier then that's great for the next few years, but we need to focus over the next few decades. And so if you're setting up a system that you can already foresee will struggle under extreme circumstances, that's what we should avoid.

25 And so equalising to the average - and one of the key benefits of equalising to the average, as Deidre said, is that every State has skin in the game. So if the leading State does even better than it currently is, all States will then equalise to a higher point. If any of the recipient States do better than they
30 currently are then they will in turn raise the equalisation point and benefit all the other States. So it is an all States pulling together in the same directions model, and is very flexible under extreme circumstances.

35 And the other key point which should appease WA is that it is much more predictable and reliable in its ability to forecast because extreme circumstances from one State does not move the equalisation point dramatically, vis a vis the leading State. So for those reasons we think it's the superior model.

40 **MS CHESTER:** If indeed we as a nation have to choose one approach, but I take your point that the draft report looked at changing the objective and maybe that objective could be met by looking each year at what the appropriate formula would be, but we would need to make sure that over time we didn't get back into what you identified as the pure standing in the way of the best outcome.

45 **MS WILLMOTT:** Don't remind us of that wording. We've had to listen to many people who - - -

MR COPPEL: Just on that point, because clearly if the recommendation is followed then there would by definition need to be a reformulated objective of HFE. Do you have any views as to how that process should be conducted?
5 Should it be something solely within the remit of the Commonwealth Government, or do you see or envisage a role that would be played by the States and Territories?

MR NEWNHAM: In terms of agreeing what reasonable equalisation shall be? We believe, or we know, that it's totally within the Federal Treasurer's
10 remit to direct the Commonwealth Grants Commission in the next Terms of Reference, and that we believe that that's what should be done. If the Productivity Commission final report finds that it's made a significant trade-off in efficiency under the current system, then that's holding the national
15 economy back and the Commonwealth Grants Commission should be directed immediately to equalise to the average from that point forward. And it does not require, should not require, the agreement of the States, legally or politically.

MS CHESTER: So our draft report did suggest that there be a process of consultation between the Treasurer and the State parties, especially being
20 mindful of the need to formulate a transition path, and particularly put options to fund that transition path. So you're envisaging a world of a cold turkey.

MR NEWNHAM: Well no, there's consultation that is already happening between the Federal Treasurer and his State counterparts, and we all know how that consultation is going. So under those circumstances - I mean, the GST
25 and changing the arrangements has been discussed for quite some time now so I think all of the States' positions and interests are well known, and so I think there may be a short discussion that needs to happen. But there will also be
30 some time, as I understand, between the Government receiving the report and when they will have to table it in Parliament, and so during that time they may want to conduct consultation and then make an announcement with the report.

MS CHESTER: Just one other quick question around your version of the transition path, and you're looking at the top up payments being paid by a
35 Government or potentially a co-funding model against two State Governments and one Commonwealth Government, when you're looking at the numbers I guess it depends on what your benchmark of your starting point is in terms of how you make a focal whole during that three year period, whether it's against
40 a 95 per cent confidence about what their relativities were likely to have been, and we'll get some of those numbers off you later, versus the starting point of today and then looking at it in terms of the GST pool itself and the growth in the GST pool, and whether that could perhaps be a funding mechanism. Is that
45 something you thought about?

MR NEWNHAM: We did look down that path, but you end up in the same situation where - I mean, every State budget has assumed a growth in the GST

pool already so if you use the pool itself to fund the transition arrangements then you still end up with a shortfall against forecast GST revenues for each State. So it might sound like a fancy way to do it, but I think once States then begin to compare what they think they're going to receive under a new model or transition arrangements against their forecasts, there'll be a shortfall.

MR COPPEL: On that point you have a quite substantial top up payment coming from the Commonwealth in the order of \$5 billion. Do you have any views as to whether the GST itself could be a source of - changes to the GST base or rate, as a source of that revenue?

MS WILLMOTT: I think the business community generally is concerned about the disproportionate reliance on direct taxes in Australia compared with other OECD countries, and the relatively low reliance on indirect tax. So we believe that long term tax reform does require the GST to be examined, both in terms of the breadth of its application but also in the rate. But that's not the issue with horizontal fiscal equalisation. So tax reform is important and it does beg the question that if the States aren't getting enough from GST when will they look at engaging in a discussion about proper tax reform and perhaps rebalancing our tax system away from direct taxes to more indirect taxes, with a view to keeping that indirect tax base as a States' tax.

MR NEWNHAM: I think the other important point to add to that is that reforming the GST and equalising to the average unlocks a whole lot of other tax reforms that can be done after that. Your cameos were great in demonstrating that, around what State tax reform could be achieved. But also it will be very difficult, near impossible, to expand the base or the rate of the GST without the agreement of the States, and WA doesn't have confidence in the current system and so you won't have any discussion or progress around that topic without reforming the GST distribution first. So with all of those - changing the GST distribution allows you to build the foundation to do other tax reform down the road. That's the first step that you need to take really.

MS CHESTER: And I think our draft report did see stepping stones as well in terms of there's only so much we can do with HFE within the current fiscal financial relations. Indeed we have a finding and even a recommendation that some other more sort of fundamental issues be addressed in the medium to longer term. And I appreciate that a lot of the Chamber's efforts have been focussed on fixing the near term, but does the Chamber have a view of that longer term and the broader issue of fiscal Federal relations and going beyond HFE to the world of dealing with the vertical fiscal imbalance, the other three letter acronym we all love?

MS WILLMOTT: We haven't done any detailed policy work or published any detailed papers recently. In the past we've certainly made submissions to the Federal Government's Tax White Paper and other reviews. We would be happy to share those papers with you, but they're not sequential in terms of building on the work that we've currently done.

5 **MS CHESTER:** Part of the reason I raise it is that I guess the one theme in our draft report is we are in a world of outliers, but the outlier is not just WA. There are two other outliers. How we do HFE - we are a world outlier there. But the third one was dealing with Indigeneity as a disability within HFE and the system is really struggling and grappling with that, and we couldn't see our way clear in the draft report to resolving that issue separate, dealing with funding responsibilities, Commonwealth versus State, and getting some greater accountability.

10

That's not something that you've commented on, but I know that you are looking more broadly than near term. Is it - where have we landed on Indigeneity as the third outlier? It would be good to get your feedback on that.

15 **MR NEWNHAM:** We've had discussions but not landed a position on how you might change the way you treat Indigeneity in the system. One option which I think has some broad merit, without going into it in detail, is that you essentially take the equalisation of Indigeneity out of the system and then link that to direct payments from the Federal Government and, as you say, link that more closely to outcomes. The Northern Territory has the highest Indigeneity so the major change would be between the Commonwealth and the Northern Territory. But it would allow for greater accountability as to how those payments are made and the use and the outcomes that you derive from that as well. But we've not done any more detailed work than simply discuss the merits of the proposal.

20

MS CHESTER: And I guess precluding that precursor reform occurring it's difficult, as some have suggested, just to take Indigeneity out of the HFE system.

30

MR NEWNHAM: Yes.

MR COPPEL: Thank you very much.

35 **MR NEWNHAM:** That's great. Thanks very much.

MS WILLMOTT: Thank you very much.

40 **MS CHESTER:** So we look forward to being able to put your submission on to the website today.

MR NEWNHAM: Yes.

45 **MS CHESTER:** Can you please allow us to do that some time later this afternoon - - -

MR NEWNHAM: We will.

5 **MS CHESTER:** - - - so all the other folk get to enjoy the read. And we would really appreciate getting the underlying numbers for forecast and assumptions that underpin your post-draft submission.

MR NEWNHAM: We will share that with you today, yes.

MS CHESTER: That would be great. Thank you very much.

10 **MR NEWNHAM:** Thank you.

MS WILLMOTT: Thank you very much.

15 **MR COPPEL:** Our next participant is the WA Party, Andrew Mangano. If you could, when there's a seat available, make your way to the front and when you're comfortable give your name for the purpose of the transcript and some brief opening remarks, thank you. Please start.

20 **MS CHESTER:** Hey guys, if you want to have some conversations outside would be appreciated.

25 **MR MANGANO:** Thank you, Commissioners, for your time today to give us a chance to put our case forward for the HFE inquiry. My name is Andrew Mangano and sitting next to me is Julie Matheson who is the leader of the Western Australia Party. Just referring to the slides, I will just read through them quickly. Basically the party was called the Julie Matheson of Western Australia Party until recently and has now become the Western Australia Party. The party convenor is Julie Matheson and the party secretary is Stephen Phelan. We have approximately 600 members, and the party made submissions to this inquiry and a number of other inquiries recently.

30

35 Basically in summary the GST was established in 1999 to replace sales tax and a number of other taxes, and across Australia it is forecast to raise about \$63 billion this financial year of which WA, being 11 per cent of the population, raises about \$7 billion of that. But because of our very poor allocation, 3.7 per cent, we're only getting \$2.3 billion of that \$7 billion, leaving \$4.7 billion leaving the WA economy never to return.

40 State taxes in WA raise about \$8 billion per annum, which is relatively small compared to what the Commonwealth gets, and \$5 billion of that is through three particular taxes which we find basically outdated and it forms a double taxation, being payroll tax, stamp duty and insurance duty.

45 Now, if the Government was really serious about reform these are the taxes that should be targeted because these taxes are firstly double taxation, they create negative impacts, serious negative impacts on employment.

The Government has just raised the payroll tax here in Western Australia. Now, what effect is that going to have? Of course the first thing is it's going to say let's get rid of a few people. If I was a large employer I'd be saying, "Well, how am I going to save money? Get rid of a few people."

5

The other one being stamp duty. Stamp duty is particularly innocuous because stamp duty is a very large amount of money, especially when you're buying a house. For young people buying a house today - when I bought my first house in '88 I think I paid \$2,000 stamp duty. Now, the same person to buy the same - if I was buying that same house today it would be more like \$30,000. Now, that's a serious increase, tax creep, right.

10

And I know this is off the HFE subject, but what I'm saying is without HFE reform these taxes can't disappear. And then of course insurance duty, another \$700 billion raised just for paying your insurance. Is that a good tax? No. It's also a double tax, the same as the other two.

15

Royalties raised about \$5 billion. Now, they're volatile as everyone else will tell you. It's very volatile. We can't rely on them. And not only that, we've had to spend \$40 billion over how many years to basically fund the growth that basically created those royalties. You know, the infrastructure, the support, mining and the increased - what, 600,000 people who moved to Western Australia during that time.

20

Now, people say, "Oh yeah, the Government wasted, the Western Australia Government wasted its money." Particularly the Tasmanians, I imagine, that would say that. What do you think? 600,000 people need roads. They need rail. They need services, water. Those services don't come for nothing, right?

25

30

WA needs a stable and fair revenue stream without resorting to double taxation. As I indicated, WA is a very big state, 33 per cent of the land mass. It creates significant additional costs to provide State Government services across the State compared to say a smaller State, like Tasmania or Victoria or the like. They don't have the roads that we build. It costs \$1 million per lane kilometre to build a road. That's a lot of money to spend to build a road. And those sort of infrastructure builds just have to be funded from somewhere.

35

We also don't have an open slather on gambling here. We've only got one real place that you can gamble in Western Australia apart from the TABs and private betting agencies, which is the casino. So the revenue from gambling is relatively low in Western Australia. We don't want to have gambling become a revenue source like it is in other States. And in fact it's not even - it's quarantined anyway from the HFE calculation in my understanding.

40

45

There is little incentive to raise royalties at all, or any tax, because when you could potentially lose 88 per cent of it out the door. Why would you bother raising a gold tax when you're going to lose 88 per cent?

5 The simplest way to give WA a fair go is to receive 100 per cent of the GST per capita share. Other forms of equalisation that should be considered to give a fair go to Western Australia - I mean, infrastructure funding already comes from Federal Government funds other than the GST. You know, roads, rail and other infrastructure. Even hospitals, et cetera, education.

10

 We also would need, and deserve, defence spending to increase in Western Australia. We are only getting a pittance of what's being spent in in the defence side of things in Western Australia.

15 And we also think that Commonwealth equalisation funding shouldn't be used just to, you know, prop up the Government with no real use for that, no defined use for the money. In other words, not for infrastructure, just for, you know, employing public servants. GST, in our view, shouldn't even be used for equalisation. I mean you're quarantining everything that's subject to GST,
20 but you don't talk very much about other forms of taxation that the Government creates, raises, Federally and that uses equalisation tools in other States and in Western Australia.

 So in summary, Western Australia's economy is losing approximately
25 \$4.7 billion this year and it doesn't look like that's going to change significantly. 100 per cent of the GST share pool is - a 100 per cent per capita share of the GST pool is the simplest way to deliver a fair go to Western Australia. GST should not be used for equalisation between States.

30 Payroll tax, stamp duty and insurance duty are all outdated forms of taxation and produce negative impacts on employment, trade and the economy generally. These taxes should be abolished in due course, and Western Australia does deserve a fair go in this review.

35 **MR COPPEL:** My first question is picking up on one of your latter comments that GST shouldn't be used for equalisation, we should use other tools. What other tools do you have in mind?

MR MANGANO: Well, how much does the Government raise totally in
40 Federal taxation? \$300 billion per annum, something like that. Am I correct? \$300 billion swamps \$63 billion. I mean, that's what I'm trying to tell you. There's a lot more taxation that the Government, Federal Government - taxation levers that the Federal Government has to play with, but they focus purely on GST. I don't know why, but it's like yes, we'll just use GST for that
45 and don't tell them about the other \$300 billion that we're raising.

MR COPPEL: I think about half, half GST and half other transfers.

MR MANGANO: Yes, yes.

MR COPPEL: So you are saying that income tax should be used for - - -

5

MR MANGANO: Yes, well any form of tax. I mean, they raise - there's company tax, income tax, FBT, capital gains. There's lots of tax revenues that the Government has. But as I said, it should be really only towards infrastructure spend because they're the big ticket items that State Governments need to fund their - you know, the small - like, they build a railway line that Metronet would - this Government is currently proposing. That's billions of dollars. You know, it's not small change. The money has got to come from somewhere, and certainly we haven't got the money at the moment to do it.

15

MS CHESTER: So I think the sort of reforms that you're envisaging are ones that were contemplated by the Commission of Audit a couple of years ago, that is taking the GST pool and moving it to distributing on an equal per capita basis, then with a top up arrangement for some of the smaller States. But that was only countenanced in the context of doing reforms of taxation arrangements from the Commonwealth and State Governments, and Jonathan has touched on income tax and that's what the Commission of Audit had in mind.

20

25 So I think in the terms of our inquiry we were talking about the potential for longer term fiscal Federal reform. Those sorts of options can be considered in that context, but I'm not - so in terms of just reforming HFE within the current arrangements of taxing powers and responsibilities, Commonwealth versus States, we are taking the previous agreement that the GST was struck upon, i.e. it was meant to be used for the purposes of horizontal fiscal equalisation.

30

 So I think where you're taking us is further down the track of those broader reforms. Am I right in - - -

35

MR MANGANO: Yes, yes.

MS CHESTER: Okay.

40

MR MANGANO: We see GST just being split on a per capita basis and then other taxes to be used to do any equalisation, but again specifically not to be used for business as usual type activities.

45

MS CHESTER: Okay. And when you talk about the two issues for WA, so all the expenditure on infrastructure and the like that was related to the mining boom and the build up to the mining boom, and some of the disabilities about remoteness and breadth of land to cover, so the current CGC arrangements do

take into account those expenditures and those cost disabilities when they do their assessed expenditures and assessed revenues across the State. So is there something in the way the CGC is doing that at the moment that - - -

5 **MR MANGANO:** I think it is flawed because we can't have got this pool at
a return, like 34 per cent or whatever it is, without having - you know, taking
these things into account - with taking these things into account, I should say.
Yes, I feel that they've either underestimated what WA is actually spending or
they - yes, that's my view, it probably is they've underestimated it, just
10 seriously have underestimated just how much it costs to run a State this big,
yes, and with an ageing infrastructure too, I might mention. A lot of this
infrastructure in the metro area and - that has been added on to because of the
600,000-odd people that moved to Western Australia, who a lot of them live
in Perth, they've stretched the infrastructure to the max and what I'm trying to
15 say is that I don't think the CGC would have taken that into account.

MR COPPEL: If you replace the GST with some other Commonwealth tax
source for horizontal fiscal equalisation, how does that ultimately change the
bottom line if they continue the method that they have? You're just switching
20 one funding source for another.

MR MANGANO: Well, I haven't modelled it. Obviously I'm not an
economist, but I feel that that is the right way to head to go. It may not
necessarily - what I'm trying to say is it won't penalise WA as bad as it is being
25 penalised now. The way it is now it's almost a one way street. We can't win.
We can only lose. Whereas if you look at it - you know, just where is the
infrastructure required in Australia? If it needs to be in New South Wales, we
spend the money in New South Wales. If it needs to be done in Western
Australia, it needs to be done in Western Australia. If it needs to be done in
30 Tasmania, it needs to be done in Tasmania. But at the moment it's just a one
way street, money going out the door in Western Australia and no thought
about where it's being spent and how it's being spent in those other - in the
recipient States. That's my view.

35 **MS MATHESON:** If I might add - thank you very much for the opportunity.
If I might add, the size of Western Australia, 33 per cent of the land mass,
we're getting one small pot of GST money for our land mass. Now, on the
eastern States they're getting three plus pots of money for their land mass. So
there's the inequity there straight away. And if you want Western Australia to
40 have a larger population which would mean we would get a larger share of the
GST because part of the calculation is based on population, then to help us
with our population we need the infrastructure to build throughout our State,
to make our State even better.

45 I mean, if we really resourced and made the best and the most out of the
resources, the rest of Australia would prosper immensely. But the GST as a
one small pot of money to build the infrastructure that we require to do what

we can do for the rest of Australia is very unfair. We're now three pots of GST money for the same land mass in the eastern States. So I think it's a very - we are at a disadvantage straight away.

5 And at the time of Federation our - Western Australia was very concerned about that, the fact that we were subsidising tariffs and we were very reluctant to join the Federation because of the subsidising of tariffs in the eastern States.

10 Now, at the moment we are subsidising all of the eastern States and we're encouraging some of those States to sit back and watch Western Australia dig up every inch of land, minable land, and farm every bit of arable land, just to make ends meet. So we have exported \$1 trillion of minerals since the GST came about in 2000. \$1 trillion we've exported. Not taking into account the farm and other exports that we could have. And we have \$40 billion in debt to show for it. And it's not the mismanagement of the State. It's because of the mining, the extreme mining boom we've come through.

20 And I was born in Port Hedland in Western Australia, the economic hub, I might say, of this country. And our mining companies are doing everything possible to keep and maintain the prosperity of Australia, but when they're under pressure for mining royalties to increase because Western Australia is doing so badly, we're putting the prosperity of all Australia at risk.

25 Now, our mining companies are doing the best they can. Our State is doing the best it can. So the GST, in our view, 100 per cent needs to come back to Western Australia so that we can manage the things that happen in Western Australia. We need to be able to manage that.

30 And I find it a little bit strange that we're an outlying State. I mean, surely we are a State of Australia, not an outlying State. And I think that there needs to be a different perspective put on Western Australia. It's really important to the whole of Australia that Western Australia is not an outlying State. It's an important State.

35 **MS CHESTER:** Julie, by all means our reference to Western Australia being an outlying State is a positive, and it's not meant to be a pejorative. It's - you know, the mining boom has meant that Western Australia is ahead both fiscally and economically than it would have otherwise have been, and that's what we mean by - it's the fiscally stronger State by a great distance to other States and Territories because of those mining royalties.

40 **MR COPPEL:** So, your key recommendation is moving to a distribution of GST on per capita terms. That would have big shifts in terms of the GST allocation, and one of the areas that we're doing more follow up work is on how you would transition from what you have today to some other model. Can I ask you what you would envisage then as a way of transitioning to equal per capita and maintaining some form of fiscal equalisation?

5 **MS MATHESON:** I think we raise - Western Australia raises a lot of income tax and all the various taxes. We are a big contributor to the tax pie of the Federal Government. So I think, you know, the handouts or the top ups as we call them, why not just give us our GST, let Western Australia manage its finances on its GST, and if other States need top ups because they've had less GST then you could use those top ups to help them with their infrastructure so that they can properly resource their State, and look for all the opportunities, economic opportunities, to grow their State with that money.

10
15 Because whether we get the top ups or not, we are going to grow our State. That's just in the mindset of Western Australia. We are going to grow our State. But we don't like being disadvantaged by expecting to get X amount of dollars in the GST, as Deidre and the other economist said. We're doing some forecasting on how much GST and how much revenue we're going to get and then we don't get it. You know, the Treasurer signs off on a different amount of money for Western Australia. I think that's really unfair.

20 **MR COPPEL:** But that may be exactly the argument that is used by other States, this is how much we're getting and this is how much we would get. It's a very difficult issue to move from the current arrangements to new arrangements. If you go back to the early 1990s there was a reform opportunity to the way the Grants Commission calculates. If I'm not mistaken, Western Australia at the time ruled that out. Western Australia had a relativity of above one, because looking at it from the perspective of that time, at that point in time it didn't stack up.

25
30 I would suggest that other States would probably make that same point vis a vis such an extreme shift to equal per capita. So something has to give.

35 **MS MATHESON:** But we're creating a GST welfare nation. If we don't do something about this soon it's becoming a welfare nation, you know, where one State raises an amount of GST to create this welfare for other States. I mean, where is the incentive to grow your economy in the other States? It's almost like a socialist policy.

40 You know, it's problematic for the prosperity of Australia. I mean, we are separate from every other country in the world and we need to harness our resources. Each State needs to harness its resources and not just rely on one State propping up the rest of Australia. You know, Western Australians will do whatever it takes to make our little piece of Australia work. We are isolated. We have to rely on each other, our own innovation, our own ingenuity.

45 But I think this reform is urgent. It is urgent because otherwise Western Australians will be feeling like what was the point of the boom? We could have just not engaged in the mining boom and sat back and got our share of the GST and had minimal infrastructure go on in Western Australia, and we

probably would have had better job security, better business security and families wouldn't be suffering from the massive high cost of living that we have in Western Australia because the State Government has to put up the cost of living. You know, electricity, gas, water, everything has gone through the roof. You know, we've had not just a small percentage increase in the cost of living here. We've had 10, 20 per cent increase in those utilities.

So we would have much better certainty if we didn't go through the mining boom and we didn't have the - didn't put out the infrastructure that we did. But anyway, we're in the situation that we are and we need your help to put a better focus on Western Australia so that we can help the rest of Australia through our other taxes. But our GST is important to us. It's really, really important. We signed up to the agreement for the GST so that we would get - I believe, I think, it was 70 cents in the dollar back in the day - but we're not getting that.

So we really are here to plead with you to give a better focus for Western Australia because we are up to the mark of providing greater prosperity to the rest of Australia, if you let us do it. Thanks.

MR COPPEL: Thank you.

MS CHESTER: Thank you.

MS MATHESON: Thank you.

MR COPPEL: Our next participant is John Pitman. We are running a little bit ahead of schedule, but welcome. Like others, make yourself comfortable and when you're ready give your name for the purpose of the transcript and a brief opening statement.

MR PITMAN: Okay, my name is John Pitman and I'm here as an individual presenter representing people who aren't here, which is the youth of WA. As a semi-retired TAFE teacher and now part time op shop worker, I am indirect contact with the youth of Australia and I feel for them. I really feel for them. These are the people who put their faith in the elders in the community, and I think we've let them down. I cannot ever have experienced a mining disaster like we've had where, in the past when we've had our mining booms and busts, normally there's been a period of readjustment. But we've never had the funding stripped out of WA like the GST under the HFE.

Well, first of all I'd like to propose a question. What's the most common sign you've seen in WA since you've been here? I'll help you. And by the way, as a teacher there'll be a test at the end for you too. WA is basically up for lease. I have never seen so much vacancy in our shops, our commercial units, our houses. You name it, everything seems to be up for lease. Why is this so? Why is there so much unemployment? We've gone from the lowest

unemployment within about three or four years to the highest unemployment in Australia.

5 So what actually happened? And it seems to me that the measures that the Commonwealth Grants Commission have used have not been exactly reliable. They have not been at the human level, and that's the level that I work at. In particular, I am thinking of the youth. They go to university or they go to TAFE or they get a job. That's just it, there is no work. In our op shop we have no shortage of school volunteers because there is no work. The
10 supermarkets aren't taking anyone on. There's not enough economic activity in WA.

15 Sure, there's mining but that isn't always in Perth. And as previous speakers have said, job advertisements. You can look at the West Australian. There are very few jobs. That's why obviously we've got unemployment.

We've got a net loss of population. They estimate about 50,000. Okay, we took on 600,000. 50 have gone back. Why? There's no money here.

20 All our utility costs have gone up. Our State tax levels you've heard about. The property vacancy rates are at unbelievable levels. But worst of all, the commercial levels. And this is the engine room of WA. Mining just doesn't occur up north. It has a huge engine room in Perth of all the machinery, maintenance, repairs, the workers, where they live, all the things that drives
25 the mining economy actually most of it originates in WA - sorry, in Perth, in the city.

Our wage levels are very restrained. It's great if you're a miner, but it's not if you aren't. Our education results certainly don't stand out amongst
30 Australia. The other thing too is the implications with our hospitals and our wait lists, our elective surgery. Our cities are now congested. Our university graduation employment rates, 40 per cent of some courses, they just don't get a job. What's happened to the work? It seems to have gone east, like the GST. Could be a coincidence? I don't think so.

35 Our car sales, and very sadly something that isn't spoken about, suicide rate. We have a very high indigenous population and some people struggle to cope. So, have we put money into mental health? No.

40 Record bankruptcies. People have gone under. They just can't manage. There's not enough work. What? There's no money in the community, or not enough. And to have, as you have previously heard, a State that is so rich in resources and to actually end up with a \$43 billion debt, plus \$2 billion debt annually, is just mind boggling. How could this happen?

45 Now, obviously there are comments about the management of the State Government and I, for one, really don't see a great deal wrong with it. We've

ended up with a stadium and Elizabeth Quay. That's what WA has to show for the mining boom. Plus a deficit.

5 3,000 State employees are looking like getting the bullet, but of course they'll come off the books and they'll go on to Federal unemployment benefits. And very sadly, along with suicide we have the highest illegal drug use. This is nothing that I'm proud about. This is terrible. This is people who are struggling.

10 So what is it that the horizontal fiscal equalisation tries to achieve? It seems to be robbing Peter to pay Paul. There's no incentives for us to do more. For instance, they are proposing a gold tax. What happens? We get more in gold tax and immediately the GST proportion drops. There's no incentive.

15 So what I think people need in WA is useful employment and jobs, and that is achieved by allowing the funds that are raised within WA to be used to employ people in WA. I guess there are some options, though. First of all, we could fly our 6.7 per cent unemployed to other States. They could get work there. That would be a great idea. If you're sick or you need surgery, go to
20 another State. Maybe our youth could leave and go to another State.

 Maybe people will change their voting patterns, as they already have. Our State Government has already changed, and let me tell you, the Federal Government is next. It's going to change. There are some key people here
25 who will just not get their seat back.

 And of course, the other one is whether we should secede from the Federation. This issue has come up before in mining booms. WA gets ahead, the money comes out, people talk about secession.
30

 Now, I'm meant to be commenting on the draft report, and I thought there were some rather interesting comments in it. One was there doesn't seem to be incentive for any of the other States to develop their resources. When the GST has been handed out to them it didn't ever come with any obligations or
35 requirements. I mean, if you want your kids to clean their bedroom you say, "I'll give you pocket money if you clean your bedroom." But when the money went to Tassie, South Australia and Northern Territory were there any requirements? No, it was just given to them.

40 Just recently a headline in the Tasmanian newspaper was, "Hands off our GST". Whose GST was it? It was WA's. But is Tassie doing anything with their resources?

45 Now, one thing I'm firmly in belief of is that Australia would be one of the most richest and wealthiest countries. All States are rich and wealthy. Maybe not in iron ore, but they've got human, they've got all sorts of other characteristics. Whether it be gas, coal, human, technical, all States have got

something. What they choose to do with it is their business, but you shouldn't be giving them GST without some requirements.

5 As for the independent and expert Commonwealth Grants Commission, I really find this hard to believe. Blind Freddy can see there's a connection between politics and the States that are receiving the money. Now, we've changed from a Liberal to a Labor Government at a State level and I really think that the Commonwealth Grants Commission has either been complicit in this reallocation of money away from WA, or it's been exploited by the
10 Commonwealth Government. They can't afford for total equalisation because they're going to be out of government, no matter who it is.

15 Some of the other phrases I thought were fascinating, too. It said, for instance, "beyond comprehension by the public and poorly understood by most within Government." Come on. This is not rocket science. This is distributing money so all States can provide equal services, and at the moment they are not equal in Western Australia.

20 Timing and careful transition are paramount. Now, hang on? Did that apply to WA? For three years we've had high unemployment. For three years there's been problems in WA. So what happened to the careful transition here? It didn't occur. The money came out. We didn't have any careful transition.

25 So, you may ask, well what does that mean to the other States? They may have to experience some pain, some incentive, to say things aren't right, maybe we need to change our thinking and not just look for the money.

MR COPPEL: Maybe I can ask a question because you have made this point several times and we have a draft report which is in the public domain. We
30 have a suggested change to the way in which the Grant Commission allocates GST. Do you have any views on what we're proposing in the report, or are you suggesting something different?

MR PITMAN: Well, what I was coming to is that I think it should be based
35 on population, and that will give all States a real incentive. And I think yes, there's going to be some pain politically, economically. Some States will all of a sudden say, "Gee, what happened to the money?". Well, it was an inheritance that you had and, by the way, you've spent it.

40 They have to learn to invest, and that's what WA has done. It has invested a huge amount of money. And I don't think the draft report has addressed that incentive side of things. It's just seen a way of distributing money but without any requirements, without any obligation, without any respect for where it came from. Who actually developed the money? Who developed the
45 resources?

And another comment that you mentioned was to ensure the physically weaker states are not significantly disadvantaged. Well, why are they physically disadvantaged? And it's because, as we found, they leave their resources either buried or they don't develop them. And I'm not talking about just minerals. I'm talking about the human side of things too.

Okay, so now we move on to the promised test. What do you think WA people are feeling about the Commonwealth Grants Commission? Just in general, two emotions.

MR COPPEL: Well, we're here today to ask you the questions so I'm going to dodge that one.

MR PITMAN: Okay.

MS CHESTER: I think, John, I can say that we've probably got greater insight after having listened to you giving your voice to some of those views this morning.

MR PITMAN: Yes. I mean, I'm here as a volunteer. You're paid professionals, and you're paid to fix these issues. I'm just here giving you some information which Blind Freddy could have told you, and that is the first one is there is anger in this community. There is anger, and if you can't feel it and you're not getting it from me then I'm not doing a good presentation.

I have never known people to be so disenchanted - that's the second emotion - disillusioned that the harder they work, the less WA gets. Now, you don't travel on the freeways but as I've been on the train this morning it's stationary on Kwinana Freeway, and also on Mitchell. There's a lot of congestion here. There's a lot of people. We have absorbed the population of Tasmania during our mining boom without the necessary money coming from the Commonwealth Government. That's no mean feat. Did we get a pat on the back? No, just take the money out of WA. WA is being treated like an ATM for the rest of Australia, and it's just unfair.

So, it's on behalf of the kids who need work and the reason, or the way they can get work is to retain more of the funds that are being generated. We're not asking for a handout. We don't want someone else's State's money. We just want our own back. Or maybe it shouldn't leave in the first place.

So, it is for the kids. My children, my grandchildren and the students that I teach. The ones in my op shop. They work really hard for nothing. Should they be given some employment opportunities, or do they go interstate to get them? I think they should stay here. We deserve to give them better.

MR COPPEL: Thank you. I think you were here for the earlier participants and I've got a similar question and it relates to your point that all States have

resources, and you defined resources in a broader sense than natural resources, yet you are making the point that WA has developed its natural resource sector and it's been penalised to the extent that the royalties from those resources are largely being equalised across the States. If I put the hat of other States on they will say why should the resource sector be treated differently from other sectors? It may be tourism. It may be education, in the case of Victoria. Every State has different intrinsic advantages and disadvantages, and they focus on their strengths. So why so much special emphasis on natural resources?

MR PITMAN: Well, I think because Australia being a huge country and very poorly populated, or very sparsely populated, obviously it's got every known mineral and so that is the first thing to be used. We're not really a self-sufficient country, certainly after our car manufacturer has gone west, or gone out - but I think yes, you do have to start with the natural resources that we have. To turn them off - I mean, for instance it's given Australia an incredible standard of living - and by the way, it still does. I mean, we went through a construction phase in WA which is why we had the boom, and then a reduction. So to be really honest, WA is in a really good position if we could keep the money.

And as for Australia, we're actually in a fairly good position too. But it is interesting that if you do propose things in other states - and I have visited Australia, and I see they have signs in Victoria, "No coal mining in Victoria. No gas mining in Victoria." New South Wales, "No wind farms". Some of those restrictions, they have to realise that you just can't give them money unless they use their resources. For instance, why couldn't we have an industry in solar instead of bringing in panels from China?

So, I think that in some ways yes, most of our resources are linked to a physical nature, however there are some States that have got great people and this is where WA is trying to transition, I think, a little bit towards where we've got a great shipbuilding industry. We actually sell ships, would you believe, to the Americans in a time of Donald Trump. Don't tell him. And so, I mean this is just unbelievable technology. Australians are, because of our isolation, very, very innovative and, I would say, hardworking, if there's work. But you can't take the money out and expect it to keep going.

So, I'm in Canberra. When you look at it, the Territory, it doesn't have much of a land mass. You might say, "Well, how can it do anything?" Yet it's got an intellectual property though too, and that's where in some ways we need that. So that's their business, which they do pretty well except when it comes to GST.

So, I think every State has its ability and they need to sit down and say, "Well okay, what can we do? What can we do for Australia?" And WA has done that, and is doing it, but we're being penalised and that is unfair. And so it is for the children and the kids that are trusting us to provide the work

opportunities because, as a previous speaker said, we have become a social welfare country. But not necessarily at a personal level, but you're handing out money and discouraging people from actually doing something with humans, with what the State has to offer, whether it be Tasmania, Northern Territory, Queensland, South Australia.

MR COPPEL: Can I then ask if your proposal of moving to an equal, a distribution on a per capita basis, there's still an accepted notion that in a Federation there has to be some capacity to equalise to some degree across the jurisdictions. How would you - what else - what would you do to achieve that goal?

MR PITMAN: Well, I noticed that your draft report didn't like the idea of floors in the GST, as in f-l-o-o-r-s, as in 50 per cent, 70 per cent. You know, a minimum that WA should receive, and maybe a transition period of three years I think is a reasonable thing to help the States to move.

But ultimately it has to be done by population, I think. The other thing too is WA is not a very big populated State. It's a big land mass, but it's not people. Did that answer your query?

MR COPPEL: Well, I think it's not an easy one to answer because, as I've said before, this is an area where by definition any change will have some winners and some losers. We have recommended in the draft report a standard which is less than equalising to the strongest jurisdiction, but that will have some winners and that will have some losers. We think the orders of magnitude could be managed through appropriate transition arrangements, and it then comes at the benefit of some of the advantages that we see in the order of stronger incentives, for instance, in terms of State tax reforms, better practices, greater flexibility to make trade-offs between equalisation and other economic goals. But ultimately you will still have those winners and losers, and how to get from A to B is the million dollar questions.

MR PITMAN: Well, I think there's going to be some pain, and WA is feeling it. You talk about winners and losers; WA is a loser. We know what it feels like. It's painful. As I say, this stunt is not just a stunt, it's reality. And so yes, I think in the other States there will be some pain, and that provides an incentive.

MR COPPEL: We have a table in the report that shows per capita government revenues in each jurisdiction, and WA has the highest per capita revenues. That's the sort of fact that other jurisdictions would put forward.

MR PITMAN: Yes, well I mean as the previous speaker said, WA is a difficult State to service. It's huge, it really is. And, for instance, I saw also too that Tasmania was given some money for its remoteness. And I thought you can drive from one side to the other in an hour. Here it takes about, you

know, three tankfuls of fuel. So it seems to me that the measures aren't always - as I've mentioned before, they're not accurate.

5 We have a very high Indigenous population and they're isolated, and they have to be serviced, whether it be with power - and so the State Government looks at cutting costs of not providing fuel for their power generation. Well, other States don't have those same issues. Maybe Northern Territory to a certain extent. But WA is different. It is just a very different State, and you're never going to be able to treat everyone equally. There always will be winners and losers. It's called life.

15 One issue that I did pick up on too was that you've got this three years of assessment and two years of averaging, and I thought, isn't that interesting? How would we like our wages to be worked out the same way? To wait five years for some sort of readjustment. And I think in some ways that's way too low or way too long. The Reserve Bank changes its interest rates every month, or reviews it, and I think that's something that could easily be done. And that is - I know it's difficult for Government where they want three years of guaranteed funding, but I think it should be adjusted more quickly.

20 So, when the Prime Minister - sorry, the previous Prime Minister came to WA and we told him three and half, four years ago the mining boom went bust he said, "Oh no, no. It's still going well. Everything's good." Everyone knew. Not him.

25 **MS CHESTER:** So, I think John you've raised quite a breadth of policy, and indeed philosophical issues, for us. I guess within the confines of what we can do around a proposal for equalisation, we are trying to make sure that there are better incentives at the margin so States like WA and the eastern coast do have the right incentives to reform their tax bases and to develop their natural resources, whether it be iron ore, or whether it be coal seam gas.

35 I guess where there is a bit of a difference though is with iron ore, you know, WA has still come out ahead and it was politically acceptable to mine the iron ore base in the north. For some of these other, like the coal seam gas which is very politically controversial - but the issue there that we're struggling with is when that development occurs and the royalties are redistributed on an EPC basis to other States, the incentive for that State to do what could be a controversial form of resource extraction, the incentives get out of alignment.

40 So, we are trying to deal with the incentive issue broadly, and more narrowly where it is controversial. I think some of the issues that you're raising go to more fundamental reforms around the incentives for States based on all taxes and all expenditures that are raised within their borders, and that takes us to broader issues beyond our inquiry which is sort of about what the Commonwealth raises and what the Commonwealth spends, and what the States raise and what the States spend. And I think that's the area where it's

most difficult for us because that's a whole other area to deal with, but also because that's not well understood it makes the understanding of how the GST buckets spread across the States even more difficult.

5 So I think you're raising some big policy issues, and not all of them we can deal with within the confines of this inquiry.

MR PITMAN: I agree. I think if iron ore had been discovered now it wouldn't be dug up. I think there would be very severe environmental
10 concerns and land rights and all the rest of it, and they did go through those phases but it was never as controversial as those sorts of things would be today. So WA has got through those hurdles, and those other States have to get through their hurdles too.

15 If they don't want to dam their rivers and make hydro then they have to live with no power, or using alternative sources. You've got to provide incentives. But just piping out WA gas over to South Australia, which has
20 been proposed recently - who gets the GST? WA. What will happen? We'll get less here. Do we want to send our gas to South Australia, which actually has oodles of gas but prefers not to drill for it? Why? Because it costs money in infrastructure.

MS CHESTER: Well John, it's good that you did come along this morning to talk to us because part of the reason we have public hearings, and we try to
25 get around most of Australia, and indeed we will for this inquiry, is so we actually hear the voices not just of the Government authorities and the interest groups, but also from people like yourself. So, do you teach at TAFE?

MR PITMAN: I do.

30 **MS CHESTER:** What are you teaching?

MR PITMAN: Automotive, and I also train teachers.

35 **MS CHESTER:** How long have you been doing that for?

MR PITMAN: 40 years. So young people are my bread and butter, and apart
40 from having my own family yes, I feel very strongly. Because they're not here, they're not being represented, and we owe them a future.

MS CHESTER: Well, I think you've given us a bit more of an insight into the views of WA this morning, the people. So, thank you for that.

MR PITMAN: Thank you.

45 **MS CHESTER:** Cheers.

MR COPPEL: We're running a bit ahead of schedule. What I am going to propose is we have a ten minute break. For those that are interested you can help yourself to coffee or tea. So we will start again at quarter to 11 with the Put Western Australia First Party representatives, thank you.

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ADJOURNED

[10.36 am]

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RESUMED

[10.50 am]

MR COPPEL: Okay, welcome back. Our next participant is the Put Western Australia First Party, and I invite you to give your name and affiliation for the transcript, and then a brief introductory statement, thank you.

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MR HOPKINS: Good morning. My name is Chas Hopkins. I'm a former Lord Mayor of Perth, a businessman and President of the Put Western Australia First Party, a party that has been formed by a group of Perth businessmen and the community that are very concerned about what's happening with the share of Western Australian GST, and I refer to Peter Leigh who is the Secretary of our party, and Peter is going to give an address for us.

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MR LEIGH: Okay, thanks Chas. We just wanted to go over a couple of points that we raised in the overview of our submission. Firstly was just reiterating the point that the current model is broken. Secondly, making the point that there were some comments in the report saying that the Grants Commission's processes were good and well established, and we're just challenging that they're all good.

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The next one was that you asked the question before about royalties and why should the mining industry be treated differently from tourism. I'd just like to make the point that the royalties are different, in our view.

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We're supporting your proposal about equalising to the average. We see that it's the only chance that we've really got of getting a change that has got some chance of getting up across the country. We will talk a bit about the transition. I know you're particularly concerned about that. And lastly, I am very pleased that you are highlighting the point that the Treasurer is the man who can make the difference here.

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So, firstly the current model is broken. We note that in your report you highlight that there are issues with the current model. We've had Bill Shorten, we've had Malcolm Turnbull, we've had Scott Morrison all coming out saying that the current system is unfair on WA and WA is getting a rotten deal. They recognise that. They're going to be the ones that fix it. That is basically what they're saying. We've even got the Grants Commission in their review of the

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2020 application of HFE, they're acknowledging that royalties are a particular problem for them and they're proposing a scheme of discounting increases in royalties. And I guess we'd say well that's fine, discount the increases but how about apply the same sort of logic to the entire royalty pot?

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So yes, everyone knows that there's a problem. Everyone knows that it's broken - or sorry, not everyone. We have some people who are relying on the current arrangement who don't want to see any change at all, and so we recognise that making a change is going to be difficult.

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The point about not all the Grants Commission's processes are good. In particular we'd sort of draw your attention to the issue of remoteness, and you heard some of the previous speakers talk about remoteness in WA. My understanding is that the Grants Commission uses a model from the ABS that says that anything beyond 1,254 kilometres is about the extent of what they treat as remoteness. So if you're over 1,254 kilometres that's the same as being 1,254 kilometres. Well, here in Western Australia Karratha is 1,500 kilometres away. Port Hedland is 1,600 kilometres away and Broome is 2,000 kilometres away. So when you look at the trade figures there's 42 per cent of the national trade, the national exports come from minerals and energy, and these centres are at the hub of producing those things.

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So while you're here I'd invite you to take a little drive up to Broome. It only takes 24 hours so you'd be able to get up there and back in four days. And then go to Tasmania and take a drive up to Burnie and tell us it's the same, and that takes three and a half hours. So servicing Burnie is the same as servicing Broome. OK?

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Royalties. Yes, we'd say royalties are different from other State revenue, and when you look at the trade figures they show that the surplus, the recent trade figures said that the surplus doubled and it was driven by the iron ore increase of 8 per cent. So minerals have a significant impact on our exports. We've already said that in the DFAT figures they're saying that 42 per cent of our exports, of the nation's exports, are either minerals or energy products.

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So any increase in minerals production that we can do which generates royalties or which generates exports, generates wealth across the country but generates immediate flow-on wealth to individuals, and it also generates jobs. And I don't think there's any other sources of State revenue that have that sort of impact on the wealth of the nation. You know, it's an import of wealth rather than a recycling of wealth, which most of the other State taxes are.

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We do support your idea about equalising to the average. It's not our favourite thing in the world. I guess in a perfect world we'd say we'd rather equal per capita, but we realise that's going to be particularly hard to get up and if we don't get any result out of this Productivity Commission process we fear that we'll get nothing if there's a change in Government, so the best chance

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we've got of getting anything is to get in the good rather than the pure. And if we get something in now it's better than getting nothing in the future.

5 As the point was made earlier today about equalising to the second strongest State, and we can't see any logic if you're changing from full equalisation why you would change to equalise to the second strongest State rather than the average. Using averages, you know, is widely used in the Grants Commission assessments and it just seems to make perfect sense. And as the CCI were saying this morning, it does give you that sort of buffer about significant changes, and we note in your report the charts that show there's a low volatility of that equalise to the average model.

15 So we come to the question of the transition. And from our point of view we can't see how - if you come to the conclusion that the current model is broken, you come to the conclusion that the best way to replace it is the equalise to the average, we can't see any logic in continuing with a broken process and having our political leaders offer top up payments to WA to compensate for the inequity of that current broken process. We would much rather see that we move immediately to the equalise to the average model, and if people - and if Governments have got top up money let's use that top up money to pay the States who feel that they're losers out of that change.

25 You will see in our report, from my understanding of the tables in your report, there's a \$3.6 billion gap that will be there between the current model and the equalise to the average model. And all the talk is about making the transition easy for the other States, we don't want to impact them. But hang on, at the moment that gap, that \$3.6 billion gap, is all sitting with WA. Why shouldn't some of that, some of the pain of that gap be spread amongst the other States? And if there's top up money lying around, as both of our political leaders have offered, why can't we use that top up money to reduce the size of that gap? And if it's still a problem, as you point out in your report, the amount of money in the GST redistribution is quite small in the totality of Government, so it shouldn't be beyond the will of the Government to find the money to equalise.

35 So, lastly yes, as I said earlier, we're pleased that in your report you highlight the fact that it is the Treasurer who is the one who can make the call. It's not something that he needs to get every State to agree. There's a widespread myth amongst the world that Treasurers and Prime Ministers have spread that they can only change the GST with all the States' agreement, and I think, as you've highlighted and we've seen elsewhere, that's absolutely not the fact.

45 So, in summary, we thank you for your report. We think that the model that you're proposing is one that's as good as we can get in the foreseeable future, and we can't see any reason why, if that's the right thing to do, we shouldn't do it straight away. Thank you.

MR HOPKINS: Thank you.

5 **MR COPPEL:** You guessed right, I'm going to focus on transition and one of the ways in which you would convince all States about a change is that that change not just affects the distribution of GST but affects their economic performance. And so in terms of developing, economic development, that can be seen as a positive to the extent that the current arrangements are a brake on that economic development.

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MR LEIGH: Yes.

15 **MR COPPEL:** Now, that I think has been made as a point throughout this morning's hearings but again, putting myself in the seat of other jurisdictions that may lose quite a substantial amount of the current GST distribution, what would you say to them would be the advantage of a shift?

20 **MR LEIGH:** I guess apart from it being the right thing to do, I think I'd be saying - I'd be making the point as we heard in the first presentation this morning, what it is doing is readjusting the distribution back to where it was before the mining boom. And so why, you know, why is today's level the naturally absolutely divine, correct place to be? It's obviously not. If we have a look at all those models that you produced in your report of alternate ways of distributing, I think there are only two that showed that there wouldn't be an increase for WA, and they were - sorry, they were ones in which - I think one was revenue only and the other - I can't remember what the other one was.

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30 But the point is that you haven't come up with any models, any other models that don't take us from a position where the new model gives WA more and the other States less. So we're assuming that the model we've got in place is absolutely perfect. It's been delivered from on high as being the absolute correct model for Australia. So it doesn't make sense.

35 **MS CHESTER:** I think, Peter, the issue that - and you're right in one technical sense, that we do say in our draft report that the Treasurer in a legal legislative sense can direct the CGC, but indeed we say in our report that we believe that if the Governments were minded to change the HFE objective to equalising to something less than highest, we call it a reasonable standard instead of the same standard, because same standard is what gets us to equalising to the highest, that that was something that the Treasurer would need to do in consultation with the States.

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45 And the reason we say that is if we rewind the clock to when the GST deal was struck, it was struck on the basis that what is now \$63 billion a year was going to be divided up based on the horizontal fiscal equalisation and the rules of the game that the CGC was implementing at that time. Now, how they implemented has tweaked a bit along the way but it hasn't changed

5 fundamentally in terms of equalising to the highest. So we are in a world where
a deal was struck, we've been asked to review whether the arrangements within
that deal are appropriate going forward, given we're now in the world of WA
being a fiscal outlier. Those on the east coast refer to it as, "You guys won the
lottery." So we don't - we do say in our draft report - and I just want to correct
the record. I don't want any journalists in the room to think that we've
recommended the Treasurer can just make the call. In a technical, legal sense
yes, but we've actually recommended it has to be in consultation with the other
States and Territories because of the previous GST deal.

10 I guess the other issue is that within the current arrangements of equalising
to the highest there are swings and roundabouts with the relativities, and you
refer to the \$3.6 billion. I think it sounds like to me like you've closely read
our draft report and you would have seen in the overview that if you rewind
15 the clock five or six years there was a net windfall in GST revenues to the State
of \$7.1 billion. So if you take the \$7.1 billion and the additional \$1.7 billion
that WA has already received as top up funding, and the starting point today is
where the relativities are at their widest - so the cost of moving to our
equalising to the average is at its most expensive - you can see why Jonathan
20 is going straight to the transition path and what's fair, given that starting point
and given that collective history.

MR LEIGH: Sure, but also if you look back over the last eight years and if
you said okay, that the equalise to the average is the right thing, if we look
25 back over the last eight years the gap between the current thing and the equalise
to the average is \$16 billion. So we're not just dealing with a \$3 billion gap
next year. We're dealing with a \$16 billion hangover. And even if you take
the \$7 billion off the 16 it still leaves a decent slab.

30 **MS CHESTER:** But you're not suggesting in a revenue sense WA is still not
a net winner, given its economic circumstances and the mineral boom having
occurred?

MR LEIGH: And I think I'm questioning why we shouldn't be a net winner.

35 **MS CHESTER:** Well, you are.

MR LEIGH: There is a mineral boom - sorry?

40 **MS CHESTER:** You are. If you stand back holistically and look at the
revenue position of WA - Jonathan referred to some earlier numbers in our
report - you are still a net winner.

45 **MR LEIGH:** Yes, I didn't see that table in the report. Are you saying that
WA is getting more Government revenue in per capita than any other State,
are you?

MR COPPEL: It raises more revenue, including its own sources from stamp duties.

MR LEIGH: Right, and so the problem?

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MR COPPEL: It's not necessarily - I'm not saying that it's a problem. Other participants have said that they are at a disadvantage because they have less revenue, and I'm just drawing out the fact that in per capita terms Western Australia is the State with the strongest.

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MR LEIGH: But where does that revenue come from? Okay, we get the royalties but all the rest of the revenue is raised from the people of Western Australia and the companies in Western Australia.

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MR COPPEL: Like other - - -

MR LEIGH: It's not like somebody is gifting that revenue to us from outside. You know, it's revenue that we're redistributing amongst ourselves, isn't it?

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MR COPPEL: Well, like all jurisdictions they have their own sources of revenue.

MR LEIGH: Yes.

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MR COPPEL: I guess the way to look at this is the starting point is in the Federation. Some have called it the glue of the Federation, that jurisdictions should have the same fiscal capacity to provide services to citizens and what the CGC have done is interpret that as providing the same average capacity across all jurisdictions, which corresponds to equalising to the strongest fiscal state. We're saying that there are some disadvantages in that. It puts all of the weight on the equalisation aspect and it comes at the margin of the expense of incentives, so something less than that full equalisation.

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But we're not saying that providing some form of equalisation is - that's the purpose and that remains the purpose. It's just the extent to which that equalisation task is pursued, and there's very much a sense that what happens at the moment is perfect. And even the CGC would say that it's not perfect. There's a lot of things that they can't equalise. It's just allocated on an equal per capita distribution.

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So often that view of what do we stand to gain or benefit from a change uses, I would say, an unfair benchmark of assuming that we're moving away from perfect equalisation.

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MR LEIGH: Absolutely.

5 **MR COPPEL:** But there's still that issue of how you transition to something which would mean less for some States and more for others. You've made the point about using some of the funds that the Commonwealth currently gives to WA as a sort of ad hoc top up, but the orders of magnitude would fall short of the orders of magnitude that we've calculated in some of our cameos. So something else would be needed.

MR LEIGH: I think you're right.

10 **MR COPPEL:** Do you have views?

15 **MR LEIGH:** Yes. I think I've got a fairly simple view. It's been the last however many Federal Treasurers have sat on their hands and watched this gap widen. They've been quite happy to sit there because there's been no pain to them. All the pain has been to WA. I think it's time they wore some of the pain, you know. It's a beast of their concoction, not ours.

20 **MR COPPEL:** So how do you respond to - if you go back further in time, WA had a relativity of \$1.10. Others had a relativity of less than one. At the moment WA have got the strongest relativity, or have the highest capacity assessed by the CGC because of the mining resources that sit in WA.

MR LEIGH: Right.

25 **MR COPPEL:** But at other points in time it will be another jurisdiction.

MR LEIGH: Sure.

30 **MR COPPEL:** So it still creates a very difficult conundrum on how to avoid one State saying, "Well, this is what we're giving up. We in the past were in a similar situation to WA, being the outlier State in terms of the relativity."

35 **MR LEIGH:** I think I would only make the point that you've got a really good chart in there that shows the relativities paid by the biggest donor State, and I think initially it was Victoria and then it was New South Wales and now it's WA. And I think if you have a look at the amount that either of those other donor States were paying back in the days when we were getting \$1.10, they were still getting 87 cents or something back. So I think the thing is that this huge disparity has been allowed to grow, and that's why everyone has got a problem now. You know, it should have been changed. It should have been fixed earlier.

45 **MS CHESTER:** So, I think we can all agree that the divergence in relativities was never anticipated when the GST deal was originally struck.

MR LEIGH: Right.

5 **MS CHESTER:** And that's where the system is struggling, and the way that we viewed it is that divergence being so great by equalising to the highest now means that the equalisation task is so great as a percentage of the GST pool that it has more perverse incentives for people wanting to do controversial development activities like CSG and tax reform, or State tax bases.

MR LEIGH: Yes.

10 **MS CHESTER:** So if we take the pressure off the system by equalising to the second highest or equalising to the average, which reduces the redistribution tasks and mutes those disincentives, I'm just still trying to work out why you would view then royalties as being different?

15 **MR LEIGH:** I think to some extent you can take that as a different argument. You know, if we get to the equalise to the average and there's a reasonably self-adjusting mechanism that doesn't leave us or anyone else in the situation that we're in now, there's less pressure to deal with royalties. I think what I was trying to make a point was everyone points to saying, "Well, why should there be any special treatment for royalties?" And I'm just making the point
20 that royalties are different. If you are going to give special treatment to anyone, you give it to the things that are building national wealth, not just redistributing wealth around the existing pie.

25 **MS CHESTER:** But so you're comfortable with if we address the redistribution task by narrowing the band - - -

MR LEIGH: Yes.

30 **MS CHESTER:** - - - for equalising to the average or equalising to second highest, that then addresses the issue of treating royalties differently, given that royalties were the driver of the outlier. I'm just trying to work out are you being Marie Antoinette, wanting your cake and eating it as well?

35 **MR LEIGH:** No, I think it's a deal of the - what's possible.

MS CHESTER: Okay.

40 **MR LEIGH:** And I think equalising to the average from where we sit, that's something that's possible. You know, if we support you and other people support you in that, there's half a chance of it getting up. And then we've just got to fix up the transition and we'll be right.

45 **MS CHESTER:** Yes, easier said than done. But coming back to another point that you made earlier on about compensation for disabilities?

MR LEIGH: Yes.

5 **MS CHESTER:** And the way, you write the way that the CGC looks at assessed expenses, when it's looking at both sides of the budget it looks at it from the perspective of what's the average cost, so what States do, and then it also adjusts them based on disabilities. And the two key disabilities are remoteness and indigeneity.

MR LEIGH: Yes.

10 **MS CHESTER:** I'm just trying to work out the logic where you say compensating for disability. So if they're structural disabilities like remoteness and indigeneity, and the way the CGC is meant to do it is such that these are disabilities that are kind of policy neutral, so a State can't really change them in a structural sense, how does that compensation encourage States not to improve?

15 **MR LEIGH:** Um.

MS CHESTER: So I think the point - - -

20 **MR LEIGH:** No, I know what you're saying. I think there was a point raised by New South Wales where they were highlighting the fact that Northern Territory gets a certain amount of relativity based on their indigeneity disadvantage, but if you look at what they spend on that in the next year they don't spend the money that they got. And so in the following year they get reassessed on the disadvantage position they're in, and it's still low, and so they get a bunch more money that they don't spend and so it goes on. So I can't - that again is, I think, a really flawed process in the Grants Commission process.

30 **MR COPPEL:** But the same applies for other States, including WA.

MR LEIGH: Sure, but I think ours - if you look at ours I think they're reasonably close. But you're absolutely right, it applies to other States. But that doesn't make it right.

35 **MS CHESTER:** I think the key issue that we sort of focussed on - so I don't think there's any examples that we've been given on remoteness - - -

40 **MR LEIGH:** No.

MS CHESTER: - - - but on indigeneity the gap between the assessment, what's assessed as needed for the expenses and which is about fiscal capacity versus what's spent, there is a difference and Neil Warren at the University of New South Wales has done a lot of interesting work in the area, but we are in a world where there's an agreement that the States get the GST money on a basis that they have autonomy in how it's spent, which then just brings us back to the issue of well who is really accountable for that, where you've got a

disability that's linked to something as egregious as overcoming the indigenous disadvantage. That issue in our report though, we say HFE can't really fix that. The underlying issue is about Commonwealth/State responsibilities for that expenditure.

5

MR LEIGH: Sure, yes.

MS CHESTER: So where are we going with the report? Should we have dealt with indigeneity differently?

10

MR LEIGH: Look, it's not something that we looked at closely, I've got to tell you. You know, I understand your point and it needs to be fixed differently and better, but it's not really something that we spent a lot of time on.

15

MS CHESTER: Okay.

MR COPPEL: What about on remoteness, because you made the point about the 1,200 kilometre benchmark, I think it was?

20

MR LEIGH: Yes.

MR COPPEL: Are you suggesting something less than that?

25

MR LEIGH: Well, it's just - Western Australians just look in astounded amazement that parts of Tasmania are treated as remote as outlying parts of Western Australia. You know, there's this crazy deal where the people in - remoteness in Tasmania is measured from Melbourne or something. Why don't you measure remoteness in WA from Sydney? You know, Perth is more remote than Hobart is.

30

MR COPPEL: Have you done any estimates of what that would mean for WA, do you know?

35

MR LEIGH: No. We don't have the team of economists that can do those things, I'm afraid.

MS CHESTER: And I think it's fair to say that a lot of the focus of our inquiry has really been on the architectural arrangements of HFE, not looking at the detailed formula within - - -

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MR LEIGH: Sure.

MS CHESTER: - - - which is part of the CGC methodology review, which is of itself another parallel, wonderful process going on. And in that context you did raise issues around the role of the CGC and perhaps some potential for institutional reform there. I guess we took a view that the one area - if you look globally, Australia does punch above its weight in terms of we do have a

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statutory independent agency, the CGC. People can agree to disagree on how they do some of the methodology, but they are expert, they are considered to be independent. But I take it from your points you might differ on that?

5 **MR LEIGH:** I think from what we see is as you said earlier, there was an agreement way back when about implementing HFE and there were some - well, sorry agreeing - yes, implementing HFE and it was handed over to the Grants Commission and they set off on a path like that, and then found a slightly more elegant way to do it and went like that, and then had another
10 move to there, to there, to there. And so instead of going that way they're now going that way. And I think that's part of the point we were trying to make, that we've ended up where we are not by active agreement by all the States, but we've ended up there by administrative decisions that the Grants Committee has made. And the Grants Committee are basically invisible. I
15 think if you asked anyone around the country, apart from people who have spent time over the last few months looking at this stuff, they couldn't tell you who the Grants Committee were or who was on the committee itself.

20 **MS CHESTER:** Let's not be too tough on them. Many can say that about the Productivity Commission. We don't survive the Moorooka Bowls Club test there either. But I think it's fair to say, and because this is transcribed, that the way that they're equalised to the highest, so equalised to the same, they've been doing that since '81.

25 **MR LEIGH:** But it's the detail about how they get there I think has been the thing that's drifted, isn't it?

30 **MS CHESTER:** So I think there's formula that they can turn on and off. So, for example, what they're now suggesting is turning on one of the formulas, and that is for a rate increase for royalties. You might get to keep 50 per cent because there's a - - -

35 **MR LEIGH:** After 2030.

40 **MS CHESTER:** - - - neutrality issue. So turning on and off those things they do along the way as part of their methodology reviews. But the biggest issue that we've focussed on for our inquiry is equalising to a same standard, and there's equalising to the highest, being the architectural change. And that's been there from the get go. So when folk signed up to the GST deal, that's
45 what they were signing up for.

50 **MR LEIGH:** Right.

55 **MS CHESTER:** So there's no surprises there, but nobody anticipated the outlier world of WA.

5 **MR LEIGH:** Exactly, and I'm sure there's many other situations in Government where a law has been put in place, or an agreement has been made, and then you find that conditions have changed and people are quite happy to change the law or the agreement.

10 **MS CHESTER:** Yes. Like Darwinian man, we all evolve. But here we have winners and losers and a zero sum game.

15 **MR LEIGH:** Absolutely, and I guess what we're trying to say is we shouldn't be the loser all the time.

20 **MS CHESTER:** So, given that WA has so much to gain from our little recommendation to look at equalising to less than the highest, either second highest or average or there's a bunch of ways you could do it - - -

25 **MR LEIGH:** Average, please.

30 **MS CHESTER:** WA stands to benefit the most, and given that there's been swings and roundabouts on the relativities and WA still is ahead in a fiscal sense, you are the strongest State today albeit your fiscal situation might reflect a few other things, do you see WA perhaps pacing the transition such that to some extent there's an element of WA funding the move as well?

35 **MR LEIGH:** Well, I think - - -

40 **MS CHESTER:** Given it's all upside for WA if we make a change?

45 **MR LEIGH:** Yes, I make the point that if - this is the right thing to be doing, over the last eight years we've been funding the gap. We've funded the gap to \$16 billion over the last eight years, so how many more years do you want us to fund the gap for?

MS CHESTER: So I think overall WA has still been a net winner if you look at the CGC numbers that we've set out in our report, and nobody has told us that those numbers are wrong yet.

MR LEIGH: Look, I can't - we don't have the horsepower to be able to get behind the numbers to prove or disprove that, so we've got to take them as read.

MS CHESTER: Well, we can chat to the WA Government about it tomorrow then. They've got some people focussing on it.

MR LEIGH: Yes, well I would be surprised if they haven't had a good look at it and have a viewpoint.

MS CHESTER: I'm sure they will.

MR COPPEL: Yes.

5 **MR LEIGH:** But I think there's all this thing that Victoria came out saying
ever since Federation WA has been a winner, and in terms of money that we've
got. But somebody made the point earlier about WA being a net subsidiser of
the rest of the country through tariffs. For the many years while tariffs were
in place, people in WA and Queensland, and probably Tasmania in particular,
10 were subsidising industries in South Australia with the whitegoods and cars,
in Victoria with cars and probably whitegoods and clothing and so on. You
know, those subsidies have been going for years through the tariff process and
I'm not sure that people take those into account when they're looking at that
long term picture of who's been getting what.

15 **MS CHESTER:** And I think that raises a really important point, Peter, that
we try to draw in our report. Everybody is very focussed on the zero sum game
around the GST bucket of \$62 billion, whereas the redistribution task within
that in an overall sense only represents one per cent of overall Government
20 revenues. So we try to sit back and look at the broader picture. Government
doesn't just do fiscal equalisation through the GST pool. There's other -
there's Gonski funding, there's health funding, there's lots of other levers at
work here.

25 **MR LEIGH:** And I don't have the numbers in front of me, but I think overall
I've seen numbers that suggest that we do very poorly per capita in the total
Government return. We get back a lot less than - we get back out of the
Government a lot less than what we put in to the Government, the Federal
Government. And yes, I've got the numbers in my office but I don't have them
in front of me.

30 **MS CHESTER:** I think that's kind of beyond the remit of ours.

MR LEIGH: Sure.

35 **MS CHESTER:** We're kind of seeing what heavy lifting we can do with the
GST bucket with incentives in mind. But we're also mindful that it is, when
looking at those incentive effects, when you look at the redistribution task just
being one per cent of overall revenue, you can see that in an economy wide
40 sense, people moving and the like, it's not really that great.

MR LEIGH: Right.

MS CHESTER: Yes.

45 **MR COPPEL:** Although it can be for some jurisdictions.

MS CHESTER: Yes.

MR COPPEL: Nationally it's small, but for some jurisdictions, Northern Territory in particular, it's substantial.

5 **MS CHESTER:** And South - - -

MR COPPEL: And Tassie.

MS CHESTER: And Tassie.

10 **MR COPPEL:** And on the other side for WA.

MR LEIGH: Yes.

15 **MR COPPEL:** OK, so thank you very much - - -

MR LEIGH: Thank you.

MS CHESTER: Thank you.

20 **MR COPPEL:** - - - for participating and also for your submissions.

MR LEIGH: Thank you.

25 **MR COPPEL:** Our next and final registered participant is Tom Atkinson, also WA Party. If you could again for the record give your name when you're comfortable for the transcript and a brief opening statement.

30 **MR ATKINSON:** I'm not much of a paper person. I will just quickly set myself up if that's all right.

MS CHESTER: No, that's okay. And just for my benefit, more than anything else, so we had Andrew and Julie earlier and now we've got Tom. Is it the same WA Party or are there two WA Parties?

35 **MR ATKINSON:** Yes, so when I initially submitted to speak I wasn't a member of the party. I was an independent. I've since joined the party so they've asked me to represent as that, but my position is similar but slightly different, I suppose, if that's okay?

40 **MS CHESTER:** Yes. No, just so we understand, thank you.

MR ATKINSON: It was just a timing thing more than anything. All right, so do I just say name and party, that kind of thing? My name is Thomas Atkinson, representing the Western Australia Party, to speak today. Thanks first of all to Karen and Jonathan for coming across. A lot of my points, being the final speaker for the day, are quite similar to aspects that have already been

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raised, with a couple of changes. Feel free to ask me the same questions you've asked everyone else because I've got some great answers for them now, which is good.

5 Being fairly new to this I've got a bit of a speech to read here so I don't get off track, because I can talk under water sometimes, if that's all right?

MS CHESTER: Can you promise us it doesn't go over five minutes?

10 **MR ATKINSON:** You can cut me off at five if you want, please. We are half an hour early so I've got a bit of time up my sleeve. And I will make some slight adjustments as I go to it, based on what we've heard today.

15 So look, good morning. My presentation today will focus on the proposition that horizontal fiscal equalisation shouldn't be applied to GST, and that it does provide an indirect direction to States to increase areas of revenue not included in horizontal fiscal equalisation with a primary focus on gambling revenue. It also encourages them in some respects to reduce activity that would be counted, which might be counter-productive to their original positions.

20 I use a similar term to what I suppose my party did earlier in regards to political welfare. We believe that the requirement for States to receive, or the current system that allows States to receive income regardless of their efforts or their resource allocation, their current political situation, is not right. We don't refer to that on a person by person basis. People receive welfare in the country but they're required to take steps, they're required to prove they're in certain situations, in order to be eligible for that. And the idea of distributing money purely because someone hasn't caught up I don't really agree with, although I'm sure we can discuss later the intricacies of that.

30 Equalisation in itself, my belief is that it is really an unjust concept. The idea that equalisation is a method to distribute a nation's finances really isn't what I would consider to be the Australian way of operating. As I mentioned before, the idea that a person that puts in significant time, significant resources, invests in the assets that they have and takes the brunt of that should be rewarded in the same way that someone who takes no risk, puts in no time, and somehow receives the same reward, I don't think is something that the Australian population would generally subscribe to. You would almost call it un-Australian, I suppose.

40 And I think take out the fact that I know you're going to go around and talk to a number of other States who are going to tell you the current system is great because their budget is ahead, you approach them on any other issue in this regard and they'd probably agree with that statement, I think. And we use it in a number of pillars of our current governance operations.

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I will touch on your draft report, and I thank you for putting it together. As you mentioned to the previous speakers, it does represent I suppose an improvement in position for Western Australia. You have identified the issue to some extent. It does state that attempts to fully equalise States is resulting in unacceptable fiscal damage to the strongest State. I mean, how it got to this stage is really mind boggling. I know I'm fairly young in this game, but reflecting on it now a lot of this situation, I would think, seems reasonably foreseeable. You've got a system that can be altered to the maximum ends of the earth. The possibility that that might happen I would have thought surely would have been considered, but it wasn't.

The solution proposed in the draft report to equalise to the second strongest State is, to some extent, a step in the right direction as it identifies that there has been a significant and foreseeable overstep in the current system. However, the draft report does advocate for, I guess, the continuation of horizontal fiscal equalisation and the problems associated with that. As one of the earlier speakers mentioned, you could foreseeably end up in a situation where you have two very strong States, whoever they might be, for whatever reason who find themselves in the same position, and you also still have the situation where if I was a smaller State or a State currently receiving quite a benefit from the GST distribution, the only way that I could, the only two ways I suppose that I could maintain my level of income would be to limit my performance in measurable areas, or to improve my levels of income in unmeasured areas, and with specific reference to gambling. And I can't see a Federal position that would say we want to advocate for the increase of gambling revenue.

But that's the position - that is a position, I suppose, we're maybe unintentionally putting people in and putting State Governments in. That's excluded, therefore it's open slather and will, in some cases, need to be used should your draft recommendations go through, I suppose. It will certainly be considered.

I would consider that those two options of limiting performance or increasing revenue, such as gambling, are foreseeable possibilities based on those draft recommendations.

As others mentioned, we have a wide range of income that the Federal Government takes where they can use to equalise. The fact that WA does have on the table some grants to some extent, really suggests to me that we could keep our GST and those grants could be offered to others. They money is there. That seems to be the political preference. There is something very political about the GST that we can't possibly change it, but they're happy to politically dish out money to anyone if they think it's a - if there's a couple of marginal seats which they want to win or something like that.

My position is quite simple. Every State should receive GST distribution on a per capita basis. The concept in some respects, which we've touched on, would still see WA giving more than it should. It doesn't provide reference to the land mass which you have discussed with the previous speakers. They
5 seem to know a bit more about it than me, so we won't touch on that too much. It does ignore the fact that we do the right thing in WA and don't provide access to our constituents to have gambling and poker machines in every corner, which whenever you visit the eastern States I'm sure you'd be familiar with. And we're very proud about that, and obviously want to keep it that way.

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I guess the main position from me is about incentive. I would say that it's a complete, reasonable position to allow States to manage their own fortunes. The benefits which Western Australia has, when we talk about the mining boom and other sources of income, have through all kinds of other ways
15 benefitted the rest of Australia. I'm not going to talk about State debt or things like that. That's I guess what I'm saying is that we chose to go into State debt to some extent to service that, and within some areas we were given that opportunity to make that choice. What we're finding is that the choice to go into debt, and the choice to support industries which employed hundreds of
20 thousands of people from other States and which benefitted through all kinds of indirect taxation people from all around Australia, we're not now receiving any kind of support to acknowledge that or to put us back on level pegging, I suppose.

25 Yes, just to finish off my earlier points, the problems we're facing now with horizontal fiscal equalisation are foreseeable again if we remain with that factor. My position is that 100 per cent per capita GST is the model we should be moving to, but similar to other speakers I accept that what you're recommending in your draft report is a significant step for WA and if there is
30 a requirement to get other States on board, which I know you're going to go around there and they'll tell you no change - kicking and screaming - to anything, please give us the money, but if you think that will get it across the line we'll take it, I suppose. Thank you.

35 **MR COPPEL:** Thank you. You have raised very many issues that have been raised by previous participants. On your preferred model of equalisation per capita, notwithstanding your final comment, how do you say it to someone who says the whole point of the CGC process is to equalise the capacity, the fiscal capacity of States to provide the same level of services to their citizens
40 through an EPC approach? And you would have seen in our draft report we've ruled that out because it doesn't meet that equity goal. So can you elaborate a little bit more on why you see the current - I guess one way of putting it, can you elaborate to us why you see the current approach as not being - I think you used the term, "not being fair"?

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MR ATKINSON: It's a very general term. I would consider the current approach not appropriate because it doesn't provide any incentive for anyone

to change. There's currently States that are below the average, I suppose, in that regard. Their incentive to come up is nothing. There is no incentive for them to use their own income and their own income streams, and increase their own income streams, in order to provide a better level of services for their constituents because they know if they do the top up that they get will be reduced. The distribution they get will be reduced to some extent.

So that level of incentive, I think, is a really critical aspect which will always be there if we have this equalisation concept. Reducing that to as much extent as you possibly can provides benefit and understandably politically there's an aspect there where you could get to a certain level, reducing to the second strongest State or reducing to the average, where you still allow certain States to be happy that they're getting a bit of a top up, even if they're doing nothing for it.

MR COPPEL: I don't think that's quite a correct characterisation of how it works.

MR ATKINSON: You would know better than me. I'm happy to take guidance on it, yes.

MR COPPEL: So essentially it's providing the capacity to provide the average level of service across the jurisdiction. So if a jurisdiction wanted to provide a greater level of service it wouldn't be penalised for that. And likewise on many of the revenue bases it's looking at an average policy, and anything above the average policy would essentially not be impacted by the way in which the CGC calculates its relativities.

MR ATKINSON: Yes. I think in order to raise a level of service there's a level of income required for that. And so if I was a State Parliamentarian with a strong desire to get as much income from the Federal Government as I could you would say well, I could either spend my own money on lifting those services and therefore have GST distribution potentially reduced because I'm providing a level of service, and correct me if I'm wrong, or I could not take those potential risks, allocate that money elsewhere, and have the income stream guaranteed as a result. Am I off the mark there?

MS CHESTER: So I think, looking at it from the perspective of raising an income stream, so you're looking at then the State Government looking to encourage development activity, whether it be through infrastructure or the like, or allowing a development activity to occur - - -

MR ATKINSON: Or tax increases or similar to fund those gains.

MS CHESTER: So we'll come back to tax increases later, but - because that's not increasing activity, that's increasing revenue raising.

MR ATKINSON: Revenue, that's right. It's different, yes.

MS CHESTER: But if a State were to do that, even under the current arrangements, they still come out ahead by doing it.

5 **MR ATKINSON:** Well, yes.

MS CHESTER: So we do make the point - - -

10 **MR ATKINSON:** I believe so. But I don't believe someone has necessarily taken that step.

MS CHESTER: - - - that this would be, and you're looking at it from the perspective of WA.

15 **MR ATKINSON:** Yes, of course.

MS CHESTER: And the system has been in place since the GST deal was struck. What development activity has not occurred in WA because of the current incentive arrangements?

20 **MR ATKINSON:** Has not occurred in WA? Yes, I couldn't answer that. I'm not an expert on it. You'd have to - I'm sure the State Government will present quite strongly on that tomorrow, yes. What they can't do as a result of the current situation, yes.

25 **MS CHESTER:** Because - - -

MR ATKINSON: I think we're probably going to - apologies for interrupting again. I think we're going to see that they're unable to provide certain services and certain projects now as a result of the current situation, rather than having it been a past issue.

30 **MS CHESTER:** So the question was what development activity is not occurring as opposed to what spending is not occurring because of the current fiscal situation?

MR ATKINSON: In Western Australia?

40 **MS CHESTER:** Yes?

MR ATKINSON: Yes, well I think a number of projects have been either halted or put on hold since the change in Government has occurred. They cite the GST income as a key factor in that. Again, they'll provide better detail on that I'm sure. There's also been significant tax increases to businesses and to households, which we've seen very recently as well. An increase to businesses will reduce activity. An increase to households will reduce household

expenditure, which will impact businesses, which will reduce activity. No doubt I'm drawing a fairly simplistic line there, but that's the position.

5 **MS CHESTER:** Okay. I guess in our draft report we did go to some lengths to try to be very objective and even-handed in looking at the current fiscal position of WA and what's really been behind that, which is more a function of fiscal management of past as opposed to where things are with the relativities, albeit the relativities aren't helping the fiscal repair task that WA has ahead of it.

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MR ATKINSON: Yes.

MS CHESTER: We have to view it from the perspective of all the other States and Territories, now viewing it as you're changing the system to help WA repair a fiscal problem - - -

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MR ATKINSON: Yes.

MS CHESTER: - - - that's of their own doing.

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MR ATKINSON: I would respectfully disagree with that. I think Western Australia had a position - they made decisions to go into significant debt, the Government at the time. They had a position where they could have chosen to not do that. They could have not taken on infrastructure projects. They could have not provided services at a certain level.

25

And we would therefore - well, I don't know the way it's changed completely, but could potentially be considered as not being able to provide a level of service because we've chosen not to go into debt. Instead the Government at the time chose to provide a certain level of service and take on infrastructure projects. As a result went into debt. So I don't really see it as a fiscal failure, to some respect. I mean, what the WA Government does with their money is their business. They might get a significant change to the GST, but not attack the debt level at all. I've got no idea what that is.

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And we've spoken, a number of people have spoken today about the WA benefit and the WA impact, and no doubt that's been your focus in regard to some of the questions. I think we're talking about fixing a system which has impacted us, but could similarly impact anyone else in the same respect at a different time. It happens to be Western Australia that has been impacted, but I know even going to some of the other States there's just not an appetite to change anything while they're ahead. And if they were in our position they'd be advocating for the same thing. I mean, you had to even given some of the States a fairly serious prod to even provide enough representation for you to attend to listen to what they have to say.

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5 So there's no appetite for anyone to change while they're ahead. You mentioned Western Australia has been ahead in the past. It's not an issue. We're talking about what we're going to do moving forward. The current position of debt in Western Australia I don't see as an issue because any GST money which comes in won't have a tag attached to it that it has to be put towards debt. It's put towards providing, in my understanding, a certain level of service so whether they take some of that money and use it to attack debt or not is entirely within their remit.

10 **MR COPPEL:** Yes. I think - I mean, when we talk about the GST pool and HFE shouldn't be applied to the GST, GST is just the funding source that's used to act as the spirit level across jurisdictions. So if it's not GST, as it has been in the past, it's some other form of revenue that's provided by the Commonwealth.

15 **MR ATKINSON:** Yes. I mean, there's a sentiment and what provided me with the inspiration to appear at this before I joined the Western Australia Party is I was getting strong feedback from a number of people in the community that there's a sentiment that State Governments have, to some extent, the
20 greater opportunity to impact GST revenue.

25 And I don't know the detail behind that, but that was some of the discussions that I had, that income tax goes, company tax goes, whatever other taxes there are - that goes, but there's something about the GST which people find to be particularly relevant to State Government income, and because it's guaranteed to come back to States at some percentage that a State Government would be more inclined to alter their operations to maximise the benefit returned to them.

30 Whereas - well, there's no other aspect which is directly linked to come back to State coffers. They're not so inclined to make alterations on that basis, if that makes sense.

35 **MR COPPEL:** Can I ask you about transition?

MR ATKINSON: Yes, please.

40 **MR COPPEL:** I think if I heard you correctly you were saying go for the big bang?

MR ATKINSON: No, I suggested that 100 per cent is my goal, but immediacy is not necessarily the biggest task. The solution that I would consider personally would be a rising floor over time. Exactly where that starts and how quickly it rises would be a discussion with Federal and State
45 Governments as to what could be acceptable, I suppose, but starting at a base and working the way up to 100 per cent.

MR COPPEL: To the point where it would equalise to the average?

MR ATKINSON: To the point where there would be no equalisation required.

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MR COPPEL: So it would be distribution on an equal per capita basis?

MR ATKINSON: Yes, yes.

10 **MR COPPEL:** Okay. I thought earlier you had said that you had agreed with at least one of the options that we put in the draft report that the equalisation would be to the average?

15 **MR ATKINSON:** Yes. I suggested that it was willing to be put forward as a likely method which would be accepted, I suppose, but if you were going to put forward the position we like is 100 per cent per capita. If there is a requirement, which you have stated a number of times to go and get agreement among States and Federal Government as to how that's implemented, then a lesser number of equalising to the average might be more palatable.

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MS CHESTER: Tom, I'm not sure if you were here earlier when we mentioned that where previously EPC for the GST pool has been recommended formally to Government in the past, it was in the context of changing the deal that was struck earlier and doing it on the basis of EPC and having top up for the structurally fiscally weaker States, and the Federal Government would fund that but that would all occur as part of the broader reform of Commonwealth, State, Federal financial relations and taxing arrangements, especially around income tax?

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MR ATKINSON: Yes.

MS CHESTER: So to some extent we're looking at HFE and the GST bucket as it exists today, and what can be done to holistically improve it from the perspective of the Australian economy incentives, but still doing some form of fiscal equalisation. What you're raising is kind of like a further game changer in the context that the Commission of Audit have recommended it, but having to change those other Commonwealth/State taxing arrangements. So I guess in that context is that the direction that the Western Australia Party wants to go, and in terms of revisiting the current taxing and spending responsibilities between Commonwealth and State, and if so what - - -

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MR ATKINSON: I think as Andrew stated earlier, we have concerns about double taxation and the ideas that we're raising State taxes in Western Australia to make up for the money which is leaving it. But we have tax people in our party who are more expert on that than I am, so I won't make it a position on behalf of the party.

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MS CHESTER: Okay. So you have just joined the party recently?

MR ATKINSON: Yes.

5 **MS CHESTER:** And it was 600 members at the moment?

MR ATKINSON: Yes, that's right. Yes.

10 **MS CHESTER:** And that's sort of spread out - tell us a little bit more. Are they spread out across the State?

15 **MR ATKINSON:** Yes. Well, because of this issue we have quite a good representation in the northern area of the State, which has been really positive, but a fairly good spread really. It's something which resonates with pretty much everyone we speak to. It's just a matter of whether they like the idea of joining a political party or not, which seems to be off limits to some people. But the general community support we've got is very wide ranging.

20 **MR COPPEL:** When was it established?

MR ATKINSON: That's a good question. 2016.

25 **MS CHESTER:** And I guess one of the issues that we also sort of grapple with in our report is the current way the CGC does things, like all the detailed formula and the whole HFE, it is horribly complex?

MR ATKINSON: Yes.

30 **MS CHESTER:** And I think we've even suggested on one occasion on the public record that we only think there's about 30 people in the whole of Australia who understand it in its entirety.

35 **MR ATKINSON:** Yes, I particularly on a - not really for this forum, but have a bit of an issue, and you mentioned it yourself I suppose, in regards to your roles with the seemingly significant role that unelected people have in distributing such a large amount of money.

40 **MS CHESTER:** Well, I think within the 30 the State and Territory Treasuries know how it works and - - -

MR ATKINSON: Hopefully some of them, yes.

45 **MS CHESTER:** But I guess it raises the issue, given your party represents 600 citizens of the State. Do you think - - -

MR ATKINSON: Well, 600 members, yes.

MS CHESTER: 600 members, sorry. What is your sense of people understanding the way the original deal with the GST and the HFE, how the HFE works, the role of the CGC? That it's not all expenditures, it's only a small part of the expenditures?

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MR ATKINSON: Yes, that's right. Look, I think if I can answer that question and say that the understanding you have seen me exhibit today would be pretty accurate as to what most of the members are. We know there's something wrong. We have a good, a general understanding of what needs to be done but if you get into the very economic details of how it works and how to fix it it's not - it's not exact.

15 WA has a very large population of people that are involved in the mining industry, either directly or indirectly, so they see how it impacts that. They saw at our last State Government election there were some people running a strong campaign to increase mining royalties, and that didn't get up at all because the people in Western Australia had a good understanding of how the royalty system works and how if we raise royalties we wouldn't see a lot of that and it wouldn't be beneficial on the back of the mining companies running a fairly strong campaign along those lines as well.

20 So there's an appetite to understand those things certainly, and I think as I mentioned before that what grasps most at people is the - when you speak to the average person in the street is just the potential lack of incentive it provides, and the fact that there's a feeling that Western Australians are taking a significant risk. We're doing things with our resources that other people politically aren't willing to do, and that we gain reward from that. I mean, the fact that we should be required - as others have mentioned, WA has got - no one has got any problem with WA digging up every square inch of land that we've got, but others take politically opposite positions on the basis of, I would say, election campaigning in some respects. It seems to impact that.

25 And there's a feeling, as I mentioned before, however accurate it is, that the State Governments have the opportunity to pull levers to impact the GST return more than in other areas as well.

MR COPPEL: Can I just ask one further question, and it gets back to a point that's been made by a number of participants about the way in which the GST that is distributed is untied, and there are no conditions on how that revenue is used. Could I ask what your view would be if central Government, the Commonwealth Government, adopted tied distribution, say telling WA that shopping opening hours are highly regulated, they should be deregulated as a condition, and many other conditions that could be attached by Canberra? Would that - - -

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MR ATKINSON: Well, my own views on where the money could be spent - it would be an overstep. You're saying here's a significant portion of your

yearly funding and we're going to tell you how to spend it. You'd ask as to what the requirement is for a State Government to exist if that was the case. We elect people at a State level to make State decisions. I think it's great that the return is provided to them at whatever level, and that people have faith in them. And in this case - I mean, in this State you get it all the time. We elect people to take a directly opposite position to what the Federal Government is doing because of that ongoing sense of unfairness in a variety of areas.

So I guess what I'm advocating for is that the GST stays but the grants system to some extent is more apparent, which I guess if you're providing grants the idea of a grant is that it is tied quite strongly to an activity. So that's almost what we're advocating for, I suppose. But it's a more ad hoc, potentially smaller pool, I suppose, to attack a need as necessary while the State Government then has that more significant revenue stream to operate its day to day business. Although I don't know if that's the position of the party or just mine, but the requirement to have a good sense of what your income is going to be and to be able to pull levers to maximise or minimise that, depending on what your overall goals are is really important, and I think we're lacking that to some extent now. And that would be in all of Australia, not just Western Australia.

MS CHESTER: Okay.

MR ATKINSON: Thanks guys. I appreciate you indulging me.

MR COPPEL: Thank you. So that brings to a conclusion the registered participants for today's hearing. Could I ask if there is anyone here who is not registered that would be interested in making a brief comment before we close today's hearing? If not then I do close today's hearing and we will reconvene in the same place tomorrow morning at 8.30 am. Thank you.

**MATTER ADJOURNED AT 11.53 AM
UNTIL TUESDAY, 14 NOVEMBER 2017 AT 8.30 AM**