Submission to Productivity Commission

Horizontal Fiscal Equalisation inquiry

Any distribution of funds to states and territories will impact upon how they develop.

In the last 50 years Western Australia has lifted its performance sufficiently to become the major mineral exporter in the nation. It built this capability on the ability of Sir Charles Court to structure legislation that attracted private investment into creating some of the world's biggest and most efficient iron ore mines. The companies paid for the development of mines, rail lines, ports and towns. In recent years similar processes have led to WA becoming a significant supplier of natural gas to the world.

Despite this, WA requires funds to build infrastructure to facilitate new developments and to diversify its economy. Equally it needs funds to address services to a widely, thinly spread population.

The current formula used to distribute GST funds across jurisdictions distorts WA's share because of a single factor – mineral royalties. The big coal exporters on the east coast are apparently immune to this imbalance.

Figures quoted in *The West Australian*, 25th March 2017 show of the $62.73 billion from the recent GST distribution $7.92 billion (12.6%) was collectively removed from NSW, Victoria and WA. Of this WA contributed $4.476 billion, roughly 65%.

Specific Distortions

- **Queensland** has recently attracted a new coal mine development with a clinching factor being a reduction of 50% in royalty over the first 10 years. Queensland know they will receive $1.44 billion from WA's royalties via the GST carve up as a result of the current formula. This is development at the expense of a fellow state.
- **Northern Territory** is developing a natural gas processing and exporting industry based in Darwin. NT each year receives $1.38 billion from WA. This development would be admirable if it was based upon NT's natural gas discoveries. It is not. The gas is being "stolen" from WA and could have been brought ashore into the Kimberley region if WA could afford the incentives.
- **South Australia** enjoys $1.17 billion each year direct from WA. It has wasted this money. Prudent planning would have held this until it was assured of the long anticipated naval contracts. Instead, once those contracts were in place the Commonwealth had to grant an extra $2 billion to create the infrastructure to allow SA to benefit. Again, this happens at the expense of WA's internationally recognised successful record of ship building.
- **Tasmania** has existed for decades on large parcels of money being granted by various Commonwealth Governments from 1975 in the time of Senator Harradine. More than $0.5

billion per year as a result of WA's mining royalties flow into Tasmania. Here is a state that refuses to create new industries or develop its own mines but happily lives of those in WA.

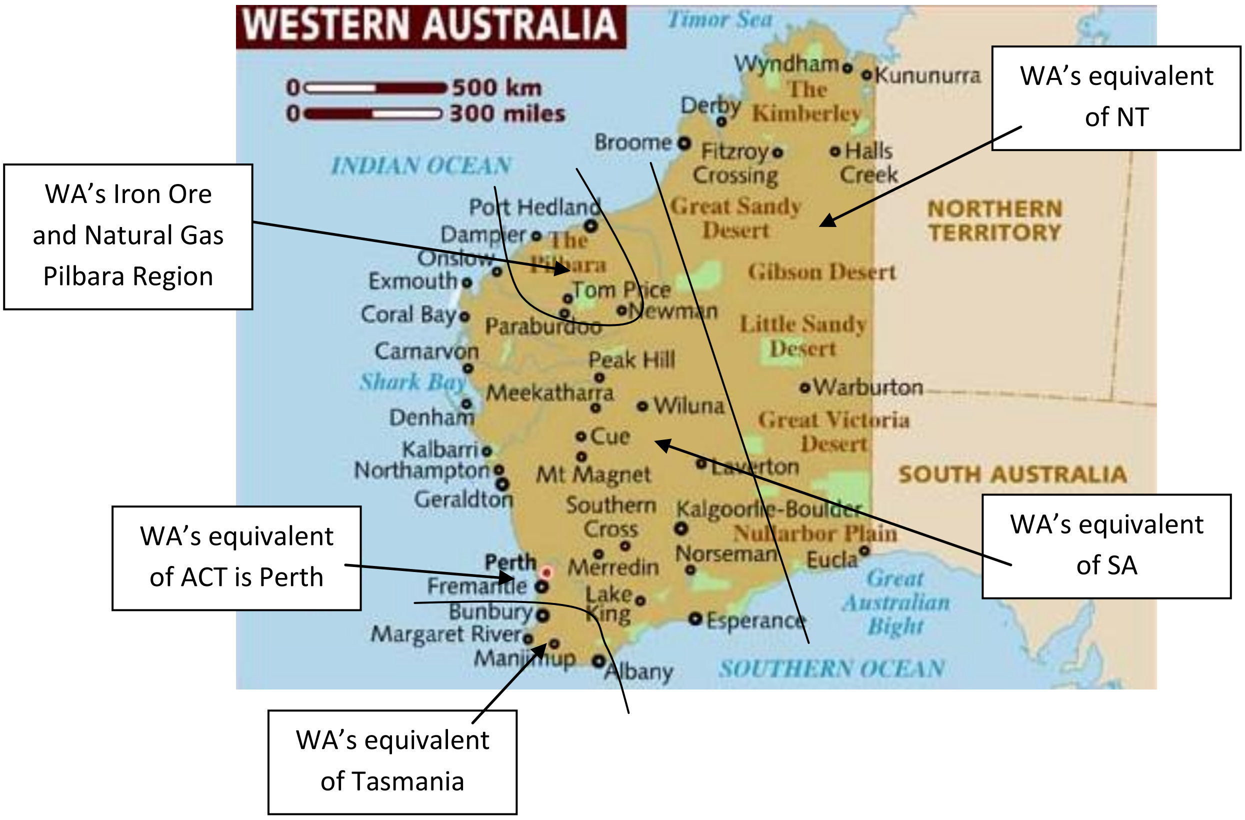
- **Australian Capital Territory**, a single city situated on a plot of land less than the area of a cattle station in WA, receives a relatively small $.12 billion from WA. However, while WA needs to build, stock and fund its own public buildings ACT has the nation's museums, art galleries, libraries, memorials, public monuments, artificial lakes and more is funded by the Commonwealth. These attract more tourists than anything the ACT has built while it is the ACT businesses, hotels, restaurants and the like that gain the advantages.

Western Australia – one third of Australia

WA has an area of 2,529,875 square kilometres. If it was an autonomous country it would rate as the 10th largest in the world. It is second in size only to Siberia as an administrative unit.

WA is required to service that entire portion of Australia.

A couple of quick lines have been drawn across the map that follows.



Each of these resulting regions have almost identical development needs as are used to justify the current GST distribution, with the exception of an area around the Pilbara.

The Pilbara Region

WA exceeds the combined size of SA, NT, Tasmania and ACT by over 125,000 sq km. That's about the size of the iron ore mining region.

The royalties generated from that region should be distributed to enable all of Australia to benefit equally.

WA's Equivalent of NT

> This area has a couple of big towns, a high proportion of Indigenous people with the same education, health and government service needs as used to justify funds for NT.

WA's Equivalent of SA

> This large section of broad acre farming and pastoral activity with unreliable rainfall and scattered or isolated small population has the same needs as SA.

WA's Equivalent of Tasmania

> The lower south west of WA is experiencing difficulties resulting from periods of ripping out orchards, closing timber mills, losing dairy markets, facing competition with potatoes, reduced fishing fleets similar to Tasmania.

WA's Equivalent of ACT may well be central Perth

> Although it has different imperatives and redevelopment is underway, more is needed.

Royalty Redistribution

As a state WA receives more royalties. The big exports of coal do not appear to generate sufficient royalties to penalise Queensland and NSW to the extent that happens to WA. Maybe their royalties are too low.

Irrespective, the flow of money from WA's royalties should benefit all of Australia. WA's land mass is ignored at present.

The state that is prepared to promote development must keep sufficient funds to ensure this can happen.

This paper suggests those benefits should flow almost in equal amounts to WA and to the combination of SA plus NT plus Tasmania plus ACT.

It is equally relevant that NSW and Victoria continue to supply some GST funds to contribute to SA plus NT plus Tasmania. The ACT amount is largely immaterial.

Queensland is a special example of the ridiculousness of the current formula. It maintains it is the number two mining state. Why does it receive no benefit? Why does it reduce its mineral royalties?

In its mid-year budget review Queensland boasted about its surplus of $3 billion – equivalent to what WA gives it every two years. It is not in need. WA is!

The constant behind all tax distributions over the years of this Commonwealth has been a per capita distribution. It is the role of the central government to make additional grants from a pool of funds it collects from taxes or excise and other sources.

GST must be allocated primarily in proportion to population. Calculations that follow show that 75% could be distributed on a per capita basis within three years while impacting on the budgets of non-WA jurisdictions by a maximum of 2% per annum in their GST allocation.

To achieve this WA would commit for this period to receiving less than its 75% until the 25% withheld for distribution to jurisdictions exceeds the amount required for this support.

Considering GST is less than half the income each state or territory has in its budget this requires non-WA jurisdictions to make less than 1% adjustment, well within easy accounting realms.

However the impact this makes on WA, the powerhouse of Australia's export earners, is considerable. WA's share rises from 34% of the per capita distribution to 75% in those three years and stays there. No other state will then need to suffer such a crippling blow.

Redistribution and Accountability

Twenty-five percent of all GST is held in a pool to be distributed by a means to be determined. Maybe some complicated version of the current formula is possible.

However, there must be a mechanism whereby those who receive the most can show they have done more than simply provide services to every person. They need to take steps to demonstrate how they are intending to build an economy that shows improvement.

Lowering their royalties and expecting another state to compensate is not desirable. Nor is piping gas out of one domain into the next or receiving monies and showing no gain.

Joint ventures may be part of a solution. Maybe WA and NT could co-operate to create a second gas hub. Maybe WA and SA could have jointly sought the naval contract to the benefit of both.

The following paragraph is provided as an example of what a joint venture may have achieved.

In June 2017 alarm was raised regarding a possible shortage of natural gas on the eastern seaboard of Australia. It appeared that while there was gas being extracted it was earmarked for export rather than local consumption. WA has enough such gas to power the nation for centuries. Suggestions were raised about a massively expensive pipeline coast to coast from north west to south east, or a fleet of ships, to transfer the gas. The CEO of Woodside stated that the best solution was to use the local south east gas in appropriate amounts for local south east demands and to adjust the export orders to be supplied by gas from the northwest as that location was thousands of kilometres closer to the customers. The Government of Australia stepped in with unsettling regulations to over-rule south east exports. This has all the hallmarks of a heavy-handed approach when cooperation was offered not only between states but at government-enterprise level.

Summary

- GST distribution must attempt to facilitate the growing prosperity of every part of every jurisdiction
- Distribution must allow strong States to retain a substantial minimum share of GST
- Within three years Australia should adjust its distribution so no jurisdiction receives less than 75% of a per capita distribution of GST
- Joint ventures between jurisdictions should be encouraged so expertise as well as financial support is shared
- Every three years the ground rules need revision. Every participant needs to be aware that their future allocation is based upon improving their prosperity. Within a decade all jurisdictions should receive a minimum of 90% of per capita amounts.
- This 90% level is achievable because 10% of the per capita distribution of NSW, Queensland, Victoria and WA is sufficient to subsidise the smaller states and territories, which, if the next ten years is used wisely, will only include NT anyway.

Footnote

There is a belief that Western Australia has a large budget deficit because its previous Government spent beyond its income. This is in part true. However, then Premier Barnett repeatedly requested an adjustment to the GST distribution formula so WA would receive a respectable share. All other states refused. Their greed overruled common sense – the unfairness has been plainly obvious . Had Mr Barnett been successful in gaining just 50% of the per capita allocation all problems would have been averted.

Simple Calculations for Equitable GST Distribution over 3 Years

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	Based upon GST figures as at 25/03/2017 published in *The West Australian* newspaper								
	All figures in $A Billions								
		For simplicity it is assumed the next three years raise $62.730 Billion in GST.							
	AS PLANNED for 2017-2018 using existing formula								
A1	17.680	14.830	14.960	**2.350**	6.360	2.400	1.230	2.920	62.730
	If based on per Capita distribution								
B1	20.100	15.860	12.560	**6.820**	4.410	1.330	1.030	0.620	62.730
	a) Remove 25% off per capita distribution Row B1								
	5.025	3.965	3.140	1.705	1.103	0.333	0.258	0.155	15.683
	b) Guarantee minimum distribution of 75% based on per capita basis								
	15.075	11.895	9.420	5.115	3.308	0.998	0.773	0.465	47.048
	Ensure non-WA states receive 98% of previous planned distribution as in Row A1								
	17.326	14.533	14.661		6.233	2.352	1.205	2.862	
	c) Refund as below so no jurisdiction is more than 2% below previous year								
	2.251	2.638	5.241	**-1.558**	2.925	1.355	0.433	2.397	15.682
	d) Create a New Allocation. WA contributes additional $1.558 B to match								
C1	17.326	14.533	14.661	**3.557**	6.233	2.353	1.206	2.862	62.730
		Difference as an Amount from planned 17/18 plan -Row A1							
	-0.354	-0.297	-0.299	**1.207**	-0.128	-0.047	-0.025	-0.058	-0.001
		Difference as a Percentage from planned amount - Row A1							
	98.0	98.0	98.0	**151.4**	98.0	98.0	98.0	98.0	
	WA still receives $1.207 B or roughly 50% more their planned GST 2017-2018								
	Repeat this in the next year								
	Second Year 2018-2019								
	Assume total GST for distribution is same as for 17/18 as in Row A1								
	Make Start Position for 18/19 the end status from 17/18 - ie Row C1 above								
B2	17.326	14.533	14.661	3.557	6.233	2.353	1.205	2.862	62.730
	a) Remove 25% off per capita distribution Row B1								
	5.025	3.965	3.140	1.705	1.103	0.333	0.258	0.155	15.683
	b) Guarantee minimum distribution of 75% based on per capita basis								
	15.075	11.895	9.420	5.115	3.308	0.998	0.773	0.465	47.048
	Ensure non-WA states receive 98% of previous planned distribution as in Row B2								
	16.979	14.242	14.368		6.109	2.308	1.181	2.805	
	c) Refund as below so no jurisdiction is more than 2% below previous year								
	1.904	2.347	4.948	**-0.373**	2.801	1.308	0.408	2.340	15.683
	d) Create a New Allocation. WA contributes additional $0.373 B to match								
C2	16.979	14.242	14.368	4.742	6.109	2.306	1.181	2.805	62.731
		Difference as an Amount from actual 17/18 recalculation - Row B2							
	-0.347	-0.291	-0.293	1.185	-0.124	-0.047	-0.025	-0.057	0.000
		Difference as a Percentage from planned amount - Row B2							
	98.0	98.0	98.0	133.3	98.0	98.0	98.0	98.0	

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	Repeat this in the next year								
	Third Year 2019-2020								
	Assume total GST for distribution is same as for 17/18 as in Row A1								
	Make Start Position for 19/20 the end status from 18/19 - ie Row C2 above								
B3	16.979	14.242	14.368	4.742	6.109	2.306	1.181	2.805	62.731
	a) Remove 25% off per capita distribution Row B1								
	5.025	3.965	3.140	1.705	1.103	0.333	0.258	0.155	15.683
	b) Guarantee minimum distribution of 75% based on per capita basis								
	15.075	11.895	9.420	5.115	3.308	0.998	0.773	0.465	47.048
	Ensure non-WA states receive 98% of previous planned distribution as in Row B3								
	16.737	14.055	14.179		6.085	2.358	1.255	2.847	
	c) Refund as below so no jurisdiction is more than 2% below previous year								
	1.564	2.062	4.661		2.679	1.262	0.384	2.284	14.896
	See notes below								
	0.449	0.337							0.786
	d) Create a New Allocation.								
C3	17.088	14.294	14.081	5.115	5.987	2.260	1.157	2.749	62.730
	Difference as an Amount from actual 18/19 recalculation - Row B3								
	0.109	0.052	-0.287		-0.122	-0.046	-0.024	-0.056	-0.374
	Difference as a Percentage from planned amount - Row B3								
	100.6	100.4	98.0		98.0	98.0	98.0	98.0	
	NOTE 1:								
	By the third year the 25% removed from the full GST pool exceeds what								
	is redistributed and WA reaches the 75% minimum guarantee.								
	The excess is distributed almost evenly between all 8 jurisdictions								
	NOTE 2:								
	Total amount gained (lost) over 3 years								
	-0.592	-0.536	-0.879	2.765	-0.374	-0.141	-0.074	-0.171	
	Percentage gained (lost) over 3 years								
	-3.35	-3.61	-5.88	117.66	-5.87	-5.85	-5.98	-5.86	
	Because less than 25% was redistributed in year 3 excess was given to NSW and Victoria								
	Tasmania, ACT and NT all received more than in the previous year.								
	Final Proportions								
	85.01	90.13	112.11	75.00	135.75	169.89	112.28	443.39	
	NSW could well receive some from Qld to lift its share to 90% of a per capita amount. The 3 big east coast states stay within 10% of per capita amounts								