

Submission to the Productivity Commission's Draft Report:

Horizontal Fiscal Equalisation

10 November 2017

The Western Australian Council of Social Service Inc. (WACOSS) welcomes the opportunity to comment on the Productivity Commission's draft report *Horizontal Fiscal Equalisation*.

WACOSS is the peak body of community service organisations and individuals in Western Australia. WACOSS stands for an inclusive, just and equitable society. We advocate for social change to improve the wellbeing of West Australians and to strengthen the community sector service that supports them. WACOSS is part of a national network consisting of ACOSS and the State and Territory Councils of Social Service, who assist low income and disadvantaged people Australia wide.

Horizontal Fiscal Equalisation

The system of horizontal fiscal equalisation (HFE) is centred on the principle that no matter in which state an Australian may live, they should be able to access a similar level of state services. Under the HFE, the GST collected by the Commonwealth is distributed to individual states based on the recommendations of the Commonwealth Grants Commission.

While WACOSS has concerns around the GST as a fundamentally regressive tax, there can be no question that its revenue should be distributed in a fair and equitable manner. What is in doubt is whether the current system of distribution is in fact fair.

The Western Australian Context

The exceptionally low GST relativity received by WA over the last four years has thrown a light onto the HFE system. The twin impacts of a low GST return and the end of the state's mining boom, have placed extraordinary pressures on WA's finances. As a result, we have seen cuts to services, an underinvestment in early intervention and prevention programs as the funds remaining are spent to continue the functioning of the tertiary service system, and low wage growth in the public sector.

Contemporaneity

While a different approach to financial management and spending priorities during the mining boom could well have made some difference, it is clear that the low GST return at its end has exacerbated the difficulties and challenges faced by the WA economy.

WACOSS recommends that the Productivity Commission consider approaches that would provide for more contemporaneous adjustments of the GST share or investigate equitable avenues for ensuring a more stable share, so that states can better predict and set their budgets accordingly.

GST Floor

While the Productivity Commission's report suggests that the introduction of a GST floor would only target the symptoms of the problems of the HFE, WACOSS recommends that an explicit floor be considered in concert with other proposed reforms to guarantee that a situation such as that faced by WA currently is unable to occur again.

Natural Resource Development

It is important that any reforms made to the HFE do not actively force states into the overdevelopment of their natural resources. The different circumstances in each state and the different composition of their natural resources means that a HFE lacking nuance may create perverse incentives to exploit local resources in a manner that is not in the national interest.

The protection of natural forests in the southwest of Western Australia and in other states such as Tasmania has a material benefit in its relation to climate change, for all Australians and in particular for those climate change impacts most such as households on the lowest-incomes and vulnerable groups. For the same reason, it would be an undesirable consequence for states to be forced into opening up or expanding fossil fuel sources in order to achieve a reasonable GST return.

Transition

With the different Australian states parties to hundreds of service contracts with community sector organisations alone, a sudden shift in the way in which the distribution of the GST is determined could have profound consequences.

Any reform to the HFE should be introduced gradually, with top-up payments provided for particular states where it is considered necessary and appropriate.

If you would like to discuss this submission further, please feel free to contact the WACOSS Research and Policy Development Leader Chris Twomey

Yours sincerely,

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