



Premier of Western Australia

The Hon Tony Abbott MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Tony,
Dear Prime Minister

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1. The distribution of GST revenue is the biggest financial issue for Western Australia. I understand the sensitivity, though this issue will not go away. *

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Western Australia's share of GST revenue will be just 45 per cent of our population share this financial year, and is projected to fall to only 7.5 per cent in 2016-17.

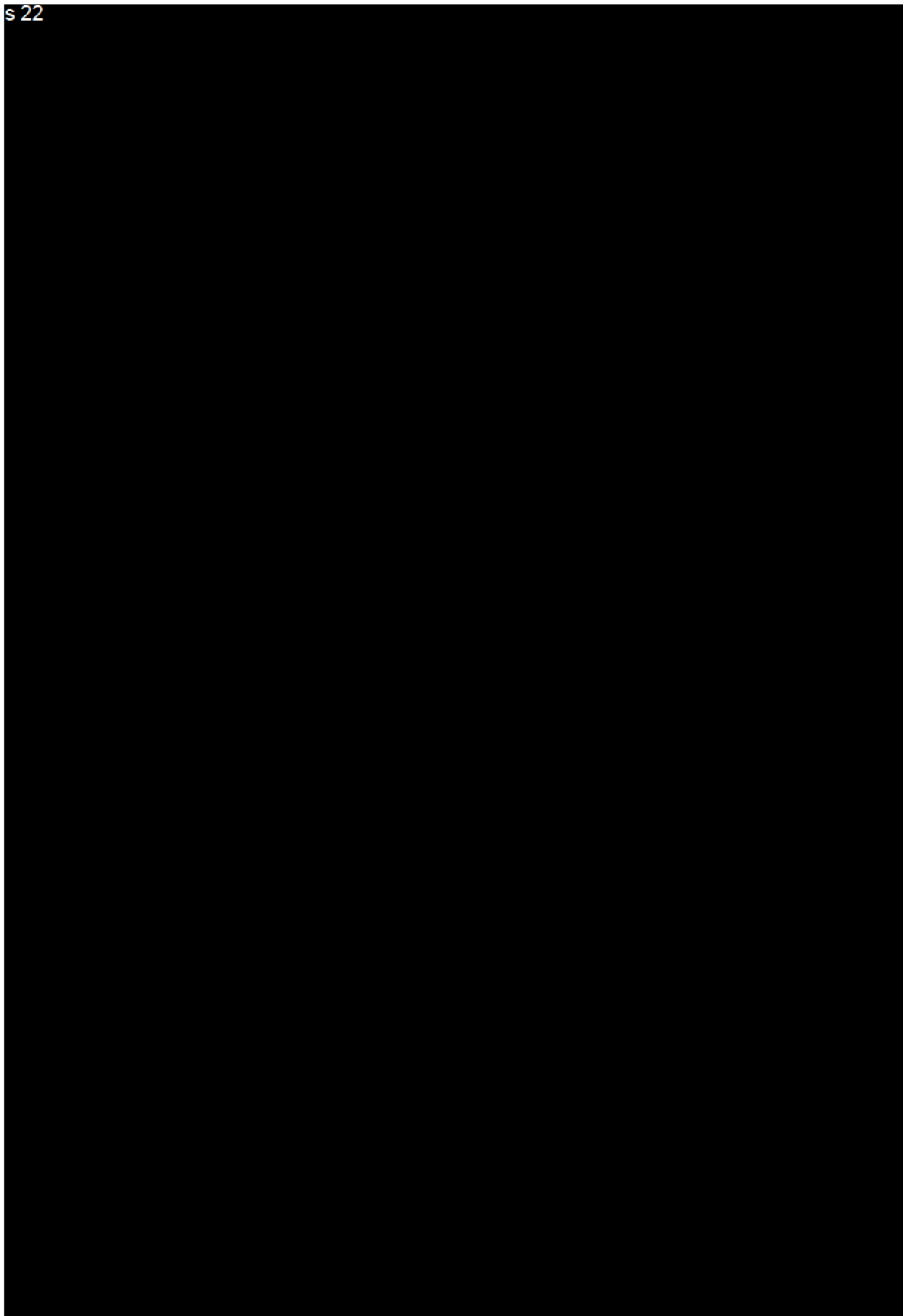
I support a progressive shift to a largely per capita distribution. This can be managed in such a way that no State is worse off, by gradually moving to a population based distribution system, including holding back a portion for effective top-up and distribution to the weaker States. The four big States (New South Wales, Victoria, Queensland and Western Australia) agree with this approach – as reflected in our joint submission to the GST Distribution Review Panel (Greiner, Brumby and Carter) last year.

2. One way of providing some immediate support on the GST distribution issue is to retain the status quo on the treatment of "iron ore fines" by the Grants Commission. If the fines continue to be treated as a low value royalty then

the dire consequences of further absolute cuts in GST can be partially offset.
This may require a direction to the Grants Commission by the Treasurer.

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Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Barnett'. The signature is fluid and cursive, with a large initial 'C' and a long, sweeping tail.

Colin Barnett MLA
PREMIER

1 October 2013



Premier of Western Australia

Our Ref: D1400461

Hon Tony Abbott MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Tony,
Dear Prime Minister

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the revenue available to the State has grown at just 2 percent, reflecting s 22 declining GST revenue. While nationally Commonwealth funding forms around 45 percent of State revenue and is rising, for Western Australia funding from the Commonwealth is around 25 percent and falling.

A key driver of this is the GST distribution mechanism, with our latest published budget projections showing that by 2016-17, Western Australia will be receiving less than one percent of all GST collections. I am convinced this will be detrimental to the nation's continued prosperity and unacceptable to the Western Australian community.

Fundamental reform of the GST distribution is needed with a move to equal per capita, phased in over a number of years, and a portion of the pool quarantined to support weaker States -- and potentially abolishing the Commonwealth Grants Commission.

I know such reforms will be difficult to achieve and implement, but pleased be assured I stand ready to work personally with you, and other State and Territory leaders, to achieve changes needed for the future benefit of all Australians.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Col Barnett', with a stylized flourish at the end.

Colin Barnett MLA
PREMIER

29 January 2014



Government of Western Australia
Department of the Premier and Cabinet

**WESTERN AUSTRALIAN SUBMISSION
TO
NATIONAL COMMISSION OF AUDIT**

December, 2013

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- s 22 will require the State's revenue bases to be improved, including:

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- fundamental reform of the GST distribution system – dramatically simplifying the current system by transitioning to equal per capita distribution (over a number of years, with a portion of the pool quarantined to support weaker States) and potentially abolishing the Commonwealth Grants Commission.

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The challenges ahead will require rethinking about tax and revenue and how it is allocated to deliver the services or benefits governments should provide, especially with an ageing population. In the Australian Federation this means looking at s 22

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the now 'broken' and inequitable horizontal fiscal equalization process, which re-distributes national revenues among the States and Territories, to the great benefit of some and the great detriment of others, most notably, Western Australia.

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Other States and the Commonwealth also benefit through the GST sharing arrangements, which further restrict investment in Western Australia. s 22



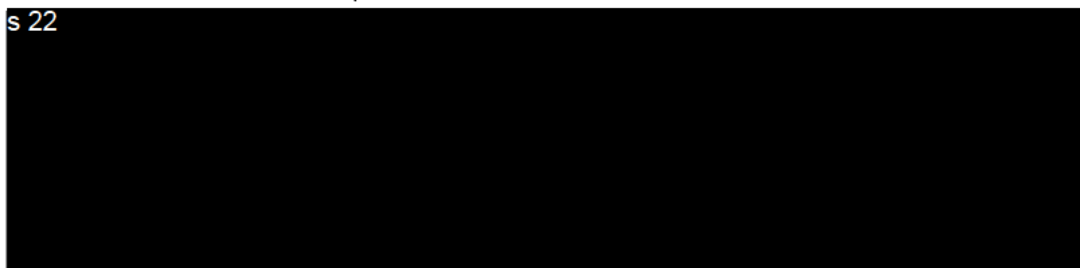
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s 22 In 2012-13 Western Australian general government revenue grew just 2 percent (nominal), reflecting s 22 declining GST revenue.



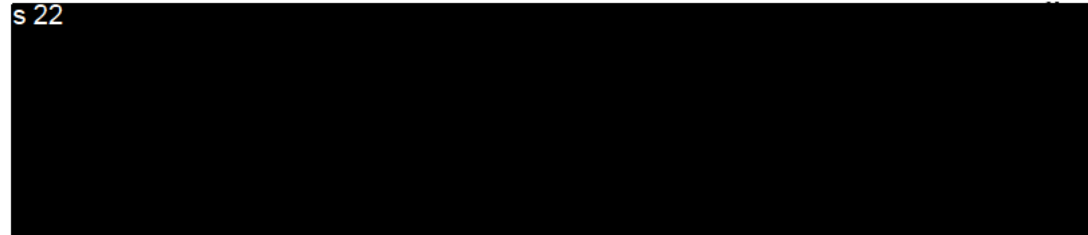
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s 22 While nationally Commonwealth funding forms around 45 percent of State revenue (including GST payments), and is rising, for Western Australia funding from the Commonwealth is around 25 percent and falling.



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Other suggestions for national tax reform have also been made to provide replacement revenues, including broadening the GST base and/or increasing the rate.



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Genuine tax reform cannot be considered independently of Australia's federal financial relations arrangements.

Tax reform should also include reform of the GST distribution mechanism, with a view to reducing barriers and disincentives to efficient resource allocation and economic development.

The current system of horizontal fiscal equalisation strives for full equalisation of States' capacities to provide the same level of services to their existing populations. However, in practice it does not achieve this and therefore cannot be considered equitable, while at the same time its dampening impact on economic development incentives and market dynamics is ignored.

On both counts, horizontal fiscal equalisation is inhibiting the State's capacity to attract the labour and other resources needed to support shifts in Australia's economic comparative advantage.

In the absence of reform, Western Australia will not be able to sustain the public sector investment necessary to support further growth in its resource sector and other sectors best placed to take advantage of the economic transformation occurring in Asia. Western Australia's submission to the First and Second Interim Reports of the GST Review made two key recommendations:

- *Equal per capita (EPC) distribution, with appropriate transitional arrangements and Commonwealth support funded from its fiscal gains from reform.* In the long term, GST grants should be distributed on an EPC basis among all States. The Commonwealth would decide the level and conditions of financial support to balance equity and efficiency goals.
- *Partial equalisation based on a smaller grant pool.* A majority (60 percent) of the GST grant pool should be distributed on an EPC basis, with the remainder of the pool distributed on a HFE basis.

Western Australia considers that the GST Distribution Review did not tackle the core problems of horizontal fiscal equalisation, namely, that:

- it penalises State governments whose policy settings encourage economic development and conversely it rewards State governments whose policies hinder economic development;
- there is no yardstick to judge the Grants Commission's success or otherwise in identifying and measuring, on a policy neutral basis, the factors that give rise to differences in States' relative fiscal capacities;
- it is a disincentive to socially responsible policies such as Western Australia's restraint on gambling activity in the State;

- the overall fairness of HFE is affected by the selective 'quarantining' of Commonwealth grants (e.g. a State could receive a 'double dip' benefit by receiving a share of Western Australia's royalties through HFE, and a high share of quarantined grants); and
- the process carries considerable risk of intergenerational inequity (e.g. States that delay development of their resources will be advantaged by any future reform of HFE that reduces equalisation of resource revenues).

The Review did not commission any professional independent advice on these issues.

Western Australia strongly supports the Review's 'long term vision' that would see a reduction in tied grants and an equal per capita distribution of the GST, and requests the Commonwealth commit to an implementation path for this reform vision.

In the absence of reform, Western Australia's GST grant share is forecast to decline from an already historical low of 55 percent of its population share (\$2.9 billion) in 2012-13 to only 7.5 percent of its population share (\$500 million) in 2016-17. This would mean Western Australia would receive less than 1 percent of national GST revenues.

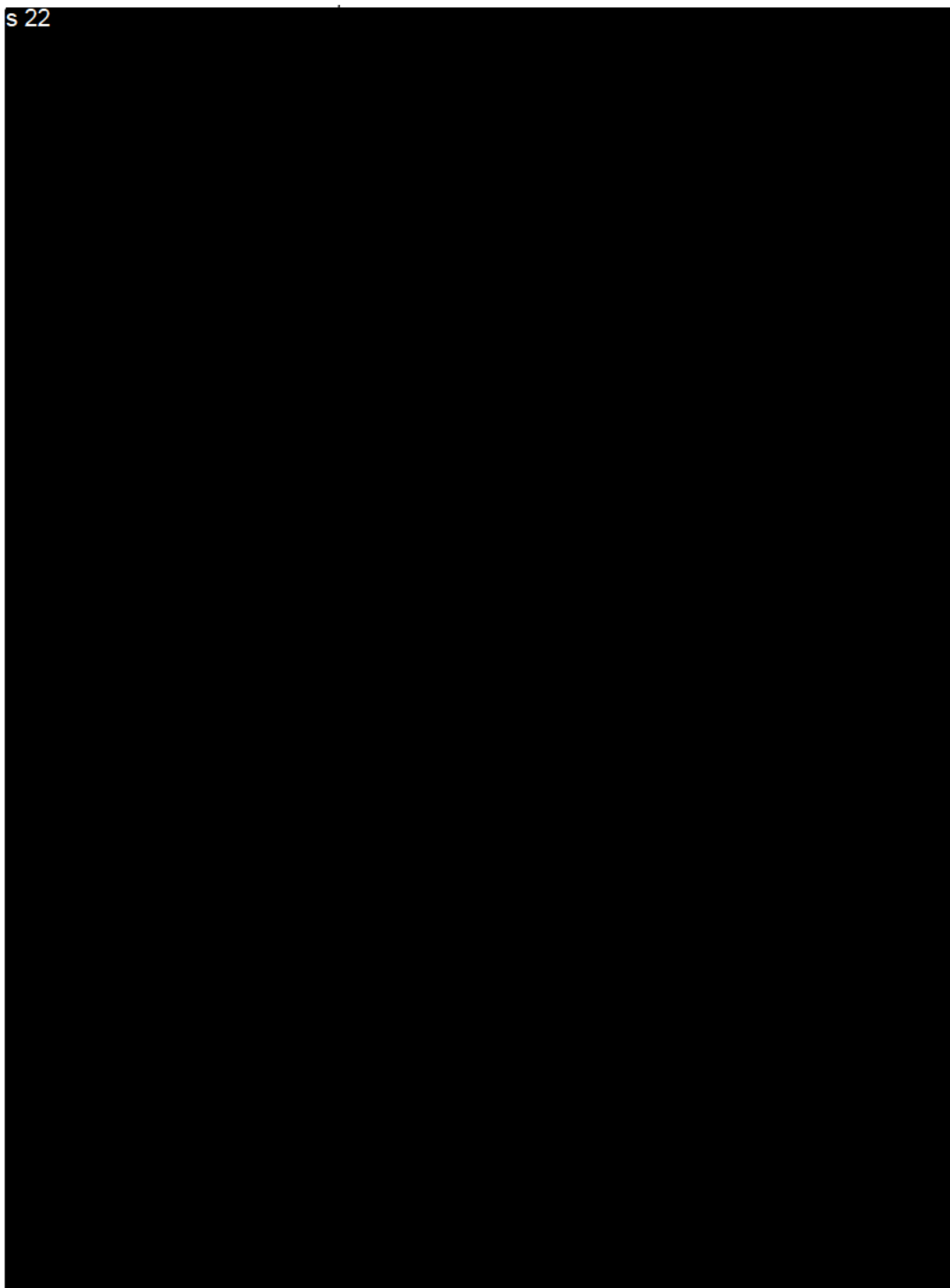
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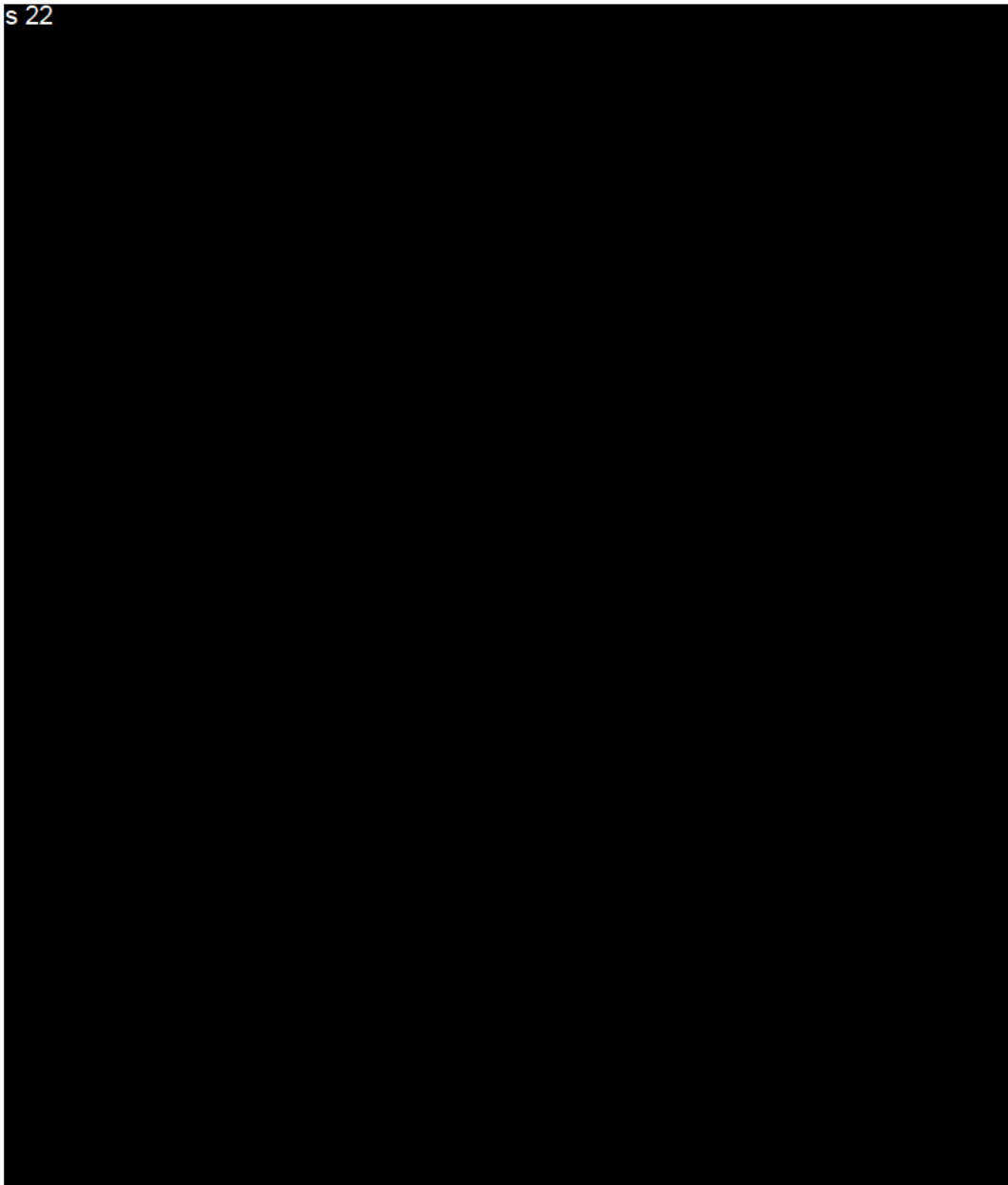
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Financial arrangements between the Commonwealth and States are also outdated and, in the case of Western Australia, have resulted in this State being increasingly required to make a disproportionate financial contribution to the Federation. Horizontal fiscal equalisation s 22 and Commonwealth Grants Commission arrangements no longer deliver a fair outcome for Western Australia, or the nation, and are in need of significant reform.

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PRIME MINISTER

Reference: C14/6460

18 FEB 2014

The Hon Colin Barnett MLA
Premier of Western Australia
1 Parliament Place
WEST PERTH WA 6005

Dear Premier 

Thank you for your letter dated 29 January 2014 regarding the Government of Western Australia's submission to the Commission of Audit.

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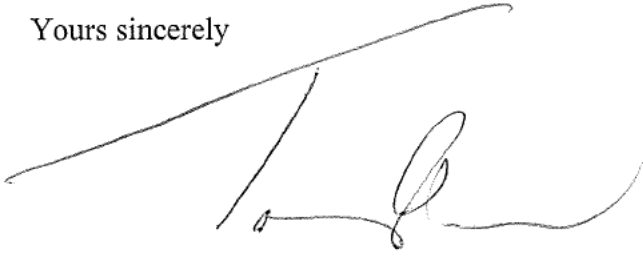
I do not wish to pre-empt any findings or recommendations from the Commission, but I do want to acknowledge the s 22 issues you raise — s 22
s 22; horizontal fiscal equalisation and the distribution methodology for the GST revenue; s 22
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More broadly, the s 22 issues you raise may be subject to consideration in either the White Paper on the Reform of Federation or the Tax Reform White Paper. s 22

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Yours sincerely

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TONY ABBOTT