

2013-2014-2015

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

SENATE

**COMMONWEALTH GRANTS COMMISSION AMENDMENT (GST
DISTRIBUTION) BILL 2015**

EXPLANATORY MEMORANDUM

(Circulated by authority of Senator Wang)

COMMONWEALTH GRANTS COMMISSION AMENDMENT (GST DISTRIBUTION) BILL 2015

OUTLINE

The Bill instructs the Commonwealth Grants Commission (CGC) in preparing its annual recommendation on GST distribution when considering mining revenue to only take into account the most recent completed financial year data available. The Bill makes no other change to the assessment and distribution of GST revenue to the States.

The issue of the volatility of mining revenue has been raised in Commonwealth Grants Commission reviews of the GST distribution process for over ten years now. The issue is of particular importance to the Western Australian Government and to a lesser extent the Queensland Government.

On the 23rd December 2014, the then Treasurer, Mr Joe Hockey, wrote to the Chairperson of the Commonwealth Grants Commission and asked that it examine the issue of mining revenue volatility and to provide advice. In keeping with CGC response to the issue over many years the formulae suggested are complex and raise other problems. The failure to effectively and in timely order to deal with the fundamental concern to the two states placed at most disadvantage by the current assessment of mining royalties has led to the introduction of this Bill.

There has been some commentary to the effect that using annual assessment of royalty revenue will disadvantage the mining states when these royalties are increasing. This position shows a lack of understanding of the current negative impact in particular experienced by Western Australia. As the table at attachment A shows, using three years and therefore aged mining revenue data drives a huge reduction in GST distribution to Western Australia at the same time that the actual mining royalty is reduced. The more sensible treatment proposed in this Bill will preserve GST distribution when this coincides with royalty reduction and will allow the GST to reduce as royalties rise.

The table (attachment A) prepared by the Parliamentary Budget Office at the request of Senator Wang shows the “no change base case”. It also shows the revenue changes brought in by this Bill.

The relativities line shows cents in the dollar per capita of GST revenue received under both formulas for all States and Territories covered by the distribution formula. An equal per capita distribution would show a distribution number of 1(one) for all states and territories. The principle of horizontal fiscal equalisation (HFE) is fundamental to the agreement and formula; and remains intact with the measures proposed by this Bill.

NOTES ON CLAUSES

Clause 1: Short Title

1. Clause 1 is a formal provision specifying the short title of the Bill.

Clause 2: Commencement

2. The Bill will commence the day after it receives Royal Assent.

Clause 3 – Schedules

4. Each Act specified in a Schedule to this Act is amended or repealed as is set out in the applicable items in the Schedule. Any other item in a Schedule to this Act has effect according to its terms.

Schedule 1—Amendments

Commonwealth Grants Commission Act 1973

Item 1 – Section 16AB

5. This item inserts section 16AB into the *Commonwealth Grants Commission Act 1973*. The amendment relates to the consideration of mining revenue made by states and territories. It requires that if the CGC conducts an inquiry into the states or territories relating to distributing the GST revenue, and the CGC considers the mining revenue of a State or a Territory in doing so, the CGC can only take into account the mining revenue for the most recent financial year for which data is available.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Commonwealth Grants Commission Amendment (GST Distribution) Bill 2015

This Bill is compatible with the human rights and freedoms recognised or declared in the international instruments listed in Section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Bill

This Bill establishes a new formula for the fairer assessment and distribution of General Services Tax (GST).

Human rights implications

This Bill does not engage any of the applicable rights or freedoms.

Conclusion

This Bill is compatible with human rights as it does not raise any human rights issues.

Senator Wang

Attachment A

		NSW	Victoria	QLD	WA	SA	Tasmania	ACT	NT
2011-12									
No change base case	Relativities	0.958	0.905	0.929	0.717	1.271	1.599	1.116	5.357
	GST distribution (\$m)	15,440	11,257	9,476	3,728	4,631	1,795	894	2,779
Including mining royalty income earned by state and territory governments based on a single most recent historical financial year	Relativities	0.917	0.829	1.015	1.006	1.184	1.472	1.013	5.025
	Change in GST distribution (\$m)	-681	-959	868	1,496	-321	-145	-84	-175
2012-13									
No change base case	Relativities	0.953	0.922	0.985	0.551	1.285	1.582	1.180	5.527
	GST distribution (\$m)	15,654	11,723	10,271	2,941	4,772	1,808	973	2,910
Including mining royalty income earned by state and territory governments based on a single most recent historical financial year	Relativities	0.910	0.834	1.078	0.880	1.188	1.446	1.065	5.120
	Change in GST distribution (\$m)	-739	-1,129	955	1,749	-364	-157	-96	-219
2013-14									
No change base case	Relativities	0.966	0.904	1.056	0.446	1.262	1.615	1.221	5.314
	GST distribution (\$m)	15,748	11,507	10,958	2,491	4,656	1,839	1,037	2,763
Including mining royalty income earned by state and territory governments based on a single most recent historical financial year	Relativities	0.915	0.817	1.100	0.877	1.172	1.489	1.101	4.924
	Change in GST distribution (\$m)	-875	-1,133	421	2,395	-345	-148	-104	-209
2014-15									
No change base case	Relativities	0.975	0.883	1.079	0.376	1.288	1.635	1.236	5.661

	GST distribution (\$m)	16,416	11,585	11,554	2,215	4,874	1,881	1,090	3,086
Including mining royalty income earned by state and territory governments based on a single most recent historical financial year	Relativities	0.913	0.783	1.121	0.899	1.188	1.479	1.090	5.136
	Change in GST distribution (\$m)	-1,109	-1,345	407	3,057	-395	-186	-132	-297
2015-16									
No change base case	Relativities	0.947	0.893	1.128	0.300	1.359	1.819	1.100	5.570
	GST distribution (\$m)	17,311	12,755	13,046	1,935	5,525	2,236	1,040	3,350
Including mining royalty income earned by state and territory governments based on a single most recent historical financial year	Relativities	0.891	0.793	1.147	0.845	1.254	1.638	0.975	5.016
	Change in GST distribution (\$m)	-1,087	-1,455	181	3,500	-444	-229	-121	-344