Government of **Western Australia**
Department of **Treasury**

CGC 2015 Review Draft Report

WA Treasury Priorities

OVERVIEW

Issues that WA Treasury is particularly seeking the CGC’s views on today are:

- Contemporaneity
- Disincentives to develop
- Inadequate recognition of mining expenditure
- Sensitivity of mining royalty assessment to royalty policy
- Rationale for a number of other puzzling proposals
- No surprises in final report

WA'S BUDGET CONTEXT

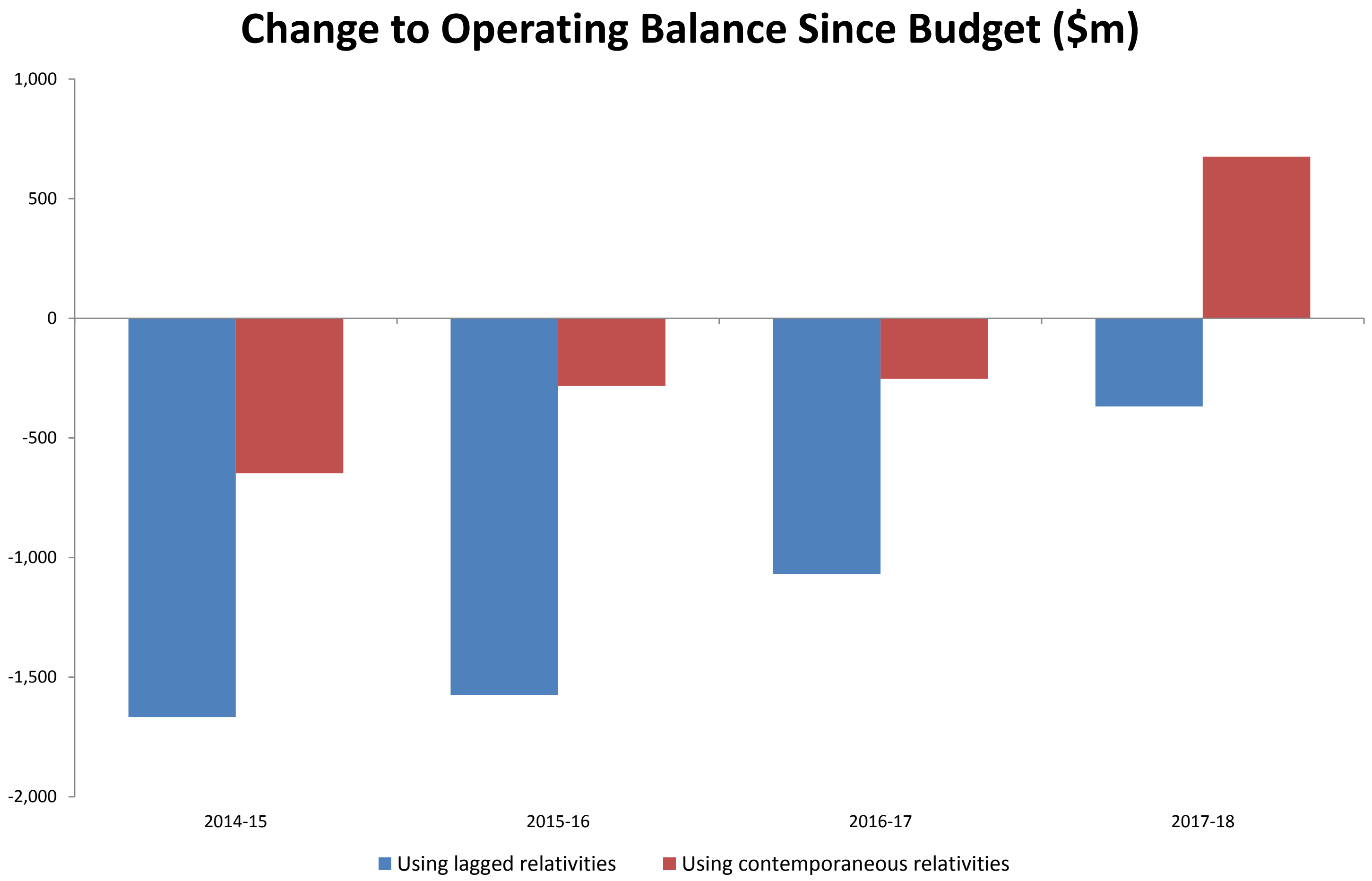
- 29% of WA revenue from volatile sources
- Iron ore royalties are 19% of total revenues

Source: Datastream

Price on a Cost and Freight (CFR) basis (i.e. delivered price, inclusive of freight)

CONTEMPORANEITY

Eliminating time lags in implementing HFE would substantially reduce budget volatility



CONTEMPORANEITY

Lack of contemporaneity in the assessment leads to over-equalisation of NWS grants and a net loss for WA over the forward estimates

Net impact on State revenues from NWS royalties			
	NWS royalty grants to WA ($m)	Impact of NWS royalties on GST ($m)	Net impact on State revenue ($m)
2015-16	1,082	-1,191	-109
2016-17	1,079	-1,247	-168
2017-18	1,013	-1,233	-220

NWS royalties as a percentage of Western Australia's population share of the GST pool						
2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
20.4%	21.3%	21.8%	19.0%	17.2%	16.0%	14.2%

Implementing ‘no lag’ assessments

Under plausible scenarios for forecast and realised prices budget year risk could be spread equitably through within year adjustments with relatively small relative impacts on individual States.

Iron ore, 2015-16 grant year, $m impact

	NSW $m	Vic $m	Qld $m	WA $m	SA $m	Tas $m	NT $m	ACT $m	Total $m
Current ($85.6/t)									
Royalties	0	-	0	4,668	12	7	11	-	*4,698*
GST impact	1,492	1,168	948	-4,022	224	81	32	77	-
Net revenue	1,492	1,168	948	646	236	88	43	77	*4,698*
Revised ($75.0/t)									
Royalties	0	-	0	4,025	10	6	10	-	*4,051*
GST impact	1,286	1,007	817	-3,468	194	70	27	67	-
Net revenue	1,286	1,007	817	557	204	76	37	67	*4,051*
Difference	-206	-161	-131	-89	-33	-12	-6	-11	*-648*
% of total revenue	0.29%	0.29%	0.24%	0.30%	0.19%	0.37%	0.11%	0.23%	0.27%

CONTEMPORANEITY
– Implementing 'no lag' assessments
Iron ore, 2015-16 grant year, per capita impact

	NSW $pc	Vic $pc	Qld $pc	WA $pc	SA $pc	Tas $pc	NT $pc	ACT $pc	Total $pc
Current ($85.6/t)									
Royalties	0	-	0	1,716	7	14	44	-	195
GST impact	194	195	194	-1,479	131	158	126	195	-
Net revenue	194	195	194	237	138	171	170	195	195
Revised ($75.0/t)									
Royalties	0	-	0	1,479	6	12	38	-	168
GST impact	168	168	168	-1,275	113	136	108	168	-
Net revenue	168	168	168	205	119	148	146	168	168
Difference	-27	-27	-27	-33	-19	-24	-23	-27	*-206*
% of total revenue	0.29%	0.29%	0.24%	0.30%	0.19%	0.37%	0.11%	0.23%	0.27%

DISINCENTIVES TO DEVELOP

- Revenue benefits of economic development shared across States
    - Many costs not shared, and others shared only on an ‘average effort’ basis
- States compensated for actions that undermine growth or inaction on structural reforms
- States that are growing lose revenues and cannot adequately invest in infrastructure, services and amenities to sustain growth

MINING EXPENDITURE

- Not asking for a special mining expenditure assessment – but these costs need to be reflected in existing assessments
- Unrecognised needs for WA:

	$m per annum
Provision of economic and social infrastructure in advance of demand	870
Support for community and local government amenities/development	500[(a)]
Using capital costs rather than the recurrent proxy	100
Fly-in fly-out workers	100
Regional/remote dispersion costs	315
Total	**1,885**
Not estimated: regulation costs of development	N/A

(a) Rounded from $543 million due to uncertainty in the calculation.

Source: Western Australia's August 2012 submission to the GST Distribution Review, incorporating a correction advised to the GST Distribution Review.

MINING REVENUE

- Support moving to a mineral by mineral assessment and iron ore ‘fines’ phase-in adjustment
- But consider a discount is essential
- Policy neutrality is a core principle – not a subsidiary principle

PUZZLING PROPOSALS

- Tax threshold adjustments give significance to essentially random government decisions
- Health assessment doesn’t work and is a distraction from more important assessments
- Land tax assessment groups MRIT and ESL and assesses revenue capacity on the basis of land values – but MRIT and ESL are levied on very different tax bases so this assessment doesn’t make sense

PUZZLING PROPOSALS… continued

- Regional costs not being seriously examined
  - tinkering with different arbitrary measures of remoteness (ARIA vs SARIA)
  - regional costs underestimated as mistakenly assumed ABS SET data includes regional allowances/subsidies for housing/utility costs
- National interest is being inconsistently recognised – e.g. for national network roads and asset recycling but not mining
- State Government assistance for North West Shelf is ignored with no clear rationale

Questions?