

South Australian response to email from the Commonwealth Grants Commission dated 20 January 2015 regarding contemporaneity options

On 20 January 2015 the Commonwealth Grants Commission (CGC) wrote to all states and territories seeking views on three potential options to improve the contemporaneity of relativities.

While South Australia is open to measures to improve contemporaneity, changes to averaging periods should only be made at a time of relative stability in states' fiscal capacities so that no one state is advantaged or disadvantaged compared to the others.

Over the last four years we have seen a rapid increase in global iron ore prices followed by a sudden decline over the past twelve months. Making significant changes to averaging periods in such a period of volatility makes the object of equitable equalisation difficult or impossible to achieve.

Accordingly, we believe that contemporaneity changes should not be pursued at this point in time. Should commodity prices stabilise over the next few years then consideration of changes could be pursued as part of the next CGC methodology review.

It is also too late in the 2015 Review process to fully consider major contemporaneity changes and identify all potential impacts that could produce significant changes to equalisation outcomes.

Consistent with this view, South Australia does not support adoption of any of the contemporaneity options outlined in the CGC email dated 20 January 2015 at this point in time.

Should the Commission be inclined to recommend a contemporaneity measure to deliver a financial gain to Western Australia, the only option South Australia would countenance would be a one-off capped advance, provided in the 2015-16 application year, with subsequent repayment over a three year period. Any advance should take into account the adverse budgetary impacts on other jurisdictions.

South Australia notes that an absorption approach would be complex, reliant on the use of forecasts (with subsequent corrections) and lacks transparency.

The introduction of five year averaging for revenue assessments has no conceptual validity as it would decrease the level of contemporaneity in GST relativities.

For the 2015 Review, South Australia considers that the current three year averaging arrangements should be retained for all assessment categories.