

## **Submission to the GST Distribution Review**

from

### **FAQ Consulting**

Darwin, Northern Territory,

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This submission addresses two of the Terms of Reference of the Review:

*1. Australia is facing a number of long-term trends that are driving pronounced and challenging structural change in the economy;*

*2. In addition, Australia has ongoing challenges in tackling the entrenched disadvantage of many Australians, especially Indigenous Australians;*

*And comments on:6c. as per the current arrangements, all the GST revenue will be distributed to the States as “untied” payments.*

### **Introduction**

The distribution of GST revenue between the States (and Territories) is the most recent approach within the federation to ensuring that all Australians have access to comparable standards of services wherever they live. GST Distribution redistributes Commonwealth revenue at a jurisdictional and spatial level, and complements other mechanisms, including the Australian taxation system, special purpose payments, social welfare and medicare, that operate to create a more equitable society.

The extent to which these redistributive arrangements have supported diverse communities across a huge continent to achieve an enviable degree of social cohesion, equity, fairness and resistance to corruption, while at the same time sustaining rapid growth and a capacity to absorb large numbers of newcomers from diverse backgrounds, is admired around the world.

### **Australia is facing a number of long-term trends that are driving pronounced and challenging structural change in the economy**

The terms of reference lists four trends that are driving long-term change in the economy, but fails to acknowledge a most urgent challenge: that the world supply of oil has peaked, and the implications for Australia in terms of supply and cost will have a serious and permanent impact on the economy and our way of life.

It has been estimated that the annual cost of imported fuel into Australia in 2015 could be above \$40 billion, based on a price of \$100 per barrel. The price of oil will continue to grow quickly, if it reaches \$200 per barrel by 2015, the cost could reach \$80 billion.

The International Energy Agency expects that by 2020, trade in world oil will be declining fast as the wells continue to deplete. It notes that the speed of the crisis depends on how fast we come out of the world recession, the rate in growth in Asia, and the scale of new discoveries, amongst other things.

This week, we saw Caltex decide not to re-invest in refining in Sydney, as it has calculated that it will not have time to recover the cost of its investment. This follows Caltex, and the other majors, earlier decision to get out of marketing, for the same reason.

The peak energy crisis and other trends driving structural change, identified in the Review's first Terms of Reference should provide the framework and guidelines for the GST Review to formulate a new direction in taxation that harnesses the tax system as a tool for achieving long term economic planning and outcomes.

There are taxation strategies that could be put in place to achieve long term outcomes and to mitigate the risks and challenges of structural change in the Australian economy. Two or three mechanisms could be adopted.

It is not desirable to increase the rate of GST in order to give the States and Territories more income to replace their losses in the current downturn. GST impacts on the basic costs of business. GST distorts the cost of inputs and the costs of production; it increases our cost of living and the cost of competing in the world marketplace; particularly with our Asian neighbours, with whom our economy is already so far out of synchronisation.

The efficiency of GST collection could be improved by removing exceptions to the tax, in particular foodstuffs. This could have other beneficial outcomes for primary producers by giving them more accurate and complete data on their sales and the prices their goods achieve in the markets. If GST was collected on primary produce, utilising markers such as barcoding applied at the farm gate, to all produce heading for market, it could have an added benefit of addressing money laundering and corruption in our large capital city fresh food and vegetable markets.

One effective strategy would be for the States and Territories to make Land Tax ubiquitous, and to encourage them to raise other taxes, such as tolls on roads and turnpikes and to target an agreed proportion of the revenue raised, to fund the development of State-wide alternative energy supply strategies.

The slow but positive benefit of land tax for all would be to provide a disincentive for people to move into the outer spreading suburbs, that are already transport disadvantaged and will be hardest hit by rising fuel costs and diminishing supplies of petroleum.

At the same time the Commonwealth could examine other incentives to progress urban consolidation and public transport infrastructure as quickly as possible.

Another strategy that could be implemented without delay would be to increase excise and taxes on fuel. The objective would be to discourage and decrease the use the car, which would slow down the rate of depletion of limited fuel resources and improve our balance of trade.

For commuter families, there will be a change from petrol to gas, but as the price of gas is a function of the price of petrol, this will be a short term move. The next generation of cars will be electric, and they will require recharging facilities using electricity generated by solar power.

The path to energy self sufficiency is use the sun. We have numerous companies who are now highly experienced and could develop large scale solar thermal power, photovoltaic plants and wind farms.

Two strategies at Commonwealth level could accelerate the transition:-

1. The Government could guarantee loans for large scale energy projects. We are in a capital short world where banks are reluctant to make loans for big projects. These large scale undertakings can be cost efficient and can produce solar electricity at rates comparable to coal. The banks would put up the money; the government would guarantee the loans and could insure their loans by mandating subtle adjustments to feed-in tariffs to insure returns sufficient to service the loans.
2. A national energy grid should be established that will accept the high voltage direct current produced from these new solar plants and wind farms.

These are strategies whereby the Commonwealth can take the leadership in addressing structural change in the economy through the use of tax policy. A quick response is required.

### **Australia has ongoing challenges in tackling the entrenched disadvantage of many Australians, especially Indigenous Australians**

The fundamental objective of horizontal fiscal equalisation through the Grants Commission and GST distribution methodologies has not been achieved in the Northern Territory. It is incumbent on the Review to examine this failure and to develop strategies and recommendations to Government to remedy it.

The current arrangement, whereby all GST revenue is distributed as “untied” payments, lies at the heart of this failure. We consider that those jurisdictions that receive more GST than they raise should be required to be accountable to their sister States and their citizens, that they have spent the additional GST revenue to remedy those areas of disadvantage which entitled them to additional funds. That accountability should include routine independent audits by the Australian National Audit Office of their expenditure of GST funds generated by other jurisdictions.

The Review could usefully examine how to remedy the unintended consequences of providing over five times the amount of GST raised within the Northern Territory, to its Government, based on the need to improve services for Indigenous Territorians, but with no firm directions, no accountability and no strings attached.

These monies can be spent to buoy up support for the Government in its urban electorates, with Government funded items such as the Darwin waterfront park, with a wave pool, offering a surf without the risk of a crocodile attack. The Palmerston Water Park has a free 14 m. high, 100 m. long, six lane racer water slide. At the same time thirteen remote pools languish without funds or maintenance, and the local Aboriginal children play in the dust with third world rates of ear infections and rheumatic fever, unheard of in urbanised Australia.

There is generous expenditure on Northern Territory prisons and its gaol population is growing by 6% a year.

The drift of Aboriginal people from remote to urban areas is characterised as frustrated drinkers coming in for grog. There is no effort to create jobs for them or to help them gain a foothold in the normal routines and life of Territory towns.

This week the Territory Government announced a My New Home scheme targeted to well off and fully employed renters. It offers them deposit free loans for new housing, up to \$750,000, from the Territory Insurance Office, with no requirement for mortgage insurance.

Serviced land is expensive and vast sums are to be expended on satellite development at Weddell, 35 kilometres from Darwin, regardless of the urban infrastructure costs, or the ongoing transport cost to residents. The Territory Government, dependent on maintaining relations with the Commonwealth, will not commence negotiations to move the airport and military presence in the centre of Darwin's urban area, which could provide access to land and existing services..

To maximise its \$5+ for \$1 share of the GST pool, the Territory will argue for tied grants to be minimised, or will simply refuse them, like the National Disability Insurance Scheme.

There is a lack of transparency and scrutiny of Northern Territory Government expenditure and internal transfers. The Auditor-General is not required to audit the financial statements of Northern Territory departments, unless directed by Treasury. The role of the Auditor General, to provide independent assurance to the Legislative Assembly, on expenditure of funds allocated in the Budget, was superseded by the Fiscal Integrity & Transparency Act and the Financial Management Act, leaving the Assembly and Territory citizens in the dark.

The Commonwealth introduced income quarantining for Indigenous Territorians who misspend benefits they receive from the Commonwealth. We suggest that this approach might also be applied to the Northern Territory Government, to require clear performance standards and verified accountability on its expenditure of the benefits funded by citizens in other Australian States, as a condition of accepting the GST revenue not generated within the Northern Territory.

FAQ Consulting provides advisory services on economics, energy and strategic planning matters. Its principal, W.W.Walker, is an economist.