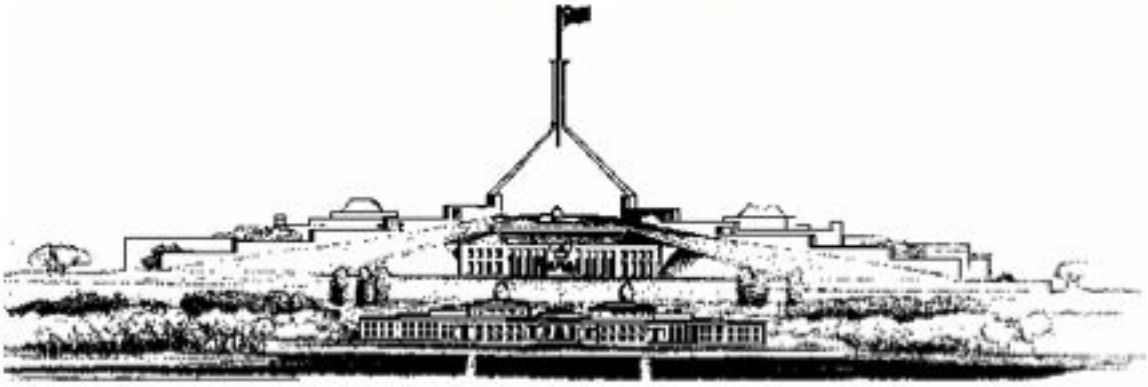
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

STATES GRANTS (GENERAL PURPOSES) AMENDMENT BILL 1999

Second Reading

SPEECH

Wednesday, 25 August 1999

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 25 August 1999	**Source**	House
Page	9102	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (6.49 pm)—Because this is the last time the parliament will legislate to implement the outcome of a Premiers Conference under the old regime of financial assistance grants, the States Grants (General Purposes) Amendment Bill 1999 underlines the great uncertainty that now exists in relation to the future of state-federal financial relations. There are three areas I want to focus on. The first is the real per capita guarantee for financial assistance grants. The second is the Prime Minister's unilateral changes to the intergovernmental agreement he had made with the states in relation to the abolition of some indirect state taxes as part of his GST tax package. The third is the arrangements which will follow the demise of the old state franchise fee component of the wholesale sales tax.

The original decision to provide the states with a per capita real terms guarantee rather than the previous real terms guarantee was taken in 1994 by Labor federal Treasurer, Ralph Willis. He recognised that the states faced growing cost pressures as service providers with increasing populations. Willis decided that the financial assistance grants pull should be increased by the rate of inflation and the rate of national population growth. It meant real increases in funding for the states for the first time in many years. What is more, the guarantee would be applied each year on a rolling three-year basis to give the states a three-year forward planning horizon.

Because it was implemented at a time when fiscal policy was being tightened, the states had to trade off the abolition of general purpose capital funds. At the time, these amounted to a total of $330 million and were far less equitably allocated than the financial assistance grants. To the extent that the state premiers and treasurers can ever be satisfied by anything the Commonwealth provides, they were pleased with the outcome. On that basis, the real terms per capita guarantee was honoured by Labor in both 1994 and 1995. But that was not the case after the coalition took office in 1996. The Howard government pretended to provide the real per capita guarantee but required the states to make a fiscal contribution to the Commonwealth. That fiscal contribution amounted to $1½ billion over the first three years of the Howard government. The precise amounts were $619 million in 1996-97, $627 million in 1997-98 and $313 million in 1998-99.

Worse, the liability for meeting these contributions was allocated amongst the states on an equal per capita basis. That meant that the smaller states like South Australia carried a disproportionate burden, given their relatively higher cost structures and smaller capacity to raise revenue. The Howard government also made other cuts to the states that had effect over the whole of that period and the current financial year as well. The most significant of these was the $312.5 million cut made to Commonwealth funding for public hospitals in the 1996 budget. This measure was described in the budget papers as `reductions in hospital funding grants to the states to offset cost shifting of public hospital related services'. It reduced Commonwealth funding to the states by $73.5 million in 1996-97, $76.8 million in 1997-98, $79.8 million in 1998-99 and $82.6 million in 1999-2000. The combination of the so-called `fiscal contribution' and the cut to hospital funding had a significant effect on the smaller states like South Australia.

So the per capita real guarantee that we are returning to with this bill is not new, it is overdue. However, this return to the per capita real funding guarantee will not last long because, starting from next year, the financial assistance grants will be replaced by the revenue from the GST from 1 July 2000. Initially the GST revenues will not be enough to fund the states' current expenditure and the new responsibilities that they will be asked to assume. While there will be a transitional period during which the Commonwealth has guaranteed that the states will not be worse off under the new arrangements, this is far from a long-term guarantee of maintenance of all their funding. Clause 5(v) of the Intergovernmental Agreement on Commonwealth-State Financial Relations says:

The Commonwealth will continue to provide specific purpose payments (SPPs) to the States and Territories and has no intention of cutting aggregate SPPs as part of the reform process set out in this agreement, consistent with the objective of State and Territory Governments being financially better off under the new arrangements.

The words `no intention' are very far from a guarantee that SPPs will not be cut. Even if they are maintained in aggregate, they may be cut in real terms or not given growth funding commensurate with growth in demand

for the services they are supposed to cover. This is how the Howard government will claw back the growth in state revenues which the GST is expected to provide.

Whenever it is necessary to cut Commonwealth expenditures, it will always be easier for a coalition government to cut specific purpose payments to the states for health and education than it will be to cut the federal government's own programs. It will not be a coincidence that those cuts will be consistent with their disposition to vacate a large part of the present role of federal government and leave those functions to the states. Unfortunately, it is an open question whether the states, particularly the smaller states, will have a large enough revenue base under the new state-federal financial arrangements to support those functions. Certainly there is a risk that there may be less scope to allocate funding from the federal government on a needs basis.

The states are highly dependent on SPPs. South Australia will receive a total of $1.9 billion from the Commonwealth in 1999-2000. That amounts to more than $1,250 per person. Total SPPs paid to the states and territories range between $769 and $1,578 per head of population, depending on need. The environment that will follow the expiration of this bill will be a very uncertain one, particularly for the smaller states like South Australia.

Following the expiration of the system of financial assistance grants on 1 July 2000, there will be new arrangements and therefore new outcomes which will be administered by a new ministerial council comprising Commonwealth and state treasurers. It will be set up to implement the new intergovernmental agreement and to provide a forum for discussion of relativities to apply to distribution of GST revenues among the states and territories and so remove the need for the annual Premiers Conference.

As a representative from one of the smaller states, I am concerned about any foreshadowed but unspecified changes to the process of determining the relativities on which revenue raised by the Commonwealth will be allocated to the states. In 1999-2000, South Australia will receive financial assistance grants of almost $1.6 billion, or $1,065 per head of population. Under the present arrangements for horizontal fiscal equalisation, the variations between the states and territories range from $748 to $3,386 per head of population. South Australia would be extremely vulnerable to any adverse change.

To get his GST through the parliament, the Prime Minister made a number of unilateral changes to state-federal financial relations—that is, unilateral with respect to the states—following his agreement with the Democrats. These changes cost the states $4 billion of their projected revenue from the GST. The loss of the $4 billion in states' revenues has been dealt with by revising or abandoning the implementation dates for the removal of nine state taxes which were an integral part of the Howard government's tax package proposal.

Abolition of financial institutions duty, which would have raised $1.36 billion in 2002 has been deferred from January 2001 to July 2001. Abolition of the bank account debits tax, which would have raised $1.12 billion in 2002-03 has been deferred from January 2001 to July 2005. The abolition of the business conveyance duty, which was estimated to raise $1.87 billion in 2002-03, has been abandoned. Abolition of the stamp duty on hiring, which was estimated to raise $210 million in 2002-03 has been also been abandoned. Abolition of the stamp duty on leases, which was estimated to raise $130 million in 2002-03 has been abandoned. Abolition of the stamp duty on mortgages, which was estimated to raise $530 million in 2002-03 has been abandoned. Abolition of stamp duty on cheques, which was estimated to raise $15 million in 2002-03 has been abandoned. Only the abolition of bed taxes, which will raise $90 million, and the abolition of stamp duties on share transactions, which is estimated to raise $750 million in 2002-03, will still take place in July 2000 and July 2001 respectively.

Given that these changes are the result of a deal in the proverbial smoke filled room, their consequences for the long-term revenue position of the states and their relative fairness to individuals in different income groups got little consideration before they were imposed. The other component of this bill is that it sets out the arrangements for the last time for the distribution of that component of the wholesale sales tax which is collected by the Commonwealth in place of the old state liquor, tobacco and petrol franchise fees, which were struck down by the High Court as an excise. After 1 July 2000, the taxes which are being imposed in addition to the GST to stop the price of these products falling—in most cases, they will increase—will be collected and retained by the Commonwealth.

In the case of one of those taxes, the wine equalisation tax, there is particular uncertainty because of differences of view about what was worked out between the Leader of the Australian Democrats, Senator Lees, and the Prime Minister in their proverbial smoke filled room. So far, the difference of view about what was agreed has not been

between Senator Lees and the Prime Minister but between Senator Lees and the Treasurer. The difference of view relates to the arrangements for an exemption from the wine equalisation tax for cellar door and mail-order sales.

Senator Lees's view—and she was the one who signed off on the deal with the Prime Minister—is that it is an exemption for the full 29 per cent value of the WET for the first $300,000 of cellar door and mail-order sales. The Treasurer's view is that it is only a 15 per cent rebate on the first $300,000 of cellar door and mail-order sales and that, despite the fact that the WET is a federal tax and that all of the proceeds will be retained by the federal government, the states should bear all of the cost of the rebate. The states do not want to fund a rebate on a federal tax when the federal government is getting the revenue.

The Winemakers Federation of Australia compiled a set of letters from state premiers and treasurers which indicated their disposition on funding the rebate. It is instructive to look at several of them. The Treasurer of New South Wales, Michael Egan, wrote to his state's wine industry association on 16 January this year, saying:

I am writing to confirm the New South Wales Government will retain the 15% rebate on cellar door sales by wineries in the event of the Federal Coalition Government's proposed new tax system being implemented. This decision naturally depends on the Federal Government keeping its commitment that the New South Wales budget will not be any worse off as a result of Federal tax changes.

I think he is a long way from getting that kind of guarantee. On 15 December last year, the Tasmanian Premier, Jim Bacon, wrote to the Vineyards Association of Tasmania. He said:

While my Government does not support the introduction of a goods and services tax (GST), the States and Territories may have little direct control over its introduction. At this stage there have not been any detailed discussions with the Commonwealth about the effect a GST would have on wine. My Government is therefore not in a position to make a specific commitment in relation to the future of the cellar door subsidy.

The Victorian Premier, Jeff Kennett, wrote to the managing director of a Victorian based wine company regarding the WET on 26 May this year. He said:

I understand your concern, but this is an issue that is within the Federal Government's responsibility.

I think we all know what that means. More recently, the South Australian Premier, John Olsen, expressed a very clear view to 5DN's Jeremy Cordeaux. He said:

I notice there was a report from the Federal Treasurer this week that there would be a cellar door exemption. There hasn't been any discussions with South Australia yet on who is paying that and I just want to say to your caller I think the Federal Government ought to be paying it needless to say. Our Treasury officials have been told to discuss the matter with Canberra with a view to them resolving it and them paying it.

It is a rare occasion indeed when I come into this place and say that I endorse one of John Olsen's views.

The cellar door exemption for the wine equalisation tax is just another example of the increasing burdens the Howard government intends to put on the states after the financial arrangements set out in this bill expire. For the smaller states like South Australia, those increasing financial burdens will quite rapidly consume much, if not all, of the government's claimed growth in state revenues from the GST. Under the Howard government, the real per capita funding guarantee to the states has become an unrealised promise on the path to uncertainty.