

# *Response to the Productivity Commission Draft Report on Horizontal Fiscal Equalisation*

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December 2017

# Introduction

This presentation covers a number of key themes:

- HFE and its importance to Tasmania;
- The Productivity Commission's Inquiry, including the Western Australian influence;
- The Productivity Commission's Draft Report Outcomes; and
- Tasmania's Response to the Draft Report.

# What is Horizontal Fiscal Equalisation (HFE)?

The Commonwealth Grants Commission (CGC) defines HFE as:

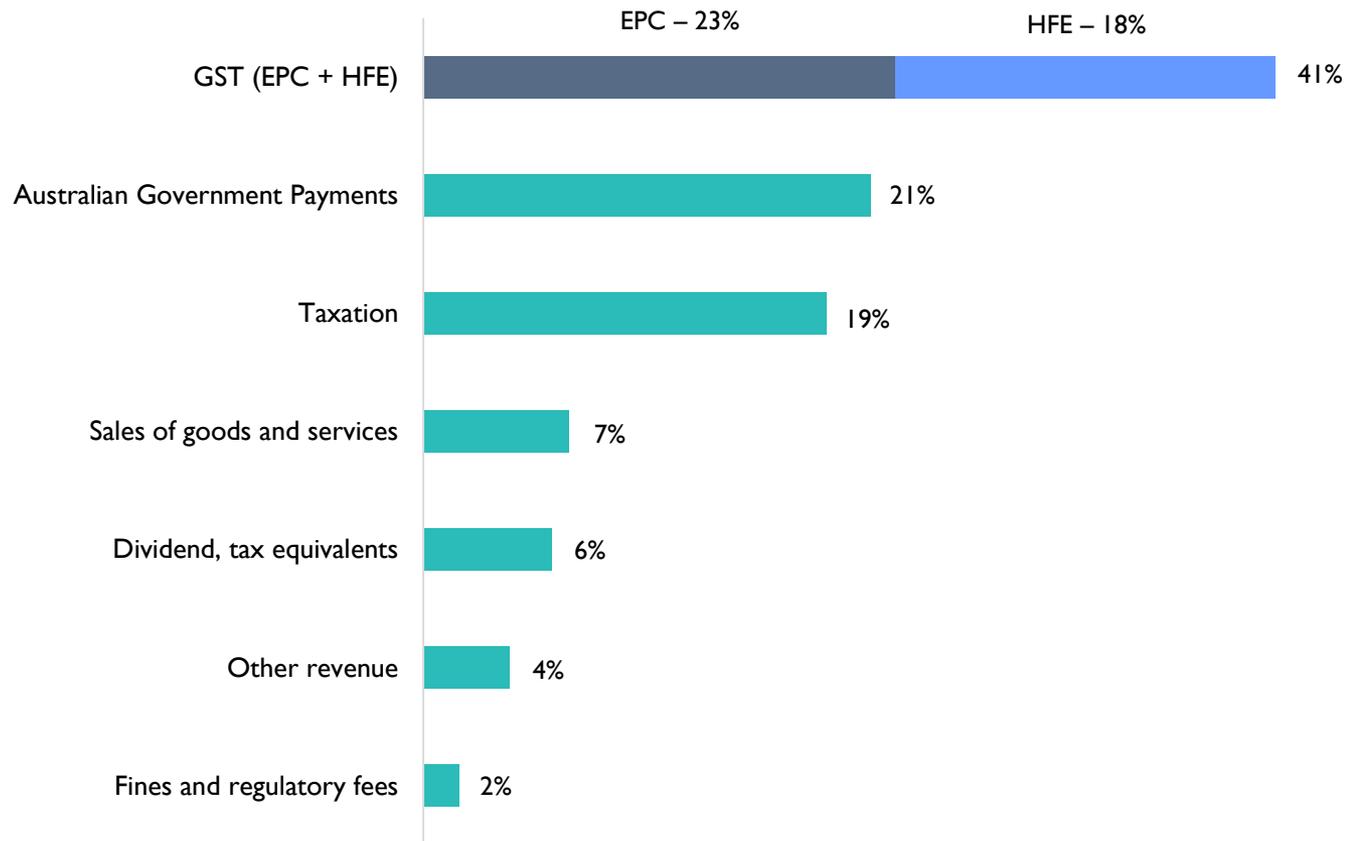
*“State Governments should receive funding from the pool of GST revenue such that, after allowing for material factors affecting revenues and expenditures, each would have the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operating at the same level of efficiency”.*

What does this mean?

- It reflects a belief that all Australians – wherever they live – should have access to a similar standard of services; and
- It is a strong egalitarian principle which is supported by the Australian community and has been reflected in the CGC’s approach, in one form or another, since its inception in the 1930s.

# What does HFE mean for Tasmania?

Tasmanian Revenue Sources 2017-18



# The Productivity Commission Inquiry on HFE

The Terms of Reference for the Commission's inquiry state, among other things, that the Commission was to:

*“.....consider the effect of Australia's system of HFE on productivity, economic growth and budget management for the States and for Australia as a whole”*

In doing so, the Commission was to consider whether:

- a) HFE was in the best interests of national productivity;
- b) HFE restricts the appropriate movement of capital and labour across State borders;
- c) Sufficient consideration is given to the different underlying and structural characteristics of the different revenue bases of each State, particularly in relation to energy and resource development; and
- d) HFE acts as a disincentive for a State in developing a potential industry, or raising royalty rates for an existing industry.

# Western Australian Impact

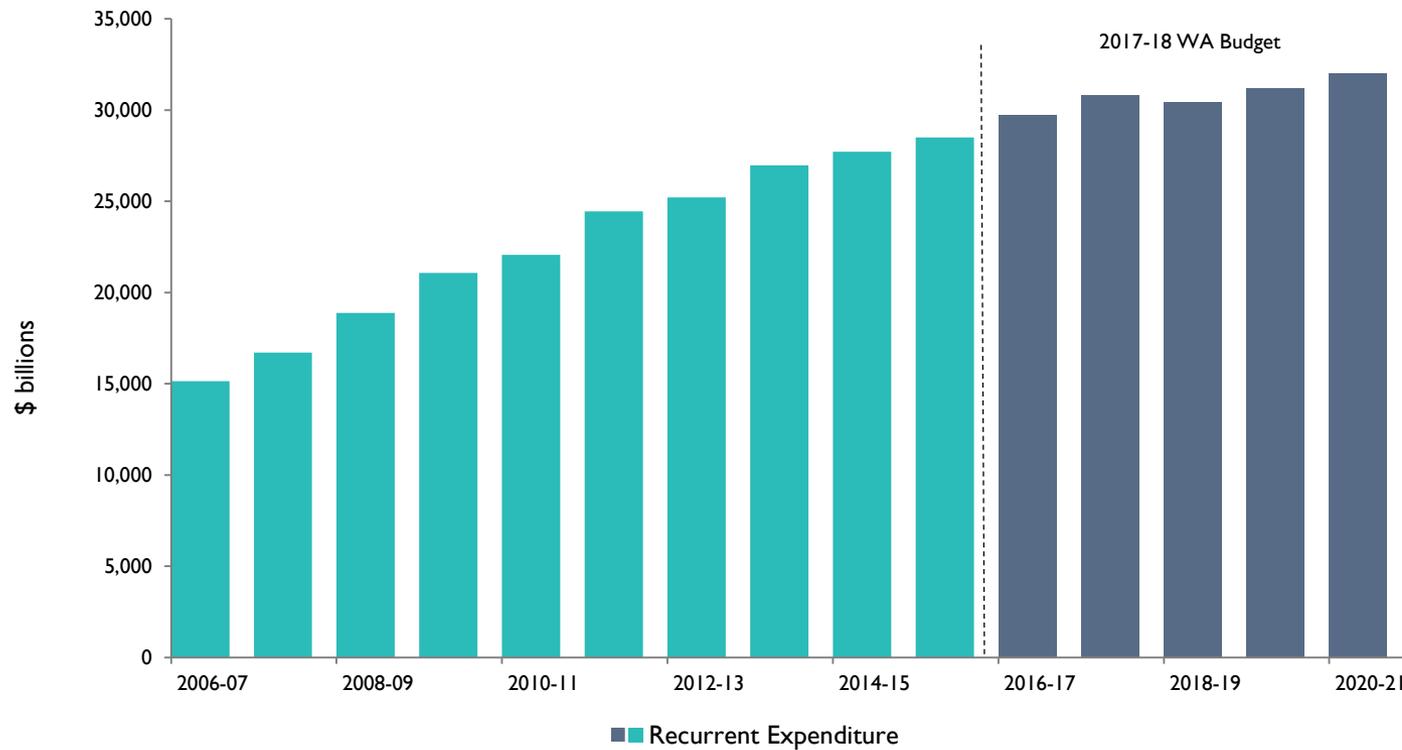
As stated by the Hon Christian Porter in his 2011-12 Budget Speech to Parliament:

*“What we reasonably anticipate is that in 2013-14 the CGC will have brought in a new GST system. We expect that it will produce a floor of around 75 per cent of our population share of the GST. Therefore we expect revenue of \$1.8 billion in 2013-14 and \$2.5 billion in 2014-15. These amounts will allow for reduced borrowings and will be used to progressively reduce existing debt to less than \$18 billion while maintaining strong infrastructure spending.*

*If that change does not occur in that year, the State Government will then have no choice but to wind back infrastructure investment to decrease debt.”*

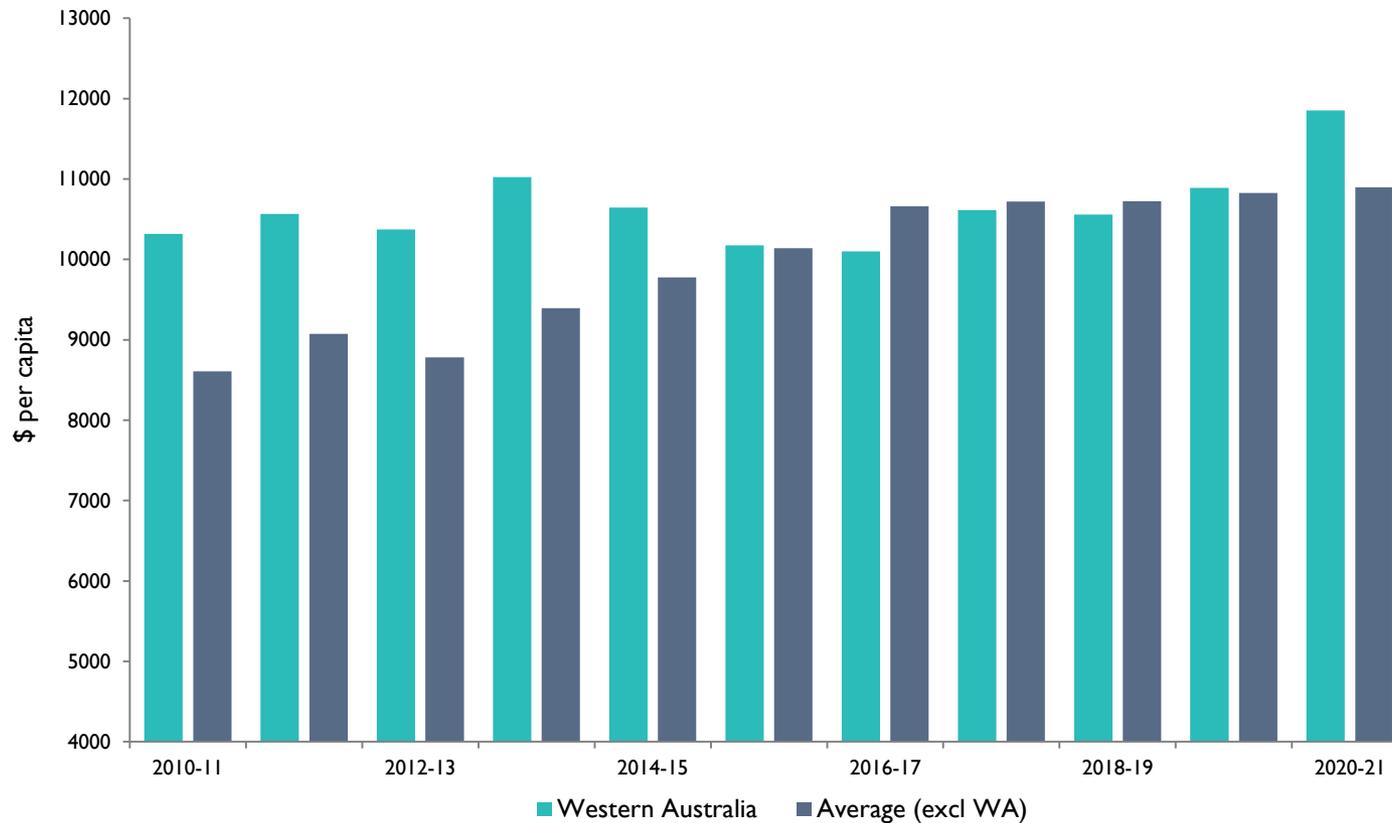
# Western Australia kept on spending...

Western Australia's Recurrent Expenditure



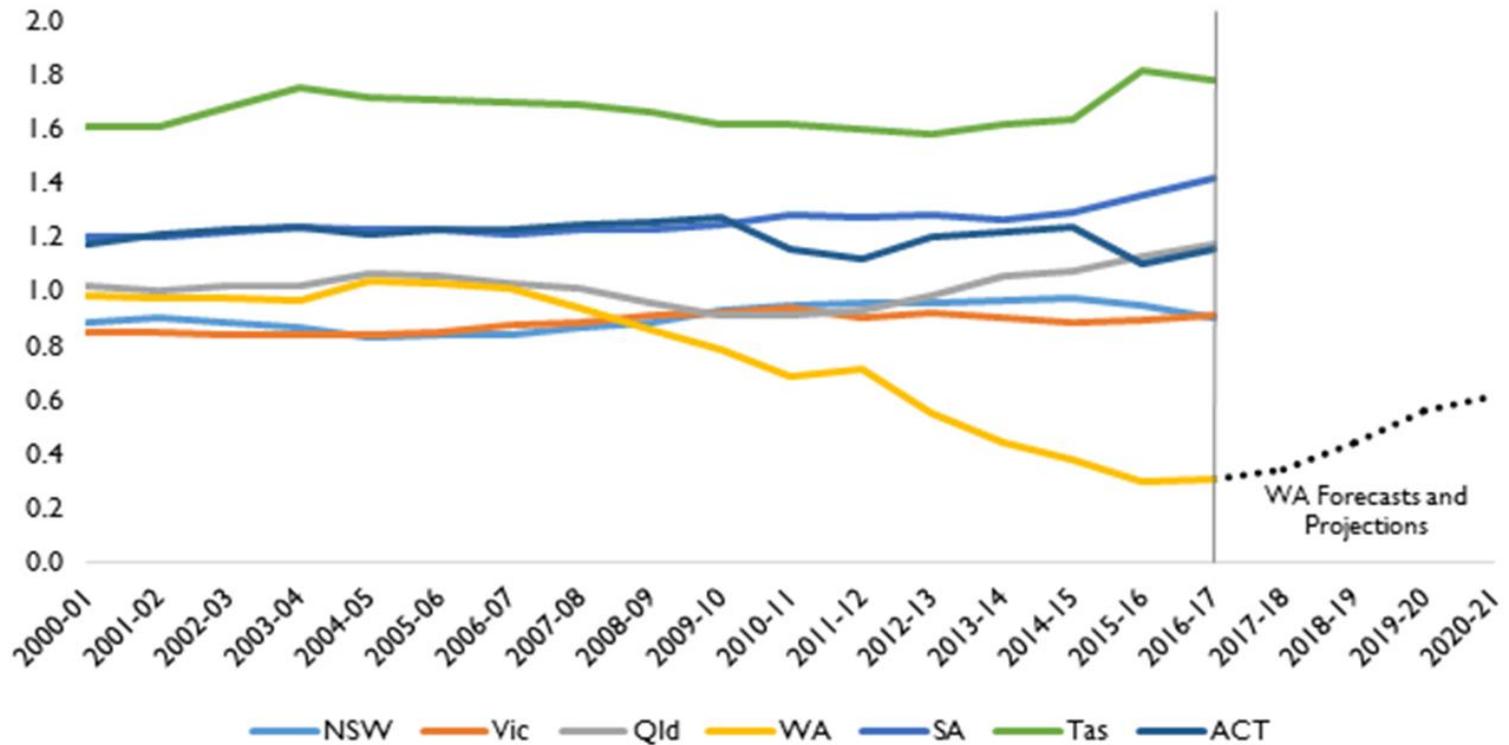
# Western Australia – Total Revenue

Total Revenue per Capita – Western Australia and Average of all States (excl WA)



# HFE – Working as it Should

Historic Actual State Relativities and Western Australia's Forecast Relativities



# The Productivity Commission Inquiry on HFE cont.

Tasmania is of the opinion that the Commission in its Draft Report:

- has not proven that HFE has a negative national economic impact;
- has not sufficiently under-pinned its major recommendations with evidence heavy argument; and
- has placed too much emphasis on ameliorating the current budget position of Western Australia.

# Has the Commission proved HFE has a negative impact?

DOES THE CURRENT HFE PROCESS NEGATIVELY IMPACT ON:

FINDING

Efficient Delivery of State Services  
Economic Growth and Productivity  
Movement of Labour and Capital

**UNLIKELY**

Potential Policy Reform

**DIFFICULT TO  
PROVE**

Efficient Infrastructure Development

**NO EVIDENCE  
PROVIDED**

State Taxation Reform  
Development of Revenue Bases and Tax Rates

**NO DIRECT  
EVIDENCE**

Policies to Facilitate, Restrict or Tax the Development of Resources  
Policy Choices Relating to Resource Extraction

**POTENTIAL, BUT  
LITTLE DIRECT  
EVIDENCE**

# Productivity Commission Options

## Equalising to the average fiscal capacity to 2020-21

\$m	NSW	Vic	Qld	<b>WA</b>	SA	<b>Tas</b>	ACT	NT
Total	3 946	-3 675	-6 134	<b>9 439</b>	-2 135	<b>- 639</b>	- 501	- 301

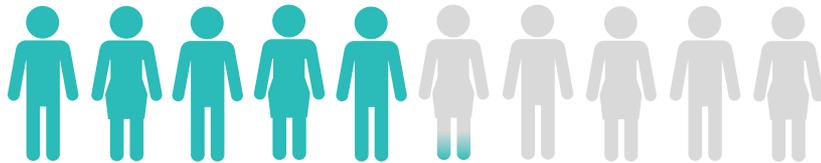
## Equalising to the second strongest State to 2020-21

\$m	NSW	Vic	Qld	<b>WA</b>	SA	<b>Tas</b>	ACT	NT
Total	-2 599	-2 057	-1 620	<b>7 224</b>	- 565	<b>- 170</b>	- 132	- 80

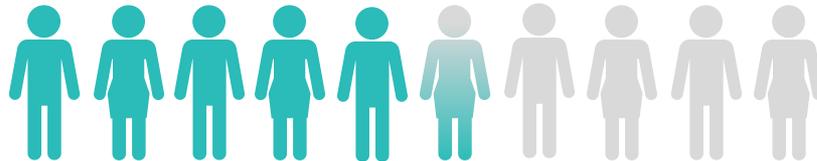
# Partial Equalisation – Average Fiscal Capacity

A \$168 million loss in 2017-18 would result in...

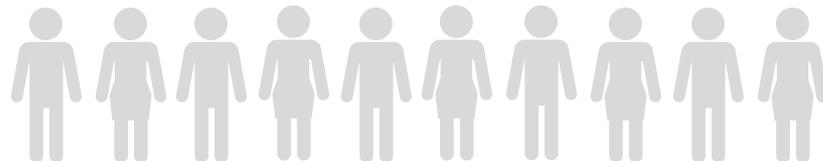
4.8 out of 10 Tasmanian nurses unfunded



...or 4.1 out of 10 of our teachers unfunded...



...or all our police officers unfunded.



# “Strong State Premium”

The CGC, in its submission to the Productivity Commission Draft Report, expressed concern about the proposal to create a “strong State premium”.

The CGC noted that:

“....under this proposal, the fiscally strongest State would receive more than it requires to provide the average level of service. If it remained the fiscally strongest State over the intermediate term, it would be able to:

- provide services in excess of the average; and/or
- provide services of a higher quality than the average; and/or
- levy lower than average own-source taxes and charges; and/or
- Retire debt at a faster rate than other States.”

# Conclusion

## Tasmania has serious concerns about the Draft Report:

- The majority of States and Territories are in accord with our position, as are respected independent bodies, including the CGC;
- The only support has come from the beneficiaries of the recommendations;
- The Commission has over-reacted to Western Australia's current budget circumstances.

## The Commission:

- has not proved that HFE has a negative national economic impact; and
- has not under-pinned its major recommendations with detailed evidence.