



Australian Government

Commonwealth Grants Commission

**PRODUCTIVITY COMMISSION INQUIRY INTO
HORIZONTAL FISCAL EQUALISATION**

**SUBMISSION FROM THE COMMONWEALTH GRANTS
COMMISSION**

**COMMISSION PAPER
CGC 2017-11**

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THE ROLE OF THE COMMONWEALTH GRANTS COMMISSION

- 1 The Commission's main role is to provide advice to the Commonwealth Treasurer on how the GST revenue should be distributed among the States and Territories (States) to equalise their fiscal capacities, in accordance with the principle of horizontal fiscal equalisation (HFE).
- 2 The Commission was established in 1933 to provide independent advice to the Commonwealth on the special grants which should be provided to the fiscally weaker States. The establishment of the Commission as an independent body reflected the often contentious nature of the various ad hoc processes and criteria used to set special grants in previous years.
- 3 The Commission's first task was to devise principles for assessing the special grants. Its third report said special grants should enable a State 'by reasonable effort to function at a standard not appreciably below that of the other States'.
- 4 After governments agreed in the mid-1970s to full and comprehensive equalisation for all States, the Commission was given the task of advising on how this could be achieved. It continues to have that role. Successive Intergovernmental Agreements (IGAs), the most recent concluded in 2011, have recorded the view of Commonwealth and State Governments that GST revenue should be distributed among the States to achieve HFE based on the advice of the Commission.
- 5 The Commission most recently articulated the principle of HFE (in its report on its 2015 methodology review) as follows:

State governments should receive funding from the pool of goods and services tax 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 operated at the same level of efficiency.
- 6 While the wording of the principle has evolved over the years, the principle has focused on the provision of financial support from the Commonwealth to ensure that each State has the same capacity to provide an equivalent standard of services to its residents. The Commission seeks to implement the principle through methods which the Treasurer, from time to time (usually every five years), directs the Commission to review. The Commission currently implements HFE (that is, formulates its annual recommendations to the Treasurer on the distribution of GST revenue among the States on the basis of its assessment of each State's relative fiscal capacity after allowing for material factors beyond each State's control affecting its revenue raising capacity and its service delivery expenses) in accordance with the methods it developed and reported on in 2015. The 2015 review report, reports of subsequent

annual updates and other material explaining the Commission's methodology and implementation of HFE are on the Commission's website at www.cgc.gov.au.

THE 2020 REVIEW OF THE COMMISSION'S METHODOLOGY

- 7 The Commission is currently undertaking work to meet terms of reference requiring it to review and report on its methods by February 2020. The Commission considers that its work in 2017 in considering the HFE objective and the issues associated with its implementation in the context of its 2020 Review will complement and assist the Productivity Commission's work in responding to its terms of reference. For that reason, the Commission plans to publish its views on the HFE objective and its implementation, based on the current IGA and terms of reference, by the end of September 2017.
- 8 The Commission will provide a further opportunity for views on its approach to the review, the HFE objective, the supporting principles and their implementation to be expressed, after the Productivity Commission has reported and the Government has dealt with its findings.

ASSISTANCE TO THE PRODUCTIVITY COMMISSION

- 9 The Commonwealth Grants Commission confirms its readiness to assist the Productivity Commission in any way that the Productivity Commission considers will assist it in responding to its terms of reference.