



30<sup>th</sup> June 2017

Commissioner Karen Chester  
Inquiry into Horizontal Fiscal Equalisation  
Productivity Commission

By email: [hfe@pc.gov.au](mailto:hfe@pc.gov.au)

Dear Commissioner

**INQUIRY INTO HORIZONTAL FISCAL EQUALISATION**

Thank you for the opportunity to provide comment on the Inquiry into Horizontal Fiscal Equalisation (HFE).

As the peak national representative body for hundreds of companies in the mining and mineral exploration sector, the Association of Mining and Exploration Companies (AMEC) has a direct interest in the Inquiry. The following recommendations and comments are provided:

**Recommendation:**

***That the HFE model is simplified to the extent that it provides predictability and stability in the State and Territory budget setting process.***

Australian States and Territories place significant reliance upon Goods and Services Tax (GST) revenue for much needed services and infrastructure, and rely on over 50% of their revenue from Commonwealth funding.

Industry notes that the current GST distribution process is based upon the Horizontal Fiscal Equalisation (HFE) principles, which aim to ensure that each State and Territory Government has the capacity to provide a similar level of services to their residents.

The GST distribution and HFE processes have been the subject of ongoing public debate and scrutiny prior to, and post the Greiner and Brumby GST Distribution Review – 2012.

The current HFE distribution process is widely accepted as being extremely complex, and accordingly creates an unpredictable and unstable budget environment for State and Territory Governments.

This has an indirect 'flow on' effect for industry and business investment and decision making processes due to the resultant budgetary uncertainty caused by future revenue shortfalls and the subsequent need for Governments to raise taxes or royalties.

**Recommendation:**

***That State and Territory Governments should be rewarded for strategies, innovation, reform and development that results in good economic performance.***

**Association of Mining and Exploration Companies**

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The current distribution process unfairly penalizes State or Territory Government's which have had strong economic growth and outperformed other Australian jurisdictions.

In particular, Western Australia has been severely disadvantaged in the HFE distribution process due to the significant growth of the resources sector, and the comparatively high royalty streams generated. What the State of WA has been gaining through the 'front door' in the form of royalty payments, it has been losing through the 'back door' in the HFE re-distribution process.

Acknowledging the inequities in the HFE process, the Commonwealth Government has recently provided the Western Australian Government with 'top up' payments due to its low GST share.

The HFE system has removed any incentive for State and Territory Governments to develop proactive growth strategies that seek to significantly improve economic performance and productivity.

Industry considers that all States and Territories should be rewarded for reform, innovation and development that results in increased productivity and growth.

The current HFE system does not provide such an incentive, is broken and is not 'fit for purpose'.

Australia is still highly prospective with vast areas of land still under explored or never explored. There are significant opportunities to maximize Australia's resources wealth, however the current HFE distribution process does not provide Governments with any incentive for that to occur.

**Recommendation:**

***Conduct a broad review of the Tax Regime to the extent that State and Territory based indirect taxes are abolished.***

It is clear that Australia requires a broad review of its Tax Regime to ensure that it is simple, fair, equitable, efficient and internationally competitive.

At the heart of achieving those outcomes is the GST distribution process, which can also be the catalyst for broader reform in removing economically inefficient State and Territory based indirect taxes (such as payroll tax and transfer duty).

The Productivity Commission should recommend such a Review.

**Recommendation:**

***The Productivity Commission develop a variety of HFE reform options accompanied by publicly available modelling in the Draft Report.***

It is not satisfactory to continue undertaking reviews with minimal outcomes, such as the Henry Tax Review and the Greiner and Brumby Review. It is now time to be taking action in the national interest. The Productivity Commission must develop a variety of HFE reform options



accompanied by publicly available modelling in the Draft Report to ensure that any recommendations in the Final Report are made in the national interest.

In the absence of any such publicly available modelling it is difficult for industry to provide any meaningful recommendation on alternative HFE distribution models to ensure that States and Territories are not financially and economically disadvantaged.

**Recommendation:**

***That a realistic and manageable transition period is provided to implement subsequent recommendations.***

Subsequent recommendations should be tied to a realistic and manageable transition period to allow States and Territories to strategically plan and prepare their future Budgets and Forward Estimates with increased certainty and predictability.

**Summary:**

In summary, industry recommends:

1. *That the HFE model is simplified to the extent that it provides predictability and stability in the State and Territory budget setting process.*
2. *That State and Territory Governments should be rewarded for strategies, innovation, reform and development that results in good economic performance.*
3. *Conduct a broad review of the Tax Regime to the extent that State and Territory based indirect taxes are abolished.*
4. *The Productivity Commission develop a variety of HFE reform options accompanied by publicly available modelling in the Draft Report.*
5. *That a realistic and manageable transition period is provided to implement subsequent recommendations.*

I would be pleased to appear before the Commission if necessary, and would appreciate the opportunity of further consultation following the release of the Draft Report in October 2017.

Yours sincerely

**Simon Bennison**  
Chief Executive Officer

