

Andrew Barr MLA

Chief Minister



Member for Kurrajong

Treasurer

Minister for Economic Development

Minister for Tourism and Major Events

Ms Mary Cavar
Assistant Commissioner
Productivity Commission
Melbourne Office
Level 12
530 Collins Street
MELBOURNE VIC 3000

Dear Ms Cavar

The ACT Government is pleased to forward the attached submission to the Productivity Commission (Commission) Inquiry into Australia's system of horizontal fiscal equalisation (HFE).

While it is noted the Terms of Reference (ToR) are both broad and reform oriented, I also take comfort this inquiry is not a detailed review of the Commonwealth Grant Commission's (CGC) formula for calculating GST relativities.

As is well known, the CGC has already commenced the 2020 Methodology Review based on the current *Intergovernmental Agreement on Federal Financial Relations* with its own ToR. I agree with and welcome this parallel consultation process and the ensuing national discussion and concur with the view that the CGC review and the Commission's inquiry are complementary.

In that context I urge the Commission to consult closely with the CGC during the course of its inquiry, calling on the latter's vast depth of knowledge and importantly, clarity if required, on the many misunderstandings of how HFE is currently practiced as clearly reflected in the national media in relation to your inquiry.

The CGC itself as part of its methodology review has identified most, if not all, of the issues your inquiry is tasked with reporting on. The ACT will also be finalising a submission to the CGC on the HFE objective, supporting principles and their implementation by the due date of 28 July 2017. I urge the Commission to review all similar submissions when placed on the CGC web site prior to the Commission receiving the CGC's formal submission to your inquiry in September 2017.

The attached ACT submission canvasses all major aspects requested in the two parts to the Guidance Note issued by the Commission. It also canvasses a range of alternative options, varying in their scope and in their likely acceptability to all governments. They range from structural changes within

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the current framework to suggestions for change which go outside the current federal financial relations framework.

The submission makes the point that inclusion of these options does not in any way reflect support from the ACT Government. Rather, it reflects an effort to assist the Commission in its endeavours and to ensure that the consequences of major changes to the HFE system are properly considered.

Regardless of options the submission encourages the Commission to adopt a broad focus on the totality of the operations of the federal financial relations framework, encompassing all transfers by the Commonwealth to the states and territories and not an approach focused purely on alternative GST distribution models.

Within this structure, the submission also highlights the fact that while the ACT is an independent territory of the federation receiving federal funding commensurate with its State counterparts, it also receives funding in recognition of its unique circumstances as a city/state in a national capital setting and as a major regional centre.

I note the Commission is scheduled to release its interim report in early October 2017 with all parties again invited to respond with further submissions.

I wish the Commission the very best in its endeavours on this critical area of national public policy.

Yours sincerely

Andrew Barr MLA

Chief Minister

 JUL 2017