



15 November 2017

Horizontal Fiscal Equalisation Inquiry
Productivity Commission
Locked Bag 2
Collins Street East
Melbourne VIC 8003

Dear Commissioners,

**RE: SUBMISSION IN RESPONSE TO THE PRODUCTIVITY COMMISSION'S DRAFT
REPORT ON HORIZONTAL FISCAL EQUALISATION**

On behalf of the Victorian Trades Hall Council (VTHC), I thank you for the opportunity to make a submission into this important inquiry. VTHC is the peak body for unions in Victoria. VTHC represents 41 unions and 430,000 workers. These workers are members of unions that reach into every industry in the state, both in the public and private sectors.

VTHC and its affiliated unions have campaigned for and won a range of important rights and entitlements for Victorian workers, including the eight-hour day and occupational health and safety (OHS) protections. VTHC will continue to campaign tirelessly for the rights and entitlements of workers in Victoria, no matter their employer, workplace or employment status.

VTHC has long campaigned against the GST which is a regressive tax unfairly penalising the poorest in our society.

VTHC is making this short submission in support of the Victorian Government's submission in response to the draft report. VTHC would like to highlight the consequences that will be felt by Victorian workers as a result of any changes to the current horizontal fiscal equalisation (HFE) system.

The current system of HFE is sound. As the Productivity Commission has demonstrated, Australia's HFE system achieves an almost complete degree of equalisation. As a result of the success of the HFE, Australian states and territories have the capacity to appropriately fund public services to a high and equal standard.

The principle supporting this – that every state is given the ability to provide a similar level of service – is strong and broadly supported.

HFE has achieved its objectives without impeding productivity and economic growth. This has been demonstrated by the Victorian Government's initial submission; the Commission's draft report and the 2012 Brumby, Greiner, Carter review. Given this, VTHC does not support abandoning or changing the current principles.

LUKE HILAKARI
Secretary

DAVID CRAGG
Assistant Secretary

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The process of equalising to the strongest state provides all Australians with a relatively equal level of government services. The proposal to change this to the second strongest state essentially creates a two tier system in which one state will always be better off than the rest. While the Commission notes that this system would bring Australia's HFE process in to line with other OECD countries; without appropriate evidence being presented this appears to be a move away from what is currently world's best practice in order to conform to a lesser goal.

Of most concern to VTHC is the potential for the proposed changes to HFE to reduce Victoria's GST payout by very close to \$1 billion. This will have a devastating impact on jobs for Victorian workers. Information from the Victorian Department of Treasury and Finance indicates this equates to more than 9,000 teachers or over 7,500 police or more than 8500 nurses. That is a huge amount of Victorians who could be turfed out of jobs while having a significant adverse impact on services.

Given cuts of this nature are often untenable politically, the impacts could instead be 150 train carriages not being ordered for commuters and made by Victorian workers.

A \$1 billion cut to any state budget is not small fry. It would have a devastating effect on Victorian workers as governments are forced to make cuts to meet the budgetary shortfall.

Significant changes such as those being proposed should not be considered without overwhelming evidence for a change. This inquiry, as with previous inquiries, has not demonstrated that that evidence exists. It would appear that the inquiry was established and solutions proposed to address the self-inflicted fiscal concerns of one state. This is not a sound basis for reform.

If you have any questions, please do not hesitate to contact Danae Bosler

Thank you for your consideration.

Yours sincerely,

Luke Hilakari
Secretary
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