



# **Productivity Commission Inquiry into Horizontal Fiscal Equalisation – Public hearing Melbourne**

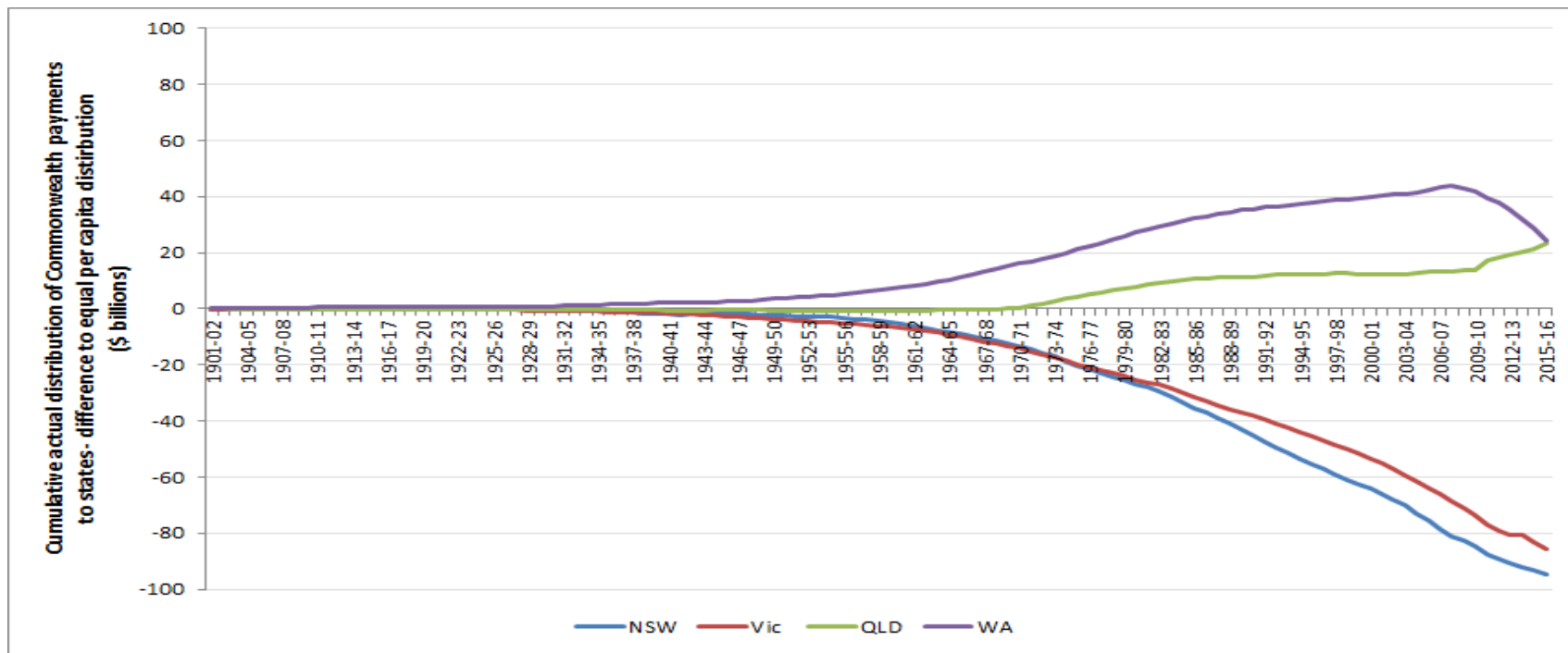
**17 November 2017**

Presentation by  
Tim Pallas MP  
Treasurer of Victoria

# Victoria continues to be a donor

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## Cumulative distribution of Commonwealth payments to states\*



\* Difference in payments between equal per capital distribution and actual (2016 dollars)

Source: Commonwealth Budget papers, Victorian Department of Treasury and Finance calculations

# Victoria strongly supports HFE principles

- Victoria is a strong supporter of HFE principles
- HFE:
  - is equitable as it gives each state the fiscal capacity to deliver essential services
  - is policy neutral and does not impose particular policy choices on states
  - takes into account differences in states' population and capacity to raise revenue
  - demands that there is no place for Commonwealth Government intervention
- The PC found that the equity objective should continue being the basis for GST distribution

# Changing HFE is not the right solution

- WA's fiscal position is impacted by commodity prices and the boom-bust nature of resources
- However, the PC draft report noted that WA's problems have been “exacerbated by earlier budget decisions” of the WA Government

Source: Productivity Commission, HFE, Draft report, page 10

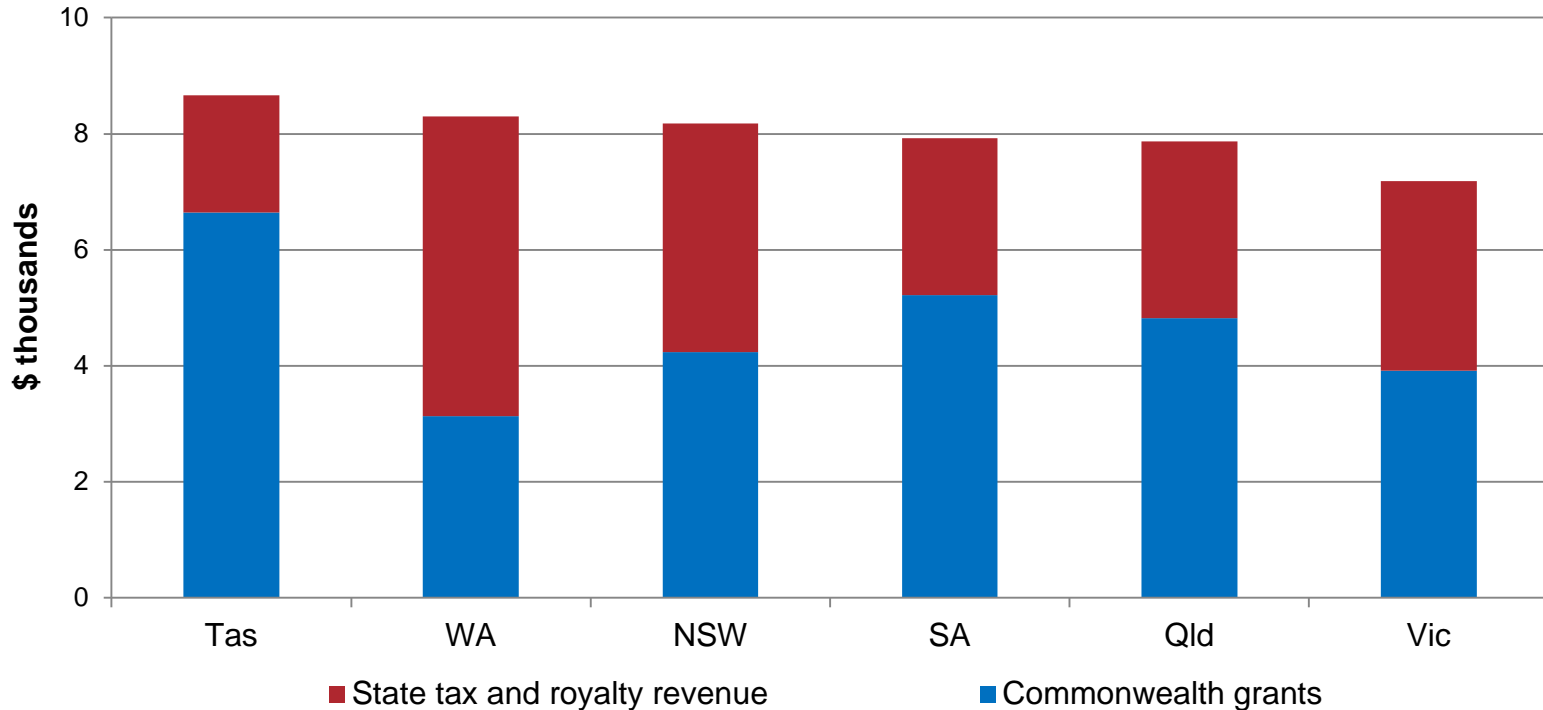
## State tax and royalty revenue per capita, 2015-16



# Victoria lowest ranked when Commonwealth grants included

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State tax and royalty revenue and Commonwealth grants per capita, 2015-16



Source: Interstate financial reports, Department of Treasury and Finance, Commonwealth FBO and ABS

- The PC's proposal to “raise fiscally weaker states to the average fiscal capacity” would see:
  - Victoria lose **\$972 million** in 2017-18
  - Smaller states also receive less
  - Western Australia would gain **\$3.6 billion** in 2017-18
- The PC's proposal would also move away from the principles of HFE by boosting the fiscally strongest state

# Reduced GST means fewer vital services

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A GST cut of around \$972 million a year is the equivalent of around:

- **9,300 teachers, or**
- **8,700 nurses, or**
- **7,700 police officers, or**
- **more than 100 E-class trams, or**
- **more than 150 VLocity train carriages**

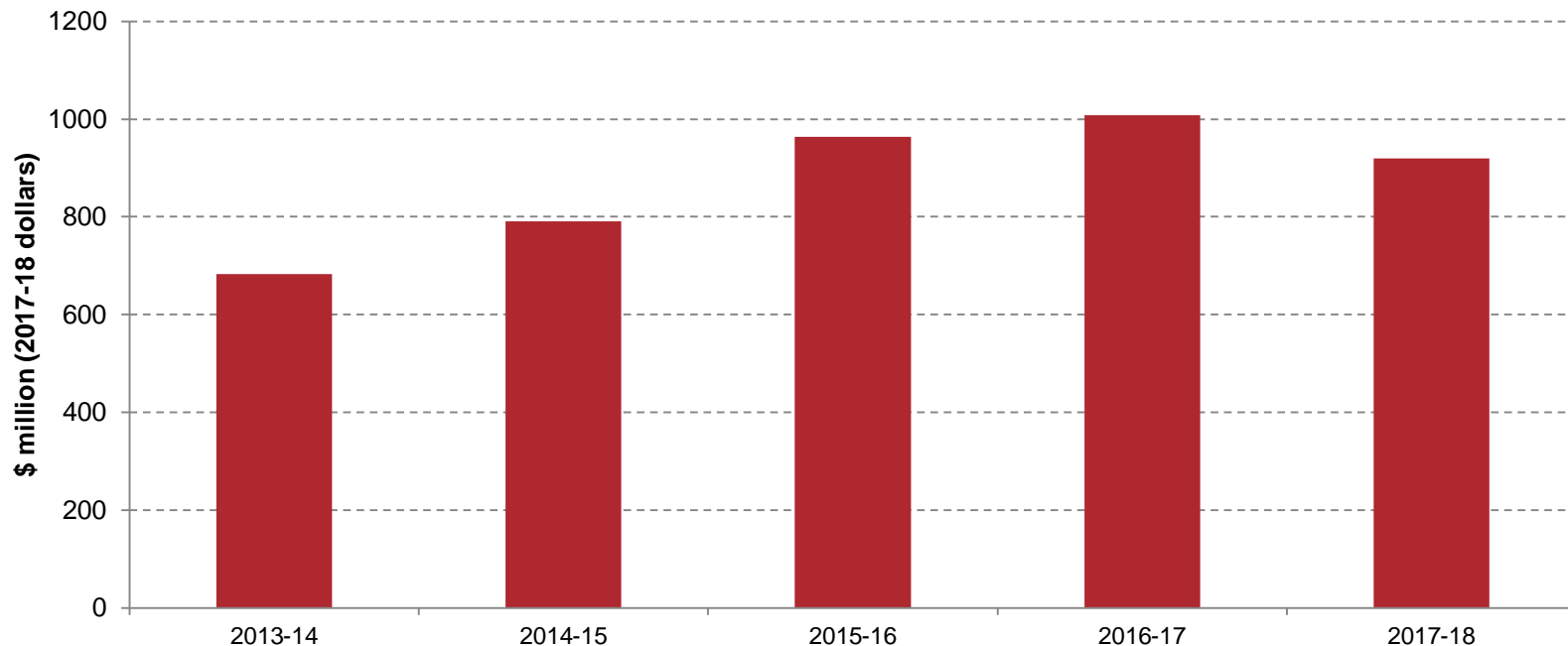




# GST impact of “second strongest state” proposal is also large

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Victoria would have lost **\$4.4 billion** over five years if the “second strongest state” proposal were adopted



Source: Department of Treasury and Finance

- Victoria will only receive 10 per cent of Commonwealth infrastructure funding compared to our 25 per cent population share.
- The ABS significantly underestimated Victoria's population from 2011-12 to 2015-16 meaning the State received \$420 million less in GST than intended
- Victoria's population continues to grow faster than any other state

# Victoria supports the PC's position on the treatment of coal seam gas

- States must be allowed to weigh-up the broader social, economic and environmental benefits of fracking without being penalised
- The PC found that:
  - “there is no direct evidence that GST effects have influenced state policy decisions in relation to minerals and energy”
  - adding incentives for resource exploration policies “would be an intentional breach of policy neutrality and state autonomy, be a source of additional complexity and come at the expense of equity”

- Victoria continues to support the principles of HFE
- Victoria does not agree with the PC's alternatives as they depart from HFE
- Victoria will not accept any proposal that would reduce our capacity to deliver essential services

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