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Ms Karen Chester
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Horizontal Fiscal Equalisation Inquiry
Productivity Commission
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Dear Ms Chester

The Victorian Chamber of Commerce and Industry welcomes the opportunity to make a submission on the draft report of the Productivity Commission's Horizontal Fiscal Equalisation (HFE) inquiry.

As Victoria's leading business organisation, each year the Victorian Chamber informs and services more than 15,000 members, customers and clients across the state, encompassing all industry sectors and spanning small, medium and large-sized businesses.

HFE is grounded in the concept that citizens in different states should have access to equal standards of government services. It recognises that the states have different capacities to raise revenue and different spending needs. This is an important principle that is supported by the Victorian Chamber.

The Victorian Chamber contributed to and supports the initial submission made by the Australian Chamber of Commerce and Industry to this inquiry (dated 30 June 2017), which was premised on the following key arguments:

- There is no evidence that the current system is detrimental to productivity or provides a disincentive for states to exploit their natural resources.
- HFE should not be looked at in isolation and any proposed changes should be considered in the context of broader productivity enhancing tax reforms and associated reforms to Commonwealth-State financial relations.

The Victorian Chamber considers that while the current GST distribution methodology is very complex, it is generally working as intended and should be retained.

Given this, we broadly support the recommendations made in the Commission's draft report that:

- Further simplification should be explored (draft recommendation 7.1).
- Commonwealth payments to the states be treated consistently (draft recommendation 7.2).

- The Commonwealth Grants Commission should provide a strong neutral voice in the public debate of HFE (draft recommendation 9.1).
- Transparency should be increased through the publication of data and calculations used by the Commonwealth Grants Commission (draft recommendation 9.2).
- Federal and State Governments should work towards longer term reform of federal financial relations (draft recommendation 9.3).

However, the Victorian Chamber does not support draft recommendation 2.1, that the system should aim for reasonable rather than full equalisation. This would not contribute to simplicity and would add another arbitrary layer to an already complex system.

Further, the Victorian Chamber does not support the suggestion that the system equalise to the capacity of the second strongest state. Such an approach would significantly disadvantage Victoria and there is no clear policy rationale for it as an alternative to the current system.

The distribution of a fixed pool of revenue between the states will always be contentious. The Victorian Chamber would prefer that rather than arguing over a 'zero sum game' governments should focus on delivering meaningful tax reforms that deliver tangible benefits for business.

Yours sincerely

Mark Stone AM
Chief Executive