



**Hon Mike Nahan MLA**  
**Leader of the Opposition**

Our ref: L17-1611

Productivity Commission  
Inquiry into Horizontal Fiscal Equalisation  
Commissioner Jonathan Coppel

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

Dear Commissioner Coppel

**INQUIRY INTO AUSTRALIA'S SYSTEM OF HORIZONTAL FISCAL EQUALISATION – PUBLIC HEARING**

I refer to my recent appearance before the Productivity Commission's public hearing into Horizontal Fiscal Equalisation (HFE) on 14 November 2017. As highlighted during the public appearance, it is my view that the only reform option that will fully resolve the inequities and perverse incentives of the current HFE system is to transition to a system that distributes the large majority of GST revenues on a population based 'Equal Per Capita' (EPC) basis to the six States, with the Commonwealth to fund all current GST entitlements of the Australian Capital Territory and Northern Territory.

From a position of productivity improvements, a move to EPC GST funding would be simpler, less costly, more transparent and facilitate long term State budget management through increasing the predictability of GST shares. It would also reduce economic development disincentive effects for States and encourage them to provide services efficiently.

While the Commonwealth may need to directly fund some 'needs' for the Territories, it is expected that efficiency in service delivery will also be enhanced because the Commonwealth has an incentive to look closely at claims for additional support and can make it contingent on addressing deficiencies in management and policy. It should also be noted that considerable equalisation would continue to occur through the Commonwealth's general Budget arrangements (e.g. effective redistribution of company and personal income tax).

Transitional arrangements could be put in place that allows this change to occur over the forward estimates period, with a move towards a dynamic GST relativity floor (such as the Draft Report's recommendation). This policy could be implemented a number of ways and consideration could be given to:

- The immediate distribution of additional GST grants among the donor states if the Territories were excluded from the pool and funded directly by the Commonwealth; and
- Maintaining the current distribution of GST grants to all states and territories over the forward estimates period, with the Territories excluded from the pool and a movement to a dynamic relativity floor from 2021-22 onwards.

During my appearance, both Commissioner Chester and Coppel repeatedly reiterated that they believed that the Department of Treasury in Western Australia was regarded as the foremost leaders with regards to modelling HFE relativities. In light of this I sought economic modelling to provide to the commission to highlight the estimated impact of this proposal over the period 2018-19 to 2026-27.

Unfortunately, this request has been denied and it is disappointing that the McGowan Labor Government continues to politicise the GST reform process rather than working in a bi-partisan manner to achieve positive outcomes.

Yours sincerely

**Mike Nahan MLA**  
**LEADER OF THE OPPOSITION**

14 DEC 2017