



File: T&F18/0531
A948466

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23 October 2018

Hon Stephen Mullighan
Member for Lee
62 Semaphore Road
SEMAPHORE SA 5019

Sent via email: lee@parliament.sa.gov.au

Dear Mr Mullighan

Freedom of Information - Productivity Commission Inquiry into Horizontal Fiscal Equalisation

I refer to your application under the *Freedom of Information Act 1991* (FOI Act), received by the Department of Treasury and Finance (DTF) on 19 July 2018.

Your application specifically requested:

'All minutes, briefings, notes, emails and correspondence from the Treasury and Finance to the Treasurer and the Treasurer's Office regarding the Productivity Commission Inquiry into Horizontal Fiscal Equalisation [Date Range: 30/05/2018 to 18/07/2018]'

Under the Act, an agency has 30 days to respond to a freedom of information request. As DTF did not respond to your request within the time frame required, the department is deemed to have refused you access to all documents relevant to your application. However, I have determined to process the request as if the statutory time frame had been met.

The purpose of this letter is to advise you of my determination. A total of 14 documents were identified as answering the terms of your application and I have determined as follows:

- I grant you access in full to 7 documents, copies of which are enclosed, and
- I refuse you access to 7 documents.

Please refer to the attached schedule that describes each document and sets out my determination and reasons in summary form.

Documents released in full

Documents 1 – 3, 4a, 5, 7 – 7a

Documents refused in full

Documents 2a, 3a

These documents are briefing notes prepared specifically for use in Parliament, the disclosure of which would infringe the privilege of Parliament. I have therefore determined to exempt these documents in full pursuant to clause 17(c) of Schedule 1 to the FOI Act.

Documents 4, 4b, 4c, 6

These documents are briefing papers specifically prepared for the use of the Minister in relation to a matter submitted to Cabinet. I have therefore exempted the document pursuant to clause 1(1)(f) of the FOI Act.

Documents 6a

This is a draft of a document that was specifically prepared for submission to Cabinet. I have therefore determined to refuse access to this document in full pursuant to clause 1(1)(b).

Exemptions

Clause 1 – Cabinet documents

(1) A document is an exempt document –

...

(b) if it is a preliminary draft of a document referred to in paragraph (1); or

...

(f) if it is a briefing paper specifically prepared for the use of a Minister in relation to a matter submitted, or proposed to be submitted to Cabinet

Clause 17 – Documents subject to contempt etc

A document is an exempt document if it contains matter the public disclosure of which would, but for any immunity of the Crown—

...

(c) infringe the privilege of Parliament

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), DTF is now required to publish a log of all non-personal information released under the *Freedom of Information Act 1991*.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <http://dpc.sa.gov.au/what-we-do/services-for-government/premier-and-cabinet-circulars> Please visit the website for further information.

Appeal Rights

If you are aggrieved with this determination, you have a right to apply for internal review under subsection 29(1) of the FOI Act. Pursuant to subsection 29(2), your application must:

- be in writing
- be addressed to the principal officer, and
- be lodged at an office of DTF, or emailed to freedomofinformation2@sa.gov.au within 30 days after the day on which you receive this letter or within such further time as the principal officer may allow.

If you require any further information please phone Natalie Haigh on (08) 8429 0839.

Yours sincerely



Matthew Hawkins
ACCREDITED FREEDOM OF INFORMATION OFFICER

Schedule of Documents

T&F18/0531 - Mr Stephen Mullighan " All minutes, briefings, notes, emails and correspondence from the Treasury and Finance to the Treasurer and the Treasurer's Office regarding the Productivity Commission Inquiry into Horizontal Fiscal Equalisation (Date range: 30/05/2018 to 18/07/2018). "

Doc. No.	Date	Description of Document	# of pages	Determination	Exemption Clause
1	3/07/2018	Email - RE: Details for the embargoed release of the PC report	4	Released in full	
2	3/07/2018	Email - RE: PBN Update	1	Released in full	
2a	3/07/2018	PBN	4	Refused in full	17(c) - Disclosure would infringe the privilege of Parliament
3	5/07/2018	Email - FW: PBN_GST distribution_Government response to HFE review	1	Released in full	
3a	5/07/2018	PBN	4	Refused in full	17(c) - Disclosure would infringe the privilege of Parliament
4	11/07/2018	Minute	6	Refused in full	1(1)(f) - Briefing prepared for use of Minister regarding matter submitted to Cabinet
4a	11/07/2018	Attachment to document 4 - Productivity Commission inquiry into horizontal fiscal equalisation: Government interim response	32	Released in full	
4b	11/07/2018	Attachment to document 4	2	Refused in full	1(1)(f) - Briefing prepared for use of Minister regarding matter submitted to Cabinet
4c	11/07/2018	Attachment to document 4	1	Refused in full	1(1)(f) - Briefing prepared for use of Minister regarding matter submitted to Cabinet
5	16/07/2018	Email - Submission to to the Commonwealth Grants Commission	1	Released in full	
6	18/07/2018	Minute	2	Refused in full	1(1)(f) - Briefing prepared for use of Minister regarding matter submitted to Cabinet
6a	18/07/2018	Cabinet note	6	Refused in full	1(1)(b) - Draft of document prepared for Cabinet or Cabinet committee
7	27/06/2018	Email - FW: PC report on HFE	2	Released in full	
7a	26/06/2018	Attached to document 7 - Transcript doorstep interview canberra	5	Released in full	

Collins, Mark (DTF)

From: Raymond, Greg (DTF)
Sent: Tuesday, 3 July 2018 5:21 PM
To: Federal Relations Secretariat
Cc: Collins, Mark (DTF); Lees, Sue (DTF)
Subject: RE: Details for the embargoed release of the PC report [DLM=For-Official-Use-Only]

Hi Kate

The email addresses of the people who require access to the embargoed report are:

Treasury

David Reynolds – david.reynolds@sa.gov.au
Stuart Hocking – stuart.hocking@sa.gov.au
Greg Raymond – greg.raymond@sa.gov.au
Mark Collins – mark.collins@sa.gov.au

Treasurer's Office

Treasurer – rob.lucas@sa.gov.au
Julian Robertson – julian.robertson@sa.gov.au
Sue Lees – sue.lees@sa.gov.au

Greg Raymond

Director | Revenue & Intergovernmental Relations

Department of Treasury & Finance
Level 6, 200 Victoria Square, Adelaide, SA, 5000
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Government of South Australia
Department of Treasury
and Finance



Proudly working with White Ribbon to create a safer workplace
Australia's campaign to stop violence against women

From: Federal Relations Secretariat [mailto:FederalRelationsSecretariat@TREASURY.GOV.AU]

Sent: Tuesday, 3 July 2018 1:49 PM

To: 'Craig Graham' <Craig.Graham@nt.gov.au>; 'David Martine' <david.martine@dtf.vic.gov.au>; 'David Nicol' <david.nicol@act.gov.au>; Reynolds, David (DTF) <David.Reynolds@sa.gov.au>; 'Jim Murphy' <jim.murphy@treasury.qld.gov.au>; 'Michael Barnes' <Michael.Barnes@treasury.wa.gov.au>; 'Michael Pratt' <michael.pratt@treasury.nsw.gov.au>; 'Tony Ferrall' <tony.ferrall@treasury.tas.gov.au>; 'Amy Auster'

<amy.auster@dtf.vic.gov.au>; 'Anton Voss' <anton.voss@treasury.tas.gov.au>; 'Caralee McLiesh' <Caralee.McLiesh@treasury.nsw.gov.au>; 'David Braines-Mead' <David.Braines-Mead@nt.gov.au>; 'Maryanne Kelly' <maryanne.kelly@treasury.qld.gov.au>; 'Michael Court' <michael.court@treasury.wa.gov.au>; 'Stephen Miners' <Stephen.Miners@act.gov.au>; Hocking, Stuart (DTF) <Stuart.Hocking@sa.gov.au>; 'natalie.horvat@treasury.nsw.gov.au' <natalie.horvat@treasury.nsw.gov.au>; 'andree.wheeler@treasury.nsw.gov.au' <andree.wheeler@treasury.nsw.gov.au>; 'andrew.witchard@dtf.vic.gov.au' <andrew.witchard@dtf.vic.gov.au>; 'georgina.grant@dtf.vic.gov.au' <georgina.grant@dtf.vic.gov.au>; 'David.Runge@treasury.qld.gov.au' <David.Runge@treasury.qld.gov.au>; 'Richard.Watson@treasury.wa.gov.au' <Richard.Watson@treasury.wa.gov.au>; Laurie, Kirsty <kirsty.laurie@treasury.wa.gov.au>; Raymond, Greg (DTF) <Greg.Raymond@sa.gov.au>; 'Fiona.calvert@treasury.tas.gov.au' <Fiona.calvert@treasury.tas.gov.au>; 'Sue.Vroombout@act.gov.au'; 'Nardia.Harris@nt.gov.au' <Nardia.Harris@nt.gov.au>
Cc: Fraser, John (Secretary) <John.Fraser@treasury.gov.au>; Brennan, Michael <Michael.Brennan@treasury.gov.au>; Le Cerf, Lauren <Lauren.LeCerf@TREASURY.GOV.AU>; 'FederalFinancialRelations@treasury.gov.au' <FederalFinancialRelations@treasury.gov.au>
Subject: Details for the embargoed release of the PC report [DLM=For-Official-Use-Only]

Colleagues

As per Michael's email, the embargoed PC's final report will be made available electronically to States and Territories at 10.00am on Wednesday 4 July 2018 and the PC will provide a background briefing from 12.30pm to around 1.30pm.

The report, briefing documents and anything derived from them remains under embargo until the report is tabled in Parliament.

Embargoed report

The embargoed report will be available on sigbox, a secure digital platform. Each State and Territory can nominate up to four individuals from their Treasurer's office and four Treasury officials to be given access. The embargoed report should not be circulated more widely within your organisations. Please provide the email addresses of nominated persons to FederalFinancialRelations@treasury.gov.au **by 9.00am on Wednesday 4 July 2018** (earlier if possible). Email addresses provided after this time will not be guaranteed access.

At 10.00am nominated persons will receive an email from sigbox advising access to a shared folder. Follow the prompts to create a password and login. Once logged in you will be able to download the report and the PC's briefing documents.

PC briefing

Telepresence facilities in each State and Territory have been booked from 12.30pm, at which point the PC will provide a background briefing followed by questions and answers. Embargoed briefing documents will be available via sigbox.

The rooms booked are:

NSW	NTA room, NSW Department of Premier and Cabinet, 52 Martin Place Sydney
Vic	NTR room, Victorian Department of Premier and Cabinet, 1 Treasury Pl Melbourne
Qld	Level 41, Department of Premier and Cabinet, 1 William St Brisbane
WA	Department of Premier and Cabinet, Dumas House, 2 Havelock St West Perth
SA	Level 12, Department of Premier and Cabinet, Victoria Square Adelaide
Tas	NTS room, Level 7, 15 Murray St Hobart
ACT	Chief Minister's Directorate, 1 Constitution Ave, Canberra
NT	TP room, Level 6, Department of the Chief Minister, Darwin

For jurisdictions that require it, please contact your telepresence coordinator to advise who from your department and Treasurer's office will require passes to access the telepresence room.

If you have any questions please call Lauren Le Cerf on 02 6263 3200.

Thanks,

Kate.

Kate Phipps

Division Head

Commonwealth-State Relations Division

The Treasury, Langton Crescent, Parkes, ACT 2600

phone: +61 2 6263 3056 / mobile: +61 434 143 560

email: kate.phipps@treasury.gov.au

From: Brennan, Michael

Sent: Tuesday, 3 July 2018 1:45 PM

To: Craig Graham; David Martine; David Nicol; David Reynolds; Jim Murphy; Michael Barnes; Michael Pratt; Tony Ferrall; Amy Auster; Anton Voss; Caralee McLiesh; David Braines-Mead; Maryanne Kelly; Michael Court; Stephen Miners; Stuart Hocking

Cc: Fraser, John (Secretary); Phipps, Kate; Gardner, Michael; Le Cerf, Lauren; FederalFinancialRelations@treasury.gov.au

Subject: PC report on HFE [SEC=PROTECTED, DLM=Sensitive]

Colleagues

Please be advised our Treasurer's office has contacted their State and Territory counterparts to advise that an electronic embargoed copy of the PC's final report will be made available at 10.00am tomorrow, Wednesday 4 July 2018. Each State and Territory can nominate up to four individuals from their Treasurer's office and four Treasury officials to be given access.

The Productivity Commission will provide a background briefing for Treasurers, advisers and officials via telepresence from 12.30pm to around 1.30pm on Wednesday 4 July 2018.

The federal financial relations secretariat will shortly send an email with more detailed information and instructions regarding access to the report and participating in the telepresence.

Regards

Michael Brennan

Deputy Secretary, Fiscal Group

Treasury

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Collins, Mark (DTF)

From: Raymond, Greg (DTF)
Sent: Tuesday, 3 July 2018 9:18 AM
To: Borlase, Trish (DTF)
Cc: Pribanic, Tammie (DTF); Alexandropoulos, Pantelis (DTF); Mazibuko, Zov (DTF); Collins, Mark (DTF)
Subject: RE: PBN - update
Attachments: T_PBN01 - GST distribution - May 2018 (A852223).docx

See attached

Greg Raymond
8226 9537

From: Borlase, Trish (DTF)
Sent: Tuesday, 3 July 2018 8:54 AM
To: Raymond, Greg (DTF) <Greg.Raymond@sa.gov.au>
Cc: Pribanic, Tammie (DTF) <Tammie.Pribanic@sa.gov.au>; Alexandropoulos, Pantelis (DTF) <Pantelis.Alexandropoulos@sa.gov.au>
Subject: PBN - update

Hi Greg

Please urgently update the attached PBN (see AFR article attached)

Thank you

Trish

Collins, Mark (DTF)

From: Raymond, Greg (DTF)
Sent: Thursday, 5 July 2018 11:33 AM
To: Collins, Mark (DTF); Mazibuko, Zov (DTF); Huynh, Danny (DTF)
Subject: FW: PBN_GST distribution_Government response to HFE review (A889650)
Attachments: PBN_GST distribution_Government response to HFE review.docx

FYI - it is in objective if you need it for some reason.

Greg Raymond
 8226 9537

-----Original Message-----

From: Raymond, Greg (DTF)
Sent: Thursday, 5 July 2018 11:32 AM
To: Robertson, Julian (DTF) <Julian.Robertson@sa.gov.au>; Lambetis, Athena (DTF) <Athena.Lambetis@sa.gov.au>
Cc: Hocking, Stuart (DTF) <Stuart.Hocking@sa.gov.au>; Pribanic, Tammie (DTF) <Tammie.Pribanic@sa.gov.au>
Subject: PBN_GST distribution_Government response to HFE review (A889650)

Hi Julian and Athena

Attached is a PBN on GST distribution following the release of the PC review of HFE and the Commonwealth Government response.

Thanks,

Greg Raymond
 Director | Revenue & Intergovernmental Relations | Budget and Performance Branch

State Administration Centre, Level 6, 200 Victoria Square ADELAIDE SA 5000 t (08) 822 69537 | m 0402 874 649 | e greg.raymond@sa.gov.au | w treasury.sa.gov.au

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Australian Government

Productivity Commission inquiry into horizontal fiscal equalisation: Government interim response

July 2018

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Manager
Media and Speeches Unit
The Treasury
Langton Crescent
Parkes ACT 2600

Email: medialiaison@treasury.gov.au

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Foreword



Since it was introduced in 2000, every dollar of GST raised has been distributed to the States and Territories (the States) according to a system of Horizontal Fiscal Equalisation (HFE) which is overseen by the independent Commonwealth Grants Commission (CGC).

The CGC distributes the GST to the States using a complex formula that aims to equalise the fiscal capacity of States so that Australians are able to enjoy a broadly similar standard of government services, regardless of where they live.

While this GST distribution system worked in a relatively stable and predictable way in its early years, the mining boom revealed that it does not function well when faced with economic shocks. The effects of the mining boom, particularly on Western Australia, created extraordinary volatility in the GST distribution that, as the independent Productivity Commission (PC) outlines in its report, stretched the HFE formula to its limits.

This level of volatility could not have reasonably been foreseen when the GST was introduced. The economic shocks of the last decade have proved it is in need of an update.

In response to this volatility and resulting declining community confidence in Australia's HFE system, the Turnbull Government tasked the Productivity Commission to undertake a thorough review of the strengths and weaknesses of GST distribution.

Building on the PC's extensive work, the Turnbull Government is proposing a fairer, reasonable and more sustainable way to distribute the GST, one that affirms the commitment to the 'fair go' principle of HFE.

The Government's proposed plan would guard against the negative effects of economic shocks through transition to an updated HFE system over eight years from 2019-20. The Federal Government would provide additional support payments from the Commonwealth Budget, boosting the size of the GST distribution pool and ensuring all States are left better off.

This proposal maintains and improves HFE with minimal disruption, now and into the future.

The Turnbull Government is determined to work in cooperation with the States to reach a long-term solution — one that leaves Australia with a more stable and predictable source of revenue for all States, while preserving the best features of our HFE system in terms of equity and leaving all States better off.

A handwritten signature in black ink, which appears to read 'Scott Morrison'.

The Hon Scott Morrison MP
Treasurer

The role of the GST

When the Goods and Services Tax (GST) was introduced, it was decided that every dollar collected would be given to the States and Territories (the States) to spend on essential services, as they see fit. Since its introduction, the GST has become an important and increasing source of untied revenue for the States.

Distributing GST revenue amongst the States is an important way the Commonwealth ensures that no Australian is disadvantaged because of the State they live in. Through the system of *horizontal fiscal equalisation* (HFE) the larger, more financially independent States receive relatively less GST, creating an effective subsidy for the smaller States and Territories. This system of distribution is managed at arms-length from Government by the independent Commonwealth Grants

Commission (CGC), which distributes the GST using a complex formula.

The Commonwealth also ensures that living standards for all Australians are maintained through other mechanisms, such as the tax/transfer system, which provides a safety net for all Australians, and through the guaranteeing of essential services Australians rely on such as Medicare.

The aim of using a single GST pool to provide almost all of the Commonwealth's untied contributions was to replace yearly grants with a stable and growing source of funding that States could rely on. GST funding now accounts for around 25 per cent of State revenues, ranging from around 10 per cent in Western Australia (WA) to almost 50 per cent in the Northern Territory (NT).

Table 1: Recent GST distribution outcomes

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
2017-18 GST relativity	0.87672	0.93239	1.18769	0.34434	1.43997	1.80477	1.19496	4.66024
Population ^(a)	7,915,069	6,385,849	4,965,033	2,584,768	1,728,053	524,677	415,916	246,726
Total GST received \$m ^(b)	17,791	15,268	15,110	2,285	6,374	2,417	1,266	2,928
2018-19 GST relativity	0.85517	0.98670	1.09584	0.47287	1.47727	1.76706	1.18070	4.25816
Population ^(c)	8,052,909	6,532,744	5,041,416	2,617,739	1,740,939	525,707	420,123	245,946
GST entitlement \$m ^(b)	18,442	17,261	14,794	3,315	6,887	2,488	1,328	2,805
Average relativity since 2000 ^(d)	0.90126	0.89103	1.03502	0.72395	1.28004	1.68175	1.20221	5.09715

(a) As at 31 December 2017. Source: *Australian Demographic Statistics, Dec 2017* (ABS Cat. No. 3101.0).

(b) Estimate. Based on GST pool forecasts as presented in the Commonwealth's 2018-19 Budget.

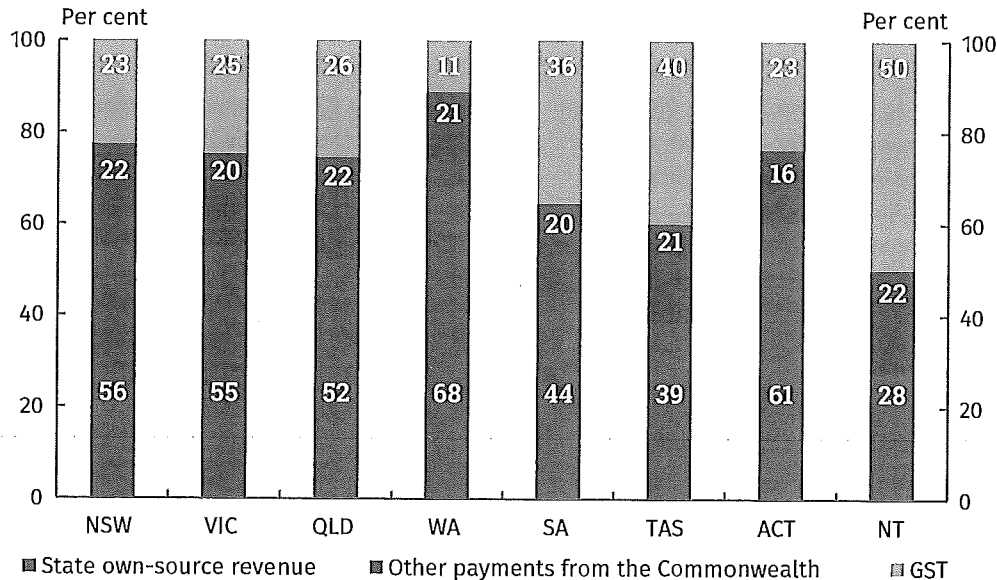
(c) Estimate as at 31 December 2018. Based on State population forecasts as presented in the Commonwealth's 2018-19 Budget.

(d) Average from 2000-01 to 2018-19. Relativities prior to 2009-10 reflect the CGC's calculation of a pool comprising of GST only (relativities previously recommended by the CGC were based on a pool comprising of both GST and health care grants).

The Commonwealth will provide an estimated \$126.8 billion to the States in 2018-19, supporting approximately half of all their revenues. The majority of this funding will come from untied GST payments (\$67.3 billion), which States can spend at their discretion.

The remaining Commonwealth funding to the States will come mainly through \$58.6 billion in payments for specific policy areas such as schools, hospitals, housing and infrastructure.

Figure 1: State own-source revenue, GST and other payments from the Commonwealth as a proportion of total State revenue, 2018-19



Totals may not sum due to rounding.

Source: Total State revenue figures are sourced from the States' 2018-19 Budgets, with the exception of SA, which is sourced from its 2017-18 Mid-Year Budget Review. Payments from the Commonwealth figures are sourced from the Commonwealth's 2018-19 Budget.

The size of the overall GST pool has grown from \$24.4 billion when the GST was introduced to \$67.3 billion today, an increase of 175.8 per cent. It is projected to grow by a further \$43.8 billion or 65 per cent over the next decade.

A strong, growing economy into the future ensures that the GST pool will continue to grow. This is another reason why it is so important to pursue policies that grow our national economy, which was again the focus of this year's Budget.

The biggest risk to GST distributions in the future is a weaker economy. A growing economy ensures that even if States experience a fall in their GST shares as a result of the

CGC's distribution formula, their nominal distribution can increase because of the larger GST pool generated by a stronger economy.

The Government is also ensuring that States will get more GST by taking action to grow the GST pool by making sure GST is being paid on all the goods and services it should be. This includes ensuring GST is paid on products sold online by large multinational companies.

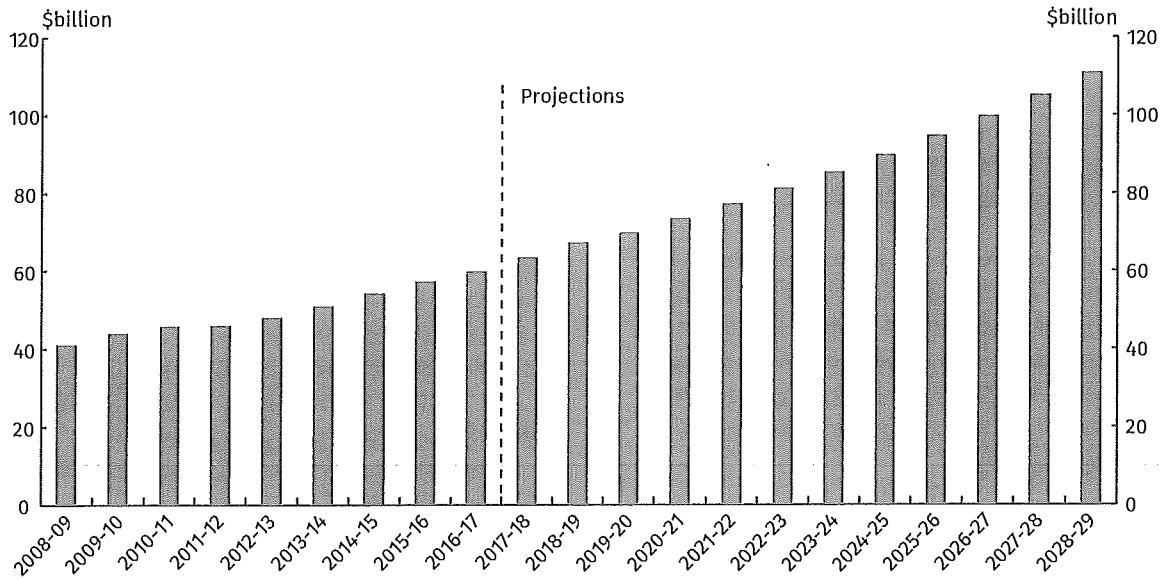
Measures introduced by the Government since the 2015-16 Budget are estimated to contribute more than \$2.0 billion to GST receipts in 2018-19 alone and around \$6.5 billion over the four years to 2021-22 (see Table 2).

Table 2: Estimated GST impact of Commonwealth Government measures since 2015-16 Budget, by State

\$m	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2018-19	575	538	461	103	215	78	41	87	2,100
2019-20	344	325	292	79	128	49	26	57	1,300
2020-21	393	374	337	96	146	55	30	68	1,500
2021-22	421	399	364	104	153	58	31	70	1,600
Total	1,733	1,637	1,455	382	642	239	128	283	6,500

Totals may not sum due to rounding.

Figure 2: Projected growth in the GST pool



Note: GST pool estimates up to 2016-17 are the total GST cash payments made to the States. GST pool estimates beyond 2016-17 are projections based on Treasury projections of total GST cash receipts.

How does HFE work?

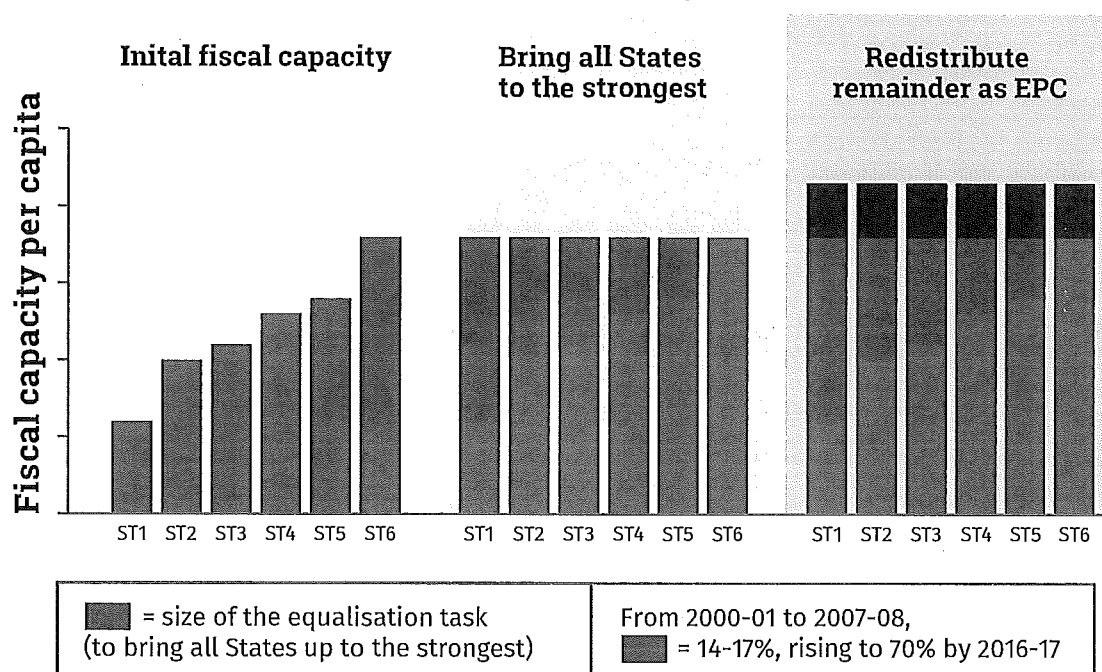
Since the GST was first introduced it has been distributed each year based on the independent recommendations of the CGC.

The CGC develops its recommendations by assessing the 'fiscal capacity' of each State. The **fiscal capacity** of a State represents its capacity to raise revenue and to deliver the services and associated infrastructure required in that State using that revenue raising capacity.

Put simply, the current system of HFE seeks to '**fully equalise**' the fiscal capacity of all

the States by bringing each of their fiscal capacities up to the standard that has been adopted by the CGC, which is to equalise to the fiscal capacity of the strongest State (see Figure 3). This has typically been New South Wales (NSW) or Victoria, however as a result of the mining boom recently this has been WA. This effectively means that fiscally stronger States support those States with less fiscal capacity. This system of equalisation has not been updated since the GST was introduced.

Figure 3: Stages of the HFE process



ST1-ST6 represent six hypothetical States.

Source: based on Productivity Commission data, Horizontal Fiscal Equalisation, Report no. 88.

The CGC has developed a complex formula to assess each State's fiscal capacity across a broad range of indicators – comprising seven individual revenue sources and eleven expenditure categories – and then bring this all together to calculate each State's overall relative fiscal capacity.

In assessing the States' relative fiscal capacities, the CGC takes into account **material factors** affecting each State's revenue and expenses that are beyond an individual State's control (e.g. socio-demographic factors, population size, remoteness, indigeneity and natural endowments such as mineral resources).

The CGC then calculates how much GST each State would need to be able to deliver services and infrastructure to the **same standard** as all other States, if each made the **same effort** to raise revenue from its own sources and operated at the **same level of efficiency**.

The CGC's recommendations are represented as per capita relativities. A relativity above one means that State is effectively subsidised because it receives more than its population share of GST. A relativity below one means that a State receives less than its population share of GST.

While the CGC currently aims to ensure that each State has the capacity to deliver services to the same standard as other States, this does not mean that all States will actually deliver the same level of services. Since the GST is provided as an untied payment, each State retains the autonomy to determine actual expenditure and revenue policies.

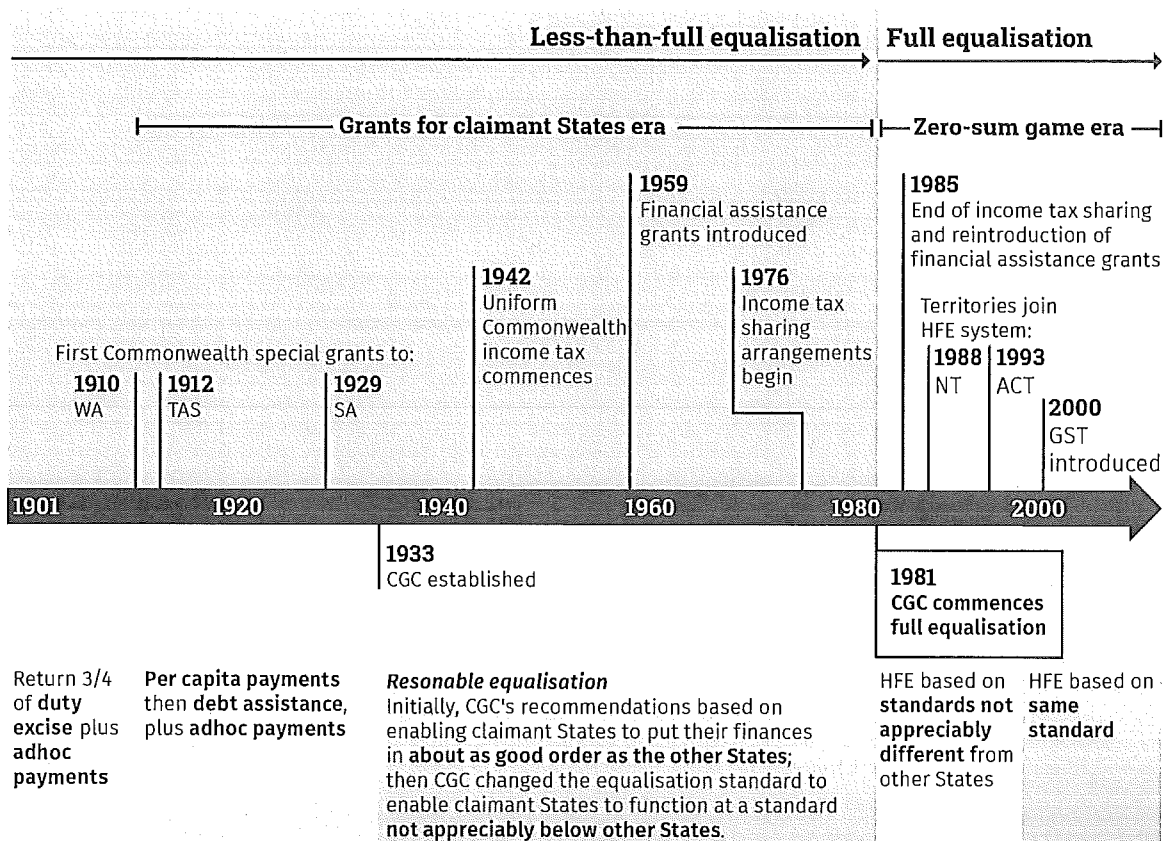
HFE has been part of our system since federation

Since Federation, the Commonwealth has needed to provide assistance to various States to ensure the standard of government services was not significantly different across the Commonwealth. The way funding has been distributed to the States has evolved over time.

While the general concept of equalisation has been a critical component of our nation since Federation, the notion of 'full' equalisation is a much more recent development. Notably, much of Australia's HFE history is more appropriately characterised as 'reasonable' equalisation.

The introduction of the GST in 2000 marked the most recent development in the evolution to Australia's current system of equalisation. From this point forward, the sharing of all GST revenue amongst the States has meant that the weaker States are effectively subsidised by the stronger States, rather than entirely through grants from the Commonwealth Government.

Figure 4: HFE since Federation



Source: Treasury, Productivity Commission.

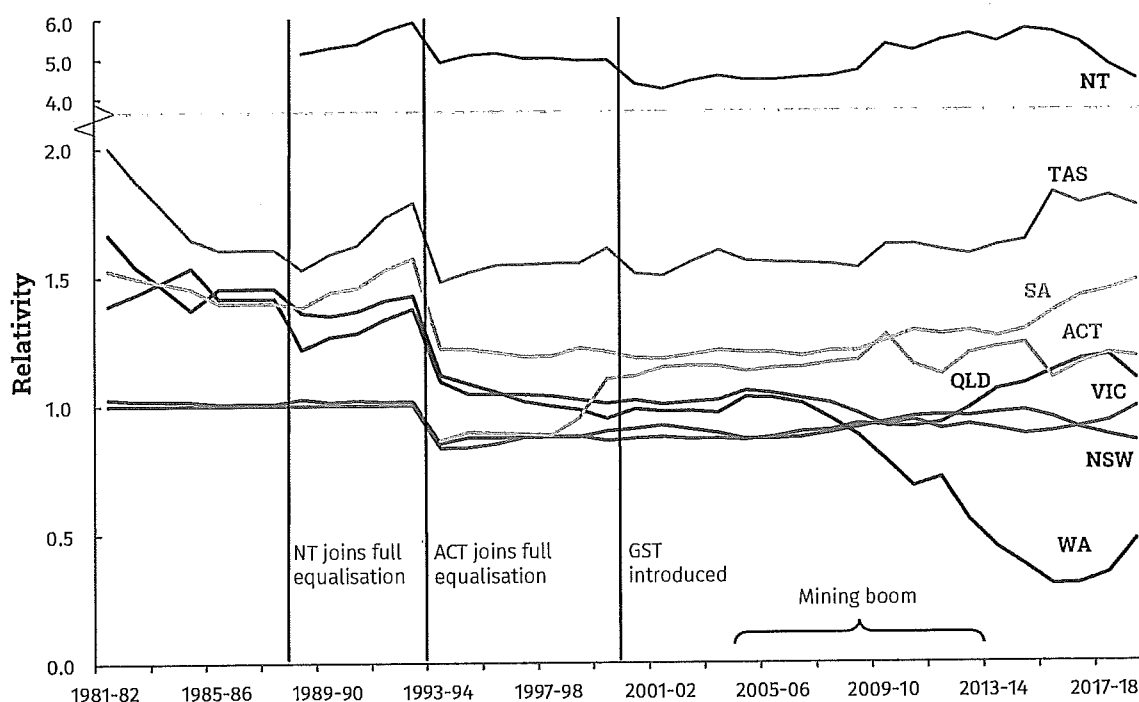
The current HFE system was not designed to deal with significant economic shocks

The PC's report highlights how the GST distribution system can result in perverse outcomes when faced with economic shocks.

In recent years, the effects of the mining boom have created extraordinary volatility in GST distribution outcomes, particularly for WA, undermining community faith in the current system of HFE. The resulting divergence in GST relativities remains in the system today (Figure 5).

As a result of the effects of the mining boom, WA's relativity fell and eventually reached less than 30 cents in the dollar per person of GST, compared to \$1.13 in Queensland and 95 cents in NSW (in 2015-16). A decade ago, before the mining boom, WA was receiving above a full dollar per person of GST.

Figure 5: Divergence in State per capita GST relativities



Source: Productivity Commission 2018, Horizontal Fiscal Equalisation, Report no. 88, Canberra.

Due to the unavoidable timing lag in the GST system, this dramatic fall in WA's relativity occurred well after the peak in the mining boom and as the WA economy was struggling to adjust to lower commodity prices. Between 2006-07 and 2018-19, WA's GST allocation

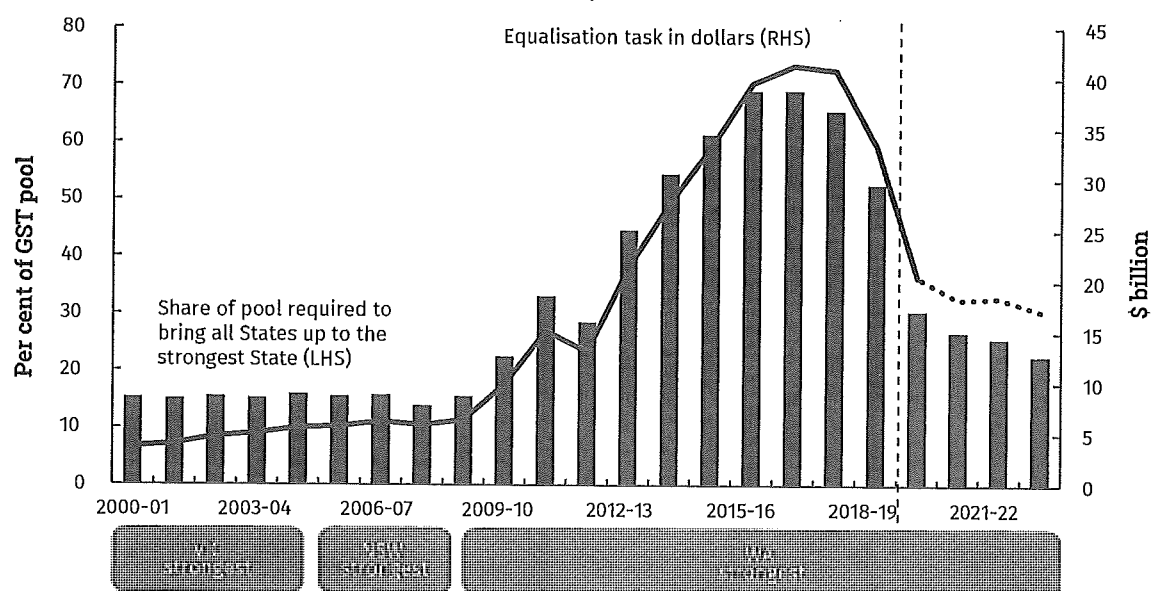
fell from around 25 per cent of the WA Government's total revenue to around just 10 per cent. The performance of WA's mineral sector was effectively subsidising the fiscal position of all other States, and continues to do so. Although WA's share of the GST

has started to increase again from extremely low levels and is likely to continue to slowly increase, it will not return to the levels seen previously in the foreseeable future.

Given that the current HFE system attempts to equalise all States to the assessed fiscal capacity of the strongest State, the fiscal strength of WA meant that a greater proportion of the GST pool than ever before needed to be redistributed among the States, both in dollar terms and as a proportion of the GST pool (Figure 6).

This level of volatility in the HFE system was not and could not have reasonably been foreseen when the GST was introduced at a time when the Australian economy looked very different to how it is today. For most of the first decade following the introduction of the GST, the fiscally strongest State was either Victoria or NSW, as had historically been the case. The diverse and broad-based economies of these States provided a much more stable standard against which to equalise GST revenues, which limited volatility in GST relativities.

Figure 6: The equalisation task



Source: based on Productivity Commission data, Horizontal Fiscal Equalisation, Report no. 88.

At the other end of the GST spectrum, the NT is now also experiencing extreme outcomes from the current distribution system. The NT's relativity has fallen by 19 per cent in just a two year period, from 5.3 in 2016-17 down to 4.3 in 2018-19. The high costs the NT faces in delivering services to a remote population, coupled with the challenges in raising its own revenue, means it needs a higher level of GST per person to deliver services at a similar standard to other States. The severity of the effects of volatility in the HFE system on the NT has been such that in this year's Budget

the Commonwealth Government stepped in to provide additional funding to ensure the NT Government was able to continue to deliver essential services and infrastructure to a reasonable standard.

Updating the GST system means it can absorb future economic shocks

The way the GST is distributed has not been updated since it was introduced in 2000. After the economic shocks of the past decade, it is timely to look at how this system can be improved.

The current system of HFE was effective when the Australian economy and States' economies were stable, and effectively meant that the GST was distributed so that all States had their fiscal capacities equalised to be the same as the broad-based, stable economies of either NSW or Victoria (whichever was strongest).

The mining boom was an unprecedented shock to the Australian economy that exposed weaknesses in our system of HFE that could not have been foreseen when the GST was introduced. This shock has affected the GST distribution since 2009-10, effectively covering around half of the period since the GST was introduced. It was in response to this volatility and declining community confidence in Australia's HFE system that the Government tasked the independent Productivity Commission to undertake a thorough review of the strengths and weaknesses of the current HFE system.

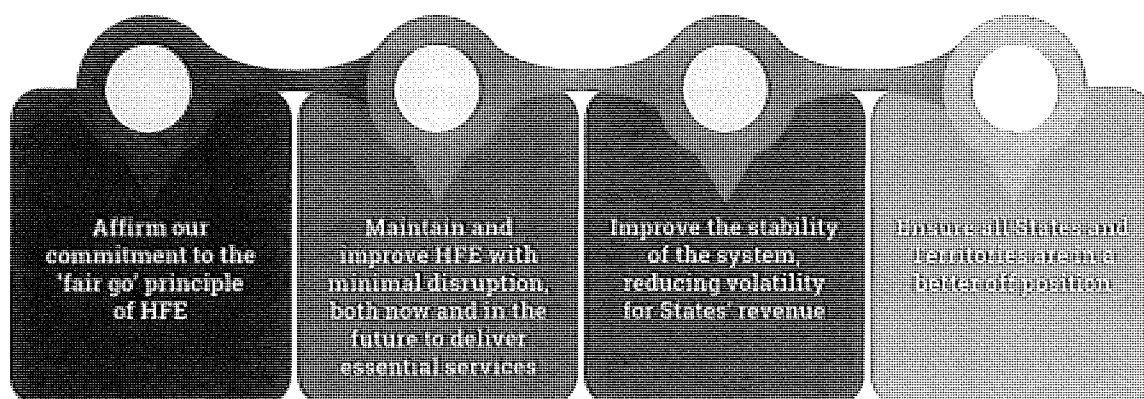
In recent years, to minimise the effects of this extreme volatility in the HFE system, the Government has provided WA with additional

funding for much needed road and rail projects that would otherwise have gone unfunded. This year, the Commonwealth also needed to provide the NT with additional funding to assist the NT Government to deliver essential services and infrastructure in response to an almost 20 per cent fall in NT's share of the GST over just two years.

While these 'top-up' GST payments have provided vital short-term relief, they are not a sustainable solution to the volatility we have seen in the HFE system, nor a guard against future economic shocks. In order to reduce volatility in States' shares of the GST and create certainty, Australia's HFE system needs to be updated to reflect the modern economy. Building on the invaluable insights provided by the PC in its report, the Government is seeking to explore ways to do this that are fair, reasonable and sustainable. In particular, the Government is aiming to:

- Affirm our commitment to the 'fair go' principle of HFE;
- Maintain and improve HFE with minimal disruption, both now and in the future, to deliver essential services;
- Improve the stability of the system, reducing volatility for States' revenue;
- Ensure all States and Territories are in a better off position.

The Government is aiming to:



PC recommendations that can and should be pursued immediately

The PC made a number of findings regarding Australia's HFE system and recommendations to improve the HFE process and simplify the formula to distribute the GST (see Appendix A).

The Government has broadly accepted all the PC's findings and all but one of its recommendations in full or in principle. The recommendations outlined below propose sensible improvements to the system which

the Commonwealth will seek to implement as soon as possible, following consultation with the States. The Government is proposing an alternative way to progress the remaining PC recommendation, which is discussed further below.

Changes to improve the HFE process

The PC finds that the independent and expert CGC is well placed to continue to recommend GST relativities and that it has well-established processes that involve consultation and regular methodology reviews.

However, the PC recommends changes that the Government and the CGC can make to improve the transparency, accountability and accuracy of the current HFE system.

In summary, the PC recommends that the CGC should:

- provide a stronger neutral voice to facilitate better informed public discourse on HFE (Recommendation 6.2)
- strengthen its formal interactions with the Commonwealth and States, including through provisional draft rulings, to enable a more collaborative approach to HFE and more certainty for States and Territories about potential GST distribution changes (Recommendation 6.3)

- make HFE calculations and the underlying data public to increase transparency and understanding of the system (Recommendation 6.6)

The PC also recommends that the Government:

- in consultation with States and Territories, develop guidelines on the exclusion of payments from HFE calculations, to provide greater clarity about which payments are excluded and why (Recommendation 6.4)
- bring an enhanced strategic focus to the CGC's decision-making framework by nominating specific areas of focus and providing formal input into five-yearly methodology reviews (Recommendation 6.5)

The Government supports each of these recommendations subject to further consultation with the States.

Changes to improve the HFE calculation

The PC recommends changes to how the CGC calculates the distribution of the GST that would result in a simpler system and help reduce what the PC terms the ‘false precision’ that besets the current system.

The PC recommends that the Treasurer direct the CGC to consider simpler and more efficient assessments of State and Territory financial positions (Recommendation 7.1). In particular, the PC recommends that the CGC should adopt significant increases in materiality thresholds and consider using more aggregated revenue and expenditure

assessments. The Government supports this recommendation, subject to further consultation with the States.

To further address the false precision in the current system reflected in the presentation of the States’ relativities, the Commonwealth Government also proposes to adopt Recommendation 3.2 of the 2012 GST Distribution Review to round the CGC’s relativities to two decimal places, subject to further consultation with the States.

Broader consideration of issues relating to federal financial relations

The PC recommends that, in addition to updating Australia’s system of HFE, the Commonwealth and the States should explore further meaningful reform of the broader federal financial relations framework, including considering the roles and responsibilities of different levels of government and opportunities to address vertical fiscal imbalance (Recommendation 9.1).

The Commonwealth engages with the States regarding the federal financial relations

framework through numerous forums, particularly the Council on Federal Financial Relations (CFFR). The States also discuss such issues through the recently formed Board of Treasurers. The Commonwealth looks forward to continuing constructive engagement with the States on financial issues following the examination of potential improvements to the HFE system.

The PC also recommends a significant change to the standard of HFE

In making recommendations on ways to update Australia's HFE system, the PC notes that no alternative benchmark for equalisation is unambiguously superior to any other.

The PC notes that finding the right balance involves judgment about whether the perceived benefits – such as enhancing policy neutrality and reducing disincentives for reform – outweigh the potential impact on fiscal equality across the States.

The PC considered a number of options to update HFE throughout its 12 month inquiry process. In its final report, the PC recommends moving to a new equalisation benchmark of the 'average of all States' (ETA), instead of the current system of equalising to the strongest State.

The Government has carefully considered the PC's preferred option and formed the view that it is not the appropriate way forward to update the way the GST is distributed. Implementing the PC's preferred model of HFE would create a level of disruption with unacceptable transition costs that most States would not be able to reasonably accept or absorb (see Table 3). This model would, in the Commonwealth's view, move too far from the policy objective of HFE.

The PC's recommendation to change the HFE standard to ETA is premised on analysis that this change would provide the greatest incentive for a small number of large States to undertake efficiency-enhancing tax reform, particularly a 'swap' of stamp duty revenue for increased land taxes. There are other significant obstacles to such a reform, and the limited scope for potential reform provided by the PC's recommended model — by reducing disincentives to undertake it in only the three strongest States, with no change in the other five States — does not outweigh the significant costs that the States would face.

While the PC's proposed model for HFE would be less susceptible to economic shocks than the current system, other options could provide similar protection against volatility in GST revenues in a way that is fairer, reasonable and more sustainable.

Table 3: Comparison of relativities: Current system and the PC's recommended option

NSW	Current system*	PC option	SA	Current system*	PC option
2019-20	0.82	0.84	2019-20	1.43	1.42
2020-21	0.82	0.84	2020-21	1.43	1.40
2021-22	0.82	0.85	2021-22	1.42	1.38
2022-23	0.81	0.85	2022-23	1.40	1.35
2023-24	0.81	0.86	2023-24	1.39	1.33
2024-25	0.82	0.88	2024-25	1.39	1.32
2025-26	0.82	0.89	2025-26	1.39	1.30
2026-27	0.83	0.90	2026-27	1.38	1.29

VIC	Current system*	PC option	TAS	Current system*	PC option
2019-20	0.96	0.95	2019-20	1.81	1.80
2020-21	0.95	0.94	2020-21	1.80	1.77
2021-22	0.94	0.92	2021-22	1.78	1.74
2022-23	0.93	0.91	2022-23	1.75	1.70
2023-24	0.93	0.91	2023-24	1.75	1.69
2024-25	0.92	0.90	2024-25	1.75	1.68
2025-26	0.91	0.90	2025-26	1.75	1.67
2026-27	0.91	0.90	2026-27	1.75	1.66

QLD	Current system*	PC option	ACT	Current system*	PC option
2019-20	1.12	1.11	2019-20	1.19	1.18
2020-21	1.12	1.10	2020-21	1.18	1.16
2021-22	1.14	1.10	2021-22	1.16	1.12
2022-23	1.15	1.10	2022-23	1.15	1.10
2023-24	1.14	1.07	2023-24	1.16	1.09
2024-25	1.12	1.05	2024-25	1.16	1.09
2025-26	1.12	1.03	2025-26	1.17	1.09
2026-27	1.11	1.01	2026-27	1.18	1.08

WA	Current system*	PC option	NT	Current system*	PC option
2019-20	0.59	0.63	2019-20	4.55	4.54
2020-21	0.62	0.69	2020-21	4.75	4.74
2021-22	0.63	0.73	2021-22	4.67	4.64
2022-23	0.66	0.78	2022-23	4.84	4.80
2023-24	0.70	0.82	2023-24	4.86	4.81
2024-25	0.73	0.85	2024-25	4.88	4.82
2025-26	0.75	0.88	2025-26	4.90	4.83
2026-27	0.76	0.90	2026-27	4.91	4.84

*Current system shows nominal relativities, as presented in the PC final report, based on State and Territory Treasury estimates. All other options are presented as effective relativities, calculated by comparing the proposed nominal GST payments to an equal per capita (EPC) distribution.

Source: Treasury and Productivity Commission projections.

A fairer, reasonable and more sustainable way to distribute the GST

The Government is proposing a plan to update the way the GST is distributed to reflect changes to the economy since the GST was introduced almost 20 years ago. This plan would improve the resilience of the HFE system against economic shocks and reduce volatility in GST relativities amongst the States.

The Government's plan involves transitioning to a new HFE system over eight years from 2019-20 in a way that is fair, reasonable and sustainable and that would ensure all States are better off.

The Government will commence discussions with the States on its plan and place it on the agenda of a special CFFR meeting in September, at the latest, with a view to coming to a final agreement on transition arrangements by the end of this year. To ensure that the process is as robust as possible, the Government will welcome, and consider, additional information provided by States during this time.

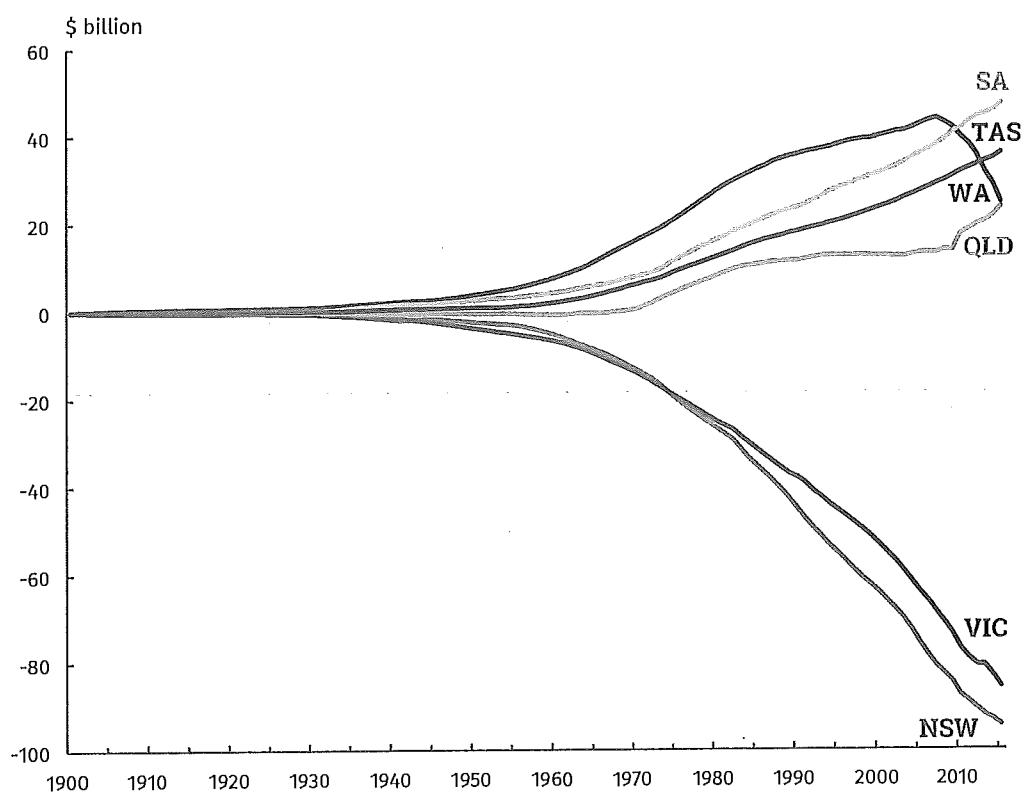
A new reasonable equalisation standard

The Government proposes to accept the PC's recommendation to move to an updated 'reasonable' equalisation standard (Recommendation 6.1). Instead of the PC's proposed model of equalising States to the average of all States (Recommendation 8.1), the Government's preferred model involves moving to a benchmark that would ensure the fiscal capacity of all States is at least the equal of NSW or Victoria (whichever is higher).

For much of HFE's history in Australia, NSW and Victoria have been the fiscally strongest States, due to their broad-based, diverse and stable economies (Figure 7). As a result, these States have historically served as the benchmarks for equalisation. It is only recently that the benchmark has shifted to WA as a result of the mining boom, which, with its reliance on one particular sector, has led to substantial volatility in the HFE system.

Benchmarking all States to the economies of the two largest States would remove the effects of extreme circumstances, like the mining boom, from Australia's GST distribution system.

Figure 7: Cumulative distribution of all Commonwealth grants to States^{(a),(b)}
Difference from EPC distribution of grants, excluding Territories; \$2015



(a) 'Commonwealth grants' includes general revenue assistance (primarily equalisation payments), Specific Purpose Payments (SPPs), National Partnership (NP) payments, and capital grants.

(b) The years 1994-95 and 1995-96 used estimates (not actual data) for NP and SPP data. No data were available for the 1996-97 SPP and NP components so the averages of past and future years were used.

Source: Productivity Commission 2018, Horizontal Fiscal Equalisation, Report no. 88, Canberra.

A GST relativity floor safety net

In addition to moving to an updated, more stable equalisation standard, the Government proposes to put in place a 'floor' below which no State's relativity can fall. The GST relativity floor would be set *within* the GST distribution system, rather than by an external ex-gratia payment.

A GST relativity floor would provide an additional safety net to guard against the unlikely event of an economic shock that is extreme enough to introduce significant volatility into the HFE system, even under a new equalisation standard.

The Government is proposing to implement a ratcheting floor over the course of the transition to a new equalisation standard. The floor would initially be set at a relativity of 0.70, before moving up to 0.75. Since these floors are only intended as an additional safety net, they would be implemented at a time where the relativities of all States are expected to be (and remain) above these relativities on current projections.

All States and Territories would be better off

Since all GST revenue is distributed to the States, any change to the distribution such as that being proposed by the Government now, without additional measures, would result in some States being worse off than they otherwise would have been.

While this may be the case in relative terms, in actual dollars received all States are considerably better off than they would have been as a result of measures the Government has taken to enhance the integrity of the

GST and increase the size of the GST pool in recent years. To ensure a fair and sustainable transition to a new equalisation standard, the Government would provide an additional, direct boost to the GST pool. This boost would expand the size of the GST pool on a permanent basis.

The size of the boost to the GST pool would be set at a level that ensures no State is worse off as a result of the move to a new equalisation benchmark. This would provide ongoing untied funding for the States to use as they see fit on services such as schools, hospitals and law enforcement.

Table 4: Comparison of State relativities: Current system, the Government's preferred option and the PC's recommended option

NSW	Current system*	Govt preferred	PC option	SA	Current system*	Govt preferred	PC option
2019-20	0.82	0.83	0.84	2019-20	1.43	1.43	1.42
2020-21	0.82	0.82	0.84	2020-21	1.43	1.43	1.40
2021-22	0.82	0.82	0.85	2021-22	1.42	1.42	1.38
2022-23	0.81	0.81	0.85	2022-23	1.40	1.40	1.35
2023-24	0.81	0.81	0.86	2023-24	1.39	1.39	1.33
2024-25	0.82	0.82	0.88	2024-25	1.39	1.39	1.32
2025-26	0.82	0.82	0.89	2025-26	1.39	1.39	1.30
2026-27	0.83	0.83	0.90	2026-27	1.38	1.38	1.29

VIC	Current system*	Govt preferred	PC option	TAS	Current system*	Govt preferred	PC option
2019-20	0.96	0.96	0.95	2019-20	1.81	1.81	1.80
2020-21	0.95	0.95	0.94	2020-21	1.80	1.80	1.77
2021-22	0.94	0.94	0.92	2021-22	1.78	1.78	1.74
2022-23	0.93	0.93	0.91	2022-23	1.75	1.75	1.70
2023-24	0.93	0.92	0.91	2023-24	1.75	1.75	1.69
2024-25	0.92	0.92	0.90	2024-25	1.75	1.75	1.68
2025-26	0.91	0.91	0.90	2025-26	1.75	1.76	1.67
2026-27	0.91	0.90	0.90	2026-27	1.75	1.76	1.66

QLD	Current system*	Govt preferred	PC option	ACT	Current system*	Govt preferred	PC option
2019-20	1.12	1.12	1.11	2019-20	1.19	1.20	1.18
2020-21	1.12	1.12	1.10	2020-21	1.18	1.18	1.16
2021-22	1.14	1.14	1.10	2021-22	1.16	1.16	1.12
2022-23	1.15	1.15	1.10	2022-23	1.15	1.15	1.10
2023-24	1.14	1.13	1.07	2023-24	1.16	1.16	1.09
2024-25	1.12	1.12	1.05	2024-25	1.16	1.16	1.09
2025-26	1.12	1.12	1.03	2025-26	1.17	1.17	1.09
2026-27	1.11	1.11	1.01	2026-27	1.18	1.18	1.08

WA	Current system*	Govt preferred	PC option	NT	Current system*	Govt preferred	PC option
2019-20^	0.59	0.70	0.63	2019-20^	4.55	4.66	4.54
2020-21^	0.62	0.70	0.69	2020-21	4.75	4.76	4.74
2021-22^	0.63	0.70	0.73	2021-22	4.67	4.68	4.64
2022-23	0.66	0.71	0.78	2022-23	4.84	4.85	4.80
2023-24	0.70	0.75	0.82	2023-24	4.86	4.87	4.81
2024-25	0.73	0.79	0.85	2024-25	4.88	4.89	4.82
2025-26	0.75	0.81	0.88	2025-26	4.90	4.91	4.83
2026-27	0.76	0.83	0.90	2026-27	4.91	4.93	4.84

*Current system shows nominal relativities, as presented in the PC final report, based on State and Territory Treasury estimates. All other options are presented as effective relativities, calculated by comparing the proposed nominal GST payments to an EPC distribution.

^These years include top up payments from the Commonwealth to WA and/or NT under the Government's preferred option.

Source: Treasury and Productivity Commission projections.

The Government's plan has three steps

The GST distribution system cannot be moved to an updated equalisation standard overnight. The Government's plan seeks to transition Australia's HFE system over eight years in a fair, reasonable and sustainable way that leaves no State worse off. At the end of this eight year period in 2026-27, Australia would have a HFE system that better protects against economic shocks and provides a more stable and predictable source of revenue for all States going forward.

Step one: short-term transition payments

The States' GST relativities are likely to remain volatile for the next few years, as the system rebalances and WA's relativity improves from its current very low levels. Beginning to transition the HFE system to a new standard during this period would only add to volatility and create a level of disruption that would not be acceptable.

To assist with the transition to the new system, the Commonwealth would provide short-term funding over the three years from 2019-20 to 2021-22 to ensure that no State receives less than 70 cents per person per dollar of GST. This funding would be untied, meaning recipient State Governments would be able to spend it as they see fit to deliver services in their State, including schools, hospitals and infrastructure. WA is expected to be the only State with a relativity below 0.70 during this time.

Over the same period, the Government would also ensure that the NT keeps at least their current share of GST, as it did in this year's Budget. This recognises the unique circumstances faced by the NT in dealing with the current volatility in the GST distribution given their small size, remoteness and relatively large Indigenous population.

Step two: phasing in a new HFE system

Under the Government's plan, the HFE system would begin transitioning to an updated equalisation standard — the stronger of NSW or Victoria — over six years from 2021-22 to 2026-27.

In 2022-23, a within-system GST floor would be introduced to ensure no State can receive any less than 70 cents per person per dollar of GST for their State. No State's relativity is expected to fall below 0.70 after 2022-23 on current projections under the new equalisation benchmark. Two years later, in 2024-25, this floor would be raised to 75 cents per person per dollar of GST. No State's relativity is expected to fall below 0.75 after 2024-25 on current projections under the new equalisation benchmark.

To ensure all States are better off both during and following the transition to the new equalisation standard, the Government would permanently boost the GST pool in addition to GST collections by making supplementary untied payments sourced from its other revenues. The Government's preferred method for this expanded GST pool is outlined in Box 1.

Boosting the GST pool with additional Commonwealth payments, moving to a new equalisation benchmark and inserting a relativity floor in the HFE system would be brought together in a new Intergovernmental Agreement between the Commonwealth and the States. The Government will be consulting with the States on this agreement and any alternative transition arrangements that may be proposed.

Box 1: Government preferred approach for boosting the GST pool

The Commonwealth Government would inject an additional \$600 million into the GST distribution in 2021-22, the first year of transition to the new equalisation standard. The Commonwealth's contributions in the following years would be equivalent to indexing this injection at the same rate of growth as GST collections in those years. That is, the expanded GST pool would continue to grow at the same rate as the GST collections each year.

This would be followed by a second injection of \$250 million in 2024-25. At this point, the HFE system would be over half way through

the transition to the new equalisation standard and the Government would have introduced a within-system 0.75 relativity floor. Future Commonwealth payments into the pool would then be indexed to grow in line with GST collections on a permanent basis.

This arrangement would increase the size of the untied GST distribution by \$7.2 billion from 2021-22 to 2028-29. This would leave all States and Territories better off under a new, more stable equalisation standard, with additional funding that State Governments can use to deliver essential services.

Table 5: Every State and Territory will be better off

Additional Top-ups

\$m	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2019-20	0	0	0	814	0	0	0	69	883
2020-21	0	0	0	585	0	0	0	0	585
Total	0	0	0	1,399	0	0	0	69	1,468

Impact of boost to GST Distribution Pool[^]

2021-22	78	84	87	568*	41	17	7	24	905*
2022-23	30	45	61	421	31	14	5	24	631
2023-24	14	32	51	495	28	13	5	25	664
2024-25	70	84	101	575	50	22	9	37	948
2025-26	85	96	112	580	54	23	10	39	999
2026-27	74	85	105	663	53	23	10	40	1,053
Total	351	425	518	3,303*	257	112	46	189	5,201*

[^]This includes the impact of moving to the updated equalisation benchmark.

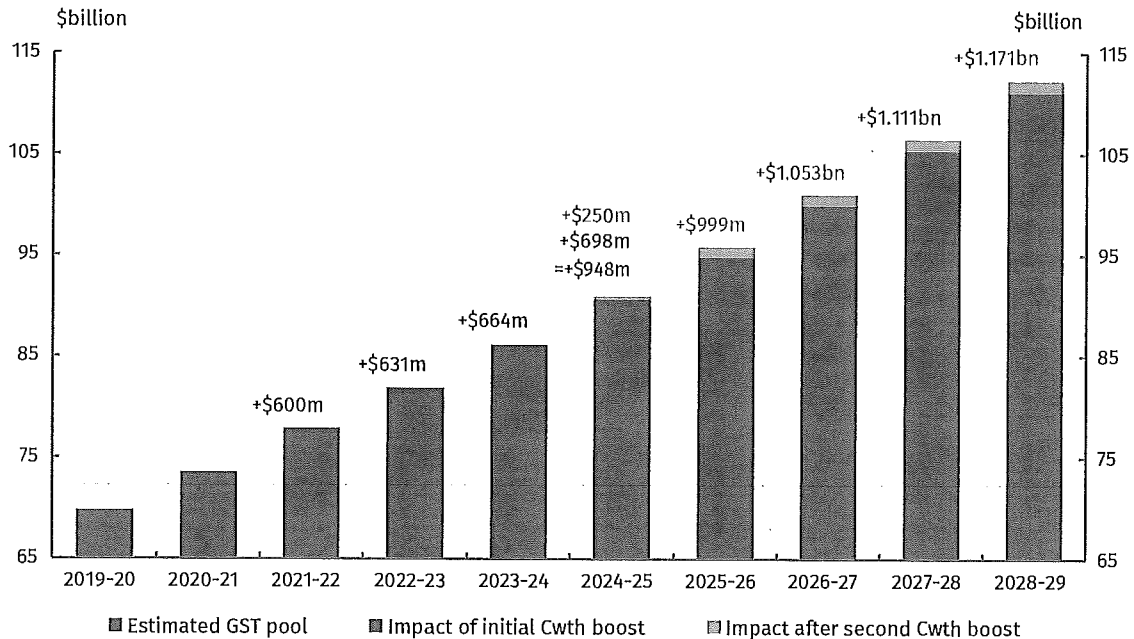
* This includes a further top up payment of \$305 million in 2021-22 to ensure WA's relativity of 0.70 is maintained.

Totals may not sum due to rounding.

Table 6: Expanding the base

\$m	Estimated GST Pool	Commonwealth Boost	Boosted GST Pool	Additional Funding Due to Boost
2018-19	67,320		67,320	0
2019-20	69,790		69,790	0
2020-21	73,510		73,510	0
2021-22	77,270	600	77,870	600
2022-23	81,250		81,881	631
2023-24	85,450		86,114	664
2024-25	89,950	250	90,898	948
2025-26	94,770		95,769	999
2026-27	99,900		100,953	1,053
2027-28	105,340		106,451	1,111
2028-29	111,080		112,251	1,171

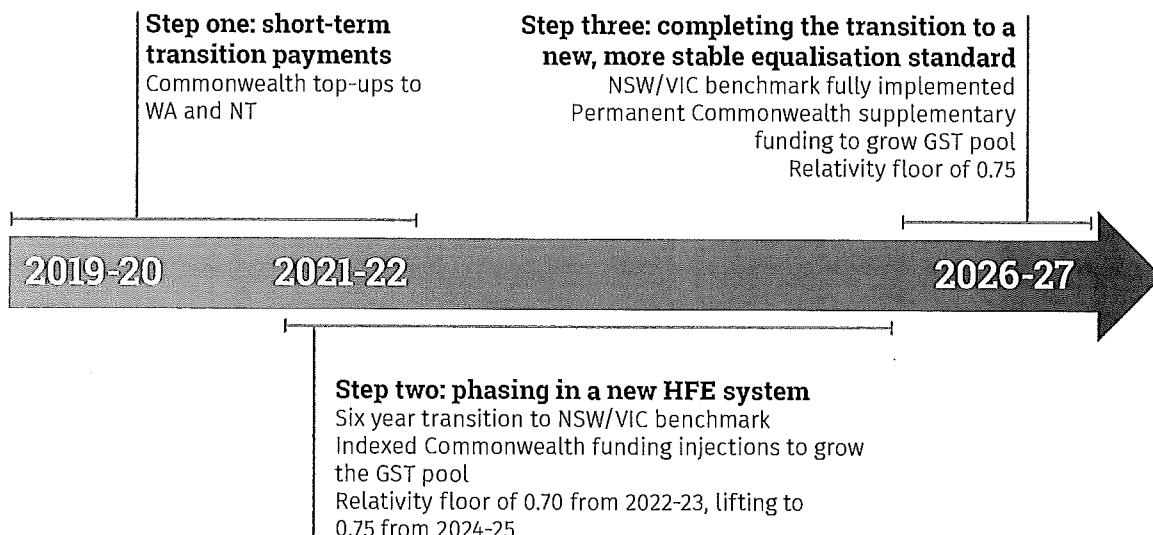
Figure 8: Projected GST distribution pool



Step three: completing the transition to a new, more stable equalisation standard

By 2026-27, the system would have fully transitioned to the new, more stable benchmark in a way that is fair, reasonable and sustainable for all States and Territories. The

Commonwealth Government would continue to boost the GST pool to ensure that all States and Territories would be better off, with additional funding every year from 2021-22 to deliver essential services. A 0.75 within-system relativity floor would be a permanent feature of the HFE system.



Consultation with the States

Consultation with the States is an important part of our Federal Financial Framework. The Government will be consulting with all States and Territories on its plan to transition the HFE system to a new equalisation standard in the coming months.

These consultations will be progressed through CFFR. The Government will convene a special meeting of CFFR to discuss this proposal no later than September this year.

As a first step, the Government will seek agreement to implement the majority of the PC's recommendations that can and should be implemented immediately. The Government hopes to agree details of the new HFE benchmark and boosted GST pool by the end of 2018.

Appendix A

Productivity Commission's Final Report: Recommendations

Recommendation	Interim response
<p>Recommendation 6.1: The objective of the HFE system should be refocused to provide the States with the fiscal capacity to provide services and associated infrastructure of a reasonable (rather than the same) standard.</p> <p>The Commonwealth Government should set this revised objective of HFE.</p> <p>The Treasurer should present the revised objective to the Council on Federal Financial Relations.</p> <p>Following this, the Treasurer should reissue the terms of reference to the CGC for the 2020 methodology review to reflect the new objective.</p> <p>The terms of reference for all future relativity updates and five-yearly methodology reviews should reflect this revised objective.</p> <p>The Intergovernmental Agreement on Federal Financial Relations and the <i>Commonwealth Grants Commission Act 1973</i> (Cwlth) should also be amended to reflect the revised objective.</p>	<p>Accept, subject to consultation with the States.</p> <p>The Government agrees the HFE objective should be refocused to provide States with the fiscal capacity to provide services and associated infrastructure at a <i>reasonable</i> standard, rather than the <i>same</i> standard.</p> <p>Defining the HFE objective in this way would recognise that there is false precision in the current system. The current system does not actually achieve full equalisation due to data limitations, time lags, and other anomalies. Importantly, reasonable equalisation would reduce volatility in the GST system, which has been greatly exacerbated by the mining boom.</p> <p>The Government agrees that the objective of HFE should be defined in consultation with the States, and included in the terms of reference issued to the CGC for calculating the GST relativities.</p> <p>The Government notes that while the Intergovernmental Agreement on Federal Financial Relations and legislation could also be amended to include the HFE objective, these are not necessary prerequisites to including the objective in terms of reference to the CGC.</p>
<p>Recommendation 6.2: The CGC — through its Chairperson and Commission members — should provide a strong neutral voice, to facilitate a better informed public discourse on the HFE system.</p>	<p>Accept, subject to consultation with the States.</p> <p>The Government supports the CGC adopting a greater public educational role. As the subject matter experts, the CGC could help improve understanding of the system which is currently very low, and mitigate the potential for misunderstandings to develop.</p>

Recommendation	Interim response
<p>Recommendation 6.3: The CGC should strengthen its formal interactions with the State and Commonwealth Governments. In particular, when requested by a State Government, it should provide provisional 'draft rulings' on the HFE implications of a policy change.</p>	<p>Accept, subject to consultation with the States.</p> <p>The Government notes that the CGC already has strong relationships with the States, including through written papers, informal staff engagements, and formal State visits. Nonetheless, the Government supports the CGC further strengthening these interactions, including by providing States with draft rulings.</p> <p>Draft rulings could provide the States with greater transparency and certainty on the GST impacts of reform, and may further encourage States to pursue beneficial reforms.</p>
<p>Recommendation 6.4: The Commonwealth Government, in consultation with the States, should develop clear guidelines detailing the basis on which Commonwealth payments are to be quarantined from HFE by the Commonwealth Treasurer (so that they do not unnecessarily erode the efficacy of the CGC's relativities and compromise the objective of HFE).</p> <p>The guidelines should strike a balance between enhancing accountability and transparency, while not unduly affecting the Treasurer's ability to quarantine payments in exceptional circumstances that are in the national interest.</p>	<p>Accept, subject to consultation with the States.</p> <p>The Government supports the development of guidelines that provide an equal playing field for all States. However, the Government notes that there are also sometimes exceptional circumstances where the Commonwealth must act in the national interest.</p>
<p>Recommendation 6.5: The Commonwealth Government should strengthen the CGC's decision-making framework. In particular:</p> <ul style="list-style-type: none"> the Commonwealth Treasury should provide input, including public submissions, to the CGC's five-yearly methodology review process, drawing upon its community-wide perspective the Commonwealth Treasurer should nominate specific areas of focus for the CGC in the terms of reference for the five-yearly methodology reviews, following (as is currently the case) consultation with the States. 	<p>Accept, subject to consultation with the States.</p> <p>The Government supports the Commonwealth Treasury providing the CGC with more input, where this would contribute additional value to the CGC.</p> <p>The Government also agrees to consider whether there are specific areas that the CGC should focus on during methodology reviews, when developing these terms of reference.</p>
<p>Recommendation 6.6: The CGC should immediately and systematically make the data provided by the States publicly available on its website, along with the CGC's calculations on these data.</p>	<p>Accept, subject to consultation with the States.</p> <p>Consistent with our 'open data' policy, the Government supports the public dissemination of more data. However, such data must be released responsibly, and address concerns such as privacy, commercial sensitivities and/or the possibility for the data to be misinterpreted.</p>

Recommendation	Interim response
<p>Recommendation 7.1: The Commonwealth Treasurer should direct the CGC (in accordance with the refocused HFE objective) to:</p> <ul style="list-style-type: none"> • examine simpler and more aggregated revenue and expenditure assessments that use more policy-neutral indicators, consistent with achieving a reasonable standard of services • adopt significant increases in materiality thresholds, which would assist in determining and applying more policy-neutral category level indicators. <p>This initial direction should be embedded in revised terms of reference for the CGC's 2020 methodology review.</p>	<p>Accept, subject to consultation with the States.</p> <p>The Government agrees there is merit in exploring the use of more policy-neutral indicators. These indicators would simplify the HFE system and could reduce disincentives for States to pursue beneficial policy reforms.</p> <p>The Government also agrees there is merit in raising the materiality thresholds within assessments, which would simplify the system and ensure that only the most important factors are considered in assessing State's relative fiscal capacities.</p> <p>The Government notes that the CGC is currently undertaking a major methodology review, which could provide an ideal opportunity to thoroughly explore these issues.</p>
<p>Recommendation 8.1: The Commonwealth Government should transition Australia's system of HFE towards equalisation to the average (pre-GST) fiscal capacity of all States, with the remaining GST revenue distributed on a per capita basis.</p>	<p>Support instead adopting an alternative benchmark that would ensure the fiscal capacity of all States is at least the equal of NSW or Victoria (whichever is higher), subject to consultation with the States.</p> <p>The Government agrees that the HFE system should strive for reasonable equalisation, but we do not consider that the ETA benchmark is in the national interest.</p> <p>ETA, even with an extended transition, would result in very significant redistributions of the GST away from the fiscally weakest States, compromising the principle of HFE and the ability of States to provide essential services to their citizens.</p> <p>The Government's preferred approach is to equalise to the stronger of the two largest States (NSW or Victoria). The Government will consult on this new benchmark with the States. Any new benchmark adopted should improve the system's ability to deal with external shocks, and provide the States with greater certainty and predictability in their year-on-year GST payments.</p>

Recommendation	Interim response
<p>Recommendation 9.1: Improvements to the HFE system can only go so far.</p> <p>The Commonwealth and State Governments, through the Council on Federal Financial Relations and recently formed Board of Treasurers, should work towards meaningful reform to federal financial relations.</p> <p>In the first instance, the process should:</p> <ul style="list-style-type: none"> • assess how Commonwealth payments to the States — both general revenue assistance and payments for specific purpose — interact with each other, given the significant reforms to payments for specific purposes that have occurred in recent years • develop a better-delineated division of responsibilities between the States and the Commonwealth and establish clear lines and forms of accountability. Policies to address Indigenous disadvantage should be a priority. <p>Following this, options to address the vertical fiscal imbalance should be considered and advanced.</p>	<p>Accept in-principle, subject to consultation with the States.</p> <p>Commonwealth-State relations are fundamental to the smooth operation of our country. To ensure this relationship continues to remain effective, we should constantly review and refine it.</p>

GST Distribution Review Final Report, October 2012: Recommendation

<p>Recommendation 3.2 on rounding relativities: To ensure the system does not appear to be falsely precise, the Panel recommends that relativities produced from the CGC's process be rounded to two decimal places in the annual Updates and Reviews.</p>	<p>Accept, subject to consultation with the States.</p> <p>In addition to the PC's Recommendations, the Government agrees that implementing this additional recommendation from the 2012 GST Distribution Review would further address false precision in the system.</p>
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Productivity Commission's Final Report: Findings

The Government broadly accepts all the Productivity Commission's findings.

Finding 2.1: Australia achieves a high degree of horizontal fiscal equalisation and to a much greater extent than other countries. It is the only OECD country with a federal government that seeks to fully eliminate disparities in fiscal capacity between sub-national governments.

Finding 3.1: Most State tax reforms would have limited impacts on the GST distribution. However, there are circumstances where the GST effects can be material — such as for a State undertaking large scale tax reform — and act as a significant disincentive for States to implement efficient tax policy. These disincentives are likely to be exacerbated where the State is a first mover on reform or where there is uncertainty about how significant tax changes will be assessed by the CGC.

Finding 3.2: Changes in State service delivery policies can impact on GST payments, but the impacts are mostly trivial. HFE is unlikely to directly discourage — nor encourage — States from improving the efficiency of service delivery or addressing their structural disadvantages, given the broader and more significant benefits of doing so to the community. Accountability for policy outcomes — which is lacking — is a much greater driver of expenditure choices.

Finding 3.3: The potential for HFE to distort State policy is pronounced for mineral and energy resources. While there is limited direct evidence that GST effects have influenced specific policy decisions, the incentive effects for some States are palpable and have the potential to undermine State policy neutrality.

However, making adjustments to the HFE system specifically to add incentives (rather than remove disincentives) for desirable resource exploration policies, or to singularly remedy disincentives for mining taxation, would not advance policy neutrality, would be a source of additional complexity, and come at the expense of fiscal equality.

Finding 4.1: Features of Australia's HFE system can exacerbate the fiscal impact of economic cycles when States experience large economic shocks. Such a situation recently occurred in Western Australia.

However, offsetting cyclical influences on State budgets is not the primary objective of HFE, and options to improve contemporaneity do not offer unequivocal improvements.

- Reducing the length of the assessment period would have mixed impacts across States, and may ultimately have little effect on State budget fluctuations.
- The two-year data availability lag cannot be substantially reduced without introducing additional scope for volatility and dispute.

The most effective response to a lack of contemporaneity lies with the States themselves, and with the necessity for State Treasuries to factor the assessment period and GST lag into their budget management processes (which most do).

Finding 4.2: Volatile State revenues can contribute to uncertainty in budgeting processes. Compared with other sources of State Government revenue, GST payments are relatively stable and in some cases may offset volatility from other revenue sources.

Finding 5.1: Taken together, the available evidence suggests that fiscal factors (including those related to HFE) are unlikely to play a major part in interstate migration decisions. Other factors, such as differences in work opportunities between States and personal reasons, are bigger drivers of interstate migration.

Finding 6.1: While Australia's HFE system has a number of strengths, it also has several deficiencies. In particular, it can provide disincentives for desirable tax and resource development policies, and, to the extent that States do not reap much of the rewards of their own policy efforts, can detract from fairness.

Many of these concerns are due to the pursuit, above all else, of comprehensive equalisation of fiscal capacities. It is likely that opportunities are being missed to more fairly reward States for their policy efforts, and to improve efficiency and enhance the wellbeing of the Australian community over time.

Finding 7.1: The use of externally defined benchmark costs in the HFE system to assess State expenditure on service delivery would encourage greater efficiency, but faces daunting practical difficulties and a high degree of scope for dispute.

Finding 7.2: Using a single broad indicator to assess States' fiscal capacities offers considerable potential to improve policy neutrality and simplify the HFE system. However, a single indicator that accurately reflects the underlying revenue-raising capacities and expenditure needs of each State remains elusive and arguably does not exist.

Finding 7.3: The use of more policy-neutral revenue and expenditure indicators, along with significantly higher materiality thresholds, offers considerable scope to secure greater efficiency and simplify the HFE system (and therefore improve transparency and accountability), while also achieving a high degree of fiscal equality in overall State fiscal capacities.

The Commission has identified one prospective candidate — in the stamp duty tax base. But there is only limited scope to secure greater policy neutrality through this approach where it matters most — in the mining assessment.

Finding 7.4: Discounting mining (or other revenue categories) in the HFE process — or removing it entirely — is not justified and would come at a high cost to fiscal equality.

Finding 7.5: The CGC's proposal to discount revenues such that a State retains at least 50 per cent of the own-source revenue impacts of a tax or royalty rate change (net of GST payments) is an incomplete approach to mitigate policy non-neutrality in HFE. It would only address policy influence on average tax rates, not on tax bases, and only for Western Australia for the foreseeable future.

Finding 8.1: An equal per capita approach to the distribution of GST revenue is incapable of providing States with the fiscal capacities to deliver a reasonable standard of services. It is thus inimical to the fiscal equality rationale underpinning HFE.

Finding 8.2: An equal per capita with top-up funding approach for distributing GST revenue could provide all States with the fiscal capacity to deliver a reasonable standard of services, depending on the level of top-up funding. While this would meet the fiscal equality rationale underpinning HFE, the top-up funding would always be subject to the vagaries of the Commonwealth budget. It should only be considered in the context of broader reform to federal financial relations that generate compensating benefits.

Finding 8.3: The introduction of a relativity floor would blunt the equalisation task and introduce greater incentives for policy effort for the beneficiary State(s) — Western Australia for the foreseeable future. But a floor represents a band-aid solution, as it is not well targeted to broader efficiency and fairness problems.

Finding 8.4: No alternative benchmark for equalisation is unambiguously superior to any other. All have costs and benefits that are difficult to comprehensively identify, let alone quantify. Determining which alternative benchmark is most likely to provide the greatest net benefit — the right balance — involves judgment about whether the benefits of greater policy neutrality (efficiency) and reward for policy effort and risk taking (fairness) outweigh the fiscal equality impacts.

Overall, equalising to the average (pre-GST) fiscal capacity of all States is judged to provide a better balance than the current benchmark and is thus a preferred alternative.

- It offers the greatest incentives for some States (but not all) to undertake efficiency-enhancing tax reform and broadly reduces policy non-neutrality with respect to the mining revenue assessment.
- It is less susceptible to fiscal outliers and therefore provides a more stable basis for deriving GST relativities.

The impacts on fiscal equality are expected to be modest and manageable, especially when implemented through a carefully designed transition.

Finding 9.1: There are many ways a new equalisation benchmark could be phased in. The most effective transition approach is one that:

- enables States to manage their budgets during the current forward estimates period and plan for changes over the longer term
- is fiscally sustainable for all governments, in that it is funded through the GST pool (in effect, by the States that benefit from the change) and not from outside the pool
- delivers the benefits of the new benchmark in a timely manner.

Either a four year or eight year transition path to ETA is judged to be manageable for the States. A four year transition would deliver the benefits of reform more quickly, but an eight year transition provides greater latitude to deal with unexpected changes in the future fiscal circumstances of the States. By delaying the full implementation of ETA, both approaches are effectively funded from within the GST pool by the States that stand to benefit the most.

An eight year transition would also provide more time for State and Commonwealth Governments to negotiate broader reforms to federal financial relations, which could potentially alleviate any residual ongoing adverse fiscal impacts on States from the new benchmark.

Mazibuko, Zov (DTF)

From: Raymond, Greg (DTF)
Sent: Monday, 16 July 2018 10:30 PM
To: Robertson, Julian (DTF)
Cc: Hocking, Stuart (DTF); Collins, Mark (DTF); Mazibuko, Zov (DTF)
Subject: Submissions to the Commonwealth Grants Commission

Hi Julian

The Commonwealth Grants Commission (CGC) is currently undertaking a scheduled review of the methodology it uses to calculate the recommended GST shares of the states and territories. Method reviews are undertaken every five years, and the current review is scheduled to conclude in early 2020. Any changes from the review won't come into effect until the 2020-21 financial year.

The CGC's 2020 Review is separate from the Productivity Commission's Horizontal Fiscal Equalisation (HFE) Inquiry and Commonwealth response. It is currently proceeding on a "business as usual" basis until instructed otherwise by the Commonwealth Treasurer. As such, at this stage the CGC will not factor in any of the PC's recommended changes to HFE – the review is focused on the current assessment approach under the existing full HFE approach only.

CGC method reviews largely involve the CGC preparing discussion papers on technical issues and inviting state responses through written submissions. We have so far provided two submissions to the CGC as part of the current review (submitted in July and August 2017). Given the technical nature of these submissions, in the past they have been badged as DTF (not SA Government) submissions, which meant they did not go to Cabinet for noting before being submitted.

The CGC recently distributed a range of Draft Assessment Papers covering its proposed changes to aspects of its revenue and expenditure assessments (25 papers in total). States have been asked to provide submissions on these papers by the end of August.

Could you please advise if the Treasurer is comfortable for us to proceed on the same basis as previous submissions to the CGC, with the submissions provide by DTF and not going to Cabinet? We could provide a draft submission to the Treasurer for review prior to sending it to the CGC, if that is preferred.

Happy to discuss in more detail.

Thanks,

Greg Raymond

Director | Revenue & Intergovernmental Relations | Budget and Performance Branch

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 Department of Treasury
 and Finance



Hocking, Stuart (DTF)

From: Hocking, Stuart (DTF)
Sent: Wednesday, 27 June 2018 1:35 PM
To: Robertson, Julian (DTF)
Subject: Fwd: PC report on HFE [SEC=UNCLASSIFIED]
Attachments: 177V1520.pdf; ATT00001.htm

FYI

Sent from my iPhone

Begin forwarded message:

From: "Raymond, Greg (DTF)" <Greg.Raymond@sa.gov.au>
Date: 27 June 2018 at 12:34:15 pm ACST
To: "Reynolds, David (DTF)" <David.Reynolds@sa.gov.au>, "Hocking, Stuart (DTF)" <Stuart.Hocking@sa.gov.au>, "Pribanic, Tammie (DTF)" <Tammie.Pribanic@sa.gov.au>
Cc: "Collins, Mark (DTF)" <Mark.Collins@sa.gov.au>, "Mazibuko, Zov (DTF)" <Zov.Mazibuko@sa.gov.au>
Subject: FW: PC report on HFE [SEC=UNCLASSIFIED]

FYI – Cwlth still not clear on date of information on PC report, but appears to be soon.

Greg Raymond
 8226 9537

From: Gardner, Michael [mailto:Michael.Gardner@TREASURY.GOV.AU]
Sent: Wednesday, 27 June 2018 12:30 PM
To: 'John Purcell' (John.Purcell@act.gov.au) <John.Purcell@act.gov.au>; Laurie, Kirsty <kirsty.laurie@treasury.wa.gov.au>; 'Nardia.Harris' (nardia.harris@nt.gov.au) <nardia.harris@nt.gov.au>; Natalie Horvat (natalie.horvat@treasury.nsw.gov.au) <natalie.horvat@treasury.nsw.gov.au>; Fiona Calvert (fiona.calvert@treasury.tas.gov.au); Raymond, Greg (DTF) <Greg.Raymond@sa.gov.au>; David Runge (david.runge@treasury.qld.gov.au) <david.runge@treasury.qld.gov.au>; Andrew Witchard (andrew.witchard@dtf.vic.gov.au) <andrew.witchard@dtf.vic.gov.au>
Cc: Le Cerf, Lauren <Lauren.LeCerf@TREASURY.GOV.AU>
Subject: PC report on HFE [SEC=UNCLASSIFIED]

Hi all,

I appreciate there has been speculation in the press about the release of the PC report on HFE. Unfortunately, I'm still not in a position to confirm exact details as to when this will be released but, as soon as I have them, I will let you know.

In the meantime, in case you hadn't seen it, I'd draw your attention to the attached transcript where the Treasurer indicates he will say more at the end of this week about his plans for releasing the document. In particular:

QUESTION: When the PM was in Tasmania a fortnight ago he said that the PC report into the GST and the Government's response will be out by the end of the month. Are you going to meet that deadline?

TREASURER: I will have more to say about that over the balance of this week, but the Government is preparing its response to the PC Commission report. I think it will be

important for these things to be considered at the same time, but I will have a bit more to say about the timing of that later in the week.

Either at that time or shortly before, I expect we'll be able to talk to you about how the States will get access to the report.

Please feel free to call me in the meantime.

Regards

Michael Gardner

Acting Division Head, Commonwealth-State Relations Division

Commonwealth-State Relations Division

The Treasury, Langton Crescent, Parkes ACT 2600

phone: +61 2 6263 3082

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The Hon. Scott Morrison MP
Treasurer

TRANSCRIPT
DOORSTOP INTERVIEW, CANBERRA
TUESDAY 26 JUNE 2018

E&OE

Subjects: Labor's latest job destroying business tax hike; Enterprise Tax Plan; GST; energy.

TREASURER: Bill Shorten and Labor have confirmed again today that Labor is for higher taxes. What he has said today is that he is not only going to roll back tax relief of \$70 billion on Australians paying income taxes. He is going to roll back tax relief to help medium-sized businesses, many of whom are actually small businesses with a turn-over of up to \$50 million and higher than \$10 million, he is going to roll back their tax relief as well and make them less competitive. He still hasn't confirmed what he is going to do for businesses between \$2 and \$10 million. In the Budget, the estimates that he presented would indicate that he's still going to roll back the tax relief for businesses of greater than \$2 million as well. But for those who he particularly targeted today, of whom he is going to steal back the tax relief which was legislated by this Parliament, there are some 20,000 businesses between \$10 and \$50 million. There is, on average, 75 employees in those businesses. This is terrible news for 1.5 million Australians who work in those businesses that will have to face higher taxes under Labor if Labor is elected.

How Labor thinks taxing those businesses with an average of 75 employees is going to help those businesses actually go out there and compete and make their way ahead is beyond me. I think it just demonstrates how Labor just don't get it when it comes to having plans for a stronger economy. Labor used to talk about the ladder of opportunity. We all remember that. They used to talk about the ladder of opportunity. Well, under Bill Shorten, under the Labor Party today, what we have is the snake of envy. This is a snake and ladders game under Labor. It used to be the ladder of opportunity and now it is the snake of envy under Bill Shorten. Australians will slide down under Labor. They will slide down. They will either pay those taxes directly in higher taxes, as we know more than \$200 billion in higher taxes on the economy, or they will pay for them through the suffocation of the economy through higher taxes.

Now, these companies are not multinationals. You have heard me often talk about Coxon's Radiators up in Rockhampton. A business that only has 35 employees, they have a turn-over of just under \$50 million – a successful business in regional Australia in Central Queensland. Bill Shorten thinks that Coxon's Radiators should pay a higher rate of tax – a mum and dad, a grandmum and granddad actually, business. The sons are working in the business. They are out there doing their bit for their family, for their community, for their country and Bill Shorten's present for Coxon's Radiators is a kick in the guts of higher taxes.

Bill Shorten talks about the 'top end of town', by refusing to support lower taxes for businesses, more competitive taxes for business, all he is doing, he's saying to the top end of town in Manhattan, in San Francisco, in Dallas, in Houston, in Singapore, in Hong Kong, in Paris, in Frankfurt, in London, what he is saying is that companies that are based there, they can enjoy lower rates of tax, more competitive taxes, but Australian businesses in Rockhampton, in Bunbury, in Broome, down in Victoria, in the electorate of Corangamite and Geelong, in Hobart, up in Burnie, up there in

north Brisbane in the electorate of Longman – they have to pay higher taxes to compete with those other countries. When it comes to a plan for a stronger economy, Labor just don't get it. They have cut the cord on any connection that they ever had to economic credibility and today's announcement I think just confirms that fact.

Now, it is also clear that this seems to be a captain's call from Bill Shorten. Shadow Cabinet, to the best of my knowledge, hasn't met to actually make this decision. The party room, I understand their Caucus has not met to confirm this decision or make this decision. He gets under a bit of pressure from Anthony Albanese and he runs out, after giving a speech, and makes a unilateral call on what he is doing with tax policy. You can't trust this guy with tax. You can't trust this guy with anything. He has taken Mark Latham's ladder of opportunity and turned it into a snake of envy and that tells you everything you know about how shift Bill Shorten is.

QUESTION: Could you tell us what those tax cuts are worth in terms of a cost to the Budget and what it is that Labor looks like it wants to undo?

TREASURER: First of all, I don't consider tax relief a cost to the Budget. I consider that hard-earnings of businesses being able to keep what they earn, as you know. I make that point. But the revenue estimate, as best we can determine, splitting out the \$10 to \$50 would be upwards of \$20 billion.

QUESTION: Can you confirm the number of businesses [inaudible]?

TREASURER: About 1.5 million...

QUESTION: But 20,000...

TREASURER: ..That's employees, 20,000 businesses.

QUESTION: I thought it was about 14,000.

TREASURER: No, it's 20,000 both incorporated and unincorporated.

QUESTION: Treasurer, that is a \$20 billion war chest that Labor can now spend on health care and schools and tradies, as Bill Shorten says. Are you worried this is giving them a real election footing?

TREASURER: They'd already put this in their costings. They actually put in their last set of costings that you have seen, the full abolition of the Enterprise Tax Plan. So, if they are actually now shrinking what they are proposing to do, they would actually have less revenue than they were thinking about before. They already have a \$10 billion black hole in what they are saying they will get out of the retirees tax. So, the tax house of cards that Chris Bowen has built is actually crumbling and starting to fall over. So, I will let him explain his numbers because he's the one who has got to justify that to the Australian people. Australians don't trust Labor when it comes to finances. Bill Shorten will say anything and do anything and then Chris Bowen will stand there beside him looking like a numpty trying to make out that it all adds up. Australians get it. They can see it. They don't trust these guys with the economy or their own money and the roll back of tax relief that Labor are now proposing – a \$70 billion roll back on personal income taxes. Vote Labor and pay higher tax. Roll back on making business taxes more competitive for companies with an average size of employees of 75. Give me a break, they are not multinationals. This guy needs to get out more!

QUESTION: Treasurer, just on company tax cuts in the Senate, would you be willing to agree to Derryn Hinch's proposal?

TREASURER: We don't negotiate through the media when it comes to the Enterprise Tax Plan.

QUESTION: When the PM was in Tasmania a fortnight ago he said that the PC report into the GST and the Government's response will be out by the end of the month. Are you going to meet that deadline?

TREASURER: I will have more to say about that over the balance of this week, but the Government is preparing its response to the PC Commission report. I think it will be important for these things to be considered at the same time, but I will have a bit more to say about the timing of that later in the week.

QUESTION: Tony Abbott has confirmed he'll still cross the floor against the NEG, is he and other Coalition MPS wrecking the Government's chances of energy policy certainty?

TREASURER: I think everyone's jumping the gun on that. Let's just see what happens.

QUESTION: Just back on the GST, could you confirm at least that the Government's response to the report will involve a reshaping of the carve-up?

TREASURER: Well, what I'll confirm is that the Government will have a response and the nature of that response will be released at that time. But what I can say is the Government has been working very carefully, over a long period of time and we appreciate the good work of the Productivity Commission that has identified that there's a real problem that needs to be fixed...

QUESTION: But there is a [inaudible] problem...

TREASURER: I haven't finished my answer yet. We'll be working to fix that problem but we'll be working to be doing it in a way that we ensure that the impact on other states, there won't be such an impact on other states and territories. That's why we're working carefully on this issue. So we're taking our time to get it right and we'll continuing to take the necessary time to get it right.

QUESTION: So you're taking a no-losers approach? Is it a no-losers approach?

TREASURER: Our response will be announced when it's announced and then you can report on what's announced.

QUESTION: Just back on the company tax cuts, you previously argued that banks shouldn't be exempt from the company tax cut, is that still your view?

TREASURER: We believe the Enterprise Tax Plan should apply across all businesses. As you know, by the time that there are reductions in company taxes for businesses at that level, the banks would have already paid some \$16 billion in the bank levy which basically completely wipes out any benefit that they would directly receive from a lower tax rate so...

QUESTION: You wouldn't carve them out?

TREASURER: Sorry?

QUESTION: You wouldn't carve them out?

TREASURER: We believe the Enterprise Tax Plan should apply across all businesses and there's a simple reason: small businesses do business with large businesses. I mean, take Qantas for example, they have like 13,000 small business suppliers. How do they do better with Qantas if Qantas is paying higher taxes? I've never understood the argument for taxes remaining high. It's bad enough that there seems to be some view in the Labor Party – even though, as we all know, they used to support these changes – that if you ask businesses, demand, mandate them to pay higher taxes, how

that actually helps them to be more competitive, how it actually helps them employ more people to increase wages, to increase productivity. I don't understand the argument which says, "pay the Government more tax and you'll do better and the economy will be better off." But what's even worse is that the global movement in taxes on business around the world is down and if our businesses remain where they are, we will have the second highest tax rate for business in the OECD. Now, when it first came down – both under Treasurers and Prime Minister Keating and under Treasurer Costello – there were 19 countries that had taxes higher than us. There'll only be one and how long will that last? They want to leave us up there in the stratosphere of higher taxes for our businesses and not afford them relief – even for businesses with a turnover between \$10 million and \$50 million. This is a naked tax grab to go and spend money all over the shop in some sort of big political cash splash. That's what Bill Shorten wants. He wants a big chest to just splash cash all over the country, to pursue only one interest and it isn't the national interest, it's his own political interest.

QUESTION: Treasurer, one of the things that keep business awake at night is energy policy – or the lack of it over the last decade – prices volatility. Clearly from today's meeting, across all sectors they are very anxious that this issue is settled and there is agreement reached. What is your message to your own colleagues who are opposing the NEG or want to oppose the NEG? What is your message to them?

TREASURER: Well, the Government's message is quite simple. We're turning the corner on energy prices. There's still a long way to go but we're turning the corner on electricity prices and we've seen that in the modest change we've seen in the most recent announcements but it is important to have certainty regarding energy policy in the future. The politics and the ideology and the idiocy, as the Prime Minister says, of times past – you know – we're going to rule a line on it and we've got to provide that certainty for the future. That's what brings electricity prices down and we've heard that from some of the biggest energy consumers in Australia today, speaking to my colleagues and I think they've had an unequivocal and unanimous message in that this is an important change that will actually reduce costs for business and make sure that business is more competitive. So, I think that's a fairly compelling point that's been made. There's another part to this too and that is, under the emissions reduction target that Labor are talking about at 45 per cent, and their other reckless target of 50 per cent on renewable, I mean, that will only drive electricity prices up. So, just like on taxes, where it's higher taxes under Labor, it's lower taxes under the Coalition. It's higher electricity prices under Labor, it's lower electricity prices under the Coalition. Australians will pay more under Labor.

QUESTION: Just back on the banks, Treasurer, will you consider increasing or extending the bank levy to perhaps get Derryn Hinch on board?

TREASURER: My views on the bank levy I stated at the time and we're not changing...

QUESTION: Treasurer, just on Labor's announcement on company taxes today, will the Government still be putting the company tax package to a vote in the Senate?

TREASURER: We're fully pursuing our Enterprise Tax Plan. Nothing's changed on that. We remain committed to this. We don't flip and flop on these things. We know what we believe is right for the economy. We took this to an election. I put it in the 2016 Budget and we went to an election and I stood everywhere from Burnie to Townsville and over in the West and said, "This is what's right for the Australian economy." And we've delivered that tax relief for businesses up to \$50 million which Bill Shorten wants to reach in and rip back out of those businesses. We believe that relief should be there right across the economy for one simple reason: we know it will drive jobs, we know it will drive growth and you want hospitals and schools – which we want – and a disability care system and a Pharmaceutical Benefits system, all of these things. They all depend on a stronger economy and what this has demonstrated today, is Bill Shorten cannot be trusted to deliver a stronger economy.

He doesn't know how to deliver a stronger economy. His decision today punishes those who depend on a stronger economy. People on welfare, people receiving a pension, people getting more affordable medicine, people getting larger, affordable childcare rebates as a result of what happens in just a week or so's time, that all depends on a stronger economy. Bill Shorten cannot give you that. He will just give you his snake of envy. Thank you.

[ENDS]

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