



ACT
Government

Chief Minister, Treasury and
Economic Development

Our ref:
Your ref:

Mr Michael Wilcox
Secretary
Commonwealth Grants Commission
Second Floor, Phoenix House
86-88 Northbourne Avenue
BRADDON ACT 2612

Dear Secretary

ACT Response to the Principle of HFE and its Implementation

I am pleased to forward to you the attached submission to the Commonwealth Grants Commission (Commission) 2020 Methodology Review (2020 Review) as requested by the Commission by email dated 12 May 2017 from Mr Anthony Nichols, Assistant Secretary.

The submission responds to all the major issues outlined in the Commission Staff Discussion Paper CGC 2017-02-S titled "*The Principle of HFE and its Implementation*". In preparing the Australian Capital Territory's (ACT) response, the three accompanying Staff Research Papers were heavily relied upon and we thank the Commission staff for its initiative, namely:

- CGC 2017-03-S Achieving HFE – Other approaches to distributing the GST;
- 2017-04-S State mining policies; and
- 2017-05-S Options for improving contemporaneity.

We consider that the papers achieved the objective of drawing out the discussion at hand; how the Horizontal Fiscal Equalisation (HFE) framework has responded to changing economic circumstances and importantly, what considerations for the future need to be addressed in this review. We have responded accordingly.

As you would also be aware, the ACT has, in parallel, forwarded a submission to the Productivity Commission (PC) tasked with reviewing the economic effects of HFE. That submission is on the PC website.

It would be no surprise to you that many of the issues covered in the ACT PC submission equally apply to matters raised by the Commission in the Staff Discussion Paper. We consider the staff papers cover most of the issues canvassed in the PC issues paper which parties were asked to address in their respective submissions.

Consequently, I agree with the Commission's view in the Staff Discussion Paper that its consideration of the HFE objective and the issues associated with its implementation in the context of the 2020 Review will complement and assist the PC's work in responding to its terms of reference (ToR). In that context, I would urge the Commission to publish its views on the HFE objective and its implementation, based on the current *Intergovernmental Agreement on Federal Financial Relations* and ToR, by the end of September 2017 as suggested.

Finally, I also acknowledge the expressed intention of the Commission to provide further opportunity for views on its approach to the 2020 Review – the objective(s), supporting principles and their implementation – to be expressed after the PC has reported and the Commonwealth Government has dealt with its findings.

I look forward to meeting with you again in conjunction with the Commissioners and the Chief Minister and Treasurer, Mr Andrew Barr, MLA, on 22 August 2017 as part of the consultation process of your inquiry.

Yours sincerely



David Nicol
Under Treasurer

27 July 2017