



**Australian Government**  
**Productivity Commission**

15 March 2019

The Inquiry Secretary  
Legislate Council Government Administration Committee 'A'  
Inquiry into the Horizontal Fiscal Equalisation System  
Legislative Council  
Parliament House  
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Dear Hon. Ruth Forrest MLC,

*Re: Inquiry into the Commonwealth Grants Commission Horizontal Fiscal Equalisation System*

Thank you for your letter dated 28 February 2019 inviting the Productivity Commission to contribute a submission, or appear in person at a public hearing to your inquiry into the Commonwealth Grants Commission (CGC) Horizontal Fiscal Equalisation (HFE) system.

The Productivity Commission's (PC) recent report on the HFE system was publicly released on 5 July 2018 and is available from: <https://www.pc.gov.au/inquiries/completed/horizontal-fiscal-equalisation#report>.

The terms of reference for the PC inquiry asked two broad questions. The first was to examine how the current HFE system impacts on the Australian community, economy and State and Territory governments, and the second was to investigate whether there are preferable alternatives to the current system of HFE.

Our report deliberately avoided delving into the fine detail of CGC practice and method, which is part of the focus of your inquiry as is, as you are aware, the CGC's ongoing review of its calculation methodology. However, we did consider elements of the HFE methodology that could materially impact on policy neutrality (see, in particular, chapters 3 and 7).

We also gave some consideration to the second aspect of your inquiry concerning the impact of direct Commonwealth payments (for example, Specific Purpose Payments and National Partnership Payments) on the GST distribution. They are discussed, including a specific recommendation (6.4) in Chapter 6 (pp. 185 – 188) of the report and in more detail in Appendix B (pp. 293-303).

I hope this is of assistance to your inquiry process.

Yours sincerely

Jonathan Coppel  
Commissioner, Productivity Commission