



Your ref : 2016/0100
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Mr Michael Willcock
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Commonwealth Grants Commission
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Dear Mr Willcock

A handwritten signature in blue ink that reads "Michael".

RE: 2020 METHODOLOGY REVIEW WORK PROGRAM

Thank you for your letter dated 1 December 2016 providing an opportunity for input to the Commission's 2020 Review work program.

Our priority for the 2020 Review is genuine interactive engagement with the Commissioners and Commission staff. We want to be able to discuss any concerns we have on individual assessments and receive considered responses to those concerns, including to ensure we understand Commission views. This issue, and others, was set out in my letter of 26 June 2015 to the then Secretary, John Spasojevic, as feedback on the 2015 Review process.

In relation to the list of questions in your letter, we consider that the 2020 Review should begin with a reconsideration of the Commission's supporting principles, including introducing a hierarchy, through close consultation with States.

In our view, policy neutrality would be the key supporting principle on which to focus. However, we would also promote a new principle that assessments are implemented in a way that avoids creating disincentives for States to improve their own revenue generation or to make the reforms necessary to improve the operation of their economies.

In order to help inform consultation on the supporting principles, the Commission's definition of horizontal fiscal equalisation (HFE) should also be clearly outlined and linked to any new, amended, or retained principles. In its 2015 Review, the Commission clarified that it does not use the supporting principles to operationalise its definition of HFE. These are instead used to choose between methods that already are consistent with HFE. Greater clarity is therefore needed on what the Commission means by HFE and how it implements this principle in practice.

In addition, it would be helpful to confirm the Commission's assessment guidelines early in the Review.

We consider that a 'comprehensive review of methods' means a clean slate approach. With a clearly defined principle of HFE, and confirmed supporting principles and assessment guidelines, there would be a need to step back from current assessments to consider how the new assessments should be formed, including their effect on State incentives.

This could begin with a request for States to submit ideas of their choosing. As such, States could take the lead on developing some assessments in consultation with the Commission and other States. The Commission would take the lead on residual areas not adopted by States. This would be an iterative, not overly formal, approach with close engagement and discussion.

We have several issues we would like to see explored in the 2020 Review in addition to the issues identified above. They are:

- measurement of States' revenue capacities;
- contemporaneity and net revenue volatility;
- the exemption threshold adjustments for payroll tax and land tax;
- the mining revenue assessment;
- the health assessment; and
- regional costs.

Western Australia would be happy to take the lead on many of these issues.

In the spirit of genuine engagement and ongoing consultation, we would welcome a visit to Western Australia from the Commissioners to discuss a range of matters. As yet, we do not know if a tour of the State would be beneficial, but I would encourage a visit to Perth for direct discussion with me and my staff. This would afford my staff the opportunity to explain our position on issues and to better understand the Commission's position. The visit would be best utilised once new assessments are identified, but before they have started to develop a defined structure. We expect this to be in the first half of 2018.

I do not see value in multilateral meetings with Heads of Treasuries at this stage of the process. Apart from the State visit from the Commissioners, the ongoing engagement would be most usefully directed at the policy experts within the Department. Academics could be consulted as required.

The suggested timing for the draft report of June 2019 is appropriate. However, we would like the communication throughout the review to be strong, so that States remain conversant with Commission thinking throughout. This would result in a draft report that contains no surprises for States, even if there are issues that remain contentious to some States. In this regard, a visit from Commission staff following the draft report may be desirable.

Yours sincerely



Michael Barnes
UNDER TREASURER

30 JAN 2017