

Foreword from the Panel

When we were invited to undertake the task of examining the mechanism by which the Goods and Services Tax is distributed between the States, the phrase ‘no win scenario’ crossed the minds of more than one of us. The idea that a dispute over a fixed pot of money could be resolved happily, when recognising anyone’s greater claim means that at least one and possibly all others suffer, seemed unlikely from the outset. States were clearly in two distinct camps.

Nevertheless, we have thrown ourselves into the task. Over the past 18 months the Panel has met formally 26 times, usually for day-long meetings, commissioned and examined over 150 individual briefings on various topics from our Secretariat, convened a symposium for academics, reviewed about 70 written submissions, some of which run to 100s of pages, and met with every State and Territory’s representatives at least twice (in several cases through changes of government). We have felt it necessary to become deeply involved in the entrails of very intricate aspects of the system as we discovered very early that failure to grasp the detail can make progress impossible — the HFE system is not for the faint hearted.

Along the journey we have had our Terms of Reference extended into the controversial fields of State tax reform and resource taxation, produced two interim reports and we now present this final report with findings and recommendations.

We have no illusions that this report will be met with acclaim. Advocates for radical change will say we have missed an opportunity, while defenders of the system will not like our ideas for the longer term. However, we believe that, together, our three reports will make a major contribution to the debate about HFE.

In this final report we have taken pains to examine the essence of the debate about the different models of HFE, providing a relatively simple starting point for future debate. Whether the reader ultimately agrees with our conclusions or not, at least there is now the possibility of future discussion proceeding from a base of common understanding.

We have also taken the time to examine the ‘myths’ about HFE and dispel a few that have been unproductive. In our view, many of the concerns about HFE have turned out to be overstated, while others have reflected either the practical limitations of the system, or a matter of judgement about the result, rather than a proposition capable of technical proof. Still other concerns have, in the Panel’s view, represented symptoms of the present economic times rather than problems with HFE per se. This does not mean they can be ignored, but it does mean that they need to be considered in the proper context, and the responses to them need to be appropriately restrained.

Even where concerns have proven legitimate, we have carefully examined all potential solutions to these concerns to ensure that the ‘cure’ is not worse than the ‘disease’, and to consider whether any cost associated with a solution is proportionate to the benefit it is expected to bring. Comparing the costs and benefits of any proposal is not straightforward, particularly when one is dealing with a federation as diverse as

Australia's — clearly, a funding reduction that is insignificant to a large State may be devastating to one of the smaller States.

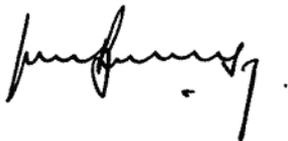
The result of all these considerations is a report containing a range of recommendations designed to improve understanding of the HFE system in Australia, increase the transparency of the process and strengthen governance arrangements.

Recommendations have been made to help simplify the system, improve the assessment of costs related to mining and also increase the stability of States' GST shares. While we have not proposed radical changes to the way GST is distributed, our report represents substantive improvements to Australia's HFE system.

We do, however, have a long term concern about the state of federal financial relations. A combination of history, constitutionality and political decisions taken over several generations has produced a situation where the States' spending responsibilities greatly exceed what they raise themselves, while the Commonwealth's revenue raising greatly exceeds its own spending 'obligations'. These circumstances, and the consequent pressures on revenue adequacy, underpin much of the current HFE debate. It has therefore proven difficult to properly consider how best to distribute the GST without also considering related aspects of the GST base itself — accordingly, we have made recommendations on that matter in this report.

As we further point out, in the longer term, the response to the States' likely future funding dilemma is not as simple as increasing the rates of existing State taxes. Without a process of national tax reform, reform of federal relations and responsibilities or collective decisions to reduce the 'size' of government, funding adequacy is set to become a more acute problem as the population ages and pressure to increase State spending grows faster than States' ability to raise revenue from their existing taxes. Moreover, the range of problems is too broad to be remedied by the States or the Commonwealth acting independently, or to be determined along party political lines — only a cooperative and coordinated national effort will maintain confidence in Australia's federal fiscal relations.

Finally, we wish to express our thanks to the Secretariat, led by Mr Paul McCullough. We simply could not have come this far without the support and assistance of the expert and experienced officers from The Treasury, the Commonwealth Grants Commission and State Treasuries to guide us past the many pitfalls.



The Hon. John Brumby



Mr Bruce Carter



The Hon. Nick Greiner AC