

WESTERN AUSTRALIAN SEPTEMBER 2009 SUBMISSION

Adjusted Budget Attachment 1 Treatment of Commonwealth Payments

WA response to Attachment 1 2010 Draft Report

From: Scherini, Alex

Sent: Monday, 17 August 2009 1:51 PM

WA preliminary views on the treatment of Commonwealth payments

As requested, please see attached an outline of our views on the treatment of Commonwealth payments. We will also give further thought to this matter, for the end-September submission and response to the New Developments paper.

WA PRELIMINARY VIEWS ON TREATMENT OF COMMONWEALTH PAYMENTS

- (I) We support the CGC being the final arbiter of the treatment of all Commonwealth payments.
 - a. This is consistent with the IGA.
 - b. However, full consultation with the States (as required by the IGA) will be very important.

- (II) In our view, Commonwealth payments that affect States' fiscal capacity in areas where needs are already assessed by the Commission, should normally affect the relativities (i.e. should be 'equalised').
 - a. Failure to equalise payments that reflect past under-investment by a State (relative to other States) would distort equalisation and create incentives for States to under-invest.
 - b. Reward payments (i.e. payments that are assessed by the COAG Reform Council for achievement of specified objectives), if included in the assessments, may need to be adjusted to reflect a policy neutral level of effort by States to receive these payments. (The 2008 Update terms of reference had an explicit 'policy neutrality' clause for non-compliance with SPP conditions.)

- (III) Payments in areas where the Commission has not, or has been unable to, assess relative needs should not affect the relativities.
 - a. This would include the East Kimberley Development project.

- (IV) We are concerned at the proposal that roads infrastructure grants should not affect the relativities. The Commission is assessing needs for roads, and we do not consider that the road grants are distributed on a needs basis.

Regards Alex Scherini