

# Department of Treasury

Mr John Spasojevic  
Secretary  
Commonwealth Grants Commission  
Cypress Court  
5 Torrens Street  
CANBERRA ACT 2612

Dear Mr Spasojevic

## **NEW ISSUES FOR THE 2009 UPDATE**

Thank you for the opportunity to provide comments on Staff Discussion Paper  
*CGC 2008/19-S: New Issues for the 2009 Update.*

Please find attached the ACT's responses to the issues raised by Commonwealth Grants Commission (Commission) staff.

Similar to Commission staff, the ACT's responses are premised on the Terms of Reference (ToR) for the 2009 Update being similar to those for the 2008 Update. However, it is noted that the ToR may change significantly given the fluidity surrounding the Commonwealth-State financial relations reforms currently being undertaken.

It could be expected that significant discussion may be required between parties regarding the financial reforms and the implications this has for the calculation of the 2009 Update relativities.

If you or your officers have any questions regarding this response, please contact Mr Andrew Philip, Manager, Commonwealth-State Finances, telephone 6207 0018, email [andrew.philip@act.gov.au](mailto:andrew.philip@act.gov.au).

Yours sincerely

*Signed*

Roger Broughton  
Executive Director  
Investment and Economics Division  
ACT Department of Treasury  
26 August 2008

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## **AUSTRALIAN CAPITAL TERRITORY**

### **RESPONSE TO THE COMMONWEALTH GRANTS COMMISSION'S STAFF DISCUSSION PAPER:**

### ***CGC 2008/19-S NEW ISSUES FOR THE 2009 UPDATE***

**August 2008**



## **Reform of Commonwealth-State Financial relations**

The ACT supports the view that the 2009 Update relativities will need to reflect the Commonwealth-State financial relations reforms as this represents a major change in arrangements.

At this stage, without ToR and given the fluidity of the reform proposals, this matter cannot be progressed until the outcomes and the implications for the Commission's 2009 Update assessments are known.

## **Treatment of New Specific Purpose Payments**

### **Specific Purpose Payments commenced in 2007-08**

While noting the absence of the outcomes arising from the reform of Commonwealth-State financial relations and the requirements of the 2009 Update ToR, the proposed treatment of new Specific Purpose Payments (SPPs) commencing in 2007-08 is supported.

## **Northern Territory Emergency Response**

While noting the absence of the requirements of the 2009 Update ToR, and consistent with the 2008 Update ToR that Australian Government grants to the Northern Territory Emergency Response have no impact on the States' relativities, the proposal to exclude these grants from the NT's revenues and expenses is supported.

## **Mersey Hospital in Tasmania**

The Commission's proposal will result in Tasmania continuing to receive additional GST funding for Mersey Hospital services, despite the Australian Government also reimbursing Tasmania for these services. This is because Tasmania's Mersey Hospital inpatient expenses and separations will be included in the inpatients assessment and yet Australian Government payments will be excluded from Tasmania's revenue.

Notwithstanding the absence of the requirements of the 2009 Update ToR, it is noted that the Commission is currently constrained from doing anything else by the ToR as consistent with the 2008 Update ToR, the Mersey Hospital arrangements are to have no impact on the distribution of GST and Health Care Grants.

## **Payroll Tax and ABS Public Sector Wages and Salaries Data**

The proposal is to use the trend increase in public sector earnings over the previous 5 years to increase the 2006-07 public sector earnings data so that a 2007-08 estimate can be derived, should ABS data on public sector earnings not be available.

While the Commission notes that public sector earnings would have been underestimated by less than 3 per cent if the proposed method had been adopted over the past 5 years, the variation between States is fairly significant – ranging from a 1.5 per cent underestimation for Qld up to a 4.4 per cent underestimation for SA and the ACT.

While ACT modelling indicates that the imputed 2007-08 public sector data will result in a redistribution that is not material (less than \$10 per capita), clearly it would be

preferable for the Commission to use the actual ABS data and continue to use the current methodology. Should these data not be available, the ACT supports the Commission's proposal.

### **Updating Wage Input Costs**

The proposal to calculate the 2006-07 and 2007-08 input costs relativities by applying the Labour Price Index (LPI) to the 2005-06 input costs relativity (based on 2005 SET data) is noted.

While there are some issues surrounding structural impacts (which appear to be minor), as well as some conceptual issues, such as the fact that using the LPI approach will not perfectly reproduce the next available SET estimate, the ACT is supportive of an approach which consistently updates the input costs relativities for all States, rather than for selective States (as occurred in the 2008 Update in the case of Qld and WA).

In this context, the proposal to use the LPI as the basis of calculating the 2006-07 and 2007-08 input costs relativities for all States is supported, subject to the Commission being confident that structural impacts can be adjusted for if their impact is significant.

### **Abolition of Stamp Duty on Non-real Business transactions in the ACT**

The Commission proposes to introduce a 1 per cent adjustment to the ACT's conveyances revenue base from 2007-08 given that stamp duty on non-residential conveyances other than real property transactions were abolished in the ACT on 1 July 2006.

While noting the absence of the outcomes arising from the reform of Commonwealth-State financial relations and the requirements of the 2009 Update ToR, the recommendation to introduce a 1 per cent adjustment to the ACT's conveyances revenue base from 2007-08 is supported until such time that the Australian average policy is not to tax these transactions.