



Australian Government

Commonwealth Grants Commission

NEW ISSUES FOR THE 2009 UPDATE

**STAFF DISCUSSION PAPER
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BACKGROUND

- 1 This staff discussion paper presents new issues for consideration by State and Australian Treasuries in the 2009 Update. Comments should be provided by 12 September 2008 to secretary@cgc.gov.au. The contact officer for queries is Robert Bourke (Robert.Bourke@cgc.gov.au or 02 6229 8880).
- 2 Proposals in this paper are made on the assumption that the terms of reference for the 2009 Update are similar to those for the 2008 Update.

REFORM IN COMMONWEALTH-STATE FINANCIAL RELATIONS

Background

- 3 The Council of Australian Governments (COAG) has agreed to implement a new framework for Commonwealth-State financial relations. It is planned that the new federal financial framework will commence on 1 January 2009, with the reform of payments for healthcare to be implemented by 1 July 2009.¹

Proposed new framework

- 4 The Australian Government has proposed a reduction in the number of payments for specific purposes, without reducing the overall quantum of payments. Under the proposal States will continue to receive all GST revenue, but payments for specific purposes will be rationalised into the following groups.

National specific purpose payments

- 5 Under the new framework for Commonwealth-State financial relations, the majority (\$23.7 billion in 2009-10²) of the Australian Government payments will be bundled into five new specific purpose payments (SPPs) supported by new national agreements in the areas of:
 - healthcare;
 - early childhood development and schools;
 - vocational education and training;
 - disabilities services; and
 - affordable housing.

General revenue assistance

- 6 Several payments with no compelling national objectives will continue under the proposed new arrangements (\$874 million in 2009-10). These include the following payments which will be reclassified as general revenue assistance from 1 January 2009:

¹ Commonwealth of Australia 2008-09 *Budget Paper No 3*. p6

² Australian Treasury projections for the application year of the 2009 Update. Commonwealth of Australia 2008-09 *Budget Paper No 3*. p9

- royalty payments (\$698 million in 2009-10);
- Snowy Hydro Ltd tax compensation (\$47 million in 2009-10); and
- two payments for ACT municipal services (\$35 million in 2009-10).

National Partnership Payments

- 7 The Australian Government will provide national partnership payments (NPPs) (\$6.9 billion in 2009-10) to the States to:
- support the delivery of specified projects;
 - facilitate reforms; or
 - reward those jurisdictions that deliver on national reforms.

Local government payments

- 8 It is proposed that the Australian Government will continue financial support for local governments.

Issues

- 9 Because this is a major change in Commonwealth-State financial relations, the relativities for the 2009 Update will need to reflect the new arrangements in the assessment period.
- 10 The Australian Treasury has informed Commission staff that COAG is yet to reach agreement on a number of issues relating to this reform with the States. These issues include:
- how the SPPs will be distributed;
 - how the Commission will be instructed on how to treat the Australian Government payments to the States including the Australian Health Care Agreement; and
 - which payments will be classified as SPPs and which as NPPs.
- 11 While further negotiation in COAG is required, the Australian Government has guaranteed that no State will be worse off than they were in the current forward estimates as a result of the proposed changes. The implications of this commitment for the 2009 Update are not yet clear.
- 12 The important issues for the Commission are whether the terms of reference will instruct us on the treatment of SPPs and NPPs and whether any of the Commission's methodologies will need to change as a result.

Recommendation

- 13 Commission staff are not able to put forward a recommendation to the Commission on these issues until the Australian Treasury provides further information on the outcome of the COAG negotiations. This is unlikely to be before October 2008. Commission staff will consult the States on the treatment of payments under the new Commonwealth-State financial arrangements.

TREATMENT OF NEW SPECIFIC PURPOSE PAYMENTS COMMENCED IN 2007-08

- 14 In the absence of SPP reform, the Commission will, as usual, need to consider the treatment of new SPPs commenced in 2007-08 (last year of the 2009 Update assessment period). For this reason, Commission staff have presented these new SPPs and their proposed treatments.
- 15 Table 1 sets out the proposed treatment of new SPPs that commenced in 2007-08, as listed in *Commonwealth of Australia 2008-09 BP 3, Federal Financial Relations*. The recommended treatments are consistent with the 2004 Review SPP guidelines in Attachment A.

Recommendation

Staff propose to recommend to the Commission that:

- subject to the requirements of the 2009 Update terms of reference, the proposed treatment of each SPP commenced in 2007-08 in Table 1 be adopted.

Table 1 **New Specific Purpose Payments (SPPs) in 2007-08 shown in *Federal Financial Relations 2008–09***

| Australian Government payments | Description of program | Estimated amount paid in 2007-08 (\$m) | Proposed treatment in 2009 Update | Reason for treatment |
|--|--|--|-----------------------------------|--|
| <i>Health services</i> | | | | |
| Elective surgery waiting list reduction plan | <p>The Australian Government will provide up to \$600 million over four years to reduce waiting lists for elective surgery in public hospitals. This funding includes \$150 million to conduct an immediate national blitz and provide more than 25,000 new procedures to help clear the backlog of people.</p> <p>A further \$150 million will be provided to make systemic improvements to Australia's hospital system, including the construction of additional day surgery units. A further \$300 million will be available in incentive payments to States and Territories that meet elective surgery waiting list reduction targets. The funding will be provided if performance benchmarks are met.</p> <p>Source: 2008-09 Commonwealth Budget Paper No 2, page 211.</p> | 75.000 | Inclusion | Payment has a direct impact on State budgets and provides assistance for services in the adjusted budget for which expense differences are assessed. |
| Health infrastructure grants | <p>The Australian Government will provide \$389.5 million over five years in grants and recurrent funding to support health care facilities and improve patient outcomes. This includes funding for advanced medical technology, improved facilities and services and medical training infrastructure.</p> <p>This measure will bring the benefits of advanced medical technology to communities around Australia. An additional 12 Medicare-eligible magnetic resonance imaging units will be provided, along with new and upgraded technology in hospitals around the country. Funding will also support upgrades to hospitals and community health centres and expand services to areas of need. This includes improved access to renal dialysis and a mobile sexual assault referral centre for remote communities in the Northern Territory.</p> <p>Source: 2008-09 Commonwealth Budget Paper No 2, page 207.</p> | 141.100 | Inclusion | Payment has a direct impact on State budgets and provides assistance for services in the adjusted budget for which expense differences are assessed. |

Table 1 **New Specific Purpose Payments (SPPs) in 2007-08 shown in *Federal Financial Relations 2008–09* (continued)**

| Australian Government payments | Description of program | Estimated amount paid in 2007-08 (\$m) | Proposed treatment in 2009 Update | Reason for treatment |
|---|---|--|-----------------------------------|--|
| <i>Health services (continued)</i> | | | | |
| Supporting nurses back into the workforce – training payments | <p>The Australian Government will provide \$39.4 million over five years to encourage qualified nurses to return to the nursing workforce in hospitals and residential aged care. Cash bonuses of \$6,000 will be available for nurses who have been out of the health workforce for more than a year who return to work in hospitals and residential aged care. These nurses will be paid \$3,000 after six months of being back in the nursing workforce and a further \$3,000 after 18 months. Hospitals and aged care providers will receive a contribution of \$1,000 per re-entry nurse to assist with the costs of re-training and re-skilling.</p> <p>This measure is expected to bring up to 7,750 extra nurses into hospitals and up to 1,000 extra nurses into residential aged care over five years.</p> <p>The 2007-08 payment was for training only. No incentive payments were paid in 2007-08.</p> <p>Source: 2008-09 Commonwealth Budget Paper No 2, page 213.</p> | 0.400 | Inclusion | Payment has a direct impact on State budgets and provides assistance for services in the adjusted budget for which expense differences are assessed. |
| Helping public patients in hospitals for nursing home places | <p>The Australian Government will provide \$293.2 million over four years to fund an additional 2,000 transition care places for older Australians, increasing the number of transition care places to 4,000. These new places will assist older people who no longer require hospital care to make the transition to an aged care facility or return home. This will also ensure more hospital beds are available for those with acute care needs.</p> <p>Source: 2008-09 Commonwealth Budget Paper No 2, page 207.</p> | 37.500 | Inclusion | Payment has a direct impact on State budgets and provides assistance for services in the adjusted budget for which expense differences are assessed. |

Table 1 **New Specific Purpose Payments (SPPs) in 2007-08 shown in *Federal Financial Relations 2008-09* (continued)**

| Australian Government payments | Description of program | Estimated amount paid in 2007-08 (\$m) | Proposed treatment in 2009 Update | Reason for treatment |
|---|--|---|--|---|
| <i>Education services (continued)</i> | | | | |
| Relocation of Amberley State school, Queensland | <p>The Australian Government provided funding to relocate and rebuild the Amberley State School in Queensland at no expense to the State or the school. The move was necessitated by the expansion and upgrading of the Amberley military base, which would have resulted in the school falling within the expanded base area.</p> <p>The old school site and buildings would be transferred to the Department of Defence at no cost to the organisation.</p> <p>Source: http://www.defence.gov.au/news/raafnews/editions/4912/topstories/story3.htm.</p> | 26.800 | Out of scope | The payment does not have a direct impact on the State budget |
| <i>Community services</i> | | | | |
| Family violence partnership | <p>To assist the States and Territories to jointly fund projects designed to reduce and prevent the incidence of family violence in Indigenous communities.</p> <p>The Australian Government has a key role in assessing and approving the projects proposed by the States and Territories.</p> <p>This payment was previously paid to the States as Commonwealth own purpose expenses (COPEs) and treated as out of scope.</p> <p>Source: 2007-08 Commonwealth Budget Paper No 3, page 55.</p> | 22.781 | Exclusion | This is a reimbursement for services provided on behalf of the Australian government. |

Table 1 **New Specific Purpose Payments (SPPs) in 2007-08 shown in *Federal Financial Relations 2008–09* (continued)**

| <i>Australian Government payments</i> | <i>Description of program</i> | <i>Estimated amount paid in 2007-08 (\$m)</i> | <i>Proposed treatment in 2009 Update</i> | <i>Reason for treatment</i> |
|--|--|---|--|--|
| <i>Infrastructure services</i> | | | | |
| Funding for road projects other than Auslink | Road programs that are not eligible for funding under the <i>Auslink (National Land Transport) Act 2005</i> but still receive payments from the Australian Government. Victoria and Tasmania are the only States receiving these payments in 2007-08. | 5.350 | Inclusion | Payment has a direct impact on State budgets and provides assistance for services in the adjusted budget for which expense differences are assessed. |
| <i>Environment services</i> | | | | |
| Improving water information | Funding is being provided to the Bureau of Meteorology to improve the detail and scope of nationally available water information, which will allow the Bureau to forecast, analyse and publicly report on water resources. Some of this information is sourced from State agencies and reimbursement provided. Source: 2007-08 Commonwealth Budget Paper No 3, page 59. | 10.000 | Exclusion | This is a reimbursement for services provided on behalf of the Australian government. |

Table 1 **New Specific Purpose Payments (SPPs) in 2007-08 shown in *Federal Financial Relations 2008–09* (continued)**

| <i>Australian Government payments</i> | <i>Description of program</i> | <i>Estimated amount paid in 2007-08 (\$m)</i> | <i>Proposed treatment in 2009 Update</i> | <i>Reason for treatment</i> |
|--|--|---|--|---|
| <i>Other State services</i> | | | | |
| Equine influenza emergency response | The Australian Government provided \$97.2 million in 2007-08 towards the cost of the national response to eradicate equine influenza from Australia. Australia was declared provisionally-free of the disease on 14 March 2008. The agreed limit for the national response is capped at \$108.0 million. Under Australian Government, State and industry cost-sharing arrangements, the Australian Government agreed to underwrite the horse industry's proportion. Source: 2008-09 Commonwealth Budget Paper No 2, page 81. | 97.200 | Exclusion | This is a reimbursement for services provided on behalf of the Australian government. |
| Standard business reporting program | Funding to reduce reporting burdens for businesses through eliminating unnecessary or duplicated reporting and improving the interface between business and government agencies. | 3.240 | Exclusion | This is a reimbursement for services provided on behalf of the Australian government. |
| Sydney Cricket Ground – new grandstand | Funding provided to the Sydney Cricket and Sports Ground Trust to assist in the building of the new grandstand on the old Hill site at the Sydney Cricket Ground. Source: 2007-08 Commonwealth Budget Paper No 3, page 65. | 15.000 | Out of Scope | Payment to a State PTE and does not have a direct impact on State budgets. |

NORTHERN TERRITORY EMERGENCY RESPONSE

Background

16 From 2007-08, the Australian Government has been providing funding to support the Northern Territory Emergency Response (NTER). The funding is largely being provided for Australian Government agencies. There are some payments to the Northern Territory to defray co-ordination and additional service delivery costs and to provide some additional infrastructure in prescribed communities. The 2008-09 Northern Territory budget provides details of NTER funding received from the Australian Government for 2007-08 and 2008-09 (see Table 2).

Table 2 Australian Government grants to the Northern Territory for NTER

| Function | 2007-08 Estimate | 2008-09 Budget |
|---|------------------|----------------|
| | \$ m | \$ m |
| NT Police, Fire and Emergency Services | | |
| NTER – Operation Thermis | 16.062 | 0.000 |
| Department of Education, Employment and Training | | |
| NTER | 9.889 | 4.890 |
| Department of Health and Families | | |
| NTER | 30.997 | 0.000 |
| Department of Justice | | |
| NTER – alcohol compliance | 2.180 | 0.000 |
| Territory Housing | | |
| Closing the Gap and other grant funding | 16.000 | 10.000 |
| Total | 75.128 | 14.890 |

Source: 2008-09 Northern Territory Budget Paper 2, page 13, Table 2.4.

Analysis

- 17 The 2008 Update terms of reference (TOR) required that these payments had no impact on the States' per capita relativities. Because the payments commenced in 2007-08, which was outside the assessment period (2002-03 to 2006-07) of the 2008 Update, the Commission did not need to make any adjustments in that update.
- 18 Commission staff do not expect the TOR requirements relating to the treatment of the NTER payments to change for the current update. Since 2007-08 falls within the assessment period of the 2009 Update, Commission staff propose to make the following adjustments:
- exclude any Australian Government payments relating to NTER from the Northern Territory's revenue; and
 - exclude the expenses funded by the Australian Government payment for NTER from the Northern Territory's expenses.

- 19 Staff propose not to adjust any assessments to recognise changes in the costs of providing services to Indigenous people because collecting the information to quantify the additional use or cost of services as a result of the NTER will not be possible.
- 20 Commission staff will ask the Australian Treasury and the Northern Territory to confirm the financial information on the NTER payments made to the Northern Territory Government.

Recommendations

Staff propose to recommend to the Commission that:

if required by the terms of reference, it

- exclude any Australian Government payments relating to the Northern Territory Emergency Responses from the Northern Territory's revenue; and
- exclude the expenses funded by the Australian Government payment for NTER from the Northern Territory's expenses; but
- not adjust any assessments to reflect any changes in the costs of providing services to Indigenous people because collecting the information to quantify the additional use or costs of services as a result of the NTER is not possible.

MERSEY HOSPITAL IN TASMANIA

Background

- 21 The Australian Government assumed control of the Mersey Hospital in Tasmania in November 2007. In June 2008 the Minister for Health and Ageing announced that the tender process to find a not-for-profit provider to run the Mersey hospital as a public hospital had not been successful.
- 22 On 18 July 2008, the Minister for Health and Ageing announced that the Australian and Tasmania governments had reached an agreement for the State to manage the Mersey Hospital. The Australian Government will provide \$180 million over three years. This funding will allow the continuation of the current range of services and facilitate the purchasing of new equipment.

Analysis

- 23 The 2008 Update TOR required that these arrangements have no impact on the distribution of GST and Health Care Grants. Accordingly, the Commission made no changes to the assessments as a result of the Australian Government's acquisition of the Mersey Hospital.
- 24 Commission staff do not expect the TOR relating to the Mersey Hospital to change for the current update. Therefore, Commission staff propose to continue to treat Mersey as a public hospital. Staff propose to:

- exclude any Australian Government payments or expenses on Mersey Hospital from Tasmania's revenue;
 - add back the expenses incurred by the Australian Government on the Mersey Hospital to Tasmania's Inpatient expenses; and
 - include Mersey Hospital's inpatient separations in the public hospital use figures.
- 25 Staff will ask the Australian Treasury for the financial information required for this treatment and will confirm with the AIHW that the Mersey separations are included as public hospital separations in the 2006-07 administrative dataset.

Recommendation

Staff propose to recommend to the Commission that:

if required by the terms of reference, it

- exclude any Australian Government payments or expenses relating to the Mersey Hospital from Tasmania's revenue;
- add back expenses incurred by the Australian Government on the Mersey Hospital to Tasmania's Inpatient expenses; and
- include Mersey Hospital's inpatient separations in the public hospital use figures.

PAYROLL TAX AND ABS PUBLIC SECTOR WAGES AND SALARIES DATA

Background

- 26 As part of the payroll tax assessment, the Commission uses ABS data on public sector earnings to estimate the proportion of total wages and salaries that would be liable for payroll tax. The ABS has advised the Commission that due to changes in data collection methods for the public sector earnings, data on public sector earnings for 2007-08 will not be available until at least the end of January 2009.
- 27 In case the ABS data are not available prior to the finalisation of the 2009 Update relativities, Commission staff propose a contingency plan to estimate public sector wages and salaries for 2007-08.

Analysis

- 28 Commission staff propose to use the trend increase in public sector earnings over the previous five years to increase the 2006-07 public sector earnings data to a 2007-08 estimate. When the actual ABS data become available for 2007-08, they will replace the estimated data.
- 29 Table 3 shows that if the proposed method had been used over the past five years, public sector earnings would have been underestimated by less than 3 per cent.

Recommendation

Staff propose to recommend to the Commission that:

- if ABS public sector earnings data for 2007-08 are not available in time for the finalisation of the 2009 Update relativities, public sector earnings be estimated using the trend increase in public sector earnings over the previous five years to scale up 2006-07 public sector earnings data.

Table 3 Estimating public sector earnings

| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT | Aus |
|--|--------|--------|--------|-------|-------|-------|-------|-------|--------|
| A Gross earnings of public sector (\$m) | | | | | | | | | |
| 2001-02 | 22 386 | 13 902 | 13 085 | 6 187 | 4 869 | 1 747 | 3 815 | 1 117 | 67 108 |
| 2002-03 | 23 390 | 15 098 | 13 300 | 6 506 | 4 993 | 1 802 | 4 145 | 1 158 | 70 392 |
| 2003-04 | 24 923 | 15 932 | 14 290 | 7 019 | 5 468 | 1 938 | 4 669 | 1 272 | 75 511 |
| 2004-05 | 26 652 | 17 134 | 15 280 | 7 669 | 5 953 | 2 081 | 4 962 | 1 329 | 81 060 |
| 2005-06 | 28 295 | 18 428 | 16 800 | 8 091 | 6 472 | 2 269 | 5 349 | 1 420 | 87 123 |
| 2006-07 | 29 620 | 19 035 | 18 270 | 8 629 | 6 830 | 2 397 | 5 933 | 1 512 | 92 227 |
| B Estimated gross earnings for public sector using the trend increase over the previous 5 years | | | | | | | | | |
| 2002-03 | 22 878 | 14 074 | 13 468 | 6 343 | 4 840 | 1 749 | 3 885 | 1 143 | 68 381 |
| 2003-04 | 23 909 | 15 522 | 13 995 | 6 693 | 5 085 | 1 854 | 4 260 | 1 209 | 72 526 |
| 2004-05 | 25 558 | 16 760 | 14 884 | 7 196 | 5 531 | 2 011 | 4 817 | 1 316 | 78 073 |
| 2005-06 | 27 673 | 18 074 | 15 868 | 7 944 | 6 171 | 2 173 | 5 296 | 1 402 | 84 600 |
| 2006-07 | 29 653 | 19 425 | 18 571 | 8 586 | 6 801 | 2 364 | 5 754 | 1 492 | 91 448 |
| C Difference (\$m) ($C_t = A_t - B_t$) | | | | | | | | | |
| 2002-03 | 512 | 1 024 | - 169 | 163 | 153 | 52 | 260 | 15 | 2 011 |
| 2003-04 | 1 014 | 410 | 295 | 326 | 383 | 84 | 409 | 63 | 2 985 |
| 2004-05 | 1 094 | 374 | 396 | 473 | 422 | 70 | 145 | 13 | 2 987 |
| 2005-06 | 623 | 355 | 931 | 147 | 301 | 97 | 53 | 18 | 2 523 |
| 2006-07 | - 33 | - 390 | - 301 | 44 | 30 | 33 | 179 | 19 | 778 |
| D Percentage difference ($D_t = 100 * C_t / A_t$) | | | | | | | | | |
| 2002-03 | 2.2 | 6.8 | -1.3 | 2.5 | 3.1 | 2.9 | 6.3 | 1.3 | 2.9 |
| 2003-04 | 4.1 | 2.6 | 2.1 | 4.6 | 7.0 | 4.4 | 8.8 | 5.0 | 4.0 |
| 2004-05 | 4.1 | 2.2 | 2.6 | 6.2 | 7.1 | 3.3 | 2.9 | 1.0 | 3.7 |
| 2005-06 | 2.2 | 1.9 | 5.5 | 1.8 | 4.6 | 4.3 | 1.0 | 1.3 | 2.9 |
| 2006-07 | -0.1 | -2.1 | -1.6 | 0.5 | 0.4 | 1.4 | 3.0 | 1.3 | 0.8 |
| Average | 2.5 | 2.3 | 1.5 | 3.1 | 4.4 | 3.2 | 4.4 | 2.0 | 2.8 |

Source: Public sector earning data, ABS, *Wage and Salary Earners, Public Sector*, 6248.0.55.001.

UPDATING WAGE INPUT COSTS

Background

30 The Commission estimated differences in the private sector cost of labour between States from econometric model using Survey of Education and Training (SET) data. The last SET was in 2005. Since that time, the cost of labour has changed at different rates in different States. In the 2008 Update, the Commission used a similar econometric model using the biennial survey of Earnings, Employee Benefits and Trade Union Membership (EEBTUM) to update the SET based estimate. Since the estimates for Western Australia and Queensland

showed a significant change between 2004 and 2006 EEBTUM surveys, their wage differentials were adjusted in the 2008 Update.

- 31 As part of its work for the 2010 review, staff identified an alternative method of updating the SET relativities: using the ABS labour price index.

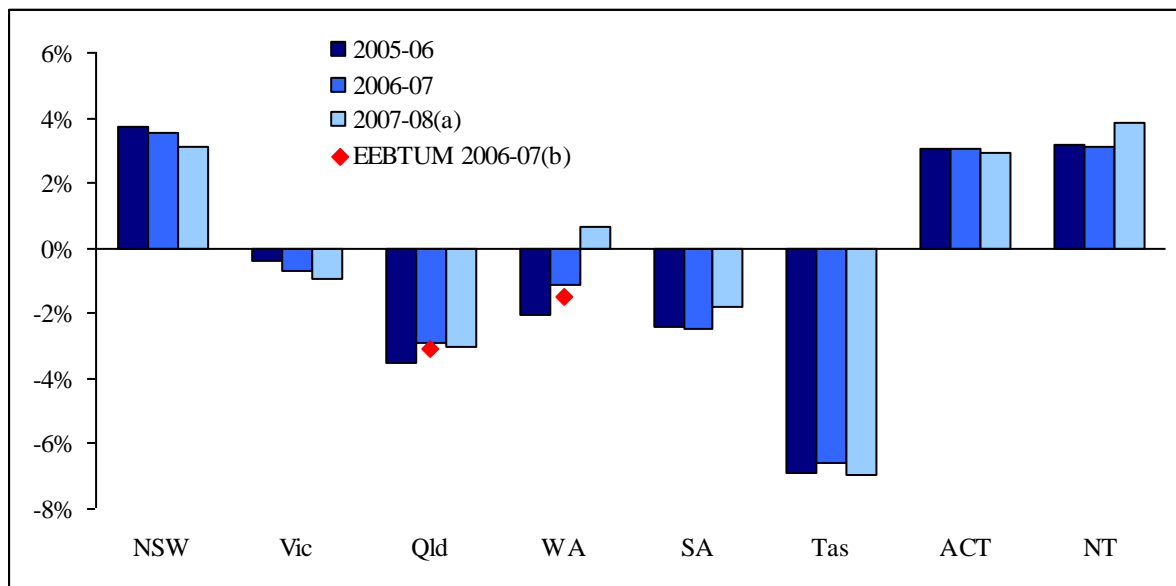
Analysis

- 32 The labour price index (LPI) was developed by the ABS to measure changes in the price of labour, by comparing like jobs. The ABS says that

[the labour price index] measures change in the price of labour services resulting from market pressures, and is unaffected by changes in the quality and quantity of work performed. It is unaffected by changes in the composition of the labour force, hours worked, or changes in characteristics of employees (e.g. work performance).

- 33 Conceptually, updating a SET estimate with this method for four years will not perfectly reproduce the subsequent SET estimate, as each State's LPI index is based on their economic structure, not the national economic structure. For example, as Western Australia has more mining jobs, a uniform national increase in pay for miners will increase the Western Australian index more than for a non-mining State.
- 34 Western Australia's private sector wages grew by 0.91% above the national average between 2005-06 and 2006-07. Western Australia's industry mix, with a greater than average share of high wage growth industries such as mining and construction explains about 0.14% of this.
- 35 The impact that the difference in industrial or occupational structure has on the actual data appears to be much less than the measurement errors associated with the assessment. Over the past 10 years that LPI has been collected, the average annual absolute change in State relativities has been around 0.25%, of which 0.03% has been due to industrial structure. The impact of industrial structure is generally greater in the smaller States.
- 36 The impact of structural differences on this method of updating may be dealt with, if that is deemed necessary, through either a specific adjustment if it can be measured accurately, or by discounting the adjustment factors.
- 37 Figure 1 shows the 2005-06 relativity, based on the 2005 SET results. The 2006-07, and the 2007-08 results are based on the relative change in wage levels as measured by the LPI between 2005 and these two years. The EEBTUM relativities resulted in no change for six States, only the Queensland and Western Australia changes were found to be statistically significant, and so were changed.

Figure 1 Updated wage input cost relativities



- (a) The 2007-08 estimate is preliminary, as only 3 of the 4 quarters have been released by the ABS.
- (b) In the 2008 Update, the Commission updated the estimates for Queensland and Western Australia as they were the only states with a statistically significant movement in the EEBTUM estimates. In the absence of a LPI based update, these figures would also be used in 2007-08

Source: I:\R2010\Common factors\location\labour – wage input costs\LPI indexation\2009 Update LPI for WCI.xls

38 Advice from Prices Research and Development at the ABS, is that our approach is statistically valid analogous to the methods applied by the international statistical community to derive purchasing power parity measures. The ABS and the OECD measures estimate price differences at a point in time and update them with each nation’s CPI. While they acknowledge that this is conceptually imperfect, as each nation’s basket of goods varies, this is not an inappropriate approach to updating spatial price indexes.

Recommendation

Staff propose to recommend to the Commission that:

- the 2006-07 and 2007-08 wage input cost relativities use the labour price index to update the 2005-06 SET based relativities.

ABOLITION OF STAMP DUTY ON NON-REAL BUSINESS TRANSACTIONS IN THE ACT

Background

39 All States have agreed to abolish the collection of stamp duty on non-residential conveyances other than real property transactions, but will do so at different times. These transactions cover business assets such as goodwill, intellectual property and licenses.

- 40 The ACT announced that it was abolishing the collection of such duty from 1 July 2006. Theoretically there should have been no collection of duty from non-residential conveyances other than real property transactions for the ACT in 2006-07. However, there were some transactions from 2005-06 that had not been finalised by the close of 2005-06, and the ACT included these transactions and the revenue collected in their 2006-07 returns. As these revenues were the same as the collections for a normal year, an adjustment was not required for 2006-07.
- 41 As it is still common policy³ to impose stamp duty on non-residential conveyances other than real property transactions, it is necessary to adjust the ACT's revenue base for 2007-08 to account for the revenue that the ACT would have received if it had continued to impose the average policy.

Analysis

- 42 Under the current assessment method, Victoria's revenue base is adjusted upwards by 3 per cent to account for its policy to exempt the value of goodwill in the sale of businesses and by a further 4 per cent to reflect Victoria's policy to levy duty on a narrower range of real property, personal property and business assets (such as patents and licences). A similar adjustment is proposed for the ACT.
- 43 Table 4 shows that over the four years of the 2009 Update assessment years when the ACT was fully collecting revenue from non-residential conveyances other than real property transactions, revenue raised from these transactions represented 0.8 to 1.0 per cent of ACT conveyance duties. Staff propose basing an ACT adjustment on these data.

³ Tasmania intends to abolish its duty from 1 July 2008 and the Northern Territory on 1 July 2009. At that point the average policy will be to not impose the duty.

Table 4 **ACT Conveyance revenues**

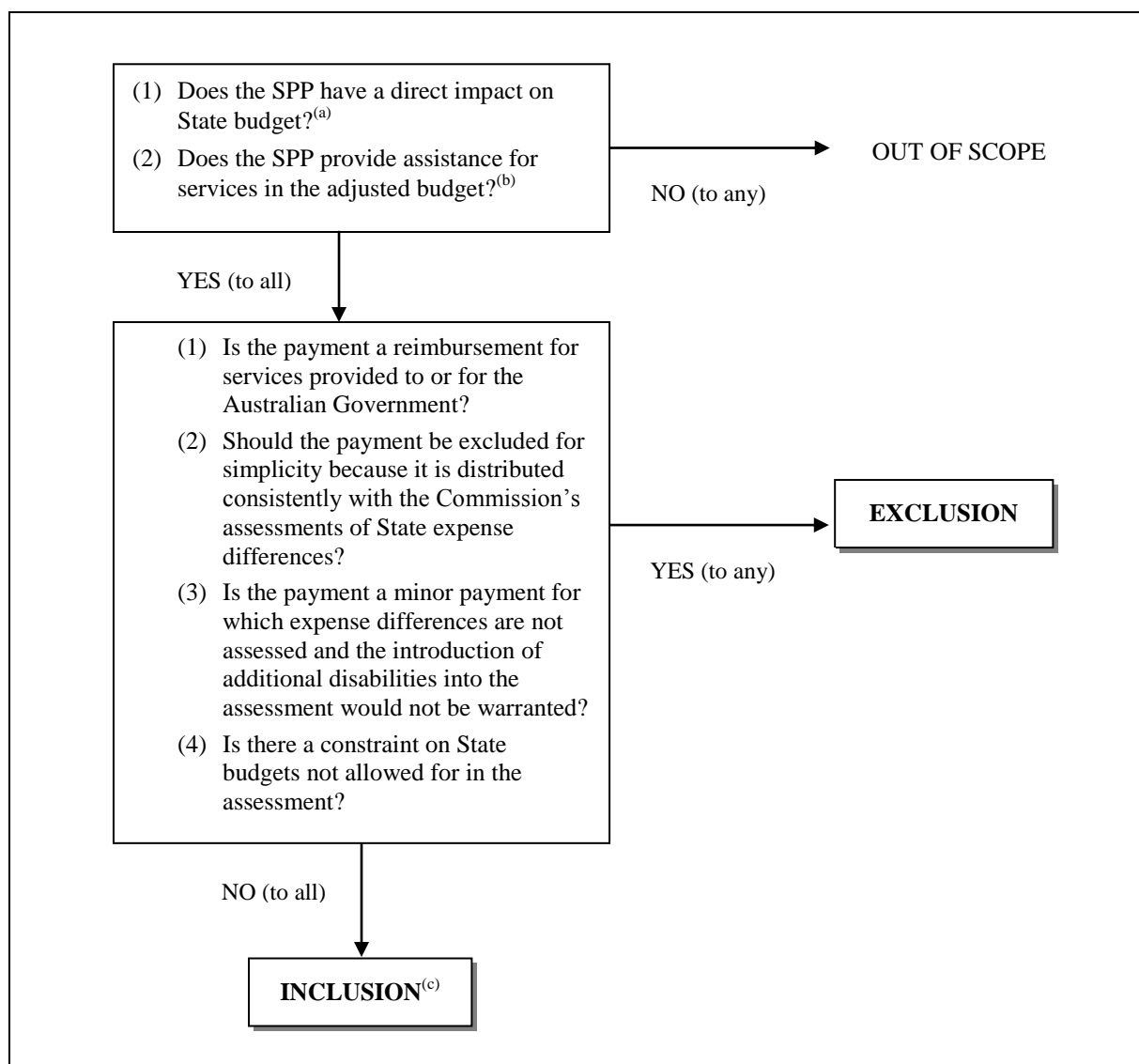
| | Non-residential conveyances other than real property | Total conveyance revenue | Non-residential conveyances share of total conveyance |
|---------|--|--------------------------|---|
| | \$m | \$m | % |
| 2002-03 | 1.488 | 149.126 | 1.0 |
| 2003-04 | 1.448 | 187.976 | 0.8 |
| 2004-05 | 1.360 | 141.113 | 1.0 |
| 2005-06 | 1.314 | 170.418 | 0.8 |

Recommendation

Staff propose to recommend to the Commission that:

- a 1 per cent adjustment be introduced for the ACT's revenue base from 2007-08 to account for its decision to abolish duty on non-residential conveyances other than real property transactions.

ATTACHMENT A: METHODS OF TREATMENT OF AUSTRALIAN GOVERNMENT REVENUE PAYMENTS IN THE 2004 REVIEW



Note: The SPP guidelines are used to decide the treatment of each Australian Government payments unless the terms of reference ask the Commission to apply a specific treatment to the payment.

- (a) Under this criterion, other Australian Government payments made to non-government organisations and SPPs paid through the States were treated as out of scope because they did not have a direct impact on State budgets.
- (b) Under this criterion, payments made for services which are the responsibilities of the Australian Government and local governments were treated as out of scope.
- (c) When inclusion was used, the expense financed by the SPP was included in the adjusted budget and needs assessed in the relevant expense category. The SPP was treated as revenue, available to the recipient State to meet part of its assessed differences.