

**Response to Commonwealth Grants
Commission discussion paper 2008/19-S**

**New Issues for the 2009
Update**

September 2008



1. Reform in Commonwealth-State financial arrangements

The official record of the 28 March 2008 meeting of Council of Australian Governments (COAG) as prepared by the Commonwealth Government and attached for reference, states that COAG:

"11. agreed that, for Commonwealth Grants Commission purposes: -

- a. all of the new SPP agreements should be treated by 'inclusion',
- b. NP reform payments should be treated by 'exclusion'
- c. for NP project payments, the Commission will decide whether any individual NP should be treated by 'inclusion' if it was in the nature of standard budget support for a State service, and
- d. general revenue assistance should be treated by 'inclusion', noting the scope that would remain for the Commission to decide that any individual payment be treated as 'out of scope' if it was not in the nature of standard budget support for a State service..."

Outstanding issues for COAG consideration in relation to the CGC include:

- o how the SPPs will be distributed among States
- o which payments will be classified as SPPs and which as NPPs
- o how these principles will be incorporated in a new Intergovernmental Agreement

Victoria supports consultation with the States on outstanding issues, but notes that the CGC treatment of payments under the new federal fiscal arrangements has already been agreed by COAG.

2. Treatment of new Specific Purpose Payments commenced 2007-08

Victoria supports the Commission staff's proposed treatment of each SPP commenced in 2007-08 in Table 1 of the discussion paper, with the exception of the third stage of the elective surgery waiting list reduction plan (\$300 million).

Victoria supports the inclusion of the first and second funding stages of the elective surgery waiting list reduction plan. However, the third stage of this program (additional \$300 million) has been framed as reward payments for meeting specific performance targets. It is not yet clear on what basis this funding will be allocated - the Commonwealth has yet to confirm the nature of these payments with States. It may be inappropriate to equalise this funding if, like National Partnership reform reward payments, they are a reward for meeting performance benchmarks and are not linked to funding the related services.

As payments under this stage were not paid in 2007-08, this can be resolved for the 2010 Update, when more information is available.

3. Northern Territory Emergency Response

Victoria notes that the majority of Commonwealth funding for the Northern Territory Emergency Response (NTER) is being provided for Commonwealth Government agencies. However, some of this expenditure relates to services that are the core responsibility of States and Territories, such as child welfare and law and order. This is partly why there are some payments to the Northern Territory to defray co-ordination and additional service delivery costs and to provide additional infrastructure to prescribed communities. These payments to the Northern Territory are not insignificant and are estimated to be around \$75 million in 2007-08.

Considering the magnitude of the payments, and that they are related to core State services, Victoria does not support the exclusion of this revenue from the relativity calculations.

However, Victoria also notes that the 2008 Update Terms of Reference (TOR) required that these payments had no impact on the States' per capita relativities and that Commission staff do not expect the TOR requirements relating to the treatments of these payments to change for the 2009 Update.

4. Mersey Hospital in Tasmania

On 1 September 2008, the Commonwealth assumed ownership of the Mersey Community Hospital with management of the hospital transferred to the Tasmanian Government. The hospital will continue to provide public hospital services, just as it always has. As this revenue will fund core State services thereby providing direct assistance to the Tasmanian budget, it is appropriate that this revenue is included in Tasmania's revenue raising capacity.

Alternatively, this funding arrangement may be seen to reflect a Commonwealth Own Purpose Expense and should be treated as out of scope for the 2009 Update. In this case the hospital activity and expenses of Mersey Hospital should also be excluded as it is not funded by the State budget.

However as with the NTER, Victoria notes that the 2008 Update TOR required that these payments have no impact on the distribution of GST and Health Care Grants, and therefore the 2009 Update TOR may similarly direct the Commission in its treatment of payments related to the Mersey Community Hospital.

5. Payroll tax and ABS public sector wages and salaries data

Victoria notes that changes to the ABS data collection methods for the public sector earnings means that 2007-08 data may not be available in time for the 2009 Update. In this case, Victoria agrees that public sector earnings be estimated using the trend increase in public sector earnings over the previous 5 years to scale up the 2006-07 data. Once the 2007-08 data becomes available, it will then replace the estimated data.

6. Updating wages input costs

Victoria supports the proposal that the 2006-07 and 2007-08 wage input cost relativities use the ABS Labour Price Index (LPI) to update the SET based relativities.

For the 2008 Update Victoria was concerned by the Commission's proposal to update the SET based estimate of wages input costs using the biennial survey of Earnings, Employee Benefits and Trade Union Membership (EEBTUM) owing to the quality of the data set.

The LPI approach appears to overcome these data quality concerns and has the advantage of being updated annually.

Victoria notes that each State's LPI is based on their economic structure rather than the national economic structure. This does not raise concern for Victoria.

7. Abolition of stamp duty on non-real business transactions in the ACT

As the Commission regards the imposition of stamp duty on non-residential business conveyances as still common policy among the States, Victoria agrees that a 1 per cent adjustment be introduced for the ACT's revenue base from 2007-08 to account for its decision to abolish this tax. This method is consistent with the adjustments made to Victoria's revenue base by the Commission.