



Department of Treasury and Finance

Victoria

Submission on Disaggregation

to the

Commonwealth Grants Commission

as part of the

2010 Review

September 2006

Introduction

This submission is in response to the call for submissions arising from the Conference held at the CGC on 7 September 2006. In general, Victoria supports the top-down approach adopted by the CGC, as being one which is most suited to addressing the requirements of the Terms of Reference for the 2010 Review. Victoria is also supportive of the general category designation put forward by the CGC.

This submission does not seek to directly address many of the specific questions raised in the Revenue and Expenses Discussion Papers. This is because many such questions were dealt with on 7 September and we feel it important to bed down the category structure prior to debating how those categories might be assessed.

Victoria notes the Commission's desire to progress the debate about category structure, broad indicators and disability factors simultaneously. However, we feel that more work is required to develop the evidence base for broad indicators and disability factors. This work is required before more meaningful discussions can take place.

Victoria considers that there is no definitive answer to the question of an "appropriate number of adjustments", an issue mentioned at the workshop with regard to broad indicators. It may be more relevant to ask whether specific adjustments under consideration are necessary and appropriate – for example, do they meet tests of materiality and reliability? Moreover, Victoria considers that the concept of applying cost and use weight adjustments to broad indicators is inconsistent with the meaning of a "broad indicator." In the Staff Discussion Paper CGC 2006/01 *Socio-Demographic Composition*, the CGC put forward three approaches to measuring disability factors: single broad measures; proxy measures (being composite broad measures); and a simplified 2004 Review approach.

Only the last of these, as the paper describes, involves the application of cost and use weights, and this defines the difference between broad indicators (whether single or composite) and the existing 2004 Review approach. Thus, applying "adjustments" such as cost and use weights to broad indicators would seem to be inconsistent with the concept of a "broad indicator." The resulting measures would no longer be broad indicators, and would instead represent a reversion to the 2004 Review approach.

Education

Victoria supports the proposed two category structure for education – namely schools education, and tertiary education. This division (largely) reflects the distinction between compulsory and non-compulsory education, as well as the distinction between the user populations.

Use of enrolments as opposed to population shares would be more appropriate as an indicator for the schools category. It is standard policy that some years of school education are non-compulsory (namely, years 11 and 12). Differing retention rates post year 10 between States lead to differing, non-policy driven cost disabilities. The

cost distinction (within education) between someone attending school in years 11 and 12 and someone who does not, would no doubt be greater than the distinction between someone attending a government or non-government school, for example.

Victoria is unable to reliably identify and separate some student transport expenses from other transport expenses, but still considers that student transport expenses should be assessed in the education category.

As indicated in the Conference minutes, cost and use adjustments (such as reflecting differing usage of private as opposed to government schooling, for example) should only be implemented if they passed the materiality and reliability criteria (and it would be useful if the CGC could clarify exactly what the thresholds are for category-specific disability adjustments). Cost weights for type of student (such as indigenous versus non-indigenous) as opposed to the mode of service delivery (such as private versus public education) are inherently more unreliable and should be avoided. This is because there is often no segregation between these types of students (whereas with private versus public education there is a clear segregation). Where there is no clear segregation, estimation of differential costs (if in fact any do actually exist) is heavily influenced by judgement.

Health, Welfare, Housing and Community Amenities

Within the health area, the distinction between admitted and non-admitted health services is appropriate. The distinction here is similar to that in education between school and non-school education: there is an element of compulsion as opposed to choice between admitted and non-admitted health services, and there is also likely to be a difference (though not as distinct as in the case of education) in the user population – the very young and very old would most likely use admitted health services with a higher propensity than they would non-admitted health services.

The use of a broad socio-demographic indicator pertaining to the age of the population would form a suitable basis for an indicator of health needs. As previously stated in Victorian submissions relating to *Location Based Disabilities* and *HFE Architecture and Contemporaneity*, location based disabilities should not be assessed, because they are not consistent with the CGC's definition of a disability. There are numerous, clear examples of government policy influence over, and control of, location based decisions. Consequently, location based factors most certainly are *not* beyond the influence of individual States, and are thus not consistent with the definition of a disability. Note that there is not an element of degree within this definition – disabilities have to be completely beyond the influence of individual governments. This is clearly not the case with regard to location based factors, as carefully detailed in the aforementioned submissions.

A broad indicator relating to socio-economic status would be the most suitable indicator of need in the welfare, housing and community amenities category. An example of a suitable broad indicator of socio-economic status and welfare need are unemployment rates, which represents a simple, robust indicator. Other indicators of income or wealth will need to be adjusted to take account of differing costs of living in each State, making the adjustment quite complex and less robust.

Law and Order

The splitting of police services into justice and non justice components is not consistent with GFS reporting classifications, and such a split would be based on judgement. While Victoria considers that it could do this to a reasonable degree, there would be no guarantee (and it would in fact be highly unlikely) that such a split could be done on a comparable basis between jurisdictions.

The trade off between the desired category structure (namely, splitting police services) and data comparability needs to be assessed by the CGC in determining the eventual direction to take. There are similarities here to the situation with health being assessed in two categories: in both cases, the composition of the user groups, and thus the relevant disabilities, tend to differ. If the CGC decides to assess this expenditure area as one category, then the disability factors applied to it need to be sufficiently broad so that, for example, the drivers of criminal needs are not carried over to the category as a whole (which includes public safety and emergency services, for example).

Offence rates would not be a suitable indicator of need as they are clearly influenced by policy. Policies such as “zero tolerance policing” and the number of speed cameras, for example, will clearly impact upon offence rates. The issue of transforming a multitude of offence rates (such as pertaining to robbery, assault, traffic infringements, white collar crime and so on) into a single measure of need also would be difficult, as weightings would need to be applied to each type of offence, to somehow reflect their relative resource cost.

Transport and Communication Services

Victoria supports the Commission’s proposal to assess transport and communication services as one category. However, there may be a difficulty in finding a single broad indicator to assess disabilities arising from very different causes. That is, the road transport disability is caused primarily by road use and length (with some public transport subsidies for buses), whilst the rail transport disability is caused mainly by the need to provide subsidised public transport services. A mix of indicators may be required to assess these different disabilities; the following paragraphs provide some suggestions.

The public transport component could be assessed using a proxy broad measure which reflects the socio-demographic who are principal users of public transport, as well the impacts of urbanisation and population density.

Victoria notes the possible difficulties in gaining passenger trip/passenger kilometre information from private providers. However, this should be further explored. Victoria will work with the Department of Infrastructure to ascertain what data are available and under what conditions. We urge the Commission to request the same from other States with private transport providers.

Broad indicators of the road transport disability (mainly road maintenance costs) should reflect the fact that maintenance costs depend on both road use and, to a lesser extent, length. Suggestions include fuel use (although this could overstate the task in rural areas, where a significant amount of fuel is used on farms), vehicles per capita, and vehicles per square kilometre. All States should know the number of vehicles on their roads and be able to separately identify farm vehicles.

Victoria notes that several States argued at the meeting for roads to be disaggregated from other transport costs. Victoria does not support the disaggregation of roads if the CGC would apply a similar assessment method to that currently in place. This is due to the poor data availability on road length and the underweighting of road use as a factor in maintenance costs.

At a roads assessment meeting on 8 September 2006, Queensland proposed a new method for calculating rural arterial road lengths. States agreed that further work should be done to refine the system to ascertain whether it would provide more accurate data on States' relative road maintenance task. However, it may be some time before agreement is reached on parameters for using a new system. It is likely that the new method will be applied in the 2008 Update at the earliest.

If agreement is reached, the Commission can then decide whether the new method is worth persisting with after the 2010 Review. It may be that a reliable broad indicator can be found to assess transport and communication as one category, in which case roads should not be disaggregated.

At the meeting on 7 September, we said we would further investigate the accounting of bus transport expenses. We have discovered that whilst bus transport expenses are included in GPC 3219, Road Transport Services, they are separately identified by the Department of Infrastructure, so a separate figure can be supplied to the Commission (if requested) for the purposes outlined in paragraph 49 of *Discussion Paper 2006/06 Disaggregating Expenses*.

Revenue

The proposed five category structure for revenue would seem to be appropriate. Most of the discussion at the conference dealt with *measures of capacity* for these revenue categories (as opposed to the definition of the categories themselves) – such as via broad indicators or via methodology similar to that presently used (and either with or without value distributions and thresholds and so on).

These considerations of measures of capacity go beyond the definition of the category structure itself. It is important, however, that the proposed category structure can accommodate these various approaches to the measurement of capacity.

The impact of policies which encourage tax base growth - such as a more generous payroll tax regime, government outsourcing policies, pro-business regulatory reduction policies and so on - are captured by the CGC's current revenue base measurement methodology (which is intended to be policy neutral). It effectively 'penalises' the State, and represents an efficiency impact. The movement towards

broader categories, the aggregation of factors, and the examination of the use of broader indicators should reduce the impact of this policy contamination.

Issues of Clarification

Victoria was left in some confusion at the meeting as to the intention behind the use of the term “equal per capita” by the CGC. As a result of questioning, it was indicated by the Secretary of the CGC that “treatment of a category equal per capita” was taken to mean that no *category specific* disabilities would be applied to that category, and that *common disabilities* would still be applied.

This differs from the (very specific) existing meaning of the term “equal per capita”, as defined by the CGC in the 2006 Update Report, which indicates that *no* disabilities are applied:

Each State’s assessed expense or assessed revenue in a category is set equal to the Australian average per capita amount. It is used when there are judged to be no disabilities between the States and any differences between the States in the cost of providing services or raising revenue reflect differences in State policies. Such an assessment means that no needs are assessed for any State and that there is no impact on the relativities.

Victoria is also uncertain how disability factors will be applied to categories in the absence of a component structure. Categories are currently made up of a number of components, each of which has a unique set of disability factors applied to them. In the absence of components it is unclear how disability factors, which may only apply to a portion of the category, will be applied to the broader categories proposed.