

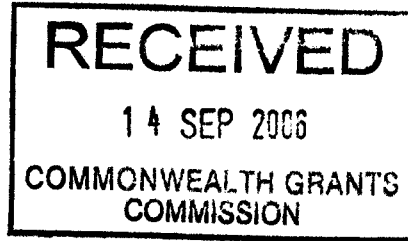


→ Secretary
Pls discuss

New South Wales
TREASURY

19/9.
Mr Alan Morris
Chairman
Commonwealth Grants Commission
Cypress Court
5 Torrens St
Braddon ACT 2612

Contact: Bruce Freeland
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Our Reference:
Your Reference



8 SEP 2006


Dear Mr Morris

2010 Review

Thank you for your letter of 9 August 2006 in which you set out the main conclusions from the meeting on 27 July 2006 between the Commonwealth Grants Commission and the Heads of Treasuries.

I would like to reiterate some of New South Wales' main points from the meeting.

New South Wales believes that the Grants Commission needs to be aware of the potential effect of its decisions on dynamic efficiency. The Grants Commission's focus on equality could provide a barrier to the movement of resources to the most productive part of the economy.

The Grants Commission should consider the potential efficiency and growth effects of its processes by looking at the degree to which its processes generate a barrier to the movement of resources around the country.

However, I am not suggesting that the Grants Commission should become a version of the National Competition Council, setting efficiency benchmarks and monitoring States' progress against those benchmarks. This would be a move into a more contractual model of federal relations and a further step away from a co-operative federalism model.

Recognition of the potential impact of the Grants Commission's decisions on dynamic efficiency leads to consideration of questions of the degree of equalisation and the scope of equalisation.

The current equalisation standard of providing States with the capacity to provide services at the same standard is not compatible with the simplification and aggregation agendas being pursued under the 2010 Review terms of reference.

Consideration of the impact of the Grants Commission's decisions on dynamic efficiency would also lead to the need for a different equalisation standard. This is why New South Wales is advocating a change to a standard of "not appreciably different" from the average.

As I said at the conference, one of the key questions to be considered is the degree of equalisation that is pursued by the Grants Commission. Other tax/transfer systems recognise the importance of the question of degree, for example, in the determination of marginal tax rates.

The current Grants Commission framework does not recognise the importance of the degree of equalisation and the importance of marginal impacts in determining the final outcomes. These factors should be considered in the 2010 Review.

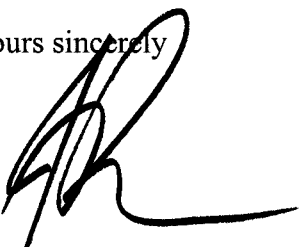
Consideration of the degree of equalisation also leads to consideration of the scope of the equalisation framework. New South Wales continues to advocate an approach where only the core economic and social functions of the States are included in the equalisation assessment framework.

These core functions include health, education and law and order. These are the services that could reasonably be expected to be delivered across all jurisdictions and assessed against an equalisation benchmark. Other services that States may choose to deliver reflect policy choices that the States make and could be quite different across the jurisdictions.

This approach is related to the disaggregation agenda currently being pursued by the Grants Commission. However, the assessment of core services only would reflect a particular conceptual model within the disaggregation agenda. The non-core services could be assessed on an equal per capita basis.

I hope that you find these comments useful.

Yours sincerely



John Pierce

Secretary