



COMMONWEALTH GRANTS COMMISSION

DISCUSSION PAPER CGC 99/3

**2004 REVIEW
PROPOSED WORK PROGRAM**

DECEMBER 1999

INTRODUCTION

1. Part 1 of the terms of reference for the 2004 Review ask the Commission to ‘commence a program of research on particular methods of assessment and consult with the States and the Commonwealth in deciding priorities’. They are at Attachment A.

2. In Chapter 6 of the *Report on General Revenue Grant Relativities 1999: Volume I – Main Report*, the Commission noted that following the 1993 Review, an extensive research program had been undertaken into a wide range of issues agreed to with the States. The Commission indicated that it did not see the need for such an extensive program of research relating to the assessments following the 1999 Review but suggested that there were still issues beyond those that would be addressed in the normal course of the next review, that needed further consideration.

3. Subsequent discussions with the States have confirmed the need for some issues of principle and assessment method to be comprehensively reviewed in the period leading to the next Review report, anticipated to be in 2004. In developing the necessary work program, there is a strong consensus among the States, which we support, that:

- the identification of priorities, and the way in which States will be involved in the work program, should be developed in close consultation with the States;
- the issues to be reviewed should be focussed on matters of principle or assessment which offer real added value to the equalisation process; and
- to the greatest extent possible, the work program should aim to even out the demands on the States in terms of submissions, conference participation and other activities.

4. This Discussion Paper presents a proposed work program that has been developed on the basis of these principles. We believe that it involves a considerably reduced workload and a more focussed approach.

PROPOSED APPROACH TO THE 2004 REVIEW

5. In Chapter 6 of its 1999 Main Report, the Commission proposed a list of issues of principle and practice for consideration as part of the review process for the 2004 Review.

6. Issues of principle included whether:

- (i) the assessment methods could be simplified substantially to reduce the costs and effort of the fiscal equalisation system, while having little effect on equalisation;
- (ii) there are better ways of responding to changes in the public sector and delivery of government services and programs;
- (iii) fiscal equalisation should continue to be based on the equalisation of inputs or should be changed to the equalisation of capacity for outcomes; and
- (iv) equalisation should continue to be restricted to the capacity of the States to provide services or expanded to include the private (and subsidised) provision of and contribution to the cost of State-type services.

7. Assessment issues included:

- (i) the depreciation and debt charges assessments;
- (ii) the urban transit assessments;
- (iii) the determinants of school enrolment patterns;
- (iv) the concessions and community service obligation arrangements that States have entered with service providers;
- (v) the gambling assessments; and
- (vi) the levels of minimum and scale-affected variable costs associated with service provision.

8. Following discussions with the States, we think three further issues should be added to the list of proposals for the work program.

- (i) The impact of Government policies — the extent to which differences in State policies influence service delivery costs and the extent to which these reflect disabilities.
- (ii) Identification of key drivers of change and relativities.
- (iii) Tracking the relative economic performance of the States and examining the extent to which State relativities, and changes in relativities, correspond to these movements.

9. This paper sets out specific proposals for a work program that responds to these requirements. It outlines an approach and timetable for:

- (i) priority issues of principle which will impact widely on assessment issues;

- (ii) category assessments which require a high level of interaction with the States;
- (iii) other issues of principle and method; and
- (iv) categories which require no change.

Priority Issues of Principle Which will Impact Widely on Assessment Issues.

10. This group would include the following.

- ***Simplification of method and presentation.*** This work would examine whether assessment methods can be simplified to reduce the cost and effort of the fiscal equalisation system while having little effect on equalisation.
- ***The Impact of Changes in Public Administration.*** This work would examine whether there are better ways of responding to changes in the public sector and delivery of government services and programs, particularly in areas such as privatisation, contracting out, purchaser/provider arrangements and changes in technology.
- ***Defining disabilities.*** This is an issue raised in particular by Victoria and Western Australia regarding the impact of Government policies on services delivery costs. It will investigate the extent to which differences in service delivery costs reflect differences in State policies and the extent to which they reflect disabilities.

11. The outcomes of work on the issues of principle outlined above could impact on the assessments in many categories and should therefore be initiated early in the review period and completed before the States have finished making their submissions to the review.

12. It is proposed:

- to commence work on these issues in April 2000;
- to issue a discussion paper in October 2000;
- to hold a high level conference with senior State officials (preferably at the level of Under Treasurer) in April 2001;
- to receive State submissions by July 2001; and
- to finalise decisions on these issues in October 2001 to provide clear directions for other category assessments.

Category Assessments Which Require a High Level of Interaction with the States.

13. We believe that three category assessments should be progressed early in the Review period and with a high level of interaction with the States. They are Depreciation, Debt Charges and Urban Transit. It is proposed that work on these categories be developed through a work program specifically agreed with the States and covering a considerable proportion of the review period.

14. ***Depreciation and Debt Charges.*** There is agreement among the States and in the Commission that the Depreciation and Debt Charges categories are a priority for further work. In discussions since the 1999 Review, States have agreed that this work should be initiated through a Working Party comprising State representatives and Commission staff.

15. It is proposed that a working party be convened in April 2000 to produce an initial discussion paper in May proposing the scope and timetable for work on these assessments. This will include a timetable for meetings of the working party and discussion paper release dates, and the identification of the parties responsible for each of the discussion papers. Attachment B sets out a proposed approach for this work. The final results of this work will then be set out in a report to the Commission in September 2001.

16. As was the case for the working party established on these issues for the 1999 review, this working party will provide advice to assist the Commission with its decisions. The Commission will make the final decision on the assessments for these categories in February 2002.

17. ***The Urban Transit Assessment.*** The Urban Transit assessment for the 1999 Review has been criticised because:

- (i) of its late development;
- (ii) its complexity; and
- (iii) the inadequacy of the data to support the conclusions reached or modelling undertaken.

There is also need to consider whether this assessment should continue to be undertaken on a different basis to other PTE assessments.

18. Because the approach to this category relies so heavily on information provided by the States about how they provide Urban Transit services, the Commission considers that it would be more productive for the State to respond to proposed assessment methods in a bilateral manner rather than in a working party. However, it is clear that extensive interaction with the States will be necessary. It is proposed that Commission staff issue a series of discussion papers that can be discussed at staff conferences before final consideration at the General Conference in late 2002.

19. Attachment C identifies the issues to be covered. The following timetable is proposed.

- A discussion paper distributed by the Commission in May 2000. This would provide the States with details of the issues to be examined and a request for advice on available data.
- Submissions from the States in September 2000 responding to the matters raised in the discussion paper.
- A further discussion paper in May 2001. This would provide a clear indication of the direction that the Commission intends to take with the Urban Transit assessment and a detailed request for any necessary data.
- Staff level discussions with State officials on the Commission's proposed approach in August 2001.
- Comment in State submissions in March 2002.
- Inclusion on the agenda for the General Conference in August 2002.
- Final decisions being taken by the Commission in November 2002.

Other Issues of Principle and Method

20. We believe that a number of issues, including some to which we attach considerable importance, can be most efficiently progressed in-house, at least for some time. We plan to deal with these issues in two groups — those that we conclude the Commission needs to discuss with State officials, and those that we conclude can be handled at a meeting of staff and State officials.

21. Our views on the former group, which will include:

- the identification of key drivers;
- the tracking of relativities against general State performance; and
- the category and factor assessments listed in paragraph 7;

will be presented in a discussion paper released in July 2001

22. State submissions will be invited on these issues by February 2002 and they will be discussed at the general conference in October 2002.

23. One issue in this group that we think will need discussion at the general conference is the differentiation within the indigenous community based on the impact of different groups on service demand and cost. We would not propose to commence any work on this until after the Commission's Indigenous Funding Inquiry is completed in March 2001. We anticipate being able to build on the findings from that work to assist assessments in this area. We plan to issue a discussion paper on this issue in May 2002.

24. Commission comment on the matters that we think can be left to discussion between Commission staff and State officials will be included in a discussion paper to be released in July 2002. In general, these would be matters of detail and will be discussed at a staff level conference in November 2002. They would include any assessment changes resulting from the use of different data sources.

No Change Categories and Factors

25. The Commission supports the States' views that the work program for the 2004 Review should be less extensive and more focussed on areas of work that add value to the fiscal equalisation process. The States have also expressed support for progressively closing off assessments over the Review period where possible. Consistent with this view, we have developed criteria that we believe can be applied to assessment categories to decide on areas where no change in method will be made for the 2004 Review. We think no changes in method should be made:

- (i) where assessment methods have been extensively reviewed in the past and have been generally accepted by the parties as reasonable; and
- (ii) where the redistribution of grant share as a result of the assessment is minimal.

26. We think there would be considerable benefit if agreement could be reached on categories that should not be reviewed, and on the criteria against which such decisions could be made. Attachment D provides our proposals for no change assessments. As a broad benchmark for the grant share criterion we have adopted 2.5 per cent of any State's total grant.

27. State views on this list are sought by the end of February 2000.

Early Finalisation

28. While we intend to finalise, where possible, all assessments with the release of the preliminary calculations in mid 2003, we will finalise assessments earlier where possible. Once States have been notified that we have made a final decision on an issue, there would be no need for further interaction on that subject. Examples of this are the 'no change' categories that we hope can be finalised immediately after the submissions in February 2000.

Submissions

29. This work program continues the effort of past reviews to reduce the extent of submissions required of the States. In this review we will generally undertake initial work in-house and state a position on an issue or category assessment before the States are asked to submit their views. This will further contribute to a reduction in the workload on the States. Submissions from the States will be more evenly spread over the review period and will need to respond to fewer issues.

30. Nonetheless, States would not be restricted on submissions they might wish to make.

Conferences

31. We also propose to alter the format of conferences. In the past all matters have been discussed by the Commission and State officials. During the next review, we propose that high level issues of principle be discussed with senior Treasury officials, the Under Treasurers, with matters of detail being discussed at staff level conferences. Conference agendas will not include categories that have had their assessment methods finalised.

Workplace Discussions

32. During the 1999 Review, all States were visited in a program of workplace discussions with officers providing services 'on the ground' as well as with officials from central policy areas of State departments. These visits of approximately five days in each State took place in metropolitan and country areas. Workplace discussions allowed:

- Commissioners to witness first hand disabilities experienced by, and the relative revenue capacities of, the States (in particular, to give the Commissioners a basis on which to exercise judgement when required);
- States to put their particular concerns to the Commission; and
- the Commission to test issues of relevance to its work.

33. We believe these workplace discussions are a valuable component of the review process. We understand States also support them and we propose that workplace discussions should continue for the 2004 Review. They will be used to inform judgements about priority issues and matters of importance for both us and the States. We think that they fit best into the work program in the second half of 2001 and the first half of 2002.

34. There would be opportunity for further bilateral discussions with States toward the end of the review period as was done in the 1999 Review.

Preliminary Calculations

35. In the 1999 Review, preliminary calculations were issued in mid-1998 and discussed at a conference. They gave the States details of the calculations for each factor and category and the treatment of each SPP. They covered four years of the assessment period. States have expressed concern that these preliminary calculations were not sufficiently final and too many changes were made between the conference and the final report, including some major changes in method.

36. For the 2004 Review, we plan to provide preliminary calculations in July 2003 and to include in them our final proposals on methods. They will be discussed at the Conference in August 2003.

37. On this timetable, the preliminary calculations will be made available more than eight months before the completion of the Review. We recognise that States may wish to make further submissions on some aspects of the review following this conference. These final written submissions should be made in September 2003. The bi-lateral discussions in October or November 2003 will provide a further opportunity for the States to put views to the Commission. Outstanding data may cause demand and cost weights to change and late information from the Census may also indicate that small changes in assessment methods are necessary. In practice, some changes to the preliminary assessments will be unavoidable

Special Data Collections

38. The Commission will again be undertaking special data collections in a number of categories. In the past, special data collections usually contained two parts, a policies and practices request and a statistical data request. Information on policies and practices was sought because the assessments require identification of conditions which impact on the cost of providing services and it is important that policy influences can be differentiated from other influences. The statistical part of the collection allowed the Commission to compile specific statistical and financial data for the State service in question. These are frequently used when deciding how best to quantify disabilities.

39. We propose to continue special data collections for the 2004 Review, but will limit them to areas of greatest importance.

The Five Year Program

40. Consistent with the requirements of the terms of reference and views expressed by States, we propose the following program for the 2004 Review.

Year	Commission Work	State Work
1999	Finalisation of Part 1 of the terms of reference	
	Discussion paper on the proposed review process and work program	
2000	Agreement on ‘no change’ assessments (March)	Submission on review program and ‘no change’ assessments (February)
	Working party on Depreciation and Debt Charges established (April)	Working party on Depreciation and Debt Charges established (April)

	Discussion paper on Urban Transit (May)	Submission on Urban Transit (September)
	Discussion paper on Depreciation and Debt Charges (May)	Discussion paper on Depreciation and Debt Charges (May)
	Discussion paper on priority issues of principle (October)	
2001	Commission conference on priority issues of principle (April)	Commission conference on priority issues of principle (April)
		Submissions on priority issues of principle (July)
	Discussion paper on Urban Transit (May)	
	Special Data Collection request (May)	Special Data Collection return (November)
	Discussion paper on other issues of principle and method – Group 1 (July)	
	Staff level conference on Urban Transit (August)	Staff level conference on Urban Transit (August)
	Workplace discussions (September to November)	Workplace discussions (September to November)
2002		Submission on other issues of principle and method – Group 1 (February)
		Submission on Urban Transit (March)
	Workplace discussions (March to May)	Workplace discussions (March to May)
	Discussion paper on Indigenous groups (May)	
	Discussion paper on other issues of principle and method – Group 2 (July)	
	General Conference (October)	General Conference (October)
	Staff level conference on Other Matters (November)	Staff level Conference on Other Matters (November)

2003	Preliminary calculations (July)	
	Preliminary Calculations Conference (November)	Preliminary Calculations Conference (November)
		Final Submissions (September)
	Bilateral discussions (October and November)	Bilateral discussions (October to November)

Conclusion

41. This program for the 2004 review is based on the assumptions that parties are seeking:

- (i) a program with broadly similar elements to that for the last review, involving work on priority issues, discussion papers, submissions, conferences, workplace discussions and preliminary calculations;
- (ii) more interaction on the development of assessments at the staff level;
- (iii) the introduction of progressive cut-off points for the finalisation of assessment methods over the review period; and
- (iv) a two-tier approach to conferences; conferences dealing with higher level issues of concept, approach and priority involving Commissioners, senior staff and senior Treasury officers, and conferences to develop matters of approach and detail involving Commission and Treasury staff; and
- (v) a timetable for the presentation of State submissions that are more narrowly focused on a set of issues.

42. We have sought to present a work program which provides:

- (i) a reduction in the size of the workload overall;
- (ii) better targeting the work to areas that will provide greater impact on the fiscal equalisation process;
- (iii) a more even spread of work over the review period; and
- (iv) narrowing the range of categories on which States are required to submit their views.

43. Attached are:

- (i) part 1 of the terms of reference
- (ii) the proposed work program for Depreciation and Debt Charges;
- (iii) the issues to be considered in the Urban Transit assessment;
- (iv) the proposed list of 'No Change' categories; and
- (v) a draft timetable.

44. Comments are sought on the approach proposed in this paper, and the specific issues that need to be settled for the work program by the end of February 2000. This will allow us to provide advice of no change categories in March 2000.

DEPRECIATION AND DEBT CHARGES

1. **Context.** The 1999 Review assessment of the Depreciation and Debt Charges (the operating impact of capital) has attracted considerable comment from the States. Issues of concern include both the overall approach to disability assessments and the data used.

2. We propose a comprehensive review of the assessment of the operating impact of capital for the 2004 Review.

3. **Issues.** There are three broad issues that need to be considered. They are:

- the general approach to assessing the operating impact of capital in the 1999 Review;
- the identification and assessment of disabilities; and
- data to estimate category standards and disabilities.

4. **General Approach.** During the 1999 Review, the scope of the assessment of the operating impact of capital was extensively debated. The Commission decided, with the support of most States, that the assessment of capital should allow States to fund annual depreciation (the so-called stock approach) and debt charges. We do not propose to fully reopen the debate of the scope of the assessment. We intend to focus the discussion on new information or views that have not been discussed previously, or on particular improvements to aspects of the approach taken.

5. In developing a general approach to the assessment of the operating impact of capital expenditure, we will need to consider assessments for:

- depreciation;
- debt charges;
- interest earnings;
- repairs and maintenance of the capital stock; and
- the elements of the above included in lease costs.

6. In addition, proposed assessment approaches would need to deal with:

- interaction of the five items mentioned above, especially between depreciation and debt charges;
- possible functionalisation of the depreciation assessment; and
- the treatment of capital SPPs.

7. **Disabilities.** Once a general approach has been decided, the following matters will need to be addressed.

- What disabilities should be applied?
- Is the current set of disabilities appropriate and comprehensive?
- How should they be calculated?
- What data are available?

8. We propose to give particular attention to the calculations of:

- the population concentration factor (depreciation);
- the construction cost factor (depreciation);
- the physical environment factor (depreciation);
- the urban transit component (depreciation);
- population growth (depreciation and debt charges); and
- price adjustment/re-evaluation of asset costs (debt charges).

9. **Data.** In regard to data, the issues are:

- data availability to estimate standard expenditure; and
- data requirement and availability for the factor assessments.

10. **Timetable.** The working party will be given terms of reference by the Commission in March 2000 and will begin its work in April. Its report to the Commission will be presented in September 2001.

THE URBAN TRANSIT ASSESSMENT

1. We believe the questions that need answering are as follows.
 - (i) What urban transit service will be provided by State governments in the period 2004-2008 — will it be a complete service, deficit funding of services operated by others, or a community service contribution?
 - (ii) How do we then assess it?
 - Do we need to model the whole public transport task (both public and private provision)?
 - Can we model just the public service provision?
 - How do we do this?
 - (iii) What data are (will be) available, how consistent are they and what limits do data place on the assessment method?
 - (iv) How should depreciation, debt charges and superannuation related to urban transit be treated?
 - (v) What is the relationship between urban transit service provision and other State government services such as roads?

NO CHANGE CATEGORIES

1. The Commission proposes that the following categories and common factors be frozen and that no changes be made to their assessment methods for the 2004 Review.

CATEGORIES OR FACTORS WHICH MOVE MORE THAN 2.5 PER CENT OF ANY STATE'S GRANT SHARE BUT WHICH HAVE GENERALLY ACCEPTED ASSESSMENTS

Land Revenue	Other General Public Services
Financial Transaction Taxes	Housing
Hospitals	Cross Border Factor
Administration of Justice	Input Costs – electricity and accommodation factors
Roads	National Capital Factor

CATEGORIES WHICH MOVE LESS THAN 2.5 PER CENT OF ANY STATES GRANT SHARE AND WHICH HAVE GENERALLY ACCEPTED ASSESSMENTS

Stamp Duty on Conveyances	Transport Rural School Children
Insurance Taxation	Mental Health
Heavy Vehicle Registration Fess and Taxes	Public Safety & Emergency Services
Other Vehicle Registration Fees and Taxes	Public Safety & Emergency Services – User Charges
Stamp Duty on Motor Vehicle Registration and Transfers	Family & Child Welfare
Drivers' Licence Fees	Other Welfare
Revenue Replacement Payments - Petroleum	Housing – User Charges
Revenue Replacement Payments - Tobacco	Concessions – Freight
Revenue Replacement Payments - Alcohol	National Parks & Wildlife Service – User Charges
Other Taxes	National Parks & Wildlife Service
Interest Earnings	Aboriginal Community Services – User Charges
PTE contributions	Primary Industry – User Charges
Hospital Patient Fees	Mining, Fuel & Energy
Fees & Fines	Tourism
Property Titles	Manufacturing & Other Industry
Preschools	Roads – User Charges
VET – User Charges	Regulatory & Other Services – User Charges
Higher Education	

2. There are also 23 user charges categories that have been historically assessed by the equal per capita method. No change is proposed to the assessment method for these categories.