Commonwealth Grants Commission

STATE FINANCES DIVISION

9.00 am — 3.30 pm 18 November 2015
held at the commission's offices, Canberra

Present:	Chairperson	Mr G J Smith
	Members	Ms P Faulkner AO
		Ms J Menzies
		Prof J Petchey

MINUTES

1. The minutes of the State Finances meeting held on 20 August were accepted.

Actions arising

The Commission noted the following.

- The history papers on the mining and administrative scale assessments had been placed on the web.
- A paper providing information on how the current institutional arrangements for housing and urban transport public non-financial corporations developed across States, including whether there were any reasons for the use of particular institutional arrangements, had been placed on the work program for next year.

UPDATE 2016

2. AP 2015-44 Update issues – staff recommendations on new issues and update report structure

In relation to new issues, the Commission made the following decisions.

The Commission confirmed the following assessments would not change in the 2016 Update:

- State mining revenue raising activities
- Other expenses — natural disaster relief expenses

- Welfare assessment — use of socio-economic index for individuals
- Road classification — sealed and unsealed roads.

The Commission confirmed it would rely on advice from the Department of Infrastructure and Regional Development (DIRD) to determine which projects are on the road or rail national network. Specifically, in response to State comments, it decided:

- not to include the payment for the Port Botany rail line in New South Wales included in DIRD's list of payments because it is owned by the Commonwealth
- to treat the Western Interstate Freight Terminal project in Victoria as a non-national network project
- to treat the Lloyd Street Upgrade in Western Australia as neither a local government nor national network project
- to recognise the Majura Parkway in the ACT is now classified as a national network road by DIRD and to change its treatment in the 2016 Update so that 50% of the Commonwealth payments for the three assessments year do not impacting on the relativities.

The Commission accepted the general principle that, if DIRD changed its classification of roads or rail project payments, it would change the treatment of those payments in the first inquiry after the change in classification occurred. However, it would not make any corrections for the previous treatment.

The Commission agreed that staff should consult the States on Western Australia's proposals on sharing confidential data among the States following the 2016 Update.

The Commission confirmed the treatment of new payments commenced in 2014-15 listed in Table 1 *Treatment of Commonwealth payments commenced in 2014-15* in the agenda paper. Specifically, in response to State submissions, it decided the following.

- The payment for Hummingbird House should be split and 50% of the payment should be treated as impacting on the relativities and 50% as having no impact. This is because palliative and respite care for children is a normal State responsibility for which needs for differences in use and cost of health and welfare services for children are recognised. However, as the Commission was unsure of the extent this payment would relieve the State or the private sector of responsibility, a split treatment of the payment has been adopted.
- The payment for the National school chaplaincy programme should impact on the relativities because the programme is a normal State educational responsibility for which needs relating to student numbers and characteristics have been assessed.
- The payment for the implementation of National insurance affordability initiative should not impact on the relativities because it is classified as a protection of the environment expense for which needs cannot be assessed.

The Commission confirmed it will continue the practice of not advising States of any changed treatment of matters set out in the New Issues papers before the final report.

In relation to the 2016 Update work plan and report structure, the Commission agreed to the 2016 Update work plan, report structure and content on the CGC website.

3. AP 2015-45 Wage costs - results

4. AP 2015-46 Wage costs – capital city or whole of state

The Commission commenced its discussion of the wage costs assessment. It noted the new Compensation of Employees (CoE) data for 2014 supported the conceptual case for a continued wage costs assessment. It asked staff to obtain States views before making any decisions on how the assessment might be made.

2020 REVIEW

5. AP 2015-47 What states do – average policy?

The Commission noted the paper and discussed how average policy should be applied in relation to the following.

- How does the Commission treat State activities that are undertaken by a minority of States?
- How does the Commission address relative versus absolute measures of needs in redistributive areas, such as social housing?
- How does the Commission balance two (or more) approaches within a State activity, such as specialised and community policing services?

It decided that how average policy would be applied would need to be considered in every assessment on the basis of what the available information, 'the facts', told it about what States were doing. It noted that its 'what States do' principle supporting the implementation of its horizontal equalisation objective, and how average policy would be implemented as a result, was a guideline and not a rule, allowing discretion in how the Commission could interpret average policy.

The Commission noted that the current approach to average policy works well when what States do is homogeneous but less well when what they do is very different. Different policies could be due to State preferences or to special needs. Deciding which could be difficult.

The Commission also noted there were two ways of thinking about average policy and what States were doing.

- When we observe that States spend different amounts on different client groups but there is no differential effect on State budgets, then the distribution of the client group should have no impact on the GST distribution, although States will not have the capacity to deliver the same level of services to each client group.

- When we observe that States spend different amounts on different client groups and there is a differential effect on State budgets, then the distribution of the client group should have an impact on the GST distribution, so that States will have the capacity to deliver the same level of services to each client group.

The Commission also discussed under what circumstances the outcomes were the same.

6. AP 2015-37 Contemporaneity – alternative approaches

The Commission noted the paper and discussed possible alternative approaches to contemporaneity. The Commission requested that staff provide additional material on two different approaches as follows:

- a Completions approach, which explicitly does not attempt to reflect conditions in the application year
- an approach using budget forecasts for the application year, also incorporating error correction once final budget outcomes are known.

The Commission asked that the section of the paper comprising the history of contemporaneity be prepared as a separate document for placing on the Commission web site. It said that it would consider this history paper again following the 2016 Update.

7. AP 2015-38 Treatment of Commonwealth payments

The Commission confirmed it was satisfied with the approach it had set out in the 2015 Review on the treatment of Commonwealth payments for specific purposes – that payments which support a State service for which expenditure needs were assessed should impact on the GST distribution. It also confirmed the 2015 Review approach to treating payments refused by one State.

The Commission also noted the difficulty of deciding the treatment of some payments because it was difficult to discern their purpose, given available information, and whether needs had been assessed. It asked staff to ensure that in making recommendations on the treatment of payments the following information was available:

- what purpose or disability the payment addressed and, if possible, the basis of its distribution
- whether this was a State responsibility and
- how we assess disabilities relating to this.

8. AP 2015-35 Trends in horizontal fiscal equalisation

The Commission noted the paper and agreed to post the paper on the Commission's website after staff had modified tables or graphs in the paper presenting time series to show real GST impacts instead of nominal impacts.

9. AP 2015-19 Should new review methods be phased in?

The Commission noted the paper and that phasing-in of new methods in a review did not present a solution to reducing large movements in States' GST. It noted that phasing was not consistent with HFE as currently defined and that a 'stability' supporting principle would be required for the Commission to attempt to make reductions to any large impacts on State budgets. It also noted that in abnormal circumstances, the Commission may wish to recommend such adjustments.

10. AP 2015-39 Revenue and expense ratios

The Commission noted the paper and asked that the ratios be presented when the Commission was considering assessments in the future. It noted that the ratios for Land tax Housing and Roads gave cause for concern which should be investigated in the next review.

The Commission asked that in the future the ratios be described as follows:

- ratio of assessed to average (capacity and cost of service provision ratios)
- ratio of actual to assessed (effort and capacity ratios).

History papers

11. AP 2015-41 History of CGC methods

The Commission noted the paper and sought some editorial changes. It asked that the paper be placed on the web at the same time as the 'Contemporaneity history' paper which will be considered by the Commission following the 2016 Update.

12. AP 2015-43 History of the capital assessments

The Commission noted the paper and sought some editorial changes. It asked that the paper be placed on the web after the changes had been incorporated.

Assessment issues

13. AP 2015-36 Relationship between investment in urban transport and urban roads

The Commission said the conceptual case for the substitutability of urban roads investment and urban transport investment was unclear, and that the available data were inconclusive. It said States would have the opportunity to present evidence supporting the argument as part of the next review and asked that staff not undertake further work on the issue at this stage. The Commission noted that, to the extent that urban transport and roads expenses were substitutable, this was captured in the urban roads and urban transport assessments.

Review and information papers

14. AP 2015-40 Review of budget analysis

The Commission noted the paper and agreed:

- the adjusted budget should continue to be compiled at the State level of details
- staff should discuss with the States through the data working party process options for reducing year 3 data requirements
- as part of the consideration of assessment guidelines for the 2020 Review a materiality test could be considered for adjustments to correct data misclassifications, although, at this stage, the Commission was not disposed to do so.

15. AP 2015-42 Implications of a major increase in GST revenue

The Commission noted the paper and discussed the implications and possible approaches should there be a major change to State budget structures due to tax reforms, such as an increase in GST revenue.

OTHER MATTERS

16. Tax reform and HFE

The Commission noted that a presentation was provided by staff to officials from Treasury and PM&C in September addressing whether HFE acts as a disincentive to tax reform. It asked that this presentation be sent to Commissioners.

17. John Spasojevic

On behalf of the Commission, the Chairman expressed appreciation for John's 11 years of service. He noted that John had advised the Commission capably as a result of his great insight and strength of character through a period of considerable stress and change for the Commission. He wished John and his family all the best for the future.

FUTURE MEETINGS

The next Commission meeting will be held on 14 December 2015. It is likely to be a teleconference to discuss outstanding new issues.

The meeting scheduled for 19 January 2016 may also be a teleconference to make decisions on the wages assessment.

The meetings on 9 February and 23 February were reconfirmed.

The Chairperson closed the meeting at 3.30 pm on 18 November.

Read and confirmed

G J Smith
Chairperson