Commonwealth Grants Commission

STATE FINANCES DIVISION

10.30 am — 2.00 pm on 23 February 2016
held at the commission's offices, Canberra

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

The Chairman welcomed Members to the meeting and introduced the new Secretary, Mr Michael Willcock who was congratulated on his appointment.

MINUTES

1. The minutes of the State Finances meeting held on 19 January 2016 were accepted.

2016 UPDATE

2. AP2016-07 Wage cost consultancy – final report

The Commission noted the receipt of the final Mavromaras et al report at 5:00pm on Friday the 19th of February.

As per the paper, the Commission reconsidered its decisions in light of the final report. Staff provided an oral briefing on any notable changes to and implications of the final report. Staff noted that the final report text was largely unchanged from the draft report received 12 November 2015.

The Commission noted that the tone of the report had changed slightly; and was more evenly balanced between national and local labour market hypotheses. It also noted that the quality of the report had improved somewhat when compared to the earlier draft. Some concerns were expressed regarding the quality of the dataset and the reliability of the conclusions in respect of smaller States.

Staff provided an explanation of the consultant's main theory regarding national labour markets and noted several States had advanced alternative theories which could be

regarded as equally plausible. It was also noted that the extent of any possible influence was not extensively explored nor quantified in the report.

The Commission decided that the report was supportive of the conceptual case and method of the current wages assessment, but did not provide compelling evidence to change the assessment in any way. Concerns with alternative explanations and data quality in regards to the consultant's conclusions were also discussed.

The Commission considered that the report offered no further information in regards to the circumstances of the ACT and confirmed that it would not perform any adjustments.

It was noted that the report devoted some time to the issue of responses to the GFC, emphasizing the evidence for a slower response in the public sector compared to the private. The Commission noted this, but did express some concern regarding the reliability of the evidence to inform on the operation of the labour markets in a general sense. The limited number of observations, size of the dataset and the possible influence of State policy contributed to this concern.

The Commission also considered more generally the implications of the report with regard to State specific adjustments; noting that many consultants had examined this assessment over many years, and new cases for special circumstances often resulted. The Commission considered that the strength of the arguments here did not warrant any adjustments. The Commission emphasized a desire to keep the assessment as simple as possible, and that over-interpreting the data, given its quality, to justify certain adjustments over others, was not the preferred way forward. It considered that a simple, transparent assessment was the most desirable and defensible outcome.

The Commission considered that this report was best released together with the 2016 Update Report.

The Commission reiterated its earlier decision that the report provided no support for a capital city based assessment, and so a whole-of-State assessment remained the best available policy neutral measure of the disability.

3. AP 2016-04 Draft 2016 Update report (incorporating additional Members' comments)

The Commission acknowledged the receipt of a draft of the report. It noted that all editorial changes received up to Friday the 19th of February had been received and processed. Several other minor editorial changes were noted and will be added to report. The Commission confirmed that the Chairman will clear any final edits, pending no unexpected changes to the Terms of Reference (ToR).

If there are changes to the ToR compared with the draft ToR, any changes to the report would be made in accordance with any new requirement. Members would be briefed on those changes.

2020 REVIEW

4. AP 2016-05 Taking stock and where to next (2016 work program)

The Commission had a wide ranging discussion about implications of the strategic environment for the Commission's work plan.

It noted that:

- tax reform and reform of the federation were unlikely to have an impact on Commission work
- the uncertainty of when a ToR for a methods review might be received caused some concerns
- Commission reappointments or appointments by the end of August may cause the need for some changes
- the large redistribution of GST from Western Australia to the other States and the volatility in relativities caused by changes in mining royalties, natural disasters in Queensland, the property boom in New South Wales and changes in population growth patterns were raising questions about the appropriateness of the relativities and may influence the content of any ToR
- solving any real or perceived weaknesses in the horizontal equalisation system should be a priority for the Commission
- the contemporaneity/reliability compromise was identified as a perceived weakness that could possibly be solved by using estimates of, for example, mineral royalties and value of production tax bases and payments for specific purposes that do not grow at the same rate as the pool.

The Commission agreed to the proposed work program for 2016-17, emphasising the need for priority work on the use of estimates to solve the contemporaneity problem, work on long term assessment issues, such as administrative scale, regional costs, gambling, and the research aimed at identifying 'what States do'.

FUTURE MEETINGS

The next Commission meeting will be held on 20 April 2016.

The Commission also agreed to keep the following meetings in their calendars, noting the meetings in June and August were unlikely to go ahead. Advice on any meeting cancellations would be provided to the Members as soon as possible before the meeting

2016

20 April

18 May

15 June (unlikely)

27 July

17 August (unlikely)

21 September

26 October

23 November

14 December

2017

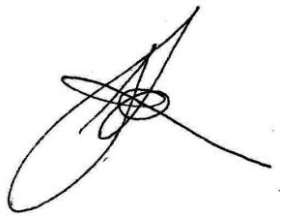
18 January

8 February

22 February

The Chairperson closed the meeting at 2.00 pm on 23 February 2016.

Read and confirmed



G J Smith
Chairperson