Commonwealth Grants Commission

STATE FINANCES DIVISION

9.00 am — 3.00 pm on 19 January 2015
held at the Commission's offices, Canberra

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

MINUTES

1. The minutes of the State Finances meeting held on 17 December 2014 were accepted.

Actions arising

- The Commission confirmed its decision to treat the whole of Sustainable Rural Water Use and Infrastructure (SRWUI) part of the Water for the Future program (which has components relating to agriculture, urban water supply and protection of the environment) as having an impact on relativities because the majority of the payments are for agriculture and urban water supply and needs are assessed. It noted this treatment was consistent with how the Commission treated other Commonwealth payments. No other programs are split by function, although programs are split into those paid to different levels of government and non-government recipients and into rewards and other components to ensure they do not impact where needs are not assessed.
- The Commission noted the receipt of a supplementary terms of reference and asked staff to implement the requirements.
- The Commission decided that on the basis of new or revised data:
  - the Indigenous cost weight in the post-secondary assessment would change from 1.3 to 1.35
  - the Indigenous cost weight in the housing assessment would change from 1.4 to 1.3.

- The Commission noted progress on the final report draft and the proposed process for final sign off.

2015 REVIEW

2. AP 2014-101 Iron ore — should the Commission make an adjustment to phase out the constraint on iron ore fines?

The Commission agreed with the view that the previous terms of reference, which directed the Commission not to change the treatment of iron ore fines, did not apply to its 2015 Review.

The Commission decided:

- to remove the phase-in adjustment it had included in the draft report
- subject to its consideration of the volatility issue, in its assessment of iron ore royalties to reflect the effective royalty rates applicable in each of the assessment years.

3. AP 2015-05 Iron ore – a contemporaneous assessment

The Commission decided it would continue to base its relativities on the North West Shelf payments Western Australia received in the assessment period.

The Commission agreed to staff consulting with States and seek their views on the possible advantages and disadvantages of the following options for dealing with large and volatile own source revenues:

- Absorption
- A lagged five year average (other revenues would continue to be assessed with a lagged three year average)
- An adjustment to States' application year GST outcomes, which would be reversed in subsequent years.

4. AP 2015-04 Position paper on significant changes – state responses and staff recommendations

The Commission:

- confirmed its decision to adopt a mineral by mineral assessment in the Mining category and its decision not to make profitability adjustments to the mining assessment
- decided to retain the assessment of planning and regulation and capital grants to local government for community amenities set out in Position Paper 2014-04
- confirmed (subject to final review) the use of the following substitutability assumptions in the Health assessment:

  - a 15% level for the emergency department component
  - a 40% level for the non-admitted patients component
  - a 65% level for the community health component
  - a 10% level for the admitted patients component
- confirmed its decisions to adopt the new method of calculating and presenting the impact of the non-State sector in the health assessment, through an economic environment adjustment, and to standardise bulk billed services by Indigenous status, remoteness, SES and age in calculating that adjustment
- decided to, in the Other General Welfare assessment, base the adjustment of the 2006 SEIFI measure on change in the Health Care Card plus Pensioner Concession Card (excluding Age Pension) holder numbers between 2006 and 2011
- decided to make no further adjustment for cost of living or location costs in the Welfare category
- in relation to the National Disability Insurance Scheme (NDIS) assessment:
  - rejected the ACT argument that the terms of reference (TOR) requirement that NDIS drawdowns not impact on the relativities suggested State transitional expenses should be assessed APC
  - confirmed its view that rates of transition to the NDIS are State policy decisions
  - confirmed the assessment set out in the draft report, except the change required by the TOR relating to drawdowns
- decided to make no change to the structure of the Schools education category assessment outlined in the draft report
- confirmed its decision to use the urban population squared model to derive 50% of the stock factor to be used in the urban transport infrastructure assessment and to combine this with a stock factor based on urban populations (also weighted by 50%), given the State concerns about the shape of the curve and the possibility that not all influences on infrastructure requirements were captured in the simple population squared model
- decided to make no change to the urban transport operating expenses assessment because the assessment used the same approach as that recommended by the expert transport consultant in the 2010 Review and gave very similar disability results, despite the updated data used to re-estimate the equation
- noted that changes in assessed expenses for Urban Transport net operating expenses were due to the increase in the standard, arising from the correction of an error and the inclusion in the assessment of depreciation expenses
- confirmed its proposal to treat 50% of Commonwealth payments to States for projects which the Department of Infrastructure and Regional Development

advises affect the national road or rail networks in a way that ensures they do not affect the GST distribution

- confirmed its decision not to discount the population growth effects in the investment assessment
- decided not to introduce a floor for the relativities because it is not possible to judge an appropriate level based on uncertainties in the assessments, noting such adjustments are better made at the category or disability level
- noted State claims about the short review process, the lateness of decisions, inadequate consultation and Queensland's views on the credibility, robustness and stability of outcomes of the 2015 Review and asked that some response be provided in relation to these in the final report
- asked staff to note the Commission view in the final report that a sensible approach to consultation on Commission decisions was through a draft report, followed only by a final report
- noted the time constraints on further consultation and declined requests for such, except that relating to the Treasurer's letter, at this stage of the review.

5. AP 2015-01 Health – Backcasting of national health reform funding

The Commission decided, in recognising the National Health Reforms (NHR) as a major change in Commonwealth State relations:

- for assessment years prior to 2013-14, to back cast State shares of NHR funding using the 2013-14 distribution as published in the Commonwealth Final Budget Outcome, with an adjustment to remove payments received by States relating to the provision of services to residents from other jurisdictions.

6. AP 2015-03 Location adjustment

The Commission decided:

- to increase the discount on the extrapolated (general) regional costs assessment from 12.5% to 25%
- not to make an assessment of office accommodation as it is not material
- to make a negative adjustment of $25 million to Tasmania's regional costs allowance and $50 million to the Northern Territory's regional cost allowance to recognise that the capital cities of these States experience cost impacts somewhere between that of a major city and their relative classifications of inner regional and outer regional respectively
- to make an assessment of $20 million for the ACT to recognise that, while Canberra is a major city, it is fundamentally different to the other major cities, which typically have populations over 1 million people

- to apply a location adjustment of $80 million for Western Australia to reflect the impact of excluding very remote areas from the calculation of interstate wages
- to calculate a separate location adjustment to implement the previous three recommendations, indexing these amounts included in the middle of the assessment years annually by the growth in expenses, and assessing the net cost (-$25m) of the assessment EPC across all States

The Commission also noted that remoteness definitions had been used consistently across categories to achieve the best and most reliable estimate of equalisation possible with the data available.

7. AP 2015-02 Consistency in discounting

The Commission discussed the paper and the discounting process. It decided:

- the size of the discounts associated with its low level of concerns (12.5% discount, moderate concerns (25% discount) and high level of concern (50% discount) were appropriate
- the discounts and other adjustments being made or not made were mostly consistent, but to improve that consistency it would reduce from 25% to 12.5% the discount in the police socio-demographic composition factor (which is a substitute for unavailable cost weights for police custody incidents) and base the discounts in the regional cost and service delivery scale factors on:
  - a 12.5% data quality discount in police and
  - a constant 25% extrapolation discount when the police, schools or the average police and schools data are extrapolated to other services(overriding its November 2014 decision on the regional loading to apply in Post-secondary education).

8. AP 2014-103 Final report chapter – services to communities (from previous meeting)

The Commission discussed the question of what was average policy in the electricity subsidies assessment and whether the text relating to the Western Australian circumstances was appropriate. It asked staff to redraft that material for the next meeting.

Apart from that, it agreed to include this chapter in the final 2015 Review report, subject to tables and the summary of changes from the 2014 Update being finalised once the assessment is completed.

9. AP 2014-100 Outstanding commonwealth payment decisions (reference and addendum)

The Commission decided to treat the following payments as not impacting on the relativities because it is not possible to judge whether they are a substitute for State

provided services or relieve State budgets in any way. It concluded it could not be certain needs were assessed.

- Direct payments to local government under the following programs: Preventive health — Healthy communities, Water for the Future the East Kimberley development package – other infrastructure projects, Liveable cities and Local Government and Regional Development infrastructure employment projects.
- Direct payments to local government and non-government organisations under the Digital regions initiative program.

10. AP 2015-06 External review of decision making processes

The Commission:

- noted Mr Poole's conclusions
- asked staff to ensure report drafts clearly explain reasons for discounts and to examine the appropriateness of the timeframes and decision points in the health assessment during the post-report review of the conduct of the Review
- agreed Mr Poole's report should be put on the web site as soon as possible.

OTHER MATTERS

11. The Commission asked that the question of whether preliminary results would be sent to States be put on the agenda for each meeting until the Commission had final results.

12. The Commission asked that staff continue to reality check assessments and bring anything of concern to the Commission's attention.

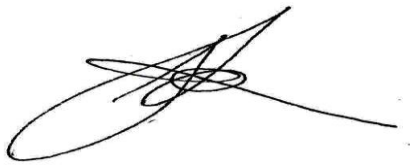
13. The Commission noted the importance of ensuring all report documentation and results were held securely. It discussed appropriate security procedures to put in place as the review nears completion to avoid leaks of review outcomes. The Commission agreed that from now on agenda papers should just be placed on the secure cloud and not be emailed to them.

FUTURE MEETINGS

The next Commission meeting will be held on the 28 January 2015.The Commission noted that telepresences may be necessary to finalise assessments and that facilities had been booked for the afternoons of 3 and 17 February.

The Chairperson closed the meeting at 3.00 pm on 19 January 2015.

Read and confirmed



G J Smith
Chairperson