Commonwealth Grants Commission

STATE FINANCES DIVISION

9.00 am — 12.50 pm 18 May 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

MINUTES

1. The minutes of the State Finances meeting held on 23 February were accepted.

Actions arising

The Commission noted the following.

- The 2016 Update Report was presented to the Treasurer and released to the States on 1 April 2016, after receipt of the terms of reference the previous day. As the final terms of reference were identical to the draft, apart from release dates, no changes to the report approved by Members at the meeting of 23 February 2016, with final edits cleared by the Chairperson, were required. The report was made public at 8.00pm on Thursday, 7 April 2016.
- The Mavromaras et al report on the wages assessment was released to the States at the same time as the 2016 Update report, as requested by the Commission.

2016 UPDATE

2. AP 2016-21 Review of the Update 2016

The Commission noted the paper including the staff intention to respond to State feedback on the 2016 Update processes.

3. Letter from Director General of Premier's Department of Western Australia

The Commission noted the letter and that its receipt had been acknowledged by the Secretary. The Commission considered whether it should provide an additional flat and factual response, noting that it had responded to the terms of reference provided to it by governments. On balance, it decided not to do so.

4. Visits by the West Australian and the Northern Territory Treasuries

The Commission noted that officers from the Western Australian and Northern Territory Treasuries had visited Commission staff on 3 May. It noted that the Northern Territory wished to improve its knowledge of the Assessment system on-line and the Western Australia Treasury wished to provide some feedback on the 2015 Review and 2016 Update processes. In particular, Western Australia was keen for more interaction with the Commission – both Members and staff - in the next Review.

2020 REVIEW

5. AP 2016-13 History of contemporaneity

The Commission noted the paper and agreed to place it on the Commission website, subject to minor editorial changes.

6. AP 2016-15 Contemporaneity – an overview

7. AP 2016-08 Contemporaneity – a projections approach

8. AP 2016-10 Contemporaneity – alternatives for dealing with PSPs and mining revenue

9. AP 2016-06 Contemporaneity – a completion approach

The Commission noted the suite of contemporaneity papers. It decided the issue would be best progressed in consultation with States and that discussions on this topic should commence soon after terms of reference for a new review are issued.

To aid these discussions the Commission asked staff to bring forward a research paper when review terms of reference have been received. The paper should:

- focus on the trade-off between reliability, certainty, contemporaneity and stability
- seek State views on:
  - the appropriate balance between these features
  - what a standalone HFE process, that gave effect to that balance, would look like.

10. AP 2016-11 History of the Commission's approach to economic development

The Commission noted the paper and agreed to place it on the Commission website, subject to minor editorial changes.

The Commission noted that this paper was the last of the identified history paper series. After consideration the Commission decided that rather than produce further history papers, staff should focus on producing material for the Commission's web site that was more accessible for non-experts in aiding their understanding on topics such as:

- what is HFE?
- why does Australia have an HFE system?
- why do some States receive more or less GST revenue?

11. AP 2016-09 Services to industry issues for investigation

The Commission noted the paper and endorsed the staff proposal to investigate the following issues.

- Disaggregating expenses:
  - investigate different options for disaggregating State spending on different industries, including using GFS unit record data and existing administrative data, or developing a new survey.
- Business development:
  - investigate what States do to support particular industries and to facilitate economic activity
  - investigate whether population is the most appropriate driver of all business development expenses.
- Drivers of agriculture expenses:
  - investigate the nature of State spending on agriculture to confirm the current drivers used in the assessment are appropriate
  - investigate how fluctuations in the value of agricultural production affect the size of the regulation task
  - investigate the interaction, if any, between the Services to industry and natural disasters assessments.
- Drivers of tourism expenses:
  - investigate the drivers of State tourism spending through discussions with relevant national and State industry bodies.
- Drivers of other economic affairs and labour and employment affairs
  - investigate the nature of State spending on 'other economic affairs' and 'other labour and employment affairs' to determine if there are any missing drivers.

- Administrative scale quantum:
  - re-examine the quantum of administrative scale expenses for the Services to industry category as part of broader consideration of the administrative scale assessment for the 2020 Review.
- User charges
  - investigate the appropriate treatment of agriculture and other industry user charges.

12. AP 2016-16 Indigenous use and cost weights

The Commission noted the paper. It agreed to a program of further work that would investigate further whether appropriate Indigenous cost weights can be developed or improved in:

- Justice services
- Housing
- Services to communities (small communities utilities subsidies).

The Commission also noted that there are no Indigenous cost weights in the Welfare assessment, in particular for Family and Child services. It suggested that further work in this area could be done by considering:

- the Indigenous/non-Indigenous split of children classified as having special needs for the purposes of foster or kin care, as compared with the split of children identified as not having special needs
- whether any material produced by the Child Protection research centers could inform its assessments.

13. AP 2016-12 Capital disabilities

The Commission noted the paper and that a conceptual case exists, at least in relation to schools, hospitals, housing and police services, capital stock disabilities may differ from recurrent expense disabilities. It also noted that, largely due to variations in the useful life of infrastructure, across categories the disabilities for replacement capital and new capital may differ.

The Commission endorsed the staff proposal to put work on capital specific disabilities on hold until such time as further work, considering whether the assessment model can integrate various different capital stock disabilities and their effect on the complexity of the assessments, is completed.

14. AP 2016-14 Transport services – what states do and implications for future work

The Commission noted the paper and the many ways States provide transport services. It agreed that the factual part of the paper (excluding discussion of assessment issues and recommendations) be uploaded to the CGC Cloud for access by the States.

The Commission confirmed the continued appropriateness of using consolidated urban transport activities in the assessments, subject to any directions in future review terms of reference. It agreed to a program of further work which would examine:

- the appropriate relationships between city size and recurrent spending and investment for transport services, and whether other drivers, such as urban form, should and could be taken into account
- whether the 2015 Review definition of metropolitan urban areas remains appropriate
- whether the population threshold for other urban areas included in the assessments should be revised
- whether the increased use of public private partnerships to acquire infrastructure has implications for the assessment
- whether the data used in the assessments are fully comprehensive in terms of the agencies covered and the funding methods used
- the assessment of non-urban transport expenses
- the assessment of dividends from public corporations as part of the review of the Other revenue assessment.

15. AP 2016-20 What states do – electricity subsidies

The Commission noted the paper and the very different ways States are involved in electricity generation and distribution and in the subsidies they provide to communities. It agreed that the factual part of the paper (excluding discussion of assessment issues and recommendations) be uploaded to the CGC Cloud for access by the States.

The Commission agreed to a program of further work which would:

- consider the appropriateness and reliability of splitting subsidies into three groups: urban, on-grid remote, and off-grid remote
- explore the size of communities where subsidies are concentrated (and whether the current threshold of 1 000 people is still the most appropriate)
- investigate subsidy levels by fuel source
- investigate differences in the level of cost recovery between remote Indigenous and non-Indigenous communities.

16. AP 2016-22 What states do – welfare services

The Commission noted the many ways States provide welfare services and, subject to any directions in a future review terms of reference, approved a review of the welfare assessment with a particular focus on:

- monitoring the implementation of the NDIS and State intentions regarding the continued provision of non-NDIS type services
- exploring alternative assessments for the other general welfare expenses assessment, which is currently based on ABS 2006 SEIFI data adjusted for changes in the relative proportions of State populations with concession cards between the 2006 and 2011 Censuses.

The Commission agreed that the factual part of the paper should be uploaded on the CGC Cloud for access by the States.

FUTURE MEETINGS

The next meeting will be held on 27 July 2016.

The Chairperson closed the meeting at 12.50 pm on 18 May 2016.

Read and confirmed

G J Smith
Chairperson