COMMONWEALTH GRANTS COMMISSION

STATE FINANCES DIVISION

9.15 am — 4.00 pm on 23 November 2016

Meeting held at the Commission's offices, Canberra

Present:	Chairperson	Mr G J Smith
	Members	Dr L Williams
		Prof J Petchey

MINUTES

1 The minutes of the State Finances meetings held on 21 September 2016 and 18 October 2016 were accepted.

Actions arising

2 The Commission noted the following.

- The What States do papers on Mining, Motor taxes, Housing and Schools education have been posted on the CGC Cloud.
- Staff are further considering material drawing together the influences causing State fiscal capacities to differ for presentation on the Commission web site, along with navigational improvements to best assist site users reach the material suited to their needs. Staff will provide Commissioners with a briefing on these changes at the next meeting.
- The Commission considered AP 2016-45 The Wages assessment in the 2017 Update out of session and approved the release to States of the updated results from the 2015 Characteristics of Employees Survey through Staff Discussion Paper CGC 2016-18-S.

2017 UPDATE

AP 2016-44 Issues relevant to the 2017 update

3 The Commission:

- noted that staff have maintained the dispatch date for data requests but moved the return date back by four weeks in this update
- noted that some States might still not be able to meet the deadlines for the provision of data because of their financial reporting commitments
- agreed to review the process at the conclusion of the update.

4 It also decided to change the current data sharing protocol to 'sharing non-confidential data among States which have not designated their data as confidential, provided any data designated as confidential by States cannot be back solved from the assessment outcome'.

5 The Commission:

- noted States' concerns about the late availability of the terms of reference (ToR) for the 2017 Update and the 2020 Review
- decided to record State views on this issue in the New issues chapter of the 2017 Update report, as well as noting the Commission's appreciation of States' co-operation in preparations for the update prior to receipt of ToR.

6 The Commission also agreed:

- to send the preliminary adjusted budget to a State once the figures for that State have been compiled
- to push back the due date for State comments to mid-January.

7 In relation to protocols for correcting errors, the Commission decided to continue its usual approach and report on changes, including changes as a result of data revisions, to States' fiscal capacities, in the update report. It considered this the appropriate way of advising States of relevant changes affecting GST shares.

8 Despite this general approach, it also decided:

- to correct the error in the calculation of the non-State sector adjustment in the community health component assessment from the 2017 Update
- but to advise States about the error before the report is released using the proposed text in the paper, with some additional text to increase clarity. This is because the error is large and unexpected.

9 In relation to the National Disability Insurance Scheme (NDIS), the Commission decided to retain the use of total number of people eligible in a year to be covered by the NDIS when fully operational as the measure of NDIS needs during transition, consistent with the 2015 Review decision.

10 In relation to Commonwealth payments commenced in 2015-16, the Commission:

- approved staff proposals on the treatment of Commonwealth payments commenced in 2015-16, as listed in Table A-1 of the paper
- decided not to allow the Zika response team payment to affect the relativities because the payment supports services which must be provided by Queensland for which needs are not assessed in the community health assessment
- decided for consistency to change the treatment of an existing payment for Torres Strait health protection strategy – mosquito control from impact to no impact because this is a payment similar to 'Zika response' and needs are not assessed
- decided that payments under the bridge renewal programme not affect the relativities because needs could not be assessed reliably
- decided to allow the established pest and weed management payment to affect the relativities because needs are assessed in the agriculture regulation component of the services to industry assessment
- decided not to allow the mechanical fuel load reduction trial payment to affect the relativities because it is a Commonwealth trial program and needs are not assessed.

11 In relation to Commonwealth payments commencing in 2016-17 or 2017-18, it decided not to backcast any of the Commonwealth payments commencing in 2016-17 and 2017-18, as listed in Table A-2 of the paper.

12 The Commission noted South Australia's information on a payment it will receive in 2016-17 and 2017-18 under the Building Australia Fund – rail component and will consider whether it is a payment for the national rail network in the 2018 Update.

AP 2016-51 Wage costs – State responses and staff recommendations

13 The Commission decided:

- to include the education variables in its econometric model in the 2017 Update and future updates because they have a material effect on State's GST distributions
- to exclude the trade union membership variable from its econometric model in the 2017 Update and future updates because it does not have a material effect on State's GST distributions and its exclusion would make the econometric model more consistent year to year
- not to change the level of discount due to concerns about data or methods used in the assessment in the 2017 Update
- not to reintroduce a State specific adjustment for Tasmania because its modelled outcome is not so extreme as to warrant an adjustment

- to cease assessing a disability in relation to the Commonwealth Superannuation Scheme because it is no longer material for the ACT or the Northern Territory.

AP 2016-54 Other outstanding issues for the 2017 update

14 In relation to natural disaster expenses, the Commission noted ongoing audit action in relation to State expenses. It decided to continue the practice of using State estimates of net Natural Disaster Relief and Recovery Arrangements (NDRRA) expenses as a reflection of States' natural disaster expenses in the 2017 Update. Because it is an actual per capita assessment, it decided adjustments for any material revisions to expenses in current assessment years would be made in the latest assessment year, to ensure the adjustment is reflected in the assessments for three application years. The relevant materiality threshold for making this adjustment would be $10 per capita.

15 However, it decided, as per past practice, adjustments would not be made for revisions affecting years no longer used for calculating application year relativities and that non-material revisions to data for current assessment years would be reflected only in those assessment years.

16 In relation to Independent Hospital Pricing Authority (IHPA) data, the Commission decided:

- to use 2015-16 IHPA data in the 2017 Update when they become available in January 2017
- for the emergency department and community health components in the Health category, to use the number of Public Hospital Establishment (PHE) emergency department (ED) occasions in 2013-14 to estimate the number of ED occasions for hospitals previously covered by the National Public Hospital Establishment Database (NPHEDB)for 2014-15 and 2015-16
- to consult with States early in 2017 about the feasibility of obtaining PHE ED data directly from the States via a special data request for the 2018 Update and continue to monitor improvements in the coverage of the remaining collections for ED activity.

2020 REVIEW

AP 2016-30 Consultancy proposal – elasticity adjustments to revenue bases

17 The Commission considered that the conceptual case in relation to differences in tax rates across States affecting the measure of State tax bases under average policy was

established. The Commission's view was that it faced an empirical problem in calculating a reliable and material adjustment to reflect elasticity effects.

18 The Commission agreed to commence a consultancy process, including consultation with States. It asked staff to firstly undertake discussions with a range of organisations to determine the feasibility of measuring elasticity effects on State tax bases.

19 It asked staff to bring back a revised consultancy paper following these discussions.

AP 2016-55 Consultancy proposal – transport

20 The Commission discussed the proposed consultancy brief. It decided to have one consultancy but with a two-stage process. The first stage would involve the following outputs:

- Output 1 – A report that provides a comprehensive understanding of the drivers of urban transport spending (recurrent and capital) in Australia and overseas and a model specification relevant to Australia. In other words, the consultant should answer the question 'What does the theoretical and empirical research on the drivers of urban transport spending tell us?' The model should allow the Commission to estimate what each State would spend on providing urban transport if it applied the policies of all States (the average policy) to the cities in the State, given their non-policy influenced characteristics (size, form). This should include an evaluation of our current model, including reasons, if any, why it needs to be improved, and if so how this might be done.
- Output 2 – An evaluation of whether available data are sufficiently reliable and fit for purpose to estimate a model of urban transport spending for Australia. If not, the consultants should consider what is practical and captures most of the differences?
- Output 3 – A report on the most appropriate urban area geography/boundaries for the assessment and treatment of satellite cities.

21 If data are available and it is practical to do so, the consultant would then be asked to proceed to the second stage of the consultancy, which would cover the following output.

- Output 4 – A report on alternative models, with data and results, which could become the basis of a Commission assessment.

22 The Commission asked to see a revised copy of the consultancy brief before it is sent to States for comments.

23 The Commission agreed to the proposed consultancy process, including the consultation with States and proposed timing.

AP 2016-53 Investment architecture

24 The Commission noted the paper. It provided guidance to staff on further work it would like to see in the next paper on the capital assessments. In particular the Commission asked for more information on what States do in respect of managing their balance sheets, including an analysis of the redistributive effects to date of the capital assessments first implemented in the 2010 Review.

AP 2016-49 Data working party

25 The Commission endorsed the proposed process and timetable for the data working party and the scope of work it will cover.

AP 2016-36 What States do – services to agriculture

26 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper for States to comment. Staff should remove any discussion of assessment issues and the recommendations.

27 The Commission noted the ways States provide services to agriculture and approved a program of future research which would examine:

- the drivers of State spending on industry regulation, management and development
- the weights to apply to each of these drivers
- whether user charges should be netted off State spending before making the assessment.

AP 2016-41 What States do – admitted patients

28 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper for States to comment. Staff should remove any discussion of assessment issues and the recommendations.

29 The Commission noted how States provide admitted patient services and the non-policy influences on State costs. It approved a program of future research which would:

- confirm the net spending estimate for the admitted patients component based on GFS data is accurate
- confirm whether the current level of detail in the SDC assessment remains appropriate
- review the substitutability level for the admitted patients component and the calculation of the associated non-State adjustment in the next Review.

AP 2016-46 What States do – Land revenue

30 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper for States to comment. Staff should remove any discussion of assessment issues and the recommendations.

31 The Commission noted the different ways States collect land taxes and it approved a program of future research to investigate:

- the sources of land value data, including the basis and frequency of valuation
- alternative measures of Land tax capacity
- which land revenues are a tax on the rental value of land and which are in the nature of a user charge
- whether Land revenue and Stamp duty on conveyances can be combined and assessed using a single capacity measure
- whether any elasticity effects are material and, if they are, whether it is possible to measure them reliably.

AP 2016-50 What States do – Gambling revenue

32 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper for States to comment. Staff should remove any discussion of assessment issues and the recommendations.

33 The Commission noted the different ways States collect gambling taxes and it approved a program of future research to investigate whether a conceptual case for a gambling assessment could be established once the policy choices of States had been addressed. If so, it asked staff to investigate:

  - whether reliable data on the level of gambling activity can be obtained
  - the degree of substitutability between different forms of gambling
  - policy neutral capacity measures for different forms of gambling
  - policy neutral capacity measures for total gambling
  - whether those measures require adjusting and, if so, what those adjustments might be
  - whether any elasticity effects can be measured reliably and, if so, whether they are material.

AP 2016-48 Composition of the Other revenue category

34 The Commission noted:

- the revenues that are currently classified to the Other revenue category
- the reasons for assessing these revenues equal per capita
- the treatment of these revenues would be reconsidered in the next review.

AP 2016-35 What States do – water subsidies

35 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper for States to comment. Staff should remove any discussion of assessment issues and the recommendations.

36 The Commission noted the ways States provide water services and approved a program of future research which would:

- consider if the current distinction between common and differential subsidies remains relevant
- work with States through the Data Working Party process to identify the availability of water subsidy and other data on water service providers
- investigate subsidy levels by utility size, customer density and water source to see whether the small remote communities disability remains the best proxy for these disabilities
- work with States to ensure component expenses do not include subsidies which benefit non-residential water customers.

AP 2016-47 What States do – native title and land rights

37 The Commission noted the paper and agreed that the factual part should be uploaded on the CGC cloud as a staff research paper. Staff should remove any discussion of assessment issues and the recommendations.

38 The Commission noted the many ways States handle native title and land rights claims and approved a program of future research that would examine:

- whether land rights expenses should be assessed for all States
- whether the Northern Territory's on-going land rights expenses should be included in the assessment.

OTHER MATTERS

AP 2016-52 CGC website strategy

39 The Commission decided to review the proposed content of the CGC website out of session.

Road data standards

40 The Commission noted that Austroads was supporting this project to develop a consistent classification of road measures and that preliminary data could be available for the next review.

Questions from the *Western Australian*

41 The Commission noted the final response to the questions asked by the journalist and discussed the article published on that basis.

Interaction with States

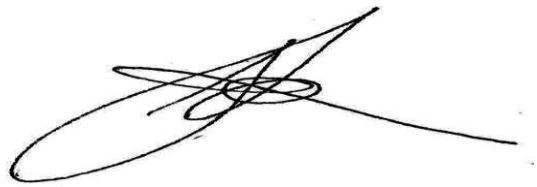
42 The Commission noted that staff had recently provided training for Queensland Treasury officers and that the telepresences with the Western Australian Treasury were continuing.

FUTURE MEETINGS

43 The next Commission meeting will be held on 14 February 2017.

44 The Chairperson closed the meeting at 4:00 pm on 23 November 2016.

Read and confirmed



G J Smith

Chairperson