Commonwealth Grants Commission

STATE FINANCES DIVISION

9.00 am — 1:05 pm on 20 August 2015
held at the commission's offices, Canberra

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

MINUTES

1. The minutes of the State Finances meeting held on 24 June 2015 were accepted.

Actions arising

The Commission noted:

- Western Australia's mining related expenditure has been acknowledged and sent to other States.
- The Wages, Regional costs and Gambling history papers have been placed on the Commission's website.
- The Staff Discussion Paper on the wages assessment has been sent to States and placed on the Commission's website. Two States have held telepresence discussions with staff.
- A consultant to review relevant theory and empirical evidence relating to the wages assessment has been engaged.

2016 UPDATE

2. AP 2015-30 New Issues for the 2016 Update - Draft Staff Discussion Paper

The Commission noted the proposals for the treatment of new issues. It agreed to staff including the issue on the treatment of the National partnership payment for Remote Indigenous Housing and sending the discussion paper to States seeking their comments on staff proposals.

The Commission agreed that in future it would only consider those new issues that were of such significance that its early engagement was appropriate at this time of the update cycle. Otherwise, the Commission would consider the staff proposals on new issues, and the State responses to those proposals, together once they were available.

3. AP 2015-34 National Partnership on Remote Indigenous Housing

The Commission decided to reopen the issue of the treatment of the National Partnership Agreement on Remote Indigenous Housing (NPARIH) because of the information provided by the Department of Prime Minister and Cabinet (PM&C). At the request of PM&C, it agreed not to provide PM&C's note to States.

The Commission asked staff to engage with States to:

- seek information on the relative size of the different funding streams covered by the NPARIH payments
- advise them of the applicable disabilities assessed within each funding stream
- seek their views as to whether there is some part of the NPARIH funding distributed on the basis of disabilities not assessed, for example differential overcrowding or past under-investment.

2020 REVIEW

HFE PAPERS

4. AP 2015-31 Scope of equalisation

The Commission discussed the paper and asked for some additional information about 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.

The Commission also asked for a paper to be prepared showing the range of revenue raising effort and level of service provision ratios for assessment categories by assessment years for States. The Commission considered this information may provide some intelligence as to whether there may be missing disabilities, although it noted that this intelligence would be limited due to these ratios also reflecting a number of other influences which could not be separately quantified. These influences include policy differences, elasticity effects, efficiency effects and data misclassifications.

5. AP 2015-23 Alternative equalisation models

The Commission noted the paper. It considered that it does not have a mandate to change the intent of equalisation, which has been agreed by governments through the Intergovernmental Agreement on Federal Financial Relations.

However it considers that it should aim to progressively simplify the assessment methodology through the next review to make it more accessible to third parties.

It agreed that when assessment guidelines were prepared for the next review they should include a focus on the simplification of existing methods.

6. AP 2015-24 Can a state be financially worse off accepting a payment for specific purposes?

The Commission noted the paper.

7. AP 2015-27 High level conference on HFE issues

The Commission noted the paper and agreed to hold a high level conference on issues of principle and architecture early in the conduct of the next review. The Commission's inclination is that a conference should be primarily for States to express views in a multilateral forum, with perhaps a small number of third party participants (for example, academics in the field) invited. Discussion topics will be confirmed once terms of reference have been received.

History papers (for the web site)

8. AP 2015-26 History of the mining assessment

The Commission agreed to the paper being placed on its website.

9. AP 2015-32 Administrative scale – a history

The Commission agreed to the paper being placed on its website.

Assessment papers

10. AP 2015-29 Assessing user charges in the next review

The Commission noted the paper and expressed an initial disposition to retain the 2015 approach to assessing user charges in the next review.

This means that user charges would be assessed differently from EPC only if:

- there is a strong conceptual basis for a differential assessment
- a reliable method can be devised supported by data fit for purpose
- the effect on the GST redistribution is material.

While assessment officers will review the approach to assessing user charges in the context of reviewing the corresponding category expenses, for presentational purposes all user charges assessed equal per capita will be included in the Other revenue category.

11. AP 2015-25 Administrative scale assessment

The Commission noted the paper and expressed an initial disposition to endorse the conceptual case supporting the assessment of fixed costs and to retain the 2015 Review definition of administrative scale.

The Commission endorsed the approach that staff proposed to take. It noted that staff intend to prioritise the following work:

- seek to build fresh estimates of minimum fixed costs
- attempt a blending of various approaches, namely:
  - a 'bottom up' approach
  - a 'top down' approach
  - a regression intercept approach to assessing minimum fixed costs.

The Commission noted that when staff start engaging with States on the measurement of fixed costs, they intend to ask States whether they support investigating scale-affected variable costs. If there is support from States, staff would undertake a literature search, investigate available data and, only if early investigation is promising and there is broad support from States, set up a State data collection on State head office and Statewide services expenses.

The Commission noted staff intend to do no further work to measure, through regression analysis, economies of scale for the entire services delivery expenses of States.

12. AP 2015-28 Services to communities issues for investigation

The Commission noted that staff intend to gather more data to improve the database for the Services to communities assessment, with a focus on water and electricity subsidies.

The Commission endorsed the approach that staff proposed to take. It noted that staff intend to prioritise the following work:

- consider jointly assessing community amenities expenses with community development expenses
- seek information from State governments, utility regulators and distributors on funding models and community by community data for utilities subsidies
- investigate the non-Indigenous communities that benefit from community development expenses, seeking data from State planning and regulatory agencies
- seek data on funding for local governments by council and purpose.

13. AP 2015-33 Justice – issues for investigation

The Commission noted the paper and in discussions identified intelligence they had received indicating the increasing importance of, and time allocated to, domestic violence in the work of police.

The Commission endorsed the approach that staff proposed to take. It noted that staff intend to prioritise the following work:

- conduct further analysis of existing data to better inform a split of expenses between community and specialised policing
- explore additional or alternative sources of data which may provide more information about the proportion of police activities and expenses consumed by community and specialised resources
- investigate various alternative sources of data which may provide information about cost weights for the police, courts and prison components
- explore and quantify the costs and savings incurred by the ACT by its use of the Australian Federal Police
- investigate whether appropriate reliable data are available to inform a differential assessment of civil court expenses.

OTHER MATTERS

Update report

The Commission decided that the next Update Report would better meet its purpose if it became a shorter and more focused document, concentrating on drivers of change to States' GST shares.

Chapters included in previous update reports that did not change from year to year, such as the chapter on Commonwealth State financial relations, would continue to be available as stand-alone documents on the Commission's web site, but would no longer be included in the update report.

The Commission agreed that the 2016 Update report would be limited to focus on sections relating to the new issues, why the relativities have changed and the State by State effects.

Conflict of interest

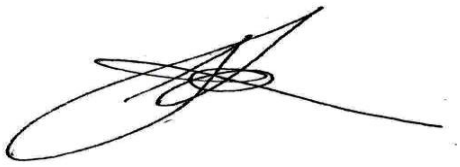
The Chairperson reminded Members that as their initial declarations were not routinely updated, should they engage in any new undertaking that might be construed as having a conflict of interest with their work on the Commission, they should advise the Chairperson by email, copy to the Secretary.

FUTURE MEETINGS

The next Commission meeting will be held on 6 October 2015.

The chairperson closed the meeting at 1:05pm on 20 August 2015.

Read and confirmed



G J Smith
Chairperson