Commonwealth Grants Commission

STATE FINANCES DIVISION

9.30 am — 2.00 pm 28 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 19 January 2015 were accepted.

Actions arising

- The Commission noted that all State submissions on Significant changes had been received and had been placed on the webpage.
- It also noted submissions in relation to the Treasurer's letter requesting advice on mitigating the effects of volatile revenue and ensuring that State's shares of the GST in a given year were appropriate were due Friday 30 January 2015.

2015 REVIEW

2. AP 2015-07 Some loose ends

The Commission reviewed assessments in a number of areas and decided the following.

- The Commission reviewed the levels of substitutability of State services by non-State services applied in the Health assessment and decided to increase the level of substitutability in the admitted patients component from 10% to 15%. This made the level of substitutability of admitted patients and emergency departments the same, on the basis that each provided similar proportions of more complex services that were not provided in the private sector. It left the levels of substitutability the same for the non-admitted and community health

components, maintaining the gradation of increasing substitutability as complexity of case mix decreases.

- The Commission decided to use December estimated resident populations to measure population growth because it considered it would result in a better overall HFE outcome. This is because December populations are used in all other assessments and in the calculation of assessed stock per capita.
- The Commission decided to allocate road gross capital spending to urban and rural roads using a blended split which is based two thirds on data provided by the States and one third on data obtained from the NTC. The Commission noted it had concerns about both data sets, given the large differences between them. However, it had more confidence in the State provided data because it was based on an urban/rural definition which more closely complied with the definitions used in the roads assessments. It was for this reason that it decided to give more weight to those data. It noted that further work should be done to review the definition used by States and to ensure the data are collected on a consistent basis across States.
- The Commission reviewed the location adjustments it decided to make at the last meeting. It confirmed the adjustments for the ACT, Tasmania and the Northern Territory but decided to reduce the adjustment for Western Australia to $65 million. This will give Western Australia 25% of the GST it would have received if Perth had been classified as inner regional. The Commission decided 25% was a more appropriate adjustment than the 50% used for other smaller State capitals of Canberra, Hobart and Darwin because, while Perth is more isolated than the larger capital cities of Sydney, Brisbane and Melbourne, it is a much larger city than the smaller capitals and much more like the large capital cities in terms of its access to production, manufacturing and importation.

The Commission considered new text relating to the electricity subsidy assessment and the regional costs/non-wage costs assessment. It asked that a blend of the text relating to electricity be drafted and that version 2 of the text on regional costs/non-wage costs assessment be included in the report with some amendments.

3. AP 2015-05 Iron ore – a contemporaneous assessment (with supplementary notes)

The Commission considered the papers and reviewed its assessment of iron ore royalties. It decided that in its methodology review report it would not treat iron ore royalty revenue differently to its treatment of all other revenues and expenses. That is, iron ore royalty revenue would be assessed using a lagged three year average. This was because it considered that applying different treatments to different aspects of State activities would unbalance the HFE system and risk making it incoherent. The Commission decided that the lagged three year average approach provided the most appropriate HFE outcome, balancing all its underlying principles.

The Commission decided it would respond to the letter from the Treasurer of 23 December 2014 separately to its methodology report. Its response would include some analysis of how the current system deals with volatility and would include a discussion of the pros and cons of the three approaches on which the Commission sought State views. The Commission decided it would not recommend any particular approach to the Treasurer (as its recommended approach is that contained in its methodology review report) but that it would provide illustrative adjusted relativities should Western Australia receive an additional $500 million in GST revenue in 2015-16, to be reclaimed over the following three years.

OTHER MATTERS

4. Preliminary results to States

The Commission decided it would advise States it could not provide preliminary results at this stage of the review because it was still considering its response to the Western Australia contemporaneity issue and the Treasurer's letter. In addition, the supplementary terms of reference has now asked the Commission to report only to the Treasurer on 28 February and it would not be appropriate to foreshadow what will be in that report at this late stage of the review. It would do this by responding to the ACT's letter, which requested information on the health assessment as soon as the Commission had finalised its decisions, with advice that review results would be communicated as a package in the final report, not individually. This would be copied to all States.

5. Concerns about timing of release of the report to States

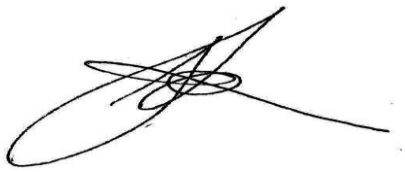
The Commission noted that its report may not be released to States in time to facilitate the preparation of their budgets. However, it noted the requirements of the terms of reference that it must only report to the Commonwealth on 28 February 2015.

FUTURE MEETINGS

The next Commission meeting will be held on 10 February 2015. The possible telepresence meetings to be held on 3 and 17 February were cancelled but Members agreed to retain a booking for a possible meeting on 17 February in case any final matters had to be discussed.

The chairperson closed the meeting at 2.00 pm on 28 January.

Read and confirmed



G J Smith
Chairperson