Commonwealth Grants Commission

STATE FINANCES DIVISION

9.30 am — 1.00 pm on 17 August 2016
held at the Commission's offices, Canberra

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

MINUTES

1. The minutes of the State Finances meeting held 18 May 2016 were accepted.

Actions arising

The Commission noted the following:

- The last of the history papers – Commission methods, contemporaneity and economic development – had been placed on the Commission's website.
- Three 'what States do' papers – transport services, welfare and electricity subsidies had been placed on the cloud and States have been asked whether they have any comments on them. The feedback on those papers has been very positive and comments from the ACT have been received on two papers.

2017 UPDATE

2. New Issues Staff discussion paper for the 2017 Update

The Commission noted that the staff discussion paper on New issues for the 2017 Update had been prepared and sent to States. Members noted it seeks State views on staff proposals on the treatment of new Commonwealth payments, the updating of the wages assessment, the use of Independent Health Pricing Authority data, concerns over Natural Disasters data and changes to the data release protocol and data request timetable. As none of these issues are controversial, as agreed previously by the Commission, the paper had not been submitted for Commission approval prior to despatch.

However, the Commission will need to consider two of those issues at the next meeting before despatching staff views to the States.

- The New Compensation of Employees data should be made available by the ABS in late August or early September. The results from the new data will be made available to the Commission, noting any concerns staff may have with them.
- The treatment of the Natural Disasters data used in an actual per capita assessment in the update has become an issue. The Commonwealth has decided to withhold payment to some States in 2015-16, pending audit. The question for the Commission is whether it should accept unaudited figures or wait for the audit figures to come through. There is no clear timeline on that.

Commission decisions on all these matters (those raised in the new issues paper and in the two other papers) will be sought in November once State views have been received.

3. AP 2016-27 State budget developments

The Commission noted the paper. In particular the Commission noted that State GST share forecasts demonstrate their knowledge of the operation of the HFE system, including the effects of lags.

The Commission indicated it would appreciate receiving a similar paper each year after States have published their Budgets.

2020 REVIEW

4. AP 2016-25 Changes in State budgets 2000-01 to 2014-15

The Commission noted the paper and agreed to post it on the Commission's website.

5. AP 2016-26 Administrative scale – re-estimating fixed costs – progress report

The Commission noted the work done so far on estimating administrative scale costs and, despite some concerns about the amount of judgment needed to make the estimates, endorsed the approach taken. It was keen for staff to produce estimates for all categories, noting the amount of work required to do so. It agreed that staff should not engage with States until terms of reference for the review had been received or unless States agreed to work on administrative scale as part of a data working party process. The Commission asked that any material provided to States make it clear that regional office costs relate to the size of the service and therefore were not included in administrative scale costs which capture costs not related to the size of the service.

6. AP 2016-18 Gambling taxation – data limitations

The Commission noted the paper. It asked staff to keep it appraised of any discussions it has with the Queensland Government Statistician's Office and the ABS on gambling data.

The Commission asked staff to bring forward a paper on the conceptual case for a gambling assessment early in the next review.

7. AP 2016-23 What states do – Payroll tax

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 first remove any discussion of assessment issues and the recommendations.

The Commission noted that payroll tax continues to be an important source of revenue for States and that many of the aspects have been harmonised, with the notable exceptions of rates and thresholds. It approved a program of future research which would examine:

- the best available sources of data for measuring the payroll tax base, including whether we can better capture the average threshold
- the appropriateness and materiality of any adjustments
- whether any elasticity effects are material and, if they are, whether it is possible to quantify them reliably.

8. AP 2016-24 what states do – Stamp duty on conveyances

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 first remove any discussion of assessment issues and the recommendations.

The Commission approved a program of future research which would examine:

- the criteria for choosing which revenues should be included in the EPC component
- the appropriateness and materiality of any adjustments for differences in the range of transactions subject to duty in each State
- the appropriateness and materiality of an adjustment for the progressivity of rates
- whether any elasticity effects are material and, if they are, whether it is possible to quantify them reliably.

The Commission noted that staff plan to engage a consultant to assist with any research on quantifying an elasticity adjustment.

With five States no longer collecting duties on non-real property transactions, the Commission asked staff to raise the issue of the treatment of these duties with States early in the review cycle.

9. AP 2016-17 What States do – Wage costs

The Commission noted the paper and agreed the factual part should be uploaded on the CGC cloud as a Commission staff research paper following the completion of the 2017 Update. Discussion on assessment issues and recommendations are to be removed from the paper prior to upload. The Commission also requested that references to the ABS wage price index in the paper and future work make it clear that this is a measure of nominal wages and not real wages.

10. AP 2016-29 What States do and implications for future work – Community health

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

The Commission approved a program of future research that would:

- draw on a range of non-government finance statistics (GFS) health datasets including the Australian Institute of Health and Welfare (AIHW), the Independent Hospital Pricing Authority (IHPA) and State administrative data, to develop a better understanding of the relative importance of different community and other health services (due to the unreliability of State provided GFS data at the 4-digit GPC level)
- investigate the non-State sector provision of community health services using independent research data
- approach States seeking information on the usage of community health services
- re-examine the substitutability level for the community health component.

11. AP 2016-28 What States do and implications for future work - Roads

The Commission noted the paper and agreed that that the factual part should be uploaded to the CGC cloud as a Commission staff research paper. Staff should first remove any discussion of assessment issues and the recommendations and ensure that the tables and text make clear whether actual or assessed figures are being used. The Commission also asked that the way the 'redistribution' concept is described in all future papers be reconsidered to avoid the idea that the GST of some States is transferred to others.

The Commission noted the way States provide roads services and, subject to any directions in a future review terms of reference, approved a program of research which would:

- consider whether the disabilities used in the current assessment appropriately capture the disabilities driving States' funding and delivery of roads services (road length and use)

- identify and investigate other disabilities that should be considered when assessing States' roads needs (such as bridges, land area, population density, physical environment and road width)
- reconsider the treatment of Commonwealth funding for national network roads
- investigate the full range of available data sources to support the reliable measurement of the disabilities States face in delivering roads services (such as the Public Sector Mapping Authority, State Road Authority databases, Bureau of Infrastructure, Transport and Regional Economics, the National Transport Commission and the Australian Bureau of Statistics)
- if investigation suggests that the Commission's synthetic measurement of road length should continue to be used, investigate whether the population thresholds for localities remain appropriate
- if investigation suggests that the assessment should continue to use urban population as a proxy for urban road length, investigate whether the 40 000 population threshold is appropriate and whether the appropriate urban structure should remain as the Australian Bureau of Statistics' Urban Centre/Locality structure.

OTHER MATTERS

12. End of appointments of Ms Jennifer Menzies and Ms Patricia Faulkner

The Chairman recorded his appreciation on behalf of the Commission for the contributions they had made over the last five years to the work of the Commission, particularly in the challenging circumstances the Commission had faced. He wished them well in the future.

Both Jennifer and Patricia thanked the Chair for his kind words and for his leadership of the Commission. They also expressed their thanks to staff for the high quality and professionalism of their work.

13. Productivity Commission Data Inquiry

The Commission noted that staff provided a submission to the Productivity Commission Inquiry into Data Availability and Use. The submission covers staff issues relating to data quality, data access and data for the future, given the agency's role as an intensive user of data, however being small, with limited capacity to develop and maintain its own datasets.

14. Simple powerpoint presentations for the web

The Commission discussed draft presentations explaining the operation of HFE in a simplified manner. The intention of these presentations is to develop material suitable to

be placed on the Commission's web site that would explain the operation of HFE in a way understandable to non-experts in the field. The Commission will provide further feedback on the presentations out of session.

FUTURE MEETINGS

The next Commission meeting will be held on 21 September 2016.

The Chairperson closed the meeting at 1.00 pm on 17 August 2016.

Read and confirmed

G J Smith
Chairperson