



Department of Treasury and Finance

1 Treasury Place
Melbourne Victoria 3002 Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au
DX210759

D16/299993

-3 JAN 2017

Mr Michael Willcock
Secretary
Commonwealth Grants Commission
Phoenix House
First Floor
86-88 Northbourne House
BRADDON ACT 2016

Dear Mr Willcock

2020 METHODOLOGY REVIEW WORK PROGRAM

Thank you for your letter of 1 December 2016, seeking input to the work program for the Commission's 2020 Methodology Review. I appreciate the Commission's willingness to engage with the states and look forward to meaningful engagement over the course of the review.

In your letter you raised a number of issues on which my department's views were sought. Responses to these issues are appended to this letter. I trust that you find them useful when finalising your work program, and I look forward to receiving a draft of the work plan in February 2017.

Yours sincerely

Gayle Porthouse
Acting Secretary

APPENDIX: RESPONSE TO ISSUES RAISED

Supporting principles

The terms of reference for the 2020 Methodology Review require the Commission to consider whether the supporting principles it uses remain appropriate, whether new principles should be adopted and whether different weights should be given to different supporting principles.

The supporting principles that the Commission currently uses assist it in developing methodologies to achieve horizontal fiscal equalisation (HFE) and so the first consideration for the Commission is whether its current definition of HFE remains appropriate. Once the definition of HFE has been finalised then the supporting principles can be considered. It is noted that the current definition of HFE has stood for a reasonable period of time and appears to have general acceptance.

The Commission currently has four supporting principles and has not noted the need for additional principles. It is unclear what the nature of additional principles could be, and whether additional principles are required. There is a risk that additional principles could complicate the task of achieving HFE, particularly if there is a conflict between the principles when undertaking assessments.

Currently the Commission applies the supporting principles flexibly so that the best HFE outcome can be achieved. Victoria considers that this is the preferable approach. It would be difficult to determine a hierarchy or weighting for these principles and imposing an arbitrary weighting does not guarantee improved HFE outcomes.

Meaning of a comprehensive review

The CGC should consider what functions and related transactions of states are relevant to their fiscal capacities. However, this does not necessarily have to involve starting from a 'clean slate' as the current assessment categories can be used as a starting point. The Commission's current series of staff research papers on what states do could provide the basis for deciding how the assessment categories should be constructed.

Conduct of the review

Past reviews have tended to follow an iterative process. While the Commission initiates the process by issuing discussion papers this does not prevent states from undertaking their own analysis prior to the issuing of discussion papers. This process has worked well in past reviews and has not compromised the ability of states to argue their cases as to how assessments could be undertaken.

Victoria does not consider it appropriate for the states to take a lead role, such as developing assessments, as this may be viewed as compromising the impartiality of the review. The Commission should develop the assessments, taking into account the positions put forward by states.

State issues

Victoria considers it premature to ask the states for issues to explore as the review process is just commencing and states may not have had the opportunity to consider all the issues that are relevant to them.

However, it is noted that the terms of reference omit a clause from the 2015 Review's terms of reference relating to the unwinding of the National Education Reform Agreement measures of education disadvantage. An issue that Victoria would like the Commission to consider is the appropriate treatment of Commonwealth funding where it is distributed to the states on the basis of an agreed measure of need.

State visits

The Commission is welcome to visit Victoria. The most appropriate time for the Commissioners to meet with Treasury staff would be soon after the release of the draft report. This would provide the Commissioners with the opportunity to give an indication of their thinking and their reactions to the positions put by Victoria, as well as providing the opportunity for Victoria to further explain its positions.

Visits of the scale of the 2010 Review are not considered the most efficient means of providing information to the Commissioners. States have the opportunity in the review process to present their positions regarding assessment and to provide the supporting evidence.

Draft report

A draft report is considered to be an essential part of the review process. However, a June release would effectively give only six months for the states to respond and for the Commission to consider feedback and respond. It is considered preferable to have a draft report issued 12 months in advance of the final report if there is sufficient time to do so.

Meetings

Meetings could occur between the Commissioners and Heads of Treasuries on high level issues such as the work program, definition of HFE and the supporting principles.

Multilateral meetings between Commission staff and state representatives provide the opportunity for Commission staff to explain the rationale for particular assessments and for the states to raise issues of concern to them. Feedback from the states from the 2015 Review noted that some of the Commission's discussion papers did not adequately explain the rationale for certain assessments.

Bilateral meetings between Commission staff and state representatives can be used by state representatives to explain the rationale for certain state positions to enable Commission staff to better understand them. Feedback from the states from the 2015 Review noted that states repeated their arguments if they considered that their proposals did not appear to have been seriously considered by the Commission or if the Commission did not provide clear reasons as to why proposals had been rejected.

A meeting after the release of the draft report would assist state representatives in their understanding of the assessment presented in the draft report.