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Victorian response to the CGC 2025 Review draft work program

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CGC 2025 Review draft work program

Background

On 15 February 2023, the Commonwealth Grants Commissions (CGC) provided all states and territories (states) with a proposed approach and work program for its 2025 Methodology Review (Review). The CGC has requested states' responses by 22 March 2023.

Victoria appreciates the collaborative approach of the CGC in allowing states to provide their views on the draft work program and looks forward to continuing to engage with the CGC throughout the 2025 Review.

Victoria's views on the proposed approach

Victoria supports the CGC's approach to establish a clear framework under which the Review will take place.

Victoria understands the need for the CGC to manage the scope of the Review, given the truncated timelines on this occasion. However, Victoria has concerns that limiting the scope to changes since the 2020 Review will restrict states from raising inherent issues with parts of the methodology due to a timing issue, or that the CGC may be unwilling to alter methods that are proving unsuitable simply due to lack of changes from the 2020 Review. The CGC should consider all state proposals that materially improve assessment methods, even if they do not meet the criteria for changes since the 2020 Review.

Understanding and having input into the supporting principles and assessment guidelines will assist states to clarify the scope of the Review and how the CGC will approach reviewing its methodology. It is important for states to be able to provide feedback into these processes. However, unlike the category assessments, it is unclear how the CGC will analyse and balance states' views on the assessment guidelines and supporting principles. In these papers it would be beneficial for the CGC to provide guidance around how they will consider and balance states' views.

The ability for states to meet regularly with CGC staff and Commissioners is a welcome addition and supports the shared objective of increased collaboration and problem solving. Victoria has observed that the recent increased communication with the CGC has facilitated better understanding of the GST distribution methodology and has appreciated the timeliness of responses and the active engagement by Commission staff. Victoria supports the use of more open communication, particularly with the Commissioners.

Victoria's views on the proposed work program

There are several elements of the proposed work program that could be refined to ensure meaningful state engagement with the CGC, particularly around timing and the length of time available for states to respond to papers from the CGC.

Victoria understands the need to review the foundations of the methodology first, such as fiscal equalisation, supporting principles and the assessment guidelines. Victoria would prefer to have six weeks to respond to these papers, given the complex issues that states will be required to respond to.

Timing of the tranche one and two responses is restrictive and will require states to dedicate significant resources over a very short period to respond to the CGC papers. Engaging usefully with complex CGC papers involves significant analytical, consultative and authorising activity, including:

- building technical familiarity with detailed individual assessments and proposals, including clarifications with CGC staff, to support analysis and advice to government
- consultation with experts and other government agencies, including to source relevant data and other evidence to inform CGC consideration
- drafting and securing appropriate approvals for Victorian Government responses, including from executive government.

In tranche one, states only have three months to cover 13 assessment categories and three additional issues. The topics in tranche one are more complex than tranche two, and have a more significant impact on the redistribution of GST. The number and depth of each of the categories and approvals required for each response do not assist states in spreading the workload over the review period, an objective of the work program.

Victoria does not consider these are adequate timeframes for states to provide considered and evidence-based responses to the CGC's papers. Victoria has several suggestions to manage these time pressures, with the aim of providing the CGC with the most informed and considered responses from states.

First, the CGC should allow states to provide supplementary submissions to the Review outside of the timing of tranches indicated in the work plan. The current plan risks considerable evidence being excluded from state responses. This is particularly evident in the timing for CGC visits to states, which may then influence states' responses. The visits are suggested to occur in late 2023, after the first tranche of categories is already completed. The CGC may wish to indicate an end date for providing supplementary new evidence towards the end of the Review process. This will increase the quality of responses states can provide, including seeking out external subject matter experts to improve the methodology.

States should also be able to request extensions and re-negotiate time frames during the Review. Each state will have different peak periods, including annual budget process timelines, and have different resourcing available to manage competing priorities for relevant teams, including intergovernmental meetings. Flexibility will allow each state to ensure their views are able to be considered by the CGC.

Consultation on the paper on the case for method changes between reviews could occur after all the assessment categories have been reviewed. This specific topic, while relevant to the 2025 Review, does not have the same implications (such as for data requests and stakeholder consultation) as other assessment categories.

Victoria suggests two options to reorganise the work program to ensure states can optimise the quality of their submissions to the Review:

Tranche Option 1: Increase the time that states have to respond to each tranche of topics

The CGC should increase the length of both tranches to be at least six months long. This is key given the number of topics to be considered in each tranche, particularly in the first tranche, and the magnitude of their impacts on the GST distribution.

The CGC should also rebalance the topics between the two tranches to evenly distribute complex topics between them. This will help states better manage limited resourcing levels.

Tranche Option 2: Staggering state responses

Alternatively, Victoria suggests staggering the responses required by the states, releasing papers as soon as practical and requesting responses at varying times. This will assist states in smoothing workloads and ensure meaningful engagement over the Review.

As an example, there could be five tranches, with a mix of revenue and expenditure assessments in each. These could also be timed to consider smaller states' competing priorities, such as Board of Treasurers and the Council on Federal Financial Relations meeting cycles as well as annual budget processes.

Table 1 below provides a proposed revised timeline for the assessment topics and responses for states. Ideally states will have as long as possible to respond to CGC papers on different issues and, as mentioned above, will also be able to provide supplementary papers after states' responses are due.

Table 1: Victorian trache option two, proposed alternative timing for the 2025 Review

Tranche	CGC paper released	States response due	Topics
Pre-work	14 April 2023	26 May 2023	Fiscal equalisation Supporting principles Assessment guidelines
Tranche 1	30 June 2023	September 2023	Payroll tax Land tax Stamp duty on conveyances Schools Post-secondary Health
Tranche 2	September 2023	November 2023	Mining revenue Justice Transport Roads Wages Adjusted budget
Tranche 3	November 2023	February 2024	Housing Welfare Commonwealth payments Investment Net borrowing National capital
Tranche 4	January 2024	March 2024	Services to industry Services to communities Natural disaster relief Administrative scale Socio-economic status Regional costs/remoteness
Tranche 5	March 2024	May 2024	Other revenue Other expenses Insurance tax Motor tax Native title and land rights
Other issues	April 2024	June 2024	Case for method changes between reviews Tax reform and elasticity adjustments

Other administrative suggestions

Victoria has additional suggestions below for CGC support which, while not relating specifically to sequencing of the work program, could have significant efficiency gains for both the CGC and states.

- Provision of a summary table or template for states to respond to the papers on the assessment categories, including reference to supporting principles and assessment guidelines. Detailed analysis will be able to be structured as states see fit.
 - This will allow the CGC to quickly understand states' responses and provide direct responses to state proposals. It will also assist states understanding other states' views.
- Multilateral briefing meetings on a no prejudice basis upon the release of CGC papers, including an overview of the assessment category and how it operates.
 - This will mean that states can quickly understand and clarify the CGC position, ask technical questions and be better placed to respond to the CGC papers.
- Explanation from the CGC of its data requirements, including best practice for data sources, and what would constitute appropriate replacements for datasets. The CGC should liaise with states on new data sources that may be useful for the Review and provide guidance on datasets that states collect.
 - States require a more in-depth understanding of what constitutes an appropriate data source, and what would require adjustment. This will save states time in proposing alternatives.
- Explanations of the CGC's decisions, matched to the summary table provided by states on each issue.
 - Explanations and counter evidence on each supporting principle and assessment guideline will allow states to fully understand the context and drivers of the CGC's decisions, particularly where trade-offs have been made between differing states' views, or where the Commission's final views differ from staff recommendations.

Summary of recommendations

In summary, Victoria considers that the CGC could make some small changes to the work program to meet their objectives for the Review, including to:

- Remove the requirement for significant changes from the 2020 Review in order for changes to a method to be considered
- Increase time for states to review initial papers on the assessment guidelines, supporting principles and fiscal equalisation from four to six weeks
- Provide additional guidance to states on how the CGC will consider proposed changes to the assessment guidelines, support principles and fiscal equalisation
- Delay the paper on the case for method changes between reviews until after the assessment categories have been reviewed
- Allow states to make supplementary submissions on assessment categories
- Allow states to request extensions and renegotiate timelines for submissions

- Consider updating tranches to either:
 - Tranche option 1:
 - Increase the duration of both tranches to at least six months
 - Consult with states to rebalance complex topics between the tranches
 - Tranche option 2:
 - Split categories into multiple tranches to assist states to smooth workloads across the Review.

The CGC should also consider further administrative options to improve state engagement and efficiency of the review. These include to:

- Provide a summary table or template for states to respond to the CGC papers, including reference to supporting principles and assessment guidelines
- Explain CGC decisions using the summary table provided by states on each issue as well as providing a more comprehensive response on decisions
- Hold multilateral briefing meetings on a no prejudice basis upon the release of CGC papers, including an overview of the assessment category, how it operates and any proposed changes
- Explain best practice for data sources and what would constitute appropriate replacements for data sets.

Victoria considers that the above approach will improve the review process for both the CGC and states, allowing the CGC to meet its objectives of ensuring meaningful engagement with the states and spreading the workload over the Review period.

