

SOUTH AUSTRALIAN COMMENTS ON NEW ISSUES FOR THE 2009 UPDATE

South Australia has the following comments on issues raised in the Staff Discussion Paper CGC 2008/19-S.

Reform in Commonwealth–State financial arrangements

At its March 2008 meeting, COAG agreed that:

- all of the new national SPP agreements would be treated by ‘inclusion’ for the purposes of the CGC’s process for determining GST relativities;
- reform based NPPs should generally be treated by ‘exclusion’ so that any benefit to a State from achieving specified outputs sought by the Commonwealth, or through implementing reforms, would not be redistributed to other States through the equalisation process;
- where a State delivers a service or project on behalf of the Commonwealth in order to meet Commonwealth objectives, the treatment of an NPP in respect of that delivery should be considered by the Commission as to whether it should be treated by ‘inclusion’ or ‘exclusion’– where the funding is in the nature of standard budget support for a State service, the Commission would generally treat the payment by ‘inclusion’, otherwise it would be treated by ‘exclusion’.

Final arrangements will not be determined until the COAG meetings in October and December, including whether the initial distribution of national SPPs will be changed to an equal per capita basis, but the March decisions noted above give general guidance to the Commission pending provision of terms of reference for the 2009 Update.

Specific purpose payments

We agree with the proposed treatment of the new SPPs for 2007-08.

Payroll tax and public sector wages and salaries data

In the event it is necessary to make an estimate of public sector earnings for 2007-08, we support the method proposed.

Updating wage input costs

In the 2008 Update the Commission chose to use EEBTUM data to update the wages input cost factors which are derived from the 4-yearly SET data survey.

In SA's comments provided at the time, we opposed this proposal on the grounds that:

- it involved a change in the method used in previous Updates which only used SET data and had an accepted method of interpolating movements in annual data between SET surveys;
- EEBTUM did not constitute better data than SET – in describing EEBTUM in the context of the wages input cost assessment, the Commission had previously noted the survey did not collect details of education for the respondent, a key determinant of wages;
- it entailed a meshing of two quite distinct datasets and it was not clear why it could be assumed that the movement over time in one dataset would be the same in the other were it available for the relevant year.

The Commission now proposes to abandon the EEBTUM data and instead use movements in the Labour Price Index for each State to modify the original SET-derived factors.

Although the LPI data is of better quality than EEBTUM, we continue to have reservations about mixing data sets in this way. (In passing, we note the Commission has elsewhere rejected submissions on this basis – as an example, additional disability factors in expenditure assessments.)

We also note that the LPI data itself provides little support for the underlying argument that the mining boom has led to particular wage pressures on the Western Australian government – the 2007-08 LPI data show the WA public sector increase was just 3.6%, a level below the Australian public sector average of 3.8% and well below the WA private sector growth of 6.2%, perhaps indicating again that it cannot be assumed that wage pressures in the mining sector automatically flow on to public sector professions.

In any event, as noted in the Discussion Paper, part of the movements in private sector LPI is attributable to industrial and occupational structure. If the Commission's proposal goes ahead, it would be necessary to remove these effects.

The Discussion Paper suggests that this impact may be dealt with either through a specific adjustment (if it can be measured accurately) or by discounting the adjustment factors. We point out that a simple discounting will not achieve the desired result, because the impact of structural differences goes in different directions for different States – for example, the relative importance of mining in WA (the LPI data shows that the mining industry had the highest increase of all industries in 2007-08 of 6.7%) indicates that a discounting or adjustment down is appropriate for that State, but the relative importance of the finance and insurance industry in NSW (with a below average increase of 3.7%) indicates that an upward adjustment is appropriate for that State.

To achieve equity, specific adjustments allowing for each State's industrial structure are needed. As indicated, LPI data by industry is published by the ABS to allow this.

A calculation is required applying the Australian weights for each private sector broad industry group and multiplying those by the relevant State's LPI increase for that industry. This would effectively remove the State-specific industry structure effects.

Abolition of State taxes

We concur with the CGC staff's conclusions regarding the abolition of stamp duty on non-real business transactions in the ACT.

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