

WESTERN AUSTRALIAN APRIL 2009 SUBMISSION

CGC 2009/01-S TREATMENT OF COMMONWEALTH PAYMENTS TO THE STATES

Key Points

- Western Australia broadly supports the Commission's proposals.
- However, we seek clarification on a number of issues.
 - How will the Commission identify "unique State policy"?
 - The rationale for backcasting.
 - Avoiding incentives for governments to structure payments having regard to equalisation consequences.

POSITION PAPER

Western Australia broadly supports the Commission's proposals in relation to the treatment of Commonwealth payments to the States, as outlined in its position paper. However, we would appreciate clarification on some issues.

- It is proposed that payments which are the result of unique State policy should not influence assessed State fiscal capacities (paragraph 22).
 - We would like some clarification on what circumstances may constitute a "unique State policy". In particular, it is not clear to us how the Commission will differentiate between State and Commonwealth policies, given that it is a matter of Commonwealth policy choice if it designs payment arrangements that are sensitive to State policies.
- Paragraph 29 provides arguments for and against backcasting. It is not clear what is meant by the statement that "The advantage of backcasting ... is that no State receives a windfall gain or major loss due to the change" with the acknowledgement that backcasting will 'disturb' equalisation over time.
 - This paragraph appears to say on the one hand that backcasting is needed to achieve equalisation, but on the other hand it disturbs equalisation.
 - We would therefore like some clarification.

- The Commission generally proposes an inclusion approach for relevant in-scope payments (i.e. payments to the State general government sector), and a disability factor or subtraction approach for relevant out-of-scope payments (e.g. payments to State public corporations, Medicare rebates to individuals). We note that Commonwealth payments to State public corporations can be paid either directly or through the State general government sector, with much the same final result.
 - Fore example, this may be an issue with infrastructure projects financed from the Building Australia Fund.
 - This suggests that the Commission should aim for an approach that is neutral to the specific structure of payment arrangements, and has primary regard to impacts on State fiscal capacities.
 - Otherwise, there may be incentives to structure payments in certain ways to make them in-scope or out-of-scope.
 - Accordingly, we seek clarification of the extent to which the Commission is aiming for neutrality in such circumstances, and whether it may use judgement to deem some payments to entities outside the State general government sector as “in-scope”.
 - Deeming payments to be “in scope” may also be easier than assessing the impact of Commonwealth payments on State fiscal capacities through the “subtraction approach” (which is only used for the Communities and Other Health Services category), or using disability factors.