



Australian Government

Commonwealth Grants Commission

ASSESSING USER CHARGES IN THE 2010 REVIEW

STAFF DISCUSSION PAPER CGC 2007/06-S

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INTRODUCTION

- 1 This discussion paper sets out Commission staff views on how user charges might be assessed in the 2010 Review. It is intended to provide a basis for discussions with State officers later this year.

BACKGROUND

- 2 User charges are amounts paid by consumers of government services to the providers of those services. They are different from taxes in that user charges (in most cases) are used to directly fund the services to which they relate.
- 3 The average per capita user charges for 2004-05 were \$474, representing 7.8 per cent of the average expenses. This is illustrated in Table 1.

Table 1 2004-05 per capita user charges and expenses

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
User charges	397	572	433	418	665	330	720	448	474
Expenses ^(a)	6006	5574	5884	6522	6638	6376	8190	13552	6094
User charges as proportion of expenses (%)	6.6	10.3	7.4	6.4	10.0	5.2	8.8	3.3	7.8

(a) Includes all SPPs funded expenses. User charges for PTE-type services and private patient fees have been offset against expenses, as per the Commission's preliminary views in CGC 2006/11.

Source: ABS GFS data.

- 4 In the 2004 Review, user charges were assessed in three different ways.
 - They were offset against the associated expenses where:
 - the category was intended to capture State subsidies paid to public trading enterprises (PTEs); or
 - conceptually there should not be user charges raised from the service, including debt charges and depreciation; or
 - the disabilities affecting expenses were judged to be the same as those affecting user charges.
 - Disabilities were assessed when the differences in the capacity of States to raise revenue from user charges were sufficiently large and judged to be beyond the control of States.
 - The equal per capital (EPC) method was used when any differences in the revenue raised were too small or considered to be due to State policies.
- 5 In the 2007 Update, 16 expense categories were net of associated user charges:
 - Non-government primary;
 - Non-government secondary;

- Higher education;
- Transportation of rural school children;
- First home owners scheme;
- Services to Indigenous communities;
- Subsidies — petroleum products;
- Subsidies — alcohol products
- Electricity and gas;
- Water, sanitation and protection of the environment;
- Non-urban transport;
- Urban transport;
- GST administration costs;
- Superannuation;
- Debt charges; and
- Depreciation.

6 Disability assessments were undertaken in seven categories:

- Hospital patient fees (private patient fees, not hospital user charges);
- Law and order fees and fines;
- Property titles;
- Public safety;
- Housing;
- National parks and wildlife services; and
- General public services.

7 Equal per capita (EPC) assessments were undertaken for the rest of the user charges categories.

8 ABS Government Finance Statistics (GFS) data were used for most user charges. These were mainly data classified to ABS GFS Economic Type Framework (ETF) code 1120 Sales of goods and services¹. We also included some GFS taxes classification transactions, such as contributions by property owners and insurance companies to fire brigades as public safety user charges². Examples of user charges collected by States are ambulance transport charges, drivers licence fees, gambling supervision and control charge, building rental and signage income and national parks entry fees.

¹ ABS defines ETF 1120 Sales of goods and services as ‘revenue from the direct provision of goods and services by general government and public enterprises. It includes fees and charges for services rendered and sales of goods and services, fees from regulatory services (if work was involved), and rental income under operating leases on produced assets (eg buildings, vehicles). It excludes rental income from the use of non-produced assets (eg land, deposits of minerals).

² Commission staff proposed to assess revenue from these contributions in the land tax category in the 2010 Review.

- 9 GFS does not allow identification of patient fees or property titles fees, and these data were collected directly from the States.

STATE VIEWS

- 10 Victoria, Western Australia and the ACT supported the Commission's proposal, set out in discussion paper CGC 2006/11 *2010 Review Initial Views on Assessment Structure and Approaches*, to include user charges in the miscellaneous revenue category and to assess them on an EPC basis. South Australia and Tasmania opposed it. Queensland asked the Commission to clarify its intentions. The Northern Territory did not comment and we have not received comments from New South Wales.
- 11 South Australia supported the Commission's proposal in CGC 2006/11 to net housing user charges and private patient fees off their related expenses. It argued, however, that the assessment of other user charges should similarly be considered on a case by case basis, particularly those currently assessed on a differential basis. For example, it proposed that property titles should be assessed using the land valuation base in each States and fees and charges associated with regulatory activities and general government administrative functions should be assessed using a general economic indicator such as Gross State Product (GSP). It noted that GSP is the indicator presently used for the general public services user charges assessment and that this assessment for 2005-06 was material for two States. South Australia and Queensland suggested that GSP or household disposable income (HDI) be used as the default setting for the miscellaneous revenue assessment rather than EPC.
- 12 Tasmania asked the Commission to reconsider treating user charges (including fees and fines) on an EPC basis. It said that while none of the categories were material in their own right, collectively they have material impacts for some States. It suggested that the Commission consider assessing those user charges currently assessed on a differential basis within the expense categories to which they are attached.

STAFF PROPOSAL FOR 2010 REVIEW

Types of user charges

- 13 User charges fall into three groups:
- user charges associated with functions usually performed by PTEs in most States;
 - user charges associated with categories that conceptually should not have user charges; and
 - user charges other than the above.

The following sections discuss the proposed treatment of these types of user charge.

User charges associated with PTE-type functions

- 14 The Commission has observed that the average practice of States is to provide subsidies for a range of functions usually performed by PTEs. The Commission therefore proposed in its discussion paper CGC2006/11 *2010 Review Initial Views on Assessment Structure and Approaches* to assess such functions on a net or subsidy basis. When some States undertake these activities in the general government sector, any revenues raised by the agencies need to be netted off their expenses to obtain consistently defined 'subsidy payments' for each State. No States opposed this approach. We therefore propose to treat any 'user charges' relating to welfare housing, transport services, electricity and gas, and water and sanitation services as an offset to expenses.
- 15 Most of the PTE-type categories' (except Housing) expenses and user charges will be compiled using 3-digit GPC data. Housing GFS data are at the 4-digit GPC level. ABS has told us that these data are of good quality.

User charges associated with categories that conceptually should not have user charges

- 16 ABS GFS show some user charges for grant type functions, such as non-government education, and other seemingly non-revenue raising functions, such as debt charges. Commission staff would not expect such categories to have associated user charges. Conceptually, these user charges should probably be netted off the associated expenses. However, because they are small and would require detailed analysis to treat in the conceptually correct way, Commission staff propose to include them with all other user charges and assess them with that group. This is consistent with the emphasis in the 2010 Review terms of reference on adopting simpler methods without having a material impact on horizontal fiscal equalisation.

All other user charges

- 17 The Commission has adopted a top-down, clean slate approach to establishing categories for the 2010 Review. The revised draft assessment guidelines³ (see Attachment A) can be used to make decisions on whether a more disaggregated assessment should be undertaken. Figure 1 summarises the process for making decisions on how other user charges should be assessed.
- 18 ***Can we assess all other user charge in a single category?*** As proposed by the Commission in CGC 2006/11, the simplest approach is to assess all other user charges in a single category using the equal per capita (EPC) method. This approach would be justified if State policy differences are the major driver of the observed differences in the per capita user charges State collect, or that any non-policy influences on their capacities to raise user charges are immaterial. Given the differences in State economies and population characteristics, it is unlikely that State policy differences are the only driver. For example, a State with more

³ Published in *2010 Review of State Revenue Sharing Relativities, Progress Report to Ministerial Council for Commonwealth-State Financial Relations, 2007*.

private patients, public housing tenants or national parks should be able to raise more revenue from charges than States with fewer of these.

- 19 Using a single broad indicator, as suggested by Queensland and South Australia, to capture these differences would be the next most simple approach. Indicators such as GSP or HDI do not appear to be closely related to State actual user charges (Table 2). For example, New South Wales collects much less than its GSP or HDI shares would indicate it could, and Victoria and South Australia much more. They may provide a reasonable non-policy influenced indicator of what States could raise, but, conceptually, GSP (even if measurement issues could be resolved) and HDI seem more measures of the capacity of a State's economy or of its households to **pay** user charges. Given that a conceptual case for their use cannot be established and that States access a diverse range of revenue bases in raising user charges, Commission staff conclude that these measures are unlikely to provide a suitable measure of the revenue base.

Figure 1 Assessment options for other user charges

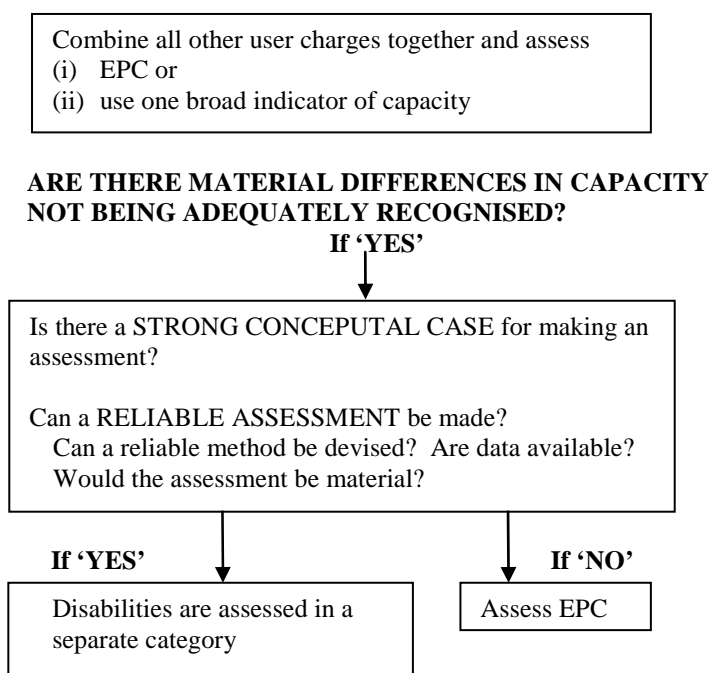


Table 2 State shares of GSP, HDI and user charges, 2004-05

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
GSP	34	25	18	11	7	2	2	1	100
HDI	35	25	17	10	7	2	3	1	100
User charges	28	30	18	9	11	2	2	1	100

Source: ABS, Australian National Accounts, State Accounts, 2004-05, CGC adjusted budget, 2004-05.

20 ***Do we need to disaggregate all other user charges?*** The draft assessment guidelines state that a category will be considered for a separate assessment if there is a conceptual case, the category or its impact on GST shares is material, there is suitable data available and the assessment can be undertaken reliably. The materiality criteria that apply are:

- (i) the average expense or revenue must be greater than \$50 per capita; or
- (ii) the assessment must redistribute more than \$30 per capita for any State.

21 **Conceptual case?** Table 3 shows per capita user charges grouped by the expense categories proposed for the 2010 Review. In the past, the Commission has recognised that there were differences in State capacities to raise revenues:

- from admitted patients due to differences in the number of private patients attending public hospitals;
- justice services because of differences between the States in the numbers of entities that are likely to litigate; and
- other services for which differences in the size of State economies and visitors to national parks were recognised as having an impact.

22 The Commission proposed in CGC 2006/11 that private patient fees be offset against the admitted patients expense category (about \$39 per capita) because similar disabilities affect the cost of delivering services to private patients in public hospitals and the amount of revenue that can be raised from them. South Australia supported this approach and no other State opposed the treatment. These fees have not been included in Table 3 but Commission staff are continuing to assess whether this is the most appropriate treatment. The user charges shown against the admitted patient category relate to other hospital user charges covering such items as rent on premises.

23 The conceptual case for assessing property titles⁴ using the land valuation base of each State, as proposed by South Australia is not clear. Currently, the States' capacities to raise property titles fees and charges are assessed using the number and value of property titles transactions. Turnover, rather than, stocks would seem to provide a better base. The materiality of a non-EPC assessment is considered below.

⁴ CGC 2006/11 proposed treating property titles revenues as a miscellaneous revenue rather than a user charge.

24 There may also be a case for offsetting legal services and court fees against civil court expenses in the justice services category. This will depend on whether it is standard policy for States to recover a similar proportion of the costs of their civil courts. If there were total cost recovery, this treatment would remove the need for any consideration of needs associated with civil courts. This issue is currently being investigated.

Table 3 2004-05 per capita user charges by 2010 Review expense category^(a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
School Education	13	90	4	65	13	67	30	20	37
Post Secondary Education	31	77	32	38	46	39	52	5	45
Admitted Patients ^(b)	64	158	1	0	0	2	179	17	64
Community and Other Health Services	41	43	35	39	183	49	100	68	52
Welfare and Housing Services	9	15	1	6	0	2	6	22	8
Services to Communities	3	47	5	52	8	0	37	12	20
Justice Services	54	34	33	29	47	50	14	58	41
Public Safety	2	4	5	4	3	7	16	5	4
Roads	57	61	71	44	31	18	65	21	56
Other Transport	0	0	0	0	0	0	0	0	0
Services to Industry	18	21	86	74	55	24	7	91	41
Other Services	106	21	159	67	277	72	215	130	106
Total user charges	397	572	433	418	665	330	720	448	474

(a) No PTE-type user charges are included.

(b) Fees paid by private patients are not included. Includes other hospital user charges only.

Source: ABS GFS data.

25 **Materiality?** The categories in Table 3 that meet the first materiality criteria are admitted patients, community and other health services, roads and other services. These could be considered for disaggregated assessments.

26 However, Table 4 shows the impact of possible user charges assessments on the distribution of GST pool based on the 2007 Update assessment method and the proposed 2010 Review categories. The impact of the assessments for each category is less than \$30 per capita for any State. Therefore, all existing assessments would fail this materiality threshold.

Table 4 Impact of user charges assessment on GST pool distribution (based on 2007 Update method and proposed 2010 Review categories)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
School education	0	0	0	0	0	0	0	0	0
Post secondary education	0	0	0	0	0	0	0	0	0
Admitted patients	0	0	0	0	0	0	0	0	0
Community and other health services	0	0	0	0	0	0	0	0	0
Welfare and housing services	0	0	0	0	0	0	0	0	0
Services to communities	0	0	0	0	0	0	0	0	0
Justice services	1.4	2.6	-8.1	-0.7	5.3	1.5	1.4	9.1	1.7
Public safety	0	0	0	0	0	0	0	0	0
Roads	0	0	0	0	0	0	0	0	0
Other transport	0	0	0	0	0	0	0	0	0
Services to industry	0	0	0	0	0	0	0	0	0
Other services	-0.6	-0.4	3.2	-8.0	4.7	9.6	0.4	-10.5	1.2
Total user charges	0.8	2.2	-4.9	-8.8	10.0	11.1	1.9	-1.4	1.9

Source: CGC 2007 Update calculations.

27 Even the hospital patient fees and property titles assessment in the 2007 Update (not included in Table 4) would fail the materiality threshold (See Tables 5 and 6). The impact of these assessments on GST pool redistribution was considerably less than \$30 per capita for any State and therefore differential assessments do not appear warranted.

Table 5 Impact of hospital patient fees^(a) assessment on GST pool distribution

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Private patient fees	-1.2	1.1	-0.2	1.2	-1.1	-2.8	7.7	9.7	0.6

(a) Fees paid by private patients in public hospitals.

Source: CGC 2007 Update calculations.

Table 6 Impact of property titles assessment on GST pool distribution

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Property titles	1.8	3.3	-9.0	-1.0	4.1	1.1	0.7	9.0	1.9

Source: CGC 2007 Update calculations.

28 At this stage, Commission staff are inclined to conclude that no case exists for treating any other user charges, including property title fees, differently. Even the proposals to net private patient fees and legal services and court fees off the respective expense categories may not be justified. Holding open the treatment of these two types of user charges, Commission staff propose to recommend to the Commission that all other user charges be included in a single category which is assessed EPC. They could be included in the miscellaneous revenue category which the Commission is presently proposing to assess EPC.

ISSUES FOR STATE CONSIDERATION

1. Do States accept the need to offset PTE-type user charges against associated expenses?
2. Do States support an equal per capital assessment for all other user charges as a group?
3. If not, are States aware of a single broad indicator that could be used to recognise differences in State capacities to raise these user charges?
4. Or, is there a conceptual case (and revenue base) for any disaggregated assessments?
5. What are State views on netting private patient fees off admitted patient expenses and legal services and court fees off expenses in the justice services category?

ATTACHMENT A — REVISED INTERIM ASSESSMENT GUIDELINES FOR THE 2010 REVIEW⁵

Introduction

- 1 The guidelines provide structure, rigor and transparency to the process of making assessments. They do this by:
 - defining the sequence of decisions;
 - specifying what information is needed at each step; and
 - establishing the quality of the information the Commission requires.
- 2 The guidelines assist in:
 - achieving consistent and appropriate standards in the assessment of disabilities and the development of categories, consistent with the principles of fiscal equalisation; and
 - doing this in the simplest, most transparent way possible, leading to assessments with fewer moving parts.
- 3 In operation, the guidelines set a clear hurdle that both individual disability assessments and expense or revenue category assessments have to pass before they are included in the calculation of relativities. The guidelines contain materiality thresholds that will be indexed as required.
- 4 The guidelines also form a key part of the quality assurance process. They allow the Commission to be confident that all relevant information has been used in making preliminary decisions, and allow external parties to follow the decision processes used by the Commission.
- 5 The Commission plans to follow an iterative process in building and finalising its assessments. It will:
 - apply prospective materiality thresholds to make preliminary decisions about category structures and disabilities using historical information;
 - build the assessments using data relating to the assessment period for the review;
 - confirm the reliability of methods, including through the use of external reviews of important assessments; and
 - confirm the materiality of all its category and disabilities assessments at the conclusion.

Structure guidelines

- 6 The Commission proposes to structure expense and revenue categories starting with large aggregates and disaggregating only where that is expected to improve the HFE outcome.

⁵ Published in *2010 Review of State Revenue Sharing Relativities, Progress Report to Ministerial Council for Commonwealth-State Financial Relations, 2007.*

- 7 A function (expense or revenue item) will be considered for separate category assessment, if:
- the service provided or revenue source is clearly a major State service or revenue source distinct from others;
 - it is affected by disabilities that are markedly different from those of other categories;
 - data used to estimate the average expense or revenue are satisfactory;
 - it is expected that satisfactory assessments of disabilities can be made; and
 - the category is expected to be material, which is defined as:
 - the average expense or revenue is greater than \$50 per capita; or
 - the assessment is likely to redistribute more than \$30 per capita for any State.

Assessment guidelines

- 8 The Commission organises its work by making assessments for individual categories.
- 9 The Commission will include a disability in a category when:
- A presumptive case for the disability is established, namely:
 - a sound conceptual basis for these differences exists; and
 - there is sufficient empirical evidence that differences exist between States in the levels of use and/or unit costs in providing services or in their capacities to raise revenues.
 - A reliable method has been devised that is:
 - conceptually rigorous (for example, it measures what is intended to be measured, is based on internal standards and is policy neutral);
 - implementable (the disability can be measured satisfactorily); and
 - where used, consistent with external review outcomes.
 - Data are available that are:
 - fit for purpose — they capture the influence the Commission is trying to measure and provide a valid measure of States' circumstances;
 - of suitable quality — the collection process and sampling techniques are appropriate, the data are consistent across the States and over time and are not subject to large revisions.

Data will be adjusted where necessary to improve interstate comparability.
The Commission will not make small data adjustments unless they redistribute more than \$3 per capita for any State.
 - Where a case for including a disability in a category is established but the Commission is unable to make a suitable assessment of its impact, the options are:
 - to discount the impact that has been determined; or
 - to make no assessment.

- 10 The option chosen needs to reflect the specific circumstances of the assessment. It will depend on:
- the particular concerns about the assessment;
 - the strength of the conceptual case for assessing the category or the disability;
 - the reliability of the method and data;
 - the sensitivity of the assessment to the data used, measured in terms of the likely impact on State revenue shares of an error in the data; and
 - consistency with State circumstances.
- 11 The Commission will include the disability in its final assessments if it is material.
- A disability assessment must redistribute more than \$10 per capita for any State in the reference period to be included in the calculation of relativities.
 - Where a disability influences more than one revenue or expense category, the materiality test will be applied to the total impact it has on the redistribution of funds.
- 12 A category assessment will be included in the final assessment if:
- the assessment cannot be made simpler without reducing its conceptual rigor and reliability;
 - the Commission considers the methods are reliable and has confidence in the results;
 - the results are consistent with the real world;
 - where used, external review highlights that the approach is reasonable;
 - the assessment is robust, that is, it is not unduly sensitive to the change in inputs;
 - the average expense or revenue is greater than \$50 per capita or the category redistributes more than \$30 per capita for any State. Categories that do not meet one of these thresholds will either remain part of an aggregated category that has similar, often broader, disabilities or be treated equal per capita; and
 - the effect on the distribution of the GST pool resulting from the use of disaggregated assessments instead of an aggregated assessment exceeds \$30 per capita for any one State. If the combined distributions of disaggregated assessments do not redistribute \$30 per capita more than the aggregated assessment, then the aggregated assessment will be used.