



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/77

EQUALISATION BUDGET FOR THE 2004 REVIEW

Prepared for the Commission's 2003 Conferences on Draft Assessments

AUGUST 2003

NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents the preliminary equalisation budget (called the standard budget in the 1999 Review) for the 2004 Review. It builds on staff proposals set out in *Discussion Paper CGC 2001/12 Scope and Structure of the Standard Budget*, *Discussion Paper 2002/3 Scope and Structure of the Equalisation Budget*, and *Discussion Paper CGC 2003/2 Treatment of Commonwealth Revenue Payments* and State views provided at the conferences, in their main and rejoinder submissions.

2. The consensus reached at the Priority Issues conference in September 2001 was that the scope and structure of the equalisation budget for the 2004 Review should be broadly similar to that used in the 2003 Update. The Commission has given considerable weight to this consensus in its evaluation of subsequent State submissions on scope and structure issues.

BACKGROUND

What is the equalisation budget?

3. The equalisation budget defines the range of services and revenues that are subject to equalisation assessment and classifies them into categories to facilitate the assessment process. The transactions of each State government are classified into a common framework using revenue type and purpose of expense classification systems.

4. The equalisation budget is the means by which the Commission derives its revenue and expense standards. These standards are derived by dividing the Australian revenue (or expenses) by the Australian population.

5. The equalisation budget comprises six elements:

- general revenue assistance — The pool of funds to be distributed by the Commission's relativities;
- Australian Government Specific Purpose Payments (SPPs) treated by inclusion;
- State own-source revenues;
- State expenses;
- State user charges; and
- the budget result. This is a balancing item and is the difference between the total revenues (general revenue, Australian Government

SPPs treated by inclusion, State own-source revenue and user charges) available to States and their total expenses.

6. Since the introduction of *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the Act), the Commission has been compiling two equalisation budgets:

- the FAG equalisation budget supports the calculation of relativities for the distribution of notional financial assistance grants (FAGs) and unquarantined health care grants; and
- the GST equalisation budget supports the calculation of relativities for the distribution of GST revenue and unquarantined health care grants.

7. Adjustments were made to the assessment categories affected by the introduction of the Act to derive each equalisation budget.

SCOPE OF THE EQUALISATION BUDGET

Guidelines for determining the scope of the equalisation budget

8. The scope of the 1999 Review equalisation budget was based on two guidelines. In the 1999 Review, a transaction was included in the equalisation budget if:

- it belonged to a function that was wholly or partly the responsibility of the States; and
- revenues (or expenses) related to the function could be identified with reasonable confidence for each State.

9. Table 1 shows the types of transactions which were included and excluded in that inquiry.

Commission staff proposal

10. In *Discussion Paper 2001/12*, Commission staff proposed revising the first guideline. They proposed including a transaction if it belonged to a function that had an impact on State budgets.

11. Commission staff proposed this change because the use of ‘responsibility’ as the decision criterion did not cover all circumstances. For example, it did not cover circumstances such as higher education where the Australian Government has the greater financial responsibility, but most States provide supplementary funding. The revised guideline would focus more on what States do and how they operate.

Table 1 1999 REVIEW SCOPE OF EQUALISATION BUDGET

	Include	Exclude
Level of government	State	Australian Government and local government
Sector	General government (includes net impact of PTEs on the general government). Also includes transactions of PTEs providing urban transit and welfare rental housing services.	Public trading enterprises (PTEs), public financial enterprises
Types of transactions	Recurrent operating expenses and revenues (include operating cost of capital — depreciation and debt charges). Australian Government recurrent specific purpose payments (SPPs) and Commonwealth Own Purpose Outlays (COPOs) paid to the States and non-government organisations. Cash data used for 1999 Review and 2000 Update, and accrual data (from 1998-99 onwards) used from 2001 Update. From 2001 Update, included one-tenth of unfunded superannuation liabilities at the beginning of 1998-99 in the Superannuation category.	Capital outlays and revenues Capital SPPs and COPOs paid to the States and non-government organisations.

State views

12. No State commented on the revised guideline.

Analysis and evaluation

13. Commission staff have reconsidered the revised guideline following evaluation of the treatment of Australian Government payments, toll roads and privately funded projects. In particular the meaning of the phrase ‘impact on State budgets’.

14. The impact on State budgets can be direct — an expense or revenue that can be found in the State operating statements — or indirect. A transaction could have an indirect impact on the State budget by relieving the State of the need to incur that expense (or the opportunity to collect revenue). This would happen if the expense was incurred by (or the revenue received by) the Australian Government, local government or a non-government body.

15. Including transactions that have indirect impacts blurs the boundary of equalisation and requires a decision about which of these transactions ought to be included, in the equalisation budget and which omitted as well as a decision about how to include them. Should the equalisation budget include:

- (i) State services provided by non-government bodies which are fully funded by the Australian Government, such as Indigenous community controlled health organisations?

- (ii) State services provided by non-government bodies and wholly funded by user charges, such as private toll roads, private hospitals and privately funded projects? or
- (iii) Australian Government and local government services which have no direct impact on State budgets but because of their substitutability for State services can have an indirect effect, such as private general practitioners?

16. Besides the difficulty of collecting data on transactions that have an indirect impact on State budgets, none of these transactions are financed by States. In the assessment guidelines¹, Commission staff said one of the pillars of equalisation was internal standards (what States do). These standards are an average of the expenses actually incurred (or revenues actually raised) by the States. An advantage of internal standards is that the Commission does not have to guess what level of service might be appropriate, it is guided solely by what States on average do. Including non-State activities would be inconsistent with internal standards. Commission staff concluded that the equalisation budget should be limited to transactions that have a direct impact on State budgets.

Commission decision

17. The three pillars of equalisation are:

- capacity equalisation. HFE is about equalising the fiscal capacity of State governments. It is not about equalising the States' performance or the outcomes they achieve;
- internal standards (what States do). The standards the Commission applies are an average of the ones actually applied by the States — what States do; and
- policy neutrality. A State's own policies or choices in relation to the services it provides and the revenues it raises should not directly affect the level of grants it receives.

18. The three pillars require the Commission to include transactions that have a direct impact on State budgets, because that reflects what States do. The three pillars do not require the Commission to include transactions that have an indirect impact on State budgets. Consequently, the Commission has decided to confine the equalisation budget to activities that have a direct impact on State operating statements.

The revised guidelines

19. The revised guidelines for determining the scope of the equalisation budget are:

¹ Information Paper 2002/1 *Guidelines for Implementing Horizontal Fiscal Equalisation*, pages 6-7.

- Does the function have a direct impact on State budgets?
- Can revenues and expenses related to the function be identified with reasonable confidence for each State?

20. The first guideline restricts the equalisation budget to those transactions that are recorded in State operating statements. The second guideline says that data need to be comparable across States and capable of being classified on a consistent basis, to the categories used to dissect the budget. It is expected that, with the use of ABS Government Finance Statistics (GFS) data as the main source of data and sufficient resources applied, such data would be available.

21. In *Discussion Paper 2001/12*, Commission staff said applying these guidelines would produce an equalisation budget broadly similar in scope to that used in the 1999 Review. Exceptions include:

- (i) Urban Transit. Because most States had privatised or corporatised these services, this category would only comprise transactions between the general government and those trading enterprises providing urban transit services; and
- (ii) Capital grants. State receipts from capital grants would be included because these grants partly meet States' depreciation expenses.

22. In their main submissions, States generally supported the proposals in *Discussion Paper 2001/12*. Specific issues raised by the States are discussed below.

The scope of the equalisation budget for the 2004 Review

23. Table 2 summarises the scope of the equalisation budget for the 2004 Review. It is based on the equalisation budget guidelines above.

Table 2 2004 REVIEW SCOPE OF EQUALISATION BUDGET

	Include	Exclude	Changes from R99
Level of government	State	Australian Government and local government.	Same
Sector	General government (includes net impact of PTEs on the general government). Also includes transactions of PTEs providing welfare rental housing services.	Public trading enterprises (PTEs), public financial enterprises.	Excludes transactions of PTEs providing urban transit services.
Types of transactions	Recurrent operating expenses and revenues (include operating cost of capital — depreciation and debt charges) ^(a) .	Capital outlays and revenues.	Same
	Australian Government recurrent and capital SPPs and COPOs paid to States		Includes capital SPPs and COPOs paid to States. Exclude COPOs paid to non-government organisations.
	Use accrual data.		Same
	Include one-tenth of unfunded superannuation liabilities at beginning of 1998-99 in the Superannuation category.		This was introduced in the 2002 Update.

(a) The few transactions that the ABS excludes in determining State net operating results would be excluded. These are provisions for doubtful debts, gain/losses from sale or revaluation of non-financial assets and gains/losses from financial assets.

OTHER ISSUES RELATING TO THE SCOPE OF EQUALISATION

Merit Goods

24. **State views.** In its main submission, *New South Wales* proposed restricting the scope of equalisation to ‘merit goods’ — those services where there is a recognised right of citizens to a certain standard of services and a demonstrated effect on equity. It said these services were services which:

- have a direct and significant effect on quality of life;
- all governments provide to all citizens as part of their obligation to provide universal access to core services;
- are routinely discussed at intergovernmental Ministerial meetings; and
- are generally provided at a similar level throughout each State.

25. It submitted that the scope of the equalisation budget should be restricted to the Education, Health, Law and Order, Housing, Welfare and Transport categories; and exclude Services to Industry, and Culture and Recreation categories.

26. **Staff proposals.** In *Discussion Paper 2002/3*, Commission staff did not support New South Wales' proposal because the definition of merit goods was not robust and the subsequent limiting of the scope of equalisation would not be consistent with reflecting 'what States do'.

27. **Further State views.** In their rejoinder submissions, *Queensland* and the *Northern Territory* opposed the New South Wales proposal.

28. **Analysis and evaluation.** The New South Wales proposal is inconsistent with the use of internal standards. It restricts the scope of the equalisation budget not to what States do, but a view of what States should be doing. The evidence is that States do provide other services than those that would be covered by the proposed merit goods definition. States do have cost advantages and disadvantages in providing those other services.

29. The definition of merit goods is not robust. Commission staff consider that States are unlikely to agree on the definition of merit goods. This would lead to uncertainty over which functions should be included in the equalisation budget.

30. **Commission decision.** The three pillars require the Commission to include all transactions that have a direct impact on State budgets, because that reflects what States do. This implies that the scope of equalisation should not be restricted in the way proposed by New South Wales. For that reason, it has decided not to restrict the scope of equalisation to merit goods.

Australian Government Assistance to Local Government

31. **State views.** The *Northern Territory* proposed including Australian Government assistance to Local Government in the equalisation budget. It said:

- inequities in the interstate distribution of that assistance mean that it has to provide greater financial support to its local government bodies than other States; and
- its needs in this area were not fully recognised.

32. **Staff proposals.** In *Discussion Paper 2002/3*, Commission staff did not support the Northern Territory's argument because the provision of untied grants to local government was a Australian Government function (only the Northern Territory provides such assistance from its own resources) and including this expenditure would go beyond the scope of State equalisation.

33. **Further State views.** The *Northern Territory* said a disability should be assessed for the additional costs it incurred in providing assistance to local government

authorities due to the inequitable distribution of Local Government Financial Assistance Grants.

34. ***Analysis and evaluation.*** Including Local Government Financial Assistance Grants in the standard budget would be inconsistent with the guideline that the equalisation budget should be restricted to transactions which have a direct impact on State budgets. Local Government Financial Assistance Grants are paid to States but passed on to local government. They do not have a direct impact on State budgets.

35. The Northern Territory provides an operating subsidy to Indigenous community councils, this assistance would be included in the assessment for the Services to Indigenous Communities category. The impact the equal per capita Local Government Financial Assistance Grants has on the Territory's budget will be considered as part of the review of the assessment of the Services to Indigenous Communities category.

36. ***Commission decision.*** The Commission has decided that, as a matter of principle, Australian Government payments for local government would not be included in the equalisation budget.

Medicare Benefits Payments

37. ***State views.*** In its main submission, the ***Northern Territory*** proposed including Medicare Benefits payments in the equalisation budget. It argued that:

- these payments are a substitute for States' own purpose outlays;
- inequities in the interstate distribution of Medicare payments impact directly on State budgets and the Territory's needs in this area are not fully recognised; and
- Medicare payments are similar to Primary Health Care Access Program (PHCAP) payments which the Commission treats by inclusion.

38. ***Staff proposals.*** In *Discussion Paper 2002/3*, Commission staff did not support the Territory's proposal because Medicare Benefits payments were payments to individuals or the proxies of individuals (doctors) and were an Australian Government responsibility. Commission staff said the impact of the uneven per capita distribution of Medicare Benefit payments on State budgets would be considered as part of the review of the assessments for the relevant categories. They also said the treatment of PHCAP and Medicare would be considered as part of the review of the treatment of SPPs for the 2004 Review.

39. ***Further State views.*** No further comments were received.

40. ***Analysis and evaluation.*** Including Medicare Benefits payments in the standard budget would be inconsistent with the guideline that the equalisation budget should be restricted to transactions which have a direct impact on State budgets. Medicare Benefits

payments are direct payments to individuals or their proxies and do not have a direct impact on State budgets.

41. To the extent that the uneven per capita distribution of these payments has an indirect impact on State budgets, that issue would be considered as part of the assessment process for the relevant health categories.

42. **Commission decision.** The Commission has decided that, as a matter of principle, Medicare Benefits payments should not be included in the equalisation budget because they are an Australian Government responsibility. The Draft Assessment Papers on Inpatient Services and Non-inpatient Services will consider whether disabilities should be assessed to allow for any indirect effects of Medicare Benefits payments on the use of State services.

Capital Grants from the Australian Government

43. **Staff proposal.** In *Discussion Paper 2002/11*², Commission staff proposed including capital grants in the equalisation budget because:

- (i) capital grants have been included as operating revenue in State government accounts and in ABS GFS since the introduction of accrual budgeting; and
- (ii) capital grants are spent on functions for which needs are assessed.

44. Staff proposed treating capital grants in the same way as recurrent SPPs. It sought States' views on whether:

- (i) it was appropriate to include the unadjusted value of the capital grants received in a particular year, or whether an amortised historical series would be required to overcome any problems of volatility; and
- (ii) any adjustments would be required to the Debt Charges assessment to avoid any double counting of needs already assumed to be met.

45. **Commission decision.** The capital SPP issue is discussed in Draft assessment paper 2003/78 *Treatment of Specific Purpose Payments*. That paper presents State views, an analysis and evaluation, the Commission's decisions and the reasons for its decisions.

46. The Commission has decided to include capital grants in its equalisation budget in the 2004 Review.

² Discussion Paper 2002/11 *The Treatment of Capital Grants*.

Superannuation

47. The terms of reference for the 2001 Update asked the Commission to ‘review and adopt a standard and method for the superannuation category which optimises fiscal equalisation’. The Commission considered the issue and decided:

- from 1998-99, to use an accrual standard and method to assess superannuation needs because this better reflects States’ annual costs and the way they were choosing to manage and account for their superannuation expense; and
- to optimise equalisation, to introduce transitional arrangements to allow for unfunded superannuation liabilities.

48. The Commission decided transitional arrangements were required because:

- (i) not all annual accrued expenses were equalised in the past;
- (ii) what has been equalised has depended on the different policies of the States; and
- (iii) the costs of holding and meeting presently unfunded liabilities are real costs to State governments, regardless of how they are brought to book.

49. From 1998-99, the Commission adopted a two part assessment for the superannuation category. It comprised:

- (i) ***an accrual standard and assessment*** of needs associated with accrued expenses, including nominal interest on unfunded liabilities which have already been assessed by the EPC method; and
- (ii) ***transitional arrangements*** under which the States’ unfunded liabilities and nominal interest on unfunded liabilities will be brought into the equalisation process over the next ten years.

50. The transitional arrangements involved including in the equalisation budget for each of the ten years from 1998-99, ten per cent of the unfunded superannuation liabilities that existed at 1 July 1998.

51. ***State views.*** In its main submission, ***New South Wales*** said the category standard should be restricted to the accrual costs of superannuation. ***Victoria*** also opposed the use of a mix of cash and accrual approaches. It preferred to use accrual costs with no transitional adjustment. ***Western Australia, Tasmania, ACT*** and the ***Northern Territory*** supported the existing approach of including a transitional adjustment.

52. **Staff proposals.** In *Discussion Paper 2002/39*³, Commission staff were inclined to continue the existing approach.

53. **Further State views.** In its rejoinder submission, *Queensland* supported assessing the category using accrual data only, that is, without transitional arrangements. It argued that the impact of the past under funding of superannuation liabilities would have been captured elsewhere in the Commission's assessment at the time, through either: increased recurrent expenditure, reduced revenue collections, increased depreciation and debt charges due to increased capital expenditure, or increased interest earnings through increased investments. It said that if the Commission continued to recognise the cost of reducing unfunded superannuation liabilities, past assessments should be revised to recognise that the existing superannuation liabilities are the result of inflated standards in the past, due to increased recurrent or capital expenditure.

54. The *Northern Territory* supported the continuation of the transitional arrangements. It said a longer transitional period (20 years) would more closely match what States intend to do.

55. The other States did not comment.

56. **Analysis and evaluation.** The Commission's transitional arrangements are based on an assumption that if States had fully funded superannuation costs in past years they would have financed the additional expense by borrowings. Queensland's approach assumes that States would have adjusted their levels of service or revenue efforts so that overall budget outcomes would have remained unchanged. It is not possible to say which assumption is more reliable. However, the existing approach involves fewer judgements by the Commission.

57. The Commission introduced the transitional arrangements because it considered that not all annual accrued expenses had been equalised in the past, and what had been equalised had depended on State policy decisions. The Commission accepted that costs of holding and meeting unfunded liabilities were real costs to State governments, regardless of how they are brought to book. There are no new data and the circumstances are unchanged from when the Commission made its decision in 2001.

Commission decision

58. For the reasons it gave in the 2001 Update, the Commission accepts a conceptual case exists for applying equalisation to unfunded superannuation liabilities. It has, therefore, decided to continue the transitional arrangements it introduced in that update.

³ Discussion Paper 2002/39 *The Superannuation Assessment*.

STRUCTURE OF THE EQUALISATION BUDGET

Guidelines for determining the structure of the equalisation budget

59. The guidelines used to determine the structure of the 1999 Review equalisation budget dealt with the issue of how it should be disaggregated into categories. The guidelines asked whether the proposed categories in a function:

- (i) reflected the predominant way in which State governments provide services or raise revenues;
- (ii) ensured that expenditures or revenues in a category are affected by similar disabilities or no disabilities;
- (iii) facilitated the accurate measurement of policy-neutral disabilities or policy variables;
- (iv) allowed for accurate and consistent budgetary data to be obtained with reasonable confidence from the ABS GFS series and other supporting sources;
- (v) avoided the possibility that a State could, by changing its policies, directly influence its grant share; and
- (vi) made a worthwhile contribution to fiscal equalisation through its impact on relativities — is it material?

60. If the answer was **yes** to all of the above, then the proposed category structure was accepted. If the answer was **no** to any of the above, then a different structure would be considered. Inevitably, however, judgement was needed to decide the final structure of the standard budget. The decisions taken on how GFS data would be used may also have had an impact on the guidelines.

State views

61. The 1999 Review guidelines were reproduced in *Discussion Paper 2001/12*. No State commented on them.

Commission decision

62. Given that no State has objected to the guidelines, the Commission has decided that they should be used to determine the category structure for the 2004 Review.

Level of Aggregation

63. ***State views.*** In its main submission, ***Western Australia*** proposed that the Commission adopt a broader, more aggregated, budget structure than the existing one which reflects in detail the types of services States provide. It said that the existing degree of disaggregation in expenditure categories had the effect of obscuring States' broader policy objectives, which are:

- to deliver reasonable outcomes in public services for their entire community; and
- to improve service delivery outcomes.

64. It also argued that the existing approach:

- ignored the interconnectedness of services; and
- assumed that a standard mix of services was provided rather than a basket of services which best achieved a standard set of outcomes.

65. It suggested the Commission take an aggregated approach to assessments, that is, one revenue assessment and global measures of expenditure need. ***New South Wales*** also supported a global assessment of State revenue.

66. ***Staff proposals.*** The issue of a global revenue assessment was considered in *Discussion Paper 2002/4 Global Revenue*. In that paper, Commission staff said the Commission was inclined to continue the existing tax-by-tax approach because a global assessment would not adequately reflect what States do. In particular, it would not reflect the constraints that apply to the range of taxes States can actually impose and would therefore not adequately measure the differences between States in their relative capacities to raise revenue.

67. In *Discussion Paper 2002/3*, staff said that the Commission was not inclined to adopt aggregated expenditure assessments. Aggregated expenditure assessments would imply a form of equalisation which differed substantially from the existing one. The assessed disabilities would be high level and a broader measure of State differences in the costs of providing services. In the Commission's view, they would abstract from the way States provide services and from the influences on demand and costs they face.

68. Commission staff also said that the continuation of a detailed approach to expenditure assessments was consistent with the outcomes of the Priority Issues Conference where the consensus of the parties was that, for the 2004 Review:

- (i) the equalisation principle should be interpreted in a way that was current at the time the States signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*; and
- (ii) the scope and level of detail in the Commission's equalisation budget should remain broadly similar with what is currently in use.

69. **Further State views.** In the rejoinder submissions, *New South Wales* restated its support for a global revenue assessment. It argued that global measures are demonstrably better when considering the need for transparency, simplicity, accuracy and policy-neutrality. It suggested a phase in of the global measures.

70. The *Northern Territory* opposed a global revenue assessment. It strongly refuted any suggestion that the tax by tax approach provided an incentive for States to manipulate their tax policies for the purpose of increasing grant shares.

71. **Analysis and evaluation.** The Priority Issues Conference agreed that the scope and level of detail in the Commission's equalisation budget should remain broadly similar to that currently in use.

72. A move away from the existing structure that had the effect of simplifying the equalisation approach might be advantageous but not if it meant implementing a different form of equalisation. The global approach suggested by New South Wales (revenue only) and Western Australia would change the form of equalisation and would not be consistent with the approach agreed at the Priority Issues Conference.

73. **Commission decision.** The Commission does not accept that the conceptual case for adopting global assessments of revenue and expenditure need has been established. The indications are that a global approach would not be consistent with the form of equalisation which was agreed at the Priority Issues Conference in September 2001. The Commission has decided to continue its tax by tax approach for revenue assessments and its detailed approach for expenditure assessments.

THE 2004 REVIEW STRUCTURE – CHANGES FROM THE 1999 REVIEW

74. The following section outlines the main changes between the proposed 2004 Review structure and that used in the 1999 Review and subsequent updates. Attachment A compares the proposed 2004 Review structure with the existing structure.

Stamp Duty on Conveyances

75. **Staff proposals.** In *Discussion Paper 2001/12*, Commission staff proposed retaining the current approach of excluding stamp duty on sales of major State government assets from this category. Disabilities were not assessed for sales of State assets because the decision to hold or sell assets is a policy choice.

76. **State views.** No State commented on this issue.

77. **Analysis and evaluation.** The primary concern is whether States are assessed to have a differential capacity to raise revenue from the sale of major State assets. The revenue States collect from the sales of government assets are primarily determined by State policies, including policies on what assets will be sold, when they will be sold, the conditions of the sale and the rate of duty imposed. To the extent that there may be

interstate differences in the value of comparable assets, it is not clear how that could be measured with a suitable degree of confidence.

78. Of secondary concern is how that assessment is presented. If disabilities are not assessed for the sales of major State assets, the duty from those sales could be either:

- (i) included as a separate component of the category and assessed equal per capita; or
- (ii) excluded from the category.

79. The first approach provides more transparency because it shows that the Commission has taken account of these sales in its processes. Also, the amounts of stamp duty on conveyances shown in the equalisation budget would be the same as the revenue reported in State budget documents.

80. **Commission decision.** The Commission has concluded that there is a conceptual case for not assessing a differential capacity to raise revenue from stamp duty on sales of major Government assets. The Stamp Duty on Conveyances draft assessment paper discusses the issue further. The Commission has also decided to include stamp duty from sales of major State government assets as a separate component assessed equal per capita because of the greater transparency this alternative presentation provides.

Insurance Taxation

81. **Staff proposals.** In *Discussion Paper 2001/12*, Commission staff proposed to reclassify taxes on compulsory third party (CTP) insurance from the two vehicle registration fees and taxes categories to the Insurance Taxation category. They said this would result in measures of the revenue base that better reflected the way the States impose the tax, thereby resulting in a better assessment of States' capacities to raise revenue from CTP insurance. It would also better align the category structure with the GFS classification framework.

82. **State views.** States generally supported the proposed change.

83. **Commission decision.** There is a conceptual case for reclassifying CTP revenue because it would result in a measure of the revenue base that better reflects the way States impose the tax. The data are available to measure the revenue and the revenue base with confidence. Moreover, there was no opposition to the change. The Commission has therefore decided to include taxes on CTP insurance in the Insurance Taxation category.

Drivers' Licence Fees

84. **Staff proposals.** In *Discussion Paper 2001/12*, Commission staff said a Drivers' Licence Fees category was not supported in the GFS classification framework. The GFS system included such fees as road user charges. Commission staff noted that the assessment used for this category (population aged 17 to 75) was close to equal per capita assessment, so the redistribution was small (\$0.8 million in the 2003 Update). For these

reasons, Commission staff proposed to treat licence fees in the same way as GFS and include them as roads user charges.

85. **State views.** *Tasmania* and the *Northern Territory* supported the proposal. *Victoria* and *South Australia* opposed it.

86. Victoria said assessing drivers' licence fees as roads user charges would reduce the transparency of the assessment and would reduce the accuracy in grants distribution. South Australia said if the same method of assessment were used, no simplification of the Commission's procedures would result other than the deletion of a revenue category.

87. **Analysis and evaluation.** Treating drivers licence fees as road user charges would change the grants distribution. Drivers' Licence fees are currently assessed using population 17 to 75, user charges are assessed using total population. The change in grants distribution would be less than \$1 million.

88. In the past Commission staff have had problems obtaining financial data on drivers licence fees from the States. The existing approach requires the Commission to collect the financial data from the States and to make an adjustment to GFS data to remove licence fees from its road user charges.

89. **Commission decision.** There is a conceptual case for a separate assessment of drivers' licence fees because it would allow the revenue base to be measured in a way that reflects how the States impose the fees. However, the previous separate assessment did not have a material impact on the relativities.

90. There are also other pragmatic considerations, including the implications for the process whereby Commission obtains its expenditure and user charges data from the ABS Government Finance Statistics collection. The ABS classifies Drivers' Licence Fees as user charges and it is preferable for the Commission to align its classifications as closely as possible with those of the ABS.

91. The Commission does not consider that the additional complexity of assessing a separate category is warranted. It, therefore, does not propose to assess a separate Drivers' Licence Fees category in the 2004 Review.

Interest Earnings

92. **Staff proposals.** In *Discussion Paper 2001/12* Commission staff said the issue of whether Interest Earnings would be offset against Debt Charges would be decided as part of the investigations of the Depreciation and Debt Charges assessments.

93. **Commission decision.** The Debt Charges draft assessment paper details the Commission's decision not to assess needs for debt charges paid on borrowings relating to financial assets. As a consequence of that decision, the Commission decided to offset interest earnings other than those from superannuation investments against debt charges expenses. As a consequence, a separate Interest Earnings category will not be included in the 2004 Review equalisation budget.

94. The Commission is considering whether interest earnings from superannuation investments should be included in the Other Revenue category or offset against the nominal interest paid on outstanding superannuation liabilities. For the draft assessment, they have been included in the Other Revenue category.

Mining Revenue

95. ***Staff proposals.*** In *Discussion Paper 2001/12*, Commission staff proposed:

- (i) treating Australian Government Payments in Lieu of Royalties as State revenue in the mining category; and
- (ii) ceasing to include amounts of quasi-royalties for Queensland from 1999-2000 onwards because Queensland had phased out its special rail haulage contracts from July 2000. Any profits on coal haulage would be reflected in Queensland Rail's contributions to the budget through dividends or tax equivalent payments and included in the Contributions by Trading Enterprises category.

96. ***Queensland*** and the ***Northern Territory*** opposed the proposal relating to Payments in Lieu of Royalties. The Northern Territory argued that the existing treatment reflected the disabilities the Territory faced as a result of the existing Commonwealth-State financial arrangements. Without a change in these arrangements, a change in the treatment of the payment was not justified.

97. ***Tasmania*** and the ***Northern Territory*** supported the proposal to remove the quasi-royalty amounts for Queensland.

98. ***Analysis and evaluation.*** Under proposal to treat Payments in Lieu of Royalties as Mining Royalties, they would be treated as a separate component of the Mining category. The proposal did not envisage any change to grant distributions because the assessment method applied to that new mining revenue component would be the same as that applied to the SPP under the 1999 Review methods (that is an actual per capita assessment). Commission staff consider including all mining revenue in one category would increase transparency.

99. The Commission discontinued the quasi-royalty adjustment from 2000-01 as part of the 2002 Update.

100. ***Commission decision.*** The Commission accepts that Payments in Lieu of Royalties could be shown as an SPP or as a separate component of the mining category. Provided an actual per capita assessment is applied in each case, the choice would have no implications for grant distributions.

101. There are presentational advantages in including all mining revenue in the one category. For this reason, the Commission has decided to:

- (i) include the Australian Government payment for royalties in the Mining Revenue category;

- (ii) include it as a separate component; and
- (iii) assess that component by the actual per capita method.

Health and Community Services

102. ***Staff proposals.*** In *Discussion Paper 2001/12*, Commission staff proposed combining the previous Health and Welfare function groups into a new Health and Community Services function group. This change was intended to recognise the recent trend in States of grouping health services and welfare or human services into a single portfolio.

103. Commission staff also proposed aggregating the previous five health categories into three to reflect increased integration and co-ordination of health services, especially in non-metropolitan areas. The proposed health categories were as follows.

- (i) Inpatient Services. This category would cover the provision of services to acute and non-acute inpatients, including those in psychiatric institutions and designated psychiatric wards of hospitals, and the provision of patient transport services.
- (ii) Non-Inpatient and Community Health Services. This category would cover the provision of outpatient services, emergency services and community health services, including community mental health services.
- (iii) Population and Preventative Health. This category would cover the provision of population and preventative health services and health research.

104. In the community services area, Commission staff proposed making minor changes to the categories to better align them with the GFS classification framework. The proposed changes were:

- (i) the Family and Child Services category would no longer contain expenses associated with juvenile corrective services — as is done in GFS, these expenses would be included in the Corrective Services category;
- (ii) the Aged and Disabled Services category would be broadened to include expenses associated with nursing homes because the demand disabilities for nursing homes are broadly similar to those assessed for other services to aged and disabled;
- (iii) any expenses incurred by State governments that are included in GFS sub-group classifications for social security services (which are generally Australian Government responsibilities) within the Social Security and Welfare major group would be allocated to the Homeless

and General Welfare category to ensure all State expenses are included in the equalisation budget;

- (iv) expenses (such as costs of taxi fare subsidies and assistance to pensioners and other low income people for municipal rates) that were previously included in the Commission's Other Concessions category would be included in the relevant welfare category⁴; and
- (v) depreciation on public housing would be included in the Housing category because specific disabilities could be more easily assessed and applied.

105. Commission staff also proposed creating an extra category called Community Development. This category would broadly align with the GFS group of the same name. It would include:

- (i) expenses previously included in the Aboriginal Community Services category relating to essential services, community amenities and transport services provided for Indigenous communities; and
- (ii) community development and amenities for mainstream communities.

106. **State views. South Australia** said the nature of hospital services made it difficult to accurately separate expenses attributable to inpatient services from those for outpatient and emergency services.

107. **Staff further proposals.** In *Discussion Paper 2002/3*, Commission staff argued for the implementation of the proposed structure because:

- (i) it can better reflect the disabilities associated with different services;
- (ii) financial data are currently available to support the proposed structure; and
- (iii) while there were some doubts about the present comparability of data, the situation is expected to improve.

108. Commission staff said that if the disabilities associated with juvenile corrective services were different from those associated with adult corrective services, juvenile corrective services could be assessed as a separate component of the Corrective Services category. This issue is taken up in a later sub-section of this paper.

109. **Further State views. New South Wales** opposed merging Emergency Departments, Outpatients and Community Health. **Tasmania** supported merging the Population Health and Preventative Health categories and the introduction of the three new health categories.

⁴ Concessions for municipal rates will be classified to Aged and Disabled Welfare and other concessions will be classified to Homeless and General Welfare.

110. *Western Australia* and the *Northern Territory* supported merging Nursing Homes and Aged and Disabled Welfare.

111. *Analysis and evaluation.* The changes proposed for the health and welfare categories are intended to better align the equalisation budget with how States are delivering their services. The trend in States' delivery of health and welfare services is to bring them together under one portfolio.

112. The changes to the community services categories are to better align our categories with the GFS classification framework, the data source for those categories.

113. The issue of including some Aboriginal Community Services expenses in the new Community Development category is discussed in the following sub-section. Other issues associated with the proposed Community Development category are discussed in the General Public Services sub-section.

114. *Commission decision.* From the information available to the Commission, it has concluded that the proposed structure for the Health and Community Services group of categories reflects the trend in the way States are organising the delivery of health and welfare services. The Commission therefore considers there is a conceptual case for adopting the proposed category structure. The Commission considers equalisation would be improved by moving to the new structure and for this reason it has decided to adopt it for the 2004 Review.

115. The Commission acknowledges the case for better aligning the community services categories with their data source. In the absence of information to the contrary, the Commission proposes to adopt the proposal to better align the categories with the GFS classification framework. This decision may result in services with some different characteristics being included in the one category — for example, the inclusion of juvenile detention with other corrective services. In those cases, the assessment method would be adapted to allow for the effects of any material differences in the disabilities that affect the component services.

Aboriginal Community Services

116. *Staff proposals.* In *Discussion Paper 2001/12*, Commission staff proposed discontinuing the Aboriginal Community Services (ACS) category and relocating the expenses to other categories (Community Development; Electricity and Gas; Water, Sanitation and Protection of the Environment; and Non-urban Transport). This change was intended to better align the Commission's category structure with the GFS classifications.

117. *State views.* *New South Wales*, *Victoria*, *South Australia* and *Tasmania* supported the proposal. *Queensland* and the *Northern Territory* opposed it.

118. Queensland was concerned that the disabilities associated with the delivery of services to Indigenous communities might not be fully recognised if the ACS category was discontinued and the expenses absorbed into other categories.

119. The Northern Territory said that the ACS category grouped together expenses that were driven by the same key disabilities. This was suitable justification for retaining the ACS category.

120. Western Australia said the ACS category tended to lock in a lower service delivery standard for regional areas and Indigenous communities because it is equalising capacity to a lower financial standard. It said the Commission's proposal would lead to a uniform standard of outcomes for all and would better enable States such as Western Australia to bridge the existing service level gaps.

121. **Further Staff proposals.** In *Discussion Paper 2002/3*, Commission staff indicated that they were reconsidering the proposal. They also said that, regardless of the final decision, they would continue to collect ACS data from the States. These data would ensure support for the existing category if it were retained or assist an accurate assessment of disabilities if it were not.

122. *Discussion Paper 2002/37 Services to Indigenous Communities* also raised this issue. States were asked to advise how expenses on minor capital works⁵ were recorded in the GFS data. Staff were concerned that because States had generally adopted accrual accounting, including the value of minor new works (based on data from special data collections) might lead to double counting. Commission staff noted that future data requests might need to dissect the data into minor works which created assets for the State and those which created assets that were given to Indigenous communities.

123. **Further State views. Queensland** supported allocating ACS expenses to the relevant GFS categories, on the condition that disabilities were fully recognised. Queensland said it treated minor capital works as capital outlays, according to a \$10 000 asset recognition threshold.

124. **Western Australia** was concerned at the Commission's proposal not to include expenditures on minor capital works in the category. It said that the Debt Charges or Depreciation assessments did not incorporate a socio-demographic composition assessment for ACS. It argued that the Commission should continue to assess expenditures on minor capital works within an ACS category, or change the Debt Charges and Depreciation assessments to take account of the disabilities for these expenses.

125. The **ACT** supported retaining the category, on the basis that it increased transparency. It provided no comment on minor capital works.

126. The **Northern Territory** restated its strong objection to the relocation of ACS expenses to other categories because it would reduce transparency and increase the risk of assessing incorrect disabilities.

127. The Territory said it treated minor capital works as capital outlays, not recurrent expenses. However, ownership of utilities and transport infrastructure differed. Air and barge landings were owned by the Indigenous community. The Territory said

⁵ Expenses on minor capital works are defined as the upgrading or purchase of assets where the total estimated project cost was less than \$250 000 or the expected life of the asset was less than three years.

outlays for barge landings were treated as a capital grant and expensed when they occurred. This was also the case for most aircraft runways. Roadside runways were deemed to be controlled by the government and related expenses might be capitalised. Essential service assets were recorded as being owned by the Territory's Power and Water Corporation but at a book value of zero. This approach was taken because the earning power of these assets was below cost and their ownership was unclear.

128. *Victoria, South Australia and Tasmania* made no comment in their rejoinder submissions.

129. *Analysis and evaluation.* Reasons for keeping a separate ACS category are:

- it brings together expenses which are affected by the same set of disabilities and reduces the likelihood that the wrong disabilities will be applied to these expenses;
- it makes the assessment more transparent; and
- States can provide the data to support the assessment.

130. The primary reason for relocating the expenses to other categories is that it would better align the Commission's structure with the GFS classification framework.

131. Overall, Commission staff conclude that the reasons for retaining the category are stronger. They propose that a separate category be retained and it be renamed Services to Indigenous Communities.

132. Queensland and the Northern Territory said they treated minor works as capital outlays. Western Australia said a proper assessment of disabilities would not be made if minor works were assessed in the Debt Charges and Depreciation categories because there was no socio-demographic composition factor assessed in those categories.

133. The States use different accounting practices to record transactions relating to infrastructure in Indigenous communities (some are depreciating the assets; others are treating them as one-off expenses). A proportion of the capital expenditure on essential services in the Northern Territory Indigenous communities is regarded as having no asset value for the Territory. The options are to:

- (i) include the relevant expenses in the Depreciation category (including those expenses which States say create an asset at zero value); or
- (ii) treat minor capital expenditure in each year as an expense in the renamed Services to Indigenous Communities category.

134. Commission staff conclude that option (ii) is simpler. To give effect to it, Commission staff would have to collect data from the States on their capital expenditures and any associated depreciation to ensure no double-counting of expenses.

135. *Commission decisions.* The Commission accepts the case for retaining a separate Services to Indigenous Communities category. It accepts that services provided to

Indigenous communities are provided in a different way and are subject to disabilities that are materially different from similar services provided to non-Indigenous communities. Based on the calculations for the 2003 Update, the assessments for the services to Indigenous communities have a material effect on the relativities. Retaining a separate category represents the most transparent approach to the assessment. The Commission has decided, therefore, to assess a Services to Indigenous Communities category in the 2004 Review.

136. The Commission acknowledges the case for treating minor capital expenditure on essential services as an expense in the year it is made and classifying it to the Services to Indigenous Communities category. These expenses have a material impact on the budgets of particular States. The Commission has decided, therefore, to include minor capital expenditure on essential services in the Services to Indigenous Communities category in the 2004 Review.

Law, Order and Public Safety

137. ***Staff proposals.*** In *Discussion Paper 2001/12*, Commission staff proposed relocating juvenile corrective services from the Family and Child Welfare category to the Corrective Services category. This change would better align the Commission's category structure with the GFS classification framework.

138. ***State views. South Australia*** opposed the change because the disabilities associated with juvenile corrective services were different from those associated with adult corrective services.

139. ***Staff further proposals.*** In *Discussion Paper 2002/3*, Commission staff said that if the disabilities associated with juvenile corrective services were different from those associated with adult corrective services, juvenile corrective services would be assessed as a separate component of the Corrective Services category.

140. ***Further State comments.*** No further comments were received.

141. ***Analysis and evaluation.*** The Commission staff proposal on the classification of expenses for juvenile corrective services does not of itself imply changes in the approach for assessing disabilities. The range of disabilities to be assessed will be determined on the merits of the cases regardless of whether juvenile corrective services are classified as a separate component of the Corrective Services category or as a separate component of the Family and Child Welfare category.

142. ***Commission decision.*** The assessment methods decided in the 1999 Review indicate that the disabilities associated with juvenile corrective services are materially different from those for other aspects of family and child welfare services. *Draft Assessment Paper CGC 2003/39 Corrective Services*, also concludes the disabilities differ materially from those assessed for other aspects of corrective services. That is, equalisation is improved if juvenile corrective services are assessed as a separate component regardless of which category they are classified to.

143. The classification decision then depends on other considerations. Juvenile corrective services are classified to corrective services in the ABS GFS data. The Commission has decided to do likewise to better align the structure of its equalisation budget with the GFS classification.

Fees and Fines

144. In the 2003 Update, fines were included in the Fees and Fines category. Fees collected by law courts were classified as user charges in the Administration of Justice category. This was because GFS does not separately identify fees from other user charges.

145. ***Staff proposal.*** To better align Commission classifications with GFS, staff proposed to reclassify all user charges collected by courts from Administration of Justice to the Fees and Fines category. As a consequence, no user charges would be assessed in the Administration of Justice category.

146. ***Commission decision.*** The Commission acknowledges that GFS does not support a separate fees component from the Administration of Justice user charges. For this reason, it has decided to classify all Administration of Justice user charges to the Fees and Fines category.

Economic Activities

147. ***Staff proposal.*** In *Discussion Paper 2001/12*, Commission staff proposed combining three previous groups of categories (Transport, Services to Industry and Concessions and Other Payments) into one Economic Activities group.

148. ***Transport group.*** Under the 1999 Review methods, the Urban Transit category includes the net operating expenses of State-run urban rail, bus, tram and ferry services. It also includes government operating subsidies paid to some private bus and ferry operators. However, other categories where the standard policy is for services to be delivered by privatised or corporatised trading enterprise cover only the net impact of the services on the budget of the general government sector. This covers:

- (i) the costs to the State budget sector of payments made to, or on behalf of, undertakings providing the services — all costs associated with the reimbursement of concessions, subsidies and payments of community services obligations;
- (ii) payments made by government on behalf of trading enterprises for depreciation and debt charges; and
- (iii) the loss on operations where the trading enterprise operates as part of the general government sector.

149. Staff proposed making the treatment of Urban Transit consistent with that used the other cases where services are delivered by privatised or corporatised trading enterprises. That is, the category would reflect the net impact on the budget of the services.

150. Staff also proposed to continue to treat Roads Rehabilitation expenses (which were used as a proxy for road depreciation expenses) as a substitute for road depreciation expenses.

151. *Services to Industry Group.* Commission staff proposed relocating regulation of industry expenses from the Regulatory and Other Services category to the Services to Industry group of categories. They also proposed relocating Forestry expenses from the Other Public Trading Enterprises category to the Primary Industry category. Those changes were intended to better align the Commission's classification of transactions with the GFS classification.

152. *Concessions and Other Payments group.* Commission staff proposed that expenses associated with regulation of enterprises that provide services to Indigenous communities be assessed within this group of categories. They also proposed combining the Freight and Non-urban Passenger Transport categories into a new Non-urban Transport category because the infrastructure and equipment used by both services are common.

153. Commission staff asked States whether the Other Concessions and the Other Public Trading Enterprises categories should be retained. These categories comprised expenses relating to diverse entities and purposes which were not easily identified in the GFS classification framework. Commission staff were inclined to discontinue the separate categories. They proposed relocating the expenses relating to miscellaneous concessions to people with low income (previously included in Other Concession category) to the relevant welfare categories.

154. *Debt charges and depreciation.* In *Discussion Papers 2001/12* and *2001/18*⁶, Commission staff proposed, subject to data availability, relocating debt charges and depreciation expenses incurred by the general government sector on behalf of public trading enterprises to the relevant categories in the Concessions and Other Payments group.

155. *State views. Transport Group.* **Western Australia** suggested replacing road rehabilitation expenses with roads depreciation expenses because road rehabilitation expenses fall substantially short of depreciation expenses.

156. **South Australia** and the **Northern Territory** supported the Western Australia proposal of replacing road rehabilitation expenses with roads depreciation expenses.

157. *Concessions and Other Payments group.* **Western Australia** opposed relocating general government debt charges on behalf of trading enterprises to those trading enterprises. It argued that there was no objective way of identifying which portion of general government debt was attributable to which trading enterprise.

158. **Queensland** supported including the depreciation and debt charges (but only the amount relating to concessions) in the Concessions and Other Payments categories because it is more transparent. **Tasmania** opposed this because it considered these expenses would be immaterial and not readily identifiable in GFS data.

⁶ Discussion Paper 2001/18 *An Assessment Approach to Concessions and Other Community Service Obligations.*

159. **Further Staff proposals.** In *Discussion Paper 2002/3*, Commission staff noted that GFS did allow general government debt charges to be dissected to identify expenses incurred on behalf of trading enterprises. They acknowledged it would be necessary for general government debt charges paid on behalf of trading enterprises to remain in the Debt Charges category.

160. **Analysis and evaluation. Transport Group.** States did not oppose the proposal to apply the net budgetary impact approach to urban transit. Applying that approach to urban transit would result in a consistent approach to all trading enterprises.

161. The Commission used Roads Rehabilitation capital expenses in the 1999 Review because it was not satisfied with the quality of road depreciation expense data. Commission staff consider that the quality of ABS GFS depreciation data has improved since the 1999 Review. They are satisfied that the data are sufficiently comparable and consistent to be used as the basis for roads depreciation expenses.

162. **Services to Industry group.** Relocating expenses associated with the regulation of industry from the Regulation and Other Services category to the Services to Industry group would increase transparency and better align with the GFS classification. Relocating Forestry expenses to the Primary Industry category also improves the alignment of the Commission's category structure with the GFS classification framework.

163. **Concessions and Other Payments group.** Commission staff consider that transparency would be improved if all general government expenses (including debt charges and depreciation) on behalf of trading enterprises were allocated to this group of categories. However, the data in the GFS collection do not provide a split of debt charges by trading enterprise, but there is such a split for depreciation. The Commission has sought details of debt charges incurred by the general government on behalf of trading enterprises from States, but most have been unable to provide it.

164. **Commission decisions. Transport Group.** The Commission accepts the conceptual case has been established for including the impact of providing urban transit services on the general government sector budget in the Urban Transit category. This change, which was supported by States in the context of discussions on the urban transit assessment methods, would treat the urban transit function in the same fashion as other trading enterprises. The Commission considers that equalisation would be improved by this change. It has decided that, in the 2004 Review, the Urban Transit category will comprise only the general government impact of providing urban transit services.

165. The Commission accepts the conceptual and practical case has been established for using GFS road depreciation data. It has decided that GFS depreciation data will be included in the roads category in the 2004 Review. It also notes that the ABS has revised its approach to the treatment of rehabilitation costs. ABS now considers those costs are operating costs and includes them in State operating statements. Because GFS is used as the source of the data, the Commission will follow the ABS approach.

166. **Services to Industry group.** There is a conceptual case for grouping all regulation expenses in one category. The 1999 Review method had a Regulatory and Other Services category in which the Commission attempted to place regulatory expenses based

on information provided by the States supplemented with some judgement. However, there are doubts about the comprehensiveness and accuracy of those data.

167. In the GFS collection, regulatory expenses are classified to the categories that include expenses associated with the activities being regulated, such as the categories in the Services to Industry group. Attempting to continue to separate regulatory costs from those categories is not a feasible approach. To better align with the GFS classification the Commission has decided to include regulation expenses in the individual categories in the Services to Industry group. This change implies the previous Regulatory and Other Services category will cease in the 2004 Review — the non-regulatory expenses previously included in this category will be classified to the General Public Services category.

168. The Commission accepts the case has been established for relocating Forestry expenses from the Other Trading Enterprises category to the Primary Industry category. This better aligns the category structure with the GFS classification framework. The Commission has decided Forestry expenses will be included in the Primary Industry category in the 2004 Review.

169. *Concessions and Other Payments group.* The Commission accepts the conceptual case has been established for including general government depreciation expenses on behalf of trading enterprises with the relevant trading enterprise. This change which is discussed in the draft assessment paper on depreciation, will provide greater transparency. The Commission has decided to classify general government depreciation expenses on behalf of trading enterprises to the Concessions and Other Payments group.

170. The Commission also accepts that there is a conceptual case for including general government debt charges on behalf of trading enterprises with the relevant trading enterprise. However, the data required to implement that approach cannot be obtained with any accuracy. Consequently, the Commission has decided that debt charges incurred by the general government sector on behalf of trading enterprises will continue to be classified to the general debt charges category.

General Public Services

171. This category comprises expenses that under the 1999 Review method would have been classified to the Other General Public Services category and the non-regulatory expenses part of the Regulatory and Other Services category.

172. ***Staff proposals.*** In *Discussion Paper 2001/12*, Commission staff said the General Public Services category would cover a diverse range of predominantly administrative expenses. Many of the services in the category are integral to the existence and operation of State governments (for example the parliaments and supporting central agencies) but the category is basically a general purpose or 'remainder' category. Staff proposed expanding this category to include expenses relating to labour and employment affairs and miscellaneous services which were previously included in the Regulatory and Other Services category.

173. Commission staff also proposed a new category, Community Development. This category would comprise the GFS classifications of Community Amenities and Other Community Development.

174. **State views.** The States did not comment on either issue.

175. **Analysis and evaluation.** When developing the assessment methods, Commission staff found that the expenses they proposed to include in the new Community Development category and the General Public Services category were similar and were subject to similar disabilities. They concluded that a separate Community Development category was not necessary. They proposed classifying the expenses which would have been included in that category to the General Public Services category.

176. **Commission decision.** In the absence of alternative suggestions, the Commission has decided the General Public Services category will cover:

- (i) the expenses, which were classified to the Other General Public Services category under the 1999 Review methods;
- (ii) the non-regulatory expenses, which were classified to the Regulatory and Other Services category under the 1999 Review methods — these were predominantly expenses relating to labour and employment affairs and miscellaneous services; and
- (iii) expenses that might otherwise have been classified to the proposed community development category — most of these would have been in Regulatory and Other Services category under the 1999 Review methods.

177. As a consequence of these decisions, the previous Regulatory and Other Services category will be discontinued.

Treatment of salinity expenses

178. **Staff proposal.** In *Discussion Paper 2002/38*⁷, Commission staff noted that salinity was a growing and serious issue for a number of States and a disability assessment was warranted. They said a key issue was determining how to treat the Australian Government payment under the National Action Plan for Salinity and Water Quality (NAPSWQ). Commission staff noted that salinity expenses were spread across a number of categories. The majority of expenses would be included in Primary Industry, but other expenses were included in Water, Sanitation and Protection of the Environment, National Parks etc. At the November 2002 staff level conference, Commission staff asked the States to provide information on how they classified salinity expenses within the GFS framework.

179. **State views.** *Victoria* said most of its salinity expenses were classified to Primary Industry, but some were in Water, Sanitation and Protection of the Environment.

⁷ Discussion Paper 2002/38 *Services to Industry*.

180. *Western Australia* said its salinity expenses were spent by several departments and classified to Primary Industry; Water, Sanitation and Protection of the Environment; National Parks; and Forestry.

181. *Analysis and evaluation.* The preference of Commission staff would be to gather all Salinity expenses into one category. The GFS classification framework does not support this proposal. Data would have to be sourced from the States and used to adjust GFS data. Commission staff conclude that the additional complexity of supporting a separate category is not warranted and disabilities can be applied in the categories where the expenses are located.

182. *Commission decision.* The Commission considers that a conceptual case for assessing a separate Salinity category may exist. However, data are not readily available to support a separate assessment. The Commission does not consider the additional complexity that a separate category would require is warranted and it does not propose to assess a separate Salinity category in the 2004 Review.

ISSUES RELATING TO THE COMPILATION OF THE EQUALISATION BUDGET

Source of data

183. In the 2003 Update, the equalisation budget was compiled using data from the following sources:

- (i) General revenue grants and other Australian Government revenue payments — Australian Government Final Budget Outcome and data collected from Australian Government agencies;
- (ii) State own-source revenue — data collected from the States; and
- (iii) State own-funded expenses and user charges — data from the ABS GFS collection supplemented by depreciation data collected from the States and estimated by the Commission.

184. The Australian Government remains the best source of comparable data on general revenue grants and other Australian Government revenue payments. States are the best source of data for State own-source revenue, primarily because they are able to provide data for the last year of an inquiry. The Commission has said that it wants to make greater use of ABS GFS data where possible and (as reported earlier) has decided to source its depreciation data from this source.

Adjustments to GFS data

185. In the 1999 Review and subsequent updates, the Commission used GFS data to compile its expenses and user charges financial standards for each expenditure category. In 1998-99 the ABS changed the accounting method it used to prepare GFS from a cash to an accrual basis. This change produced a break in the data series.

186. The change in the basis of accounting and a number of related developments created instability in the data and a number of problems for the Commission's analysis. The problems were characterised by:

- (i) large and apparently anomalous increases in expenses and user charges between 1997-98 and 1998-99;
- (ii) year to year volatility in the level of expenses classified to detailed purpose categories;
- (iii) large increases in expenses classified to the general purpose categories such as Other General Public Services and Regulatory and Other Services categories; and
- (iv) the continued unavailability of data for the last year of the assessment period (2001-02 for the 2003 Update).

187. The absence of meaningful descriptions (most States use their charts of accounts as descriptions) in the GFS transactions made it hard for Commission staff to examine the data closely.

188. Comparisons of accrual data for 1998-99 to 2000-01 with cash based data for earlier years suggested deficiencies in the detailed purpose classifications attached to some transactions. There were examples where expenses (or user charges) shown in a classification in 1996-97 were substantially reduced or were missing in one or both of the later years, even though there was no indication of a change in State policy. There were also examples of substantial increases in expenses for some classifications.

189. The Commission concluded during the 2001 Update that it was unable to use GFS data as it was received. It reaffirmed that conclusion in the 2002 Update. In preparing its equalisation budget for the 2002 Update, it systematically adjusted data from 1998-99 to minimise the impact of the distortions on the assessments. It:

- (i) reduced the impact of changed accounting practices on gross expenses and user charges by treating 75 per cent of any annual increase in user charges in excess of 20 per cent as an expenditure offset — the ***user charge adjustment***;
- (ii) reduced the impact of the increase in the value of transactions classified to the general purpose categories by holding the Other General Public Services category at its 1997-98 proportion of total expenditure and spreading any excess across all the other expenditure categories — the ***OGPS adjustment***; and

- (iii) reallocated expenses to the detailed purpose classifications in each broad expenditure function, using proportions for 1997-98, the last year when detailed classifications were considered to be reliable — the *functional smoothing adjustment*.

190. Table 3 shows the impact on notional State grants of each adjustment, based on the data used in the 2003 Update. The OGPS adjustment had the largest impact.

Table 3 THE IMPACT OF REMOVING THE ADJUSTMENTS, 2003 UPDATE^(a)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Adjustments:	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
User Charge adjustment	-17.7	-30.8	-14.2	26.0	0.4	8.1	8.4	19.9	62.8
OGPS adjustment	-69.0	-15.4	-35.2	-0.6	12.1	29.9	47.5	30.6	120.1
Functional Smoothing adjustment	-9.4	-3.0	-25.4	10.4	32.6	3.7	-6.4	-2.4	46.7

(a) The amounts were calculated by estimating the effect on relativities, and hence notional State grants, of deleting each adjustment one at a time, assuming all other aspects of the assessments remained constant. Recent analysis has indicated that about a third of the redistribution attributed to the OGPS adjustment was due to an error in the data for the 2003 Update.

191. For the last year of the assessment period of each update, the Commission estimated expenses and user charges using the growth rate of the previous years. It replaced these expenses and user charges with actual GFS data in the following update — the estimate and replace adjustment.

Removal of adjustments to GFS data

192. The Commission's expressed preference has been to use unadjusted GFS data for the 2004 Review. While it acknowledged adjustments were necessary in the past, it did not wish to continue making them into the future.

193. *The user charge adjustment.* The user charge adjustment was introduced because there was a big increase in reported user charges in 1998-99. The Commission did not know the cause of the increase, although ABS suggested that it might have been due to States changing their accounting methods to report expenses and user charges at their gross level for GFS. Gross expenses also experienced an increase in the same year which supports the ABS suggestion.

194. Since 1998-99, gross expenses and gross user charges appear to have stabilised around the higher level. This adds further weight to the ABS suggestion that, in 1998-99, States changed their accounting methods to report expenses and user charges at their gross level for GFS.

195. The Commission is inclined to accept the new GFS data. It reflects what States report in their own budget documents. Nevertheless, Commission staff are examining expense and user charge data to ensure the figures being provided on a gross

basis are consistent with our usual treatment of expense and user charge transactions. Commission staff may treat particular transactions on a net basis. One reason for doing so would be because the transaction relates to a function which the Commission has decided to assess on a net basis.

196. **Commission decision.** The Commission accepts it is no longer necessary to continue the user charges adjustment. From 1998-99, the national practice is to report gross expenses and user charges and using unadjusted GFS data will reflect what States are reporting in their budget documents. The Commission has, therefore, decided to remove the user charge adjustment in the 2004 Review. The impact of this change on State budgets may be material. Commission staff will continue to examine expense and user charges data to ensure that the data are consistent with the Commission's usual treatment of such data.

197. **The OGPS adjustment.** The OGPS adjustment was introduced because there was a large, unexplained increase in reported expenses classified to the Other General Public Services category. This increase occurred in 1998-99, coinciding with the move to reporting on an accrual basis. As the Other General Public Services category was a 'remainder' category, the Commission assumed that expenses from other categories had been erroneously classified to it. It introduced the OGPS adjustment to relocate expenses from the Other General Public Services category back into other expenditure categories.

198. Staff have examined the transactions associated with the Other General Public Services category in detail and have found that Local Government Financial Assistance grants for some States were incorrectly classified to this category. This error accounts for about one-third of the increase in the Other General Public Services category.

199. Another reason for the large increases is the inclusion of expenses incurred by central agencies providing services on behalf of other agencies⁸. Staff are continuing their examination of the category's transactions to identify these expenses and reclassify them to the client agency. This analysis will be completed before the 2004 Review.

200. Commission staff consider that as their analysis explains a large part of the increase in the Other General Public Services category in 1998-99, an OGPS adjustment is no longer required.

201. **Commission decision.** The Commission accepts it is no longer necessary to continue the OGPS adjustment. The Commission is satisfied the analysis undertaken by Commission staff explains the large increase in 1998-99. It considers that equalisation would be improved by discontinuing the OGPS adjustment and it proposes to do so in the 2004 Review.

202. **The functional smoothing adjustment.** The functional smoothing adjustment was introduced because there were big differences between the Commission's previous functional breakdown and the functional breakdown supported by detailed GFS data. The GFS data showed significant year to year variability and, in some cases, States

⁸ This is because the payment by each agency to the central agencies and the receipts by the central agencies were treated as intra-general government transfers and excluded during consolidation. This treatment classified a large amount expenses to OGPS.

appeared to classify all expenses for a function to one of the detailed categories in it (it was often the miscellaneous expenses category). The Commission considered that GFS data at the detailed level were not of sufficient quality to support its functional breakdowns. Table 4 uses data for the health function to illustrate some of the problems.

203. Table 4 shows that:

- Queensland classified all health expenses to Hospitals in 1998-99. Since 1999-2000, it has been able to classify them at a more detailed level;
- Western Australia, South Australia, Tasmania and Northern Territory record no expenses for Nursing Homes; and
- Western Australia recorded no expenses for Mental Health.

204. Accurate State data at the category level of detail are vital inputs to the assessment process. They define the standard to which disabilities are applied. While some States are improving the detailed classification of their expenses data, problems such as those in Table 4 remain. Commission staff conclude that the functional smoothing adjustment should be discontinued in cases where States have provided good quality data but retained in cases where States' detailed data are of poor quality..

205. Commission staff also concluded that, where possible, data from later years should be used as the basis of apportioning expenses within a function. The 1997-98 proportions should only be used where there are no better data.

Table 4 ALLOCATION OF EXPENDITURE AMONG HEALTH CATEGORIES

	NSW	VIC	QLD	WA	SA	TAS	NT
1998-99							
Hospitals	63.5%	71.7%	99.4%	85.7%	75.6%	55.9%	55.9%
Nursing Homes	1.2%	0.0%	0.0%	0.0%	0.0%	2.9%	0.0%
Mental Health	6.9%	5.3%	0.0%	0.0%	10.6%	27.9%	27.3%
Community Health	24.4%	15.2%	0.0%	6.2%	6.1%	9.0%	4.5%
Public Health	4.1%	7.8%	0.6%	8.1%	7.7%	4.3%	12.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1999-2000							
Hospitals	60.9%	71.7%	54.6%	85.7%	78.7%	57.7%	47.1%
Nursing Homes	1.3%	0.0%	3.2%	0.0%	0.0%	0.0%	0.0%
Mental Health	7.1%	5.3%	8.2%	0.0%	9.7%	27.8%	26.9%
Community Health	27.1%	15.2%	28.8%	6.4%	5.8%	7.3%	3.3%
Public Health	3.6%	7.8%	5.3%	7.8%	5.8%	7.2%	22.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2000-01							
Hospitals	61.6%	69.5%	54.6%	86.9%	77.8%	60.7%	47.3%
Nursing Homes	1.3%	0.0%	3.2%	0.0%	0.0%	0.0%	0.0%
Mental Health	7.4%	7.9%	8.2%	0.0%	9.4%	27.9%	26.8%

Community Health	26.5%	13.4%	28.8%	5.8%	5.6%	4.8%	3.4%
Public Health	3.2%	9.2%	5.3%	7.4%	7.2%	6.5%	22.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

206. **Commission decision.** The Commission accepts the principle that GFS should be the basis of its financial data and that in general ABS data should not be adjusted. However the detailed data is of varying quality. The Commission does not consider that equalisation would be improved by using poor quality data. It has decided that:

- (i) the functional smoothing adjustment should be removed for those States where the detailed data appear to be of good quality;
- (ii) the functional smoothing adjustment should only be retained for those States where the detailed data appear to be unreliable; and
- (iii) the latest available data should be used as the basis for apportioning earlier years' expenses in a function unless data quality problems prevent this.

207. **The estimate and replace adjustment.** The estimate and replace adjustment was introduced because the introduction of accrual accounting and other developments in financial reporting meant that the ABS could not supply GFS data for the last year of each update. The adjustment estimates the last year's data by applying a growth rate to the second last year's data. The growth rate was calculated using the last two years of available data. These estimated data are replaced in the next year when GFS data become available.

208. States have agreed to publish GFS data in Uniform Presentation Framework (UPF) format at a more detailed level. They advise that they will publish 2002-03 data by November 2003. If data of acceptable quality are available, Commission staff would use them in place of the estimate and replace adjustment. If they are not available or not of acceptable quality, the estimation process will have to be retained.

209. **Commission decision.** The Commission acknowledges that States have said they will supply detailed financial data in their budget documents, which would remove the need for the estimate and replace adjustment. Consequently, the Commission has decided that it will discontinue its estimate and replace adjustment.

210. The Commission may review this decision if the detailed financial data provided in State budgets do not appear to be sufficient. The data are not yet available and the Commission is not yet able to examine them.

ATTACHMENT A

CATEGORIES WHERE THE PROPOSED STRUCTURE IS DIFFERENT FROM THE 1999 REVIEW

1999 Review Category	Proposed Category	Change in coverage
Stamp Duty on Conveyances	Stamp Duty on Conveyances	Includes stamp duty on sales of major government assets
Insurance Taxation	Insurance Taxation	Includes taxation on motor vehicle third party insurance
Heavy Vehicles Registration Fees and Taxes	Heavy Vehicles Registration Fees and Taxes	Excludes taxation on motor vehicle third party insurance
Other Vehicles Registration Fees and Taxes	Light Vehicles Registration Fees and Taxes	Excludes taxation on motor vehicle third party insurance
Drivers Licence Fees	<i>No category</i>	Treated as Roads user charges
Interest Earnings	No category	Offset against Debt Charges
Mining Revenue	Mining Revenue	Includes Australian Government payment for royalties
Hospitals	Inpatient Services	Includes mental health institutions and psychiatric wards
Mental Health	<i>No category</i>	Expenses reallocated
Community Health	Non-inpatient and Community Health Services	Includes community mental health and other community health services
Nursing Homes	<i>No category</i>	Included in Aged and Disabled Services
<i>No category</i>	Population and Preventive Health	Includes public health services, health research and health administration n.e.c.
Family and Child Welfare	Family and Child Services	Excludes juvenile corrective services
Aged and Disabled Welfare	Aged and Disabled Services	Includes nursing homes and payments for concessions to pensioners for local government rates
Other Welfare, Other Concessions	Homelessness and General Welfare	Includes miscellaneous concessions to people with low income
Housing	Housing	Includes depreciation
Corrective Services	Corrective Services	Includes juvenile corrective services
Electricity and Gas	Electricity and Gas	Includes expenses on regulation of industry and enterprises and gas pipelines, and depreciation
Water Supply and Sewerage	Water, Sanitation and Protection of the Environment	Includes expenses on regulation of industry and enterprises and depreciation
Freight, Non-urban Passenger Transport	Non-urban Transport	Includes freight and passenger services, expenses on regulation, and depreciation
Urban Transit	Urban Transit	Primarily concessions and subsidies, includes depreciation
Roads	Roads	Includes roads depreciation, drivers licence fees
Other Trading Enterprises	<i>No category</i>	Expenses reallocated, Forestry to Primary Industry
Other Concessions	<i>No category</i>	Expenses reallocated to Aged and Disabled Welfare; and Homelessness and General Welfare

1999 Review Category	Proposed Category	Change in coverage
Primary Industry	Primary Industry	Includes expenses on regulation and Forestry
Mining, Fuel and Energy	Mining, Fuel and Energy	Includes expenses on regulation of the industry, excludes gas pipelines
Tourism	Tourism	Includes expenses on regulation of the industry
Manufacturing and Other Industry	Manufacturing and Other Industry	Includes expenses on regulation of the industry
Debt Charges	Debt Charges	Includes Interest Earnings and PTE debt charges
Depreciation	Depreciation	Excludes Housing, Roads, Urban Transit and PTE depreciation
Regulatory and Other Services	<i>No category</i>	Expenses reallocated
Other General Public Services	General Public Services	Includes expenses relating to labour, employment, community development and miscellaneous services

ATTACHMENT B

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES

2004 Review Category	Definition	ABS TC Code	Differences from 1999 Review
(a) Revenue			
Payroll Tax	<p>Taxes levied on the payrolls of employers. More specifically, the category includes:</p> <ul style="list-style-type: none"> – net payroll tax collections, including the surcharges imposed on large employers by some States, less the tax paid by those government departments and authorities covered by the Commission’s expenditure comparisons <p>Payroll tax collected from trading enterprises is included in this category</p>	<p>211 – Payroll taxes 221 – Stevedoring industry charges</p>	None
Land Revenue	<p>Taxes on the ownership of land based on the assessed value of land. More specifically, the category includes:</p> <ul style="list-style-type: none"> – levies on property owners intended specifically for financing the planning and development of land within the metropolitan region; and – land tax on some rural land. <p>The category excludes:</p> <ul style="list-style-type: none"> – lease rentals from rural land which have been treated as an offset to land administration costs in each State; and – the proceeds of Crown land sales 	<p>311 – Land taxes 313 – Metropolitan improvement rates</p>	None
Stamp Duty on Conveyances	Stamp duties on conveyances and transfer of real estate, business and other property, including those from the sale of major government assets and corporate reconstructions	334 – Stamp duties on conveyances	Includes stamp duty on sales of major government assets
Financial Transaction Taxes	<p>Taxes and stamp duties on various financial and capital transactions. More specifically, the category includes:</p> <ul style="list-style-type: none"> – taxes on debits or credits to accounts with financial institutions; and – stamp duties on mortgages, leases, contracts, cheques, admission tickets and sales receipts 	<p>332 – Financial institutions transactions taxes 336 – Other stamp duties on financial and capital transactions</p>	<p>None. For GST relativities, the Commission excludes FID revenue</p>

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS TC Code	Differences from 1999 Review
Stamp Duties on Shares and Marketable Securities	Stamp duties on transfers of shares and marketable securities	335 – Stamp duties on shares and marketable securities	None. For GST relativities, the Commission excludes estimates of revenue forgone from the abolition of on-market duty
Gambling Taxation	Taxes levied on gambling and betting stakes, including taxes on lottery tickets, poker machines, casinos, racing and football pools. Covers taxes in the form of percentage of gambler's stake or from entities providing the gambling service either as a licence fee or percentage of the gross income. It also includes one-off premiums paid to States by casino operators	Taxes on: 441 – government lotteries 442 – private lotteries 443 – gambling devices 444 – casino 445 – race betting 449 – taxes on gambling n.e.c.	None. For GST relativities, the Commission excludes estimates of gambling revenue forgone by the States to make way for the GST
Insurance Taxation	Taxes levied on insurance companies on general and life insurance including third party insurance. Excludes levies to fund emergency services and fires brigades which are treated as user charges for Public Safety expense	452 - Third party insurance taxes 459 - Taxes on insurance n.e.c.	Includes stamp duties on third party insurance policies
Heavy Vehicle Registration Fees and Taxes	Motor vehicle registration, transfer, and number plate fees for vehicles under the Heavy Vehicles InterState (IS) scheme	515 - Heavy vehicle registration fees and taxes	Excludes stamp duty on third party insurance
Light Vehicle Registration Fees and Taxes <i>(name changed)</i>	Other vehicle registration, transfer, and number plate fees including taxes levied on the carriage of goods and passengers by road including taxes collected specifically for road maintenance	516 - Other vehicle registration fees and taxes 514 - Road transport and maintenance taxes	Formerly Other Vehicle Registration Fees and Taxes Excludes stamp duty on third party insurance
Stamp Duties on Motor Vehicle Registrations	Stamp duties imposed on motor vehicle registration and transfers	512 - Stamp duty on vehicle registration	None

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Other Revenue <i>(name changed)</i>	Taxes not elsewhere classified. More specifically, the category includes: <ul style="list-style-type: none"> - taxes collected to finance specific services, eg control of vermin or noxious weeds; - estate, inheritance and gift taxes; - agricultural production taxes; - broadcasting station licences; and - other taxes not classified to the Commission's taxation categories 	319 - Taxes on immovable property n.e.c. 321 - Estate, inheritance and gift taxes 426 - Agricultural production taxes 532 - Broadcasting station licences 539 - Other taxes on the use of goods and performance of activities n.e.c.	Formerly Other Taxes This is an omnibus category for 'left over' items. It would include any revenue from the Northern Territory's Tourism Marketing Duty; and New South Wales accommodation tax for the FAG relativities For GST relativities, the Commission excludes estimates of bed day taxes
Mining Revenue	Royalties on the extraction of minerals or fossil fuels, including Australian Government payments for royalties and excluding offshore petroleum and natural gas and uranium	ETF 1136 - Royalty income	Includes Australian Government payments for royalties
Contributions by Trading Enterprises	Statutory contributions, dividends and tax equivalent payments from government business enterprises	427 - Levies on statutory corporations ETF 1132 - Dividend income ETF 1133 - Income from public enterprises as income tax equivalents ETF 1134 - Income from public enterprises as wholesale sales tax equivalents	Includes contribution from urban transit enterprises. For GST relativities, the Commission excludes estimates of revenue lost by States from WST equivalent payments

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
(b) Expenses			
EDUCATION			
Pre-school	Expense on administration, inspection, support and operation of pre-school education programs provided on a sessional basis for children up to 5 years of age delivered in a school type environment. The category includes direct provision of preschool education in preschools and kindergartens; payment of subsidies and grants to non-government organisations and local governments providing pre-school education; and education programs for pre-school age children with special needs, including children with disabilities	See footnote ⁹ 2431 -Preschool education	None
Government Primary Education	Expense on administration, inspection, support and operation of educational programs at government institutions for children from age 5 to 7 until ages 10 to 12. It also includes expenses on education programs for children with special needs enrolled in primary grades, including children with disabilities; and central administration and other costs that cannot be directly assigned to specific education categories	2411 - Primary education 2419 - Primary and secondary education n.e.c. 2432 - Special education	None (ETF: 1213,1218,1219,1223,1228,1229,1243)
Non-government Primary Education	Comprises expenses on subsidies, grants and services provided to non-government systems or institutions that provide primary education	2411 – Primary education 2419 – Primary and secondary education n.e.c. 2432 – Special education	None (ETF: 1241,1242,1249)
Government Secondary Education	Expense on administration, inspection, support and operation of educational programs at government institutions that extend secondary programs on a more subject-oriented pattern for a period of 4 to 6 years. It includes expense of secondary education courses for adults and young people, other than those offered by colleges of technical and further education, including education programs for persons enrolled in part-time and evening secondary grades; education programs for people with special needs enrolled in secondary grades, including those with disabilities; and an allocation of central administration and other costs that cannot be directly assigned to specific education categories	2412 – Secondary education 2419 – Primary and secondary education n.e.c. 2432 – Special education	None (ETF: 1213,1218,1219,1223,1228,1229,1243)

⁹ Any State expenses classified to 2439 – Other Education not definable by level and 2490 – Education n.e.c. will be apportioned across the Commission’s education categories.

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Non-government Secondary Education	Comprises expenses on subsidies, grants and services provided to non-government systems or institutions that provide secondary education	2412 - Secondary education 2419 - Primary and secondary education n.e.c. 2432 - Special education	None (ETF: 1241,1242,1249)
Vocational Education and Training	Comprises expense on government funded vocational education programs provided by both TAFE and private providers; education programs for leisure-time activities, industry and commerce, and non-vocational courses offered by TAFE; migrant education programs in TAFE; education programs not definable by level, such as adult education courses which are essentially non-vocational and associated with leisure-time activities other than those offered by TAFE; and apprenticeship and training programs designed to facilitate entry into the work force of people currently not employed or in need of retraining. It excludes VET courses provided in schools and any transportation provided to TAFE students	2422 - Technical and Further Education 3331 - Vocational training	Excludes Labour market and employment programs which are included in General Public Services
Higher Education	Comprises State expense on administration, inspection, support and operation of educational programs leading to a university first degree, post-graduate degree or other higher education including research programs. State contributions to higher education superannuation and costs associated with the subsidy of transport of university students are excluded	2421 - University education 2429 - Tertiary Education n.e.c.	None
Transport of Rural School Children	Comprises expense on the provision, administration, inspection and support of transportation services to students in areas not serviced by urban public transport. Includes expenditure on contract bus services and conveyance allowances to parents. The category excludes expenditure on transport of students with disabilities; reimbursement of public transport authorities for concessional fares offered to school children; and subsidies to private bus operators for the transport of school children in urban areas	2441 - Transportation of non-urban school students	None
HEALTH AND COMMUNITY SERVICES			
Inpatient Services	Comprises expense of hospitals providing acute medical care and treatment. Includes expense of equipment and supplies, staff accommodation and amenities. The category includes expense of all admitted patient services including nursing home type patients in acute care institutions; emergency transport to hospital; inter-hospital transport; non-emergency transport to and from treatment centres; travel and accommodation assistance. It also includes expenses for designated psychiatric wards and mental health institutions	2511 - Designated psychiatric wards 2512 - Nursing home type patient care 2513 - Other admitted patients 2519 - Acute care institutions (temporary dump) 2520 - Mental health institutions 2543 - Patient transport	Includes services for mental health institutions and psychiatric wards

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Non-Inpatient and Community Health Services	Comprises expense on administration, inspection, support, and operation etc of community health services. More specifically, the category includes expenses on non-admitted patient services in acute care institutions; accident, emergency and outreach services provided in hospitals; outpatient, well-baby and dental clinics; domiciliary nursing services; home nursing services not delivered as part of a welfare oriented program; health services provided to a particular community group, such as Aborigines and Torres Strait Islanders; alcohol and drug rehabilitation programs not involving admission; and other health services provided in a community setting. Includes specialised mental health programs for the mentally ill in a community setting	2514 - Non-admitted patient services 2541 - Community health services (excluding community mental health) 2542 - Community mental health 2560 - Pharmaceuticals, medical aids and appliances	Includes community mental health services and community health services
Population and Preventive Health	Comprises expense of public health services consisting of population health programs and preventive health programs. Population health service programs are programs that aim to protect, promote and/or restore the collective health of whole or specific populations. Preventive health programs are defined as those aimed at preventing disease. It also includes outlays on administration, support, operation etc. of health affairs and services that cannot be assigned to other health categories	2550 - Public health services 2571 - Health research in acute care institutions 2579 - Other health research 2590 - Health administration n.e.c.	Includes all research activities which were split between acute and non-acute institutions
Family and Child Welfare	Comprises expense on administration, inspection, support and operation of welfare services for families, children, and households with dependent children, including services delivered by residential institutions, mainly providing living quarters. The category covers: orphanages, children's boarding homes and hostels, and residential nurseries; youth refuges, juvenile hostels, campus homes and family group homes, residential institutions serving dependent mothers and their young children; child day care centres, crèches and play centres in which little or no schooling is provided; the operation or subsidy of full-time child care, occasional care or vocational care programs; marriage and child/juvenile counselling, foster care and adoption services; emergency housekeeping services; welfare payments to pre-schools; and the assessment and evaluation of offenders by non-judicial bodies	2621 - Family and children services 2617 - Family and child benefits	Excludes juvenile corrective services which are included in Corrective Services

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Aged and Disabled Services	Comprises expense on administration, inspection and support of welfare services for the elderly and disabled. It includes expense of services delivered through residential institutions mainly providing living quarters; residential institutions for elderly or physically or mentally disabled persons in which little or no medical service is provided, such as aged persons homes, benevolent homes and hostels for the disabled; day care centres specifically designed and equipped for use by the disabled; training centres for the disabled; sheltered employment workshops; senior citizens centres; home visiting and housekeeping services; delivered meals services; services for the developmental and intellectually disabled; transport other than public transport; and concessions (transport and material assistance etc). Also includes expenditure on nursing homes which provide long-term care involving regular basic nursing care primarily for persons aged 65 years and over	2622 - Welfare services for the aged 2623 - Welfare services for people with a disability 2530 - Nursing homes for the aged (from Nursing Homes) 2614 – Old age benefits	Includes Nursing homes. Includes expense on concessions and subsidies provided by State governments for aged and disabled people previously included in Other Concessions
Homelessness and General Welfare	Comprises expense on administration, inspection, support and operation of welfare services not elsewhere classified. It includes expense of alcohol and other drug rehabilitation programs predominantly involving welfare services; other welfare services such as prisoners aid, care of refugees, pre-marital education, homeless persons assistance e.g. Supported Accommodation Assistance Program (SAAP), women's shelters; and departments, bureaux or program units which serve the social security and welfare system	2629 - Welfare services n.e.c. 2611 – Sickness benefits 2612 – Benefits to ex-service personnel and their dependents 2614 – Permanent disability benefits 2615 – Widows, deserted wives, divorcees and orphans benefits 2616 – Unemployment benefits 2618 – Sole parents benefits 2619 - Social security n.e.c. 2690 – Social security and welfare n.e.c.	Includes expense of concessions and subsidies for welfare purposes that are not classified to other categories (previously these expenses were in Other Services)

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Housing	Comprises operating expense on welfare housing for the general public and people with special needs. The category also includes administration costs and explicit interest subsidies paid on State run home purchase assistance programs. Costs attributable to the housing of State public servants are functionalised to the relevant expense category. Includes depreciation expenses associated with housing	2711 - Housing	Includes depreciation expenses associated with housing
First Home Owners Scheme	Comprises one-off payments to first homebuyers to offset the impact of the introduction of GST	n.a.	
Services to Indigenous Communities	Comprises expense on Aboriginal communities in the provision of community management, including services usually provided by local government; the development of, and planning for, community government; the operation, repairs and maintenance costs of essential services, including water, power, sewerage, ablution/toilet facilities, internal and access roads (not considered in the distribution of grants under Australian Government Road Programs), airstrips, barge landings, telecommunications and cyclone shelters; and minor new works or the upgrading or purchase of assets relating to the above services where the total estimated project cost was less than \$250 000 or the expected life of the asset was less than three years	2712 - Aboriginal community development data. 2721 - Aboriginal community water supply 2731 - Aboriginal community sanitation services 2791 - Aboriginal community amenities 2921 - Aboriginal community electricity services. 3211 - Aboriginal community road transport services 3221 - Aboriginal community water transport services 3241 - Aboriginal community transport services	Also ask States for expenses Includes capital expenses for those assets that have zero value and depreciation expenses for other assets depending on how States account for these expenses. Make sure no double-accounting
LAW, ORDER AND PUBLIC SAFETY			
Police	Comprises expense on administration, supervision, support and operation of police services. It includes expenses on all activities concerned with the prevention of illegal activities and apprehension of criminals; traffic control by police; alien registration; internal security; and police colleges, police training and police laboratories	2311 - Police services	None
Administration of Justice	Comprises expense of administration, support, operation and review of law courts, the judicial system and legal aid programs. It includes expense of legal representation and advice on behalf of the government and others; costs of crown prosecutions; trusteeship services; law reform, registration of legal titles to property and registration of births, deaths and marriages. It excludes expenses on industrial law and tribunals and appeals boards classified to other categories	2320 - Law courts and legal services	None

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Corrective Services	<p>Comprises expense on administration, support and operation of prisons and other places of secure detention for convicted persons, alleged offenders and non-institutional corrective services; prisons, prison farms, remand centres and asylums for the criminally insane; and community based correction activities where the offender or alleged offender is at large in the community but is required to adhere to certain rehabilitation sessions such as parole and probation services, community service orders and attendance centres.</p> <p>It also includes outlays on places of secure detention for juveniles, child offenders and children on remand for alleged offences, youth training centres and juvenile corrective institutions</p>	<p>2331 – Juvenile corrective services 2339 - Prisons and other corrective services</p>	<p>Includes expenses on juvenile corrective services which were previously in the Family and Child Welfare category</p>
Public Safety <i>(name changed)</i>	<p>Comprises expense on administration, planning, support and operation of public safety and emergency services.</p> <p>Includes expenses on fire protection services such as contributions to volunteer fire brigades and operations of fire brigade boards; and roadside clearing operations; but excludes outlays on forest fire protection services.</p> <p>Includes expenses on public order and safety services such as beach inspectors, life saving and beach patrols, maintenance of State emergency services, control of explosives, human rights organisations and community relations.</p> <p>Includes expenses on immediate relief of victims of drought, fires, floods, cyclones, and other natural disasters and on the initial restoration of community service facilities as well as expenses on food, materials, equipment, etc. used in connection with natural disasters.</p> <p>Includes expenses on programs relating to the control of animals such as dog registration, pounds, control of stray cattle and associated veterinary costs</p>	<p>2312 – Fire protection services. 2399 - Other public order and safety. 3431 – Drought relief 3439 – Other natural disaster relief. 2391 – Control of domestic animals and livestock</p>	<p>Formerly called Public Safety and Emergency Services.</p> <p>Includes Control of domestic animals and livestock previously included in Other General Public Services</p>

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
CULTURE AND RECREATION			
Culture and Recreation	Comprises expense of administration, support, provision and operation of cultural and recreational services. It includes expense of libraries open to the public, facilities and services for the creative and performing arts, museums which store and exhibit objects illustrating antiquities, natural history, etc., art galleries, and other cultural facilities and services; as well as expenses on lending and reference libraries and book mobiles; provision of books; library archives; support of library research; theatres, concerts, stage productions and orchestras; support to individual artists, writers, designers, composers and others working in the arts; State museums and war museums; exhibition halls; monuments; historic houses and sites; zoological and botanical gardens; aquariums and arboreta; national, regional and local celebrations; and organisations engaged in promoting cultural activities. It includes expenses on public halls and civic centres, swimming pools (both indoor and outdoor) and other recreational swimming areas, and other recreational facilities and services. It also includes expenses on multi-purpose halls used for recreation and cultural pursuits; dressing sheds and diving platforms; football and cricket grounds; tennis courts; golf-links; indoor sporting complexes; recreational parks and gardens; playgrounds; barbecue areas; walking and cycling paths; sport fishing and hunting; racing and gaming commissions; lotteries commissions; national, regional or local team representation in sporting events; equipment, coaching, training and other items needed to field a team or player; and professional teams or individual competitors	2820 - Cultural facilities and services. 2819 - Recreation facilities and services n.e.c. 2890 – Recreation and culture n.e.c. 2830 – Broadcasting and film production. (additional GPC)	Includes payments to Public Trading Enterprises involved in the provision of cultural and recreational services. Includes Broadcasting and film production as well
National Parks and Wildlife	Comprises expense of administration, regulation, support, provision and operation of national parks and wildlife services. It includes expense of aspects of the national estate such as historic houses and sites which are part of national parks and wildlife services	2811 - National parks and wildlife	None
ECONOMIC ACTIVITIES			
Electricity and Gas	Comprises costs to the State general government sector of payments made to, or on behalf of, undertakings providing electricity and gas services. It includes all costs associated with the reimbursement of concessions, subsidies and payments of community service obligations. Payments made by government on behalf of the PTE for depreciation are also included. Where the service operates as part of the general government sector, and does so at a loss, that loss is also included. It also includes expenses on regulation of electricity and gas services. Includes gas pipelines as well	2922 - Other electricity 2913 - Gas 3250 - Gas pipelines (from FUEL)	Includes expenses on regulation of electricity and gas services. Includes gas pipelines as well. Includes depreciation expenses associated with electricity and gas

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Water, Sanitation and Protection of the Environment	Comprises costs to the State general government sector of payments made to, or on behalf of, undertakings providing water supply, sanitation and protection of the environment services. It includes all costs associated with the reimbursement of concessions, subsidies and payments of community service obligations. Payments made by government on behalf of the PTE for depreciation are also included. Where the service operates as part of the general government sector, and does so at a loss, that loss is also included. It also includes expenses on regulation of the water, sanitation and protection of the environment	2729 - Other water supply 2739 - Other sanitation and protection of the environment.	Includes Protection of the Environment. Includes expenses on regulation of the water, sanitation and protection of the environment services. Includes depreciation expenses associated with water, sanitation and protection of the environment
Freight, Non-urban Passenger Transport	Comprises costs to the State general government sector of payments made to, or on behalf of, undertakings providing non-urban passenger transport services and freight services. It includes all costs associated with the reimbursement of concessions, subsidies and payments for community service obligations. Payments made by government on behalf of the PTE for depreciation are also included. Where the service operates as part of the general government sector, and does so at a loss, that loss is also included. It also includes expenses on regulation of freight and non-urban passenger transport	3223 - Non-urban water transport freight services 3224 - Non-urban water transport passenger services 3232 - Non-urban rail transport freight services 3233 - Non-urban rail transport passenger services 3249 - Other air transport services	Combines freight and non-urban passenger transport services. Includes expenses on regulation of freight and non-urban passenger transport services. Includes depreciation expenses associated with freight and non-urban passenger transport
Urban Transit	Comprises subsidies from State general government sector to service providers. Any direct payments made by governments for depreciation relating to assets used in the provision of services and any other costs met directly by governments	2449 - Transport of students other than non-urban school students 3222 - Urban water transport services 3231 - Urban rail transport services 3281 - Multi-mode urban transit systems	Transactions of PTEs not analysed. Includes payments for depreciation and any other costs met directly by governments

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Roads	<p>Comprises recurrent expense associated with the administration, regulation and support of operations associated with transport policy and the upkeep of roads, highways and bridges by the State. It includes road safety; collection of vehicle registration and driver licensing fees; vehicle safety inspection; size and load specifications; granting of franchises and frequency of operations; maintenance of roads that are a State responsibility; and planning and design of roads and bridges, including engineering advice to States authorities, and the cost of administering contracts associated with the upkeep of roads, highways and bridges, where the State has primary financial responsibility.</p> <p>It includes costs associated with asset preservation, such as line marking, pot-hole repair and resealing of roads; maintenance as a result of flooding or other natural disasters; recurrent maintenance of roads and bridges where the purpose is to preserve, not upgrade, the initial condition of the road; maintenance of plant and equipment and of traffic lanes and traffic signs; maintenance of road surrounds (including noxious weed and plant control, replacement and protection of planted trees); and reimbursements to local authorities of expenses undertaken by them on roads which are a State responsibility. Includes road rehabilitation that reinstates failed road pavements to existing standards to improve ride quality without improving the design standard and includes road depreciation</p>	<p>3212 - Road maintenance 3213 - Road rehabilitation 3219 - Road transport n.e.c. 3289 - Other transport n.e.c.</p>	<p>Includes depreciation expenses associated with roads and drivers licence fees</p>

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Primary Industry	<p>Comprises expense of administration, regulation, planning, support and management of agriculture, forestry, commercial fishing and hunting. It includes grants, subsidies and other assistance for agricultural land clearing, reclamation and control of soil erosion; land settlement schemes such as grants, interest subsidies and other assistance for farm acquisition; programs of rural debt reconstruction, farm rehabilitation and retraining displaced farmers; and provision of veterinary and pest control services.</p> <p>It includes expense of provision of land irrigation, rural drainage and flood mitigation systems; and subsidies, grants and advances for such work. The category includes expenses on agricultural affairs designed to stabilise or improve farm prices and farmers' incomes, and price support and marketing schemes for unprocessed agricultural products; schemes to encourage or restrict output of particular products; and subsidies to induce farmers to purchase and employ fertilisers, improved seeds and so forth. It includes expenses on research and extension services, veterinary medicine and animal husbandry; and eradication or control of pests, vermin, plant diseases and other destructive agents.</p> <p>It also includes expense of efforts to conserve, extend or rationalise exploitation of forest resources; field management, operation or support of re-forestation work; pest and disease control activities; forest fire fighting and fire prevention services; research into all aspects of forest management and exploitation; commercial forest operations; extension services; and dissemination of information; commercial fishing, fish hatcheries, stocking or culling activities; licensing of fishing; research into fish management and related problems of this industry; extension services; and, dissemination of information. It includes expenses on game preserves; licensing of hunting; research into wild animal management and related problems of this industry; extension services; and dissemination of information. It also includes expenses on regulation of the relevant industries</p>	<p>3011 – Agricultural land management 3012 – Agricultural water resources management 3013 – Agricultural support schemes 3014 – Agricultural research and extension services 3019 – Agriculture n.e.c. 3021 – Forestry (from OPTEs) 3022 - Fishing 3023 - Hunting</p>	<p>Category broadened to include forestry.</p> <p>Includes expenses on regulation of the relevant industries</p>

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Mining, Fuel and Energy	Comprises expense of administration, regulation, inspection, research, support and operation of activities relating to prospecting, mining and mineral resources development, fuel and energy affairs sourced from coal of all grades and petroleum, and nuclear affairs and services. It includes expense of advances and bounties to foster mineral developments and production, as well as expenses on price control; research; dissemination of information; measures designed to reduce consumption or increase production; and, support in the form of advances, grants or subsidies. It also includes expense of alternative fuels such as alcohol, wood and wood wastes	2911 – Coal 2912 – Petroleum 2914 – Nuclear affairs (additional GPC) 2919 – Fuel affairs and services n.e.c. 2929 - Other energy 2990 - Fuel and energy n.e.c. 3110 - Mining and mineral resources other than fuels	Includes expense of regulation of the relevant industries. Excludes gas pipelines
Tourism	Comprises expense of administration, regulation, planning, development, research and support of tourism and area promotion to attract tourists. Also covers local area promotion to attract development. The category includes expenses on tourist bureaux, both in Australia and overseas; information offices; caravan parks and camping areas; and liaison activities with transportation establishments, the hotel and restaurant industry and other industries benefiting from the presence of tourists. It also includes expenses on regulation of tourism	3320 - Tourism and area promotion	Includes expenses on regulation of tourism
Manufacturing and Other industry	Comprises expense of administration, planning, support, regulation, inspection, promotion and operation of industries not elsewhere classified. The category includes expenses on manufacturing activities and research into manufacturing methods, materials and industrial management. It includes expenses on marketing schemes, etc. for processed primary products such as meat, timber, dried fruits and packaged fish; factory inspection; protection of consumers against dangerous products; the book bounty; payments supporting industrial research and development and export marketing; and maintaining liaison with manufacturers' associations and other organisations interested in manufacturing affairs and services. It also includes expenses on inspections enforcing building standards; and, research into construction methods, materials and productivity affecting construction. It excludes expenses on specific building and construction projects such as dwellings, factories, roads, mines, farm buildings and so forth classified to other categories. It also includes expenses on regulation of the relevant industries	3120 - Manufacturing 3130 – Construction	Includes expenses on regulation of the relevant industries

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
Subsidies – Petroleum Products	The category includes diesel and petroleum subsidies paid to petroleum wholesalers and retailers	Na – Commission to collect	None
Subsidies – Alcohol Products	The category includes cellar door, low alcohol and other alcohol subsidies paid to the hotelkeepers, wholesale and retail liquor merchants and clubs. For the GST relativities, it excludes subsidies for low alcohol beer	Na – Commission to collect	None
GENERAL PUBLIC SERVICES			
Superannuation	Comprises contributions by governments to superannuation funds or superannuation payments for those employees and holders of public office whose salaries are included in the Commission's equalisation budget, together with associated administrative expenses. Under accrual accounting, payments in respect of earlier unfunded liabilities and provisions of current liabilities will be included in the year in which they are incurred	2110 - Government superannuation benefits Also includes: ETF1211 - Funded superannuation expenses; ETF1212 – Unfunded superannuation expenses; ETF1261 – Nominal interest on unfunded superannuation	None
GST Administration Costs	Comprises expenditure to compensate the Australian Government for the agreed costs incurred by the Australian Taxation Office in administering the GST	n.a. – Commission will collect the data from the Australian Government	None

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
General Public Services	<p>Covers expenditure on administration, regulation, support and operation of government services not elsewhere classified within the Commission's functional classification. More specifically, the category includes expenditure on: consumer interest and protection affairs including licensing, sales practices, labelling of packaged foods and other goods intended for household consumption, regulation of weights and measures, price control and rationing schemes operating through retailers or wholesalers; retail shop inspection; hotel industry such as licensing, liquor control commission, and all hotel and restaurant affairs; the ombudsmen, administrative appeals tribunal, land titles office and the like; administration of crown land tenures such as pastoral and perpetual leases, conditional purchases, special and other leases; management of crown land reserves, including public reserves and road reserves, labour and employment issues such as employment creation, regulation of working conditions, conciliation and arbitration, and anti-discrimination programs; general economic and commercial matters which cannot be allocated to a functional subgroup, such as general regulation of monopolies and other restraints on trade and market entry, regulation of co-operative societies, friendly societies, credit unions; ethnic affairs, overseas representation etc. It also includes communication affairs and services (postal, telephone, telegraph, cable and wireless communication systems and communication satellites), other labour and employment affairs including regulation of working conditions, conciliation and arbitration, schemes to promote employment as well other n.e.c such as transactions relating to plant and equipment which cannot be classified to specific purposes and residential items that cannot be classified to purpose.</p> <p>Comprises expenditure on administration, provision, support, and operation etc. of community amenities and development. Community development includes outlays on plans involving housing and industries; facilities for the health, education, culture and recreation of the community; schemes for financing construction; relocating existing population; administrating zoning laws; regulations on land use; building standards other than standards covering housing; administrating concessions to decentralised industries; research into community development; and the dissemination of information. Community amenities includes outlays on the design, installation, operation, maintenance, upgrading and other aspects of street lighting; public conveniences; drinking fountains; bus shelters; and cemeteries and crematoria</p>	<p>2191 - General research 2199 - General public services n.e.c. 3339 - Other labour and employment affairs (from REGU) 3390 - Other economic affairs 3420 - General purpose inter-government transactions 3310 - Storage, saleyards and markets (additional GPC) 3290 - Communications (from REGU) 3490 - Other purposes n.e.c. (From REGU) 2719 - Other Community Development 2799 - Other Community amenities</p>	<p>Includes other labour and employment, communications and community development</p>

CATEGORY STRUCTURE FOR THE 2004 REVIEW — GST RELATIVITIES (cont'd)

2004 Review Category	Definition	ABS GPC Code	Differences from 1999 Review
ECONOMIC AFFAIRS AND OTHER PURPOSES			
Debt Charges	Comprises expense of underwriting and floating government loans and interest payments for those functions within the scope of the Commission's equalisation budget. Includes administrative costs associated with public debt management. Includes all general government debt charges, that is includes debt charges incurred by GG on behalf of PTEs. Debt Charges is offset against Interest Earnings	3410 - Public debt transactions 3050 - Interest earnings ETF 1262 - Interest expense other than nominal interest on unfunded superannuation	Includes all general government debt charges, that is includes debt charges incurred by GG on behalf of PTEs Includes Interest earnings offset
Depreciation	Comprises the loss in value of capital stock for each assessment year. It measures the recurrent impact of capital expense applicable to the expense categories in the equalisation budget. Excludes depreciation expenditure relating to Housing, Urban Transit, Roads, Services to Indigenous Communities, and PTEs providing services in the categories: Electricity and Gas; Water , Sanitation and Protection of the Environment; Freight and Non-urban Transport	ETF 1231 - Depreciation of fixed assets (non-defence) ETF 1233 - Amortisation	Excludes depreciation expenditure relating to Housing, Urban Transit, Roads, Services to Indigenous Communities, and PTEs providing services in the categories: Electricity and Gas; Water , Sanitation and Protection of the Environment; Freight and Non-urban Transport
Hospital Patient Fees	Covers hospital revenue derived from patient fees received from inpatients, non-inpatients and same-day patients. All other revenue is classified to the Hospitals-User Charges category	Na – Commission to collect	
Fees and Fines	Covers net collections from fines and forfeitures and from fees and charges collected by the courts, including those which are primarily revenue-raising rather than cost-recovery measures. It includes traffic fines imposed by the police but excludes other licence fees collected by the courts (classified to Other Taxes)	ETF 1146 – Fines ETF 1120 GPC 2320 Law Courts and Legal Services	None
Property Titles	Covers net collections from fees and charges related to the registration of titles of property	Na – Commission to collect	None