ACT Government
Chief Minister, Treasury and Economic Development

Our ref: *2014/10519*
Your ref: *John.Spasojevic@cgc.gov.au*

Mr John Spasojevic
Secretary
Commonwealth Grants Commission
CANBERRA ACT 2600

Dear Secretary

ACT FINAL SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION 2015 METHODOLOGY REVIEW

I am writing to provide you with a copy of the above submission as requested in the Commission's Draft Report on State Revenue Sharing Relativities 2015 Review.

Our submission provides responses on a range of matters where we believe that what is proposed will not appropriately capture State differences in fiscal capacities. In most cases we have suggested ways as to how the Commission might proceed to address our concerns in the Final Report.

I look forward to meeting with the Commission on 29 October 2014 in Canberra to explore some of the matters raised in our submission.

Yours sincerely

David Nicol
Under Treasurer
Treasury
Chief Minister, Treasury, Economic Development Directorate
ACT Government

22 September 2014

AUSTRALIAN CAPITAL TERRITORY

Final Submission to the Commonwealth Grants Commission 2015 Methodology Review

September 2014

Chief Minster, Treasury and
Economic Development Directorate

Contents

INTRODUCTION 1

COMMENTARY 1

APPROACH TO THE DRAFT REPORT 7

ACT SPECIFIC RESPONSES TO THE DRAFT REPORT 7

THE NEXT STEPS IN THE 2015 REVIEW 8

ATTACHMENT 1 – REVENUE ASSESSMENTS 10

ATTACHMENT 2 – PAYROLL TAX 10

ATTACHMENT 3 – LAND TAX 10

ATTACHMENT 4 – STAMP DUTY ON CONVEYANCES 11

ATTACHMENT 5 – INSURANCE TAX 12

ATTACHMENT 6 – MOTOR TAXES 12

ATTACHMENT 7 – MINING REVENUE 12

ATTACHMENT 8 – OTHER REVENUE 13

ATTACHMENT 9 – EXPENSE ASSESSMENTS OVERVIEW 14

ATTACHMENT 10 – SCHOOLS EDUCATION 14

ATTACHMENT 11 – POST-SECONDARY EDUCATION 17

ATTACHMENT 12 – HEALTH 17

ATTACHMENT 13 – WELFARE 20

ATTACHMENT 14 – HOUSING 22

ATTACHMENT 15 – SERVICES TO COMMUNITIES 23

ATTACHMENT 16 – JUSTICE 24

ATTACHMENT 17 – ROADS 24

ATTACHMENT 18 – TRANSPORT 24

ATTACHMENT 19 – SERVICES TO INDUSTRY 25

ATTACHMENT 20 – OTHER EXPENSES 25

ATTACHMENT 21 – INFRASTRUCTURE ASSESSMENTS 27

ATTACHMENT 22 – WAGES COSTS 30

ATTACHMENT 23 – REGIONAL COSTS 30

ATTACHMENT 24 – SERVICE DELIVERY SCALE 30

ATTACHMENT 25 – ADMINISTRATIVE SCALE 30

ATTACHMENT 26 – INDIGENEITY 30

ATTACHMENT 27 – POPULATION GROWTH 31
ATTACHMENT 28 – OTHER DISABILITIES 31
ATTACHMENT 29 – NET BORROWING 31
ATTACHMENT A 32
ATTACHMENT B 38
ATTACHMENT C 40
ATTACHMENT D 51
ATTACHMENT E 54
ATTACHMENT F 58
ATTACHMENT G 64
ATTACHMENT H 70

INTRODUCTION

This final submission responds to the Commission's draft report on its review of fiscal equalisation methodologies to apply to the GST distribution from 2015-16 released to the States and Territories by the Federal Treasurer on Friday 1 August 2014 for comment.

We have set out in this submission to clearly articulate to the Commission those areas of the draft findings or options provided to-date that we oppose, our view where the Commission has sought State views, or where we are proposing a modification or extension to the Commission's approach. This includes a summary of the ACT's specific responses to the proposed method changes by category between 2010 to 2015 Reviews.

A number of themes permeate the ACT responses to each of the revenue and expense assessments. We have highlighted these themes in the commentary section below which also articulates a number of more general concerns to the ACT at this point in the review. We request they be given consideration when finalising the report.

We also offer our views on the best process for developing and modifying methodology post the 2015 Review.

Finally, it must be said for the record, the conduct of such reviews does impose a burden on States, and in particular, the smaller jurisdictions which already incur administrative diseconomies of scale impacts. This 2015 Review has already been undertaken in a considerably shorter time frame than previous reviews accompanied by a very tight work program designed by the Commission in consultation with the States and Territories.

The six week delay in releasing the draft report to the States has compromised the ACT's ability to fully investigate the draft report and its findings.

COMMENTARY

IMPLIED RE-DISTRIBUTION

Implied Results

Our analysis raises a number of critical observations at this point in the Review which we consider will require close consideration by the Commission as it completes its final report.

While we acknowledge the draft report presents the state of play of the Commission's work on its assessments to date with the inclusion of a number of placeholders pending further decisions, we were disappointed at the non-inclusion in the report of any substantive analysis of the implied redistributions from the current settings. A one year assessment of the GST impact for the same year does not, in our view, allow a very meaningful evaluation to be made. This principally arises from the volatility of a number of assessments for any one year.

This resulted in the ACT having to prepare its own assessment of the implied impacts. Indeed, it became more evident that there could be a number of alternative methods of measuring this outcome, involving different treatments for administrative scale and Commonwealth payments. No one agreed set of impacts was readily available, despite consultation with other jurisdictions, to reach some degree of consensus.

Based on our best analysis of the impact, we were surprised at the order of magnitude of the implied redistribution to date particularly as many of the assessments still have conservative placeholders in the draft report pending final data becoming available:

- As illustrated below, the implied results indicate a possible reduction in the ACT's share of the GST pool going forward. Indeed, it implies the ACT would incur the single largest redistribution away from it at *-$175* per capita followed by WA at *-$62* per capita with the largest gain to the NT at *+$807* per capita followed by Tasmania at *+$250* per capita.

ESTIMATED IMPACT OF 2015 REVIEW BY STATE & TERRITORY

$ AND PER CAPITA CHANGE IN GST ALLOCATION

STATE/TERRITORY	GST $ IMPACT (a)	GST $ pc IMPACT
NSW	+$150 million	+$20 pc
VIC	+$65 million	+$11 pc
QLD	-$236 million	-$51 pc
WA	-$154 million	-$62 pc
SA	-$76 million	-$45 pc
TAS	+$128 million	+$250 pc
ACT	-$66 million	-$175 pc
NT	+$192 million	+$807 pc

Source: Prepared by Federal Financial Relations, ACT Treasury.
Note (a): Total of column does not add to zero due to rounding error.

The ACT Executive immediately requested clarification of what sits behind the estimated increase in both the NT and Tasmanian per capita redistribution relative to the heavy loss incurred by the ACT as part of its understanding and in preparation for upcoming discussion at various intergovernmental forums.

In the context of the NT, a simple explanation would be one premised on the application of the terms of reference requirement which *inter alia*, instruct and guide the Commission to develop methods to appropriately capture the changing characteristics of the Indigenous population. However, it obviously is not the sole driver and not that simple.

Our own internal snapshot analysis suggests that the:

- volatility based on one years' data appears to have caused the big gains and losses for States in the Infrastructure assessment, with the two main factors being changes in relative population growth and the inclusion of assets of the urban transport and public housing PNFCs.

In the case of the redistribution to Tasmania, the ACT simply does not understand how this implied change is derived.

A more detailed treatment of this issue is at Attachment E of this submission.

Unfortunately, given the need to focus on some of the key assessments impacting directly on the ACT, time did not allow for us to delve more deeply into the aggregate movement in the assessments for other jurisdictions.

OBSERVATIONS

While the ACT has been party to all decision making processes, the adoption of a shortened 18 month review has highlighted the fundamental challenge faced by the Commission in having, via the terms of reference, to deliver a report highly focused on particular assessments as priority issues.

Limited Review:

The development of this draft report has been undertaken in a considerably shorter time frame than previous reviews, which has inadvertently led, in our view, to a form of cherry picking via targeted terms of reference, regardless of all our best efforts to avoid this outcome.

We have been prepared to work within the timeframe allowed by this review. However for a number of reasons outside the control of the ACT, the cherry picking approach appears to adversely impact the ACT. The priority categories identified in the terms of reference relate to contentious areas raised by other jurisdictions via the political process in the main which has prioritised certain assessments at the expense of less contentious areas but ones more critical to the ACT such as administrative scale.

On reflection partial selection of categories in a limited review timeframe does not lead to a balanced report and has the potential to produce a set of relativities that could have serious financial consequences for individual jurisdictions.

Unintended Impacts of Category re-construction:

As stated earlier, the ACT's implied loss in infrastructure cannot be attributed to reduced population growth as the ACT's growth in 2012-13 was above 2011-12 and remained slightly above the national average. Hence, the change is likely to be due to an increase in the size of the assessment through the incorporation of urban transport and public housing PNFCs in an assessment which already distributed a substantial amount away from the ACT.

While the Commission indicates in the report that this move does not add undue complexity to the assessments and itself better captures what States do, the move of these services and assets from net financial worth to expense and infrastructure categories does impact the relevant standards dramatically.

This unintended consequence, whereby category amalgamations and changes to the scope of assessments alter the standard budget, and thereby adversely impact on jurisdictions, not by design, but as a consequence, should be re-examined by the Commission with a view to ameliorate the direct impact in some manner to reduce volatility.

Capture of Indigeneity Costs:

The onset of better data to reflect the impact of Indigeneity on use and cost of government services is welcomed as a necessary and inevitable development from a national perspective.

As the draft report highlights, in an ideal world, it would be best if payments which the Commonwealth Government does not want to have an impact on the relativities were identified in

the Commission's terms of reference. In the absence of such specification, the Commission plans to apply a new streamlined approach, considering the treatment of payments using a single guideline; that is, it intends to consider whether the payment supports a service for which needs have been assessed.

The challenge for the Commission going forward from this point is to ensure that the equalisation process tied to the GST pool does not over compensate for the Indigeneity factor when other funding sources are taken into account. A holistic approach is required to the financing of this particular sector.

It remains unclear to the ACT how the Commission plans to discount the HFE factor to account for the priority funds allocated by the Federal Government under a raft of federally led intervention, closing the gap, and Indigenous advancement strategies, all of which have the potential to be quarantined from equalisation, though they are for what are essentially State program responsibilities.

The inclusion of specific placeholders in the draft report pending further data on Indigeneity could see the NT's per capita redistribution increase further. The risk of a double count or failure to appreciate the quarantining aspect will need a reality check in the remaining timeframe.

Discounting the Assessments:

The use of discounting is consistent with the Commission's starting assumption that, in the absence of reliable data, no disabilities should be assessed. The logical extension of this assumption is that, when data do exist but their quality is in question, a partial discount is a valid approach.

The ACT response in a number of categories refers to what we deem an inconsistent application of the principle of discount. While the guidelines, which the ACT supports, are very clear we contend that in some instances the application requires review particularly in the Services to Industry category and the discount for roads stock disabilities in the Infrastructure category.

User Charges:

We consider the draft report suffers from the lack of a common policy approach across expense assessments to netting off user charges.

The general approach adopted in the draft report suggests these charges will only be netted off the related expenses where the drivers of this revenue are the same as the drivers of use of the service, or where data exists on the drivers of net cost. However, in comments in the draft report, it has also been indicated that, where the drivers are different, the Commission will differentially assess user charges and offset them against the related expense assessment where this would be material.

Premised on simplicity, transparency, and consistency in application across all assessments, the ACT's view has been that user charges should, in general, be netted off related expenses as they reduce the call on State budgets, regardless of the drivers of this revenue.

We will also reject the idea of differential assessment of user charges on the grounds that capacity to pay is only relevant to concessions and exemptions, and that differential assessment based on drivers of net expenses in effect addresses the issue.

These matters are discussed further in the relevant Attachments.

Equalisation Treatment of National Reforms:

While we consider the Commission have made a good first attempt at applying an equalisation approach to the national reform underway in the Health, Education and Disability sectors we contend that there remains scope for further change. The ACT has been a key player in a number of these reforms and has led the way on some aspects which we consider have not been duly recognised by the Commission in their draft assessments.

This particularly applies in the case of the National Disability Insurance Scheme with the ACT entering the scheme at the behest of the Commonwealth Government of the day as a full participant. This is not satisfactorily recognised in the proposed assessment to-date.

These matters are discussed further in the appropriate Attachments. A summary outline of the equalisation impact on each of the reforms is also provided in Attachment D.

Change to measuring Average Policy – 'What States collectively do':

The Commission decision to change the approach for deciding what to bring into the equalisation framework under the principle "What States collectively do" to determine average policy, has triggered the requirement we consider, to reflect the ACT's tax reform agenda in the revenue assessments framework. The Territory originally refrained from doing so until the Commission's decision was known and articulated in the draft report.

The decision to consider any tax imposed or service provided by any State to be part of what States do collectively, hence average policy, in our view, now requires the Commission to make a differential assessment of general rates as part of the Land Tax assessment.

This would have the effect of increasing the size of the land tax assessment. Further weight is added to our argument by the ACT's shift of commercial land tax to general rates – which recognises the common basis of these taxes.

This is discussed in more detail in Attachment 3 – Land Tax.

Presentation of the Administrative Scale Assessment:

The ACT does not support the approach adopted in the draft report which includes all administrative scale expenses in the Other Expenses category rather than assessing them in the respective categories to which they relate.

We continue to disagree with this so-called presentational reform. It simply creates more complexities for the end user of the report, something we all should be avoiding. If a party is attempting to ascertain a single category assessment outcome they have to reconstruct the total category by adding back in the administrative scale amount if appropriate for that category. This is not an advancement in simplicity and is not user friendly as the ACT discovered when attempting to reconstruct the implied results referred to earlier.

The Administrative Scale factor is a genuine disability against various expense categories and should be treated accordingly.

Public-Private Partnerships:

While not directly impacting on 2015 Review deliberations given the immaturity of this financing mechanism by governments at this point in time, we have included a conceptual paper

(Attachment F) to provide background to our thinking and to help clarify general understanding of the issues relating to Public-Private Partnerships (PPPs).

This issue is one area where we consider more conceptual work needs to be commenced. It would be our intention to pursue the issue of a scale disability for PPPs through a future rolling review program, either as part of a revised administrative scale assessment or as an additional cost disability in the infrastructure assessment.

Rolling Program of Review:

We welcome the notion expressed in the draft Report of a continuing program of reviews of specific assessments after the 2015 Review recommendations have been discussed and implemented by the Federal Treasurer.

As stated in our Rejoinder Submission of January 2014, the ACT went further and proposed an end to the traditional five yearly review cycle premised on a changing federal financial relations environment in which equalisation must play a more prominent role. We agree that methods might need to change more quickly than under the five yearly review process that characterised the past and welcome any proposal to have a rolling program of reviews of specific assessments.

The ACT's response to a number of the individual assessments pinpoints areas that should be further examined as part of a rolling program of review.

Final Commission Reality Check:

The ACT's in-house indicative results, with all the associated caveats and commentaries, highlight the challenge faced by the Commission in making final recommendations to the Federal Government.

In the context of the ACT, if the indicative results were to follow through to the final report this would have serious consequences for the Territory from a financial sustainability perspective. It would come at a time when the ACT economy is under severe strain from Federal Budget decisions outside the policy control of the ACT government to reduce the size of its workforce and to implement a series of program reductions in funding for health and other major sectors all adversely impacting on the ACT at a single point in time.

In our view, in adopting the HFE definition, and in developing its methodology, the Commission should always remain conscious of the desirability of minimising any adverse impacts of HFE on the operations of government and the economy generally.

As a Commission we would expect you will exercise, where necessary, informed judgement in reaching your recommendations. We consider that such judgement, supported by sound reasoning and focused on achieving the HFE objective, are an essential part of your response to the terms of reference.

Intuitively, the implied draft outlook challenges the appropriateness of the formulaic approach underwriting these results and presented to the Commission by the Staff. The application of 'a reality check' will be an essential final step in the review.

Explanations in Final Report of the Implied Redistribution:

It goes without saying that the final report will require extensive reporting on the underlying reasons causing any redistribution at both the aggregate level and the specific jurisdictional level. Something akin to the jurisdictional specific approach adopted in Annual Update reports of late would be highly beneficial.

A more fundamental form of reporting might also be considered by the Commission in presenting its findings that captures the history of some of the major assessments over a time period instead of the obligatory movement from one methodology to the next. For instance, a 20 year timeframe explaining the mining assessment might prove a very useful contribution to the ongoing debate as to how equalisation accommodates changing economic cycles.

The ACT in its rejoinder submission also invited commentary from the Commission on the future of HFE in the light of some parties' continued call for the dismantling of the HFE concept by moving the GST distribution to one premised on a population share basis. We continue to see merit in this request as we enter the development phase of the White Papers on Federalism and National Tax Reform.

APPROACH TO THE DRAFT REPORT

In forming our views, we have liaised more widely with our line agencies and internally within the wider Chief Minister, Treasury and Economic Development Directorate to provide supporting evidence where the ACT rejects or has taken a different approach to what has been proposed, either on a matter of principle or of inconsistency in application of agreed principles. In the time available it has not been possible to fully substantiate these concerns with supporting data or separate analysis but where possible we have done so.

In tandem with our own internal deliberations, and in keeping with your invitation for open dialogue with Staff, the ACT also forwarded a number of questions spread across several categories in which we sought clarification to help us frame our final submission in lieu of face to face meetings favoured by others.

From our perspective we consider this approach has been more productive in the time allowed. A set of the questions and the answers provided are outlined in a separate Attachment C to this submission. They have helped us to frame our positions and we thank the Staff concerned.

ACT SPECIFIC RESPONSES TO THE DRAFT REPORT

The ACT has no further comments to add on Chapters 1-5 in the draft report. These matters were extensively canvassed in the ACT's earlier rejoinder submission and do not require re-stating. Indeed, the Commission's intentions align with the ACT's views in most cases, putting aside the comments raised by the ACT earlier.

We commend the statement in Chapter 2 of the report which States *"We conclude an equal per capita GST distribution would not be consistent with HFE"*.

The ACT's specific responses to the Revenue and Expenditure Attachments 1-29 in the draft report follow. These responses where appropriate follow in the order they appear in the draft report and do not represent any priority setting by the ACT.

Accompanying this commentary is a series of attachments that were used to guide the ACT in developing this final submission. They are presented as follows:

- A summary of the ACT's specific responses to the proposed method changes by **category** between 2010 to 2015 Reviews is provided at Attachment A with a further summary of the ACT's response to the proposed changes for **disabilities** between 2010 to 2015 Reviews provided at Attachment B.
- A list of the questions raised by the ACT and forwarded to the Commission with responses received is outlined in Attachment C.
- A summary of the implications for equalisation arising from National Reforms in the Health, Education and Disability Sectors is provided at Attachment D.
- The ACT's 2015 Draft Report – indicative impact on the ACT across the major assessment categories is provided at Attachment E.
- Assessment of Public-Private Partnerships (PPPs) – Attachment F.
- A comparison of the progress States have made on the State taxes that were to be abolished under Schedule B of the Intergovernmental Agreement on Federal Financial Relations – Attachment G.
- A comparison between the FHOS actual data and the ABS data collected on FHOS – Attachment H.

THE NEXT STEPS IN THE 2015 REVIEW

Our understanding from this point forward is the Commission will review the draft report in light of State comments outlined in their final submissions and report back to all parties as required under the terms of reference, "*if significant changes are made to the draft report*".

The agreed 2015 Review program highlights a report date as end of November 2014 with any final State comments due on proposed changes to the draft report end of December 2014.

We interpret *"if significant changes are made to the draft report"* as covering two types of change and sought clarification with Staff but no response has been provided to date:

- Change in direction to the implied treatment method in the draft report; and
- Change to the category assessment quantum implied in the draft report, arising from the insertion of new data i.e. any substantial change to existing placeholders.

Any advanced clarification would be most welcome.

The ACT also acknowledges the efforts of the Commission to engage in consultation at every opportunity and has accepted an invitation for the ACT Under Treasurer to meet with the Commission on 29 October 2014 as part of the 2015 consultation process.

Federal Financial Relations

Treasury

Chief Minister, Treasury and Economic Development Directorate

Australian Capital Territory Government

19 September 2014

2015 REVIEW – ACT RESPONSE TO DRAFT REPORT

INDIVIDUAL ASSESSMENTS

ATTACHMENT 1 – REVENUE ASSESSMENTS

ADJUSTMENTS FOR ELASTICITY EFFECTS

We note that the Commission has decided not to make adjustments for elasticity effects in the 2015 Review, stating that: "we do not have reliable data available that would allow us to make an assessment of these effects that is material and reliable". However, this statement appears to acknowledge that there is a conceptual case for such adjustments.

The ACT will continue to pursue the arguments for tax elasticity adjustments, as part of the rolling program of review which we have proposed to be undertaken after completion of the 2015 Methodology Review. While we presented a substantial case for such adjustments in our Rejoinder Submission to the Review, we consider that further research and analysis on this issue is well warranted, particularly in light of the Tax Reform process which has been initiated by the Commonwealth Government.

ATTACHMENT 2 – PAYROLL TAX

The ACT has no comments on this attachment.

ATTACHMENT 3 – LAND TAX

The ACT has previously indicated its support for the new approach to determining average policy proposed by the Commission. In our Rejoinder Submission of January 2014 we stated that:

The ACT supports the approach proposed by the Staff, for the following reasons:

- It reduces the scope of average policy, and thus the scope for broad judgement;
- It supports the broad thrust of tax reform, particularly where reforms may be pursued by individual States in advance of others – as rates and revenue raised from inefficient taxes fall, and those for efficient taxes rise, the average rates and dollar standards move accordingly; and
- It is more transparent and balanced, ensuring that account is taken of both replaced and replacement taxes under a tax reform program, with differential assessments for all types of tax, provided these would have a material effect.

One major element of the ACT's tax revenue which is relevant in this context is general rates. Currently the revenue from this source is included in the Other Revenue category, but is assessed EPC, so it has no effect on the GST distribution. The ACT proposes that the Commission instead make a differential assessment of general rates as part of the Land Tax assessment. We did not propose this in our earlier Rejoinder Submission (January 2014) as we were still working through the implications of the new approach to average policy. However, the draft Review report has clarified our understanding of the issue and, in that context, the following change is proposed.

In its Staff Discussion Paper on *Implementation and Methodological Issues* (*CGC 2013-06 S*, October 2013), the Commission said (para 22): "When determining whether a particular tax is average policy, the Commission's first decision is whether to 'look through' the application of the tax and combine it with another tax. The commission will do this where a tax is sufficiently similar to another State tax. In this case the tax is considered to be average policy and is differentially assessed".

The ACT submits that land tax and general rates are essentially similar taxes, as they are both applied to the unimproved value of land with a progressive tax scale. Shifting from economically inefficient transaction based taxes such as conveyance duty and insurance tax to an economically efficient, land-based tax (general rates) is the main thrust of the ACT's tax reform policy. A further element of this policy is to move to abolish commercial land tax and replace it with general rates – although this policy has been introduced mainly to simplify tax compliance for business in the ACT, it reinforces the view that land tax and general rates are fundamentally similar taxes.

The only difference between land tax and general rates is the scope, as land tax does not apply in any State to principal places of residence. Bringing principal places of residence into the Land Tax assessment would probably require switching from State Revenue Office (SRO) to State Valuers-General (VG) data, as the latter includes data both on principal places of residence, as well as on properties below States' land tax thresholds. This would also remove the policy neutrality concerns about the SRO data which were noted in the Commission Discussion Paper. The only drawback with the VG data is that they do not aggregate landholdings by owner – some adjustment would be required to allow for this in assessing the land tax component.

ATTACHMENT 4 – STAMP DUTY ON CONVEYANCES

The Commission has asked for State views on the appropriate treatment of duty on non-real transactions, which all States had agreed to abolish under the IGA FFR – the ACT having done so. However, most States still levy the tax, so the Commission proposes to treat it as average policy and adjust the revenue bases of States not levying the duty as though they were doing so. This accords with the Commission's revised approach to average policy, which the ACT supports.

The ACT has previously taken the position (e.g. in our Opening Submission to the 2015 Review) that such first-order effects should not be adjusted for, as they would constitute rewarding States for reduced tax effort, and that it is the second-order effects of tax reform which should be adjusted for. We also supported the Commission's proposed approach in our response to the New Issues Discussion Paper for the 2014 Update.

We acknowledge that the intention of the IGA was that the GST revenue gained by States would offset foregone State taxes and that States were not to increase other State taxes to offset the loss of the latter. However, for the purposes of assessments by the Commission, the IGA cannot be regarded as binding in practice if many States have not met the requirement and not been penalised for this failure (see Attachment G for a summary of status of taxes to be abolished under the IGA). Therefore, the ACT supports the Commission's proposal to continue the treatment it applied when non-real property transactions were last included in assessments.

ATTACHMENT 5 – INSURANCE TAX

The ACT has no comments on this attachment.

ATTACHMENT 6 – MOTOR TAXES

The ACT has no comments on this attachment.

ATTACHMENT 7 – MINING REVENUE

The ACT agrees with the Commission's view that, if policy neutrality were not an issue, a mineral by mineral assessment would most accurately capture differences in States' mining revenue capacities. While we consider there are potential distorting policy effects from adopting a mineral by mineral assessment, we do not agree with the view of some States that there would be any significant incentive for a large producer State to change its royalty rate with the aim of gaining a greater share of GST. Rather, the effect of the mineral by mineral approach would be to place some constraints on royalty policy decisions which would not otherwise exist. On balance, however, the ACT agrees with the Commission's view that achievement of HFE is the primary consideration and that the mineral by mineral assessment most closely realises that objective.

We support the removal of the special treatment for iron ore fines accorded to Western Australia in recent updates. The ACT is of the view that a one-off adjustment in 2015-16 should be made to take account of iron ore fines royalties, given that previous updates did not fully take account of Western Australia's capacity to raise revenue from this source.

ATTACHMENT 8 – OTHER REVENUE

GAMBLING REVENUE

The ACT will continue to pursue the arguments for a differential assessment of gambling revenue, as part of the rolling program of review which we have proposed to be undertaken after completion of the 2015 Methodology Review. In our view, the Commission so far does not appear to have reviewed all current research, nor has the ACT been able to do so in the limited timeframe.

USER CHARGES

In our Rejoinder Submission of January 2014, the ACT opposed a global approach to the assessment of user charges as revenue, and stated that:

> The ACT supports the netting off of all user charges from expenses, as the expenditure then represents what it actually costs States to deliver the service. This is in accordance with the principle of what States do, and aligns with the approach followed in expense assessments which take account of the availability of substitutable private services.
>
> The ACT does not consider that user charges should only be netted off when the drivers of above average cost of service provision are the same drivers that influence the capacity of States to raise revenue from user charges (as outlined by the Commission on page 165, paragraphs 24 and 25 within the Services to Industry chapter). The approach is considered to be too narrow and should not be a prerequisite for user charges to be netted off assessments.

The ACT considers that the Commission should adopt a consistent, simple and transparent approach to user charges throughout its assessments. In particular, user charges should <u>not be treated as revenue</u>, but should be accounted for only in the relevant expense assessments. This approach maintains the link between the charge and the service for which it is incurred.

We also question the concept of a differential assessment of user charges, which in effect treats them as a form of revenue. <u>The ACT proposes that user charges should be treated as driven by the cost of the service provided</u> (on the assumption that States seek no more than recovery of costs), and not by demand factors such as capacity to pay, which in any case should be outside the scope of the Commission's consideration. The concept of capacity to pay should be limited to the treatment of concessions and exemptions, which form part of the welfare assessment. The consequence of the proposed approach is that user charges would be netted off all expense assessments, to which they apply, with no differential effect.

An example of the standard State government approach to user charging is the NSW Treasury *Guidelines for Pricing of User Charges* (June 2001), which state that user charges should generally be set at a level that at least covers the avoidable cost of production, which roughly approximates to marginal cost. Exclusion of user charges from equalisation is also consistent with the approach

adopted by the Commission to Commonwealth payments to States for purchases of services – these are excluded from equalisation, not treated as revenue.

INTEREST & DIVIDEND INCOME

The ACT recognises that the Commission has given a substantial treatment of the ACT's arguments about State differences in the ability to earn revenue from financial assets, but ultimately rejected the arguments. We do not propose to pursue a rate of return disability for financial assets any further at this time.

ATTACHMENT 9 – EXPENSE ASSESSMENTS OVERVIEW

The ACT has no comments on this attachment.

ATTACHMENT 10 – SCHOOLS EDUCATION

ENROLMENTS

The ACT welcomes the proposed use of actual enrolments for all age groups (allowing for an adjustment to pre-Year 1 enrolments to remove policy effects of differences in starting age).

GOVERNMENT STUDENT COSTS

The ACT proposed in its Rejoinder Submission of January 2014 that the Commission assess state spending on government schools based on the loadings in the Schooling Resource Standard (SRS) developed under the NERA, supplemented by the inclusion of relevant disabilities such as wage costs. The Commission however consider that this is not "what States do". We understand that the reason for this is that, while the SRS determines the payments made by the Commonwealth, States are free to implement their own funding models for government schools. In this regard, the Commission has commented that "the revealed loadings in State spending differ from the prospective loadings contained in the SRS" (p.156), though acknowledged that they may converge with the SRS over time.

We agree with the Commission that equalisation cannot be fully achieved through the Commonwealth's NERA funding because that funding covers only about 25% of State schools' expenses. This means that State expenses must continue to be differentially assessed.

NON-GOVERNMENT STUDENT COSTS

The ACT previously expressed the view that the assessment of State funding for non-government schools should be driven by average State policy. As States have moved away from funding non-government students as a fixed proportion of the cost of a government student to a model similar to the loadings type approach for government schools, <u>we support the Commission's proposal to</u>

develop a separate regression model for State spending on non-government schools. We note that the loadings revealed by the modelling differ from the loadings contained in the SRS.

BACKCASTING OF STATE EXPENSES

We note that the Commission considered whether to backcast State expenditure (as distinct from Commonwealth payments), but decided not to do so, on the grounds that reliable information on the details of States' new resourcing models was not yet available. However, it is proposed that the latest Australian Curriculum, Assessment and Reporting Authority (ACARA) data be used to recalculate student loadings for each Update. The ACT supports this approach.

COMMONWEALTH FUNDING FOR GOVERNMENT SCHOOLS

The terms of reference for the 2015 Review specify that:

> The Commission will ensure that the GST distribution process will not have the effect of unwinding the recognition of educational disadvantage embedded in the National Education Reform Agreement (NERA) funding arrangements.

In our Rejoinder Submission, the ACT took the view that this requirement included both Commonwealth and State funded expenditure on government schools, on the assumption that the SRS model integrated Commonwealth and State funding. Hence, we saw that the SRS loadings would logically apply to State expenses and should be mirrored in the Commission's assessments.

However, the Commission has taken the view that the "no unwinding" requirement relates only to Commonwealth funding for government schools. Accordingly, they propose to assess the impact of Commonwealth payments on State fiscal capacities as "the difference between what States actually receive and what they would have received had the Commonwealth funds been distributed on the basis of the SRS amounts for different students, and the numbers of students in each State" (p.159). The Commission has also said that: "only that part of the interstate distribution of these funds not reflecting educational loadings affects relative State fiscal capacities" (p.152). What this means in effect is that funding relating to the loadings for disadvantage will be quarantined, while base funding and anything above (or below) that level will be equalised.

This approach recognises that there may be differences in the base per student funding levels implied under the bilateral funding arrangements between each State and the Commonwealth, and that these differences will be equalised. The Commission has explicitly acknowledged this (para 69): "we do unwind the differential transitional paths States have agreed to in bilateral agreements with the Commonwealth, and differential Commonwealth funding proportions". The ACT supports the application of equalisation to the differential funding agreements between the Commonwealth and the States. This is in accordance with the normal practice of the Commission in equalising Commonwealth payments to States on an actual per capita basis.

The ACT also agrees that the "no windfall gain" requirement of the terms of reference is no longer relevant.

OTHER DISABILITIES

In our Rejoinder Submission, the ACT expressed the view that the Commission assessment should incorporate cost disabilities which are not recognised by the SRS loadings, such as interstate wages and administrative scale. The Commission has stated that recognition of such cost differences "does not unwind the impact of loadings for educational disadvantage because these are independent influences determining the allocation of a pool of untied funding" (p.159). Our understanding is that "a pool of untied funding" refers to State expenditure funded from own-source revenue. This is consistent with the Commission's interpretation of the "no unwinding" requirement. Hence, the ACT supports the Commission's view that assessment of such differences complements, but does not unwind, the measures of educational disadvantage.

STUDENT TRANSPORT

The ACT commented in its Rejoinder Submission that the method of assessment used for school transport expenses "seems overly simplistic and is highly likely to overstate the relative disadvantage in respect of rural students". Although the Commission agrees that the student transport assessment is a simplification of "what States do", they have stated that they have not identified a reliable and material adjustment that would make it more representative of "what States do".

Information provided by the Commission in response to questions put to it by the ACT indicates that the changes to update the average distance travelled by students and, in particular, to remove the separate assessment for urban students, have cost the ACT around $7.8 million or $20 per capita. This is a significant loss for the ACT.

The method used to calculate these expenses seems to assume that all costs are variable, by simply multiplying the average distance travelled by the number of rural students. This would make sense if each student travelled separately between home and school. However, bus transport involves substantial fixed costs for a given service, with a small marginal cost of adding a few extra passengers or an extra stop a short distance further out. The consequence of this approach appears to be that the cost for students travelling further is substantially overstated. This would favour States which have relatively more dispersed rural student populations. Table 11 (p.163) appears to bear out this contention, indicating that the assessed expenses of some States are much higher than their actual expenses – in the case of South Australia about 4.8 times their actual expenses, and 2.8 times in the case of the Northern Territory. In our view this casts serious doubt over the credibility of the assessment approach adopted by the Commission. The obvious adjustment to make the assessment more representative of "what States do" is to apply an actual per capita assessment. The ACT requests that the Commission apply an actual per capita assessment to school transport expenses.

ATTACHMENT 11 – POST-SECONDARY EDUCATION

IMPACT OF THE NON-STATE SECTOR

The ACT agrees that the use of private providers is a State policy choice not a disability.

USER CHARGES

As with other assessments, the ACT maintains that revenue from user charges should be netted off expenses, recognising that such charges are based on the cost of provision of the services. In the draft report the Commission had proposed that user charge revenue be assessed EPC within the Other Revenue category. However, the recent Staff Discussion Paper *Update and Supplementary Issues for the 2015 Review* (*CGC 2014-03-S*) (para 18) acknowledges that there is a strong case for netting off both fee-for-service and non-fee-for-service revenue from post-secondary education expenses. The ACT supports this change in approach.

ATTACHMENT 12 – HEALTH

IMPACT OF 2014-15 BUDGET ON DATA COLLECTION

The ACT notes the Commonwealth Budget decision to move to indexation of public hospital funding by the CPI and population growth from 2017-18. While the implications have not been fully spelled out by the Commonwealth, it appears that this decision means a return to block funding by the Commonwealth and an end to the national Activity Based Funding (ABF) regime. Consequently, the role of the Independent Hospital Pricing Authority (IHPA) in setting a National Efficient Price (NEP) would no longer be required, nor would the associated IHPA cost data collection. This would require the Commission to use an alternative data source e.g. reversion to AIHW data.

EMERGENCY DEPARTMENT SERVICES

Data Source

The ACT considers that, although improvements could be made to the patient classification system underlying the National Weighted Activity Units (NWAU), use of the IHPA NWAU data for emergency department (ED) services is a better approach than simply using number of presentations for measuring patient complexity and resource utilisation.

Economic Environment Factor

The Commission has asked for State views on the substitutability of ED and GP services.

Potentially avoidable GP-type presentations to emergency departments indicate the number of attendances at public hospital emergency departments that could have been avoided through the

provision of non-hospital health services. This type of presentation is defined for National Healthcare Agreement reporting purposes as presentations to public hospital emergency departments in principal referral and specialist women's and children's hospitals and large hospitals, with a type of visit of emergency presentation where the patient:

- was allocated a triage category of 4 or 5; and
- did not arrive by ambulance; and
- at the end of the episode, was not admitted to hospital or referred to another hospital or did not die.

According to the figures published in the Australian Institute of Health & Welfare (AIHW) report Australian hospital statistics emergency department care 2012–13 based on this definition, the substitutability between these services is about 45%. Consequently, the ACT considers that a figure of 45% should be used as the estimate for the substitutability of select ED presentations for GP-type services.

The ACT supports the use of a measure of bulk-billed GP benefits paid as the basis for an economic environment factor for ED service provision.

We agree that the proposed $7 GP co-payment may affect the Commission's assumptions, but this measure has still not been legislated and cannot be taken account of unless and until that happens.

OUTPATIENT SERVICES

Data Source

The ACT considers that the reporting of outpatient services data nationally to IHPA has been deficient. As a result, the cost data and pricing data from the IHPA will be constrained due to poor coverage in reporting. Further, the current IHPA Tier 2 classification system is clinic-centric as opposed to patient-centric, which makes it a poor predictor of cost variations between patients.

Based on ABS data as per Figure 5 and taking into consideration limitations posed by alternatives such as the IHPA data, the ACT considers it reasonable for the Commission to base the assessment methodology for outpatient services on admitted patient data.

Economic Environment Factor

The Commission has asked for State views on the substitutability of public and private outpatient services.

The ACT agrees with the proposition that a substantial level of public outpatient visits are connected to a previous hospital admission, and there would be relatively low levels of substitutability for this group. For those not in this group, it is reasonable to assume a fairly high level of substitutability between services which are free of charge. On this basis, we support the estimate of 40% for the substitutability of public and private outpatient services.

The ACT supports the use of a measure of bulk-billed specialist, pathology and imaging benefits paid as the basis for an economic environment factor for outpatient service provision.

COMMUNITY HEALTH

Data Source

The ACT considers that IHPA data on community health services would be limited due to scope issues around National Health Reform funding. It would vary from state to state depending on whether those services are managed by public hospitals or not. Public health services data is not in scope for IHPA reporting, though it attracts Commonwealth funding outside of ABF.

The Commission suggestion of using ED data for triage categories 4 and 5 as a proxy is considered to be reasonable given that presentations for these categories are highly correlated to GP-type visits. Given the concerns about how closely the socio-demographic profile of people using EDs reflects that of people using community health services, we support the proposed 25% discount.

Economic Environment Factor

The Commission has asked for State views on the substitutability of community health services. The ACT agrees that there is considerable overlap between the public and private sector in the provision of community type health services, but a lack of evidence on which to base a substitutability factor. Subject to any evidence which might be available from other States, the ACT agrees with the estimate of 75% for this factor.

ADMITTED PATIENTS

The ACT supports the non-assessment of substitutability for admitted patients. The data presented at Figure 6 (p.211) support the approach. Any such assessment would be complicated by the need to assess the impact of charges for equivalent private sector services (e.g. for elective surgery) and the relevance of public waiting lists in that context, as distinct from assessments in the other components in this category where an assessment can be made based on substitutability between services that are free of user charges.

DIRECT ASSESSMENT

In our Rejoinder Submission of January 2014, the ACT supported in principle the methodological change to a direct method of assessment, rather than the previous subtraction model. We subsequently expressed some reservations about the downward revisions of estimates of substitutability and the use of numbers of services rather than expenditure to calculate the economic environment factors, as reflected in the Commission's annotated agenda for the Telepresence held on 3 April 2014. However, we note that the substitutability factors have been revised upwards substantially in the draft report, and that substitutable services are now to be measured in terms of Medicare benefits paid.

Moreover, while the subtraction model does not require an estimate of the level of substitutability, it carries an implicit assumption that the substitutability between State public and private/Commonwealth public sectors is very high, if not 100%. Otherwise, gross health expenditure in each State could not be treated as a fixed reference point free of State policy influence. We note the recent Staff proposal for an independent assessment of the substitutability issue.

The simpler requirements in terms of data sources and greater contemporaneity of data are also points which work in favour of the direct assessment approach. We support the Commission's use of IHPA data in this context.

USER CHARGES

The ACT supports the netting off of all health user charges from the category, as this best reflects the actual spending requirement on State budgets.

ATTACHMENT 13 – WELFARE

USER CHARGES

The Commission has stated (p.216) that: "revenues from user charges are assessed EPC in the other revenue category because we consider the capacity to raise user charges is not affected by the same disabilities used to assess the various components of welfare expenses". As indicated in the chapter on Other Revenue, the ACT considers that the treatment of user charges should not be based on "capacity to raise", which is a concept relevant to revenue assessments. User charges should be treated as driven by cost factors and netted off category expenses.

AGED CARE SERVICES

The ACT agrees with the Commission's proposed approach to backcast the new arrangements for aged care and related disability services (which took effect for most States from July 2011) into all assessment years. We also agree with the proposal to ensure that expenses and Commonwealth payments in this sub-category have no impact on the GST distribution, on the basis that these arrangements amount to purchases of services by the Commonwealth from the States. However, we note that negotiations between the States and the Commonwealth over the funding under the Transitioning Responsibilities for Aged Care and Disability Services National Partnership, and the associated "budget-neutral" adjustment to the Disability SPP, are still continuing, and the Commission may need to reassess its proposed treatment depending on the outcome of those negotiations.

DISABILITY SERVICES

The ACT supports the Commission's proposed approach to maintain dual disability services assessments during the transition to NDIS.

We agree that NDIS is a major change in Commonwealth-State relations and that the change should be backcast. However, such a change should only occur if the Commission revises its proposed approach to the assessment of the Transition period (see below). In the ACT, the first year of Transition will be 2017-18, though this may vary for other States.

We agree that payments to States for delivery of disability services to older people have become a Commonwealth purchase and should be subtracted off State expenses, with the balance of the National Disability SPP being treated as impacting on the relativities.

NDIS

Our response on this issue covers both the Disability Services section of Attachment 13 and the section on NDIS in Chapter 5, Priority Issues.

The Commission has confirmed that "the total number of people who meet the (full coverage) access requirements of the NDIS" means the number expected to be assessed by the NDIA as entitled to a support package.

The ACT rejects outright the proposal that, during Transition, the NDIS assessment should be based on individual States' proportions of this number. The Commission's proposed approach appears to mean that if, for example, the ACT's share of the total eventual number of participants is estimated to be 1.1%, the ACT would be assessed as having an expense requirement of only 1.1% of the national total during the entire Transition period. This approach will grossly under-represent the ACT's NDIS expenses as the ACT will have taken on its eventual number of participants by the beginning of the Transition period, whereas other States will not do so until the end of the period. This inequity will be magnified compared with full implementation because, under the agreements all States have with the Commonwealth, the Territory will be responsible for 59% of the costs of participants during the Transition period, compared with 49% under full implementation. The assumption is that the other part of the dual assessment, for non-NDIS disability services, will be based on the current methodology, meaning that there would be no offsetting allowance for clients not recognised under the NDIS assessment.

In response to questions from the ACT, the Staff have stated that: "the speed or phasing of the movement to full scheme is a joint policy choice by each State and the Commonwealth, and not some external, imposed factor". The ACT agrees that this was a joint policy choice, but a multi-lateral, not a bilateral, choice by all States and the Commonwealth. It is essential the Commission understands the nature of the NDIS as a national reform agreed by all jurisdictions, and hence subject to a nationally agreed implementation approach.

The number of NDIS participants which the ACT has in the Transition period is determined by the fact that it is a trial (formerly known as "launch") site for NDIS. All of the trial sites across the country are around the same size (about 5,000 participants), as this was determined nationally to be the appropriate minimum size to adequately test various aspects of the scheme prior to implementation. Arrangements for the trial are the subject of both multi-lateral and bilateral agreements, including a *National Partnership Agreement on Assisting Preparation for the Trial of the NDIS*. As a consequence, the ACT government does not have discretion over the number of participants from the ACT who will be in the scheme at the start of Transition. Because the ACT is a very small jurisdiction, the number of participants during Transition will be effectively the same as the full number the ACT will have on Full Scheme implementation, with all of the associated costs. The cost sharing arrangements, while specified in bilateral agreements, are the same for all States.

Further evidence of the above contentions can be provided to the Commission if required. On this basis, the ACT requests that the Commission adopt an actual per capita assessment of State NDIS expenses during the Transition period.

The ACT agrees that, upon full implementation, State contributions to the scheme should be assessed APC. We also support the treatment of State drawdowns from the Medicare Levy surcharge as affecting State fiscal capacities and thus impacting the GST distribution. We understand that State allocations from the surcharge will be made on a population share basis, and thus would not affect GST entitlements if all States draw down their full entitlements as they arise.

GENERAL WELFARE

The ACT has commented elsewhere in this submission (in relation to Attachment 26) on the issues surrounding Socio-Economic Indexes for Areas (SEIFI). We note that the *Staff Discussion Paper CGC 2014-03-S: Update and Supplementary Issues for the 2015 Review* states that the ABS is not intending to update the SEIFI using 2011 Census data and that, therefore, the Commission needs to explore alternative measures of low socio-economic status for use in the general welfare assessment. We consider that more investigation and analysis is required to determine whether the proportion of one-parent families with dependents is a reasonable broad indicator of disadvantage or whether there are better alternative measures.

ATTACHMENT 14 – HOUSING

PUBLIC HOUSING

Use Rates

The ACT notes that the Commission proposes to use Census data on the number of households in social housing to determine overall use rates for public housing. This approach would replace the previous method of using Commonwealth pensioner numbers as a policy-free proxy for use rates across States. Policy neutrality in relation to entitlement to public housing is addressed by the use of national average use rates in the assessment. Table 6 (p.244) indicates major differences between States in income eligibility limits for public housing, raising the question as to whether averaging of direct indicators (such as the number of households in social housing) provides a more accurate method of equalisation than basing assessments on indirect indicators which are free of policy influence. The ACT would be interested to hear the Commission's views on this issue.

Assessment of Rent

The ACT has consistently taken the view in this submission that user charges should be netted off the expense assessments to which they apply, without a differential assessment. Although the Commission has applied a differential assessment of public housing rent as revenue, it is netted off State-by-State in the overall category assessment. This is a preferable treatment to assessing it in the Other Revenue category.

Whether rent should be assessed differentially is an issue for debate. If it is considered to be a type of user charge, then it should be treated as based on cost and simply netted off the national total for the category without a differential assessment. However, the differential treatment implies that rent is not actually a user charge, being determined on some other basis – this would need to take account of State policies in relation to the setting of public housing rents. In that regard, we note

that there is an agreed national policy that rents should be no more than 25% of household income, which supports the view that rents are not user charges in the strict sense. Another option might be to net off rental revenue at a national level from housing expenses, gross of any known (or assumed) subsidy, and differentially assess the subsidy as an expense sub-category within the Housing assessment.

FIRST HOME OWNER SCHEME (FHOS)

As stated in our Rejoinder Submission of January 2014, the ACT supports a needs-based assessment of FHOS expenses, based on the actual number of first home buyers in each State. We also support counting the tax expenditures on first home owner exemptions and concessions as expenses in this category.

The Commission has decided, on the basis of a comparison with previous FHOS data collected when State policies were identical, that the ABS first home buyers data is not comparable between States and therefore, not suitable as the basis for a differential assessment. Consequently, they propose to assess FHOS EPC.

We note that the ABS data only looks at home loans, whereas the FHOS is available regardless of the source of finance. The ABS data relies on self-reporting from banks, with some degree of under-reporting evident (as indicated by commentary on the ABS website), and the extrapolation used by the ABS to infer data from non-bank lenders may not be totally accurate.

However, we do not agree with the Commission's contention that the ABS data is not comparable between States. Although the ABS seems to be under-reporting absolute levels, there is no significant difference between States in the relative number of first home buyers regardless of whether ABS or FHOS data is used. This applies for all jurisdictions at the 5% level of significance except NSW and the ACT, but it applies in these jurisdictions at the 1% level (see Attachment H).

Therefore, the ACT contends that the Commission should make a differential assessment of FHOS expenses based on the ABS data.

The ACT agrees that the Remote Indigenous Housing NPP should be treated as impacting on the relativities. The Commission has asked for State views on the proposal to phase in the impact of this payment over three years. We previously expressed the view that the key issue is not the ownership status of the assets but whether State expenditure was being undertaken to maintain these assets and provide services in relation to them. The decision to phase in the assessment of these payments should be reviewed on the basis of any available data on related expenditure and its timing.

ATTACHMENT 15 – SERVICES TO COMMUNITIES

USER CHARGES

The Commission intends to assess user charges relating to community development, community amenities and protection of the environment in the Other Revenue category, on the grounds that the drivers of these user charges are not the same as the drivers of use and cost of the related

services. As stated in our response to Attachment 8 above, the ACT does not support the treatment of user charges as revenue and considers they should be accounted for solely in the related expense assessments. Moreover, the Commission should provide evidence for its assertion that these user charges are not related to the cost of providing the services. In the absence of such evidence, the standard treatment of user charges should be that they are netted off total national expenses in the category.

ATTACHMENT 16 – JUSTICE

USER CHARGES

The Commission again intends to treat user charges as revenue, rather than netting them off expenses in the category, on the grounds that the revenue collected does not reflect the drivers of justice expenses. As previously stated, the ACT does not agree with the conceptual approach taken by the Commission to the treatment of user charges, and considers that they should be netted off expenses. However, the draft Report describes “fines” as a user charge – it is not clear that this is a correct characterisation, as a fine would not normally be considered a charge for provision of a service. This suggests that the Commission should review the categorisation of such payments.

ATTACHMENT 17 – ROADS

The ACT has no comments on this attachment.

ATTACHMENT 18 – TRANSPORT

NET URBAN OPERATING EXPENSES

The ACT notes that user charges are netted off expenses at the population centre level. We support this approach.

We also note the discussion on the presence of rail as a significant factor. We do not propose to pursue the suggestion that the presence of rail is a biasing factor. The assumption is that it must come into the mix at some level of population/density and the policy choice is only about where that point lies (within some reasonable range), not whether or not to have urban rail at all. In that sense, the Commission’s approach reflects “what States do”.

ATTACHMENT 19 – SERVICES TO INDUSTRY

USER CHARGES

The ACT supports the deduction of user charges from expenses before an assessment is made.

In relation to what are described as user charges for agriculture, such as levies to fund R&D and other activities which benefit the industry, our view is that these are not actually user charges, as they are generally levied on all producers in the industry and not on individual users for specific services provided. We agree with the Commission that the activities funded generally relate to business development, and therefore agree with their treatment on an EPC basis in the Other Revenue category.

We do not agree with leaving user charges in the Other Revenue category, unless they are in the nature of industry-wide levies (such as those applying to the agriculture sector). Otherwise, they should be deducted from total expenses in the category in the interests of greater transparency, even if this would not affect the GST distribution given the EPC treatment of business development expenses.

DISCOUNTING

The ACT does not support the proposed removal of the 12.5% discount from the expense weights used in the assessment, given the Commission's continuing concerns about the quality of the data used for this assessment. This proposal is couched in terms of the Commission's general approach of not discounting estimates of total national expenditure, but from the response we have received to a question we put to the Staff, the concern is about discounting expenditure at the component rather than overall category level. Given that is the case, the ACT view is that the most logical approach is to treat the 12.5% as belonging to the component (business development) which is assessed EPC.

ATTACHMENT 20 – OTHER EXPENSES

CLASSIFICATION OF EXPENSES

As stated in our Rejoinder Submission of January 2014, the ACT considers that expenses classified in functional categories should not be reduced by factors, such as administrative scale, which are disabilities. This reduces the transparency of presentation and makes it difficult to make accurate comparisons with previous reports. However, there should also be a secondary form of presentation which shows the aggregate impact of disability factors such as administrative scale across all expense categories.

NATURAL DISASTERS

The ACT considers that the Commission should reconsider its approach of assessing natural disaster relief expenses on an APC basis. Our view is that the common reporting framework is not sufficient to underpin an assumption that actual expenses are not subject to State policy differences.

In particular, although the NDRRA Determination requires States to implement insurance arrangements, with a provision for independent assessments of these arrangements by Auditors-General, it is clear that some States have not done so. The Commission itself acknowledged in its 2013 Update Report (quoted in the Staff Discussion Paper on *Proposed Assessments for the 2015 Review* (October 2013), p.182) that State expenses were not reported on a comparable basis and that adjustments should have been made to the expenses of a number of States in relation to insurance premiums and receipts.

The Productivity Commission (PC) is currently conducting an inquiry into Natural Disaster Funding Arrangements. In an Issues Paper issued by the PC in May 2014 they asked States and Territories whether the current HFE arrangements have implications for natural disaster risk management by State and Territory governments, and whether all States adhere to the same policy on natural disaster risk management. The ACT's response stated:

Our view is that the horizontal fiscal equalisation arrangements described above have potential to distort State and Territory decisions on natural disaster risk management. In particular, they may reduce the incentive to take appropriate prevention and insurance measures.

The NDRRA Determination requires States to implement insurance arrangements, with a provision for independent assessments of these arrangements (e.g.: by the State Auditor-General). The determination also requires that States implement disaster mitigation strategies. We are not sure how effective these provisions are – as our response to the next question shows, there are variations in State policies in relation to insurance provisions.

Although the Commission can make adjustments for policy differences (subject to the availability of reliable data), it indicates a significant risk that inadequate provisions may be made, with the consequences that costs may be shifted between jurisdictions and overall higher costs incurred, especially as insurance policies may have requirements to take certain preventive measures.

On the issue of differences in State policies, our response quoted the Commission's statements mentioned above in relation to the need to adjust State expenses to produce a comparable result. We also noted that in its 2010 Methodology Review, the Commission decided not to assess a physical environment disability for road expenses as it was not convinced that there were material differences between States in the effects of physical environment on road expenses.

Finally, we noted that the review of State insurance arrangements undertaken by the Commonwealth Department of Finance and Deregulation under the 2011 NDRRA Determination found that insuring road assets is, for many States, either not cost effective or there is no appetite in the commercial insurance market to underwrite such risks. Our conclusion was that, if this is the case, the issue is then whether the GST distribution is the most appropriate method of dealing with this market failure.

In summary, it seems clear that there are substantial differences between States in their approaches to natural disaster expenditure, partly driven by policy differences and partly driven by market factors which are not within their control. In the draft Report (p.361) the Commission has acknowledged the difficulties in estimating notional insurance premiums and payouts, particularly given differences in risk factors between States. However, we question the draft Report's assertion that the impact of assessing premiums and payouts would be likely to be small. The natural disasters assessment, based on the 2012-13 data, redistributes over $330 million in GST. Given these factors, the ACT proposes that for 2015-16 the Commission apply an EPC assessment to State expenses above the amount of the Commonwealth NDRRA payments, and that it undertake a comprehensive review of this assessment under the rolling program of review we have proposed, taking into account any relevant findings of the Productivity Commission report when it is issued.

ATTACHMENT 21 – INFRASTRUCTURE ASSESSMENTS

CATEGORY STRUCTURE

The ACT maintains the view we expressed in our Rejoinder Submission of January 2014 that a gross capital spending assessment would overcome perceptions of double counting, be simpler and more consistent with the overall up-front approach to investment assessment. While we recognise that the Commission's approach of deducting replacement spending before calculating the investment requirement avoids double counting, assessing depreciation has the appearance of being a holding cost approach, which in other respects has been ruled out of the infrastructure assessments. While it may not make a material difference to the GST distribution, we consider that the gross approach to assessing capital spending is more logical and consistent, with allowance being made for two components with different use/cost drivers, as suggested by the Commission in their October 2013 Discussion Paper.

ROADS STOCK DISABILITIES

The Commission has found no relationship between State shares of the National Network Roads (NNR) payments and any of the State based drivers of road investment (population growth, road length, heavy vehicle use and traffic volumes) for individual years or on average over the years 2006-07 to 2012-13. As suggested by the Commission, this may be because the investment is driven by benefits (needs) in States other than those where the investment is made. The ACT considers that it is the distribution of benefits, not costs, which is the key issue here, and that the only equitable approach to assessment is on a project-by-project basis. Moreover, such an assessment should be done on the basis of net benefits i.e. it should take into account user charges (tolls) for roads which may have a substantial proportion of interstate users, as this may capture a sizeable proportion of interstate spillover benefits. Thus, any national effect would need to be discounted to that extent.

We had previously suggested that the Commission examine the Wider Economic Impacts (WEI) model, which has been the subject of discussion at the Council on Transport and Infrastructure (COTI), to see if it could provide a means of estimating spillover benefits. However, this suggestion

does not seem to have been taken up. The following links provide examples of the use of these techniques:

http://sydney.edu.au/business/__data/assets/pdf_file/0004/127786/ITLS-WP-12-05.pdf

http://www.internationaltransportforum.org/jtrc/discussionpapers/DP200806.pdf

The issue of wider economic benefits is also touched on in the recent Productivity Commission report on Public Infrastructure (No. 71, 27 May 2014), at Appendix C. The report quotes:

Ergas, H. and Robson, A. 2009, *The Social Losses from Inefficient Infrastructure Projects: Recent Australian Experience*

One important point that should be noted is that some of this work suggests wider economic benefits beyond the scope of conventional cost-benefit analysis, but spatially contained to the same urban area – however, some of these may be benefits that could be partly captured by returns to the Commonwealth through individual or corporate income tax, for example. Another key point is that such impacts need to be considered not just for roads but for other types of infrastructure which may come within the scope of assessments – even though they may not be the subject of Commonwealth payments, consideration may need to be given to the appropriate equalisation treatment of the State expenses.

There is clearly a question as to the validity and consistency of the application of the NNR categorisation to the roads stock assessment, and to the failure of the Commission to address the national significance of other transport modes. We note that the National Land Transport Network, as defined by the *Nation Building Program (National Land Transport) Act 2009*, includes railways and inter-modal transfer facilities. There appears to be no logic in a focus solely on roads in the context of national significance.

Moreover, there is no evidential basis for the 50% discount applied by the Commission, nor does the Commission present any justification for its stated view (p.375) that the assessment of national need related to roads investment does not distort investment decisions.

The ACT is strongly of the view that, unless these concerns can be satisfactorily resolved and a robust method for assessing national needs or benefits developed, there should be no discounting of Commonwealth payments for roads.

URBAN TRANSPORT STOCK DISABILITIES

The consultant's report on the Commission's econometric modelling released by the Commission on 2 September has cast doubt on the approach taken by the Commission to this assessment. There is a particular concern about the impact of the few large cities on the results, and whether any of these can be regarded as an outlier, or whether some adjustment should be made to reduce the weighting of these data points.

One of the suggestions is that a model using a quadratic function may be more appropriate and fit the data better. The consultant has suggested one or two simple tests (t-test and adjusted R-squared) which could be applied to indicate which function better fits the data. He has also stated that the choice of functional form depends on an assumption about the underlying relationship

between asset holdings and city size. The Commission has presented no evidence that such tests have been carried out or alternative functional forms examined.

The Commission has made the proposition (para 66) that a linear model has been adopted to avoid the possibility of one State having too much influence on the relationship. It is not clear why that is the case. The consultant has commented that a logarithmic or quadratic function may mitigate the problem of influential data points. In the econometric paper presented by the Commission, Staff have asked the consultant if a test such as Cook's D should be used in the interstate wage model to test the degree of influence of particular data points, but there is no mention of performing this test for the transport infrastructure model, despite there being a clear indication that there may be data points of influence (Sydney and Melbourne). If that is so, then there are alternative approaches to the exclusion of any data points, such as use of a robust regression, which would allow a lower weighting of data points with greater influence.

Staff have also indicated that the linear model is in practice little different from the quadratic model previously used for the 2010 Review, as the slope of the latter is quite close to linear. However, our examination of the function suggests that the differences between the two models would be in the order of $450m in size of stock for a city with a population of 3 million compared with one of 1 million, or about a 13% difference. This would appear to be fairly significant. However, our ability to test these propositions further is severely limited by the confidentiality restrictions which two large States have imposed on release of their data.

In our Rejoinder Submission to the Staff Discussion Papers, the ACT also raised concerns about the robustness of the asset valuations used in the modelling, pointing out that the actual values used in the Staff model ranged across the State capitals from 40% up to 87% of the replacement values used in the consultant's model for the 2010 Review. In the draft Review report, the Commission has merely stated that actual book values rather than replacement values have been used to be consistent with asset values used in other parts of the investment assessment. The difference between actual and replacement values is stated as being simply accumulated depreciation. If that is the case, it is not clear why the ratios of actual to replacement values are not more consistent, particularly for cities of similar size (acknowledging that different cities may have a different mix of asset types and ages). This raises the question as to whether consistent asset valuation and depreciation methodologies are being applied across States.

Given these concerns, and unless anything can be done to improve the reliability of this assessment, the ACT considers that the 50% discount of the relationship should remain in place in the final Report. Moreover, given the very large impact which this revised assessment has on the GST distribution, even with such a discount, the Commission should consider phasing it in over a three-year period.

CAPITAL COST DISABILITIES

The ACT considers that a cost disability may exist in relation to differential access of States to Public-Private Partnership (PPP) arrangements. The Commission has previously recognised a conceptual case for such a disability, and also claimed in the 2004 Review to have catered for one aspect of it (fixed costs relating to setting up of PPP arrangements) in its administrative scale assessment. The

ACT considers that a cost disability for PPPs should be investigated as part of the rolling review program we have proposed after the completion of the 2015 Review.

ATTACHMENT 22 – WAGES COSTS

The ACT supports the Commission's proposal to review the approach to the assessment of wages costs when the new Characteristics of Employees (CoE) data become available. This is in line with our proposal for a rolling program of review to be undertaken after completion of the 2015 Methodology Review.

ATTACHMENT 23 – REGIONAL COSTS

The ACT has no comments on this attachment.

ATTACHMENT 24 – SERVICE DELIVERY SCALE

The ACT has no comments on this attachment.

ATTACHMENT 25 – ADMINISTRATIVE SCALE

As stated elsewhere in this submission, the ACT considers that expenses classified in functional categories should not be reduced by factors, such as administrative scale, which are disabilities. This reduces the transparency of presentation and makes it difficult to make accurate comparisons with previous reports. However, there should also be a secondary form of presentation which shows the aggregate impact of disability factors such as administrative scale across all expense categories.

The ACT will continue to pursue arguments for an improved assessment of administrative scale, as part of the rolling program of review which we have proposed to be undertaken after completion of the 2015 Methodology Review. As identified in the question we asked the Staff on this issue, the regression of Government Finance Statistics (GFS) expense data detailed in the draft report (para 21, p.458) suggests that another cost factor, which is not the minimum size of government, may be at work in impacting on State expenses. We consider that this issue should be investigated further.

ATTACHMENT 26 – INDIGENEITY

The Commission has stated in its response to questions from the ACT (27 August 2014) that:

If we had data on the relative use of services by high SEIFI people and low SEIFI people, we would advocate using it. However, the data do not exist for any category. Instead we look to use rates for the population groups we can measure, generally SEIFA or some variant, or income measures. We only use SEIFI where the alternatives are not supported by data and judgment is required (General Welfare).

The Commission has also acknowledged that Indigenous Relative Socio-economic Outcomes (IRSEO)/Non-Indigenous Socio-Economic Indexes for Areas (NISEIFA) is "not a good measure of general relative disadvantage" and that using it in that way "would ignore the fact that some disadvantaged people live in non-disadvantaged areas" (*Staff Discussion Paper CGC 2014-03-S: Update and Supplementary Issues for the 2015 Review*, August 2014). This was precisely the argument made by the ACT in advocating the use of SEIFI instead. However, the problems with SEIFI have been further compounded by the ABS decision (ibid, p.6) not to update SEIFI using the 2011 Census data.

In light of the above considerations, the ACT does not propose to pursue the use of SEIFI further in this submission. However, it does raise a serious concern as to whether the data used for the measurement of disadvantage are less than 100% fit for purpose, and accordingly whether a discount should be applied to their use. The ACT requests that the Commission apply a discount of 25% to proposed measures which are attempting to capture general relative disadvantage.

ATTACHMENT 27 – POPULATION GROWTH

The ACT has no comments on this attachment.

ATTACHMENT 28 – OTHER DISABILITIES

The ACT has no comments on this attachment.

ATTACHMENT 29 – NET BORROWING

In light of the information provided by the Commission, and taking into account the substantially reduced dollar size of the net borrowing/lending assessment, the ACT does not propose to pursue further the following aspects in this submission:

- A rate of return disability for financial assets; or
- Adjustment of the net lending assessment to allow for greater upward revaluations related to population growth.

ATTACHMENT A

SUMMARY OF PROPOSED METHOD CHANGES TO THE ASSESSMENT CATEGORIES, 2010 TO 2015 REVIEWS

Category	Method changes	ACT Position
Land tax	• Metropolitan improvement levies are combined with the property part of fire and emergency services levies (FESL) and assessed using the value of properties.	Support.
	• The assessment method for land taxes levied on a landholder basis is unchanged.	Support.
	• Scope of land tax assessment – all property components.	Propose differential assessment of ACT general rates revenue in the all property component.
	• Assessment of non-real property transactions.	Support assessment of non-real property transactions as applied when last included.
Stamp duty on conveyances	• The stamp duty on the transfer of motor vehicles assessment has been included in this category.	Support.
	• Expenses and duty concessions relating to first home owners (such as First Home Owners Bonus Payments) have been moved from this category to Housing.	Support.
	• The land rich adjustment for Tasmania has been discontinued because it is not material.	Support.
Insurance tax	• The assessment method is unchanged, but FESL imposed on insurance premiums have been moved to this category and assessed using the insurance tax base instead of equal per capita (EPC).	Support.
Motor taxes	• The assessment method is unchanged, but the stamp duty on the transfer of motor vehicles assessment has been moved to the Conveyances category. Revenue FESL on motor vehicles has been included in this category.	Support.
Mining revenue	• This category is assessed on a mineral by mineral basis with separate assessments of iron ore, coal, gold, onshore oil and gas, copper, bauxite and nickel.	Support.
	• As a placeholder, the inclusion of iron fines with the rest of iron ore is being phased in.	Propose modification – make full adjustment for iron ore fines in one year.
Other revenue	• The assessment method is unchanged. Revenue from FESL has been moved from this category to the Land tax, Insurance tax and Motor taxes categories.	Support changes re FESL. Propose removal of all user charges from this category and netting off relevant expense categories.
Schools education	• The assessment uses actual enrolments as a broad measure of use for all age groups but with an adjustment to the distribution of students in pre-Year 1.	Support.

Category	Method changes	ACT Position
	• Regression analysis based on ACARA data is used to directly estimate cost weights for Indigeneity, SES, SDS, non-government students and remoteness. We are now using the socio-demographic characteristics of non-government students rather than assuming they have the same socio-demographic characteristics as government students.	Support.
	• The assessment of expenditure of Commonwealth NERA funding for government schools is based on the average SRS amount for government students in each State to avoid unwinding the recognition of educational disadvantage embedded in the NERA funding arrangements.	Support.
	• School transport - no change proposed.	Oppose current method - propose application of an APC assessment of expenses.
Post-secondary education	• Vocational education and training expenses have been moved from Services to industry to this category.	Support.
	• The assessment recognises non-remote Indigenous and non-Indigenous people from low socio-economic backgrounds use post-secondary education services more.	Support.
	• The differential use and cost of people who do not speak English at home is no longer assessed.	Support.
Health	• There is a single Health category and a direct method of assessment is used for all components instead of the previous subtraction method. The impact of the private sector is assessed using economic environment factors.	Support.
	• Category expenses are assessed net of user charges because we have data on net expenses incurred on different socio-demographic groups.	Support.
	• Data on the use and cost of health services are sourced from IHPA instead of the AIHW.	Support.
Welfare	• New child protection unit record data are used which improves the reliability of the family and child welfare services assessment.	Support.
	• As the Commonwealth has taken over State responsibilities in the areas of aged care services and disability services for older people, needs relating to welfare-related aged care services, including for Western Australia, are assessed EPC.	Support, subject to successful resolution of C'W-State negotiations on funding of transitioning and budget-neutral adjustment.
	• During the NDIS transition period, we are adopting dual disability services	Support dual assessment. Oppose use of eligible population to assess

Category	Method changes	ACT Position
	assessments — one for NDIS services and one for existing disability services delivered under the National Disability Agreement. Both NDIS and existing disability services will be assessed using the population eligible for NDIS.	needs – propose use of actual number of participants.
	• All concessions other than transport concessions are included in the general welfare component and assessed using the number of concession card holders. The remainder of general welfare services are assessed using the relative State proportions of people in the bottom quintile of the ABS's SEIFI.	Support assessment of concessions in general welfare component. Note CGC proposal in its Update & Supplementary Issues paper to explore alternative to SEIFI for general welfare assessment.
	• The changes in Commonwealth-State arrangements affecting this category and associated Commonwealth payments are, or will be, backcast as required.	Support.
Housing	• The category covers PNFC and general government expenses and revenue.	Support.
	• Gross expenses are assessed using Census data on households in social housing cross-classified by income, Indigeneity and location instead of Commonwealth pensioner numbers classified by Indigenous status.	Support subject to Commission view on policy neutrality.
	• Assessed rents are calculated by applying average rents paid by the different household groups to assessed households.	Oppose assessment of rent in a revenue category - propose review of approach to assessment of rent.
	• First home buyer grants, bonuses and stamp duty concessions are consolidated in the Housing category and are assessed EPC.	Oppose EPC assessment of FHOS – propose differential assessment based on ABS data.
	• As a placeholder, the Remote Indigenous Housing NPP will impact on the relativities from 2013-14.	Support.
Services to communities	• A utilities subsidies assessment has been introduced, distinguishing between water and electricity subsidies for uneconomic services in remote small communities and for uniform tariffs and special projects. The former is assessed using the proportion of population living in small remote and very remote communities. The latter is assessed EPC.	Support.
	• Small communities cover those with population between 50 and 1 000 instead of 200 to 1 000.	Support.
	• The impact on expenses of water availability and quality is no longer assessed.	Support.
	• A new definition of discrete Indigenous communities has been adopted.	Support.
	• User charges for community development - no change proposed.	Oppose assessment of user charges as Other Revenue – propose netting off total national

Category	Method changes	ACT Position
		expenses.
Justice services	• User charges - no change proposed.	Oppose assessment of user charges as Other Revenue – propose netting off total national expenses.
Roads	• The assessment method is unchanged but ABS Urban Centres and Localities are used instead of Significant Urban Areas to distinguish between areas served by urban and rural roads.	Support.
Transport	• The category covers urban transport PNFC expenses and revenue as well as general government expenses and revenues, resulting in an increase in total expenses.	Support.
	• New data have been used to update the assessment and the regression model used to estimate net assessed expenses has been refined.	Support.
	• A regional cost assessment has been added to the non-urban expenses assessment, which is otherwise unchanged.	Support.
Services to industry	• The assessment includes a separate assessment of regulatory expenses for the mining industry.	Support.
	• Mining user changes have been netted off the relevant expenses.	Support.
	• Vocational education and training expenses are no longer included in this category but in Post-secondary education.	Support.
	• The 12.5% discount to the expense weights for this assessment has been removed.	Oppose – maintain discount e.g.: by treating discount as part of the component assessed EPC.
Other expenses	• The impact of cultural and linguistic diversity on State expenses is no longer assessed.	Support.
	• Administrative scale, native title and land rights and some national capital assessments have been relocated from other categories.	Oppose – previous treatment of these factors should be retained.
	• Natural Disasters – no change proposed.	Propose EPC assessment be applied to State expenses in excess of NDRRA payments.
Infrastructure	• An assessment is made of PNFC and general government infrastructure used in providing urban transport and housing.	Support.
	• The quantity of infrastructure stock disabilities are calculated by combining the factors affecting the use of each service using the average proportion of infrastructure devoted to the service.	Support.
	• Factors affecting recurrent service use but which do not affect infrastructure requirements are explicitly excluded from	Support.

Category	Method changes	ACT Position
	the infrastructure calculations and the 12.5% discount has been deleted.	
	• Capital cost disabilities are measured by reference to construction cost indices, discounted by 50% for roads and urban transport and by 25% for other services.	Support.
	• Roads stock disabilities – no change proposed.	Propose no discounting of C'W payments for roads unless issues of concern resolved.
	• Urban transport stock disabilities – modelling assumptions; asset valuations	Propose 50% discount be maintained and impact phased in over three years.
Net borrowing	• Infrastructure assets of urban transport and housing PNFCs are excluded from State net financial asset bases.	Support.
	• The 25% discount on this assessment has been removed because the new treatment of housing and urban transport assets has reduced the possibility that not all non-policy influences on net borrowing requirements are assessed.	Support.

Source: Commission decisions.

Note: Yellow highlighting indicates issues where Commission has not proposed method change, but ACT is proposing change, or where change not listed in summaries at start of assessment chapters.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ATTACHMENT B

SUMMARY OF PROPOSED METHOD CHANGES TO THE ASSESSMENT DISABILITIES, 2010 TO 2015 REVIEWS

Disability	Methodology Changes	ACT Position
Regional costs	• Remoteness is assessed on the basis of ARIA rather than SARIA.	Support.
	• For categories, other than Justice services, where a regional cost disability is assessed, the gradient has been based on the output from the regression analysis of ACARA data.	Support.
Interstate non wages	• A separate assessment is not undertaken but the regional costs assessment, through the move to ARIA from SARIA, allows needs for Tasmania and the Northern Territory to be recognised.	Support.
Service delivery scale	• Output from the regression analysis of the ACARA data has been used to assess service delivery scale disabilities in Schools education.	Support.
	• The assessment of service delivery scale for housing and community health expenses, as well as for all Welfare services with the exception of family and child services, has ceased.	Support.
Indigeneity	• Where we use a geographic measure of socio-economic status, we propose to use the Indigenous specific IRSEO, and non-Indigenous specific NISEIFA measures where appropriate. In the 2010 Review we used a generic SEIFA to measure relative disadvantage for both Indigenous and non-Indigenous people. This change has been applied in Health, Post-secondary education and Welfare and will be in police.	Support, but propose 25% discount to impact of proposed measures of general relative disadvantage.
Cultural and linguistic diversity	• Cultural and linguistic diversity is no longer assessed.	Support.

Source: Commission decisions.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ATTACHMENT C

2015 REVIEW DRAFT REPORT – ACT QUESTIONS FOR THE COMMISSION

INDICATIVE GST IMPLICATIONS

- The ACT would appreciate a cursory examination of our draft indicative comparison implied by the Commission draft report released to us on Friday, 1 August 2014. I am not seeking a definitive statement on the accuracy of our interpretation but simply whether we are in the same ballpark with any jurisdictional modelling undertaken internally within the Commission itself.
- Our table compares the assessed differences in the 2014 Update and the indicative GST impacts in the draft 2015 Report, with a calculation of the change at an aggregate level in the last two columns.

Response

- We will not be commenting on your aggregate results, either with or without admin scale.
- The Commission gave careful consideration to the results it would publish in the draft Report. It deliberately chose not to provide the full financial impact of our proposals so far, or comparisons with the 2014 Update, for a number of reasons. Firstly, the Commission wanted States to focus on individual assessments and their conceptual underpinnings. Secondly, many assessments are likely to change in the final report as we receive final data for 2012-13 and 2013-14 and make decisions on the many placeholders and other outstanding issues. For example, changes to the way the mining revenue assessment is phased, the substitutability parameters used in the Health assessments or the 50% discount to the urban transport investment assessment could have a large impact on the calculated results.

State Specific Outcomes

- In a more general sense, the ACT Executive has asked for clarification of what sits behind the estimated increase in both the NT and Tasmanian per capita redistribution implied in the draft 2015 Report relative to the heavy loss incurred by the ACT as part of its preparation for the upcoming discussion of the Commission Report at the Council on Federal Financial Relations (and Heads of Treasuries next week). We estimate a massive + $800 per capita redistribution for the NT and + $250 per capita for Tasmania.
- It would be very helpful if the Staff could provide a general overview across the assessments that lead to this apparent redistribution at this point in the Review? Something akin to the jurisdictional summary provided in the Annual Update Report - but obviously - not to the same level given the number of caveats.
  - In the context of the NT, a simple explanation would be one premised on the application of the terms of reference (ToR) requirement which inter alia, instruct and guide the Commission to develop methods to appropriately capture the changing characteristics of the Indigenous population. However, it obviously is not the sole driver and not that simple.
  - However, our own internal snapshot analysis in the time we have does not suggest that is actually the case.

- Firstly, as the draft 2015 Review illustrative impacts are based on data for one year only, 2012-13, we understand and accept the comparison is more sensitive to volatility than a comparison based on three years' data would be. This in itself results in big gains and losses for States in the Infrastructure assessment with the two main factors being changes in relative population growth and the inclusion of assets of the urban transport and public housing PNFCs:
- The NT has gained $182m in the Infrastructure assessment - This appears to be due mainly to its population growth increasing from 1.0% in 2011-12 to 2.3% in 2012-13.
- The NT has also gained $108m in the Commonwealth payments assessment - This is due to a substantially bigger decline in its SPP and NPP payments than the national average for 2012-13 compared with 2011-12.

- The changes in the expense assessment so far don't support the theory that the new Indigeneity assessment has driven gains for the NT and other States with relatively large Indigenous populations, with the NT losing $112m, WA losing $313m and QLD losing $59m on the expense assessments:
  - However, we appreciate the Staff have not finalised their calculation of the Indigeneity impact in a number of the assessments, so we can expect some reduction of these losses in the final report.
- From an ACT perspective, our position is pretty much the reverse of that of the above States. We gain $34m in the expense assessments and lose $78m in the Infrastructure assessment and $14m in the Commonwealth payments assessment:
  - The Commonwealth payments movement is as expected, due to the progressive shift of SPPs to an EPC basis, which has raised the ACT's share of SPPs (we were the only State not to lose Commonwealth payments in 2012-13 compared to 2011-12).
  - However, the loss in infrastructure cannot be attributed to reduced population growth as the ACT's growth in 2012-13 was above 2011-12 and remained slightly above the national average. Hence, the change is likely to be due to the incorporation of urban transport and public housing PNFCs in an assessment where the ACT was already deemed to have a relative advantage leading to a redistribution away from the Territory.

Response

- I am sorry but Staff are unable to comment on the redistribution implied by the draft Report. The Commission has asked States to focus on the proposed methods set out in the Report, noting that the calculations are illustrative at this stage.

TREATMENT OF COMMONWEALTH PAYMENTS

Other Commonwealth Payments

- The one area of concern for us is the estimate to be incorporated into the 'Other Commonwealth Payments'. The draft Report shows no estimate at this stage of the net effect of Commonwealth payments on the GST distribution, as you do not have all the required data. However, we have assumed that the data in Table 5 (p.60) can be used to give

a rough estimate of the impact. In the ACT's case, this is an assessed difference of $68 per capita ($1601-$1533) for 2012-13, which translates to a gain of about $26 million in GST. Table 6 of the report gives an illustrative effect of a $65 million gain to the ACT, which looks like it might be an average of the two years 2011-12 and 2012-13 – is that correct?

Response

- You can use Table 5 (p6) to estimate the revenue effect in 2012-13 of Commonwealth payments which have an impact on the relativities. Tables 5 and 6 are not comparable, as you surmised. The difference between the $26m implied by Table 5 (2012-13 only) and the $65m GST impact shown in Table 6 occurs because a three year average relating to the years of the 2014 Update has been used and applied to 2014-15 GST for Table 6.
- You are correct that Table 6 shows only the revenue effect of Commonwealth payments and that the expense effects, including for investment, are included in the expense assessed differences reported in the expense attachments. We normally report only the revenue effect of Commonwealth payments, although in recent updates we have also reported the net effect.

Infrastructure Payments

- We are also not certain of the correct interpretation of para 74 of the report, which refers to the increased State spending driven by Commonwealth payments for infrastructure. This impact would presumably be captured in the Infrastructure (Investment) assessment when the data becomes available. It is not clear why that wouldn't already be the case for 2012-13 and therefore be already accounted for, as is the case with the other assessments for which you have provided an illustrative effect.

Response

- Para 74 is not just talking about the Commonwealth payments for infrastructure. All Commonwealth payments, regardless of purpose, increase State spending. When disabilities are applied to that Commonwealth funded spending, those States with disabilities above one, are assessed to require above average spending; those with disabilities below one, are assessed to require below average spending. This is what we describe as the 'Expenditure effect'. We will report the net effect of Commonwealth payments in the final report by separately identifying the revenue and expenditure effects.

ATTACHMENT 8 OTHER REVENUE

- The statement is made (p.142) that:

  "Non-policy factors which may lead some States to hold above average proportions of their assets in those low yielding entities are recognised in the investment assessment".

  - Does "low yielding entities" refer to housing and urban transport corporations?
  - In what way is this constraint recognised in the investment assessment?

Response

- Yes, low yielding entities refers to housing and urban transport corporations.
- The investment assessment now equalizes State capacities to invest in the assets required to provide housing and urban transport services. It does so, for example, by allowing for the effect of factors such as population growth, low income, Indigeneity and remoteness on investment in public housing. Under the 2010 Review methods, population growth was the only factor recognized.

ATTACHMENT 10 – SCHOOLS EDUCATION

- Para 60 (p.159) – Are you saying that the difference which is treated as impacting on State capacities is only that which is not accounted for by the SRS model, including loadings ? I.e. it in effect represents the "add-ons" (if any) in the bilateral agreements which were reached between the C'W and each State.
- The ACT has sustained a very large loss in GST from this assessment compared with the 2014 Update. The explanation at para 89 adds nothing new to what we previously knew. Can more specific information be provided about the reasons for the change from the 2014 Update?

Response

- Your interpretation of the text in paragraph 60 is correct, although the 'add-ons' are a zero sum game, and can be subtractions off as well.
- Based on data for the 2012-13, the ACT's assessed Schools education expenses fell by $39.3 million. The main factors contributing to this decline in assessed Schools education expenses are as follows.
  - Administrative scale is no longer assessed in the category. In the 2014 Update the ACT's administrative scale expenses were $16.9 million.
  - Changes to the student transport assessment have reduced the ACT's assessed expenses by $7.8 million. The Commission made two changes to this assessment. (i) The data for calculating the average distance travelled by rural students has been updated using data from 2011 Census. (ii) All student transport expenses are assessed based on rural student transport needs because making a separate urban student transport assessment did not produce a materially different result.
  - The new ACARA based socio-demographic composition assessment reduces the ACT's assessed spending by $7.4 million. There are a number of offsetting changes to the socio-demographic composition assessment that contribute to this change.
  - The ToR instruction with regard to NERA funding has resulted in a reduction in the ACT's assessed spending because the ACT's assessed spending based on the SRS model are less than those based on 'what States do'. We estimate the ACT's assessed spending is about $5.2 million less as a result of the NERA ToR instruction. (This is the expense effect only.)

ATTACHMENT 12 – HEALTH

- Would the netting off of privately funded costs from the IHPA cost data (para 28) increase the cost weighting of more disadvantaged groups?
- Para 44 and Figure 4 – Have you estimated a regression function for the relationship between GP presentations and ED visits per capita? :
  - This would enable estimation of the strength of the relationship if the data is considered to be robust.
  - What is the data source used by NSW?

Response

- We would expect this to be the case. However, we are unable to quantify the impact because we receive IHPA data with the privately funded costs already removed. This general approach of netting off privately funded costs was also used in the 2010 Review.
- A simple regression of this data does not take account of the socio-demographic and other reasons for differences. We are still considering whether an adjustment to this data is feasible, and secondly how we would interpret such a regression.
- The NSW submission is on our website (https://cgc.gov.au/index.php?option=com_attachments&task=download&id=1866. It gives the reference as:
  - Sources: AIHW, Australian Hospital Statistics 2012-13: Emergency Department Care, Table 2.7; http://www.medicareaustralia.gov.au/provider/medicare/mbs.jsp#N1003F

Indicative GST Impact

- The ACT has gained a large amount of GST from the Health assessment compared with the 2014 Update. Para 121 (p.212) refers only to the ACT's lower level of private provision, which is not a new factor. Can you provide more specific information about the reasons for change from the 2014 Update?

Response

- The proposed health assessment method is very different to that used in the 2014 Update (direct method v subtraction model). This makes it very difficult to pinpoint the exact reasons for change. We consider that the main reason why the ACT has gained GST is the ACT's lower level of private health provision. While it is not a new factor, the change in data used in the calculation has a larger impact for the ACT, compared with other States. For example, in the subtraction model, we used total GP Medicare expenses. However, in the direct method we use only bulk billed GP Medicare expenses. Because the ACT has much lower bulk billed GP rates compared with total GP rates, the ACT is assessed as needing more GST.

Indigeneity

- Table 1 in the Indigeneity chapter (p.467) shows that, under IRSEO, all of the ACT's Indigenous population are defined as being in the least disadvantaged category, whereas under SEIFA there are some classified in higher categories of disadvantage. However, Table 4 shows that the impact of moving from SEIFA to IRSEO/NISEIFA is a gain for the ACT of $25 per capita in GST. Can you explain this?

Response

- The areas nationally that represent Major Cities of Australia—Least disadvantaged in NISEIFA are slightly different to the SEFIA version, because the effect of Indigenous people in those areas is removed, and because the cut-offs are the top 20% of the non-Indigenous population, rather than the top 20% of the total population. The national spending per person in these areas has increased, and hence the ACT gains. Because IHPA use different geographic classifications to AIHW, there is no guarantee that when we move to IHPA data we would get the same impact, or even the same direction. It is worth noting this change is immaterial.

ATTACHMENT 13 – WELFARE

Disability Services - NDIS

- Para 56 – Does "the total number of people who meet the (full coverage) access requirements of the NDIS" mean the number expected to be assessed by the NDIA as entitled to a support package?

Response

- Yes

NDIS Transition

- The main body of the Report (pp.72-73) says that:
  - State contributions to NDIS in a transition year will be assessed assuming that the NDIS provides the observed national average coverage of NDIS eligible populations in each State (the average transition).[1] Assessments will be based on a State's proportion of the total number of people eligible in a year to be covered by NDIS when fully operational. The alternative of using actual numbers of people covered in transition years, whether set out in the bilateral agreements or not, would not be policy neutral. For example, if a State were to move at a relatively fast rate towards full implementation, this would be considered a matter of policy choice which should not be taken into account in the equalisation process.
- The ACT is expected to be one of the fast implementers, and consequently during Transition will have a much higher proportion of the national NDIS client population signed up than its eventual proportion under full implementation. The approach proposed by the Commission would mean, as I understand it, that the ACT's expenditure needs during Transition would be assessed on the basis of its proportion of the total national number of people who will be signed up to NDIS on full implementation. This will be a substantially lesser proportion than the ACT's actual proportion during the Transition period.
  - Can you confirm that the above interpretation is correct?

Response

- Yes, the ACT's expenditure needs will be based on its (estimated) proportion of the total national number of people expected to be signed up to the NDIS on full implementation.
- Your surmise that, because the ACT is transitioning more quickly than the national average transition rate, its proportion of full implementation numbers will be a lesser proportion than its actual proportion during this period is correct.

Assessment During Transition

- Attachment 13 (p.238) makes the statement in relation to maintenance of dual disability assessments during the NDIS transition period that: "*Both NDIS and existing disability services will be assessed using the population eligible for NDIS*" (my emphasis). We understand from your response to our previous question on this point that "*the population eligible for NDIS*" means the number expected to be assessed by the NDIA as entitled to a support package (as distinct from the total population within the NDIS age limits – given that it is a national insurance scheme).

[1] The question of whether this should be the assessment year or the year in which the relativities will apply (backcasting) is discussed below.

- Will the assessed expenses be based on the actual national per capita expenditure on NDIS by States during the Transition period?
- We assume that the assessment in each of the NDIS and non-NDIS streams will be based on actual national expenditure per capita in each of these streams. Is this correct?
- And that as transition proceeds there will be a shift of actual expenditure per capita from the non-NDIS to the NDIS stream, in accordance with the number of clients moving from non-NDIS to NDIS services, and from outside the system into NDIS ?
- Does this approach imply that, during Transition, the ACT's disability expense needs will continue to be recognised largely through the non-NDIS stream rather than the NDIS stream, given that the Commission's proposed approach will not recognise the actual numbers of NDIS participants in the ACT?

Response

- Because the introduction of the NDIS represents a major change in Commonwealth-State relations, the changes will be backcast. With transition commencing in 2016-17, backcasting will commence in the 2016 Update. For the upcoming 2015 Review, disability expenses in the application year (2015-16) will all relate to existing disability services and so NDIS assessed expenses will be zero.
- Beginning with the 2016 Update, however, disability expenses in each of our three assessment years will be split between NDIS and existing disability services expenses based upon the national average projected shares of State NDIS and existing disability services expenses in the application year. So, for the 2016 Update, we will split 2012-13, 2013-14 and 2014-15 disability service expenses between NDIS and existing disability services using the national average projected shares of NDIS and existing disability services expenses in 2016-17. The respective NDIS and existing disability services disability factors will then be applied to the apportioned expenses. The NDIS stream will become progressively more important as we move through transition.
- The speed or phasing of the movement to full scheme is a joint policy choice by each State and the Commonwealth, and not some external, imposed factor. So, if a State moves at a relatively fast rate towards full implementation of the NDIS, we view this as a matter of policy choice and so should not be taken into account in the equalisation process. However, you will observe that we are proposing the same SDC disability for each sub-component, namely a State's proportion of the total number of people eligible in a year to be covered by NDIS when fully operational.

Cost Sharing

- Can you confirm that States will be responsible for about 59% of the costs of their actual participant numbers during this period, and that this percentage is specified in States' bilateral agreements with the Commonwealth?

Response

- The various Heads of Agreements point to the States contributing 59.4% of package costs during the transition period, for an agreed number of eligible participants each year.

Disabilities

- Can you confirm that no other use or cost disabilities would be assessed for the NDIS stream during Transition?

Response

- Correct.

ATTACHMENT 14 – HOUSING

- Is the use of Census data on the number of households in social housing, rather than Commonwealth pensioner numbers, free of State policy influences? – Table 6 (p.244) indicates major differences between States in income eligibility limits for public housing.
  - Is this addressed by the use of national average use rates in the SDC assessment? (paras 43-44).
- Is the illustrative GST impact for the first home owners assessment (Table 16) based on actual FHOS expenditure (including tax expenditures) in each State?

Response

- State policy influences are addressed by the use of national averages. We use national average use rates to average State policy differences.
- Table 16 uses State actual FHOS expenses from the 2013 Update plus an estimated $170 million in additional first home owner type grants, and an estimated tax expenditure of $500 million. Actual expenditure on FHOS and other grants, and tax expenditures have been requested from States.

ATTACHMENT 16 – JUSTICE

- Can the Commission clarify the statement (p.305) that 'cost weights for Indigeneity have not been incorporated in the assessments'? Does this mean prior to the updating of weights using the latest supplied State data?

Response

- The updating of weights using the latest supplied State data refers to use weights, for example, the likelihood of an Indigenous or non-Indigenous person to be an offender. We have assumed that the cost per offender is the same for Indigenous and non-Indigenous offenders, due to insufficient data from which to derive a differential weight. That is, while use weights are applied, no cost weights are applied in the Justice assessment.

ATTACHMENT 18 – TRANSPORT

- To what extent does the Commission consider that levels of subsidy/user charges are policy influenced? Is this addressed solely by averaging these levels across States/population centres?
- Can you confirm that the regression model attributes operating expenses and revenue from user charges at a population centre level?
- Why is it necessary to rescale the assessed expenses to match the ABS GFS urban transport net expenses (para 29)?
- Is it correct that the rural roads network is not to be used as a proxy for population dispersion for the purpose of assessing non-urban transport subsidies?

Response

- Subsidies and user charges would reflect a combination of needs and policy choice. Policy differences are averaged through the regression analysis, which averages the differences in net expenses between States.
- Yes, the regression model attributes net expenses at a population centre level. We collected expense and revenue data at urban centre level from States.
- We rescale to ABS GFS because the Commission's adjusted budget is based on it. We use GFS as our measure of what States spend on their different functions. We need to reconcile our assessed expenses to it.
- It is correct that the rural roads network is not to be used as a proxy for population dispersion for the purpose of assessing non-urban transport subsidies.

ATTACHMENT 19 SERVICES TO INDUSTRY

- The Commission is proposing to remove the previous 12.5% discount on the expense weights used in the assessment (paras 45-47, pp. 351-352), despite continuing concerns about the quality of the data used to calculate the component and sub-component expenses. This approach has been characterised as "keeping with the Commission's decision not to discount estimates of total national expenditure". However, application of a discount to a set of weights is not the same as discounting the total expenditure assessed in the category. Can you clarify the Commission's thinking on this point please?

Response

- The Commission outlined its approach to discounting on pages 33 to 35 of the draft Report. In paragraph 70 the Commission says it will not discount the best available estimates of national spending.
- In the Services to Industry category GFS data are not sufficiently detailed to split category expenses by broad function e.g. regulation and business development. The survey data collected for the 2010 Review are used for this purpose, and currently they are the best available estimate of disaggregated national spending for the Services to Industry category. As such the Commission decided to remove the discount.
- It is true that discounting the weights for allocating expenses does not affect estimates of national spending at the total category level; however, the discount does reduce the amount of spending attributed to regulatory functions at the component level.

ATTACHMENT 21 – INFRASTRUCTURE ASSESSMENTS

Urban Transport Stock

- The ACT in its previous submission queried the use of actual rather than replacement values in the modelling because of the apparent very large differences in actual stock between cities of similar size – suggesting that this indicated either problems with the data or that there may be significant factors other than population affecting the stock of assets. This concern is not addressed in the draft report – can the Commission comment on this?
- Has the Commission included transport infrastructure and services provided by the ACT to Queanbeyan in its assessment for the ACT? (As raised in our previous submission).

Response

- We have used actual book values rather than replacement values (book value plus accumulated depreciation). This is consistent with asset values used in other parts of the investment assessment and will ensure a State GST adjusts to give it the capacity to hold the average levels of assets, given the size of its cities.
- We have used the asset values and the subsidies provided by the ACT in response to our transport data request of last year. We sought the value of assets and the subsidies used in urban public transport. The subsidies and value of any assets used for inter-urban transport should not be included.

Depreciation Assessment

- Should the average depreciation rate shown in Table 13 (p.390) be 2.79% not 2.4%?

Response

- Yes, the average depreciation rate in Table 13 should be 2.79%. Urban transport infrastructure was incorrectly included in the calculation of 2.4%.

ATTACHMENT 22 – WAGES COSTS

- On what basis has the Commission determined the 1% adjustment to the ACT's wage relativity to allow for the impact of Commonwealth wages? (p.413).

Response

- The inclusion of the 1% adjustment to the ACT's wage relativity was a Staff error. The Commission decided to remove this adjustment (along with the Tasmanian adjustment) in the 2011 Update (refer to the New Issues chapter in the 2011 Update). Staff will recommend the Commission remove the adjustment from the final report unless the ACT can provide evidence to support its reintroduction.

ATTACHMENT 25 – ADMINISTRATIVE SCALE

- Can the Commission provide more information on the regression of GFS expense data it carried out (p.458)? e.g.:
  - Were these expenses for out-of-school staff only?
  - Is there an issue about the accuracy of the data recorded in the GFS categories?
  - Wouldn't the regression pick up growth in 'variable fixed costs' with increasing scale – the key issue being the intercept value?
  - Does this identify a cost factor which is not the minimum size of government, but something else which may not be accounted for in the other expense assessments?

Response

- The regression referred to on page 458 used ABS GFS expense data for the years 2008-09 to 2010-11, reflecting general government expenses by purpose for primary and secondary education. These expenses represent all expenses, including in and out of school staff, as well as non-wage expenses. We have not adjusted the ABS GFS expenses and consider these data to be as reliable as usual for ABS GFS data at the GPC level.
- The paper noted that the intercept result from this regression, of $189 million, was substantially higher than the Commission's current administrative scale expense estimate in

Schools of $16 million, and for various reasons as stated was not considered a suitable approach to estimating administrative scale costs.

- Other than it not reflecting administrative scale costs, Staff have no definitive view on the interpretation of the result of the regression. As depreciation expenses are included, the result would reflect a capital component. Fixed costs of running schools (a service delivery scale concept rather than an administrative scale concept) would also be included in the result. Staff have no way to identify or quantify the various effects combining to produce the result of the regression.

ATTACHMENT 26 – INDIGENEITY

- In light of the statement made on p.473 about the use of indicators in the Welfare category appropriately reflecting total needs in each State, without being able to distinguish between Indigenous and non-Indigenous people, can the Commission outline the arguments against a more general use of SEIFI to assess disadvantage in the other expense categories?
  - In this context, why do you propose to use income rather than SEIFI as the SES measure for the Housing assessment?
  - And is para 30 consistent with the comment in para 32 (p.474) that pension types are used to differentiate the Indigenous populations in the Welfare category?

Response

- If we had data on the relative use of services by high SEIFI people and low SEIFI people, we would advocate using it. However, this data do not exist for any category. Instead we look to use rates for the population groups we can measure, generally SEIFA or some variant, or income measures. We only use SEIFI where the alternatives are not supported by data and judgment is required (General Welfare).
- We propose to use income rather than SEFI in the Housing assessment as this is the measure is used to determine eligibility for housing services.
- We do not propose using pensions anywhere in the welfare assessment. This was an approach we used in the 2010 methodology.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ATTACHMENT D

NATIONAL REFORMS AND HORIZONTAL FISCAL EQUALISATION

GENERAL

- The Commonwealth payments to States for National Reforms must be spent in the relevant sector, but States are then free to allocate the money within the sector as they choose (i.e. they are in the nature of SPPs). Thus, the Commonwealth cannot actually dictate that States spend the money in accordance with the Schooling Resource Standard (SRS) or Activity Based Funding (ABF) model.
- The Commission's standard approach is to equalise these Commonwealth payments on an actual per capita basis. This means that, net of GST, States end up with an equal per capita share of the Commonwealth grants i.e. "back to the starting blocks" on the revenue side.
- The Commonwealth SPP-type funding doesn't meet all of the State expenditure in these sectors – about 40% in Health (hospitals) and about 25% in education (pre-SRS). This means equalisation can't focus solely on the Commonwealth payments and how they are allocated if it is to be comprehensive.
- On the expense side, the Commission's standard approach is to develop its own assessments of needs, taking into account all the key factors such as socio-economic status, Indigeneity, remoteness etc. These assessment methods may accord closely with the Commonwealth models such as SRS, or may differ substantially.
  - To the extent that they differ, the associated redistribution of GST will amount to an "unwinding" of the Commonwealth's funding model but, again, it doesn't determine where States actually spend their funds (whether from the Commonwealth or their own sources).However, it will mean some difference in the distribution of funding among States.
  - To the extent that they align, the GST distribution will "support" the Commonwealth's funding model, again noting that it doesn't determine where States spend their money.

EDUCATION

- The National Education Reform Agreement (NERA) and the terms of reference for the 2015 Review specify that the GST distribution process should not have the effect of "unwinding" the recognition of educational disadvantage embedded in the NERA funding arrangements.
  - One way to do this, as proposed by the ACT, would have been to align the expense assessment for Schools Education with the loadings for disadvantage under the SRS (though we also proposed recognition of additional cost factors not covered by the SRS, such as interstate wage differences). The revenue side of the assessment would remain unchanged as a full APC assessment.
  - Another way, which has been proposed by the Commission in their draft Report, is to quarantine the Commonwealth funding which relates to the loadings for disadvantage, with only the remaining Commonwealth funds being equalised (presumably on an APC basis). Under this approach, equalisation on the expense side appears to be limited to other cost influences not covered by the SRS (e.g. interstate wage differences).

HEALTH

- The National Health Reform Agreement (NHRA) (clauses B13-B14) specifies that, while the setting of the National Efficient Price (NEP) by the Independent Hospital Pricing Authority (IHPA) must take account of legitimate factors affecting the costs of service delivery (e.g. wage costs, hospital type and size, hospital location and patient complexity), the IHPA should not seek to duplicate the work of the Commonwealth Grants Commission in determining relativities. There is only a quarantining provision in relation to Commonwealth funding for cross border services, which is excluded from equalisation.
  - This gives the Commission a free hand in determining its expense assessment for health, which could be substantially different from the ABF/NEP model in its distribution of GST funding between States, while maintaining a full APC assessment on the revenue side. It means that a different recognition of disadvantage is likely in the expense assessment, as well as of the level of use – under ABF, funding is supposed to be based on the number of services actually delivered, but that would not be a relevant factor in a Commission assessment – States with actual usage rates above the national average would lose compared with their ABF outcome.

DISABILITY

- Equalisation under full-scheme NDIS is straightforward: States contribute according to population share and draw down Medicare Levy revenue according to population – the assessment would be APC, which in this case is the same as EPC, meaning there would be no impact on the GST distribution.
- During Transition, the position is not yet clear. The Commission considers actual client numbers are subject to State policy influence and proposes an expense assessment based on the actual numbers of clients who will, on full implementation, be receiving support under the scheme. This would weight the assessment process heavily against the early implementing States, particularly the ACT, and could be considered an “unwinding” of the intention of the NDIS IGA and bilateral agreements, though there are no specific provisions to this effect. We will be pursuing this issue further with the Commission.
  - The IGA on the NDIS Launch specifies that additional Commonwealth funding during the first stage (Trial/Launch) of NDIS is not to affect the GST distribution.
  - There are no provisions in the NDIS agreements relating to GST distribution covering the Transition or Full Scheme periods.
- Assessment of Commonwealth payments on the revenue side during Transition would have to align with the assessment of needs (expenses) in terms of client numbers – though this has not been spelt out by the Commission.

ATTACHMENT E

THE ACT'S 2015 DRAFT REPORT – INDICATIVE IMPACT ON THE ACT ACROSS THE MAJOR ASSESSMENT CATEGORIES

	Report on GST Revenue Sharing Relativities - 2014 Update		Illustrative GST Impact of assessment - 2015 Review Draft Report		Change	
Assessment	**$m**	**$pc**	**$m**	**$pc**	**$m**	**$pc**
Revenue						
Payroll Tax	18	46	16	42	-2	-4
Land Tax	44	115	44	117	0	2
Stamp duty on conveyances	9	23	14	38	5	15
Insurance Tax	3	7	12	32	9	25
Motor Tax	22	59	15	40	-7	-19
Mining Revenue	155	407	148	390	-7	-17
Other Revenue	0	0	0	0	0	0
Total Revenue	251	657	249	659	-2	2
Expenses						
School Education	-37	-98	-74	-195	-37	-97
Post Secondary Education	32	85	18	47	-14	-38
Health*	-4	-11	54	142	58	153
Welfare			-35	-92		
Housing			-6	-16		
Welfare and Housing^	-84	-221	-41	-108	43	113
Services to Communities	-40	-105	-16	-42	24	63
Justice Services	-6	-17	-7	-18	-1	-1
Roads	-42	-110	-46	-121	-4	-11
Transport	-20	-51	-48	-126	-28	-75
Services to Industry	5	14	1	3	-4	-11
Other Expenses^^	109	288	106	279	-3	-9
Total Expenses	-87	-226	-53	-139	34	87

	Report on GST Revenue Sharing Relativities - 2014 Update		Illustrative GST Impact of assessment - 2015 Review Draft Report		Change	
Assessment	**$m**	**$pc**	**$m**	**$pc**	**$m**	**$pc**
Infrastructure	-32	-85	-110	-291	-78	-206
Net Lending	6	17	0	0	-6	-17
C'Wealth Payments	40	105	26	68	-14	-37
Grand Total	178	468	112	297	**-66**	-171

Source: Prepared by Federal Financial Relations – 5 August.

Unless otherwise indicated, estimates of the impact of the Review are based on 2012-13 assessment year data,

Notes:

*Health uses 2011-12 assessment year as the required data for the 2015 Review are not yet available for 2012-13.

^2015 Review separates these assessments. Illustrative GST impact is the sum of Welfare and Housing.

^^ Adjustments relating to administrative scale classified as Other Expenses have been redistributed across affected expense categories to provide better comparability with the 2014 Update figures.

The ACT Executive immediately requested clarification of what sits behind the estimated increase in both the NT and Tasmanian per capita redistribution relative to the heavy loss incurred by the ACT as part of its understanding and in preparation for upcoming discussion at various intergovernmental forums.

In the context of the NT, a simple explanation would be one premised on the application of the terms of reference requirement which inter alia, instruct and guide the Commission to develop methods to appropriately capture the changing characteristics of the Indigenous population. However, it obviously is not the sole driver and not that simple. Our own internal snapshot analysis in the time we had does not suggest that is actually the case:

- As the draft 2015 Review illustrative impacts are based on data for one year only, 2012-13, we understand and accept the comparison is more sensitive to volatility than a comparison based on three years' data would be. This in itself results in big gains and losses for States in the Infrastructure assessment with the two main factors being changes in relative population growth and the inclusion of assets of the urban transport and public housing PNFCs:
  - The NT has gained $182m in the infrastructure assessment - This appears to be due mainly to its population growth increasing from 1.0% in 2011-12 to 2.3% in 2012-13.
  - The NT has also gained $108m in the Commonwealth payments assessment - this is due to a substantially bigger decline in its SPP and NPP payments than the national average for 2012-13 compared with 2011-12.

The changes in the expense assessment so far don't support the theory that the new Indigeneity assessment has driven gains for the NT and other States with relatively large Indigenous populations, with the NT losing $112m, WA losing $313m and QLD losing $59m on the expense assessments:

- However, we appreciate that Staff have not finalised its calculation of the Indigeneity impact in a number of the assessments, so we would expect some reduction of these losses in the final report.

From an ACT perspective, our position is pretty much the reverse of that of the above States. We gain $34m in the expense assessments and lose $78m in the infrastructure assessment and $14m in the Commonwealth payments assessment:

- The Commonwealth payments movement is as expected, due to the progressive shift of SPPs to an EPC basis, which has raised the ACT's share of SPPs (we were the only State not to lose Commonwealth payments in 2012-13 compared to 2011-12).
- However, the loss in infrastructure cannot be attributed to reduced population growth as the ACT's growth in 2012-13 was above 2011-12 and remained slightly above the national average. Hence, the change is likely to be due to the incorporation of urban transport and public housing PNFCs in an assessment where the ACT was already deemed to have below average needs, leading to redistribution away from the Territory.

Unfortunately in the time available and given the need for us to focus on some of the key assessments impacting directly on the ACT, time does not allow for us to delve more deeply into the aggregate movement in the assessments for any given jurisdiction.

- In the case of the redistribution to Tasmania, the ACT simply does not understand, in the time allowed, how this implied change is derived.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ATTACHMENT F

ASSESSMENT OF PUBLIC-PRIVATE PARTNERSHIPS (PPPs)

DEFINITION

Public-Private Partnerships (PPPs) were commonly known previously as Privately Financed Projects (PFPs) and are also currently often described as Service Concession Arrangements (SCAs).

A definition of PPP used by the Australian Accounting Standards Board (AASB) (taken from the Asian Development Bank) is: "a structure that engages the private sector to assist in the delivery of public infrastructure so that social obligations are met and successful sector reforms and public investments are achieved". Typical PPP models include:

- BOOT – private sector entity is compensated to Build, Own (including finance), Operate and Transfer (at the end of an agreed term) the infrastructure; and

- DBFM - private sector entity is compensated to Design, Build, Finance and Maintain the infrastructure.

These arrangements commonly involve the transfer of the infrastructure asset back to the public sector entity at the end of the "concession period" (usually the formal economic life of the asset e.g. 30 to 40 years).

They can be contrasted with traditional arrangements for public infrastructure provision, under which the public sector entity finances the infrastructure, with the private sector entity contracted to carry out design and construction, and sometimes maintenance as well.

The main reasons for adopting PPP rather than traditional financing models is that PPPs involve allocation of risk to the entity best able to manage them, and should result in cost savings in the delivery of infrastructure projects. Infrastructure Australia has issued best practice guidelines to this effect: *National Public Private Partnership Guidelines: Overview.*

ACT GOVERNMENT POLICY

The ACT currently has no PPPs, though there are a couple of major projects in the pipeline which may qualify for that status in the near future.

The ACT Government also has no formal accounting policy for PPPs. This is awaiting an exposure draft which is supposed to be issued in the near future by the AASB. Other States have issued accounting policies which are in general based on the International Public Sector Accounting Standard (IPSAS) 32 and Interpretation 12 issued by the IPSAS Board. An example of these policies is the Queensland Government's *Accounting Policy Guideline 17: Service Concession Arrangements: Grantor* (May 2014).

Key Elements of State Accounting Policies

The key elements of State accounting policies for PPPs (based on the Queensland Government document) are:

- A distinction is commonly made between economic infrastructure and social infrastructure:

  - Economic infrastructure (e.g. roads) is in the nature of a private good, in that users can be charged for the services generated by it, and compensation of the private sector operator occurs through a right to levy such charges.
  - Social infrastructure (e.g. schools, hospitals) is in the nature of a public good, for which users can either not feasibly be charged, or for which government policy requires that the services generated by it be provided free of charge. In this case, "availability payments" from the public sector entity ("grantor") to the private sector operator are required.

- PPPs such as BOOT arrangements involve the legal title to the asset being held by the private operator for the concession period, transferring at the end of the term to the grantor.
- Economic infrastructure arrangements usually involve payment for use of the asset by end users directly to the operator. These payments may cover recovery of both capital and recurrent costs for the operator.
  - These assets are generally <u>not</u> recognised on the balance sheet of the grantor. Similarly, service concession payments are not recognised in the grantor's operating statements.
  - This approach is adopted on the basis that the grantor does not have control over the asset nor does it receive economic benefits from it during the concession period.
- Social infrastructure arrangements usually involve service payments by the grantor for third-party (community) use of the infrastructure over the concession period – also known as "availability payments". These payments include compensation both for the capital costs of construction and the recurrent costs of operating the asset.
  - Social infrastructure assets <u>are</u> normally recognised on the balance sheet of the grantor.
  - This approach is adopted on the basis that the grantor has control over the asset and receives economic benefits from it during the concession period.
  - Accounting policies usually recognise the capital value of the asset as a finance leased asset and recognise a corresponding finance lease liability which is amortised (depreciated) over the period of the lease.

2004 CGC REVIEW

Prior to the 2010 Review the Commission adopted a "holding cost" approach to infrastructure assessment, which focused on operating statement expenses – principally depreciation and debt charges – as the basis of assessment. It did not attempt to equalise State capacity to hold infrastructure assets, which is based on values held in State balance sheets – though it can be argued that equalisation of holding costs (provided such costs are comprehensive) will, over time, achieve equalisation of capacity to hold assets.

In its Rejoinder Submission to the 2004 Review, the ACT argued that:

- A portion of the service payment for infrastructure projects should be classified as debt and depreciation charges.
- Third party revenues should be included in the calculation of States' revenue raising capacity.
- Privately financed and funded roads should be excluded from the Commission's assessment.
- A scale disability should be recognised for small jurisdictions, which reduces their capacity to make savings from PFPs (PPPs) due to high fixed transaction costs and limited access to the private market.

These arguments reflected the logic of the holding cost approach to infrastructure assessment, which means consideration needs to be given in particular to the treatment of ongoing expenses and revenue, such as service or availability payments and user charges. As far as possible, such an approach would aim to achieve equal treatment in the assessments regardless of the financing method adopted for any infrastructure project (e.g. treating service payments as analogous to debt and depreciation charges). Balance sheet treatments would not have been of concern because these would not have come into assessments anyway.

In its 2004 Review Report, the Commission noted that most PFPs at that time involved economic infrastructure usually provided by State Public Trading Enterprises (PTEs), "the internal operations of which are not within the scope of the equalisation budget". However, it also commented that PFPs were increasingly being used also to finance social infrastructure such as schools and hospitals.

The Commission based its classification of expenses on a draft Australian accounting standard of the time. It stated that user charges were treated as outside the scope of equalisation, but had little else to say on this issue (e.g. treatment of service payments). On the scale disability issue, the Commission recognised a fixed costs disability for PFPs in its administrative scale assessment, but could not identify reliable data to assess reduced access to PFPs for smaller jurisdictions.

2010 CGC REVIEW

In its 2010 Review the Commission adopted a new, "up front" approach to assessment of infrastructure needs, which largely replaced the holding cost approach. However, it did retain depreciation charges for existing assets as an operating expense.

The Commission commented on its new methodology that recognition of infrastructure needs fully, as they arise, (rather than amortised over the economic life of the asset) had the advantage of being policy neutral in the treatment of the different financing methods which States might use to develop and acquire infrastructure. Their view reflected the fact that the up-front approach compares the average per capita value of infrastructure assets held by States at the start and end of the relevant year and makes an assessment designed to give each State equal capacity to hold the average per capita asset value (with adjustments to allow for differential population growth and differential costs of construction between States). This method means that there is no need to differentially assess capital-related expenses and revenue relating to the asset (as distinct from the operating costs and revenue from the services provided by the asset).

An oddity of this methodology is that it has retained depreciation charges in the assessment – this is inconsistent with the recognition of needs as they arise. However, in light of the discussion below (see Comments/Conclusion), this should not create a risk of different treatment based on the financing method adopted for any given infrastructure project.

As in the 2004 Review, the Commission accepted that there was some evidence that PPPs generate cost savings for governments in infrastructure provisions and that smaller States had lesser access to PPP opportunities. However, it again decided not to assess needs for such States due to a lack of reliable data.

2015 CGC REVIEW

In its draft 2015 Review Report the Commission proposes to retain the up-front approach to infrastructure, but include in assessments the infrastructure assets and operating expenses and revenue of urban transport and public housing Public Non-Financial Corporations (PNFCs). This would replace the current approach which effectively treats all PNFCs as financial assets of State governments, including in assessments only State government dividend income and grants/equity injections relating to PNFCs. This change will have the effect of substantially increasing the size (dollar standard) of the infrastructure assessment and substantially reducing that of the net financial worth (net lending/borrowing) assessment. However, it does not otherwise change the methodology.

COMMENTS/CONCLUSION

The adoption by the Commission of the up-front approach to infrastructure assessment has reduced the significance of PPPs as a potential source of inequitable treatment of States in assessments. It does not require attempts to equate debt and depreciation charges with service or availability payments, or to draw distinctions between them. Debt charges and dividend revenue are, under this methodology, assessed EPC, as the equalisation of the underlying assets enables the Commission to apply an assumption of equal rates of return from the assets and equal borrowing costs for financing their acquisition.

The financing model (PPP or other) adopted for provision of infrastructure does not directly determine an asset's treatment within the financial statements of State governments and, consequently, whether the Commission treats it as within or outside the scope of its assessments. However, if a PPP approach is adopted, the type of PPP model used will be related to the accounting treatment of the asset – but this is driven by the underlying economic nature of the asset, fundamentally whether it is treated as a public (social infrastructure) or a private (economic infrastructure) good , and accordingly where the control of the asset lies.

From the Commission's point of view, it is the ownership/control of the asset which determines whether it is within the scope of assessments or not i.e. the Commission does not consider individual projects but looks at the entities which control the assets, based on the Government Finance Statistics (GFS) classification. In the past, the scope of Commission assessments has been limited to General Government Sector (GGS) entities. The Australian Bureau of Statistics (ABS) defines the GGS as involving, among other functions, provision of "non-market goods and services (e.g. roads, hospitals, libraries) primarily financed by taxes" (ABS publication 5519.0.55.001, *Government Finance Statistics: Explanatory Notes*), whereas PNFCs have the function of providing "goods and

services which are predominantly market, non-regulatory and non-financial in nature, and financed through sales to consumers of these goods and services". The ABS describes PNFC enterprises as recovering all or most of their production costs from consumers.

The inclusion of urban transport and social housing PNFCs in assessments recognises the very large public subsidies provided to these entities, in effect characterising their assets as social rather than economic infrastructure. This broadens the scope of the assessments, but does not change the methodology, nor does it have any different implications for the treatment of PPPs.

Differential access of States to PPP arrangements is still an issue, though it may be diminishing given the recent spread and growth of PPP projects – as evidenced by information provided by States to the Loan Council (see ALC meeting of 3 April 2013). Consideration could still be given to pursuing assessment of such a disability, possibly as part of the infrastructure assessment, but it would need to be supported by evidence. The Commission has previously recognised a conceptual case for such a disability, and also claimed in the 2004 Review to have catered for one aspect of it (fixed costs relating to setting up of PPP arrangements) in its administrative scale assessment.

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

ATTACHMENT G

COMPARISON OF STATE TAXES TO BE ABOLISHED UNDER SCHEDULE B OF THE INTERGOVERNMENTAL AGREEMENT ON FEDERAL FINANCIAL RELATIONS

Tax	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Wholesale Sales Tax *Sales tax levied on the value of the last wholesale sale of goods sold or otherwise dealt with as imposed by the Commonwealth's Sales Tax (Imposition) Acts.* **From 1 July 2000, the Commonwealth ceased to apply the wholesale sales tax**								
Bed Taxes *Accommodation taxes levied on the cost of temporary residential accommodation.*	Abolished 1 July 2000[1]	Never imposed[2]	Never imposed[2]	Never imposed[2]	Never imposed[2]	Never imposed[2]	Never imposed[2]	Abolished 1 July 2000[3]
Financial Institutions Duty *Financial Institutions Duty levied on the value of receipts at financial institutions and on the average daily liabilities and/or investments of short term money market dealers.*	Abolished 1 July 2001[1]	Abolished 1 July 2001[4]	Never imposed[2]	Abolished 1 July 2001[5]	Abolished 1 July 2001[6]	Abolished 1 July 2001[7]	Abolished 1 July 2001[8]	Abolished 1 July 2001[3]

Tax	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Stamp Duty on Marketable Securities *Stamp duty levied on turnover (i.e. sale price times quantity traded) on the transfer of marketable securities quoted on the Australian Stock Exchange or another recognised stock exchange.* *On Market refers to transactions that occur within a formal market.* *Off Market refers to a transaction that occurs outside of a formal market transactions in unlisted securities or transactions involving listed shares that are conducted through negotiation rather than an 'auction' system.*	Duty on quoted marketable securities was abolished on 1 July 2001[9]	On Market Transactions Abolished. Off Market Transactions Listed transactions Abolished 1 July 2001.[10]	Abolished July 2001[11]	On Market Transactions abolished 1 July 2001[12]	On Market Transactions Abolished. Off Market Transactions Listed Companies Abolished.[12]	On Market Transactions Abolished. Off Market Transactions Listed Companies Abolished.[12]	On Market Transactions Abolished 1 July 2001. Off Market Transactions Quoted securities Abolished.[12]	On Market Transactions abolished 1 July 2001. Off Market Transactions Listed Companies abolished 1 July 2001.[3]
Stamp Duty on Non-quotable Marketable Securities *Stamp duty levied on transfers of marketable securities in private companies and trusts, and in public companies and trusts where the securities are not quoted on the Australian Stock Exchange or another recognised stock exchange.*	Unlisted Securities 60 cents/$100 (or part). Duty to be retained. Duty on unlisted securities will be abolished 1 July 2016.[9]	Unlisted Companies Abolished 1 July 2002[12]	Abolished January 2007[11]	Abolished 1 January 2004[5]	Unlisted Companies 60 cents/$100 or part thereof. To be abolished when budget circumstances allow[12]	Unlisted Companies abolished[12]	Abolished 1 July 2010[12]	Abolished 1 July 2006[12]
Debits Tax	Abolished 1 January 2002[1]	Abolished 1 July 2005[4]	Abolished July 2005[11]	Abolished 1 July 2005[5]	Abolished 1 July 2005[13]	Abolished 1 July 2006[7]	Abolished 1 July 2005[8]	Abolished 1 July 2005[3]

Tax	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Debits tax levied on the value of withdrawals (debits) from accounts with financial institutions with cheque drawing facilities. *Debits duty levied on transactions, including credit card transactions. This does not include stamp duty on electronic debits.*								
Stamp Duty on Non-real Non-residential Conveyances *Stamp duty levied on the value of non-real non-residential conveyances.* *Non-residential non-real property relates to the sale of a going concern, business or franchise.*	Duty on transfers of business assets will be abolished from 1 July 2016[9]	Never imposed[4]	Duty on non-real business property will be abolished when budget circumstances allow[12]	Duty on non-real business property will be abolished when budget circumstances allow[12]	Stamp duty will be abolished for non-real property transfers when budget circumstances allow[12]	Abolished 1 July 2008[12]	Abolished 1 July 2006[8]	Conveyance duty on non-real property business conveyances to be abolished when budget circumstances allow[12]
Stamp Duty on Leases *Stamp duty levied on the rental payable under tenancy agreements.*	Abolished 1 January 2008[12]	Abolished 26 April 2001[10]	Abolished January 2006[11]	Abolished 1 January 2004[12]	Abolished[12]	Abolished[12]	Abolished 1 July 2009[12]	Abolished 1 July 2006[12]
Stamp Duty on Mortgages, Bonds, Debentures and Other Loan Securities *Stamp duty levied on the value of a secured loan property.*	General duty rate: $0-$16,000: $5.00 Above $16,000: $5.00 plus $4.00 per $1,000 or part of excess. Exemption for	Abolished 1 July 2004[12]	Abolished July 2008[11]	Abolished 1 July 2008[12]	Abolished 1 July 2009[12]	Abolished[12]	Abolished 1987[12]	Abolished[12]

Tax	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
	additional advances up to $10,000 in any 12 month period. Exemption applies for the refinancing of loans up to the maximum amount originally secured with the existing lender. Loans refinanced through a different lender are exempt up to the first $1m of a loan. Duty on mortgages for the purpose of owner occupied housing was abolished on 1 September 2007. Duty on mortgages for housing investment by natural persons was abolished on 1 July 2008. Remaining duty on mortgages will be abolished from 1 July 2016.[9]							

Tax	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Stamp Duty on Credit Arrangements, Instalment Purchase Arrangements and Rental Arrangements *Stamp duty levied on the value of the loan under credit arrangements.* *Stamp duty levied on credit business in respect of loans made, discount transactions and credit arrangements.* *Stamp duty levied on the price of goods purchased under instalment purchase arrangements.* *Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods.*	Abolished 1 January 2007[12]	Abolished 1 January 2007[12]	Credit business duty abolished 1 January 2006. Credit Card Duty abolished 1 August 2007[11]	Abolished 1 January 2007[12]	Abolished 1 July 2009[12]	Abolished 1 July 2002[12]	Abolished 1 January 2007[12]	Abolished 1 July 2007[12]
Stamp Duty on Cheques, Bills of Exchange and Promissory Notes *Stamp duty levied on cheques, bills of exchange, promissory notes, or other types of payment orders, promises to pay or acknowledgment of debts, including duty on electronic debits.*	Never imposed/Abolished[12]	Never imposed[10]	Abolished[11]	Abolished 1 January 2004[5]	Abolished 1 July 2004[13]	Never imposed/Abolished[2]	Never imposed/Abolished[2]	Never imposed/Abolished[3]

Sources:

1. Office of State Revenue, NSW

2. Federal Budget 2007-08
3. Department of Treasury and Finance, NT
4. State Revenue Office, Victoria
5. Department of Treasury, WA
6. Department of Treasury and Finance, SA
7. Department of Treasury and Finance, Tasmania
8. Revenue Office, ACT
9. Department of Treasury, NSW
10. Department of Treasury and Finance, Victoria
11. Department of Treasury and Trade, Queensland
12. *Interstate Comparison of Taxes 2013-14*, Department of Treasury, NSW
13. RevenueSA

ATTACHMENT H

FIRST HOME OWNERS SCHEME - COMPARISON BETWEEN ACTUAL DATA AND ABS DATA

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
FHOS recipients (a)	No.	No.	No.	No.	No.	No.	No.	No.	No.
2008-09	59488	42265	34464	20362	12523	3951	2845	1375	177273
% of total	33.56%	23.84%	19.44%	11.49%	7.06%	2.23%	1.60%	0.78%	100.00%
2009-10	52183	44978	27609	21301	10956	3106	3295	1023	164451
% of total	31.73%	27.35%	16.79%	12.95%	6.66%	1.89%	2.00%	0.62%	100.00%
2010-11	32512	27958	15870	12400	6567	2016	2557	743	100623
% of total	32.31%	27.78%	15.77%	12.32%	6.53%	2.00%	2.54%	0.74%	100.00%
2011-12	37448	29033	19657	15001	6860	1901	2617	1023	113541
% of total	33%	26%	17%	13%	6%	2%	2%	1%	100%
ABS first home buyers (b)									
2008-09	52215	39677	32648	20356	10988	3003	2544	1248	162679
% of total	32%	24%	20%	13%	7%	2%	2%	1%	100%
2009-10	40062	39253	23743	18939	8628	2169	2216	832	135842
% of total	29%	29%	17%	14%	6%	2%	2%	1%	100%
2010-11	25942	25530	15140	11810	5126	1352	1392	601	86893
% of total	30%	29%	17%	14%	6%	2%	2%	1%	100%
2011-12	29590	26374	19350	15205	5407	1250	1426	827	99429
% of total	29.8%	26.5%	19.5%	15.3%	5.4%	1.3%	1.4%	0.8%	100.0%
Difference (%)	%	%	%	%	%	%	%	%	%
2008-09	-12.2	-6.1	-5.3	0	-12.3	-24	-10.6	-9.3	-8.2
Change in % of total	-1.46%	0.55%	0.63%	1.03%	-0.31%	-0.38%	-0.04%	-0.01%	0.00%
2009-10	-23.2	-12.7	-14	-11.1	-21.2	-30.2	-32.7	-18.7	-17.4
Change in % of total	-2.24%	1.55%	0.69%	0.99%	-0.31%	-0.29%	-0.37%	-0.01%	0.00%
2010-11	-20.2	-8.7	-4.6	-4.8	-21.9	-32.9	-45.6	-19.1	-13.6
Change in % of total	-2.46%	1.60%	1.65%	1.27%	-0.63%	-0.45%	-0.94%	-0.05%	0.00%
2011-12	-21	-9.2	-1.6	1.4	-21.2	-34.2	-45.5	-19.2	-12.4
Change in % of total	-3.22%	0.95%	2.15%	2.08%	-0.60%	-0.42%	-0.87%	-0.07%	0.00%