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Dear Michael

Re: WORK PROGRAM FOR 2020 REVIEW

Thank you for your letter of 1 December 2016 seeking states' input into the development of a work program for the 2020 Review. I appreciate the opportunity to provide the Territory's views on these matters and look forward to working with the Commission and its staff over the course of the 2020 Review.

In general, the Territory's view is that the 2020 Review should build on the work undertaken in the 2010 and 2015 Reviews, rather than overhauling the entire assessment methodology. This approach recognises the refinements and improvements in the Commission's approach to equalisation over time, and acknowledges that states' approaches to government service delivery have not significantly changed since 2015.

Supporting Principles

While the Territory does not consider that significant work is required on whether the supporting principles the Commission uses to guide its work remain appropriate, given that this was done in the 2015 Review, the Territory acknowledges that this is a sensible place to begin the 2020 Review. Establishing the supporting principles for the 2020 Review from the outset will provide a clear framework for Commission staff and states to work within.

The Territory strongly supports the current principles underpinning equalisation: what states do; policy neutrality; practicality; and contemporaneity. These principles have been long standing features of equalisation in Australia and are vital in ensuring the integrity of both the equalisation methodology and the resultant distribution of GST amongst the states.

The Territory does not consider that explicitly weighting these principles in order of importance would improve equalisation outcomes; the pursuit of all four principles should be the Commission's goal in developing assessments, but the Territory acknowledges that the extent to which all four principles are achieved in each category varies due to data limitations and circumstantial and policy differences between the states. The Territory considers that the Commission's discretion in producing a robust and adaptable methodology that adheres as closely to the supporting principles as possible is preferable to weighting the importance of one principle against another.

Comprehensive Review of Methods

The Territory's understanding of the Terms of Reference direction that the Commission is to conduct a 'comprehensive review of methods' is that all aspects of the current methodology should be reviewed to determine whether or not changes to the methodology would better achieve equalisation. This may include changes required to incorporate new, more up-to-date or representative data, or capturing significant changes in states' approaches to service delivery. The Territory does not consider that a clean slate approach is required to conduct a comprehensive review.

Iterative Process

The Territory is comfortable with the current iterative process, with the Commission leading communication. This provides states with the opportunity to comment on a uniform set of proposals and allows states to propose method changes of their own. Further, the Commission-led approach is more efficient as it removes the need for states to respond to each other's proposals without any indication from the Commission as to whether or not it considers these proposals to be meritorious.

The Territory would be supportive of more detailed reporting by the Commission on its deliberations around states' proposed methodology changes either through bilateral discussions with states or more formally in reports and discussion papers. This would increase transparency, and improve communication between states and the Commission and its staff.

Specific issues for consideration

The Territory has not yet begun work on specific issues associated with the 2020 Review, however the below list includes some issues raised within, and since the 2015 Review that the Territory believes should be examined during the course of the 2020 Review:

- the impact of the ageing Indigenous population, on states' community health and admitted patients expenses;
- better capturing policing costs through a greater focus on the characteristics of offenders;
- the additional costs of delivering government services in discrete Indigenous communities compared with other small communities, including lack of private provision of services and lack of private rental markets;
- appropriate treatment of Commonwealth payments provided to address unmet need;
- revisiting the measures introduced in the 2015 Review to capture the changing characteristics of the Indigenous population are adequate, and whether any further improvements can be made; and
- updating the Administrative Scale assessment to incorporate more contemporary data and changes in the structure of state government since the 2004 Review.

Interest in CGC visit

The Territory is very interested in hosting the Commission and its staff in order to discuss Territory-specific issues, circumstances and service delivery challenges. The Commission could expect to better understand the challenges associated with the Territory's isolation from large capitals, the seasonal environmental impacts on service delivery, and the contrast between service delivery in Indigenous communities as opposed to larger centres. In 2015 the Territory hosted a Heads of Treasuries meeting, which included tours of two Indigenous communities, and would like the opportunity to host the Commission in a similar fashion. The Territory is flexible with timing, but would prefer to host the visit before the end of 2018.

Views on timing and release of Draft Report

The Territory would prefer as much time as possible to comment on the Draft Report, and would prefer one year between the release of the Draft Report and the Final Report. This timeframe is required to ensure that states have adequate time to comment on the Draft Report, and importantly, that the Commission has adequate time to respond to states' views in its Final Report. This will prevent the situation that occurred in the 2015 Review, when the Draft Report provided the first indication of a number of methodology changes proposed by the Commission, and left states with very limited capacity to prepare well researched and informed responses, and for the Commission to respond to the issues raised by states prior to the Final Report.

Notwithstanding, the Territory proposes that the Commission continue to release discussion papers from early on in the Review, as has occurred so far with the Commission staff's 'what states do' papers. This will provide the maximum possible time for states to respond to the Commission's proposals, and for the Commission to respond to states' proposals and/or concerns. This would be a similar process as occurred during the 2010 Review, and would reduce the amount of time required to respond to the Draft Report, as the Territory would expect that the majority of methodology changes proposed by the Commission would have already been canvassed to some extent through the Discussion Papers.

An earlier release of the Draft Report will also provide additional time for the Commission and states to respond to any potential changes in the Terms of Reference by the Commonwealth Treasurer arising from the Draft Report.

Meetings between states and the CGC

The Territory would strongly support increased engagement with the Commission and its staff throughout the course of the Review, on both a bilateral and multilateral basis. The Territory would support a Heads of Treasuries (HoTs) or Deputy HoTs discussion on the guiding principles for the Review as a first step in the consultation process, with future consultation to be determined over the course of the Review. The Territory also strongly supports the proposal to hold either bilateral or multilateral meetings between state and Commission staff to help states understand the assessments set out in the Draft Report.

Yours sincerely



DAVID BRAINES-MEAD
A/Under Treasurer

30 January 2017