5 Improving communication and transparency

Effective communication and transparency of process are essential for public confidence in the HFE system (and federal financing relations more broadly). The recommendations in this Chapter aim to improve the understanding of the way aspects of the HFE system are explained and communicated, thus increasing the transparency of the process and confidence in the system. The Chapter considers four proposals for enhancing communication and transparency, relating to:

- clarifying the presentation of relativities
- clarifying or improving the projection of relativities
- broadening the engagement of the CGC
- improving the interaction between HFE and Payments for Specific Purposes (PSPs).

5.1 Clarifying the presentation of relativities

The Panel's first interim report noted that headline relativities — the ratio that determines the share of the GST pool for each State — drive much of the current debate about HFE. Too much focus on the relativity number can lead to misleading conclusions. For example, from time to time, various commentators have referred to a relativity of less than 1.0 as meaning that a State was 'getting back only x cents of the dollar of the State's GST', or made similar statements. As explained in the Panel's first interim report, there is practically no way (and indeed no reason) to link any State's share of GST with the proportion of tax paid by residents of that State or consumption within it.[1]

Moreover, the headline relativities are only one way of representing the Commonwealth support to States and, at times, they can distract attention from the underlying issues of why States' fiscal capacities differ, and how best to measure their relative capacities.

While the public debate seems to focus on relativities, the CGC has moved in recent years to give more prominence to GST shares (see Table 5.1 which is reproduced from the CGC's press release for the 2012 Update). The CGC also gives a more comprehensive presentation in the appendices of its annual Update report that explains the calculation of relativities for each assessment year (these assessment year relativities are then averaged and applied to the application year GST pool).

1 GST 'paid' by residents of any State will be formally remitted by the business that levied it and, in the case of large national businesses, will typically occur centrally. Similarly, States with large proportions of their Gross State Product as GST-free exports will have low net GST shares. See GST Distribution Review, *Interim Report*, March 2012, page 17.

Table 5.1: CGC headline presentation of the 2012-13 GST relativities

	Relativities used for 2011-12	Relativities recommended for 2012-13	2011-12 share	2012-13 share
			%	%
NSW	0.95776	0.95340	30.9	30.7
VIC	0.90476	0.92135	22.5	23.0
QLD	0.92861	0.98506	18.9	20.1
WA	0.71729	0.55135	7.5	5.8
SA	1.27070	1.28491	9.3	9.3
TAS	1.59942	1.58105	3.6	3.5
ACT	1.11647	1.18058	1.8	1.9
NT	5.35708	5.52844	5.5	5.7

Source: CGC 2012 Update, Chairman's Press Release.

The Commonwealth Budget also presents GST payments in dollars above its presentation of relativities and the 2012-13 Commonwealth Budget included a feature box that calculates relativities based on total Commonwealth payments (see Table 5.2).

Table 5.2: Commonwealth calculation of combined Commonwealth payment relativities

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Relative share of total payments	0.94	0.93	0.98	0.88	1.16	1.33	1.07	3.93
CGC determined GST relativity	0.95	0.92	0.98	0.55	1.28	1.58	1.20	5.53

Source: Budget Paper 3, 2012-13 Commonwealth Budget, Table 3.7.

In our first interim report the Panel sought comments on whether it might be better to present outcomes in dollar terms, or to calculate relativities based on the entire pool of Commonwealth support. The general view seems to be that there could be improvements, but there is little to be gained from reporting dollars rather than relativities. The better path therefore seems to be ensuring that the relativities tell the right story and are not presented in such a way as to mislead the unwitting.

The Northern Territory has argued that relativities result in misunderstandings about the GST distribution, such as that any State with a relativity below one was receiving less GST than it paid, or that its relativity of 5.53 meant that it spent over five times more than other States. Table 5.3 shows one of the alternative presentations suggested by the Northern Territory to deal with these concerns.

Table 5.3: Second Northern Territory alternative presentation of the 2012 Update GST relativities

	Estimated 31 December population	Expenditure ratio	Expenditure requirement	State own-source revenue	Tied Cwlth payments	Share of GST pool
	No.		$m	$m	$m	$m
NSW	7,424,410	0.97212	60,761	30,080	15,886	14,796
VIC	5,749,634	0.92320	44,687	22,190	11,424	11,073
QLD	4,694,804	1.02416	40,479	20,344	10,468	9,667
WA	2,427,901	1.05846	21,635	13,691	5,147	2,797
SA	1,679,657	1.02368	14,475	6,026	3938	4512
TAS	515,633	1.10366	4,791	1,764	1,323	1,704
ACT	374,663	0.96802	3,053	1,394	721	938
NT	234,782	2.32888	4,603	946	944	2,714
Total	23,101,484	n.a.	194,484	146,284	49,850	48,200

Source: Northern Territory submission on the GST Distribution Review interim reports, July 2012, page 82.

The key feature of this alternative is that it calculates *expenditure ratios* rather than GST relativities. These expenditure ratios are much less divergent than GST relativities because the GST pool is only around a quarter of total State spending and the differential needs calculated by the CGC are a much larger proportion of the GST pool than they are of total State expenditure. This presentation illustrates how there can be large differences in the presentation of relativities although outcomes do not change.

Despite the attraction of some aspects of this approach, given the CGC is asked to make recommendations on the distribution of GST revenue, it seems difficult to justify reporting only an expenditure ratio.[2] For that reason, replacing GST relativities entirely could be seen as 'smoke and mirrors'. An alternative would be to clarify what relativities mean and provide the proper perspective of Commonwealth payments in total.

The CGC should therefore take an approach similar to that of the Commonwealth, by publishing relativities based on GST payments plus other Commonwealth support in the application year. The CGC already publishes the 'total requirement for assistance' for each individual assessment year.[3] The CGC could calculate relativities based on these figures and average them for the application year (for example, see Table 5.4).

Table 5.4: Per capita relativities based on 'total requirement for assistance'

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
Per capita relativities based on total requirement for assistance									
2008-09	0.96413	0.93362	0.96977	0.86819	1.16928	1.34318	1.02036	3.61623	1.00000
2009-10	0.96332	0.92226	1.02741	0.83197	1.16987	1.32000	0.99263	3.24942	1.00000
2010-11	0.97950	0.91092	1.04770	0.67967	1.17058	1.40474	1.08087	3.84983	1.00000
Assessed relativities	0.96898	0.92227	1.01497	0.79328	1.16991	1.35597	1.03129	3.57183	1.00000

Source: Secretariat calculations based on CGC 2012 Update, Attachment C

2 Another problematic feature of the Northern Territory's alternative presentations are that they include information on expenditure needs, own source revenue and other Commonwealth payments, rather than just GST payments. The problem with this approach is that the information used to derive these figures is based on assessment years (and is therefore up to five years out of date).

3 See, for example, tables C2, C5, C8 on pages 114-117 of the 2012 Update.

Recommendation 5.1

The Panel recommends that:

- *the CGC clarify that relativities do not represent a State's share of the GST collected within its borders or from its residents*
- *when publishing the GST relativities, the CGC also show relativities based on total Commonwealth assistance*
- *the Commonwealth continue to publish relativities based on total Commonwealth assistance in its budget papers.*

5.2 Clarifying or improving the projection of relativities

The unpredictability of GST payments has been a recurring theme through the course of this Review. One element of unpredictability stems from the process around projecting GST payments for future years. Robust projections would enable States to plan their budgets properly, and could improve everyone's understanding of how and why GST payments change over time.

A State's GST payment in any given year is determined by three things: the total GST revenue collected for that year, the State's share of the Australian population and the State's relativity (which adjusts the population share to account for States' differing fiscal capacities). This Chapter focusses on concerns raised in relation to the estimation of the third element — GST relativities.

As estimates of the GST shares are communicated to States in advance of them being final — States need to know how much they have to spend before the time to spend it commences, to budget properly — each of these elements have to be estimated in some way. Future estimates are essentially of two types:

- 'forecasts' are made for the immediate future year as accurately as possible
- 'projections' are made for the years following that, based on set assumptions, and known changes, but do not seek to predict things that might change.

Thus, while forecasts are effectively the forecaster's best efforts at predicting what will happen, projections aren't. Understandably, accuracy is not sought in the same way for projections as it is for forecasts.

Estimated GST collections are reported in the Commonwealth budget papers as forecasts for the first year, and projections for the remaining three years of the forward estimates period. Population estimates are projected for all four years, with relevant assumptions detailed in the Commonwealth's Budget Paper 3.

Current situation

The Commonwealth calculates relativity projections for the three out years in the forward estimates period[4] and publishes these in its annual Budget papers.[5] These projections are very simple and make no allowance for fiscal capacity changes.[6]

Essentially, the Commonwealth takes the assessed needs for the latest assessment year and assumes these remain constant in future years. It does, however, allow the three year averaging process to 'flow through' (see Table 5.5 for an example, using projection years from the 2012-13 Budget).

Table 5.5: Commonwealth projection method

Application year	Calculation method	Needs are an average of assessment year needs for…
2011-12	CGC calculated	2007-08, 2008-09, 2009-10
2012-13	CGC calculated	2008-09, 2009-10, 2010-11
2013-14	Commonwealth projections	2009-10, 2010-11, 2010-11
2014-15	Commonwealth projections	2010-11, 2010-11, 2010-11
2015-16	Commonwealth projections	2010-11, 2010-11, 2010-11

While States may project their relativities, only a few publish these projections. Some States publish projected grant shares (but not relativities) and some just adopt the Commonwealth projections.

There are two key concerns with the current situation, first that there is confusion around the purpose and intended accuracy of the Commonwealth projections and secondly, that all GST projections (both Commonwealth and State) are not as accurate as they could be, or should be.

Confusion around the Commonwealth projections

As foreshadowed above, the Commonwealth projections of GST shares can create confusion (with readers incorrectly believing them to be reasonably accurate forecasts). Some stakeholders mistakenly think the Commonwealth projections are reliable forecasts, rather than simple projections. For example, a report from a recent Victorian Public Accounts and Estimates Committee noted that the Victorian budget had different projections for GST payments compared to the Commonwealth.[7] The discussion in that report suggests it was not immediately clear to the Committee that the Commonwealth numbers were based on simple 'technical' assumptions, such as that capacities would remain unchanged, whereas the Victorian numbers were likely based on Victoria's own estimates of the effects of known and likely capacity changes.[8]

4 The CGC provides the relativities for the first year in its annual Update.
5 Commonwealth Government, 2012-13 Budget Paper 3: Federal Financial Relations, Part 3.
6 For an explanation of the methodology used by the Commonwealth see Commonwealth Government, 2012-13 Budget Paper 3: Federal Financial Relations, page 123.
7 See page 50 and 51 of the report: http://www.parliament.vic.gov.au/images/stories/committees/paec/2012-13_Budget_Estimates/Reports/111_-_Part_Two_FINAL.pdf
8 The Australian, September 13 2012, 'Big Budget Hole for Victoria'.

GST payments could be more predictable

Concerns have also been raised that the forward estimates of GST payments are not as accurate as they could be. Clearly, improving the quality of the estimates would be in the interests of all State governments. It would improve the predictability of State GST payments and allow for better budget planning.

It is worth noting here that GST relativities are probably always going to be difficult to estimate with any great degree of accuracy. State fiscal capacities are influenced by variables such as global commodity prices, the exchange rate, property booms and natural disasters and the relative nature of the system means that what is important is one State's situation compared to the others, rather than absolutely. To the extent that these variables are difficult to predict so too will GST relativities be. It is also worth noting that much of the unpredictability in GST payments comes from inaccurate estimates of future GST pools, rather than from the apportionment of State shares.[9]

Possible ways to improve projections

The Panel has considered four broad approaches to improving GST share projections:

- improving the Commonwealth estimates, by turning them into reliable forecasts
- improving the understanding of Commonwealth estimates and their use and purpose
- encouraging States to share their projections with each other and/or the Commonwealth
- asking the CGC to project relativities for the forward estimates period.

Each of these is examined below for practicability and the likelihood that they will improve understanding or predictability.

Improving Commonwealth projections

While the Panel has considered recommending that the Commonwealth examine how to improve its projections, we have concluded that this may not be very practical. First, some calculations rely on State data (which States may or may not be willing to provide to the Commonwealth). Secondly, if assumptions or calculations of future State capacity are *wrong*, the resultant estimated relativities could be even more inaccurate than the present simple projections. Given the difficulty of predicting relativities (for reasons discussed above), this is a material risk.

Further (and more importantly), if the Commonwealth were to forecast relativities in earnest, this might be perceived as somehow prejudicing future CGC decisions. While the CGC recommended relativities are almost always accepted, they are still only recommendations — it is the Commonwealth Treasurer who formally determines the relativities under the relevant legislation.

9 Commonwealth estimates of total GST are reported in Budget Paper 1: Statement 5, page 5-23.

Improving the understanding of the Commonwealth projections

While the Commonwealth Budget papers do state that the relativities are based on simple projections, this could arguably be made clearer. Indeed, given the simple nature of the Commonwealth projections, it is questionable whether they should be included at all. They do not greatly assist with predictability of GST payments for States, and possibly cause confusion.

If the Commonwealth continues to publish these projections, it should make their limitations clear and explicit, and consider publishing each of the three year annual relativities (to show how the average is reached, highlighting the simple nature of the projections). While neither ceasing publication of projections nor explaining the nature of those projections more clearly would improve the predictability of GST payments as such, both these options would at least reduce the risk of confusion.

> **Recommendation 5.2**
>
> *That the Commonwealth should either cease publication of the GST relativities for out years in the forward estimates period or very clearly explain the nature of the projections in the Budget papers.*

Asking the CGC to project relativities

Given the nature of projecting relativities, and the similarity to the job of recommending relativities, the Panel has considered recommending that CGC be asked to do it.

The CGC certainly has the necessary expertise, but has been reluctant to engage in projecting relativities in the past. Further, if the CGC were to project relativities, it may create pressure for it when it subsequently recommends relativities that differ from those projected. There is a risk that this additional task may compromise its ability to effectively perform its primary task — that is, recommending actual relativities.

Encouraging States to share projections

While forecasting relativities is always going to be difficult, States are probably best placed to project their own relativities. A State is probably more likely to be able to predict (for example) its future revenue collections than anyone else. However, as a State's relativity is a function of the fiscal capacity of other States as well as its own, sharing of information between States would greatly improve the quality of all State projections. Therefore, States should be encouraged to provide information to a central point of contact (either the Commonwealth, or a nominated State) for the purposes of calculating a joint forecast of GST relativities. The model developed by the Secretariat to this Review could be a starting point to developing a more sophisticated joint forecasting tool.[10] Relevant information is often collected and prepared as part of usual State Budget processes, which generally happen twice a year. As such, it would seem sensible for information to similarly be provided to other States on a bi-annual basis.

---

10 The Secretariat to this Review developed an estimating tool to assist the Panel's consideration of various options. The estimating tool, covering the period from 1992-93 to 2015-16, provides a baseline against which the effects of high level changes to the HFE system can be modelled. The tool was developed with advice from Heads of Treasuries and circulated to State officials in July 2012.

The provision of information by the Commonwealth could also assist States to better forecast their GST payments. As Commonwealth payments influence relativities, the Commonwealth should provide information on future Commonwealth payments, both NPPs and SPPs and at a State level. Information should be provided on which parts of these payments are going ‘through’ States (e.g. to non-government schools or local government) and so will not affect relativities.

Recommendation 5.3

That, to enable more accurate forecasting of relativities, States provide the following information to all other States bi-annually:

- *revenue estimates for the next four years, by revenue line, with details in line with CGC assessments*
- *details of the impact of announced policy changes on revenue estimates and*
- *expenditure estimates for the next four years, by CGC assessment category.*

The Commonwealth should ensure it provides the States, on a bi-annual basis:

- *GST pool forecasts/estimates for the next four years*
- *SPP pool forecasts/estimates for the next four years*
- *Other PSP forecasts/estimates, by State, for the next four years.*

5.3 Broadening the engagement of the CGC

The Panel’s first interim report noted that another step to increase understanding of the HFE process would be for the CGC to play a more active role in educating those outside the various State Treasuries about the principles by which GST is distributed.[11]

The CGC already provides public access to information about its deliberations and processes, including the rationale for equalisation. For example, the CGC produces an Update report each year to coincide with the release of the recommended relativities for distributing GST revenue, and the Chairman of the CGC and other staff make presentations at conferences, educational institutions and to politicians as requested.

Nevertheless, the CGC does not actively seek to promote understanding of HFE within the States outside of the various Treasuries. A more widespread program of engagement (with States and the public) may help to ensure that equalisation principles are better understood by politicians and throughout the bureaucracy, with the result that the GST distribution process is more widely supported.

Increased engagement by the CGC could occur in various ways. For example, the CGC Chairman could provide an annual public address following the release of the year’s relativities. Annual briefing sessions could also be provided for Commonwealth and

11 GST Distribution Review, *Interim Report*, March 2012, pages 133-134.

State parliamentarians (including non-Treasury ministers and shadow ministers), with staff briefings for State non-Treasury officials.

Finally, the tabling of each Update Report in Commonwealth Parliament and an explicit opportunity for the Commissioners to face questions on the Report before an appropriate Parliament Committee of the Senate (the 'States' House') may help improve understanding, accountability, and scrutiny of the CGC's decisions.

Recommendation 5.4

That the CGC engage with governments more broadly. Expanded engagement activities should include:

- *an annual public address following the release of the year's relativities*
- *briefing sessions for State and Commonwealth parliamentarians (including non-Treasury ministers and shadow ministers)*
- *staff briefing for State non-Treasury officials*
- *appearance by Commissioners before an appropriate Senate Committee.*

5.4 Improving the interaction between HFE and Payments for Specific Purposes (PSPs)

As explained in the Panel's first interim report, where States and the Commonwealth have agreed a formula for allocation of PSPs, this formula may or may not 'stick' if the payments are included in the equalisation system.[12] It would therefore be desirable to have some greater clarity of the role of HFE in relation to Commonwealth PSPs.

Payments for Specific Purposes

The Commonwealth makes two types of PSPs to the States:

- National Partnership Payments (NPPs)
  - comprising facilitation, project and reward payments
- National Specific Purpose Payments (SPPs)
  - in respect of key service delivery sectors and comprising funding for healthcare, schools, skills and workforce development, disability services and affordable housing.

12 GST Distribution Review, *Interim Report*, March 2012, page 83-84.

Treatment of PSPs under the Intergovernmental Agreement (IGA)

The treatment of PSPs in the HFE system is described in Attachment D of the IGA on Federal Financial Relations.[13] It says:

> *National SPPs, NHR [National Health Reform] funding and National Partnership project payments will be treated by 'inclusion', recognising that these payments provide the States and Territories with budget support for providing standard state and territory services …*
>
> *National Partnership facilitation and reward payments will be treated by 'exclusion' so that any benefit to a State or Territory from achieving specified outputs sought by the Commonwealth, or through implementing reforms, will not be redistributed to other States or Territories through the horizontal fiscal equalisation process…*
>
> *Notwithstanding [the above] and following consultation involving the Commonwealth and the States and Territories … the Commonwealth Grants Commission may treat, on a case by case basis, any National Partnership payment differently if it considers that such treatment is more appropriate …*

The IGA allows for the Commonwealth Treasurer to direct the CGC on the treatment of a National Partnership payment through Terms of Reference, if he considers such treatment is appropriate. Where it occurs, a direction is usually to exclude the payment from the HFE system, and is referred to as quarantining the payment.[14]

The Terms of Reference for the 2012 Update essentially restated the treatment as described in the IGA. In addition, they made clear that NPP reward payments should not influence the relativities (that is, they are excluded).

The CGC's approach

The CGC determines the treatment of each Commonwealth PSP on a case by case basis. In doing so, the CGC follows its set of guidelines for dealing with Commonwealth payments, developed in the 2010 Review.[15] Around two-thirds of Commonwealth PSPs are taken into account by the CGC when calculating the GST distribution.

In summary, exceptions under the CGC's guidelines include:

- as specified by the Commonwealth Treasurer in Terms of Reference
- payments made 'through' States to other entities
- purchase of services by the Commonwealth
- if expenditure needs are not able to be assessed
- instances where the Commonwealth distribution is assumed to reflect State needs.

13 *Intergovernmental Agreement on Federal Financial Relations*, Schedule D Payment Arrangements paragraphs D66 to D67.

14 Guidelines for the Treasurer in identifying possible payments to quarantine are discussed in Section 4.6.

15 CGC, *Report on GST revenue sharing relativities — 2010 Review*, volume 1, chapter 5, pages 79-80.

National Partnership Payments (NPPs)

Under the current approach as described in the IGA, States have an incentive to have NPPs considered to be facilitation payments, as there are no GST consequences in receiving these payments. In practice, differentiating between project and facilitation NPPs has been problematic and unhelpful in determining the appropriate treatment for these payments.

A way forward for NPPs that is more transparent and reduces uncertainty is to have facilitation NPPs included in the HFE system by default. The result of this would be that, unless exempted, all NPPs (except rewards) will affect relativities. Exceptions would be as per the current CGC guidelines, that is:

- quarantined payments
- reward payments
- other payments the CGC determines should not affect the relativities.[16]

> ***Recommendation 5.5***
>
> *The Panel recommends that, apart from the listed exceptions, all National Partnership Payments should affect the relativities.*
>
> *The exceptions are:*
>
> - *payments quarantined by direction of the Commonwealth Treasurer*
> - *reward payments*
> - *payments otherwise determined by the CGC following its guidelines that should not affect the relativities (COPEs, needs not assessed and so on)*
> - *certain capital payments for transport infrastructure (see Chapter 6).*

Duelling policy priorities for national SPP allocations

The Commonwealth provides National Specific Purpose Payments (national SPPs) to the States and Territories as a financial contribution to support State and Territory service delivery in major service sectors. National SPPs affect the relativities and consequently State shares of GST revenue. While the inclusion of national SPPs in the HFE system is uncontroversial, a consequence is the potential for duelling allocations across States, between the historical Commonwealth allocations of national SPPs and the CGC's assessment of relative State needs in the major service delivery sectors. In the HFE system, the CGC's assessment of needs may overturn the Commonwealth's allocation.

In recognition of this potential duelling allocation effect, the 2008 IGA outlined a move over a transition period toward allocating national SPPs on a State population share

16 The treatment of capital payments for transport infrastructure is discussed in Chapter 6.

basis (an EPC allocation).[17] The effect of this was to remove any differential allocation by the Commonwealth, so that the CGC's assessment of requirement was effectively the only one applied. The CGC operationalised this by using the application year share of national SPP allocations in the assessment years.[18]

Recent reforms affecting the payment of national SPPs, in particular the replacement of the national healthcare SPP by National Health Reform (NHR) funding from 1 July 2012 (and possibly future national reforms), mean that the moves in the 2008 IGA to remove 'dual allocation' of national SPPs may be overtaken.

Under the National Health Reform Agreement (NHRA), the majority of the Commonwealth's funding for public hospital services will be provided under activity based funding (ABF) arrangements, rather than the block grant basis used previously. After a transition period as the new approach evolves, it is likely that national health reform funding will not be allocated across the States on a population share basis. The Panel can speculate that if other national reforms come fully into being, for example for schools funding and the National Disability Insurance Scheme (NDIS), it is likely that the allocation of national SPPs for schools and disability services will no longer reflect student enrolments and population shares respectively.

A national reform usually seeks to achieve specific outcomes through policy changes, for example, more cost efficient delivery of health services. Funding arrangements in agreements for reforms reflect changes required in order to achieve these desired outcomes, for example, the move from block funding to ABF for health services. As national reforms become more pervasive, there may be ambiguity about which policy — national reform or equalisation — has primacy.

The CGC's approach

Where it has the discretion, the CGC follows its directions and principles, which generally lead to HFE outcomes taking precedence (unless the direction in its Terms of Reference states otherwise), in particular where the CGC determines that the payments fund normal State services — such as health services. The CGC adjusts GST shares to effectively reallocate payments to States so as to align with the CGC's assessment of 'needs'. Further, the CGC considers average, not efficient, costs.

A way forward for national SPPs (resolving the duel)

If nationally agreed reforms do capture both relative State use and cost aspects of need, then arguably no separate CGC assessment is required and the relevant national SPP could be excluded from the HFE system. For example, the proposed Gonski reforms may capture both use (student enrolments) and cost (certain classes of higher cost students) influences. That is not to say that the allocation across States is the same as what the CGC would arrive at, but that a common policy is applied across States that might recognise certain drivers of spending.

17 In the case of the government schools component of the National schools SPP, the relevant population will be each State's and Territory's share of full time equivalent student enrolments in government schools. The distribution of the non-government schools component of the National schools SPP will be determined in accordance with the Schools Assistance Act 2008.

18 CGC, *Report on GST revenue sharing relativities — 2010 Review*, volume 1, chapter 5, page 81.

On the other hand, if the reforms capture only one aspect of drivers of spending, there is still some work for the CGC to do. For example, health activity based funding reforms capture cost influences, but not relative demand (use) influences.

Recommendation 5.6

The Panel recommends that, when finalising future national reform agreements, the Commonwealth and States clearly state whether the payments (or part thereof) should be included or excluded from the HFE process. This statement should be reflected in the relevant national reform agreement and the corresponding words repeated in the IGA and relevant CGC Terms of Reference.