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Commonwealth Grants Commission

2020 REVIEW

WELFARE

STAFF DRAFT ASSESSMENT PAPER
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CONTENTS

WELFARE	2
2015 REVIEW APPROACH	2
SERVICES INCLUDED IN THIS CATEGORY	2
CATEGORY AND COMPONENT EXPENSES	2
DATA SOURCES AND ASSESSMENT METHODS	3
ISSUES AND ANALYSIS	6
FAMILY AND CHILD SERVICES	6
AGED CARE	7
DISABILITY SERVICES	8
GENERAL WELFARE SERVICES	10
USER CHARGES	12
OTHER ISSUES CONSIDERED AND SETTLED	12
CONCLUSION AND WAY FORWARD	12
PROPOSED ASSESSMENT STRUCTURE	13
DATA / INFORMATION SOUGHT FROM STATES	16

WELFARE

- 1 This paper provides the Commission staff proposals for the assessment of Welfare expenses for the 2020 Review.

2015 REVIEW APPROACH

Services included in this category

- 1 The Welfare category encompasses State expenses on the provision of welfare services, comprising:
 - family and child services (dominated by child protection-related expenses)
 - aged care services
 - services for people with a disability
 - general welfare services (including concessions, assistance to the homeless, women’s shelters and information, advice and referral services).

Category and component expenses

- 2 The assessment of welfare expenses is undertaken in five separate components — family and child services, aged care services, services for people with a disability, concessions and a residual, other general welfare. The component expenses for 2016-17 are shown in Table 1. Separate assessments are also made for investment and depreciation expenses.

Table 1 Category expenses by function, 2016-17

	Amount	Proportion of total expenses
	\$m	%
Family and child services	5 725	33
Aged care services	884	5
Disability services	8 208	48
General welfare		
Concessions	1 942	11
Other general welfare	506	3
Total	17 266	100

Source: Commission estimates based on State-provided data. Adjustments are made to take account of expenses funded by ‘no impact’ Commonwealth payments and concessions reassigned between components and categories.

Data sources and assessment methods

Family and child services

- 3 Family and child expenses are a significant item of State expense, accounting for 33% of total category expenses. Estimated family and child expenses by State are shown in Table 2.

Table 2 Estimated family and child expenses, 2016-17

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1 922	1 233	1 056	601	468	127	98	220	5 725

Source: Commission estimates based on State-provided data.

- 4 The assessment is based on Australian Institute of Health and Welfare (AIHW) child protection data. It recognises the impact of differences in age, Indigenous status, socio-economic status (SES) and remoteness characteristics of State populations on the cost of providing family and child services. The assessment includes data from only seven States because New South Wales could not provide data by SES status and remoteness.
- 5 The Commission uses Productivity Commission (PC) *Report on Government Services* data to split component expenses between child protection and out-of-home care (OOHC) expenses to enable separate child protection and OOHC assessments because Indigenous use of each is materially different. In addition to the socio-demographic composition (SDC) influences of age, Indigenous status, SES and remoteness, the assessment takes account of regional costs, wage costs and service delivery scale influences.

Aged care services

- 6 For the 2015 Review, with the introduction of the new aged care and related disability services arrangements which took effect for most States from July 2011 (and Victoria from July 2015) under the National Health Reform Agreement, Western Australia was the only State with expenses on basic community care and specialist disability services for older people (those aged over 65 or over 50 for Indigenous) that the Commonwealth did not fund. Because only Western Australia continued to have responsibility in this area and a differential assessment was not material, aged care expenses are assessed equal per capita (EPC).
- 7 The Commonwealth is expected to assume full funding policy and operational responsibility for the Home and Community Care (HACC) program and specialist disability services for older people in Western Australia from July 2018. It took over funding and management of HACC program services in Victoria from July 2016.

8 Table 3 shows that State expenses for aged care are small.

Table 3 Estimated aged care expenses, 2016-17

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
43	468	136	135	89	-1	3	11	884

Source: Commission estimates based on State-provided data.

Disability services

9 Disability expenses account for close to one half of total category expenses. Estimated disability expenses by State are shown in Table 4.

Table 4 Estimated disability expenses, 2016-17

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2 859	1 786	1 390	986	722	193	150	121	8 208

Source: Commission estimates based on State-provided data.

- 10 During the transition to the National Disability Insurance Scheme (NDIS), dual disability services assessments are undertaken — one for the NDIS and one for State expenses associated with existing disability services. Because the implementation of the NDIS was considered to be a major change in Commonwealth-State relations, the change is backcast. For this purpose, State data are obtained annually on the projected share of disability expenses in the application year to split expenses between NDIS and existing disability expenses. Commonwealth Department of Social Services data on the estimated number of ‘younger people’ (those aged under 65 or under 50 for Indigenous) meeting the (full coverage) access requirements of the NDIS in the application year are used as the driver of both NDIS expenses and existing disability services expenses. Cross-border, wage costs and regional costs influences are also taken into account in the existing disability services assessment.
- 11 **NDIS.** State data indicate that NDIS expenses are estimated to account for an average 71% of projected 2018-19 disability expenses. This share will continue to increase as the NDIS moves to full implementation.
- 12 New South Wales and South Australia are anticipated to be at full scheme in 2018-19. The full scheme has been implemented in the ACT since 1 July 2017 but the ACT will not be contributing financially on a full scheme funding basis until 2019-20. Full scheme arrangements have not yet been agreed with Western Australia, but 2020-21 (the application year for the 2020 Review) has been agreed as the full scheme date in its transition agreement. The other States are anticipated to be at full scheme in 2019-20.
- 13 When the NDIS becomes fully operational, State contributions will change from payments that recognise the number of people covered by the scheme in each State to

EPC contributions based on State population shares at Census time. Because at that time, State policies will have no influence on their NDIS expenses, the Commission said, in the 2015 Review report, that State contributions would be assessed actual per capita (APC) to capture the annual change in population shares.

- 14 **Non-NDIS disability services.** In the 2015 Review report, the Commission said it would continue its ‘dual’ assessment approach, with concurrent assessments of State needs in relation to the NDIS and existing disability services, until the non-NDIS service provision assessment was no longer material.

Concessions

- 15 Table 5 shows expenses relating to concessions for rates, water and wastewater, and electricity and other energy concessions.

Table 5 Estimated concessions expenses, 2016-17

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
473	527	263	403	134	70	42	30	1 942

Source: State-provided data.

- 16 Concessions are assessed using State shares of the number of pensioner concession card plus health care card holders in each State (using Centrelink and Department of Veterans’ Affairs data) as a proportion of State populations.

Other general welfare

- 17 The other general welfare assessment is based on the relative proportions of State populations in the bottom quintile of the ABS 2006 socio-economic index for individuals (SEIFI), adjusted for changes in the relative proportions of State populations with concession cards¹ between the 2006 and 2011 Censuses. Cross-border, wage costs and regional costs influences are taken into account.
- 18 Other general welfare expenses, which are derived as a residual after making various adjustments to the ABS GFS expenses data, were estimated to be around \$0.5 billion in 2016-17. Homelessness services account for the bulk of expenses. State recurrent expenses on specialist homelessness services in 2016-17 were \$817 million.² (It may be that some States have assigned some or all of homelessness service expenses to housing GPCs.)

¹ Pensioner Concession Card and Health Care Card holders (other than age pension recipients).

² Productivity Commission, *Report on Government Services 2018*, Table 19A.1.

Investment and depreciation

19 Investment and depreciation expenses are assessed using the weighted service users of the Welfare category components. Interstate differences in wage levels, the price of materials and other unavoidable factors affecting the cost of services and infrastructure are also taken into account. In addition, the investment assessment recognises the impact of differences between States in population growth on the need for infrastructure.

GST redistribution

20 Table 6 shows the GST redistributed by each component of the welfare assessment.

Table 6 GST redistribution, Welfare category

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Family and child services	1	-416	206	35	-26	34	-36	203	479
Aged care services	0	0	0	0	0	0	0	0	0
NDIS disability services	15	-150	51	0	29	23	-6	37	156
Existing disability services	-3	-36	12	5	5	5	0	12	39
Concessions	-9	5	13	-39	31	18	-15	-4	66
Other general welfare	1	-10	4	-10	9	5	-3	4	23
Total	5	-607	286	-9	48	86	-61	253	677

Source: 2018 Update.

ISSUES AND ANALYSIS

Family and child services

21 Staff consider the current assessment approach remains appropriate. The significance of the identified drivers can be gauged from the following statistics for Australia for 2015-16.

- Indigenous children were seven times as likely as non-Indigenous children to have received child protection services and ten times as likely as non-Indigenous children to be in out-of-home care.³
- Children from very remote areas were four times as likely as those from major cities to be the subject of a 'substantiation'⁴ (this largely reflects large numbers

³ AIHW, *Child protection Australia 2015–16*, pp 16, 52.

⁴ AIHW, *Child protection Australia 2015–16*, pp 26. Substantiations refer to child protection notifications made to relevant authorities where, after investigation, it is concluded that there is reasonable cause to believe the child had been, was being, or was likely to be, abused, neglected or otherwise harmed.

of Indigenous substantiations in remote areas which Commission calculations show are 14% higher than Indigenous substantiations in non-remote areas).

- Children who were the subject of a substantiation were around five times as likely to be from the lowest socio-economic areas compared to the highest⁵ (the divergence is more marked for non-Indigenous children, for whom substantiations in the bottom two NISEIFA quintiles was more than twice as high as those in the top three quintiles).

22 If data from New South Wales disaggregated by SES and region become available in the coming years, staff will integrate them into the assessment. The AIHW is also trying to progress a cultural and linguistic diversity (CALD) and disability dimension in their unit record data, with extra impetus from the recent Senate inquiry into out-of-home care.⁶ If data were to become available in due course, we could look into the case for incorporating extra disabilities. A CALD measure could be the preferred language spoken at home or maybe parent country of birth, but we would also need to get a satisfactory measure of CALD/non-CALD costs.

Staff propose to recommend the Commission:

- retain the current assessment methodology for family and child services but stay in contact with the AIHW on developments concerning their unit record database, including whether data might become available for New South Wales and a possible CALD and/or disability measure.

Aged care

23 With HACC and specialist disability services for older people no longer a State responsibility in Victoria and, imminently, Western Australia, staff expect net expenses to be small by 2020-21, the application year of the 2020 Review. The aged care component could be retained and the expenses assessed EPC. However, for simplicity, staff would prefer to merge the expenses with other general welfare expenses and assess them using a general low socio-economic status (SES) measure.

⁵ AIHW, *Child protection Australia 2015–16*, pp 27. The AIHW measures socio-economic status by allocating the relevant Socio-Economic Indexes for Areas (SEIFA) population-based (2011 Census population) quintile score to postcode information available for the child or young person.

⁶ Parliament of Australia, *Out of home care*, available at the [APH website](http://www.aph.gov.au) (www.aph.gov.au). Accessed April 2017.

Staff propose to recommend the Commission:

- merge States' residual aged care expenses with other general welfare expenses and assess them using a general low SES measure.

Disability services

NDIS

- 24 When the NDIS achieves full implementation, State contributions will change from payments that recognise the number of people covered by the scheme in each State to contributions based on State population shares at Census time. An APC assessment of NDIS full scheme expenses was therefore proposed in the 2015 Review.
- 25 Our understanding is that until population data from the 2021 Census become available to reset the State contributions, States will contribute based on their population shares at the time of the 2011 Census. The change in population shares over that period would have a material impact on the GST distribution. As such, the intended APC assessment of State contributions remains appropriate.
- 26 However, it is now evident that an APC assessment of NDIS full scheme expenses could not be used without some modification. Specifically, Western Australia's expenses need to be made consistent with those of other States.
- Unlike other States' NDIS services, which are run under a centralised system, the Western Australian model of the NDIS ('My Way') will be locally run and administered, and for the purpose, Western Australia will establish a WA NDIS authority. The authority will be fully funded by Western Australia.
 - In addition and again unlike other States, Western Australia will be required to contribute to the cost of all non-package related costs — Information, Linkages and Capacity Building supports and local coordination — together with a significant share of any cost overruns.
- 27 To address this issue, the Commission propose to estimate Western Australia's contribution based on the State's population share at Census time. Any excess NDIS expenses would be included in the other general welfare expenses component and assessed the same way as the other expenses in that component.
- 28 NDIS is scheduled to be fully implemented in seven States by 2019-20, which is the application year of the 2019 Update. However, the PC's October 2017 review of NDIS costs found that the rollout timetable would not be met and the full scheme could be delayed beyond the dates anticipated in the Heads of Agreement.⁷ Staff intend to raise the assessment of NDIS expenses as part of the 2019 Update new issues process.

⁷ Productivity Commission, National Disability Insurance Scheme (NDIS) Costs, October 2017, page 92. Available at the [Productivity Commission website](http://www.pc.gov.au) (<http://www.pc.gov.au>). Accessed March 2018.

Staff propose to recommend the Commission:

- assess NDIS expenses APC at full implementation in the 2020 Review, subject to decisions on this issue taken in the 2019 Update.

Non-NDIS disability services

- 29 In its 2015 Review report, the Commission said that, upon full implementation of the NDIS, it would continue the dual assessment approach until the non-NDIS disability services assessment is no longer material.
- 30 Staff have tested the materiality of the current non-NDIS disability expenses assessment by comparing its GST redistribution with that of the most likely alternative assessment, that is, the low SES assessment used in the other general welfare component. The other general welfare component is where non-NDIS expenses would be re-allocated if the assessment is not material. We have used the 2018 Update non-NDIS disability expenses of around \$1.3 billion for the calculation. They reflect an average share across States of application year disability services expenses attributed to the NDIS of 84% and, as such, could be expected to overestimate the non-NDIS expenses after full implementation.
- 31 We also consider current information suggests an assessment based on the number of people in low SES groups will be the most appropriate after the NDIS is fully implemented. This is because any remaining non-NDIS State expenses at that time are likely to target gaps between NDIS and mainstream services and support provided to people who cannot access NDIS services.
- 32 Table 7 shows the GST redistribution of:
- the current non-NDIS disability expenses assessment
 - an assessment of non-NDIS expenses based on the low SES measure used in the other general welfare component
 - the net difference.
- It shows the two assessments are not materially different from each other, using the \$35 per capita materiality threshold. This suggests the staff proposal to re-allocate the remaining non-NDIS disability expenses to the other general welfare component and assess them using the same measure of low SES population is reasonable.
- 33 Staff intend to raise the treatment of non-NDIS expenses as part of the 2019 Update new issues process.

Staff propose to recommend the Commission:

- re-allocate non NDIS expenses to the other general welfare component and assess them using the same measure of low SES as that used for other general welfare expenses after the full implementation of NDIS, subject to decisions on this issue taken in the 2019 Update.

Table 7 GST redistribution of possible assessments of non-NDIS expenses

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Current non-NDIS assessment									
\$m	3	-22	9	-2	3	3	-1	6	25
\$pc	0	-3	2	-1	2	7	-3	25	1
Low SES measure									
\$m	8	-17	6	-28	22	12	-9	5	54
\$pc	1	-3	1	-11	13	23	-21	22	2
Net effect									
\$m	5	5	-3	-26	19	8	-8	-1	37
\$pc	1	1	-1	-10	11	16	-18	-4	1

Source: Staff calculation.

General welfare services

Concessions

- 34 Staff propose to retain the current assessment method for the concessions component in the 2020 Review. That assessment is based on the number of pensioner concession card and health care card holders in each State as a proportion of State population. This is a relevant and policy neutral indicator because while the eligibility criteria and entitlements differ across States, all States offer concessions to individuals with Commonwealth Pensioner Concession Cards and most also offer concessions to Commonwealth Health Care Card holders (Table 8).
- 35 Concessions do not vary by location other than in Western Australia, where a higher water consumption rebate is available to those living in regions other than in the metropolitan area. An air conditioning rebate is also available to concession card holders (not Seniors Cards) living in areas of Western Australia that experience prolonged periods of heat discomfort.

Staff propose to recommend the Commission:

- retain the current assessment methodology for concessions.

Table 8 State eligibility criteria for concessions

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Electricity and other energy	PCC/HCC	PCC/HCC	PCC/SC	PCC/HCC/CSHC	PCC/HCC (c)/CSHC	PCC/HCC/SC	PCC/HCC	PCC/HCC/CSHC
Water and wastewater	PCC	PCC/HCC	PCC	PCC/CSHC/SC (b)	PCC/HCC (c)	PCC/HCC	PCC/HCC	PCC/HCC/CSHC
Rates	PCC	PCC	PCC	PCC/CSHC/SC (b)	(a)	PCC/HCC	PCC	PCC/HCC/CSHC

Notes: PCC = Pensioner Concession Card, HCC = Health Care Card, CSHS = Commonwealth Seniors Health Card, SC = Seniors Card.

Health Care Cards are issued automatically to people on Parenting Payment Partnered and various benefits and allowances including Newstart; low income earners may also be eligible for a Low Income Health Care Card.

The Commonwealth Seniors Card eligibility is based on age and an income test.

Seniors Cards are available to those 60 years of age or over, and not working more than a set numbers of hours per week in paid employment.

DVA Gold Card holders are also eligible for most concessions.

- (a) South Australia ceased its rates concessions from 1 July 2015 but in its place it provides a Cost of Living Concession which can be put towards the area of greatest needs, whether that is electricity, gas and water bills or council rates.
- (b) Seniors Card holders are entitled to a lower concession than holders of a PCC or CSHC. Western Australia also provides a Cost of Living Rebate to Seniors Card holders.
- (c) Concession is available to holders of a Pensioner Concession Card and those receiving certain Centrelink payments.

Source: State government and utility websites.

Other general welfare

- 36 Staff have considered the option of re-allocating homelessness related expenses to the housing category because services to the homeless can be considered another facet of services for social housing. After investigating this option, it has become apparent that needs in relation to homelessness services differ from those relating to social housing, a point made by Tasmania.⁸ For example, services offered to the homeless may include counselling and other services in relation to drug and alcohol abuse, gambling, family and relationship breakdown, domestic violence and physical and sexual abuse. Therefore, staff consider that it may not be appropriate to apply the social housing disabilities to services to the homeless expenses.
- 37 Staff therefore propose to retain homelessness related expenses within the other general welfare component and assess needs using a low SES measure.

⁸ Tasmania's response to Staff Research Paper, CGC 2016-14-S, *What States Do - Housing Services*.

- 38 The 2015 Review measure of low SES is based on the ABS SEIFI developed using 2006 Census data. Staff understand that the ABS is considering updating its SEIFI measure with 2016 Census data. If the ABS updates SEIFI, we would use it in assessing other general welfare expenses. If an updated SEIFI is not available for the 2020 Review, staff propose to use the relative proportion of State populations in the bottom quintile of the 2016 Census individual income, consistent with the SEIFI measure.

Staff propose to recommend the Commission:

- retain homelessness related expenses within the other general welfare component of the Welfare category
- if the ABS updates SEIFI, use it to measure needs for other general welfare expenses. If an updated SEIFI is not available for the 2020 Review, use the relative proportions of State populations in the bottom quintile of the 2016 Census individual income.

User charges

- 39 Staff consider that user charges are not affected by the same disabilities used to assess the various components of welfare expenses. The amounts involved are small (less than 2% of category expenses) and a significant proportion of them relate to aged care services, which do not impact on GST shares.

Staff propose to recommend the Commission:

- assess revenues from user charges on an EPC basis in the Other revenue category.

Other issues considered and settled

- 40 A location disability will be retained in the family and child and other general welfare assessments.

CONCLUSION AND WAY FORWARD

- 41 Going forward, family and child services and concessions are expected to become the largest components of the Welfare category for which disabilities are assessed. This is because State aged care services will fall to insignificant levels once the data reflect the Commonwealth's takeover of full responsibility for HACC and specialist disability services for older people in all States. Furthermore, disability services will largely fold into the NDIS and be provided by the NDIA, an independent statutory agency.

- 42 We consider these two assessments settled.
- 43 Staff also propose that non-NDIS disability expenses be grouped with other general welfare expenses and assessed using a low SES measure as such an assessment is unlikely to differ materially from a separate assessment of non-NDIS disability expenses.
- 44 Further, staff propose to combine aged care expenses with other general welfare expenses and assess them using a low SES measure.
- 45 We seek State views on the appropriate treatment of homelessness expenses.

Proposed assessment structure

- 46 Staff propose the following assessment structure for this category in the 2020 Review.

Table 9 Proposed Welfare category structure

C o m p o n e n t	Disability	Influence measured by disability
F a m i l y a n d c h i l d	SDC	Recognises that Indigeneity, low SES and location population characteristics affect the use and cost of providing services
	Location	Recognises the differences in wage costs between States and in the cost of providing services to different areas within a State
N D I S		APC assessment.
C o n c e s s i o n s	SDC	Recognises that number of pensioner concession card (PCC) plus health care card (HCC) holders affect the use and cost of providing services
H o m e l e s s n	SDC	Refer Staff Draft Assessment Paper 2018-01-14-S, <i>Housing</i>

C o m p o n e n t	Disability	Influence measured by disability
e s s		
O t h e r w e l f a r e s e r v i c e s , i n c l u d i n g a g e d c a r e	SDC Location	Recognises that low SES population characteristics affect the use and cost of providing services – to be finalised later in the review As above

C Disability

Influence measured by disability

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Data / information sought from States

- 47 Staff will seek advice from States as to whether their homelessness expenses are currently included within Welfare GPCs and, if not, whether they could readily be so included.