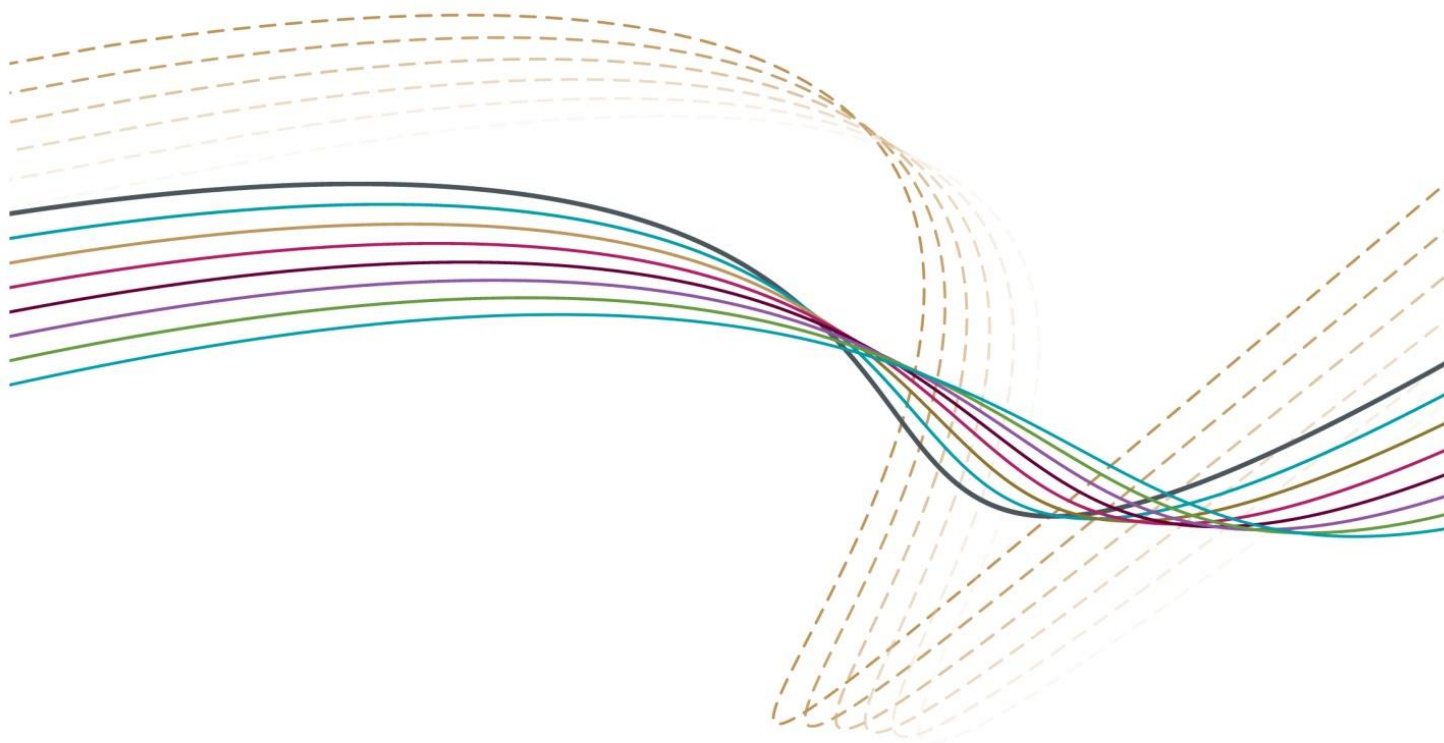


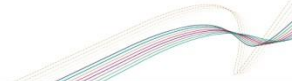
QUEENSLAND TREASURY

Commonwealth Grants Commission 2018 Update

Response to Staff Discussion Paper CGC 2017-20-S:
New Issues

October 2017





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Queensland's position

Queensland supports:

- the use of the proposed components method for deriving total State estimated residential population for estimates prior to June 2016 subject to the use of the latest available component data. The use of this data will allow the latest population information from the 2016 Census to be integrated into assessments.
- the use of the 2016 Census data on the Indigenous estimated residential population, but does not support the use of the total population growth rate as a proxy for growth in the Aboriginal and Torres Strait Islander (ATSI) population. As growth in the total population is not necessarily reflective of growth in the Indigenous population for States, Queensland recommends the average annual population growth in the estimated population of ATSI people from 2011 to 2016, for each jurisdiction, should be used as the growth rates to apply to each State and Territory's ATSI population until the new series of estimates and projections are available. To ensure consistency, Queensland supports the use of an Indigenous-focussed Social-Economic Index for Areas and recommends its creation be derived using similar methods and geographic basis to the non-Indigenous Social-Economic Index for Areas.
- the use of updated population numbers and data for classifying urban centres and significant urban areas as part of the Roads, Transport and Services to Communities assessments to ensure the latest information is incorporated.
- the proposed two-stage approach for calculating social housing use rates for the housing assessment to ensure the latest data and classifications are used.
- making no change to the disability services assessment methods.
- the Commonwealth Grants Commission (CGC) staff's recommendation to use emergency department activity captured by the Non-admitted Patient Emergency Department Care National Minimum Data Set and Activity-based Funding Emergency Services Care Data Set Specification collections of all assessment years in the 2018 Update without any adjustment for under coverage. This reflects Queensland's understanding that coverage of these datasets is not materially different from the previous National Public Hospital Establishment emergency department data.
- the CGC staff's proposal to not change the treatment of royalties where bans on extraction are in place in most States in the 2018 Update. Given the complexities of this issue, Queensland's position is that the 2020 Methodology Review is the most appropriate avenue for consideration of this issue to allow due consideration.

Queensland notes the CGC staff's concerns around the Investment assessment and supports rescaling the assessment by distributing differences between the assessed change in stock and the unscaled expenses on an equal per capita basis to prevent any perverse outcomes.

Queensland does not support the CGC's recommendation for inclusion of Quality of Schools payments in the 2018 update as the Quality Schools agreement is yet to be finalised.



Use of new census data

Estimating ERP

Queensland supports the Commonwealth Grants Commission (CGC) using the latest Census data. Queensland also supports the proposed components method to estimate State resident populations for estimates before June 2016 subject to the use of the latest available components data (updated births, death, and migration figures).

However, Queensland notes there are known issues with the component data and using only this information to estimate population change over time may present challenges. This is particularly relevant given the high levels of intercensal difference in some jurisdictions which suggest the population estimation model (which uses components of population change) did not capture movements well during the 2011 to 2016 period.

As the Australian Bureau of Statistics (ABS) has previously acknowledged, intercensal difference are caused not only by changes in levels of accuracy in enumeration between Censuses, but also errors in components data. Methodology changes since 2011, including to net overseas migration (NOM) and geocoding of net interstate migration (NIM), may have further impacted on those errors.

A review of the expansion factors (factor applied to known Medicare movements to estimate actual movements) between 2011 and 2016 might provide the ABS with additional information to review the main contributors of the intercensal difference. This has been a regular revision undertaken by the ABS after each Census.

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Preliminary population estimates for the 2011 to 2016 period were released by ABS in June 2017. These estimates will be finalised as part of the regular revision of population estimates undertaken by the ABS after each Census, with final rebased population estimates to be published by ABS in June 2018. These final estimates will incorporate final net overseas migration data and may include revisions to births and deaths data due to processing of late birth and death registrations. A review of the expansion factors (factor applied to known Medicare movements to estimate actual movements) between 2011 and 2016 may also provide the ABS with additional information to adjust the net interstate migration estimates.

Any resulting revisions to the components of population change will have an impact on the components used by the CGC in backstitching populations as proposed. Queensland suggests the CGC should consult closely with the ABS to work through these issues in order for the population data to be incorporated into the 2018 assessments.

Indigenous Population Estimates

Queensland supports the use of the 2016 Census data on the Indigenous estimated residential population (ERP). However, it does not support the use of the total population growth rate to index growth for the Aboriginal and Torres Strait Islander (ATSI) population. Instead Queensland recommends using the average annual population growth in the estimated population of ATSI people from 2011 to 2016 for each jurisdiction.

Using the total population growth rate implies that changes in the general population are experienced equally by the ATSI population. However, historically, total population growth at a State or Territory level has been strongly influenced by changes in NIM and NOM. While policy changes do influence NOM, economic push and pull factors have been a key driver of changes in NIM and NOM over time. In comparison, the ATSI population has been driven more by changes in birth rates. As such growth in the total population is not necessarily reflective of growth in the Indigenous population within a State or Territory.

Table 1 below shows the different average annual growth rates between the total population and ATSI populations, both for the Census counts and also the respective ERPs. This illustrates the differences in the average annual rates for the most recent intercensal period.

Queensland suggests that the GCG staff use the average annual percentage change in Indigenous ERPs for the 2011 to 2016 intercensal period as the growth rates to apply to each State and Territory's ATSI population until the new series of estimates and projections are available from the ABS.

Table 1: Average annual growth rates between total population and ATSI population

2011 to 2016		NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AUS
Average annual growth from Census counts (per cent)	Total population	1.6	2.1	1.7	2.0	1.0	0.6	2.2	1.5	1.7
	Indigenous population	4.6	4.7	3.7	2.4	1.8	3.7	4.6	0.5	3.4
	2016 Indigenous Census count	216,176	47,788	186,482	75,978	34,184	23,572	6,508	58,248	649,171
AAPC ERPs	Total population	1.4	2.2	1.6	1.7	0.9	0.2	1.9	1.2	1.6
	Indigenous population	TBA								

Indigenous disadvantage – IRSEO/NISEIFA/SEIFA classifications

Queensland supports the use of an Indigenous-focussed Socio-Economic Index for Areas (SEIFA). A paper produced by Bryan Kennedy and David Firman outlines the benefits of this approach.¹

The requirement for the breakdown of SEIFA by Indigenous status is to demonstrate the challenges of using the full SEIFA in determining and measuring for service delivery needs. The previous analysis of the 2001 data by Kennedy and Firman revealed that stratifying SEIFA scores by Indigenous and non-Indigenous households in each area shows that Indigenous populations suffer a high level of social and economic disadvantage, regardless of whether they live in high or low SES areas. This has significant implications when planning and delivering services targeting minority populations with a high level of need, especially in urban areas, where it is assumed that Indigenous population are relatively well off compared with their rural and remote counterparts.

Queensland recommends the Index is developed by the ABS so that it is consistent with the Non-Indigenous SEIFA (NISEIFA) produced by the ABS, along with other indexes of disadvantage. The ABS has previously been commissioned and has undertaken work of this nature. The work should also be done at the small area level to allow for geographical variation, with due consideration given to the appropriate weightings applied to areas.

However, if it is not timely for this work to be completed by the ABS, and CGC staff develop a NISEIFA in house, for consistency, the Indigenous SEIFA should be developed on the same geographic basis using the same methods by CGC staff.

¹ Kennedy, B., & Firman, D. (2004). Indigenous SEIFA – Revealing the Ecological Fallacy. Paper for the 12th Biennial Conference of the Australian Population Association, 15 – 17 September 2004, Canberra.

Remoteness

Queensland notes that the 2016 remoteness classification will not be available in time for the 2018 Update. Queensland also agrees with the CGC's staff analysis that little change is likely.

Discrete Indigenous Communities

Queensland agrees there is likely to be few new discrete Indigenous communities in 2016, compared with 2011, based on the CGC definition (SA1s where Indigenous people represent at least 50% of the ERP). Accordingly, Queensland agrees with the proposal to update the geography in the 2019 Update.

Geographical Classifications

Queensland supports the use of updated population numbers and data to re-classify the urban centres and significant urban areas as part of the Roads, Transport and Services to Communities assessments.

Housing

Queensland supports the use of the two-stage approach for calculating social housing use rates for the housing assessment. This will ensure that the latest available data and classifications will be used.

Wage cost assessment – Commonwealth Superannuation Scheme adjustments

Queensland supports the CGC staff's 2017 Update recommendation that the CGC should discontinue the adjustment to wage factors for the ACT and the Northern Territory. These discounts allowed for the previous Commonwealth superannuation scheme, inherited by these jurisdictions at the time of self-government.

Queensland notes the ACT's estimates appear to be significantly higher than the CGC's previous calculations. Queensland requires further information on the basis of this discrepancy and looks forward to reviewing the CGC's response to the ACT's submission before making any recommendations.

National Disability Insurance Scheme (NDIS) related payments

Queensland supports the CGC staff recommendation to make no change to its assessment methods for disability services in this update. Queensland supports the CGC staff's efforts to estimate notional SPPs in the application year for New South Wales, South Australia and the ACT to derive consistent splits of expenses between NDIS and Specialist Disability Services.

Health assessment

Emergency department data

Queensland previously expressed concerns as part the 2017 Update about the future absence of National Public Hospital Establishment emergency department data (PHE ED) and recommended a review of the assessment methodology occur at the earliest opportunity.

Queensland notes the CGC staff's analysis on the coverage of the Non-Admitted Patient Emergency Department Care National Minimum Data Set and Activity based Funding Emergency Services Care Data Set Specification collections. Based on this information, Queensland supports the proposal to use these collections as the basis of emergency department activity in the 2018 Update and going forward. Queensland also supports the proposal to not adjust the data for any missing emergency department activity given it is not material and likely to reduce further over time.

Quality Schools payments and Schools assessment

Queensland notes that the Quality Schools agreement is currently under negotiation between the Commonwealth and the States and no agreement has been signed. There remains significant uncertainty around the final details of any new agreement and whether all States will be in a position to sign. This reflects significant uncertainty around the financial impact of the new agreement on the States.

Under the Australian Education Amendment Bill 2017, passed by the Australian Senate in June 2017, full receipt of Commonwealth funding will be conditional upon the States reaching, then maintaining, certain levels of funding measured as a share of a School Resourcing Standard. The Act states the State share will need to fund 75% to 80% for state schools (Australian Government 20% share), while a 15% to 20% State share is required for non-state schools (Australian Government 80% share).

Commonwealth funding is also conditional upon implementation of a needs based resource allocation model and a range of education reforms to be identified as part of the Gonski 2.0 review, due March 2018.

Given this uncertainty, States and Territories are yet to agree to support any interim agreement on the new school funding arrangements.

As payments under this agreement will not commence until the beginning of the 2018 school year, (which would impact the CGC's 2019 Update), there is no requirement for the CGC to include this agreement in the 2018 Update. Queensland's position is the CGC should delay its inclusion until an agreement has been signed.

Should the CGC not accept this recommendation and include the Quality Schools payments in the 2018 Update, any potential backcasting will need to consider to Queensland's current school funding agreement. In considering how this should be treated, the CGC should consult closely with Queensland.

Once the Quality Schools agreement has been finalised, any increase in State expenditure on schooling, as a result of the agreement, will need to be appropriately reflected in the school expenditure assessment.

Given the potential mismatch between the timing of including the Quality School payments and the revised level of State school expenditure in the CGC's calculation, this lends further weight to not including the Quality School payment at this time.

Rescaling in the Investment assessment

Queensland notes the potential problem the CGC staff have identified with the Investment assessment. Given the potential perverse consequences of the problem and immaterial impact of the proposed solution, Queensland supports the CGC staff's recommendation to rescale the Investment assessment by distributing the difference between the assessed change in stock and the unscaled expenses on an equal per capita basis.

Treatment of mining royalties where bans have been introduced

Queensland supports maintaining the present treatment of royalties where mineral or gas extraction is currently banned in other States, noting that these are currently below the CGC's materiality threshold.

However, given the significance of onshore gas royalties in future years, Queensland believes the CGC must consider this issue in detail as part of the 2020 Methodology Review. A new approach will be required but Queensland appreciates there are significant complexities and consequences from potential changes. Accordingly, a thorough and considered review of this issue as part of the 2020 Methodology Review rather than the 2018 Update will provide all jurisdiction the requisite time to provide deeper analysis and comment.



Treatment of new Commonwealth payments commenced in 2016-17

Queensland's positions on the treatment of Commonwealth payments that commenced in 2016-17 are set out in the table below. In summary, Queensland acknowledges and supports most of the CGC staff's proposed treatment of the Commonwealth payments outlined in Attachment A of the New Issues paper, which are either reasonable on a conceptual basis or are governed by the terms of reference.

Queensland notes that Commonwealth payments for 2016-17 relating to the North Queensland Strata Title Inspection Scheme have not been received, as the National Partnership agreement has not been signed.

Commonwealth payment	Description	2016-17 \$m	CGC Proposed treatment	Reason for No impact treatment	QLD position
HEALTH					
Health services					
Mersey community hospital	The Commonwealth will provide funding to support the transfer and operation of the Mersey Community Hospital for the next 10 years. Funding will also support the delivery of rehabilitation and palliative care services. The National partnership payment of \$730.4 million made in 2016-17 will cover the operating costs of the hospital for 10 years. The funds will be provided to the Tasmanian government which will transfer the full amount to the Tasmania Public Finance Corporation (TasCorp) as a one-off equity contribution to the Mersey Community Hospital Fund. TasCorp will make annual dividend payments to the Tasmanian government equivalent to the indexed operating costs of the hospital from 2017-18 until the Fund ceases. (See discussions earlier in this paper.)	730.4	No impact	Expected U2018 ToR requirement	Agreed based on the understanding that it will be excluded in the ToR.
Indigenous health					
Addressing blood borne viruses and sexually transmitted infections in the Torres Strait	Funding for addressing blood borne virus and sexually transmissible infections to increase the number of ongoing primary health care staff in the Torres Strait to undertake disease prevention activities, surveillance, testing and treatment, sexual health checks, and to deliver a culturally appropriate sexual health education campaign.	1.1	Impact		Agree



EDUCATION					
Quality Schools funding	<p>The Commonwealth provides Quality Schools funding to government and non-government schools through a new needs-based funding model for schools which delivers a consistent Commonwealth approach for all schools in all States and Territories, adjusted on the basis of need. This includes recurrent funding, capital funding, special circumstances funding for non-government schools, funding for non-government representative bodies, and other prescribed purpose funding.</p> <p>The actual funding formula is broadly based on the model recommended in the Gonski report of 2013 but its final form will be determined by a newly established National Schools Resourcing Board. The measure ensures Commonwealth funding will be tied to reforms to support better outcomes for students. It will also require State and Territory governments to deliver their share of a total public funding level of at least 95% of the Schooling Resource Standard for all schools by 2023. (See discussions earlier in this paper.)</p>	17 094.9	Impact for government schools; No impact for non-government schools	Needs for non-government schools are not assessed	Agree to inclusion of current agreement payments for 2016-17. However, payments under the new Quality school funding agreement beyond 2016-17 should not be included until the agreement has been finalised.
COMMUNITY SERVICES					
Family advocacy and support services	The Commonwealth will support the establishment and the operation of Family Advocacy and Support Services by Legal Aid Commissions. It will provide integrated duty lawyer and family violence support services at locations across Australia.	4.2	No impact	Needs not assessed. CW purchase of State services	Agree
Women's safety package — Technology trials	Funding to support a series of trials to test new technologies or innovative uses of existing technologies to improve the safety of women and children affected by family and domestic violence.	1.3	Impact		Agree



INFRASTRUCTURE					
Developing Northern Australia	<p>Funding to provide incentives for private sector investment to improve the road network and transport logistics in Northern Australia.</p> <ul style="list-style-type: none"> Improving cattle supply chains — the Commonwealth will provide \$101.3 million of funding over four years to improve cattle supply chains in the North, with a particular focus on road infrastructure. This funding will seek to improve the productivity and resilience of cattle supply chains in Northern Australia, drawing on the Commonwealth Scientific and Industrial Research Organisation's (CSIRO) state-of-the-art logistics modelling, as well as input from livestock transport and beef industry experts, to identify deregulation opportunities and investment priorities. 	1.7	Impact		Agree
	<ul style="list-style-type: none"> Northern Australia Roads — funding for the infrastructure projects that are essential to the movement of people and freight, in order to support economic development in the region. Projects include inter-jurisdictional links and roads connecting communities and regional towns to ports and airports. 	12.0	Impact		
ENVIRONMENT					
Water Infrastructure Development Fund — Feasibility studies component	<p>Funding to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. This will help secure the nation's water supplies and deliver regional economic development benefits. There are two components: feasibility studies (commenced in 2015-16) and capital (commences in 2017-18).</p> <ul style="list-style-type: none"> Feasibility studies — funding to support delivery of feasibility studies that inform investment decisions on water infrastructure. 	13.3	Impact		Agree



OTHER					
Heffron Park Centre of Excellence	Funding for the Heffron Park Centre of Excellence, which will house a community and administration centre as well as a football development supported by elite facilities. The centre will include administration facilities and training centre for the South Sydney Rabbitohs. It will also support Rabbitohs' Souths Cares Program, a community program for young people. Randwick City Council will contribute \$3 million towards the construction, the NRL \$3 million and the Rabbitohs between \$2 to 7 million.	1.0	Impact		Agree
Northern Queensland Stadium	Funding to support the delivery of the North Queensland Stadium, including a site master planning and services infrastructure within the stadium site to allow for a future entertainment centre. The North Queensland Stadium is a joint project of the Queensland Government (\$140 million), Australian Government (\$100 million) and Townsville City Council (land and enabling infrastructure) and is supported by both the National Rugby League and the North Queensland Cowboys (\$10 million). Stadiums Queensland will operate the stadium on behalf of the Queensland Government. The project is included in the Townsville City Deal.	10.0	Impact		Agree
North Queensland Strata Title Inspection Scheme	The Scheme will provide funding on addressing insurance costs in North Queensland to undertake engineering assessments of strata title properties. The assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks. Body corporate managers will be able to use the assessment in obtaining insurance quotes from a range of providers. The Queensland Government will develop and administer the assessment program for strata properties in North Queensland.	6.3	Impact		Disagree – funding not received in 2016-17. Agreement has not been signed.

Tasmanian tourism growth package	Funding to support the delivery of feasibility studies for three tourism ventures to boost Tasmania's tourism industry.	1.1	Impact		Agree
Tourism demand driver infrastructure recovery package	This payment is in addition to Queensland's current allocation under the Tourism Demand Driver Infrastructure program. This program will support projects that deliver additional tourism infrastructure in affected tourism regions of Queensland as part of a recovery package to address the impacts of Tropical Cyclone Debbie.	3.5	Impact		Agree

Commonwealth payments commencing in 2017-18 or 2018-19

Queensland's position on the possible back-casting of Commonwealth payments that commence in 2017-18 or 2018-19 are set out in the table below. In summary, Queensland supports the CGC staff's proposal not to back-cast the Commonwealth payments, on the basis that they do not reflect a major change in federal financial relations.

Commonwealth payment	Description	New in 2017-18 \$m	New in 2018-19 \$m	QLD position
HEALTH				
Proton Beam therapy facility	Funding to support the establishment of a Proton Beam Therapy Facility in Adelaide. The payment will support the purchase of accelerator equipment and two treatment rooms in support of the establishment of a proton beam facility at the South Australian Health and Medical Research Institute precinct. This will deliver new research capabilities to help Australian researchers develop the next generation of cancer treatments, including for complex children's cancer. The facility will also be an alternative to conventional radiotherapy for the treatment of certain types of cancer.	68.0		Do not back-cast
Encouraging more clinical trials in Australia	The Commonwealth will provide funding to increase the number and value of clinical trials to deliver health benefits, provide jobs and improve the nation's innovative capacity.	2.5		Do not back-cast
Suicide prevention	The Commonwealth will provide funding to assist in reducing the risk of suicide by funding infrastructure projects, such as barriers, fencing and lighting, at identified locations.	3.0		Do not back-cast



SKILLS AND WORKFORCE DEVELOPMENT				
Skilling Australians fund	The Commonwealth will support the training of Australians through a range of projects focused on skills priorities. These include training in occupations in high demand that currently rely on skilled migration, future growth industries, and rural and regional areas. There will also be a strong focus on apprenticeships and traineeships. The fund will support a range of projects which are focused on Commonwealth priorities and are designed to support growth in trade and non-trade apprenticeships and traineeships in target areas. This fund will support up to 300 000 more apprentices, trainees, and higher level skilled Australians over the next four years when matched with funding from the States.	350.0		Do not back-cast
COMMUNITY SERVICES				
Transition to independent living allowance	The Commonwealth is helping young people make the transition from formal out of home care to independent living.		3.5	Do not back-cast
Transition to NDIS in Western Australia	From 1 July 2018, Western Australia is transitioning to full scheme NDIS. The Commonwealth will support Western Australia to make progressive changes to roles, responsibilities and governance in delivering disability services from 1 July 2017. Funding from 2020-21 is subject to ongoing negotiations with the Western Australian government on full scheme NDIS. The Intergovernmental payments currently provided by the Commonwealth to Western Australia for the purpose of providing disability services to individuals will be paid to the WA NDIS authority on behalf of the Commonwealth by Western Australia, in line with clients transitioning to the NDIS.	169.7		Do not back-cast
INFRASTRUCTURE				
Asset recycling – energy infrastructure	The Commonwealth will provide funding to target energy infrastructure in South Australia. Funding will be provided for agreed energy infrastructure projects under a bilateral Asset Recycling agreement. This forms part of the Government's Energy for the Future Package.	18.3		Do not back-cast
Wifi and mobile coverage on trains	The program will establish mobile and internet connectivity along the train route between Hornsby and Wyong.	5.0		Do not back-cast
ENVIRONMENT				
National fire danger rating system	The Government will provide \$0.7 million over two years from 2017-18 to the New South Wales and South Australian Governments to develop a National Fire Danger Rating System (NFDRS). The NFDRS will deliver nationally consistent fire danger ratings that use the best and latest available modelling and fire science. The funding is to develop the prototype of the NFDRS and to conduct social research regarding communicating fire danger information to the public.	0.5		Do not back-cast



OTHER				
Financial assistance for New South Wales Police	The Commonwealth will provide four years of transitional funding for the equal sharing of the costs of reimbursing New South Wales police officers who incur an additional tax liability from making voluntary superannuation contribution that exceed the concessional contributions cap. The funding will also contribute to the cost-sharing of any fringe benefit tax that results from reimbursing police officers in these situations.	0.1		Do not back-cast
Regulatory reform	The Commonwealth will provide funding to deliver reforms that drive Australia's economic performance, including reforms that reduce the regulatory burden on small businesses and competition. Reforms delivered through the National Partnership on Regulatory Reform will be based on bilateral agreements to be negotiated with signatory States and Territories. As part of this funding, the National Competition Council will receive additional funding of \$12.9 million over six years from 2017-18 to assess the adequacy of State and Territory reform proposals and their achievement of reform commitments. This measure builds on the Government's response to the Harper Competition Policy Review.	125.0		Do not back-cast

