

SOUTH AUSTRALIAN DEPARTMENT OF TREASURY AND FINANCE COMMENTS ON THE NEW ISSUES FOR THE 2018 UPDATE STAFF DISCUSSION PAPER (CGC 2017-20-S)

South Australia welcomes the opportunity to comment on the 2018 Update New Issues paper. In general we support the recommendations proposed by the Commission staff. Further detail on each issue raised is outlined below.

Use of new census data

Subject to certain conditions outlined below, South Australia supports the census related recommendations proposed by Commission staff as follows:

- Total population estimates: We note that the staff recommendation to use ABS published estimated resident populations (ERPs) from June 2016 onwards, and derive its total State ERPs for estimates before June 2016 using the published components of growth (births, deaths and net migration). This recommendation appears to be based on advice received from the ABS for the 2013 Update following the release of the 2011 Census data. Subject to confirmation from the ABS that the best estimate of population growth in the latest Census is obtained by excluding the intercensal discrepancy, we support the support the proposal.
- Indigenous population estimates: use new Census based data.
- IRSEO/NISEIFA/SEIFA classifications: use new data in Schools, Post-secondary education and Welfare, and for the IHPA health data. Continue to use 2011 Census based data from Medicare and AIHW data to assess non-State adjustments in the Health category.
- Other geographic classifications: use new data for urban centres, significant urban areas, low density areas and pseudo-urban areas. Continue to use 2011 Census based data for remoteness areas and discrete Indigenous communities.
- Social housing: use new census data (except for remoteness)

Wage cost assessment – Commonwealth Superannuation Scheme adjustments

South Australia supports the Commission applying its supporting principles and exercising its judgement to determine the appropriate treatment of Commonwealth Superannuation Scheme adjustments.

National Disability Insurance Scheme (NDIS) related payments

South Australia supports the Commission staff recommendation to:

- Make no change to its assessment methods for disability services in the 2018 Update.

- 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

The analysis provided by the Commission shows that the number of emergency department occasions not being captured within the proposed data sets is negligible and including an adjustment is not material for any State.

On this basis South Australia supports the Commission staff recommendation. That is to use Independent Hospital Pricing Authority's 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 for all assessment years in the 2018 Update without any adjustment for under coverage.

Treatment of the Commonwealth payment for the transfer of the Mersey Community Hospital from the Commonwealth to Tasmania

Subject to there being a specific direction in the Terms of Reference that payments provided by the Commonwealth Government to Tasmania for the Mercy Hospital not impact the distribution of GST revenue, South Australia supports the Commission staff recommendation to:

- Treat the \$730.4 million payment for the transfer and operation of the Mersey Community Hospital as not affecting the relativities.
- Not make any additional adjustments to Tasmania's financial data for the management of the payment or operation of the hospital over the next 10 years because it would add complexity but not have a material effect on the GST distribution.
- Not make any adjustments for the transfer of the asset valued at \$10 million.
- Allow the payment for the delivery of rehabilitation and palliative care services to affect the GST distribution because it is for normal State services and needs are assessed in the Health category.

Quality schools payment and the schools assessment

South Australia supports the Commission staff recommendations to:

- Determine that Quality Schools is sufficiently NERA-like that the terms of reference continue to apply on the basis that having a nationally consistent needs based formula is the defining criteria that defines a Commonwealth school funding program as NERA-like.
- Conclude that it cannot reliably measure the distribution of entitled payments in the application year in advance, and therefore should use historical payment distributions.

- Decide that using historic SRS patterns is consistent with the ToR requirement not to unwind measures of educational disadvantage.
- On the basis of these decisions, assess:
 - Commonwealth funded school expenditure using SRS weights and student numbers from the assessment years.
 - Revenue from Commonwealth payments using the share of payments States were entitled to (but not necessarily received) in the assessment years, as directed by ToR.

Conditional payments

We note the Commission recommendation to assess other conditional payments using the actual payment received, not the payment the State was offered. This has been raised in the context of the National Partnership on skilling Australians fund and the National Partnership on essential vaccines. South Australia reserves its position on this item until the agreements are finalised to make an informed decision.

Rescaling in the investment assessment

South Australia supports the Commission staff recommendation that rescaling in the Investment assessment be undertaken 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

South Australia supports the Commission staff recommendation not to change its treatment of royalties where bans on extraction are in place in most States in the 2018 Update as it is not material to do so at this time.

However, this is an issue that needs to be considered in further detail to ensure that there are no adverse policy incentives. This should be considered as part of the 2020 Review, or sooner, if it is determined that a change in treatment would become material.

Treatment of new Commonwealth payments that commenced in 2016-17

South Australia supports the treatments proposed by Commission staff in Table A-1 of Attachment A.

Commonwealth payments commencing in 2017-18 or 2018-19

South Australia supports the recommendation of Commission staff not to backcast Commonwealth payments commencing in 2017-18 and 2018-19 as set out in Table A-2 as they are not the result of a major change in Commonwealth-State financial arrangements.

Goodwood and Torrens rail junctions

In 2017-18 and 2018-19, South Australia will receive funding of \$189.4 million (\$138.5 million in 2017-18 and \$50.9 million in 2018-19) under the National Partnership on Land Transport Infrastructure Projects. This funding is for the grade separation of the Australian Rail Track Corporation's (ARTC) interstate rail line and the metropolitan rail line at the Goodwood and Torrens rail junctions.

Without the grade separation, trains on the interstate (ARTC) line have to give way to passenger trains, causing significant delays to both freight trains and road traffic.

The Goodwood grade separation will improve the operational efficiency of the interstate line by:

- removing the need for the ARTC line to give way to the Noarlunga line;
- increasing the speed ARTC trains can approach the intersection; and
- enable the use of 1.8 km freight trains, increased from 1.5 km. This also increases the maximum length of trains travelling between the eastern states and Perth.

As this project significantly improves interstate rail transport, South Australia believes that the funding provided by the Commonwealth for this project is primarily to upgrade the national rail network and only 50% of the payment should be impacting.

This should be considered by the Commission in the 2019 Update process.

Proton Beam Therapy facility

Commonwealth funding of \$68 million to be provided in 2017-18 to establish a Proton Beam Therapy Facility in Adelaide should be treated as "non-impacting" as the facility will be owned and operated by the South Australian Health and Medical Research Institute (SAHMRI). SAHMRI is not a South Australian Government controlled entity.

Asset recycling – energy infrastructure

The Commonwealth has allocated up to \$36.6 million in funding to South Australia for agreed energy projects under a bilateral asset recycling agreement (up to \$18.3 million in 2017-18 and up to \$18.3 million in 2018-19). This agreement will effectively be an extension of the National Partnership on Asset Recycling and funding will be provided in accordance with the framework developed for that agreement.

The Commission was provided with specific Terms of Reference instructions for the 2015 Review that Commonwealth payments under the Asset Recycling Initiative should have no impact on GST relativities. Accordingly, any funding provided to South Australia under the National Partnership on Asset Recycling – Energy Infrastructure should have no impact on GST relativities.