

Commonwealth Grants Commission 2018 Update

Tasmanian Government Submission in response to:
Staff Discussion Paper CGC 2017-20-S
New Issues for the 2018 Update

October 2017



Tasmania
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EXECUTIVE SUMMARY

Tasmania welcomes the opportunity to have input into the Commission's Staff Discussion Paper - *New Issues for the 2018 Update* - and provides the following comments.

1. Use of new Census data

Tasmania supports the Staff recommendations.

2. Wage Cost Assessment - Commonwealth Superannuation Scheme Adjustments

Tasmania is of the view that the adjustment should not be reinstated. It is noted, however, that the ACT has provided a late submission on this issue that will require assessment by the Commission.

3. National Disability Insurance Scheme (NDIS) Related Payments

Tasmania supports the Staff recommendation.

4(a). Health - Emergency Department data

Tasmania supports the Staff recommendation.

4(b). Health - Treatment of Commonwealth Payments for the transfer of the Mersey Community Hospital from the Commonwealth to Tasmania

Tasmania supports the Staff recommendations in relation to the treatment of the \$730.4 million payment to Tasmania and the recommendation not to make additional adjustments to Tasmania's financial data or in relation to the \$10 million asset transfer.

Pending the forthcoming Terms of Reference (ToR) for the 2018 Update, Tasmania agrees with the Staff recommendation that the Commonwealth payments for the delivery of rehabilitation services via the Missiondale Recovery Centre and the delivery of palliative services through Palliative Care Tasmania should be treated as impacting on the GST distribution.

5. Quality Schools Payment and the Schools Assessment

Tasmania agrees with the Staff recommendations, but acknowledges that there are a number of unknown factors that are still to be clarified in relation to the penalty provisions of the new funding model.

6. Rescaling in the Investment Assessment

Tasmania supports the Staff recommendation.

7. Treatment of Mining Royalties where bans have been introduced

Tasmania supports the Staff recommendations.

8. Treatment of new Commonwealth payments commencing in 2016-17

Tasmania endorses the Staff-proposed treatment of payments commencing in 2016-17 as listed in Table A-1 of Attachment A.

9. Commonwealth payments commencing in 2017-18 or 2018-19

Tasmania endorses the Staff-proposed treatment of payments commencing in 2017-18 and 2018-19 as listed in Table A-2 of Attachment A.

I. USE OF NEW CENSUS DATA

Staff propose to recommend that the Commission incorporate new Census data selectively.

- Total Population Estimates
 - 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).
- 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).

Total Population Estimates

Tasmania agrees with the recommendation to repeat the same process the Commission used for the 2013 Update following the release of the 2011 Census as this represents a better estimate of actual population and growth rates. That is, the Commission will use ABS 2016 Census based Estimated Residential Population (ERP) from 30 June 2016 onward, and for prior years, calculate its own estimates of State population by subtracting the intervening ABS estimated annual population growth (excluding the intercensal discrepancy).

Commission Staff note that the intercensal discrepancy is of similar magnitude to the 2006-2011 intercensal period and that this time the discrepancy is concentrated in a few States. Commission Staff advise that they are seeking advice from the ABS on the issue.

Tasmania notes that for the 2011 Census, the ABS backcast the intercensal discrepancy over a 20-year period because of its magnitude which resulted from the introduction of a new method of post Census estimation of population undercount. The change in method quantified an accumulated discrepancy over many years and therefore the adjustment needed to go back that far.

The Staff paper indicates that although the magnitude of the discrepancy for the 2016 Census is similar to the 2011 Census, the ABS is backcasting over a 5 year period, as is normal practice. Presumably this is because there has been no method change since 2011, and no basis to backcast

any further. The high intercensal discrepancy in the 2016 Census spread over fewer years is justification for the Commission's approach in developing its own intercensal estimates.

Indigenous Population Estimates

Tasmania agrees with the Staff recommendation to use the newly released 2016 Census counts. This repeats the same process the Commission used for the 2013 Update following the release of the 2011 Census.

IRSEO/NISEIFA/SEIFA and Other Geographic Classifications

Tasmania notes in the Staff paper that because of tight timing, Staff propose to produce, "in house", a Non-Indigenous Socio-Economic Index for Areas (NISEIFA) rather than commission the ABS to produce the index, as was the case following the 2011 Census. Tasmania would expect that appropriate quality assurance measures are taken by the Commission if the index is to be done "in house".

Tasmania also supports the use of 2016 Census data and 2011 Census data for non-State adjustment in the Health category assessment, the Remoteness assessment and for discrete indigenous communities given that 2016 Census data will not be available in time for the 2018 update.

Social Housing

Tasmania supports the use of social housing usage rates based on 2016 Census data, but using the 2011 Census based remoteness classification given that a 2016 Census based remoteness classification will not be available in time for the 2018 Update.

Other Comments

Paragraph 6 in the Staff paper refers to the ABS independent panel comprising State government representatives and members of the Australian Statistical Advisory Council (ASAC). This overstates the level of State participation as there is only one State representative on the panel who is also the ASAC representative.

2. WAGES COSTS ASSESSMENT - COMMONWEALTH SUPERANNUATION SCHEME ADJUSTMENTS

The Commission has asked for comments from the States.

Tasmania understands that the Commission found that the adjustment for the Commonwealth Superannuation Scheme (CSS) was no longer material late in its review of the Wage Costs assessment in the 2016 Update, and it was discontinued in the Wage Costs assessment in the 2017 Update.

The case for an adjustment for the costs of the Public Sector Superannuation Scheme (PSS) has previously been considered by the Commission and found to be no greater than average. At that time the Commission concluded that the maintenance of the PSS was a policy choice and that there was no barrier that would prevent the ACT from moving new employees to a different scheme.

The ACT subsequently provided a further submission on this matter on 10 October. Until the Commission provides its assessment of the additional evidence provided, Tasmania is of the view that the adjustment should not be reinstated.

3. NATIONAL DISABILITY INSURANCE SCHEME RELATED PAYMENTS

Staff propose to recommend that the Commission:

- make no change to its assessment methods for disability services in this update; and
- 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.

Tasmania agrees with the Commission's recommendation that there be no change to its assessment methods for disability services in this Update. States are transitioning to the NDIS at different rates with the ACT, South Australia and NSW reaching full scheme ahead of the other States. The decision to transition earlier is a policy choice by those States. The approach taken by the Commission from the 2015 Methodology Review to apply a dual assessment for NDIS participants and remaining disability services based on average transition remains appropriate and represents average policy.

Tasmania notes that until all States reach full scheme, average transition will be a funding mix of States making contributions to the NDIS for those clients that have transferred to the NDIS, and funding the remaining State disability services in part through the Commonwealth Government Disability SPPs.

Tasmania agrees that, because NSW, South Australia and the ACT will reach full scheme ahead of other States, and as a result will no longer receive Commonwealth disability SPPs in the application year, the Commission will need to estimate notional SPPs for those States in order to determine average transition on a consistent basis to apply to all States.

4. HEALTH ASSESSMENT

(a) Emergency Department data

Staff propose to recommend that the Commission:

- use the 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 because the number of emergency department occasions not being captured is negligible (1.1% of total activity) and including an adjustment is not material for any State.

Tasmania supports the Staff recommendation. It is evident that any adjustment to the Emergency Department and Emergency Services data would have negligible impact on the number of emergency department occasions not being captured, and including an adjustment is not material for any State (estimated by the CGC to be less than \$10 per capita), as demonstrated by Table 4, page 13.

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

Staff propose to recommend that the Commission:

- treat the \$730.4 million payment for the transfer and operation¹ of the Mersey Community Hospital as not affecting the relativities because it is expected to be quarantined by the terms of reference;
- 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; and
- 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.

Tasmania agrees with the Staff recommendation to treat the \$730.4 million payment for the transfer of the Mersey Community Hospital as not affecting the relativities, as it is expected to be quarantined by the ToR for the 2018 Update, as referenced by the letter from the Commonwealth Treasurer to the Commission dated 12 April 2017.

¹ On a factual matter, it should be noted that, under the terms of the *National Partnership on Transfer of the Mersey Community Hospital*, the \$730.4 million payment facilitates the transfer of the Mersey Community Hospital to the Tasmanian Government, and the delivery of rehabilitation and palliative care services in Tasmania and is unrelated to the operational costs of the hospital.

Tasmania agrees that the additional adjustments to its financial data are not required, given that they would not have a material effect on the GST distribution. Tasmania also supports the Staff recommendation that no adjustment be made for the \$10 million asset transfer from the Commonwealth to Tasmania for the delivery or ongoing support of rehabilitation and palliative care services in the Hospital.

Pending the forthcoming ToR for the 2018 Update, Tasmania agrees with the Staff recommendation that the Commonwealth payments for the delivery of rehabilitation services via the Missiondale Recovery Centre and the delivery of palliative services through Palliative Care Tasmania should be treated as impacting on the GST distribution. Should the ToR indicate otherwise, Tasmania reserves the right to make further comment on this issue.

5. QUALITY SCHOOLS PAYMENT AND THE SCHOOLS ASSESSMENT

Staff propose to recommend that the Commission:

- 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; and
- on the basis of these decisions, assess:
 - Commonwealth funded school expenditure using SRS weights and student numbers from the assessment years;
 - revenue from Commonwealth payment using the share of payments States were entitled to (but not necessarily received) in the assessment years, as directed by ToR.

(a) 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.

Tasmania agrees that, while the relationship between the Commonwealth and the States is fundamentally different under the new arrangements, the actual funding model is relatively similar and therefore, it is appropriate to maintain the same assessment criteria.

(b) Conclude that it cannot reliably measure the distribution of entitled payments in the application year in advance, and therefore should use historical payment distributions.

Ultimately, given timing delays, uncertainty around finalising funding formulae, and the Commonwealth Government's ability to materially alter distributions (through penalties for not meeting legislated contributions which are not yet understood) there appears to be no other option but to use historical payment distributions.

(c) Decide that using historic SRS patterns is consistent with the ToR requirement not to unwind measures of educational disadvantage.

Given that the underlying SRS calculation methodology has been relatively stable over time, Tasmania agrees that the use of historic SRS patterns is consistent with the ToR requirement not to unwind measures of educational disadvantage.

However, a specific issue for Tasmania is the new calculation of the Students with Disability (SWD) loading. From 2018, the disability loading rates will change significantly and this will have a significant negative impact on funding received for students with a disability. Tasmanian State schools will receive significantly less Commonwealth funding for students with a disability as a result of this loading change. Using the historical, rather than revised SWD loadings may overstate Tasmania's Commonwealth funding in this regard.

However it is noted that the impact of using historical rather than assessment year amounts is difficult to predict and possibly relatively small because of the Commission's three-year rolling average, and two-year lag.

(d) On the basis of these decisions, assess:

- **Commonwealth funded school expenditure using SRS weights and student numbers from the assessment years; and**
- **Revenue from Commonwealth payment using the share of payments States were entitled to (but not necessarily received) in the assessment years, as directed by the ToR.**

Tasmania agrees with these recommendations, as long as it is eventually confirmed that the penalties will be unwound in the assessment process. There are still high levels of uncertainty around State funding requirements, and, without these being settled, it is unclear how likely it is that jurisdictions will incur penalties. It also remains unclear how penalties will be determined and how they will be applied.

(e) Other comments.

In commentary on Table A-I, it is stated that the final form of the funding formula will be determined by a newly established National Schools Resourcing Board. Tasmania understands that the final funding formula will be described in amendments to the *Australian Education Regulations 2013*.

6. RESCALING IN THE INVESTMENT ASSESSMENT

Staff propose to recommend to the Commission 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.

Tasmania appreciates the potential problems where the Commission needs to scale State assessed expenditure up or down where it no longer sums to the national total and where State assessed expenditure can be positive or negative (which can occur in the Investment assessment).

Tasmania agrees that in those instances where States have different 'signs' on their assessed expenses, the current scaling approach could lead to distortionary redistribution outcomes.

Tasmania therefore agrees with the Staff recommendation to rescale in the Investment assessment by distributing the difference between the assessed change in stock and the unscaled expenses on an equal per capita basis.

7. TREATMENT OF MINING ROYALTIES WHERE BANS HAVE BEEN INTRODUCED

Staff propose to recommend that the Commission:

- not 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; and
- consider the treatment of mineral bans as part of its 2020 Methodology Review.

Tasmania agrees that, given current production levels for coal seam gas and uranium are low in those States where it is not prohibited, and consequently have no material impact on GST relativities, it is appropriate to address this issue, and the broader issue of average policy, as part of the 2020 Methodology Review.

8. TREATMENT OF THE NEW COMMONWEALTH PAYMENTS COMMENCING IN 2016-17

Staff propose to recommend that the Commission:

- approve staff proposals on the treatment of each of the Commonwealth payments commenced in 2016-17 listed in Table A-1 of Attachment A.

Tasmania endorses the Staff proposed treatment of payments commencing in 2016-17 as listed in Table A-1 of Attachment A of the New Issues paper.

9. COMMONWEALTH PAYMENTS COMMENCING IN 2017-18 OR 2018-19

Staff propose to recommend that the Commission:

- not backcast the Commonwealth payments commencing in 2017-18 or 2018-19 listed in Table A-2 of Attachment A.

Tasmania endorses the Staff proposed recommendation not to backcast Commonwealth payments commencing in 2017–18 or 2018-19 listed in Table A-2 of Attachment A of the New Issues paper. The Commonwealth payments listed in Table A-2 are either immaterial, or where they are significant national reform agreements (such as Harper regulatory reform and the Skilling Australians Fund) they are still under negotiation or have some uncertainty around funding. Therefore the budget implications for the States are not sufficiently known in order to reliably backcast.