



Australian Government


Commonwealth Grants Commission

2018 UPDATE

**NEW ISSUES FOR THE 2018 UPDATE
FURTHER CONSULTATIONS**

**STAFF DISCUSSION PAPER
CGC 2017-23-S**

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Submissions sought by	<p>Submissions should be emailed in Word format to secretary@cgc.gov.au by 15 December 2017.</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
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BACKGROUND

- 1 The Commission has received comments from all States on staff proposals in staff discussion paper CGC2017-20-S *New issues for the 2018 Update*.
- 2 After considering State comments, Commission staff have identified the following issues on which we need to further consult the States. They are issues either not raised in the New issues paper or on which States have made additional submissions.
 - Census data — Estimated Resident Population and ABS advice.
 - New Census data in the Health assessment.
 - Wages assessment — regression results and a possible adjustment for the costs of the Public Sector Superannuation Scheme.
 - Remote Indigenous Housing.
 - Treatment of National Housing and Homelessness agreement.
 - Treatment of Commonwealth payment for New South Wales infrastructure skills centre.
- 3 Comments should be provided by 15 December 2017 to secretary@cgc.gov.au. The contact officer for queries is Priscilla Kan (priscilla.kan@cgc.gov.au or 02 6229 8849).

ESTIMATED RESIDENT POPULATION (ERP)

Background

- 4 For the 2018 Update assessments the Commission requires for each State:
 - estimated resident population (ERP) as at 31 December for each assessment year (2014-15, 2015-16 and 2016-17)
 - estimated population growth in each year (for the Investment and Net lending assessments).
- 5 Since the 2013 Update the Commission has used Australian Bureau of Statistics (ABS) ERP estimates (based upon the 2011 Census), with population growth based upon the ABS estimates for births, deaths and net migration. Over this time, population growth estimates have matched changes in ERP levels.
- 6 However, following the 2016 Census, the ABS estimate of Victoria's population for 30 June 2016 was 109 000 higher than the comparable earlier estimate from the 2011 Census data adjusted for births, deaths and net migration between 2011 and 2016. For Western Australia, the new estimate was 57 000 lower. The ACT's new estimate was 7 000 higher. No other State had a significant change to their estimates. To produce a consistent time series, the ABS has retained the 2011 population estimates, and added a new component of population growth to reconcile the 2011

and 2016 level estimates. This new component, known as intercensal difference, reduced the annual population growth in Western Australia by around 12 000 per year between 2011 and 2016, and increased growth in Victoria by around 22 000 per year.

State views

- 7 As the original staff paper proposed options where levels and growth were consistent, State comments were largely concerned with measures of growth rather than measures of levels. States provided the following views in their submissions.
- Western Australia considered the quality of the 2016 Census to be questionable, and the ABS approach of applying intercensal difference evenly across each year to be excessively simplistic. As such, it considered using actual data on population growth rather than a simplistic model of attributing intercensal error evenly across years was more appropriate. It also stated that the Commission should use levels as published based on the 2011 census for years to 2015, and only use the 2016 census based estimates for the 2016.
 - Tasmania and the Northern Territory considered the Commission should subtract components of growth from the 2016 ERP.
 - New South Wales, Victoria and Queensland considered the Commission should use the published series, as these are the official statistics endorsed by the ABS.
 - South Australia and the ACT supported using only births, deaths and net migration, subject to ABS advice.

Analysis

- 8 Faced with a similar issue in the 2013 Update, 'the ABS advise[d] that subtracting ... components of growth from the preliminary rebased 30 June 2011 ERP [would] provide an effective proxy for a reference point ERP for earlier reference periods'¹. Following the 2011 Census, the ABS considered that the intercensal difference largely reflected a change in its methods of estimating population between the 2006 and 2011 Censuses.
- 9 Following the 2016 Census, the ABS considers that the 2011 and 2016 Censuses are methodologically comparable. Therefore the intercensal difference could reflect error in one or more of:
- the 2011 levels
 - the 2016 levels
 - the measures of growth.

¹ ABS 3101.0, March 2012, *Advice on the use of 2011 Preliminary rebased ERP*.

- 10 The ABS considers that there is no strong evidence for any particular source of error, and it has followed its usual practice of assigning all the intercensal difference evenly across the intercensal periods. The ABS regards these as the official population estimates.
- 11 As the ABS has endorsed its published population series as the best measure of population levels, the Commission intends to use these estimates rather than using some other backcast series. That is, for category assessments and closing populations in the capital assessments, the Commission intends to use the published ABS numbers.
- 12 The Commission does not intend to adopt the Western Australian proposal of using 2011 Census based numbers to 2015, and using 2016 Census based numbers from 2016. Such an approach does not use the latest available data that the terms of reference (ToR) require and further, would attribute all intercensal difference to the growth in 2015-16, which does not appear reasonable.
- 13 Following the ABS advice in the 2013 Update, the Commission maintained its use of population growth, as measured by ABS estimates of births, deaths and net migration, to estimate changes in population for the years to December 2009, 2010 and 2011. In considering how best to assess in this update States' relative Investment and Net lending needs, the Commission again is faced with a choice.
- 14 The Commission is undecided whether, for its purposes, population growth in each year is best measured by the change from the closing population in the previous year (which also includes an intercensal difference adjustment), or by the latest ABS measures of growth: births, deaths and net migration estimates. The Commission considers that both options have merit.
- 15 The case for using the difference between ABS published population levels to estimate growth is that the ABS has published data for population estimates that they endorse as fit-for-purpose. Under this view, population growth is simply measured by the change in population levels. As the data custodians and experts, the Commission generally accepts ABS advice and practice.
- 16 Alternatively, the case for using births, deaths and net migration to estimate population growth is as follows.
 - In the 2017 Update, ABS measures of population growth did not include intercensal difference, but were based solely on births, deaths and net migration estimates. For all periods from June 2016 onwards, in the 2018 Update and subsequent updates growth will also be based solely on births, deaths and net migration. It is only for each calendar year to December 2014 and 2015, and half of the year to December 2016, that intercensal difference could be included as an additional component of growth. Therefore there is an

argument for using births, deaths and net migration as a consistent measure of growth in all assessment years.

- Subtracting components of growth from the 2016 ERP could be interpreted as a continuation of the methods established in the 2013 Update.
- While the ABS has not endorsed subtracting components of growth as it did in the 2013 Update (since it considers its latest data fit for purpose), it acknowledges that the 'intercensal difference cannot be attributed to a particular source'. The ABS, in attributing intercensal difference to each of the intercensal years is not, as some States consider, 'admitting' that growth is the actual source of that error. Rather, it is ensuring that all elements of a closed equation balance in the only mathematically feasible way.

- 17 As population growth is the driver of the distribution of GST revenue in the Investment assessments, the Commission may decide that for its purposes the ABS measure of growth should be used, rather than including a measure of error as well.
- 18 Under this approach, the Commission would use the measured components of growth in its calculations to assess population growth for the Investment and Net lending assessments, and use the published population series to reflect total population in each assessment year as the closing population in these and all other assessments.

State views

Staff do not yet have a settled view on which approach to measuring population growth is more appropriate for the Commission's purposes and therefore on which approach to recommend to the Commission to apply in the 2018 Update.

Staff seek any further comments from the States on this issue for the Commission to consider when it makes its decision on the appropriate measure of growth for its Investment and Net lending assessments.

NEW CENSUS DATA IN THE HEALTH ASSESSMENT

- 19 In this update the Commission has decided to use 2016 defined measures of socio-economic status (SES) for the Indigenous (IRSEO) and non-Indigenous (NISEIFA) populations. Due to the limited amount of time between when the 2016 defined measures of SES become available and the finalisation of the relativities, the Independent Hospital Pricing Authority (IHPA) is unable to provide revised data on the new basis for the first two assessment years (2014-15 and 2015-16). It will be able to provide data on the new SES basis for 2016-17. Since the service use data for the first two assessment years will be on the 2011 measures of SES, it will be necessary to use disaggregated population data based on the 2011 defined measures of SES for

those years. The disaggregated population data will be scaled to match the revised State ERP totals.

- 20 IHPA expects to be able to provide revised data for 2015-16 using the 2016 defined measures of SES later in 2018, which staff propose to use in the 2019 Update.

WAGES ASSESSMENT — REGRESSION RESULTS

- 21 The wage costs disability recognises that comparable public sector employees in different States are paid different wages, partly due to differences in labour markets beyond the control of State governments. The Commission estimates the impact of those differences using an econometric model of the wages paid to private sector employees in each State, controlling for differences in education, industry, experience and other attributes known to affect wage levels.
- 22 The modelled outcomes for 2016-17 and accompanying statistics are provided in an attached spreadsheet.

WAGES ASSESSMENT — COMMONWEALTH SUPERANNUATION SCHEME ADJUSTMENT

Background

- 23 In the 2017 Update, after consulting the States, the Commission decided to discontinue the adjustment it made to the Wage costs assessment for the ACT and the Northern Territory to account for the higher costs to those States as a result of the Commonwealth Superannuation Scheme (CSS) they inherited at the time of self-government. It found, late in the review of the Wage costs assessment in the 2016 Update, that this adjustment was no longer material but it did not have sufficient opportunity to consult States at that time.
- 24 The ACT has provided a submission in support of its view that the CSS adjustment should be reinstated in this update and expanded to include the costs associated with the Public Sector Superannuation Scheme (PSS). The PSS is the other defined benefit scheme which applied to former Commonwealth employees at the time of transition to a separate ACT public service.
- 25 The Commission considered the case for a PSS adjustment in the 2004 Review. At that time, it concluded that the costs of the PSS were no greater than average. In this update, the ACT has provided data which suggest that the unit cost of the PSS has increased over the past 14 years relative to two other State defined benefit

superannuation schemes and the superannuation guarantee.² Further, it argued that it did not have policy control over the closure of the scheme to new employees. It presented new data which show that 36% of its public service employees were members of the PSS as at 30 June 2016. It argued that, in light of the new and more reliable data, the Commission should reinstate the CSS adjustment in this update and incorporate the additional costs of the PSS using the same methodology. It said the combined disability would exceed the \$30 per capita materiality threshold and that reinstatement of an existing disability, for which there is a conceptual case and established methodology, would not constitute a method change.

Staff view

- 26 The ACT has presented data which show that the cost of the PSS has increased over the past 14 years and some evidence that it incurs higher unit costs than defined benefit schemes in two other States. Information from the latest actuarial report on the PSS indicates that the increase in the notional unit cost of the scheme has primarily arisen from an increase in the proportion of benefits taken as a pension and from an increase in member contribution rates.³ It is not clear why these factors would increase the cost of the PSS to a greater extent than the cost of defined benefit schemes in other States, nor has the ACT been able to provide conclusive evidence that this is the case. In the absence of clear evidence that the ACT costs are affected by factors outside its control that are different from those in other States, staff are inclined to recommend that the Commission not to reintroduce the CSS disability expanded to include the PSS.

Recommendations

Staff propose to recommend that the Commission:

- not reintroduce the CSS disability expanded to include the PSS, since it is not clear that the factors that have increased the cost of the PSS have done so to a greater extent than similar schemes in other States.

REMOTE INDIGENOUS HOUSING

- 27 In the 2016 Update, the Commission decided to treat 25% of the payments under the National Partnership Agreement on Remote Indigenous Housing (NPARIH) as not

² The ACT data show that the notional employer contribution rate (NECR), the actuarially assessed unit cost, for the PSS increased from 15.4% in 2002-03 to 19.8% in 2016-17. It said that the 2016-17 NECR was 7.51 percentage points higher than a weighted average of defined benefit schemes NECRs in New South Wales and Victoria, and 9.97 percentage points higher than a weighted average of superannuation guarantee rates in six States.

³ Department of Finance, *PSS and CSS Long Term Cost Report 2014*, 30 June 2014.

affecting the State GST shares because it considered that part of the funding was to address past under-investment by the Commonwealth in remote Indigenous housing (and needs were not assessed).

- 28 The Commission said it would review the treatment of Commonwealth payments for remote Indigenous housing when a replacement program for NPARIH had been negotiated. The Commission expected that the Commonwealth legacy issues would be resolved by 2017-18. In this case any future Commonwealth funding would be treated as having an impact.
- 29 As part of the renegotiations of NPARIH, the Commonwealth commissioned a review to consider the impact of the Commonwealth's investment in remote housing since 2008 and to provide options for addressing future need. It also put in place the Remote Housing Strategy, which commenced in 2016 as an interim arrangement. The review was to be completed at least 12 months prior to the Strategy's expiry on 30 June 2018.
- 30 The review report was released at the end of October 2017. The report concluded that while much has been achieved in the provision of remote Indigenous housing, more needs to be done. While staff have not had the time to fully consider the report, it appears that the Commonwealth legacy issue is not explicitly addressed.
 - However, the report estimates that some 3 000 dwellings are still required to be built to meet current needs to 2018, over half of which are in the Northern Territory.
 - The review recommends that the costs of a successor remote Indigenous housing program should be equally shared (50:50) between the Commonwealth and the States.
- 31 Our understanding is that future funding arrangements are still being negotiated. We do not know whether they will be finalised before the update report is finalised. At this stage, no Commonwealth funding is committed beyond 2017-18 (2018-19 being the application year of the 2018 Update).
- 32 Because we do not have sufficient information on the arrangements for 2018-19, staff would prefer to wait for the agreement to be finalised before considering changes to the assessments.

Recommendations

Staff propose to recommend that the Commission:

- wait for a new remote Indigenous housing agreement to be finalised before considering changes to the assessments because there is insufficient information available at this stage on the arrangements for 2018-19.

NATIONAL HOUSING AND HOMELESSNESS AGREEMENT

- 33 The ACT sought the views of the Commission on the treatment of the payments under the National Housing and Homelessness Agreement. It considered that, as the new agreement is a major change in Commonwealth-State financial arrangements, backcasting of the payments would be the standard approach followed by the Commission.
- 34 Staff understand that the arrangements are still under negotiation. Advice from the Commonwealth Treasury is that the new funding arrangements are not expected to be substantially different to the current arrangements.

Recommendations

Subject to the finalisation of the negotiations, staff propose to recommend that the Commission:

- not backcast payments under this agreement because the quantum and distribution of the payments in 2018-19, as shown in the *Final Budget Outcome 2016-17*, will not be of a different order of magnitude from the previous payments (specific purpose payment for National Affordable Housing and national partnership payment for Homelessness).

COMMONWEALTH PAYMENT FOR NEW SOUTH WALES INFRASTRUCTURE SKILLS CENTRE

- 35 The Commonwealth's *Final Budget Outcome 2016-17* included a new payment to New South Wales that was not included in the budget papers or the New issues paper released to States in August 2017. The payment of \$1 million to New South Wales in 2016-17 is for the development of a new facility within the NSW TAFE institute at Annandale which is intended to provide training in skill areas directly related to a number of infrastructure projects underway in Sydney.

Recommendations

Staff propose to recommend that the Commission:

- allow the payment to affect the relativities because it is for a normal State function for which needs are assessed in the Investment assessment.