



2018 UPDATE

***NEW ISSUES –
FURTHER
CONSULTATIONS***

ACT GOVERNMENT SUBMISSION
DECEMBER 2017

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ESTIMATED RESIDENT POPULATION

ISSUE/COMMISSION STAFF POSITION

For the assessments to be carried out as a part of the **2018 Update of GST Revenue Sharing Relativities** (2018 Update), the Commonwealth Grants Commission (Commission) requires estimated resident population (ERP) and population growth data for each State and Territory (State), for each of the assessment years 2014-15, 2015-16 and 2016-17. ERP data is required as at 31 December of the relevant assessment year, while population growth data is specifically required for the Investment and Net Lending assessments.

Since the **2013 Update of GST Revenue Sharing Relativities** (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. However, with data from the 2016 Census available now, as is normally the case in all census years there is a difference between ERP data from the 2016 Census and ERP data from the 2011 Census adjusted for births, deaths and net migration. This difference, referred to as the 'intercensal difference', is significant for Victoria (VIC), Western Australia (WA) and the Australian Capital Territory (ACT) (with differences in populations of approximately +109,000, -57,000 and +7,000, respectively) and not so significant for the rest of the States.

The Commission Staff Discussion Paper CGC 2017-23-S **New Issues for the 2018 Update Further Consultations** summarises States' views on the options presented in the Commission Staff Discussion Paper CGC 2017-20-S **New Issues for the 2018 Update** on the measurement of population growth, with the claim that, *"South Australia and the ACT supported using only births, deaths and net migration, subject to ABS advice"*. However, the ACT's contention was that backcasting of revised population estimates should be subject to ABS advice and States should be consulted further on that topic.

Further, Commission staff present the ABS' perspective on the quality of the 2016 Census data and conclude that *"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"*. On the other hand, with regard to measurement of population *growth*, Commission staff present the case for both measures, namely, using the difference between ABS published population levels to estimate growth, or, using the births, deaths and net migration figures to estimate population growth.

- According to the paper, *"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."*
- Alternatively, using births, deaths and net migration provides a consistent measure of growth in all assessment years, whereas change in population levels could only be applied to the 2014-15 and 2015-16 assessment years, with the components of growth being used for subsequent years.

Based on the above arguments, the Commission staff position is as follows.

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.

ACT POSITION

The ACT agrees with the Commission staff regarding the use of ABS ERP data as at 31 December of the assessment year as a measure of the population levels in each State. Further, the ACT contends that the difference between ABS published population levels should be used as a measure of population growth. The latter should *not* be measured through the use of births, deaths and net migration in the current instance. The ACT's rationale is as follows.

The ACT notes the ABS does not consider that there is any strong evidence of a particular source of error in its 2016 Census data and has endorsed its published population series as the best measure of population levels. Similar to the Commission, the ACT does not see any strong reason to question the ABS' advice in this regard and agrees with the Commission staff that ABS published ERP data as at 31 December of each assessment year should be used as the measure of population levels of each State.

On the issue of measurement of population growth, the ACT understands the pros and cons of the two approaches the Commission staff have explained. At the same time, the ACT contends that decision making in this context becomes easier if accuracy is given more importance over consistency in measuring the impact of population growth on investment in infrastructure and hence, on the GST distribution.

For example, according to the ABS population figures for 2016, VIC has seen the highest population growth in Australia in comparison to any other jurisdiction. *If* the ABS 2016 population levels are considered to be correct, the VIC Government has had and needs to make investments in infrastructure so that it can provide the "same standard" of infrastructure to its residents, in comparison to the other States. Thus, from an accuracy perspective, ***as the 2016 population figures are indeed considered to be correct***, the population growth factor that needs to be considered is the one which takes into account this significant growth. Hence, the difference in ABS published population levels should be used as the measure of population growth.

On the other hand, if for the sake of consistency, population growth is measured by net births and migration only, then the significant change in population that the Victorian government is having to support through its infrastructure build-up will not be taken into account during the GST distribution, which would be an inaccurate approach to Horizontal Fiscal Equalisation. In summary, the ACT contends that in the circumstances relevant to the 2018 Update, the difference in published population levels is the right approach to measure population growth.

Further, the ACT also notes that the ABS considers the 2011 and 2016 Censuses to be comparable methodologically and hence, the situation in the 2018 Update is significantly different from the one in the 2013 Update. In fact, the ACT considers the Commission staff cannot foreshadow a one-size-fits-all approach in this context and it can be generalised that measurement of population growth has to happen using either of these two methods, depending on ABS' advice:

- If the ABS advises that the methodology of the current and previous censuses are comparable, population growth should be measured using differences in published population levels over the assessment years, until the data from the next Census becomes relevant.

- If the ABS advises that there is a major change in the methodology employed in the current and previous censuses, then population growth should be measured using the births, deaths and net migration method and it is highly likely that backcasting would also be required. Similar to the above, this arrangement also has to continue till the data from the next Census becomes available.

NEW CENSUS DATA IN THE HEALTH ASSESSMENT

ISSUE/COMMISSION STAFF POSITION

The Commission has decided to use 2016 defined measures of socio-economic status (SES) for the Indigenous (Indigenous Relative Socioeconomic Outcomes (IRSEO)) and non-Indigenous (Non-Indigenous Socioeconomic Index for Areas (NISEIFA)) populations. However, the amount of time available between when the 2016 defined measures of SES become available and the finalisation of relativities is fairly limited. Hence, the Independent Hospital Pricing Authority (IHPA) would be able to provide SES data on the new basis only for the 2016-17 assessment year and not for the first two assessment years. Since the data for the first two assessment years will be on the 2011 measures of SES, the Commission intends to use disaggregated population data based on the 2011 defined measures of SES and then scale it up to the population ERP levels based on the 2016 Census. IHPA would be able to provide revised data for 2015-16, using the 2016 defined measures of SES, later in 2018, which the staff intend to use in the *2019 Update of GST Revenue Sharing Relativities*.

ACT POSITION

The ACT understands the challenge in using the new 2016 defined measures of SES in the 2018 Update and supports the Commission staff recommendations on the health assessment.

WAGES ASSESSMENT – REGRESSION RESULTS

ISSUE/COMMISSION STAFF POSITION

The wage costs disability recognises that comparable public sector employees across States are paid different wages partly due to differences in local labour markets, which are beyond the control of State governments. The Commission uses an econometric model of the wages paid to private sector employees in each State to estimate the impact of those differences. Years of education, type of industry, work experience and other attributes known to impact wage levels are used as control variables.

Commission staff have shared the econometric model and statistics for the 2016-17 assessment year.

ACT POSITION

The ACT thanks the Commission staff for sharing the econometric model for private sector wage costs. The ACT has requested Commission staff to share the econometric model for public sector wage costs and is awaiting a response.

WAGES ASSESSMENT – COMMONWEALTH SUPERANNUATION SCHEME ADJUSTMENT

ISSUE

In the **2017 Update of GST Revenue Sharing Relativities** (2017 Update), the Commission ceased the wage costs disability to the ACT and the NT for the Commonwealth Superannuation Scheme (CSS), a now closed Commonwealth Government operated superannuation scheme which was also provided to ACT and Northern Territory (NT) Government employees during their respective periods prior to self-government. The disability provided for the unavoidable higher costs of the CSS against comparable defined benefit superannuation schemes operated by the State governments.

The ACT wrote to the Commission on 21 March 2017, at the end of the 2017 Update process, indicating its intent to pursue a reinstatement of the CSS disability and expansion of it to include the Public Sector Superannuation Scheme (PSS), the higher-cost defined benefit superannuation scheme opened after the closure of the CSS on 1 July 1990, in the 2018 Update ([Attachment A](#)). The Commission's response to this letter, dated 23 March 2017, indicated that the ACT would be required to demonstrate that the case for reinstatement of the CSS adjustment and expansion to include the PSS was resultant of resolving data related problems ([Attachment B](#)).

The ACT subsequently provided to the Commission a submission on 9 October 2017 arguing for the reinstatement of this disability and an expansion of it to include the PSS (transmittal letter of the submission at [Attachment C](#)). As the ACT Public Service was not formalised until 1994, after the opening of the PSS, access to the PSS was also provided to ACT Government staff until its eventual closure in 2005. The ACT had previously argued for a disability for the PSS as part of the **2004 Methodology Review of GST Revenue Sharing Relativities** (2004 Review), however the ACT's case was rejected on the grounds that there was not a significant difference in the cost of the PSS against other State run defined benefit superannuation schemes.

The ACT's submission contended that in the 13 years since the 2004 Review, the Notional Employer Contribution Rate (NECR) of the PSS has increased to a considerably higher rate than the NECRs of comparable defined benefit superannuation schemes operated by State governments. This was premised on a comparison of the NECRs for the PSS and CSS from the financial years 2002-03 to 2017-18 and a comparison of the NECRs for the PSS against the NECRs for the defined benefit superannuation schemes operated by New South Wales (NSW) and Victoria. The analysis showed that the NECR for the PSS had increased by 4.4 percentage points over this period and that since 2012-13, the PSS NECR has been higher than the NECR for the CSS. ACT Treasury estimates indicated that if the CSS disability were to be reinstated and expanded to include the PSS, the value of the disability allowance would amount to \$54.2 million, or \$134.13 per capita; well above the \$30 per capita materiality threshold for disability assessments.

Commission staff requested further explanation of the cause of the increase in the PSS NECR on 8 November 2017. ACT Treasury staff provided advice from the ACT actuary on 10 November 2017 which indicated that the causes for the increase in the PSS NECR were increases in the voluntary contributions of PSS members, an increase in the proportion of PSS members that are taking PSS benefits in the form of a pension rather than as a lump sum payment, lightened pensioner mortality assumptions and a lower level of discounting for older, non-retired members in the calculation of the accrued superannuation liability.

The ACT's submission further argued that the ACT had no effective policy choice due to actions taken by labour unions in the Australian Industrial Relations Commission (AIRC).

The ACT's submission argued that a condition of the self-government arrangements was the maintenance of Commonwealth Government employee benefits and conditions for employees transferring to the new ACT Government. The maintenance of Commonwealth Government employee benefits and conditions was required by agreements negotiated by the ACT Government, Commonwealth Government and labour unions, which specified that Commonwealth legislation regarding employment conditions would be treated as ACT legislation by the new Government¹. Thereby, the ACT Government was required at minimum to maintain access to the PSS for its employees for the period from 1 July 1990 to 1 July 1994; the period after self-government and establishment of the PSS but before the creation of the separate ACT Public Service.

Moreover, the ACT's submission posited that the ACT Government had taken actions to close access to the PSS from 1997, including the commissioning of a review of the ACT Government's superannuation arrangements by Towers Perrin and the announcement by the ACT Government of the implementation of superannuation choice arrangements and closure of PSS access from 1 July 1999.

However, these moves to close access to the PSS were thwarted by a number of labour unions, particularly the Australian Nursing Federation (ANF), seeking a direction from the AIRC for the ACT Government to cease its attempts to close access to the PSS. A supplementary submission by the ACT transmitted to the Commission on 10 November 2017 presented a transcript from an AIRC hearing between the ANF and the ACT Government on 29 June 1999. The transcript indicated that while the AIRC did not issue a direction to the ACT Government to maintain employee access to the PSS, the ACT Government nevertheless ceased its attempts to close access to the PSS.

Interpretation of the transcript indicates that the ACT Government agreed to cease to attempt to close access to the PSS due to the credible consideration that had it not done so, the AIRC would have issued a direction for the ACT Government to cease its attempts to close access to the PSS. As such, the ACT's agreement was pre-emptive of a direction from the AIRC. The ACT considers that this indicates that the ACT Government did not have policy choice on whether to close access to the PSS within the first few years after the creation of the ACT Public Service (ACTPS).

The ACT Government's position on the CSS adjustment and proposed expansion to include the PSS can thus be summarised that the cost of the PSS per member has increased over the last 13 years to the point where there is now a significant difference between the PSS and State operated defined benefit superannuation schemes. This increase in cost has come as a result of PSS members living and working longer, voluntarily contributing more funds into their PSS superannuations and taking their PSS benefits as pensions rather than lump sums at a higher rate. The ACT further did not have policy choice on whether to maintain access to the PSS as, prior to 1 July 1994, ACT Government employment benefits and conditions were determined by Commonwealth legislation that the ACT Government was required to follow due to its self-government agreements and, post 1 July 1994, the ACT Government pre-emptively agreed to cease attempts to close access to the PSS after labour unions sought a direction from the AIRC for the ACT Government to do so.

COMMISSION STAFF POSITION

The Commission staff, on reviewing the ACT's submission and supplementary information, has indicated in CGC 2017-23-S that it does not consider the evidence presented by the ACT to be conclusive in demonstrating that the PSS results in the ACT having higher costs than other State superannuation schemes due to factors outside of its control.

¹ Refer to sections 21 and 22 of the *ACT Self-Government (Consequential Provisions) Act 1988 (Cwth)*. Upon establishment of the ACTPS, this legislation was superseded by the *ACT Self-Government (Consequential Provisions) Act 1994 (Cwth)*.

Commission staff take this position on the basis that the reasons provided by the ACT actuary for the increase in the ACT's PSS NECR do not provide clear evidence that they would impact the PSS NECR any more than other State superannuation scheme NECRs.

In addition to the Commission position outlined in CGC 2017-23-S, a letter from the Commission Secretary to the ACT Under Treasurer dated 1 December 2017 (Attachment D) and subsequent correspondence between Commission staff and ACT Treasury officers, sent in reply to correspondence sent from the ACT Under Treasurer to the Commission Secretary on 29 November 2017 (Attachment E), indicate that the Commission considers that the ACT needs to present a clearer conceptual case in relation to the time periods for which the nature of policy choice, or the lack of it, may have differed. To this effect, the Commission focussed on three particular dates:

- 30 June 1991, when the option for employees to transfer from the CSS to the PSS (after the closure of the former) expired;
- 1 July 1994, the day of formal establishment of the ACTPS; and
- 1 July 2005, when the PSS was closed.

ACT POSITION

Cost of the PSS

The ACT strongly disagrees with the Commission's position on the issue of divergence in costs and considers that the evidence it has provided throughout its initial submission and supplementary advice very clearly establishes the facts on this issue.

Commission staff have taken the position that the ACT actuary's advice does not provide clear evidence that the factors driving the increase in the ACT's PSS NECR would have been any more significant than those affecting other State defined benefit superannuation schemes. However, the degree of impact across different schemes depends on key elements in the design of those schemes, as pointed out in the actuary's advice forwarded by email to Commission staff on 10 November 2017 ([Attachment F](#)). These elements include the discount rate used, whether benefits were available as a lump sum or pension, how generous the lump sum provisions were and whether the benefits were taxed or untaxed.

The trend of increasing NECRs for the PSS compared with other schemes is supported by the **PSS and CSS Long Term Cost Report 2014** (paragraphs 1 and 14, p.6), prepared by Mercer Consulting for the Commonwealth Department of Finance, which deals with the costs for all contributors to these two schemes. This shows the NECRs for the PSS rising while over the same period the NECRs for the CSS were falling. Both are defined benefit schemes, but the differences in the NECRs relate to differences in design between the two schemes.

The ACT notes that the Commission accepted the NECRs provided by the ACT and NT for the calculation of the disability allowance for the CSS for 12 years as the basis for establishing the cost differences between the CSS and State defined benefit superannuation schemes. As the methodology used to calculate the NECRs for the PSS is fundamentally the same as that used for the CSS, there is no logical basis for the change of position which is implied by CGC 2017-23-S.

The ACT contends that if the Commission staff do not consider State provided NECRs to be a sufficiently reliable indicator of cost differences between superannuation schemes, then this necessarily implies that the Commission considers the NECRs themselves to be deficient. If this is the case, the ACT considers that the Commission staff should explain how the State provided NECRs are deficient and why the Commission continued using them for the calculation of the CSS disability for 12 years without indicating concerns about their suitability for that purpose.

To validate the ACT's position, ACT Treasury has analysed the proportion of State employee expenses which are either defined benefit service costs or gross defined benefit interest costs for the ACT, NSW, Victoria, Western Australia and Queensland as presented in their respective State budgets from 2010-11 to 2016-17 ([Attachment G](#)).² This analysis shows that the ACT is a clear outlier, with an average of 30.34 per cent of the ACT's employee expenses being either defined benefit service costs or gross defined benefit interest costs across the 2010-11 to 2016-17 period. The State with the next highest proportion is Victoria with 13.57 per cent and the average of the other States is 10.44 per cent. This provides further clear indication that the ACT faces significantly higher costs for servicing the CSS and PSS than other States face in servicing their defined benefit superannuation schemes.

The ACT notes and welcomes that in the aforementioned letter of 1 December 2017, the Commission indicated its intention to contact and seek further information on State defined benefit superannuation scheme NECRs. It is the ACT's view that these data should enable the Commission to conclusively establish whether there is a significant cost differential between the PSS and State run defined benefit superannuation schemes.

Policy Neutrality

Of the three dates specified in the Commission's letter of 1 December 2017, the ACT considers that prior to 1 July 1994, it was incapable of attempting any changes to legislation, regulatory instruments or other agreements that impacted the ACTPS, including attempting to close access to the PSS. This is on the basis that the ACTPS did not exist prior to this date. Therefore, the ACT considers the 30 June 1991 date to be irrelevant for determining whether the ACT had policy choice on whether to close access to the PSS at any given point in time prior to its closure by the Commonwealth.

Regarding the period from 1 July 1994 to 30 June 2005, the ACT considers that there are multiple periods within that date range in which the ACT was subject to several pressures which prevented or restricted its capacity to exercise policy choice with regard to the closure of the PSS. The ACT considers that the ACT was subject to these different pressures during the following periods:

- From 1 July 1994 to 1 November 1997;
- From 1 May 1998 to 30 June 2000; and
- From 1 July 2000 to 30 June 2005.

During the period from *1 July 1994 to 1 November 1997*, the ACTPS, while formally created, was still in its infancy, with functions and staff still in the process of transitioning from the Australian Public Service to the ACTPS. Moreover, this was occurring in a wider social and political context of ongoing resistance to the self-government model in the general public as well as the ACT's own legislature. The ACT regards the proposition that the ACT Government could feasibly have attempted to close access to the PSS for new staff of the fledgling ACTPS, particularly given the political and social landscape of the ACT at the time, to be unrealistic and considers that the ACT did not have effective policy control over workplace conditions during this time period. The ACT further notes that the ACT began its attempt to close access to the PSS in November 1997, within approximately one parliamentary term of the creation of the ACTPS. The ACT considers that it attempted to close access to the PSS at the first opportunity that it was feasible to do so.

² Superannuation interest cost represents the carrying cost of unfunded superannuation liabilities. Unfunded superannuation liabilities are in effect debts owed to employees. Superannuation interest cost then is effectively the cost of interest payments on the debt. Defined benefit service cost is the projected present value of benefits earned by defined benefit superannuation scheme members in a given time period.

During the period from *1 November 1997 to 1 May 1998*, the ACT actively began to develop alternative superannuation arrangements, beginning with the commissioning of a review into the ACTPS's superannuation arrangements by Towers Perrin in November 1997 and initially reported on in April 1998.

At the time this review was undertaken, the ACT Chief Minister linked it to the Commonwealth Government's announced intention to close the PSS. In May 1998, the ACT announced the implementation of superannuation choice and closure of access to the PSS from 1 July 1999, which aligned with the Commonwealth's latest announced date for closure of the scheme.

As iterated in the ACT's initial submission, these actions by the ACT led to resistance from labour unions, particularly the ANF, on the grounds that the government's action was contrary to provisions in the enterprise bargaining agreements with ACT unions that core conditions of service would be maintained. This led to an AIRC hearing between the ACT Government and the ANF, which resulted in the ACT agreeing to cease its efforts to close access to the PSS.

This was on the basis that the AIRC would have issued a direction to the ACT Government to cease its efforts to close access to the PSS if the ACT Government had refused to agree to do so. This agreement was made with a commitment by the ACT to not seek any changes to ACTPS superannuation arrangements before 1 July 2000. By this time, the Commonwealth Government had also withdrawn from the Commonwealth Parliament its legislation to close the PSS on 9 June 1999. Following the AIRC hearing, the ACT Government requested that the Commonwealth Government take no further action to exclude ACT Government employees in advance of closure of the PSS by the Commonwealth. Please refer to Attachment H, the transcript of the hearing in the AIRC on 29 June 1999, for supporting evidence of the statements above (this documentation was previously provided by the ACT as an attachment to the ACT Under Treasurer's letter of 10 November 2017 addressed to the Commission Secretary).

In summary, the ACT considers that for the period *1 May 1998 to 30 June 2000*, it did not have policy choice on whether to close access to the PSS due to the agreement made with the ANF in the AIRC, as if the ACT had refused, it would have been directed to maintain access to the PSS by the independent Commonwealth body.

During the period from *1 July 2000 to 30 June 2005*, the ACT considers that, while its agreement with the ANF did not specifically cover this period, there were no indications that any attempt by the ACT to change ACTPS superannuation arrangements would not have been met with the same resistance. Moreover, the Commonwealth Government continued to pursue legislative closure of the PSS during this period but met with repeated difficulties in the Senate. After its failed attempts to close the scheme in 1998-99, the Commonwealth launched a further attempt early in 2001, which culminated in defeat of the relevant legislation in the Senate on 8 August 2001. Finally, after a further long drawn out process, the Commonwealth was able to pass legislation through both Houses which closed the PSS to new employees from 1 July 2005.

This evidence suggests that any further attempt by the ACT Government to remove its future employees from the PSS, in the absence of action by the Commonwealth in relation to the scheme as a whole, would have met with failure. It is reasonable to conclude that the ACT's decision in this period not to attempt again to remove access to the PSS for new employees was justified, given the context of the ongoing difficulties experienced by the Commonwealth Government in its attempts to close the scheme.

In the period since 1 July 2005, no new ACTPS employees have been eligible for the PSS. However, the ACT Government is still required to provide PSS benefits to existing members of the PSS who become employees of the ACTPS.

Such employees can either be former ACTPS employees who originally began working for the ACT Government prior to the closure of the PSS, but then left the ACTPS and returned on or after 1 July 2005, or APS employees with PSS entitlements who accepted positions with the ACTPS on or after 1 July 2005.

The ACT notes that it is legally required to provide PSS membership to previous PSS members employed on a permanent ongoing basis, or provide the option to rejoin the PSS to previous PSS members hired on a temporary non-ongoing basis³. These PSS entitlements can be forfeited voluntarily by employees who are members, however the ACT Government cannot force or coerce its employees to individually change their superannuation arrangements. Thus, the ACT contends that it does not have policy control over whether these employees are granted PSS entitlements and therefore these employees should be included in the calculation of the reinstated and expanded CSS/PSS disability.

Information provided by ACT Government Shared Services is included at [Attachment I](#) on the number of ACTPS employees who joined the PSS in each of the periods identified as significant by the Commission. ACT Treasury analysis indicates that the total value of an expanded CSS disability to include the PSS, as of 2016-17, would be \$48.65 million, or \$120.41 per capita.⁴ A period-by-period breakdown of the estimated value of PSS members who joined in the identified time periods is as follows:⁵

- Before 30 June 1991 - \$4.46 million or \$11.04 per capita;
- Between 1 July 1991 and 30 June 1994 - \$2.63 million or \$6.50 per capita;
- Between 1 July 1994 and 30 June 2005 - \$26.14 million or \$64.71 per capita; and
- Since 1 July 2005 - \$10.57 million or \$26.16 per capita.

REMOTE INDIGENOUS HOUSING

ISSUE/COMMISSION STAFF POSITION

In the **2016 Update of GST Revenue Sharing Relativities** the Commission decided to treat 25 per cent of the payments under the National Partnership Agreement on Remote Indigenous Housing (NPARIH) as not affecting State GST shares because it considered the funding was in part used to address previous under-investment by the Commonwealth (and needs were not assessed).

The Commission had expected that a replacement program for NPARIH would have been agreed prior to the expiry of the Remote Housing Strategy on 30 June 2018. However, at this stage future funding arrangements are still being negotiated, and the likely nature of the new agreement is not clear. Moreover, no Commonwealth funding has been committed beyond 2017-18.

³ See Commonwealth Superannuation Corporation Employer Quickguide EQG APS01 – 04/12 – Membership Eligibility.

⁴ As per the 2016 Update and 2017 Update reports, the CSS disability is worth approximately \$12 per capita to the ACT. This translates into a total cost of \$4.84 million.

⁵ Refer to Attachment A of the ACT's initial submission to the Commission for calculation methodology.

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.

ACT POSITION

The ACT understands that Commission staff propose to maintain the current approach of quarantining 25 per cent of the payments under the NPARIH from affecting the GST distribution.

The ACT also understands that the discussion in CGC 2017-23-S of arrangements which might apply in 2018-19 does not indicate any intent of Commission staff to recommend backcasting of these payments.

The ACT supports the Commission staff recommendation on the treatment of payments for Remote Indigenous Housing.

NATIONAL HOUSING AND HOMELESSNESS AGREEMENT

ISSUE/COMMISSION STAFF POSITION

The ACT sought the views of the Commission on the treatment of payments under the new National Housing and Homelessness Agreement (NHHA) which is due to come into force from 1 July 2018. The ACT commented in its initial submission on CGC 2017-20-S in October 2017 that the new agreement is a major change in Commonwealth-State financial arrangements, meaning that backcasting would be the standard assessment approach followed by the Commission. The ACT asked that the Commission explicitly document the assessment approach it is proposing to take with the NHHA.

Commission staff have received advice from Commonwealth Treasury that the new funding arrangements are not expected to be substantially different to the current arrangements.

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).

ACT POSITION

The ACT appreciates the provision of information from Commission staff on the new NHHA. The ACT agrees that the funding under the NHHA as set out in the Commonwealth Budget papers does not differ significantly in either quantum or distribution from the total funding previously available under the National Affordable Housing Specific Purpose Payment (SPP) and Homelessness National Partnership Payment (NPP) combined. Although the distribution of funding under the Homelessness NPP differed significantly from equal per capita, it constitutes less than 8 per cent of the total funding under the new SPP, and the distribution under the new SPP in total is still very close to equal per capita.

However, the standard approach of the Commission in the past has been to backcast Specific Purpose Payments which involve a major change to federal financial relations. The new NHHA represents a major change in a number of respects:

- It combines funding from the previous National Affordable Housing Agreement with that from the previous Homelessness NPP, thus converting the latter into an ongoing rather than time-limited payment.
- Its provisions are being incorporated in Commonwealth legislation, rather than depending solely on inter-governmental agreements.
- It contains provisions for financial penalties or partial funding where certain performance requirements are not met. Previously, such provisions applied to reward-type National Partnerships, but had never been applied to Specific Purpose Payments.

The use of a legislative instrument and inclusion of financial penalty provisions are similar to the approach the Commonwealth has taken with the new Quality Schools Payment. This represents a major departure from the Commonwealth's previous policies in federal financial relations.

The inclusion of financial penalty provisions in these new agreements presents a challenge for the Commission in how they should be treated for equalisation purposes. CGC 2017-20-S contained a substantive discussion of the issue in relation to the Quality Schools Payment, and the ACT would have expected CGC 2017-23-S to have touched on it in relation to the NHHA. If backcasting is applied to these payments then that could only be done on the basis of initially entitled or offered shares. This would prevent unwinding of any penalties applied by the Commonwealth. On the other hand, an assessment based on amounts actually received in the assessment years would constitute unwinding of any penalties applied (as pointed out in paragraph 97 of CGC 2017-20-S). The ACT has raised this issue with Commonwealth Treasury, but the draft Terms of Reference for this Update do not include any provision as to how the penalties issue should be handled by the Commission.

Based on the above considerations, the ACT considers that, although there may not be any material difference in the distribution for this Update, the Commission should backcast Commonwealth payments to States under the NHHA.

COMMONWEALTH PAYMENT FOR NEW SOUTH WALES INFRASTRUCTURE SKILLS CENTRE

ISSUE/COMMISSION STAFF POSITION

Commission staff noted that the Commonwealth's Final Budget Outcome for 2016-17 included a new payment of \$1 million to NSW for the development of a new facility within the NSW TAFE Institute at Annandale. The payment was not included in the Commonwealth Budget paper or in CGC 2017-20-S.

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.

ACT POSITION

The ACT concurs with Commission staff that the Commonwealth payment to NSW for infrastructure skills centre should be subject to equalisation as it is a standard State function for which needs are assessed.

ATTACHMENTS

- A. ACT Under Treasurer letter to Commission Secretary on CSS/PSS disability 21 March 2017
- B. Commission Secretary letter to ACT Under Treasurer on CSS/PSS disability 23 March 2017
- C. Transmittal letter of initial ACT Submission on CSS/PSS disability
- D. Commission Secretary letter to ACT Under Treasurer on CSS/PSS disability 1 December 2017
- E. ACT Under Treasurer letter to Commission Secretary on CSS/PSS disability 29 November 2017
- F. Email of 10 November 2017 - ACT actuary's advice on why the ACT's PSS defined benefit costs are higher than other States.
- G. Defined benefit superannuation costs of NSW, Victoria, Queensland, Western Australia and the ACT as a percentage of employee expenses 2010-11 to 2016-17.
- H. Transcript of AIRC hearing of 29 June 1999 and ACT Covering Letter (provided separately).
- I. Number of ACTPS employees who joined the PSS scheme in the periods requested by the Commission.

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ATTACHMENT A

ACT Under Treasurer Letter to Commission Secretary on CSS/PSS disability 21 March 2017

Please refer to separate attachment provided.

ATTACHMENT B

Commission Secretary Letter to ACT Under Treasurer on CSS/PSS Disability 23 March 2017

Please refer to separate attachment provided.

ATTACHMENT C

Transmittal Letter of Initial ACT Submission on CSS/PSS Disability

Please refer to separate attachment provided.

ATTACHMENT D

Commission Secretary Letter to ACT Under Treasurer on CSS/PSS disability 1 December 2017

Please refer to separate attachment provided.

ATTACHMENT E

ACT Under Treasurer Letter to Commission Secretary on CSS/PSS disability 29 November 2017

Please refer to separate attachment provided.

ATTACHMENT F

Email on the ACT Actuary's Advice on why the ACT's PSS Defined Benefit Costs are Higher than Other States

From: Miller, Douglas

Sent: Friday, 10 November 2017 5:10 PM

To: jeffrey.evans@cgc.gov.au; Morgan Moa <Morgan.Moa@cgc.gov.au>

Cc: McAuliffe, Patrick <Patrick.McAuliffe@act.gov.au>; Banerjee, Atreya <Atreya.Banerjee@act.gov.au>; Heavey, Sean <Sean.Heavey@act.gov.au>; Purcell, John <John.Purcell@act.gov.au>

Subject: FW: Question regarding the ACT Public Sector Superannuation Submission [SEC=UNOFFICIAL]

Importance: High

Jeff/Morgan

In relation to your questions, we have consulted with the ACT Government's actuary, who has provided the following advice:

Q.1 Why has the ACT's employer contribution cost (NECR) increased over time to the current level?

The Notional Employer Contribution Rates (NECRs) have increased materially over time because of four main reasons:

Increase in proportion of members assumed to take a pension. Since 2008 the proportion of retiring members assumed to take a pension has increased from 60% to 75%.

Older members make higher contributions. In 2008 the calculation assumed all members contributed 4.75% of salary. An age based scale is now used increasing significantly at older ages.

Lighter pension mortality assumptions.

The Projected Unit Credit funding method¹ used leads to higher rates at older ages. This is because there is a shorter time until retirement for older members and less discounting.

¹ Method used by actuary to determine the value of Accrued Superannuation Liability and is consistent with current practice of the Australian Accounting Standard AASB119 and its requirement to use a projected unit credit valuation approach

All of these reasons also continue to apply in the future so the NECRs are expected to continue to increase.

These same factors have driven an increase in the PSS contribution rates in relation to the Commonwealth Government's PSS liability as reflected in the "PSS and CSS Long Term Cost Report 2014 (LTCR)", refer to Section 7, page 34 (http://www.finance.gov.au/sites/default/files/PSS%20CSS%20LTCR%202014_3.pdf). The costs associated with this particular defined benefit superannuation scheme should therefore not be of a surprise to the Commonwealth!

The following table shows the main reasons for the larger increases in the ACT NECR. The NECRs shown exclude the 3% productivity contribution and do not include all changes.

Date of Change	Prior contribution Rate (% of Salary)	New Contribution Rate (% of Salary)	Main reasons for increase
1 July 2012	17.8%	19.7%	Older membership Higher Member Contribution Rates for older members Increase in pension take up
1 July 2009	16.3%	17.8%	Older membership Higher Member Contribution Rates for older members, with age based scale used. Lighter pension mortality assumptions
1 July 2008	13.3%*	16.3%	The 13.3% is from 30 June 2008 LTCR prior to adjustment for ACT Salaries and retrenchments. The 16.3% is based on ACT assumptions. Higher Member Contribution Rates for members. LTCR assumed 4.75% of salary while ACT assumed 5.86%. Higher pension take up. LTCR assumed 60% and the ACT moved to 70%.

*If the 30 June 2005 LTCR report is used the contribution rate was 12.6%. The pension take up rate on retirement was 50% and the assumed member contribution rate was 5%.

Q.2 What factors have caused the divergence between the PSS scheme compared with other State defined benefit schemes?

There is no straight forward or simple response to this question. The reason for this is that all defined benefit superannuation schemes are different. For example:

- the time that schemes were closed will impact on the growth rate of contributing members and subsequent liability value;
 - we know that peer defined benefit schemes were generally closed many years before access to the PSS was closed enabling those employers to offer much lower cost superannuation arrangements generally at the minim SG rate
 - this also means that over the relevant period, the percentage of current contributors to defined benefit schemes is considered to be much higher for ACT than peers
- some schemes may only offer a lump sum benefit, may offer lump sum and pension, may offer pension only;
- the underlying factors used to calculate the various benefits will be different;
- different taxation arrangements;
- different employee contribution rate scales; etc

One example that we can provide is the Victorian “New Scheme*”:

- The New Scheme was the superannuation fund for Victorian public servants from 1 July 1988 to 31 December 1993.
- Its contribution rates range from 7.4% of salary when a member does not contribute to 10.3% when they contribute 7% of salary.
- Key reasons these are lower than the ACT NECRs are:
 - Discount Rate 7% p.a. used, materially higher than the ACT 6%. Also uses 4% salary and 2.5% CPI increases.
 - Lump sum Retirement Benefit, not pension
 - Less generous retirement lump sum. Estimated accrual is 8.5% for member that does not contribute (subject to SG underpin) while ACT is 11%. At 5% member contribution rate the New Scheme accrual is 17.5% while ACT's is 21%.
 - The New Scheme is taxed while PSS employer finalised benefits are untaxed.

* This information is largely from the publicly available 2015 triennial valuation of the Emergency Services and State Superannuation Scheme.

I hope this is useful, as I don't consider that it is possible for us to provide anything more, particularly given the range of differing provisions among State superannuation schemes. However, if you have any

specific queries about the information presented above, please contact Patrick McAuliffe, Director, Asset Liability Management, ACT Treasury (Patrick.McAuliffe@act.gov.au), ph: 6207 0187.

Regards

DOUG MILLER | SENIOR MANAGER | FEDERAL FINANCIAL RELATIONS | ECONOMIC AND FINANCIAL GROUP | CHIEF MINISTER, TREASURY & ECONOMIC DEVELOPMENT DIRECTORATE

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From: Morgan Moa [<mailto:Morgan.Moa@cgc.gov.au>]
Sent: Wednesday, 8 November 2017 4:31 PM
To: Miller, Douglas <Douglas.Miller@act.gov.au>
Cc: Jeffrey Evans <Jeffrey.Evans@cgc.gov.au>
Subject: Question regarding the ACT Public Sector Superannuation Submission [SEC=UNOFFICIAL]

Hi Doug,

As discussed on the phone, in the process of progressing your submission, "Submission to the Commonwealth Grants Commission on Public Sector Superannuation Scheme – 2018 Update", a question has arisen that we cannot find the answer for. Broadly, what factors have caused the divergence between the PSS scheme compared with other State defined benefit schemes. We note in your Submission that the NECR for the PSS was 19.8% in 2016-17 compared with 10.9 % in NSW and 12% in Victoria.

When the Commission last discussed this topic (the 2004 Review) it was noted that the cost of the PSS was similar to these schemes. We have some information from the PSS and CSS Long Term Cost Report on the reasons the PSS NECR has increased (by more than the CSS NECR) since 2004, but the Commission will want to know whether these factors have affected the cost of the PSS differently from other State defined benefit schemes.

Happy to discuss further.

Regards

Morgan Moa
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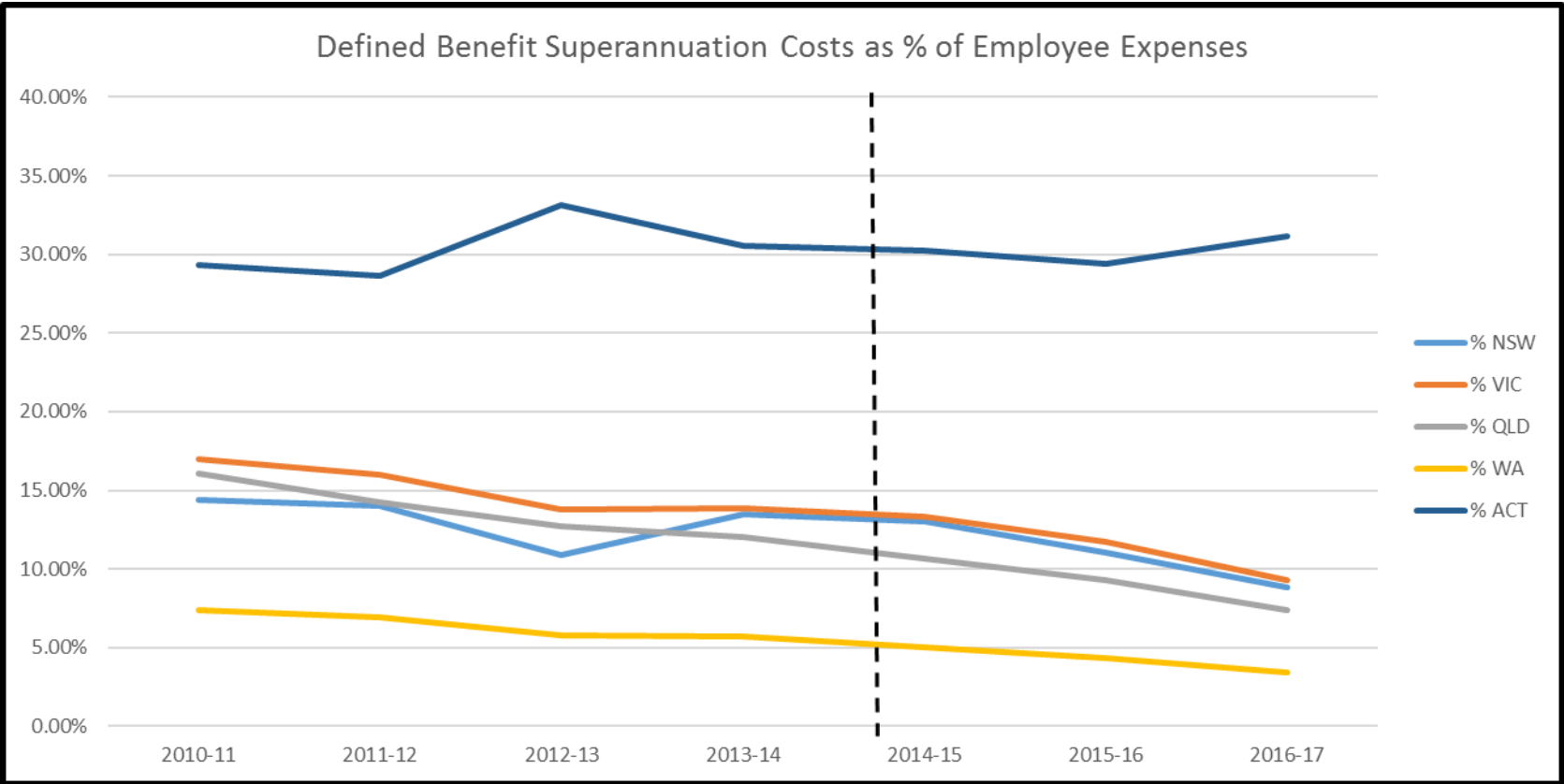
ATTACHMENT G

Defined Benefit Superannuation Costs as a Percentage of Employee Expenses

	NSW				VIC				QLD				WA				ACT			
Year	Employee Expenses (\$m)	Defined Benefit Service Cost (\$m)	Gross Defined Benefit Interest Cost (\$m)	%	Employee Expenses (\$m)	Defined Benefit Service Cost (\$m)	Gross Defined Benefit Interest Cost (\$m)	%	Employee Expenses (\$m)	Defined Benefit Service Cost (\$m)	Gross Defined Benefit Interest Cost (\$m)	%	Employee Expenses (\$m)	Defined Benefit Service Cost (\$m)	Gross Defined Benefit Interest Cost (\$m)	%	Employee Expenses (\$m)	Defined Benefit Service Cost (\$m)	Gross Defined Benefit Interest Cost (\$m)	%
2010-11	24434	655	2862	14.39%	16374.8	724.1	2053.8	16.96%	16826	1106	1594	16.05%	8829	194	458	7.38%	1351	166	230	29.31%
2011-12	25425	614	2950	14.02%	17120.1	747.6	1985.8	15.97%	18250	1103	1501	14.27%	9605	194	474	6.95%	1464	154	265	28.62%
2012-13	26195	575	2276	10.88%	17788.5	856.8	1599.9	13.81%	18130	1241	1063	12.71%	10154	237	348	5.76%	1574	257	264	33.10%
2013-14	27056	723	2915	13.45%	18106.5	729.2	1775.7	13.83%	17816	1022	1120	12.02%	10682	236	376	5.73%	1652	204	300	30.51%
2014-15	27818	730	2889	13.01%	18834.3	735	1781	13.36%	18592	934	1044	10.64%	11089	207	352	5.04%	1761	219	314	30.27%
2015-16	29582	669	2594	11.03%	20002	778	1567	11.72%	20044	946	919	9.30%	11383	192	299	4.31%	1866	234	315	29.42%
2016-17	30585	670	2033	8.84%	21497	848	1155	9.32%	21258	952	613	7.36%	11610	193	206	3.44%	1932	309	293	31.16%

Note: The 'Gross Defined Benefit Interest Cost' for Victoria and WA are at the overall State level since general government sector data was not available. However, as general government sector accounts for more than 95% of the costs, the figures aren't too different.

Source: Consolidated Annual Financial Statements and Reports on State Finances for NSW, Victoria, Queensland, WA and the ACT for the years 2010-11 to 2016-17.



Summary

- The above table calculates the service cost and interest costs expended by States as a per cent of their total employee expenses. Note that NSW, Victoria, Queensland and Western Australia were chosen for comparison as together they account for about 90% of the Australian populace.
- Each of the entries for the States: Employee Expenses, Defined Benefit Service Cost and Gross Defined Benefit Interest Cost are taken from the relevant Consolidated Annual Financial Statements/Reports on State Finances, as applicable for a particular State.
- Gross interest cost was chosen since for the ACT's CSS and PSS defined benefit schemes only the gross interest cost figures are available (as opposed to net interest figures that are available for other States since they manage their own defined benefit schemes while the CSS and PSS schemes are managed by the Commonwealth Superannuation Corporation).
- The per cent figure was calculated by taking a ratio of the sum of defined benefit service costs and gross defined benefit interest costs with employee expenses, expressed as a percentage. Note that employee expenses does not include any superannuation expenses and primarily consists of wages and salaries.
- The results show that the ACT is a clear outlier in terms of the amount expended on defined benefit service and interest costs as a percentage of total employee expenses, giving a fair indication of the much higher costs that the ACT government has to bear in funding these defined benefit superannuation schemes, in comparison to the other States.

ATTACHMENT H

Transcript of AIRC Hearing of 29 June 1999 and ACT Covering Letter

Please refer to separate attachment provided.

ATTACHMENT I

Number of ACTPS Employees Who Joined the PSS in the Periods Requested by the Commission

The table below shows the number of employees in the ACT Public Service as on 2014-15, 2015-16 and 2016-17 (the assessment years for the 2018 Update), who had joined in the periods mentioned in the first column and who are members of PSS (note: numbers do *not* include CSS members). The periods in the first column are the ones that have been requested by the Commission.

Date of Joining ACT Public Service	2014-15	2015-16	2016-17
Before 30 June 1991	746	656	593
Between 1 July 1991 and 30 June 1994	436	391	349
Between 1 July 1994 and 30 June 2005	4016	3765	3475
Since July 1 2005	1379	1385	1405
Grand Total	6577	6197	5822

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ACT
Government

Chief Minister, Treasury and Economic
Development Directorate

December 2017