

SOUTH AUSTRALIAN DEPARTMENT OF TREASURY AND FINANCE COMMENTS ON THE NEW ISSUES FOR THE 2019 UPDATE STAFF DISCUSSION PAPER (CGC 2018-04-S)

South Australia welcomes the opportunity to comment on the 2019 Update New Issues paper. In general we support the recommendations proposed by Commission staff apart from those relating to natural disaster relief expenses and the provision of preliminary adjusted data. Further detail on each issue raised is outlined below.

Mining revenue assessment – treatment of lithium royalties

South Australia supports the staff proposal to continue to assess lithium royalties in the Other minerals component in the 2019 Update. This reflects that the Commission analysis has determined that for the 2019 Update, separate treatment is not material. The future treatment of lithium royalties should be considered as part of the 2020 Review.

Mining revenue assessment – transfer pricing of minerals

South Australia supports the staff proposal to assess the royalty revenue received by Queensland from BHP as a result of a royalty reassessment equal per capita. This reflects that the reassessment relates to periods prior to the assessment years for the 2019 Update and that an assessment of this revenue would not be material.

Use of final 2016 Census data

South Australia supports the staff proposal to use 2016 Census based data for all category assessments.

Natural disaster relief expenses assessment

South Australia is concerned that some states may have an inflated level of natural disaster relief expenditure due to the inclusion of local government expenditure. As natural disaster relief expenses are assessed on an actual per capita basis the additional expenditure directly flows through to assessed expenditure.

Natural disaster relief expenses can be significant and result in highly material redistributions of GST revenue. The New Issues paper does not provide any justification why the Commission staff do not propose to investigate this issue as part of the 2019 Update.

Given this is a data adjustment issue, South Australia believes that it should be investigated further as part of the 2019 Update and not just referred to the 2020 Review.

Treatment of National Disability Insurance Scheme (NDIS) related payments

South Australia supports the staff recommendation to assess National Disability Insurance Scheme (NDIS) expenses equal per capita using the

2011 Census population numbers. This will recognise the impact of differential population growth that has occurred since the 2011 Census. South Australia also supports retaining the current non-NDIS expense assessment.

Treatment of the transfer of ownership of Snowy Hydro Limited from states to the Commonwealth

South Australia supports the staff recommendation to not take any action in relation to the sale of Snowy Hydro Ltd by New South Wales and Victoria to the Commonwealth as the transaction will have no direct impact on state revenue or net financial worth. South Australia also supports not making any adjustment to state expenditure to eliminate second round effects as it will be impractical to track and remove the spending from the adjusted budget.

The adjusted budget – use of the new Government Finance Statistics classification data

South Australia is comfortable with the staff recommendation to use AGFS05 data provided by the Australian Bureau of Statistics for 2015-16 and 2016-17 and use AGFS15 data provided by the states for 2017-18 for compiling adjusted budget data for the 2019 Update.

The adjusted budget – cease sending the preliminary adjusted budget to the states for comments

South Australia is unclear why Commission staff are proposing to cease sending preliminary adjusted budget data to the states for comment. Although revisions may typically be small, it does provide states an opportunity to review the budget data and potentially identify errors or other anomalies.

With the recent change to Classification of Functions of Government - Australia (COFOG-A) there would appear to be an additional need for states to review the classification of data.

Ceasing the provision of preliminary data to the states is also inconsistent with the Productivity Commission's recent recommendations for greater CGC engagement/interaction with the states.

Treatment of new Commonwealth payments for specific purposes

Treatment of new Commonwealth payments that commenced in 2017-18

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

Goodwood and Torrens rail junctions

In 2017-18, South Australia received funding of \$170.4 million under the National Partnership on Land Transport Infrastructure Projects for the grade separation of the Australian Rail Track Corporation's (ARTC) interstate rail line and the metropolitan rail lines 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 section of the project was completed in 2014 and the Torrens section was completed in 2018. Both projects will improve the operational efficiency of the interstate line by:

- removing the need for the ARTC line to give way to the Noarlunga line and the Outer Harbour 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

The Commonwealth Treasurer has formally advised the Government of South Australia that funding to establish a Proton Beam Therapy Facility in Adelaide will be “non-impacting” for HFE purposes and that he will be directing the CGC to reflect this treatment.

Commonwealth payments commencing in 2018-19 or 2019-20

South Australia supports the recommendation of Commission staff not to backcast Commonwealth payments commencing in 2018-19 and 2019-20 as set out in Table A-2 as they are not the result of a major change in Commonwealth-State financial arrangements.