

COMMONWEALTH GRANTS COMMISSION (CGC) 2017 UPDATE

NEW ISSUES FOR THE 2017 UPDATE

STAFF DISCUSSION PAPER CGC 2016-05-S

NSW TREASURY COMMENTS

OCTOBER 2016

NSW Treasury notes CGC staff proposals to:

- if possible, use preliminary 2015-16 Independent Hospital Pricing Authority (IHPA) data in its health assessments
- ensure that only expenses on eligible measures are included if they have been assured by the Commonwealth as being recognized under the Natural Disaster Relief and Recovery Arrangements (NDRRA) framework
- reassess the materiality of adjusting wage factors to take into account the impact of the Commonwealth Superannuation Scheme, and to discontinue this adjustment if it is no longer material
- shift back the return date for the CGC data requests by four weeks, to 21 October 2016
- change the current practice regarding the sharing of data from 'not sharing data when any State has marked their data confidential' to 'sharing non-confidential data among States which have not designated their data as confidential' (so long as this does not permit confidential data to be back solved)
- not backcast any of the Commonwealth payments commencing in 2016-17 or 2017-18 as shown in Table A-2.

In relation to the CGC Staff proposals for the treatment of Commonwealth payments beginning in 2015-16, NSW Treasury suggests that the proposed 'no impact' treatment of Bridges Renewal program, Response to Zika Virus and Mechanical Fuel Load reduction trials payments on the grounds of 'needs not assessed' should be reconsidered given that recurrent and capital expenses on the maintenance and rehabilitation of bridges are assessed in the Roads expenses category and Infrastructure category, and other payments similar to the Zika Virus and Mechanical Fuel Load Reduction payments are included in the calculation of relativities.

This submission responds to the Commonwealth Grants Commission's request for State comments on CGC Staff Discussion Paper 2016-05-S, *New issues for the 2017 Update*.

Independent Hospital Pricing Authority (IHPA) Data

The Commission did not use the preliminary 2014-15 IHPA data in its health assessments in the 2016 Update, but instead used 2013-14 final data, due to concerns around the reliability of the preliminary data.

IHPA has advised that there are unlikely to be major changes between the preliminary and final data for 2014-15 and that the preliminary 2015-16 data are likely to be sufficiently reliable for the Commission's purposes in the 2017 Update.

CGC staff propose to use the preliminary 2015-16 IHPA data in the 2017 update (subject to the data being available in time) rather than 2014-15 final data.

NSW Treasury has no objection to this approach, provided staff analysis confirms that changes between the preliminary and final data for 2014-15 did not affect significantly assessed health expenses for any State.

Delays in Natural Disaster Relief Payments

The Commonwealth Government has delayed the reimbursement of some NDRRA payments that were previously expected to be paid in 2015-16. CGC staff do not expect this delay to alter the methodology used to assess natural disaster relief expenses, but advise that States should not report expenses for natural disasters in 2015-16 unless the expenses have been assured by the Commonwealth as being recognized under the NDRRA framework.

NSW Treasury has no objection to this approach, provided the CGC is satisfied that expenses have been reported on a consistent basis by all States.

Wage Assessment data update

In the 2016 Update, the Commission moved to the annual Characteristics of Employment Survey as its source for estimates of wage cost differences between States. The 2014 survey data used for that update did not include information on educational attainment. This information will be included in the 2015 survey data, and States will have the opportunity to comment on the results.

The Commission has previously adjusted wage factors for the ACT and NT to account for more generous superannuation arrangements inherited from the Commonwealth. CGC staff propose to recommend that the materiality of this adjustment be retested, and to discontinue this adjustment if it is no longer material. NSW Treasury notes this proposal.

Timing of data requests

During the 2016 Update, many States' data returns did not arrive by the requested date. NSW Treasury notes that the return date for data has been pushed back to 21 October 2016, and will endeavor to work within this timeframe.

Sharing of confidential data

The current data sharing protocol prevents the sharing of any data set if at least one State's data is confidential. The CGC staff discussion paper raises concerns by States that this is too restrictive, and notes that most States preferred an option where non-confidential data sets are

shared amongst States which have not designated their data as confidential. CGC staff propose to recommend to the Commission that this system be implemented, except where providing the non-confidential data would allow for confidential data to be back-solved. NSW Treasury supports this approach.

Commonwealth payments

NSW Treasury notes the proposed treatments of Commonwealth payments that commenced in 2015-16 contained in Table A-1 of Attachment A to CGC 2016-05-S, and makes the following comments.

- CGC staff propose that payments under the Bridges Renewal program not impact on the relativities on the grounds that needs are not assessed. The Bridges Renewal Program provides funding to upgrade, renew and replace bridges. NSW Treasury notes that the Roads expenses assessment includes recurrent expenses on maintenance and rehabilitation of roads, bridges and tunnels; and the capital stock disability in the roads component of the Infrastructure assessment recognises the impact of road length, road use and bridges on the need for road infrastructure. The bridge component of the Roads expenses assessment is assessed equal per capita, given no reliable data can be found to support a differential assessment, and the expenses are adjusted for differences in interstate wage costs. Given the deliberative equal per capita assessment, adjusted for wage costs, in the Roads assessment and the inclusion of bridges in the Infrastructure assessment, it could be argued that recurrent and capital bridge spending needs are assessed and Bridges Renewal program payments should impact on the relativities accordingly.
- CGC staff propose that Response to Zika Virus payments not impact on the relativities on the grounds that needs are not assessed. Under the National Partnership for response to the Zika Virus the Commonwealth Government is providing funding to enhance the ability of the Dengue Action Response Team in Cairns and Townsville to increase surveillance and control in areas at high risk of mosquitos spreading the Zika Virus in Queensland. NSW Treasury notes that community health expenses are assessed in the Health expenses assessment. NSW Treasury notes also that payments under the National Partnership on the Torres Strait health protection strategy (mosquito control) impact on the relativities. This NP provides funding to assist in mosquito detection and elimination and improve communication and coordination between Australia and Papua New Guinea to reduce the spread of communicable diseases in the Torres Strait. NSW Treasury acknowledges it might be possible to argue for a no impact treatment of the Response to Zika Virus payments on the grounds that the payments are a Commonwealth purchase of services, in the sense that the program serves a national Zika Virus preventive purpose.
- Similarly CGC staff propose that payments under the National Partnership for mechanical fuel load reduction trials not impact on the relativities on the grounds that needs are not assessed. The payments fund research that examines the effectiveness of mechanical fuel

removal in forests where conservation values could be compromised by fuel reduction burning. The difficulty for this payment is determining its purpose: whether it supports bushfire mitigation or conservation values. If it is the former, NSW Treasury notes that payments under the National Partnership on Bushfire Mitigation – which support State implementation of long-term bushfire mitigation strategies and improved fuel reduction activities – do impact on the relativities, so there may be inconsistency in the treatment of the two payments. Again a no impact treatment of the mechanical load fuel reduction payments might be justified if the payments are regarded as a Commonwealth purchase of services for a national fire mitigation trial.

NSW Treasury has no objection to the proposal not to backcast the Commonwealth payments commencing in 2016-17 or 2017-18 listed in Table A-2 of Attachment A to CGC 2016-05-S.