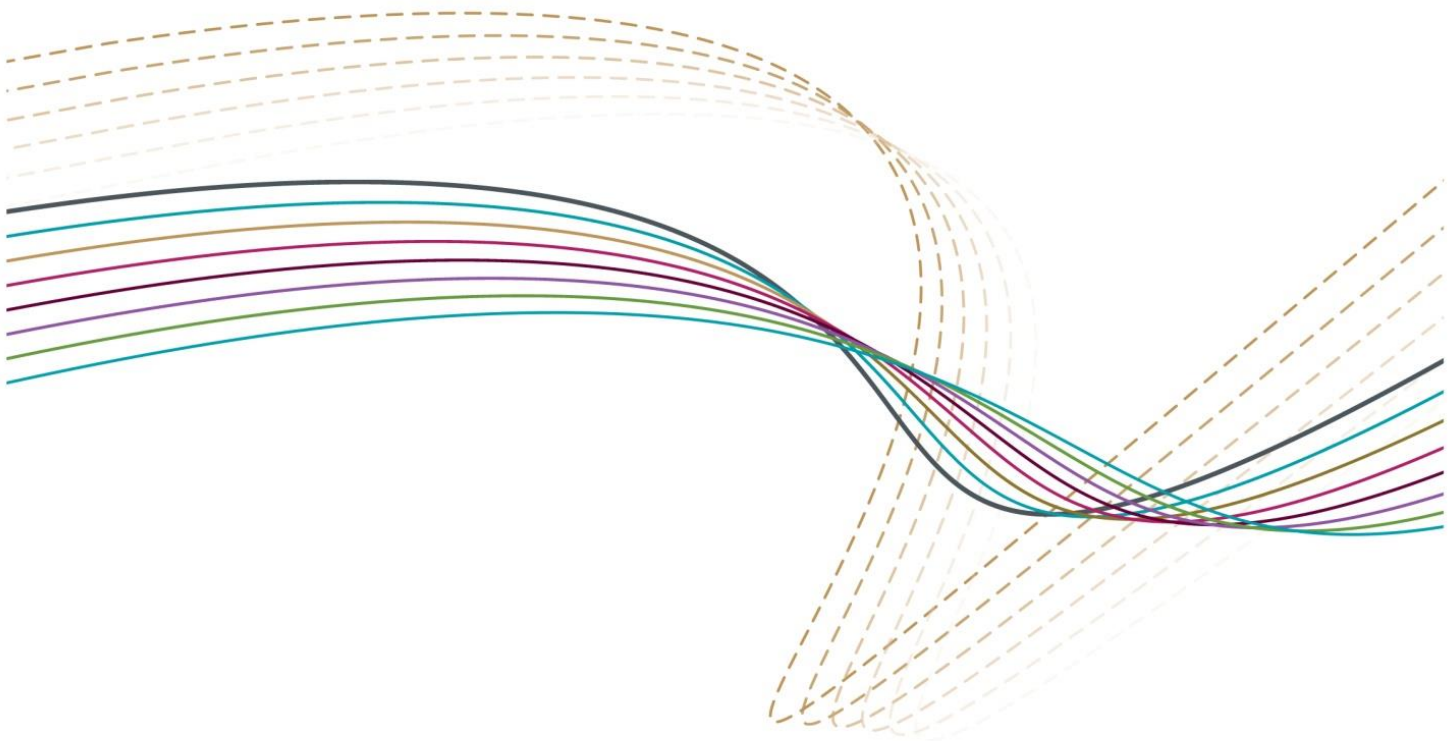


QUEENSLAND TREASURY

New Issues for the 2017 Update

**Response to Commonwealth Grants Commission –
Staff Discussion Paper CGC 2016-05-S**

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Queensland's position

- Queensland Treasury strongly disagrees with Commonwealth Grants Commission (CGC) staff's proposed treatment of natural disaster expenses in 2017 Update. All state natural disaster expenses incurred in 2015-16 and assured based on the Queensland Reconstruction Authority processes should be included in assessments for the 2017 Update, irrespective of any additional Commonwealth assurance processes.
 - There is no conceptual case for excluding these expenses, and doing so will have negative implications for contemporaneity and volatility of GST revenue.
 - The proposed treatment of such expenses is unprecedented; to exclude these expenses would create inconsistency with previous years' assessments.
 - Even if there were a conceptual case for excluding expenses not yet assured by the Commonwealth, there is no clear definition or common understanding of what constitutes assurance for CGC purposes.
- Queensland Treasury continues to express concern over aspects of the wage costs assessment.
 - Queensland Treasury does not accept the implicit assumption that state wage costs are only or primarily driven by state relative private sector wages. The assessment should capture the many other factors that influence state wage levels.
 - Continued use of the Characteristics of Employment survey for assessments of wage cost differences between States should improve the quality of the assessment over time. However, the CGC should bear in mind that this data is not available to States in a comprehensive form. The unavailability of the data limits States' ability to consider the appropriateness of the data for the assessment, resulting in a less transparent CGC process.
- Queensland Treasury conditionally supports the use of the preliminary Independent Hospital Pricing Authority data.
 - Queensland Treasury notes CGC staff observations that there was no material impact caused by differences between preliminary and final IHPA data in 2014-15. Provided there is opportunity for further review should the preliminary data vary greatly from final data in future, Queensland Treasury supports this use of preliminary data.
- Queensland Treasury has no objections to CGC staff positions on the remaining issues.

1.0 Delays in natural disaster relief payments

Queensland Treasury strongly disagrees with the CGC staff's proposed treatment of expenses for natural disasters in 2015-16. There is no good case for excluding payments that have not been 'assured by the Commonwealth'. Our concerns are focused on the following issues:

- lack of a clear conceptual case;
- lack of clarity on the 'assurance process';
- unprecedented treatment of an expense; and
- lack of contemporaneity and increased volatility for the current and future updates (for all States and Territories).

1.1 Conceptual case

There is no conceptual case for the CGC staff's proposition that natural disaster relief expenses unassured by the Commonwealth should be excluded from contributing to the assessment of GST requirements.

Expenses on natural disaster relief are included in the GST assessment because the CGC has always recognised, rightly, that '[while] they are potentially provided to the total population of the States, the expenses actually incurred are affected by unique features of each State; namely, the prevalence and impact of natural disasters' (2010 Review, page 420). Further, because of the common framework of the Natural Disaster Relief and Recovery Arrangements (NDRRA), there are no significant policy differences between States. It has always been, therefore, a relatively straightforward assessment on an actual per capita basis, based on the clear and unique needs of States that are affected by natural disasters from time to time.

As the CGC staff notes, the Commonwealth's 2016-17 Budget revealed a delay in reimbursement of NDRRA payments that were expected to be received in 2015-16. This delay has been ascribed to the Commonwealth's imposing additional assurance processes on States' reported expenses (which have been submitted and assured based on Queensland Reconstruction Authority (QRA) processes), following the Australian National Audit Office's 2015 audit of the administration of the NDRRA by Emergency Management Australia (the ANAO Report). But neither the ANAO Report, nor the additional assurance processes, nor even the Commonwealth's decision to delay reimbursement are relevant to the CGC's purposes. The purpose of the assessment is to assess needs based on natural disaster relief expenses. States have incurred those expenses and are reporting them to the CGC, just as they have always done, and the formality of the Commonwealth's new requirements does not change that fact.

As the disaster relief expenses have been incurred, they should be included in the assessment on the same basis as any other expenses. Other expense categories are not subject to additional assurance processes before being included in the assessments. Excluding these expenses raises a number of difficult flow-on issues (discussed below), without any clear benefit or rationale for doing so.

1.2 Assurance process

CGC staff asks the States and Territories not to report 2015-16 natural disaster relief expenses 'unless they have been assured by the Commonwealth as being recognised under the NDRRA framework'. It is not clear what this assurance will look like, what level of assurance is acceptable, or what relevance the assurance holds for the CGC.

QRA's advice to Queensland Treasury is that the Commonwealth has no current processes for providing any form of assurance that expenses are recognised under the framework. The Commonwealth has always paid the States on the basis of claims made in previous years. It is currently undertaking a review of the States' NDRRA claims made as far back as 2009 to reassess compliance with the NDRRA guidelines through its new assurance prism. Over this period of seven years, there was no formal Commonwealth assurance process, and the new process is unlikely to be finalised in the short term. The consequence is that States have no means of identifying which expenses meet the new assurance requirement, and may not be able to for quite some time yet.

That said, claims submitted by Queensland to the Commonwealth are audited by the Queensland Audit Office prior to submission. This Queensland Government process ensures that expenses are legitimate and comply with the NDRRA framework. There is no reason to believe that this process is in any way less sufficient than whatever process the Commonwealth ultimately implements.

1.3 Unprecedented treatment of an expense

A delay in reporting expenses in just one sector, because of a review by the Commonwealth but not because of any uncertainty about the expenses, is unprecedented. Regardless of the Commonwealth's current processes, there is no reason that the expenses should not be reported in the year that the expenses were incurred. This has been the case in all prior years, and will likely be the case in all future years once the assurance processes are streamlined. If an exception is made for disaster expenses in 2015-16, it will set a worrying precedent.

There may be many assessments where data is less certain than in NDRRA expenses. Preliminary data are sometimes used (for example, CGC staff proposes to use preliminary Independent Hospital Pricing Authority data). Natural disaster expenses have the advantage of being subject to Queensland Audit Office review and being well documented to comply with the NDRRA framework. This is a greater level of certainty than is available for many other data items that contribute to the CGC's assessments. To subject these expenses to the proposed treatment may establish a precedent for excluding data whenever any uncertainty exists, which could spread to many or even most of the CGC's assessments. Moreover, natural disaster expenses are not uncertain, and do not justify this precedent.

1.4 Contemporaneity and increased volatility

The principle of contemporaneity is that GST relativities should be as appropriate as possible to the application year. This means that, as far as reliable data will allow, the distribution of GST provided to States in a year should reflect state circumstances in that year.

The CGC staff position to delay the reporting for NDRRA expenses is at odds with this principle. It is not yet clear how long the Commonwealth's assurance processes will take. Nor is it clear whether this will impact only on 2015-16 expenses, or whether an extended delay between submitting expenses and receiving reimbursement will now become a permanent feature of the framework. Delaying the reporting of disaster relief expenses to the CGC beyond the year in which they occurred until an external assurance program is completed – possibly for more than one year – will increase the current lag that already affects CGC assessments, leading to a further degradation of contemporaneity.

Basing the CGC's assessment on delaying the reporting of 2015-16 NDRRA expenditure to subsequent years would add unnecessary volatility both for recipient States and other jurisdictions, depending on when this expenditure is included in later assessments. This volatility is not in keeping with the principle of horizontal fiscal equalisation, and is not justified by any concerns about the reliability of the data.

2.0 Wages assessment data update

2.1 Wage costs assessment

Queensland Treasury notes the CGC's continuation of the wages assessment, and welcomes the likely inclusion of the missing educational attainment data in the 2015 survey.

Queensland Treasury continues to hold reservations about the assumption implicit in the current wages assessment model that state wage costs are driven only or primarily by state relative private sector wages. With other States, we have previously argued there are many other factors, such as national market pressures, States' ability to be a dominant employer and state fiscal circumstances, which also impact state wage levels and are at least as conceptually significant as private sector wages.

CGC staff should ensure that jurisdictions have enough time to give proper consideration to the progressive transition of the ABS's characteristics of employment data into the wages assessment and to consider the impact of including the data missing from last year's update. This is particularly difficult for jurisdictions to achieve without complete access to the ABS's data. Without this access, key elements of the wages assessment remain opaque to States and Territories. We would welcome assistance from the CGC to help make this aspect of the wages assessment more transparent.

2.2 Commonwealth Superannuation Scheme adjustment

Queensland Treasury supports the CGC staff's recommendation that the CGC discontinue the adjustment to the wage factors for the ACT and the Northern Territory that allowed for the previous Commonwealth superannuation scheme that these jurisdictions inherited at the time of self-government, if the adjustment is no longer material. Queensland Treasury notes that the adjustment was no longer material in the 2016 Update. If this remains the case, there is no basis for continuing with the adjustment.

3.0 Independent Hospital Pricing Authority (IHPA) data

Queensland Treasury supports the CGC's recommendation to use preliminary 2015-16 IHPA data in the 2017 Update. We note the CGC staff's observation that differences in previous years' preliminary and final data would not have materially impacted assessed health expenses. Changes to preliminary data (when it becomes finalised) should be kept under review, and if material differences do emerge in future years, the CGC should reconsider its use of preliminary IHPA data.

4.0 Timing of data requests

Queensland Treasury supports the CGC's decision to extend timeframes for the annual data request, with a return date this year of 21 October 2016. As the paper notes, some data will inevitably be delayed beyond this date, owing to the timing of regular financial reporting requirements (e.g. the Report on State Finances) and time for Queensland Treasury to undertake quality assurance processes over the data. Queensland Treasury will continue to endeavour to provide the CGC with data within the requested timeframes, or as soon as circumstances allow thereafter.

5.0 Sharing of confidential data

Queensland Treasury acknowledges and supports the CGC staff's proposed change to the current practice of data sharing among the States, as long as confidential data cannot be back-solved from the assessment outcome. This must be approached carefully; it will not be only in cases where just one jurisdiction has marked data as confidential that confidential data can be back-solved; sometimes this will be the case when two or more States with distinctive data have done so. Protection of genuinely confidential state data is paramount for States and Territories to have confidence in the integrity of the CGC's processes.

6.0 Commonwealth payments commenced in 2015-16

Queensland Treasury's positions on the treatment of Commonwealth payments that commenced in 2015-16 are set out in the table below. In summary, Queensland Treasury acknowledges and supports the CGC staff's proposed treatment of the Commonwealth payments outlined in Attachment A of the New Issues paper, which are either reasonable on a conceptual basis or are governed by the terms of reference.

Commonwealth payment	Description	2015-16 \$m	CGC staff proposed treatment	Queensland Treasury position
HEALTH				
Albury-Wodonga Cardiac Catheterisation Laboratory	Funding for Victoria to support building the new Cardiac Catheterisation Laboratory, which will enable local residents suffering from heart conditions to access quality care, without the need to travel long distances to capital cities. The laboratory will be built on the Albury Hospital site by refurbishing existing space adjoining the current imaging department.	3.5	Impact	Agree
Improving local access to health care on Phillip Island	Funding for Victoria for the construction of a new Health and Medical Hub on Phillip Island to improve local access to health care.	2.5	Impact	Agree

New Issues for the 2017 Update

Commonwealth payment	Description	2015-16 \$m	CGC staff proposed treatment	Queensland Treasury position
NT remote Aboriginal investment – Health component (continuation of Stronger Futures in the Northern Territory)	Funding to improve health and wellbeing of Indigenous people by supplementing primary health care services in remote Northern Territory communities. This funding includes support for the provision of integrated oral and hearing health services to children in remote communities.	5.6	No impact	Agree
Response to Zika virus	Payment to Queensland to assist in enhancing the ability of the Dengue Action Response Team in Cairns and Townsville to increase surveillance and control in areas at high risk of the exotic mosquito, <i>Aedes aegypti</i> , spreading the Zika virus in Queensland.	1.0	No impact	Agree
EDUCATION				
National School for Travelling Show Children	One-off payment to New South Wales to support the provision of on-site supervision services for students of the National School for Travelling Show Children, who receive educational instruction from the Dubbo School of Distance Education.	0.2	No impact	Agree
NT remote Aboriginal investment –Children and schooling component (continuation of Stronger Futures in the Northern Territory)	Funding to improve school readiness and the literacy and numeracy of remote and very remote Indigenous students in the Northern Territory. The funding aims to improve the attendance, engagement and educational achievement of Indigenous students.	51.2	No impact	Agree
Online safety programmes in schools	Funding to support the delivery of online safety programs in schools from providers that have been certified by the Children's e-Safety Commissioner.	1.3	Government – Impact; Non-government – No impact	Agree
COMMUNITY SERVICES				
National Outcome Standards for Perpetrator Intervention	Funding for effective interventions for perpetrators of domestic, family and sexual violence. The National Partnership will support the development and implementation of a national reporting and accountability framework including performance indicators.	2.8	Impact	Agree
NT remote Aboriginal investment – Community safety and Municipal and essential services components (continuation of Stronger Futures in the Northern Territory)	Community safety component – funding to support services and initiatives to make communities safer, including those that improve child safety and combat alcohol abuse. Municipal and essential services component – funding to assist the Northern Territory to take responsibility for the ongoing delivery of municipal and essential services in Indigenous communities.	71.8	No impact	Agree
		154.8	No impact	
Payments from the DisabilityCare Australia Fund	Funding through payments from the DisabilityCare Australia Fund to assist the States towards the goal of having full national roll out of the National Disability Insurance Scheme (NDIS) by 1 July 2019. The States are able to draw down from the Fund when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme.	68.2	No impact	Agree

New Issues for the 2017 Update

Commonwealth payment	Description	2015-16 \$m	CGC staff proposed treatment	Queensland Treasury position
INFRASTRUCTURE				
Bridges Renewal program	Funding to upgrade bridges across the nation. This program will renew and replace bridges to contribute to the productivity of bridges serving local communities, and facilitate higher productivity vehicle access.	60.0	No impact	Agree
Supporting drought-affected communities program (includes payments direct to local governments)	Funding to drought-declared local government areas for infrastructure projects that provide employment for people whose work opportunities have been impacted by drought. Projects include those that will stimulate local community spending, use local resources, business and suppliers, or provide long-lasting benefits to communities and the agricultural industries.	12.0	No impact	Agree
ENVIRONMENT				
Development of business cases for constraints measures	Under the Intergovernmental Agreement on Implementing Water Reform in the Murray Darling Basin, the Commonwealth is making payments to the States to address physical, institutional and operational constraints that limit delivery of environmental water to the environmental assets of the Murray-Darling Basin. There are three phases: feasibility studies, business cases and confirmation of projects. This payment is for phase 2. It supports the development of business cases that will form the basis of advice for due diligence and executive decision making on investments. Payments for phase 1 do not impact the relativities.	4.9	No impact	Agree
Established Pest and Weed Management	Funding to support delivery of projects to build the skills and capacity of landholders, the community and industry in managing common established pest animals and weeds.	7.5	Impact	Agree
Mechanical fuel load reduction trials	Payment to New South Wales to undertake research that examines the effectiveness of mechanical fuel removal in forests where conservation values could be compromised by fuel reduction burning.	1.5	No impact	Agree
Water Infrastructure Development Fund — Feasibility studies component	Funding to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. This will help secure the nation's water supplies and deliver regional economic development benefits. There are two components: feasibility studies (commenced in 2015-16) and capital (commences in 2017-18). <ul style="list-style-type: none"> Feasibility studies – funding to support delivery of feasibility studies that inform investment decisions on water infrastructure 			Agree
OTHER				
National Register of Foreign Ownership of Land Titles	Funding to support the delivery of the National Register of Foreign Ownership of Land Titles by helping the States develop systems that will enable data on sales and transfers of real property involving foreign owners to be provided to the Australian Taxation Office.	8.0	No impact	Agree

Commonwealth payment	Description	2015-16 \$m	CGC staff proposed treatment	Queensland Treasury position
Tasmanian horticulture market growth	Funding to support the engagement of a Tasmania-based horticulture market growth facilitator to collate information and identify opportunities for growth in exports of Tasmanian fruit and vegetable products.	0.1	Impact	Agree
Tasmanian Regional Tourism Infrastructure and Innovation Fund	Funding projects that create and support tourism infrastructure across Tasmania, contributing to <i>Tasmania's Tourism 2020</i> outcomes. The funding will be directed towards Tasmanian business that rely on and contribute to tourism, which allow them to build or expand on existing attractions to increase the number of visitors to the area.	4.4	Impact	Agree

7.0 Commonwealth Payments commencing 2016-17 or 2017-18

Queensland Treasury's positions on the possible back-casting of Commonwealth payments that commence in 2016-17 or 2017-18 are set out in the table below. In summary, Queensland Treasury acknowledges and supports the CGC staff's proposal not to back-cast the Commonwealth payments, on the basis that they do not reflect a major change in federal financial relations.

That said, the future treatment of Commonwealth payments relating to Developing Northern Australia and the Child and Adult Public Dental Scheme will require careful consideration.

Commonwealth payment	Description	New in 2016-17 \$m	New in 2017-18 \$m	Queensland position
HEALTH				
Addressing blood borne viruses and sexually transmitted infections in the Torres Strait	Funding for Queensland to increase the number of ongoing primary health care staff in the Torres Strait to reduce the risks and prevalence of blood borne viruses and sexually transmissible infections on Saibai Island, and to expand current disease prevention activities to the rest of the Torres Strait region.	1.1		Do not back-cast
Child and adult public dental scheme	Funding to support the delivery of services in the public dental system. Adult concession card holders and all children will be eligible for the Scheme. This will replace the National partnership on adult public dental services and the Commonwealth provided Child Dental Benefits Schedule.	415.6		Do not back-cast

Commonwealth payment	Description	New in 2016-17 \$m	New in 2017-18 \$m	Queensland position
INFRASTRUCTURE				
Developing Northern Australia	<p>Funding to provide incentives for private sector investment to improve the road network and transport logistics in Northern Australia.</p> <ul style="list-style-type: none"> Improving cattle supply chains – funding over four years to improve cattle supply chains in the north, with a particular focus on road infrastructure. This funding will seek to improve the productivity and resilience of cattle supply chains in northern Australia, drawing on the Commonwealth Scientific and Industrial Research Organisation’s state of the art logistics modelling, as well as input from livestock transport and beef industry experts, to identify deregulation opportunities and investment priorities. Northern Australia Roads – funding for the infrastructure projects that are essential to the movement of people and freight, in order to support economic development in the region. Projects include inter-jurisdictional links and roads connecting communities and regional towns to ports and airports. 	35.0		Do not back-cast either element
		100.0		
ENVIRONMENT				
Water Infrastructure Development Fund – Capital component	Funding for Queensland to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. The Capital component will fund the capital construction costs of a small number of high priority water infrastructure projects to help secure the nation’s water supplies and deliver strong and sustainable benefits for Australia.		20.0	Do not back-cast
OTHER				
Financial assistance to New South Wales Government for New South Wales Police	Transitional funding over four years for the equal sharing of the costs of reimbursing New South Wales police officers who incur an additional tax liability from making voluntary superannuation contributions that exceed the concessional contributions cap due to the impact of New South Wales’ compulsory employer death and disability insurance premiums. It will also provide for the cost-sharing of any fringe benefits tax that results from reimbursing police officers in these situations.		0.1	Do not back-cast

New Issues for the 2017 Update

Commonwealth payment	Description	New in 2016-17 \$m	New in 2017-18 \$m	Queensland position
Heffron Park Centre of Excellence	<p>Funding for the Heffron Park Centre of Excellence, which will house a community and administration centre as well as a football development supported by elite facilities. The centre will include administration facilities and training centre for the South Sydney Rabbitohs. It will also support Rabbitohs' Souths Cares Program, a community program for young people.</p> <ul style="list-style-type: none"> • Randwick City Council will contribute \$3 million towards the construction, the NRL \$3 million and the Rabbitohs between \$2 to 7 million. 	5.0		Do not back-cast
North Queensland Strata Title Inspection Scheme	Funding to help improve the information available to owners of strata title properties on a property's susceptibility to weather damage and ways to make properties more resilient.	6.3		Do not back-cast

