



AUSTRALIAN CAPITAL TERRITORY

2016 Update

ACT Response to Commonwealth Grants Commission Staff Discussion Paper

CGC 2015-04-S

September 2015

**Chief Minister, Treasury and
Economic Development Directorate**

RESPONSE TO NEW ISSUES FOR THE 2016 UPDATE

Issues Arising from the 2015 Review Report

State Mining Revenue

Issue / Staff Position / ACT Position

The ACT notes the observation in the paper that revenue from other minerals, such as coal seam gas, has not become material since the Review. We urge the Commission to continue to monitor developments given the six Australian liquefied natural gas projects under construction at a conservative cost of \$200 billion with the QLD LNG plants now coming into production (also possibly WA offshore gas developments):

- This more than likely will be material for the 2017 Update Report.

Natural Disaster Relief and Recovery

Issue / Staff Position

The Commission would be aware of the ACT's Final Submission to the 2015 Review which took quite a strong position in asserting potential for the Horizontal Fiscal Equalisation (HFE) arrangements for natural disaster relief expenses to distort State decisions on natural disaster risk management.

We proposed that, for 2015-16, the Commission apply an EPC assessment to State expenses above the amount of the Commonwealth NDRRA payments, and that a comprehensive review of the assessment then be undertaken after the Productivity Commission issued its report. We note the Commission staff is now awaiting the final response of the Commonwealth Government before deciding if any changes are required to the assessment.

ACT Position

We continue to support a comprehensive review when that final response is released.

Welfare Assessment - SEIFI

Issue / Staff Position / ACT Position

The ACT reluctantly supported the adjustment of the 2006 Census index for changes in relative proportions of State populations with health care or pensioner concession cards.

As the Commission would again be aware, our first preference was, and remains, for the ABS to update the SEIFI index using 2011 Census data. The ACT is concerned that it now

appears that it will not be available for this Update. The Commission should continue to pursue this issue with the ABS as a matter of priority to do this.

For our part, we continue to raise this issue with our ABS Statistical Liaison Officer who has advised that the ABS has no plans to update SEIFI unless it was funded by users. This is unsatisfactory from all parties' points of view and particularly disturbing from an HFE perspective. It warrants further consideration by the Commission.

Welfare Assessment - NDIS

Issue / Staff Position / ACT Position

While we note the ACT's argument in the 2015 Review process for an actual per capita (APC) assessment of NDIS expenses during transition was not adopted by the Commission, we maintain that an assessment based on the total number of people eligible to be covered by NDIS when fully operational does not accurately reflect the expenditure needs of States.

The Commission has held to the view that actual coverage of potential clients during transition is a matter of policy choice by States, as the transition arrangements have been determined on a bilateral basis between the Commonwealth and the States. To deal with this problem the assessment will assume that the NDIS provides the observed national average coverage of NDIS eligible populations in each State, for each year of the transition period (ie: 2016-17 to 2018-19). However, this approach does not fairly represent States' expenditure needs during transition because they start transition from quite different points in terms of coverage of the eligible client population. Consequently, States which have higher proportional coverage at the start of transition will be disadvantaged.

The ACT requests that the Commission consider modifying its position on this issue to take account of the differing scope of the NDIS trials across States, by taking an unweighted average of trial participant numbers across States (as at the end of the trial period) and applying this as a common starting point for transition for all States. The assessment during transition would then be based on average starting populations plus the national average coverage of additional eligible clients signed up during transition. This adjustment would not constitute a fundamental alteration to the transition methodology based on national coverage of NDIS eligible populations.

The ACT agrees that, regardless of how client populations are assessed, expected shares of expenses between NDIS and existing disability services should be backcast, given that this is a major change in Federal-State financial relations. **We also support the approach of continuing to recognise other disabilities, such as cross-border and location factors, for existing disability services expenses, but not in relation to the NDIS contributions.** This approach recognises that NDIS contributions apply to total package costs as determined by the National Disability Insurance Agency and no other costs need be assessed.

Assessment of Commonwealth Payments for Students First

Issue / Staff Position / ACT Position

The ACT supports the proposed backcasting of Commonwealth Students First SPP payments on the revenue side as proposed by Commission staff.

We also support the proposed backcasting on the expense side noting it would be only for that component of the expenses funded by the Commonwealth payments – hence, the appropriateness of using the SRS funding amounts as the basis for the distribution. This is consistent with the requirement in the 2015 Review Terms of Reference (ToR) that the assessment not unwind the recognition of educational disadvantage embodied in the National Education Reform Agreement (NERA).

Backcasting of Health Reform Funding

Issue / Staff Position / ACT Position

The ACT supports the Commission staff proposals on backcasting of Health Reform funding. The distribution of funding from 2014-15 onwards is on an Activity Based Funding basis, thus reflecting actual differences in activity between the States. The adjustment to Commonwealth cross-border payments is necessary to reflect that the Commission's assessment approach is based on the state of residence of the recipients of State government services.

National Partnership Payment (NPP) for Remote Indigenous Housing

Issue / Staff Position

The ACT's Rejoinder and Final Submissions to the 2015 Review supported the Remote Indigenous Housing NPP being treated as impacting on the relativities.

Our view was that the ownership issue was not critical, rather whether such housing was ultimately funded by State governments as a normal State government function i.e.: whether State expenditure was being undertaken to maintain these assets and provide services in relation to them:

- A similar argument to that which supports inclusion of public housing and urban transport PNFCs' operating and infrastructure costs in assessments.

The arguments in the Commission staff paper regarding the legacy impact of Commonwealth policy appear to be very similar to the ACT's situation of a much higher than average public housing stock due to previous Commonwealth policy at the time of self-government.

In the 2004 Report on State Revenue Sharing Relativities 2004 Review, the ACT argued for a national capital allowance of \$13 million per annum, equal to the unfunded maintenance liability predicated on *inter alia*:

- Age, type of construction and condition of the housing stock it inherited from the Commonwealth.

The Commission of the day determined that a conceptual case had not been established. They considered it was difficult to see how the ACT's position was different from that of other States, except that, prior to self-government, the Commonwealth made the decisions on the management of the housing stock:

- They acknowledged following self-government the ACT inherited housing stock with its associated debt.
- They also acknowledged while there was arguably a backlog of unfunded maintenance and the stock did not necessarily match requirements they believed all States faced similar situations.
- They further stated because the ACT had such a large stock it could be said that it had greater flexibility in its management.

ACT Position

We continue to support our original stance that the Remote Indigenous Housing NPP be treated as impacting on the relativities for this Update.

Any associated decision to phase in the assessment of these payments should be reviewed on the basis of any available data on related expenditure and its timing.

Commonwealth Payments Commencing in 2014-15

Issue / Staff Position

There are very few of these payments over which the ACT would disagree with the treatment proposed by Commission staff given the “no impact” treatments largely relate to ToR requirements, to exclude them from equalisation.

ACT Position

We have examined the schedule of payments compiled by Commission staff and concur they match our expectations when mapped against our Budget Papers.

However, one payment over which we would disagree with the proposed treatment is the Implementation of the National Insurance Affordability Initiative.

Commission staff propose that this payment be treated as “no impact” on the grounds that it relates to protection of the environment, for which expenditure needs are not assessed.

The ACT contended in its submission to the Update and Supplementary Issues paper for the 2015 Review that this agreement was not intended for environmental purposes but to reduce the risk of natural disasters and lower the cost of insurance, and therefore that both the revenue from this payment and the associated expenses should be assessed as impacting on the relativities.

The ACT continues to support this position for the 2016 Update.

Commonwealth Payments Commencing in 2015-16 or 2016-17

Issue / Staff Position / ACT Position

We note and agree that Commission staff do not propose to backcast any of these payments because they are not the result of major change in federal financial arrangements.

General Comment

The associated Tables A-1 and A-2 as currently constructed makes it difficult for the user to reconcile Commonwealth Payments that fall within and outside the scope of the *Intergovernmental Agreement on Federal Financial Relations*.

The report would benefit in future with reference to the relevant NPA or if a direct grant, Commonwealth Own Purpose Expenditure (COPE), referenced as such. This would make it much simpler for parties to reconcile the Commission staff tables with our respective State Budget Papers.

**FEDERAL FINANCIAL RELATIONS
CHIEF MINISTER, TREASURY AND ECONOMIC DEVELOPMENT DIRECTORATE - (TREASURY)
ACT GOVERNMENT**