

COMMONWEALTH GRANTS COMMISSION (CGC) 2016 UPDATE

NEW ISSUES FOR THE 2016 UPDATE

STAFF DISCUSSION PAPER CGC 2015-04-S

NSW TREASURY COMMENTS

OCTOBER 2015

NSW Treasury notes CGC staff proposals to:

- not change the mining revenue assessment since there have been no major changes to State mining revenue raising policy and no other mineral revenue has become material
- seek advice from the Commonwealth Department of Infrastructure and Regional Development to determine national road and rail network projects where half Commonwealth funding will have no impact on the GST relativities and provide the Department's advice to the States
- consider if any changes are required to the treatment of natural disaster relief and recovery expenses after the Commonwealth Government provides its response to the Productivity Commission's final report of its inquiry into the efficacy of current national natural disaster funding arrangements
- use the 2006 Census based Socio-economic Index for Individuals (SEIFI), adjusted for changes in the relative proportions of State populations with Health Care Cards (HCCs) or Pensioner Concession Cards (PCCs) between the 2006 and 2011 Censuses, as an indicator of socio-economic status in the Other General Welfare sub-component of the General Welfare component of the Welfare expenses assessment, since the 2011 Census based SEIFI is not available
- use methods established in the 2015 Review to backcast State disability expenses in the transition to the National Disability Insurance Scheme, assuming the availability and reliability of projected 2016-17 State data on the split of expenses between contributions to the NDIS and existing State disability services
- use the same method as set out in the 2015 Review to assess Commonwealth payments for Students First (government students) and related expenses
- continue to use methods established in the 2015 Review to backcast Health Reform funding
- ask the National Transport Commission (NTC) for updated trend heavy vehicle average gross mass data and updated data on heavy vehicle travel on urban and rural roads, incorporating data from the 2014 ABS Survey of Motor Vehicle Use, for the use in the Roads expenses assessment in the 2016 Update
- treat Commonwealth payments that commenced in 2014-15 as indicated in Table A-1 of Attachment A to CGC Staff Discussion Paper 2015-04-S
- not backcast any of the Commonwealth payments commencing in 2015-16 or 2016-17 shown in table A-2, since none represents a major change in federal financial arrangements.

In relation to the CGC Staff proposals, NSW Treasury notes:

- the use of dated 2006 Census based data, ‘updated’ by an indicator that might not be entirely satisfactory, in the Other General Welfare sub-component of the Welfare assessment is less than ideal. However, given the unavailability of 2011 Census based SEIFI data, and the problems associated with alternative measures of socio-economic status suggested during the 2015 Review, there appears to be little alternative
- the Staff Discussion Paper contains no comment on the availability and reliability of projected 2016-17 State data on the split of expenses between contributions to the NDIS and existing State disability services for use in the dual assessment of State disability expenses in the transition to the NDIS. We assume if the availability and reliability of the uptake and expenses projections is found to be less than adequate, States will be consulted in the consideration of alternative data
- the use of updated NTC data in the Roads assessment could significantly affect the GST distribution. NSW Treasury requests CGC Staff provide the updated data to States when it becomes available so that States can assess the potential impact on the GST distribution
- payments for the National School for Travelling Show Children (though very minor) included in Table A-1 were not included in the Commonwealth’s 2014-15 Final Budget Outcome.

This submission responds to the Commonwealth Grants Commission’s request for State comments on CGC Staff Discussion Paper 2015-04-S, *New Issues for the 2016 Update*.

Issues arising from the 2015 Review Report

State Mining Revenue Raising Activities

In the 2015 Review, the Commission identified a number of areas of State activity that would require monitoring in future Updates. These included:

- ensuring the mineral by mineral assessment is not influencing State behavior
- checking whether other minerals, such as coal seam gas, become material, requiring a change to the minerals separately assessed
- ensuring the revenue base observed with respect to say, coal seam gas, is consistent with average policy.

The Staff Discussion Paper concludes no change to the mining revenue assessment is necessary given there have been no major policy changes to State mining revenue raising policy and no other mineral revenue has become material.

NSW Treasury notes the CGC staff conclusion.

Issues concerned with measuring a State revenue effort against average policy for minerals that one day may become material will need to be addressed at that time. New South Wales, in its submissions to the 2015 Review, pointed to the difficulties in making judgements about States’ mining ‘effort’ when many factors – size, quality and location of mineral deposits, the existence of other economic activities on potential mining land, production costs and productivity,

Commonwealth and State environmental regulation – impact on private sector mining investment.

National Road and Rail Network Projects

In the 2015 Review, the Commission decided to treat 50 per cent of the Commonwealth's contribution to the construction or upgrading of the national road and rail networks as having no effect on the GST distribution. The Commission decided to seek advice from the Commonwealth Department of Infrastructure and Regional Development to determine relevant national network projects, and will provide the Department's advice when received to the States.

NSW Treasury will provide further comment on the Department of Infrastructure and Regional Development advice at the appropriate time.

Natural Disaster Relief and Recovery Arrangements

In the 2015 Review, the Commission continued to assess net natural disaster relief spending on an actual per capita basis. This means that policies are assumed to be the same and any variation in per capita spending between the States is entirely due to circumstances beyond the control of States.

The Commonwealth recently announced that it intends to consult with States on the best way to address the findings of the Productivity Commission's final report into the efficacy of current national natural disaster funding arrangements, including the interaction between Commonwealth natural disaster funding arrangements and relevant Commonwealth/State financial arrangements.

CGC staff note the Commonwealth Government's consideration of the report might change the nature of natural disaster relief arrangements. Staff will consider if any changes are required to the treatment of natural disaster relief and recovery expenses after the Commonwealth Government provides its response to the Productivity Commission's report.

Welfare Assessment

In the Other General Welfare sub-component of the General Welfare component of the Welfare assessment the CGC recognises low socio-economic status (SES) as an influence on the cost of providing services.

As an indicator of socio-economic status, the 2015 Review used the 2006 Census based Socio-economic Index for Individuals (SEIFI), adjusted for changes in the relative proportions of State populations with Health Care Cards (HCCs) or Pensioner Concession Cards (PCCs) between the 2006 and 2011 Censuses, since the 2011 Census based SEIFI was not available.

The CGC proposes to retain this approach in the 2016 Update since 2011 Census based SEIFI data remains unavailable. The use of dated data, 'updated' by an indicator that might not be

entirely satisfactory, is less than ideal. However, given the unavailability of 2011 Census SEIFI data, and the problems associated with the alternative measures suggested in Staff Discussion Paper CGC 2014-03-S, *Update and Supplementary Issues for the 2015 Review*, there appears to be little alternative but to use the proposed approach.

Welfare assessment – transition to the National Disability Insurance Scheme

The Staff Discussion Paper notes that the transition phase for the National Disability Insurance Scheme (NDIS) is expected to start in 2016-17 and the changed arrangements for spending and funding will need to be reflected in the 2016 Update.

In the 2015 Review, the Commission decided to implement dual assessments of State expenses on disability services in the transition period to the NDIS, reflecting that during transition disability services will be funded in two separate ways:

- each State will make a contribution to the NDIS, reflecting the agreed number of people covered by the NDIS in the State in the year and
- State will continue to fund their own existing disability services for State residents not covered by the NDIS in transition.

In the 2015 Review the CGC noted:

- the expected shares of expenses in each of the assessments in the application year of the relativities (2016-17 for the 2016 Update) will be backcast into the assessment years using projected data from the States: ‘At that time, we will review the availability and reliability of the uptake and expenses projections. If data are not considered reliable, we will need to consider an alternative, such as using the data for the latest available year’¹
- State contributions to NDIS in a transition year will be assessed assuming that the NDIS provides the observed national average coverage of NDIS eligible populations in each State (or the average transition). Assessments will be based on a State’s proportion of the total number of people eligible in a year to be covered by the NDIS when fully operational. The alternative of using actual numbers of people covered in transition years in each State would not be policy neutral, since State policy influences the ‘speed’ of transition to the NDIS
- the socio-demographic composition disability for the assessment of other (non-NDIS) State disability expenses will also be based on the number of people who meet the (full coverage) access requirements of the NDIS. The CGC considers that with the introduction of the NDIS, the data generated provide a better indicator of the need for State spending on disability services than the data used in the 2010 Review assessment of disability spending. Other disabilities will continue to be recognised for existing disability services expenses but not in relation to the NDIS contributions.

¹ CGC, *2015 Review*, Vol. 1, p. 57.

NSW Treasury notes that the Staff Discussion Paper contains no comment on the availability and reliability of projected State data on the split of expenses between contributions to the NDIS and existing State disability services. We assume if the availability and reliability of the uptake and expenses projections is found to be less than adequate, States will be consulted in the consideration of alternative data.

Assessing Commonwealth payments for Students First and related expenses

In the 2016 Update, CGC Staff propose to use the same method as set out in the 2015 Review Report to assess Commonwealth payments for Students First (government students) and related expenses:

- on the revenue side, backcasting will be done by applying the application year (2016-17) distribution of Commonwealth payments for Students First to the Schools specific purpose payments and relevant discontinued Schools national partnership payments in the assessment years
- on the expenses side, backcasting will be achieved by applying the distribution derived from average Schooling Resource Standard funding amounts in the application year supplied by the Commonwealth Department of Education.

Backcasting Health Reform funding

In the 2016 Update, CGC staff propose to continue to use methods established in the 2015 Review to backcast Health Reform funding.

In the 2015 Review, the Commission considered that the shift under the National Health Reform (NHR) to activity based funding (ABF) growth from 2014-15, represented a major change in Commonwealth-State relations and should, therefore, be backcast.

- CGC Staff will continue to use the 2015 Review backcast figures for 2012-13 and 2013-14.
- For 2014-15, Staff will use the figures published in the Commonwealth's 2014-15 Final Budget Outcome (FBO) with the net cross-border adjustments removed. This is because the actual distribution for each of the assessment years (taken from the Commonwealth's FBO and with an adjustment for cross-border) from 2014-15 onward would reflect the actual difference in activity between States.

NSW Treasury notes this approach.

Roads data – National Transport Commission Trend Data

The CGC uses National Transport Commission (NTC) data on the total mass of different heavy vehicle types and the split of heavy vehicle travel on urban and rural roads in the heavy vehicle

use component of the Roads assessment. Previously the NTC calculated this data using the ABS Survey of Motor Vehicle Use (SMVU) for the period 2001 to 2007.

The CGC has asked the NTC for updated trend AGM data and updated data on travel on urban and rural roads, incorporating data from the 2014 SMVU, for the 2016 Update.

NSW Treasury notes the use of updated NTC data in the Roads assessment and its potential to affect the GST distribution. NSW Treasury requests CGC Staff to provide the updated data to States when it becomes available so that States can assess the potential impact on the GST distribution.

National Partnership for Remote Indigenous Housing

The CGC has circulated a separate paper for the 2016 Update on the appropriate treatment of National Partnership for Remote Indigenous Housing (NPARIH).

NSW Treasury will respond in a separate submission.

Commonwealth Payments Commenced in 2014-15

NSW Treasury notes the proposed treatments of Commonwealth payments that commenced in 2014-15 contained in Table A-1 of Attachment A to CGC 2015-04-S. NSW Treasury notes payments for the National School for Travelling Show Children (though very minor) were not included in the Commonwealth's 2014-15 Final Budget Outcome.

Commonwealth Payments Commencing in 2015-16 or 2016-17

NSW Treasury agrees with the CGC Staff proposal not to backcast any of the Commonwealth payments commencing in 2015-16 or 2016-17 shown in table A-2, since none represents a major change in federal financial arrangements.