



**Australian Government**  

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**Commonwealth Grants Commission**

**2016 UPDATE**

**NEW ISSUES FOR THE 2016 UPDATE**

**STAFF DISCUSSION PAPER  
CGC 2015-04-S**

**AUGUST 2015**

Paper issued	26 August 2015
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Submissions sought by	<p>Submissions should be emailed in Word format to <a href="mailto:secretary@cgc.gov.au">secretary@cgc.gov.au</a> by 25 September 2015</p> <p>Submissions of more than 10 pages in length should include a summary section.</p>
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## BACKGROUND

- 1 In expectation that terms of reference for a 2016 Update will be sent to the Commission, this paper sets out issues identified by Commission staff as relevant to a 2016 Update. Proposals on how they might be handled are included, as a basis for seeking the views of the State and Commonwealth treasuries.
- 2 There are few new issues for this update. The review of the Wage costs is being handled through a separate process<sup>1</sup>. Other issues are discussed below.
- 3 Comments should be provided by 25 September 2015 to [secretary@cgc.gov.au](mailto:secretary@cgc.gov.au). States are encouraged to raise any other issues relevant to the update. The contact officer for queries is Priscilla Kan ([Priscilla.kan@cgc.gov.au](mailto:Priscilla.kan@cgc.gov.au) or 02 6229 8849).

## ISSUES FOR THE 2016 UPDATE

### Arising from the 2015 Review report

- 4 For the 2016 Update, the 2015 Review report identified a number of matters that required monitoring<sup>2</sup>:
  - **State mining revenue raising activities.** Staff have found no major changes in State policies relating to the raising of mining royalties and conclude that the mineral by mineral assessment has had no influence on State behaviour in this area. Nor has revenue raised from other minerals, such as coal seam gas, become material. We conclude no change is required to the mining revenue assessment.
  - **National road and rail networks projects.** When we receive advice from the Department of Infrastructure and Regional Development on road and rail projects on the national networks (expected by the end of September), we will share the information with States for comment. We need to ensure the projects identified by the Department are consistent with our joint understanding of those networks and are treated appropriately.
  - **Natural disaster relief and recovery arrangements.** The Australian Government announced it intends to consult with the States on the best way to address the findings of the Productivity Commission's report on the efficacy of current national natural disaster funding arrangements. It has indicated its intention to look at the balance of mitigation and recovery funding, and the merit of an upfront disaster funding system. We are monitoring developments and will

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<sup>1</sup> See Staff discussion paper *CGC 2015-03S, 2016 Update Wage Costs Assessment, July 2015*.

<sup>2</sup> Commission 2015 Review report, Volume 1, p12.

consider if any changes are required to the assessment of natural disaster relief expenses after the Australian Government provides its final response.

- **Welfare assessment.** The ABS has advised that a 2011 Census based Socio-economic index for individuals (SEIFI) or households will not be available for this update. As a result, we will retain the 2006 Census index, adjusted for changes in the relative proportions of State populations with health care cards or pensioner concession cards between the 2006 and 2011 Censuses.

5 The report also provided advice on how a number of other assessments would change in this update.

- **Welfare assessment.** Transition to the National Disability Insurance Scheme (NDIS) is expected to start in 2016-17, the application year for the 2016 Update. During transition, the Commission will implement dual assessments of State expenses on disability services and NDIS contributions. The expected shares of expenses on each will be backcast using data sought from the States. They will be assessed on the basis of State proportions of the total number of people eligible in a year to be covered by NDIS when fully operational.<sup>3</sup> Other disabilities will continue to be recognised for existing disability services expenses but not in relation to the NDIS contributions.<sup>4</sup>
- **Assessment of Commonwealth payments for Student First (government students) and related expenses.** We will use the same method as set out in the 2015 Review report but updated data to calculate assessed spending funded by the Commonwealth on government students. We will:
  - backcast on the revenue side by applying the application year (2016-17) distribution of the Commonwealth payments for Students First to the Schools specific purpose payments and the relevant discontinued Schools national partnership payments in the assessment years
  - backcast on the expenditure side by applying the distribution derived from average Schooling Resource Standard funding amounts in the application year supplied by the Department of Education.<sup>5</sup>
- **Backcasting of Health reform funding.** We will continue to use the 2015 Review backcast figures for 2012-13 and 2013-14. For 2014-15, we will use the figures published in FBO 2014-15 and remove the net cross-border adjustments from them. This is because the actual distribution for each of the assessment years (taken from the Commonwealth's Final Budget Outcome (FBO) and with an adjustment for cross border) from 2014-15 onward would reflect the actual difference in activity between States.<sup>6</sup>

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<sup>3</sup> These data will be obtained from the Commonwealth Department of Social Services.

<sup>4</sup> Commonwealth Grants Commission 2015 Review report, Volume 1, pp54-57.

<sup>5</sup> Commonwealth Grants Commission 2015 Review report, Volume 2, Chapter 10 Schools Education.

<sup>6</sup> Commonwealth Grants Commission 2015 Review report, Volume 2, Chapter 12 Health.

## Roads data – National Transport Commission trend data

- 6 The Roads category includes an assessment of heavy vehicle use based on trend average gross mass (AGM) data from the National Transport Commission (NTC). Australian average AGMs are applied to data on kilometres travelled by each class of heavy vehicle in each State. The NTC trend data used in the 2015 Review were derived from the ABS Survey of Motor Vehicle Use (SMVU) for 2001 to 2007. We said we would update these data if the NTC updated its trend data.<sup>7</sup>
- 7 The NTC updated its trend data as part of its 2014 Heavy Vehicle Determination, using a new approach to trending (since the SMVU is no longer carried out annually). We have asked the NTC to provide updated trend AGM data for the 2016 Update, incorporating data from the 2014 SMVU due to be released in mid-October.
- 8 Data on the kilometres travelled by each class of vehicle (including heavy vehicles) in each State are provided annually by the Bureau of Infrastructure, Transport and Regional Economics (BITRE). These data are split between travel on urban and rural roads, using NTC data for each State for the six years to 2007 (based on the SMVU). We have asked the NTC to provide updated data on travel on urban and rural areas roads, including data from the 2014 SMVU.

## National partnership payment for Remote Indigenous Housing

- 9 Commission staff are reconsidering the treatment of the National Partnership Agreement on Remote Indigenous Housing payments. We will shortly provide States with a discussion of the issues, along with a data request seeking to clarify the funding, ownership and number of remote Indigenous houses.

## Commonwealth payments that commenced in 2014-15

- 10 Staff have examined the Commonwealth payments that commenced in 2014-15, as listed in *Australia's Federal Relations, Budget Paper No. 3, 2015-16* and propose they be treated as set out in Attachment A, Table A-1. The proposals are based on the following guideline developed in the 2015 Review:

payments which support State services, and for which expenditure needs (including a deliberative equal per capita assessment) are assessed, will impact the relativities.

## Recommendation

Staff propose to recommend that the Commission:

- approve staff proposals on the treatment of each Commonwealth payment commenced in 2014-15 listed in Table A-1 of Attachment A.

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<sup>7</sup> Commonwealth Grants Commission 2015 Review report, Volume 2, Chapter 17 Roads

## Commonwealth payments commencing in 2015-16 or 2016-17

- 11 Table A-2 of Attachment A provides a list of new payments that will commence in 2015-16 or 2016-17. Although the payments shown will affect the year in which the 2016 Update relativities will be applied, Commission staff do not propose to backcast any of them because they are not the result of major change in federal financial arrangements. The new payments will be reflected in the relativities when they appear in the data for the assessment period.

### Recommendation

Staff propose to recommend that the Commission

- not backcast the Commonwealth payments commencing in 2015-16 or 2016-17 listed in Table A-2 of Attachment A because they are not the result of major change in federal financial arrangements.

**Table A-1 Proposed treatment of Commonwealth payments commenced in 2014-15, *Federal Financial Relations, Budget Paper No. 3, 2015-16***

Commonwealth payment	Description	2014-15 \$m	Proposed treatment	Reason for No impact treatment
<b>HEALTH</b>				
<b>Health infrastructure</b>				
Bright Hospital - feasibility study	Payment to Victoria for the study which will examine the feasibility of redeveloping the Bright Hospital.	0.1	Impact	
Cancer Support Clinic in Katherine	One-off payment to the Northern Territory to support the purchase and installation of a chemotherapy chair and associated minor building modification to improve delivery of cancer support services in Katherine Hospital.	0.5	Impact	
Construction of Palmerston Hospital	Funding to the Northern Territory for the construction of the Palmerston Hospital which will provide a full emergency department, a paediatric ward, and medical and surgical services.	20.0	Impact	
Oncology Day Treatment Centre at Frankston Hospital	One-off payment to Victoria for the expansion and enhancement of the Oncology Day Treatment Centre at Frankston Hospital.	0.7	Impact	
Redevelopment of the Royal Victorian Eye and Ear Hospital	Payment to Victoria for the completion of the development of the Royal Victorian Eye and Ear Hospital.	50.0	No impact	Terms of reference requirement (Victoria received document that stated the payment will be quarantined)
Upgrade of Ballina Hospital	Payment to New South Wales for the construction of a second operating theatre and upgrade of the medical imaging department at Ballina Hospital.	1.9	Impact	
Upgrade of Casino and District Memorial Hospital	One-off payment to New South Wales for the upgrade of the emergency department at the Casino and District Memorial Hospital.	3.0	Impact	
Warrnambool Integrated Cancer Care Centre	One-off payment to Victoria for the construction of the Regional Cancer Centre in Warrnambool to provide cancer services to people in southwest Victoria.	10.0	Impact	

**Table A-1 Proposed treatment of Commonwealth payments commenced in 2014-15, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)***

Commonwealth payment	Description	2014-15 \$m	Proposed treatment	Reason for No impact treatment
<b>Health Services</b>				
Canberra Hospital - dedicated paediatric emergency care	One-off payment to the ACT for the development of a dedicated service for children within the emergency department of the Canberra Hospital.	5.0	Impact	
Hummingbird House	Payment to Queensland for the construction and operation of a dedicated respite and hospice care facility for children with life-limiting conditions, and their families and carers. Queensland Kids (trading as Hummingbird House) is a not for profit organisation established in 2011 to address gaps in services for Queensland children and their families. The payment in the first one or two years is for construction of the facility and payment for succeeding years is for operations.	1.5	Impact	
<b>Indigenous health</b>				
Accommodation and infrastructure related to renal services for Aboriginal and Torres Strait Islander peoples in the NT	One-off payment to the Northern Territory for the construction of accommodation facilities and renal infrastructure. The funding will be forwarded in full by the Territory to the Western Desert Nganampa Walytja Palyantjaku Tjutaku Aboriginal Corporation.	10.0	Impact	
<b>EDUCATION</b>				
National school chaplaincy programme	Funding to assist approximately 2 900 schools engage the services of a school chaplain, who provides pastoral care services in these schools.	60.6	Impact	
National school for Travelling Show Children	Funding 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. This funding is in addition to the financial support the Australian Government is already providing for these children through the Australian Education Act 2013.	0.1	Impact	

Table A-1 Proposed treatment of Commonwealth payments commenced in 2014-15, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)*

Commonwealth payment	Description	2014-15 \$m	Proposed treatment	Reason for No impact treatment
<b>SKILLS AND WORKFORCE DEVELOPMENT</b>				
Joint group training programme	Payments to support group training organisations to deliver strategies and initiatives to improve Australian apprenticeship commencements and completions.	11.5	Impact	
<b>COMMUNITY SERVICES</b>				
National Occasional Care programme	Funding to support non-Child Care Benefit approved child care service providers, particularly in rural, regional and remote areas.	2.0	No impact	Commonwealth service, needs not assessed
Trial of My Way sites	The NP agreement builds on the agreement between the Commonwealth and Western Australia for disability reform in Western Australia signed on 5 August 2013, which provides a two-year trial of two service delivery models.  The payment supports the trial of the My Way model in the Lower South West region from July 2014 and the Cockburn/Kwinana region from July 2015. The My Way sites run in parallel with the NDIS trial site in the Perth Hill region for two years from 1 July 2014. The trials seek to inform the delivery of disability reform by evaluating the merits of the My Way and NDIS trial sites.	12.5	No impact	Terms of reference requirement
<b>INFRASTRUCTURE</b>				
Infrastructure Growth Package - Asset Recycling Fund – Asset Recycling Initiative	Payment to encourage States to divest assets and reinvest the proceeds into additional productive infrastructure. Funding allocated on a first-come, first-served basis, as projects are agreed between Commonwealth and individual States.	15.0	No impact	Terms of reference requirement

**Table A-1 Proposed treatment of Commonwealth payments commenced in 2014-15, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)***

Commonwealth payment	Description	2014-15 \$m	Proposed treatment	Reason for No impact treatment
Asset Recycling Fund – New investments	Additional funding to expedite investment in high quality economic infrastructure. This includes funding for significant road projects, the National Highway Upgrade Programme, funding for Black spot projects, and Roads to Recovery. It includes payments direct to local governments. Projects include Melbourne’s East West Link Western Section (stage 2), Adelaide’s North South Corridor, the Perth Freight Link, Toowoomba Second Range Crossing, and projects on the National Land Transport Network in the Northern Territory. The terms of reference ask the Commission apply a 50% discount to payments for these projects.	32.2	Non NNR roads – State – impact; local – no impact; NNR – 50% impact; 50% no impact; Black spot – impact; Roads to recovery – no impact; 50% impact and 50% no impact for road projects identified in terms of reference	50% NNR investment – assessment may not capture all non-policy influences Roads to recovery – terms of reference requirement Other road projects – terms of reference requirement
Asset Recycling Fund – Western Sydney Infrastructure Plan	Additional funding over 10 years to construct and upgrade existing road infrastructure to support the new Western Sydney airport at Badgerys Creek and provide road infrastructure to support the growing population in Western Sydney. The terms of reference ask the Commission apply a 50% discount to payment for this project.	103.0	50% impact and 50% no impact	Terms of reference requirement
Bathurst 200 Commemorative Flagstaff	One-off payment to the Bathurst Regional Council for its Bathurst 200 Commemorative Flagstaff Project. The project commemorates the bicentenary of the site where the town of Bathurst was proclaimed.	0.3	No impact	Local – needs not assessed
Western Australia infrastructure projects	One-off payment to Western Australia for infrastructure projects that will boost jobs and growth. Funding will be allocated to the development of the Mitchell Freeway and to increase the Commonwealth’s contributions to other projects under the National Partnership Agreement on Land Transport infrastructure.	499.1	No impact	Terms of reference requirement (letter from Treasurer)

Table A-1 Proposed treatment of Commonwealth payments commenced in 2014-15, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)*

Commonwealth payment	Description	2014-15 \$m	Proposed treatment	Reason for No impact treatment
<b>ENVIRONMENT</b>				
Bushfire mitigation	Payment to enable States to implement long-term bushfire mitigation strategies and improve fuel reduction activities. Part of the payment is for the remaining components of the National Burning Project which will develop consistent national standards and bushfire fuel load classification processes and systems.	4.5	Impact	The component for National Burning Project could be considered as a Commonwealth responsibility and treated as no impact. However, needs are assessed in relation to the majority of the payment.
Implementation of the National Insurance Affordability Initiative	The initiative aims to reduce flood risk and bring about reductions in insurance premiums. Payment is made to Queensland for the construction of a flood levee in Roma and improving the flood defences in Ipswich.	5.0	No impact	Needs for protection of the environment not assessed.
Whale and dolphin entanglements	Payment to support State government purchase of equipment and training aimed at improving responses to whale and dolphin entanglements. Funding is part of the Commonwealth's broader Whale and Dolphin Protection Plan.	0.3	No impact	Needs for national parks and wildlife services not assessed.
<b>PAYMENTS TO SUPPORT OTHER STATE SERVICES</b>				
Developing demand-driver infrastructure for the tourism industry	Payment for projects that create and encourage tourism, and assist the tourism industry to meet the national tourism strategy, <i>Tourism 2020</i> . Projects may be for recurrent or capital purposes.	4.7	Impact	
Port Arthur Penitentiary restoration	Payment to support conservation works on the Port Arthur Historic Site's Penitentiary ruin in Tasmania.	1.5	Impact	

Table A-2 Commonwealth payments commencing in 2015-16 and 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2015-16*

Commonwealth payment	Description	New in 2015-16 \$m	New in 2016-17 \$m
<b>HEALTH</b>			
<b>Health infrastructure</b>			
Albury-Wodonga Cardiac Catheterisation Laboratory	One-off payment to Victoria for the new laboratory which will enable local residents suffering from heart conditions to access quality care without the need to travel long distances to capital cities.	3.5	
Improving local access to health care on Phillip Island	One-off payment to Victoria for the upgrade of healthcare infrastructure on Phillip Island.	2.5	
<b>Indigenous health</b>			
Northern Territory remote Aboriginal investment – Health	The programme replaces Stronger Futures in the Northern Territory spending on Indigenous health.	5.6	
<b>Other health payments</b>			
Adult public dental services	Funding for a one year agreement to replace the existing NP agreement on Adult Public Dental Services. The payment will support the provision of dental services to adults who rely on the public dental system. The Commonwealth will consult with the States on future funding beyond 2015-16.	155.0	
<b>EDUCATION</b>			
Northern Territory remote Aboriginal investment – Children and schooling component	The programme replaces Stronger Futures in the Northern Territory spending on Indigenous education, especially in remote and very remote areas.	51.2	
Online safety programmes in schools	Funding to support the delivery of online safety programmes in schools from providers that have been certified by the Children’s e-Safety Commissioner.	2.5	

Table A-2 Commonwealth payments commenced in 2015-16 and 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)*

Commonwealth payment	Description	New in 2015-16 \$m	New in 2016-17 \$m
<b>COMMUNITY SERVICES</b>			
Northern Territory remote Aboriginal investment - Community safety - Municipal and essential services	The program replaces Stronger Futures in the Northern Territory spending on Indigenous community safety and to assist the Northern Territory to take responsibility for the ongoing delivery of municipal and essential services in Indigenous communities.	71.8 154.8	
Payments from the Disability Care Australia Fund	The Commonwealth will assist the States with their contribution to DisabilityCare Australia for 10 years, by allowing them to draw on payments going into the DisabilityCare Australia Fund. The first drawn down will be in 2015-16.  The 2015 Review Terms of reference asked the Commission to treat the payment as not having an impact on the relativities.	68.2	
<b>AFFORDABLE HOUSING</b>			
Northern Territory remote Aboriginal investment - Remote Australia strategies	The program replaces Stronger Futures in the Northern Territory spending on improving public housing in remote communities by undertaking housing works and removing asbestos. This funding complements the funding to be provided under the NP on Remote Indigenous housing.	56.0	
<b>INFRASTRUCTURE</b>			
Infrastructure Investment Programme - Bridges renewal programme	Payment to upgrade bridges across the nation. This programme will renew and replace bridges to contribute to the productivity of bridges serving local communities, and facilitate higher productivity vehicle access.	60.0	
Northern Australia – Improving cattle supply chains	Payment to improve cattle supply chains in the north, with a particular focus on road infrastructure. The NP will establish a fund that will provide incentives for private sector investment to improve the road network and transport logistics in the area.		35.0
Regional Infrastructure Programme	Payment to invest in common-use infrastructure projects which support new business opportunities in the non-manufacturing sectors in Victoria and South Australia, regions most affected by the closure or car manufacturing facilities.	10.0	

**Table A-2 Commonwealth payments commenced in 2015-16 and 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2015-16 (cont'd)***

Commonwealth payment	Description	New in 2015-16 \$m	New in 2016-17 \$m
<b>ENVIRONMENT</b>			
Mechanical fuel load reduction trial	Funding to undertake a research trial, which examines the effectiveness of mechanical fuel removal in forests where conservation values could be compromised by fuel reduction burning.	1.0	
<b>PAYMENTS TO SUPPORT OTHER STATE SERVICES</b>			
North Queensland Strata Title Inspection Scheme	Payment to 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	