



**AUSTRALIAN CAPITAL TERRITORY**

**2017 Update**

**ACT Response to Commonwealth Grants Commission Staff Discussion Paper**

**CGC 2016-05-S**

**September 2016**

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

## RESPONSE TO NEW ISSUES FOR THE 2017 UPDATE

### Introduction

The ACT welcomes the opportunity to present its views on a range of matters Commission staff consider important in framing the *Report on GST Revenue Sharing Relativities 2017 Update*.

As discussed with the Secretary on his visit to the Treasury on 22 July 2016 we are concerned that no Terms of Reference have been issued to the Commission for this 2017 Update. This is unsatisfactory from a number of perspectives. The notion that ‘this is the way it is always done’ is no defence in the ACT’s view and most unsatisfactory from the perspective of an open and transparent framework in which to conduct federal financial relations.

In preparing this response Treasury (Federal Financial Relations) was required to consult more widely with the relevant line agencies to ensure the accuracy of the comments provided. The comprehensive data requests from the Commission staff have also been distributed across all ACT Directorates requiring their allocation of time and resources to complete and verify their input without any formal authority or coverage from terms of reference.

The ACT requests the Commission note our concerns in the 2017 Update Report.

### Independent Hospital Pricing Authority (IHPA) Data

#### Issue / Staff Position

The Commission did not use the preliminary 2014-15 IHPA data in its health assessments in the 2016 Update, using 2013-14 final data in their place. This was because IHPA advised that the final 2013-14 data were more reliable for the assessments than the preliminary 2014-15 data.

IHPA has advised that there are unlikely to be major changes between the preliminary and final data for 2014-15. Staff have confirmed that changes from the preliminary 2013-14 data to the final 2013-14 data did not significantly affect the assessed health expenses for 2013-14 for any State. Staff will do the same analysis later in the year for the preliminary and final 2014-15 data once the latter are available.

The IHPA advice and staff findings on the assessment outcomes between preliminary and final data suggest that the preliminary 2015-16 data are likely to be sufficiently reliable for the Commission’s purposes.

Staff propose to recommend that the Commission use preliminary 2015-16 IHPA data in the 2017 Update (subject to availability).

#### ACT Position

Advice from our Health Directorate is that the classification of “preliminary” given by the IHPA to the 2015-16 data clearly indicates that updates can occur before the data become final and hence these data cannot be considered complete.

Our understanding is that the IHPA data are used to determine socio-demographic composition (SDC) in the Health assessment and that changes in activity levels which are not related to changes in population or SDC do not affect the assessment. Consequently, distribution of assessed expenditure across States is unlikely to change significantly over short time periods, and hence the use of a single year's IHPA data over two years should not add any material inaccuracy to the assessment.

The ACT's preference is that the Commission use final data for 2014-15 for the last two assessment years in the 2017 Update.

## Delays in Natural Disaster Relief Payments

### Issue / Staff Position

The Commonwealth Government has delayed the reimbursement of some Natural Disaster Relief and Recovery Arrangements (NDRRA) payments previously expected to be paid in 2015-16. The delay is a result of improved assurance arrangements arising from a report by the Australian National Audit Office. Accordingly, States have been asked by the CGC not to report expenses for natural disasters in 2015-16 unless they have been assured by the Commonwealth as being recognised under the NDRRA framework.

Staff propose to recommend that the Commission ensure only expenses on eligible measures in respect of eligible disasters under the NDRRA for 2015-16 are included if they have been assured by the Commonwealth as being recognised under the NDRRA framework.

### ACT Position

The ACT supports the recommendation that the Commission ensure expenses on eligible measures in respect of eligible disasters under the NDRRA for 2015-16 are included only if they have been assured by the Commonwealth as being recognised under the NDRRA framework.

## Wages Assessment Data Update

### Issue / Staff Position

In previous inquiries, the CGC made an adjustment to the wage factors for the ACT and the Northern Territory to allow for the more generous employee superannuation scheme that the Territories inherited from the Commonwealth at the time of self-government.

The CGC noted in the 2016 Update that this adjustment was no longer material at the \$30 per capita level for disabilities but had not had time to consult with States on the issue. The CGC proposes to reconsider the materiality of the adjustment when 2015-16 wage costs estimates are available.

Staff propose to recommend that the Commission:

retest materiality of the CSS adjustment when the 2015-16 wage cost estimates become available; and

discontinue the CSS adjustment, if it is no longer material.

## ACT Position

The ACT has reviewed the methodology used by the CGC to calculate the superannuation adjustment in the wage costs assessment. The methodology is based on taking account of the expected future benefit payments to current CSS scheme members as the liability is accrued. However, there was a concern that this approach would not have accounted for the cost of benefits accrued prior to introduction of the superannuation adjustment. An examination of 2004 Review deliberations confirms that the Commission acknowledged that the assessment prior to the 2001 Update had not recognised the ACT's accrual of above standard unfunded liabilities in the period between 1987-88 and 1997-98. As a result, the Commission included adjustments in the wage costs assessment to correct this omission.

The ACT agrees that the approach adopted by the Commission fully takes account of future benefit payments from the scheme.

The ACT does not support the proposal to retest the materiality of the CSS adjustment and discontinue it if it is no longer material. The superannuation adjustment is made as part of the wage costs assessment and therefore should be considered not as a separate disability but simply part of the broader wages cost disability. The application of the materiality threshold to just one component of that assessment is not an appropriate use of materiality thresholds. Termination of the adjustment would be tantamount to a methodology change, which should only be considered as part of a Review process.

The ACT also submits that the CGC should reassess the general discount currently applied to the Wage Costs assessment, as stated in our submissions to the 2016 Update review. In that process CGC staff noted that the Characteristics of Employees (CoE) dataset will have a substantially larger sample size than the SET and will be conducted annually. These two improvements will increase the model's accuracy and reduce volatility.

The ACT considers that, if the new CoE dataset produces a more reliable and accurate outcome than the data previously used, CGC staff should consider the removal of the discount currently applied to this assessment. As this request is related to data quality, we submit that it falls within the guidelines for an Update.

## Timing of Data Requests

### Issue / Staff Position

States generally supported a proposal by the Secretary of the CGC to shift back by four weeks the dispatch and return of data requests, in recognition of the short time previously allowed between the end of the financial year and the reporting date.

Staff propose to recommend that the Commission:

maintain the dispatch date but shift back by four weeks the return date for data (The proposed dispatch date will be 22 July 2016 and the return date 21 October 2016.); and

note there will still be some delays in State data returns.

## **ACT Position**

Although the ACT was comfortable with the previous timeframe for data requests we do not have a concern with the proposed change, provided it does not delay the completion of other phases in the process.

Our main concern is with the slippage we have seen over recent years in the timing of the review of the preliminary adjusted budget. We suggested that the timing needs either to be brought forward, well ahead of the Christmas/New Year shutdown, or pushed back into mid to late January. This issue has not been addressed in the CGC's Staff Discussion Paper on New Issues for the 2017 Update. We ask that the Commission give specific consideration to it as part of the 2017 Update process.

## **Sharing of Confidential Data**

### **Issue / Staff Position**

Western Australia proposed relaxing the current data sharing protocol, which prevents the sharing of any data set in which at least one State's data are confidential, by either:

- Option 1 — sharing non-confidential data among all States, or
- Option 2 — sharing non-confidential data among States which have not designated their data as confidential.

Most States preferred the second option of sharing non-confidential data among States which have not designated their data as confidential, particularly as it might encourage other States to reconsider the need to flag data as confidential.

Staff propose to recommend that the Commission change the current practice of sharing data among States to 'sharing non-confidential data among States which have not designated their data as confidential', provided any data designated as confidential by States cannot be back solved from the assessment outcome.

### **ACT Position**

The ACT supports changing the current practice of sharing data among States to sharing non-confidential data among States which have not designated their data as confidential.

## **Commonwealth Payments Commenced in 2015-16**

### **Issue / Staff Position**

Staff propose that Commonwealth payments that commenced in 2015-16 be treated as set out in Attachment A, Table A-1 of Staff Discussion Paper CGC 2016-05-S. 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.

Staff propose to recommend that the Commission approve staff proposals on the treatment of each Commonwealth payment commenced in 2015-16 listed in Table A-1 of Attachment A of Staff Discussion Paper CGC 2016-05-S.

### **ACT Position**

The ACT supports the proposals for treatment of the Commonwealth payments which commenced in 2015-16 as listed in Table A-1 of Attachment A of Staff Discussion Paper CGC 2016-05-S.

## **Commonwealth Payments Commencing in 2016-17 or 2017-18**

### **Issue / Staff Position**

The CGC has also provided a list of new payments that will commence in 2016-17 or 2017-18 (Table A-2 of Attachment A of Staff Discussion Paper CGC 2016-05-S). Although the payments shown will affect the year in which the 2017 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.

Staff propose to recommend that the Commission not backcast the Commonwealth payments commencing in 2016-17 or 2017-18 listed in Table A-2 of Attachment A of Staff Discussion Paper CGC 2016-05-S.

### **ACT Position**

The ACT supports the recommendation that the Commission not backcast the Commonwealth payments commencing in 2016-17 or 2017-18 listed in Table A-2 of Attachment A of Staff Discussion Paper CGC 2016-05-S.

## **Payroll Tax Assessment**

### **Issue / Staff Position**

In the 2016 Update the CGC advised of downward revisions to ABS CoE (Compensation of Employees) data for the ACT, which meant a substantial reduction in our assessed payroll tax base and consequently an increase of \$36m in the ACT's GST entitlement.

This change reversed almost identically the 2015 Review's treatment of the ACT's payroll tax capacity, which was subject to a large upward revision in the ABS CoE data, resulting in a reduction of \$35m in the ACT's GST entitlement.

### **ACT Position**

Investigation of this issue by the ACT established that the 2015 Review assessment involved an error by the ABS in the compilation of the CoE data, an error which was subsequently corrected in the data that formed the basis for the 2016 Update assessment. A submission by the ACT asking the CGC to make a retrospective adjustment to correct the impact of the error on the ACT's GST entitlement for the 2015-16 financial year was unsuccessful.

This error led to a reduction in the ACT's allocated share of the GST Pool of \$35 million in 2015-16. This is a substantial loss of funding to the Territory.

The ACT was constrained in pursuing the matter in the time frame afforded to the States by the Federal Treasurer to review the draft *CGC 2016 Update Report*. This was further compounded by the fact the draft report was not taken to a Council on Federal Financial Relations (CFFR) meeting. Had we been given the usual three week period for comment, and the opportunity to raise the matter at CFFR, the issue could have been given the appropriate prominence for a matter of such significance.

This episode simply reflects the need for all parties to re-visit past protocols for dealing with Commonwealth ToR and associated release of CGC reports.

In light of the unsatisfactory treatment of this issue to date, the ACT asks that early advice be given by CGC staff to ACT Treasury of any data changes identified in the 2017 Update process which may have a significant impact on the ACT's assessed payroll tax base. This will enable the ACT to review the data and raise with the CGC any concerns about it prior to finalisation of the payroll tax assessment.

## **Welfare Assessment – NDIS**

### **Issue / Staff Position**

The CGC Staff Research Paper *What States Do – Welfare Services* (CGC 2016-10-S) contains commentary on estimated NDIS Full Scheme participant numbers which are of some concern to the ACT. Although, as the paper states, the official DSS estimate for the ACT is 5,075 participants, the Scheme Actuary's *Report on the Sustainability of the Scheme, 1 July 2013 to 31 March 2016* (April 2016) indicates that the ACT's actual number of participants deemed eligible as at 31 March 2016 was 118% above the expected number, compared with a national figure of 100%.

We understand that the CGC uses NDIS participant numbers in its assessment as advised on an annual basis by the DSS.

### **ACT Position**

The ACT is concerned that the CGC may not be using the most accurate available estimates of NDIS participant numbers in its assessment of State expense needs during NDIS Transition. We ask that the CGC review its approach to the assessment to ensure that the most accurate available data are used.

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

