Australian Government

Commonwealth Grants Commission

2018 UPDATE

NEW ISSUES FOR THE 2018 UPDATE

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CONTENTS

BACKGROUND

1 In expectation that terms of reference for a 2018 Update will be sent to the Commission, this paper sets out issues identified by Commission staff as relevant to the 2018 Update. Staff proposals on how the new issues might be handled are included, as a basis for seeking the views of the State and Commonwealth treasuries.

2 Comments should be provided by 13 October 2017 to secretary@cgc.gov.au. States are encouraged to raise any other issues relevant to the update. The contact officer for queries is Yuhua Shi (yuhua.shi@cgc.gov.au or 02 6229 8852).

ISSUES FOR THE 2018 UPDATE

3 The issues include:

- use of new Census data
- the wage cost assessment — Commonwealth Superannuation Scheme adjustments
- Commonwealth payments for the National Disability Insurance Scheme
- the Health assessment
  - emergency department data
  - treatment of the Commonwealth payment for the transfer of the Mersey Community Hospital from the Commonwealth to Tasmania
- Commonwealth payment for Quality Schools and the Schools assessment
- rescaling in the Investment assessment
- treatment of mining royalties where bans have been introduced
- treatment of the new Commonwealth payments for specific purposes.

USE OF NEW CENSUS DATA

4 Data from the 2016 Census will become available progressively during 2017, with major releases in June and October, although some data will not be available until 2018. The Commission's previous terms of reference (ToR) require it 'where possible, [to] use the latest available data'. We assume the 2018 Update ToR contain a similar clause.

Data quality

5 Some aspects of the Census operations led to concerns about the quality of data that would be produced from it.

6 The ABS established an independent panel of eminent Australian and international statisticians, academics, State government representatives and members of the Australian Statistics Advisory Council to independently review and assure the quality of statistical outputs from the 2016 Census. The Census Independent Assurance Panel report was published on 27 June 2017.

7 The Panel concluded that the 2016 Census data are fit-for-purpose and are of comparable quality to the 2011 and 2006 Census data. On this basis, staff consider that data quality does not present any barrier to using the latest available data.

Estimated Resident Population (ERP)

8 The ABS estimate of Victoria's population for 30 June 2016 was 110 000 higher than the comparable estimate made before the 2016 Census data were released. For Western Australia, the estimate was 58 000 lower. No other State had a significant change to their estimates. To produce a consistent time series, the ABS has retained the 2011 population estimate, and reduced the annual population growth in Western Australia by around 12 000 per year between 2011 and 2016. This element of population growth is referred to as the intercensal discrepancy.

9 The effect of using new population estimates on the GST distribution is shown in Table 1. Western Australia would have received $525 million less GST and Victoria $546 million more in 2017-18 had the revised population estimates been available for the 2017 Update.

Table 1 Effect of new Census data, 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenue	12	225	10	-268	9	-1	12	1	269
Mining	41	37	21	-114	9	3	2	1	114
Commonwealth payments	-15	90	-8	-68	-1	-3	5	-1	95
Schools	15	-111	8	91	1	4	-7	0	118
Health	5	46	1	-36	-1	-1	1	-16	54
Justice	30	2	5	-14	-3	0	0	-21	38
All other expenses	23	-45	6	40	-2	2	-6	-17	71
Investment	-40	408	-36	-322	-4	-13	20	-15	429
Roads	-2	97	-7	-97	2	-3	6	2	108
Urban transport	-37	118	-12	-69	-2	-1	4	0	121
Other services	-1	193	-17	-156	-4	-9	11	-17	204
Net borrowing	9	-69	9	53	1	3	-5	0	74
Total	39	546	-4	-525	-2	-9	22	-68	607

Source: Commission calculation.

10 Faced with a similar issue in the 2013 Update, the ABS advised that the published ERP series is the preferred measure of population level. However, the best estimate of population growth was obtained by excluding the intercensal discrepancy. In light of that advice, the Commission calculated a population series by using the then newly released 2011 Census based population level, and calculated a population for previous years by subtracting the intervening growth (excluding the intercensal discrepancy).

11 The magnitude of the intercensal discrepancy is similar to that found in the 2006-2011 intercensal period, although fewer States are affected. We are consulting the ABS on this issue.

12 If the Commission were to repeat the process it followed in the 2013 Update, then the effects shown in Table 1 for Investment and Net borrowing would be avoided, but little else would change. This means that Western Australia and the Northern Territory would receive more GST than if the Commission simply accepted the revised population numbers, and Victoria would receive less.

Indigenous population

13 This year's new Indigenous ERP, based on the 2016 Census, will become available later this year. These data will not be consistent with the estimates and projections based on the 2011 Census. While births, deaths and migration explain about an 11% increase in the Indigenous population, Census counts from the 2016 Census that are currently available show the Indigenous population in the Eastern States has grown by up to 25%, as shown in Table 2. It is not yet clear how the adjustment from Census counts to ERP will affect individual States, as the Indigenous undercount will vary between States. However, it seems likely that Indigenous ERP will be revised up considerably more in the Eastern States than in Western Australia or the Northern Territory.

14 The ABS does not publish annual detailed estimates of the Indigenous population. The Commission derives the data required using the partial information that ABS publishes. Since the 2010 Review, the way we have done this has changed depending on the data available. We require data on the annual Indigenous population in each State.

- From the 2010 Review to 2012 Update, we used ABS published 2006 Census based Indigenous population projections.
- In the 2013 and 2014 Updates, with the release of new census data, the 2006 Census based projections were no longer relevant, so we used 2011 Indigenous ERP, indexed for growth at the same rate as the total population.

- By the 2015 Review, the ABS had produced 2011 Census based Indigenous population projections, and so we reinstated the 2010 Review to 2012 Update methods.

Table 2 Estimating Indigenous Populations, 2011 to 2016

	2011 based population projections			Census counts		
	2011	2016	Growth	2011	2016	Growth
	No.	No.	%	No.	No.	%
NSW	208 476	230 564	10.6	172 625	216 176	25.2
VIC	47 333	53 817	13.7	37 992	47 788	25.8
QLD	188 954	213 712	13.1	155 826	186 482	19.7
WA	88 270	97 907	10.9	69 664	75 978	9.1
SA	37 408	41 613	11.2	30 432	34 184	12.3
TAS	24 165	27 114	12.2	19 625	23 572	20.1
ACT	6 160	7 121	15.6	5 184	6 508	25.5
NT	68 850	74 679	8.5	56 779	58 248	2.6
Total	669 616	746 527	11.5	548 127	648 936	18.4

Source: ABS Census and Demography.

15 We also require data on the sub-State geographic distribution of the Indigenous population.

- From the 2010 Review to 2012 Update, we used the 2006 fine level Indigenous ERP.
- In the 2013 Update, 2006 Census based ERP was no longer relevant, and so we used 2011 Census counts.
- In the 2014 Update, the ABS had produced 2011 fine level Indigenous ERP, and so we reinstated using that dataset.

16 In the 2018 Update, we are in the same situation we found ourselves in for the 2013 Update. Staff consider the solution taken in the 2013 Update remains appropriate. However, the Commission could decide to retain the 2017 Update approach, and to continue to use Indigenous data solely derived from the 2011 Census.

Indigenous disadvantage

17 Staff consider it necessary to use a revised Indigenous Relative Socio-Economic Outcomes index (IRSEO) and Non-Indigenous Socio-Economic Index for Areas (NISEIFA) at the same time as new Indigenous population data are included. This will ensure the socio-economic measures are consistent with the population data used by the Commission.

18 Both IRSEO and NISEIFA require data that will not be available before October. The Centre for Aboriginal Economic and Policy Research (CAEPR), who developed IRSEO, intends to produce a new IRSEO on the same basis as that produced in 2011.

Following the 2011 Census, the ABS was commissioned to produce NISEIFA. However because of the tight timing, staff propose to do this work in house this year. Both IRSEO and NISEIFA should be available on a 2016 Census basis by the end of November 2017.

19 The Commission relies on six datasets classified by IRSEO and NISEIFA. For two of these (the Australian Curriculum and Reporting Authority (ACARA) schools data and the National Centre for Vocational Education Research (NCVER) post-secondary education data), it receives disaggregated data, and allocates IRSEO and NISEIFA classifications to detailed geographic data itself. For other data:

- Staff will provide the Independent Hospital Pricing Authority (IHPA) with the necessary geographic correspondence by the end of November, and expect to receive appropriately classified hospital use data for the Health assessment.
- Medicare was not able to produce cross classified data by IRSEO and NISEIFA, and so we have used Socio-Economic Indexes for Areas (SEIFA). Staff propose to continue to use 2011 Census based SEIFA until the ABS produces SEIFA, and Medicare incorporates it into its geography.
  - These data are used in the calculation of the non-State adjustment for the emergency departments (ED), non-admitted patients and community health components of the Health category assessment.
- Australian Institute of Health and Welfare (AIHW) data on private patient separations by SEIFA — as with Medicare data, staff propose to continue to use 2011 Census based SEIFA. In the 2019 Update, these would be updated.
  - These data are used in the calculation of the non-State adjustment for the admitted patients component of the Health category assessment.
- Staff consider that the AIHW should be able to produce child welfare statistics by IRSEO/NISEIFA within this time frame, and propose using such data.

20 The Commission's use of IRSEO and NISEIFA came about in the 2015 Review as its terms of reference required it to 'develop methods to appropriately capture the changing characteristics of the Indigenous population'.

21 The Commission's interpretation of this was that if a group of people decide to identify as Indigenous in the 2016 Census, but had not in the 2011 Census, then it should reflect the attributes, and numbers, of those people. Using a mix of attributes from one census and numbers from another may create significant bias.

22 As the assessments incorporating Medicare and AIHW private patient separations data use SEIFA rather than IRSEO and NISEIFA, changes in Indigenous identification will have no effect on these assessments. These assessments will be updated for changes in socio-economic profiles in the 2019 Update when 2016 based SEIFA is available.

Remoteness

23 The 2016 Census based remoteness classification is not planned for release by the ABS until early 2018. This timing precludes us using data classified to the new classification in the 2018 Update. However, staff have no reason to consider that the remoteness changes are likely to be other than minor. This means that 2016 Census data will be phased in over two inquiries, the 2018 and 2019 Updates.

24 The related service delivery scale regions (areas more than 50km from a town of 5 000 people) cannot be updated without the data underpinning the remoteness classification.

Discrete Indigenous communities

25 The Commission defines Discrete Indigenous Communities as Statistical Area Level 1 (SA1s) where Indigenous people represent at least 50% of the estimated resident population. As Indigenous ERP will not be produced this year, it would be possible to make this calculation on the basis of census counts. However, the difference between census counts and ERP is quite different for Indigenous and non-Indigenous populations.

26 Staff consider that it is unlikely that many new Discrete Indigenous Communities will have been created in this Census. We consider this geography should be updated in the 2019 Update, when Indigenous small area ERP is available.

Other geographic classifications

27 Population classified by significant urban areas and urban centres are used in the Roads, Transport and Services to communities assessments. Revisions to these classifications are planned for late 2017.

28 The Commission uses two other CGC specific geographic classifications. It assesses:

- local roads in areas with a population density above 0.01 persons/km^2
- services to communities in 'urban areas' with a population of 50 to 200.

29 Staff will have updated population numbers for SA1s and mesh blocks respectively and could incorporate this revised geography into the Commission's assessments.

30 Only population numbers are required on these classifications. Data from external suppliers are not required to be classified to these classifications. Therefore staff consider that as long as the classifications are published by the end of 2017, there should be sufficient time to incorporate them into the Commission's assessments.

Housing

31 The Housing assessment uses Census data to calculate social housing use rates by Indigeneity, housing income and remoteness. As discussed above, this year the Commission will not have new remoteness areas. However, it will be possible to calculate revised social housing use rates using the new census, but using the 2011 remoteness classification.

32 In the 2019 Update, it will be necessary to recalculate this assessment using the 2017 remoteness classification. While not ideal to make this change in two bites, staff consider that the remoteness changes are likely to be relatively minor, while changes in social housing rates, income distributions and Indigeneity are likely to be more significant. Therefore, the chance of incomplete data moving the Commission away from the final outcome seems unlikely.

Recommendations

Staff propose to recommend that the Commission incorporate new Census data selectively.

- **Total population estimates**
  - **use ABS published estimated resident populations (ERPs) from June 2016 onwards, and derive its total State ERPs for estimates before June 2016 using the published components of growth (births, deaths and net migration).**
- **Indigenous population estimates**
  - **use new Census based data.**
- **IRSEO/NISEIFA/SEIFA classifications**
  - **use new data in Schools, Post-secondary education and Welfare, and for the IHPA health data**
  - **continue to use 2011 Census based data from Medicare and AIHW data to assess non-State adjustments in the Health category.**
- **Other geographic classifications**
  - **use new data for Urban centres, Significant urban areas, Low density areas and Pseudo-urban areas**
  - **continue to use 2011 Census based data for remoteness areas and discrete Indigenous communities.**
- **Social housing**
  - **use new census data (except for remoteness).**

WAGE COSTS ASSESSMENT — COMMONWEALTH SUPERANNUATION SCHEME ADJUSTMENTS

33 In the 2017 Update, the Commission decided to discontinue the adjustment it made to the wage cost assessment for the ACT and the Northern Territory to account for the higher costs to those States of the more generous Commonwealth Superannuation Scheme (CSS) they inherited at the time of self-government. The Commission had found that this adjustment was no longer material late in its review of the wage costs assessment in the 2016 Update, but did not have sufficient opportunity to consult States at that time.

34 During the 2017 Update report embargo period, the ACT raised in a letter to the Commission its view that the CSS adjustment should be reinstated and expanded to include the costs associated with the Public Sector Superannuation scheme (PSS), the other defined benefit scheme which applied to former Commonwealth employees at the time of transition to a separate ACT public service. It had new information to suggest that approximately 25% of its public servants are members of the PSS. It said that, in light of this new information, making the change would be consistent with the terms of reference that allowed method changes to overcome data issues.[1]

35 The ACT indicated that it would provide a further submission on this issue. The Commission has not yet received that submission. The Commission last considered the case for a PSS adjustment in the 2004 Review. At that time, it concluded that the costs of the PSS were no greater than average. Further, it said that maintenance of the PSS was a policy choice and that there was no legislation preventing the ACT from moving new employees to a different scheme.

States may wish to comment.

NATIONAL DISABILITY INSURANCE SCHEME (NDIS) RELATED PAYMENTS

New South Wales' and South Australia's move to full scheme

36 The terms of reference for the 2015 Review asked the Commission to:

[1] This assumes that the 2018 Update terms of reference contain a clause similar to 7(b) of the 2017 Update terms of reference.

> ...consider the most appropriate treatment of disability services during the transition to DisabilityCare Australia (the National Disability Insurance Scheme) and once the full scheme[2] is operating nationally.

37 The Commission decided to undertake dual assessments of State expenses on disability services and NDIS contributions in the transition phase to recognise what States were doing. The assessments of State expenses on disability services and NDIS contributions have been undertaken on the basis of State proportions of the total number of people eligible in a year to be covered by NDIS when fully operational.[3] Other disabilities were also assessed for existing disability services expenses but not in relation to the NDIS contributions.

38 This approach was adopted because States in transition were contributing the same proportion of average package costs for an agreed number of participants under the age of 65 (Indigenous Australians under the age of 50). The agreed number of participants, or rate of transition to full scheme, in each State was the result of State policy decisions. The Commission decided that the total number of people who would be eligible for NDIS when it was fully operational was a policy neutral measure of State needs for such funding, not affected by policies on rates of transition.

39 The Commission also said that after full implementation nationally, State NDIS contributions would be assessed on an actual per capita (APC) basis and the existing State disability services assessment would continue until it became immaterial. An APC assessment was considered appropriate because all States would be contributing to NDIS on the basis of their population shares at the most recent Census. All States would have the same policy.

40 In both transition and full implementation phases, the Commission said it would treat any associated Commonwealth payments to States, excluding State draw-downs of the Medicare Levy from the DisabilityCare Australia Fund, as having an impact on the GST distribution.

41 The changes in State service delivery and associated Commonwealth payments due to the NDIS have been backcast into the historical years to ensure this major change in Commonwealth-State arrangements reflects the circumstances in the application year. This backcasting was implemented by:

- using the proportions of NDIS and existing disability services expenses projected for the application year to split total disability services expenses in each of the three assessment years

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2 'Full scheme' refers to when a State's existing specialist disability clients who are eligible for the NDIS have all entered the Scheme.

3 Provided by the Department of Social Security (DSS).

- using State application year shares of the National Disability Specific Purpose Payment (SPP) in the assessment years (as this SPP continues to be distributed EPC this, in practice, means the historical amounts do not change)
- using DSS estimates of the NDIS eligible population in each State in the application year to assess disabilities.

42 In 2018-19, New South Wales and South Australia are scheduled to be at full scheme (2018-19 is the application year for the 2018 Update). The full scheme has been implemented in the ACT since 1 July 2017 but the ACT will not be contributing financially on a full scheme funding basis until 2019-20. Western Australia will be at full scheme in 2020-21. The other States are scheduled to be at full scheme in 2019-20.

43 As a consequence of entering full scheme, with all existing disability services clients transitioning to the NDIS, New South Wales's and South Australia's National Disability SPPs will cease after 2017-18 (as did the ACT's after 2016-17). These funds are now being paid direct to the National Disability Insurance Agency (NDIA).

44 Staff propose to continue the 2015 Review dual assessment approach, including backcasting, as the rate at which States move to full scheme is a matter of policy choice. No change to the Commission's approach will be required in this update. However, with two States contributing on a full scheme basis in 2018-19, the proportions of expenses allocated to the NDIS will increase considerably.

45 As the contributions by New South Wales, South Australia and the ACT will exclude the national disability SPPs, we will need to impute notional SPPs in deriving the proportions of NDIS and existing disability services expenses projected for the application year. This will ensure that expenses for all States are measured on a consistent basis.

46 In 2018-19, New South Wales and South Australia will be paying for full scheme (100% participation); we will be recognising less than this on the basis of average policy. Conversely, however, they will have ceased (New South Wales) or largely ceased (South Australia) the provision of Specialist disability services but we will be recognising the average State provision of these services.

- Given we have the same disabilities for existing disability services, apart from cross-border and location factors, the effect of any alternative assessment would in any event be small.
- This is similar to the ACT's position. It has moved rapidly to 100% participation in the NDIS but we recognise the national average (plus national average Specialist disability services). The Commission is on record as saying this represented above average services and it was the ACT's choice to move ahead faster.

47 We seek State comments on our proposal to continue with the 2015 Review dual assessment approach in this update.

Recommendations

Staff propose to recommend that the Commission:

- make no change to its assessment methods for disability services in this update
- estimate notional SPPs in the application year for New South Wales, South Australia and the ACT to derive consistent splits of expenses between NDIS and Specialist disability services.

HEALTH ASSESSMENT

Emergency department data

Background

48 In late 2016, the Commission received advice from the Independent Hospital Pricing Authority (IHPA) that the emergency department (ED) data from the National Public Hospital Establishment (PHE) database would not be available from 2014-15. This affected 2014-15 and 2015-16 ED data in the 2017 Update and the Commission had to decide how to deal with the missing activity.

49 Staff analysis of the 2013-14 ED data for the 2017 Update showed that only about 5% of total ED occasions (or 411 890 occasions) were sourced from the PHE database. But these occasions were not uniformly distributed across remoteness areas (ranging from 0.1% in major cities to 17.4% in outer regional areas) so ignoring them would disproportionately exclude ED activity in areas outside major cities and have a material effect on the GST distribution.

50 The 2017 Update New Issues paper canvassed two approaches for estimating the missing occasions. Staff said the number of missing PHE ED occasions in 2014-15 and 2015-16 could be estimated using either the number of PHE ED occasions in 2013-14 or the proportion in 2013-14. Using the proportion would allow for growth in the missing activity.

51 The Commission supported the first approach because the IHPA advised that the ED activity previously captured in the PHE collection would gradually be picked up in the two other collections used to source ED activity, that is, Non-admitted Patient Emergency Department Care National Minimum Data Set (hereinafter referred to as 'EP') and Activity-based Funding Emergency Services Care Data Set Specification (hereinafter referred to as 'ES'). Therefore the number of occasions previously covered by the PHE database was expected to decline. Most States supported using the number of occasions in 2013-14 to estimate the missing activity.

52 Some States said that the Commission should revisit the issue in the 2018 Update and use hospital level data to determine the best approach.

Analysis

53 Following the 2017 Update, staff requested additional data from IHPA to estimate the ED activity not captured in EP and ES collections in 2014-15. IHPA provided the following data to facilitate the analysis:

- data on the number of ED occasions for each hospital in the EP and ES collections in 2013-14 and 2014-15, by hospital remoteness
- data on the number of ED occasions for each hospital in the PHE collection in 2013-14, by hospital remoteness.[4]

54 Using these data staff identified that of 163 hospitals that reported their ED occasions in the PHE collection in 2013-14 (that is, they did not report activity to either EP or ES), 100 of them reported to EP in 2014-15[5], leaving 63 'non-reporting hospitals'. This accounted for 90 850 ED occasions in 2013-14 or 1.2% of total ED occasions in that year.

55 We have estimated the number and proportion of PHE ED occasions for the 63 'non-reporting hospitals' in 2014-15 by applying the growth in ED occasions between 2013-14 and 2014-15 for the 100 hospitals that reported in both years. Using this approach we have estimated there would be 88 182 ED occasions for 'non-reporting hospitals' in 2014-15, representing 1.1% of total ED occasions in that year.

56 Table 3 shows the calculation steps by hospital remoteness area. Most of the 'non-reporting hospitals' were in inner and outer regional areas and only four were in remote areas.

57 Since the number of ED occasions that were not captured in 2014-15 has declined to an insignificant level (88 182 occasions or 1.1% of total ED activity), continuing to use the number of PHE ED occasions from 2013-14 (411 890) would overstate the missing activity in 2014-15 and subsequent years. We could use the estimated activity from Step 5 in Table 3, but as shown in Table 4 this is not materially different to ignoring the missing activity. Therefore staff intend to recommend that the Commission use ED activity captured by the EP and ES collections (that is, without any adjustment for missing PHE ED occasions) in the 2018 Update. This is because the number of ED occasions not being captured is negligible and the adjustment is not material for any State.

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4 All the hospitals were de-identified and only hospital codes were provided by IHPA.

5 None of the 163 hospitals reported to ES in 2014-15.

Table 3 Estimation of ED occasions from 'non-reporting hospitals' for 2014-15

	Step (1)	Step (2)	Step (3)	Step (4)	Step (5)
Hospital remoteness	Non-reporting hospitals in 2014-15 (a)	ED occasions for non-reporting hospitals in 2013-14	Growth in activity for hospitals reported in both years (b)	Estimate of ED occasions from non-reporting hospitals in 2014-15 (2)*[100+(3)]%	Proportion of ED occasions from non-reporting hospitals in 2014-15
	No.	No.	%	No.	%
Major cities	0	0	-10.6	0	0
Inner regional	30	51 017	-1.7	50 170	2.6
Outer regional	28	37 269	-4.2	35 707	3.3
Remote	4	2 139	-12.1	1 880	0.7
Very remote	0	0	2.8	0	0
Unknown	1	425	na	425 (b)	0.5
Total	63	90 850	-4.0	88 182	1.1

(a) All the other PHE hospitals (100 in total) reported ED occasions in the EP collection in 2014-15.
(b) We could not derive a growth factor for the unknown hospital so none was applied.
Source: Staff calculation using a special data request from IHPA.

Table 4 Assessed expenses, emergency department, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
S1: Ignoring PHE ED	1 365	1 012	905	506	315	117	61	93	4 374
S2: Estimating PHE ED	1 364	1 010	907	505	315	119	61	93	4 374
Difference $m (a)	1	2	-2	1	0	-2	0	-1	0
Difference $pc (b)	0	0	0	0	0	-3	1	-2	0

(a) The differences of ED assessed expenses between Scenario 2 and Scenario 1.
(b) The differences of ED assessed expenses divided by 2014-15 population.
Source: Staff calculation based on the 2017 Update.

58 The IHPA is continuing to work with State health authorities to improve the coverage for the EP and ES collections (especially the EP collection) and it anticipates further improvements in the coverage of these collections in the future.

Recommendation

Staff propose to recommend that the Commission:

- **use the Independent Hospital Pricing Authority's emergency department activity captured by the Non-admitted Patient Emergency Department Care National Minimum Data Set and Activity-based Funding Emergency Services Care Data Set Specification collections for all assessment years in the 2018 Update without any adjustment for under coverage because the number of emergency department occasions not being captured is negligible (1.1% of total activity) and including an adjustment is not material for any State.**

Treatment of the Commonwealth payment for the transfer of the Mersey Community Hospital from the Commonwealth to Tasmania

Background

59 The Australian Government provided funding to Tasmania in 2016-17 to support the transfer and operation of the Mersey Community Hospital for the next 10 years.

60 The Treasurer wrote to the Commission on 12 April 2017 directing it to exclude the payment from the calculation of per capita relativities for the distribution of revenue from the GST.

Analysis

61 In 2016-17 Tasmania received $730.4 million from the Australian Government to cover the operating costs of the Mersey Community Hospital for 10 years. The Tasmanian Government has transferred the full amount to its public finance corporation (TasCorp) as a one-off equity contribution to the Mersey Community Hospital Fund (the Fund). TasCorp will make annual dividend payments to the Tasmanian Government for the next 10 years equivalent to the indexed operating costs of the hospital. Table 5 shows the estimated dividend payments from 2017-18 to 2020-21.

Table 5 Mersey Community Hospital dividend payments

Financial year	Estimated dividend
	$m
2017-18	78.1
2018-19	80.9
2019-20	83.7
2020-21	86.6

Source: Tasmania Budget Paper No. 1, Table 5.9.

62 A number of adjustments to revenue, expenses and balance sheet estimates are needed to ensure the payment has no effect on the relativities.

63 The main transaction associated with the transfer of the hospital was the $730.4 million payment made to Tasmania in 2016-17. It resulted in the following transactions being recorded in Tasmania's general government accounts in 2016-17.

- Operating statement
  - current grant revenue of $730.4 million from the Australian Government
  - net operating balance and net financial worth were $730.4 million higher in 2016-17 than they would have been without the payment.
- Balance sheet

- net financial worth included an amount of $730.4 million as equity in TasCorp.

64 From 2017-18 to 2026-27, the value of equity in TasCorp will decline as funds are withdrawn to meet the annual operating costs of the hospital. The withdrawal of funds will be recorded in Tasmania's general government accounts as dividend income. The operating costs for the Mersey Community Hospital will be recorded as health expenses.

65 To ensure the payment has no effect on the distribution of GST revenue, the initial $730.4 million will be treated so it has no effect on the GST distribution. In addition, a number of other adjustments should be made to Tasmania's operating statement and balance sheet data, as described below:

- deduct $730.4 million from Tasmania's net lending and net financial worth in 2016-17
- deduct the annual dividend income from TasCorp from 2017-18 to 2026-27
- deduct the annual operating costs of the Mersey Community Hospital from Health expenses from 2017-18 to 2026-27.

66 Staff have estimated the materiality of making the additional adjustments listed above but they are not material (Table 6). Therefore staff propose to recommend that the Commission exclude the initial Commonwealth payment but not to make any additional data adjustments. This will keep the calculations simpler.

Table 6 Materiality of making data adjustments to net lending, net financial worth and health expenses in the 2017 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
GST effect (a)	0.0	0.2	0.0	0.1	-0.3	-0.8	0.8	-2.0

(a) GST effect in 2017-18 of making the data adjustments listed in paragraph 65. Calculation based on adjustments to three assessment years in the 2017 Update.

Source: Staff calculation based on the 2017 Update.

67 The Treasurer's letter did not contain any instruction about the treatment of the $10 million asset transfer from the Commonwealth to Tasmania or ongoing support for the delivery of rehabilitation and palliative care services in the Hospital. Therefore the transfer and payment for rehabilitation and palliative care services will affect the GST distribution, unless the ToR direct us otherwise.

Recommendations

Staff propose to recommend that the Commission:

- treat the $730.4 million payment for the transfer and operation of the Mersey Community Hospital as not affecting the relativities because it is expected to be quarantined by the terms of reference

- not make any additional adjustments to Tasmania's financial data for the management of the payment or operation of the hospital over the next 10 years because it would add complexity but not have a material effect on the GST distribution
- not make any adjustments for the transfer of the asset valued at $10 million
- allow the payment for the delivery of rehabilitation and palliative care services to affect the GST distribution because it is for normal State services and needs are assessed in the Health category.

QUALITY SCHOOLS PAYMENT AND THE SCHOOLS ASSESSMENT

68 On 23 June 2017, the Australian Parliament passed the Australian Education Amendment Bill 2017. This legislation changes the way the Commonwealth funds Australian schools. By 2027, comparable schools in different States will receive the same Commonwealth funding. The actual funding formula is broadly based on the model recommended in the Gonski report of 2013 although its final form will be determined by a newly established National Schools Resourcing Board, which will review various elements including:

- socio-economic standard calculations to best reflect parents' capacity to pay
- the cost loadings for students with disabilities
- funding for Year 7 students as primary school students in South Australia.

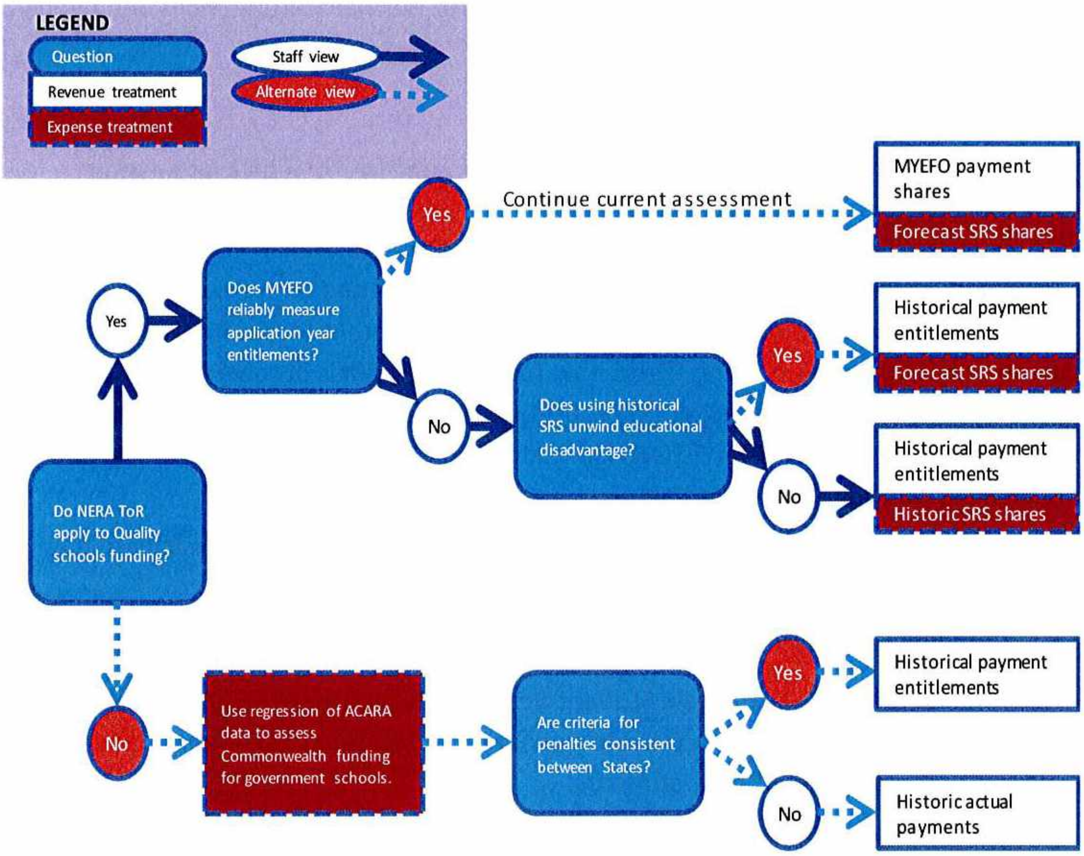
69 This funding formula calculates a Student Resource Standard (SRS), which is the amount each State requires to provide the national standard of schooling, given the socio-economic profile of their students.

70 State government funding will be subject to a 'clawback' mechanism, designed to ensure State governments step up. It is not clear exactly how it will work, but if a State fails to provide at least 75% of the target funding to government schools, or 15% of the target funding for non-government schools, the federal government will withhold some funding to that State. By 2023, this condition will be imposed uniformly across all States. However the minimum funding required by each State will transition from their current levels to a universal common level over this period. So between 2018 and 2023, States such as Western Australia and the ACT which currently fund more than 75% of the SRS amounts for their States will be able to reduce their funding, while New South Wales, Victoria and Queensland which fund well below 75% of the SRS amounts will be required to increase their funding.

Assessment options

71 Staff consider that the options available to the Commission are determined by answers to various questions about how it perceives the Quality Schools funding arrangements. A decision tree reflecting these issues is shown in Figure 1, along with staff inclinations.

Figure 1 Quality Schools decision tree



Note: 1. NERA stands for National Education Reform Agreement.
2. MYEFO stands for Mid-Year Economic and Fiscal Outlook.

Do the NERA terms of reference apply to the treatment of Quality Schools funding?

72 National Education Reform funding was to commence from 1 January 2014, with the Commonwealth's offer to States under the National Education Reform Agreement (NERA) open until 30 June 2013. In this context, the Commission received terms of reference for the 2015 Review requiring it:

- not to unwind the recognition of education disadvantage embedded in the funding arrangements

- to ensure no State or Territory received a windfall gain from non-participation.

73 With the election of the Abbott government in September 2013, NERA funding was rebadged as Students First funding. In May 2016, the government released Quality Schools Quality Outcomes policy plan, and in the 2017-18 budget the Students First funding was replaced with Quality Schools funding.

74 NERA, Students First and Quality Schools are Commonwealth programs for distributing funds to States for government and non-government schools. They incorporate an 'ideal' distribution of funds based on the SRS, and an actual distribution based on a transition period to reach that ideal. The only substantive difference between the programs is the nature of the relationship between the Commonwealth and the States.

> The bill stipulates that States and Territories will be required to be party to a new national agreement to receive Commonwealth funding. This is to avoid a situation like we have now with this notion of 'participating' and 'non-participating' States with differences in entitlements and expectations for achieving national goals.[6]

75 The Students First agreement operated as an agreement, and States were offered special inducements to sign up. Quality Schools is more of a unilateral process run by the Commonwealth. The Commonwealth calculates and allocates funds to the States based on its formula, and no consultation or negotiation is required. The Commonwealth's formula could include a test based on State own source funding, to impose penalties.

76 The Students First agreement did not have any penalties applying to States. States could, and did, reduce their funding for schools. The Quality Schools program attempts to close this option for the States.

77 On balance, staff conclude that the differences between the different funding programs are minor, and that the Commission should treat the NERA terms of reference as affecting the Quality Schools funding.

Without ToR guidance how should Commonwealth funded school expenses be assessed?

78 If the Commission were not to accept the staff conclusion in paragraph 77, and to consider that the terms of reference did not apply to Quality Schools funding and there are no special requests in the 2018 Update terms of reference, it would have no established method for assessing the spending of this payment. It could:

- expand the State funded schools education to include the Commonwealth funded government schools education, and recalculate the ACARA regression including spending on government schools attributed to the Commonwealth

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6 Karen Andrews, 2nd Reading of Australian Education Amendment Bill 2017, House of Representatives Hansard, 11 May 2017.

- estimate a separate regression using ACARA data to predict spending on government schools attributed to the Commonwealth
- use SRS amounts for each assessment year as a policy neutral measure of State spending.

79 The third option could be seen as using external standards. The first and second options are expected to produce very similar results. Staff consider the second option to be the least change option.

Does MYEFO reliably measure application year entitlements?

80 In the 2015 Review, to avoid unwinding recognition of educational disadvantage embedded in the funding arrangements, the Commission used the application year distribution of the payment and the application year distribution of the needs based funding (SRS).

81 In the 2016 and 2017 Updates the Commission continued this method. However, the distribution of funding presented in MYEFO for 2018 calendar year and used in the 2017 Update was illustrative only, and did not represent the actual distribution that will be used in 2018. This was brought to the Commission's attention by Western Australia after the release of the 2017 Inquiry report.

82 The scenario where MYEFO did not have an accurate measure of the actual distribution occurred because funding arrangements were being renegotiated. It is worth considering whether this is likely to occur again.

83 The 2018 and 2019 distributions are not yet known, for both the actual distribution of Commonwealth funds and the SRS amounts, as the National Schools Resourcing Board are still to finalise the socio-demographic formula. It is not yet clear whether these distributions will be finalised in time for MYEFO, although the 2018 distribution at least would have to be known soon after that.

84 The federal Labour opposition has committed to change the funding model if it wins the next election. The next election, barring a double dissolution, is likely to be held between August 2018 and May 2019.

85 While the amount available to States may be known in advance, if penalties are ever imposed on any State, those penalties would be imposed as soon as they could be calculated. This means that we would never have advanced knowledge of the actual payment provided to each State, just to the entitled amount.

86 The Commission could determine that the entitled shares were the relevant distribution, either because it was bound by the 'no windfall gains' clause of the 2015 ToR, or because a State's decision to not meet the criteria was purely a policy choice. If the Commission did follow this path, then the timing of penalties is not of concern. However, the Commission could decide that it was not bound by the ToR, and that

different States had different conditions imposed on them. Therefore a State with more onerous conditions may be exerting average effort, but still have penalties imposed on it. Under this interpretation, the Commission would not have sufficient information about the application year funding, and so could not reliably backcast the assessment.

87 Staff consider that there is sufficient uncertainty about future payments that MYEFO cannot be relied upon as a measure of the application year funding distribution.

Does using historical SRS unwind educational disadvantage?

88 In the 2015 Review, if the Commission had not backcast the revenue and assessed expenses related to the Commonwealth funding of government schools, it would have arguably unwound the recognition of educational disadvantage embedded in the NERA funding arrangements, and instead recognised the educational disadvantage embedded in what States had actually done in the assessment years.

89 As NERA was introduced on 1 January 2014, SRS amounts have been calculated for all years from 2014-15. This is the first update for which all assessment years have SRS amounts calculated. Using them would not unwind educational disadvantage embedded in them, except the SRS amounts and calculations have changed. For example, 2018 will be the first year for which students with disabilities have a weight in the SRS calculations.

90 If the Commission were to use the SRS amounts as recorded in the assessment years it could arguably be seen as technically unwinding the measures of disabilities embedded in the 2018 funding. However, staff consider that using historical SRS uses a measure of educational disadvantage embedded in the SRS and as such does not unwind. Staff consider the differences between the two measures is likely to be relatively minor.

Are criteria for penalties consistent between States?

91 The Commonwealth funding to the States is conditional on States' own funding of government and non-government schools. If States do not spend as much as required on either sector, the payment they receive for government schools will be reduced.

92 The conditions set for all States will be comparable from 2023. All States will have to spend 75% of the SRS for their government schools to qualify for the full Commonwealth payment. However until 2023, the proportion each State needs to pay to meet the criteria differs, as States transition from their current funding level to a universal funding level.

93 Staff note that if NERA ToR are deemed to apply, revenue from Commonwealth payments will be assessed using the shares of payments States were entitled to (but

did not necessarily receive). We do note that no penalties have yet been applied, and so the amounts States were entitled to are the amounts they received up until at least 2016-17. In the (unlikely) event that penalties are imposed in 2017-18 a difference could eventuate in the 2019 Update.

94 If NERA ToR are deemed not to apply, staff are inclined to recommend assessing revenue from Commonwealth payments using the amount actually received, as the conditions set for States are not comparable.

Conditional payments

95 We note that the Commonwealth is providing a number of other payments to States which are conditional on the States matching Commonwealth funding and meeting certain outcomes. These payments do not have specific terms of reference directing the Commission. The payments that we are aware of with such conditions are:

- National Partnership on skilling Australians fund
- National Partnership on essential vaccines.

96 Just as the conditions imposed on Quality Schools payments differ between States, the conditions on other payments could differ. For example, different starting positions and different socio-demographics could make achieving required levels of vaccinations more difficult for some States than others. The Commission is not in a position to determine whether the conditions imposed on all States are equivalent given the different circumstances of the States.

97 Staff intend recommending the Commission assess the payment received using the actual payment, not the payment the State was offered, unless otherwise directed by the terms of reference. That is, if a State receives a below average payment because it does not meet the conditions associated with that payment, it would receive above average GST.

Recommendations

Staff propose to recommend that the Commission:

- **determine that Quality Schools is sufficiently NERA-like that the terms of reference continue to apply on the basis that having a nationally consistent needs based formula is the defining criteria that defines a Commonwealth school funding program as NERA-like**
- **conclude that it cannot reliably measure the distribution of entitled payments in the application year in advance, and therefore should use historical payment distributions**
- **decide that using historic SRS patterns is consistent with the ToR requirement not to unwind measures of educational disadvantage**

- decide that the criteria States must meet to avoid penalties varies between States based on their current effort levels, and that as such in the absence of terms of reference, penalties should be unwound
- on the basis of these decisions, assess:
  - Commonwealth funded school expenditure using SRS weights and student numbers from the assessment years
  - revenue from Commonwealth payment using the share of payments States were entitled to (but not necessarily received) in the assessment years, as directed by ToR
- assess other conditional payments using the actual payment received, not the payment the State was offered.

RESCALING IN THE INVESTMENT ASSESSMENT

98 Following the 2017 Update, staff identified an issue with rescaling in the Investment assessment.

99 When the Commission multiplies two disabilities, the sum of the States' expenditure is no longer the national total, and so the Commission 'rescales' or shares the total expenditure in proportion to the States' shares of the unscaled expenditure. This is illustrated in Table 7.

100 States spend $33 099 million on State funded schools education. We calculate an amount per student for different students of different socio-demographic profile, and allocate this to each State. This enables us to allocate the $33 099 million between the States. We then multiply each State's Socio-demographic composition (SDC) based assessed expenses by a factor depending on whether teacher wages are assessed to be above or below average, and whether average school size is assessed to be above or below average. The sum of all States' new assessed expenses (unscaled expenses) is no longer $33 099 million, but is now 0.05% higher.[7] To ensure we allocate the appropriate amount to schools, we remove this additional $17 million from States in proportion to their unscaled expenses.

101 We have undertaken this approach since the early 1990s, and successive Commissions have taken the view that this is the appropriate approach. Staff remain convinced this is the appropriate approach, in most circumstances.

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[7] Depending upon the disabilities, the sum of the States' unscaled expenses may on occasion total to less than the actual total expenses.

Table 7 Calculation of assessed State funded schools education, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
SDC based assessed expenses ($m)	10 370	7 657	7 188	3 669	2 391	807	486	531	33 099
Service delivery Scale	0.999	0.998	1.000	1.003	1.006	1.002	0.996	1.027	1.000
Wages	1.001	0.989	0.998	1.036	0.984	0.954	1.036	1.039	1.000
Unscaled expenses ($m)	10 365	7 557	7 177	3 810	2 366	772	501	567	33 116
Assessed expenses ($m)	10 360	7 553	7 174	3 808	2 365	771	501	566	33 099
Effect of rescaling ($m)	-5	-4	-4	-2	-1	0	0	0	-17

Source: Commission calculation.

102 However, in the Investment assessment (due to it being possible for different States to require either positive or negative assessed investment), this approach can create unintended outcomes. As shown in Table 8 in the 2017 Update, for the 2014-15 assessment year, net Other investment was $183 million (that is, excluding transport and roads). New South Wales, Victoria and Western Australia were assessed as needing to spend $397 million, and the other States with slower population growth were assessed as needing to run down or dispose of $214 million in assets to retain the adjusted national average asset stock per capita.

103 The Northern Territory was assessed to have high construction costs: 21.9% above average. With the symmetrical assessment, it is assumed that it can sell assets at 21.9% above average, or run down assets and therefore not incur the 21.9% cost on replacing its depreciated assets. The Northern Territory would need $23 million less GST, because of the construction costs.

104 The sum of the adjusted (unscaled) expenses is only $158 million, and so in undertaking the usual exercise of rescaling, all costs are increased by 14%. The effect here is much larger than the 0.05% in schools, because we are applying cost factors to relatively large positive ($268 million in Victoria) and negative ($103 million in the Northern Territory) amounts and calculating the rescaling factor on the relatively small net outcome ($183 million). In this example, the Northern Territory was assessed as needing $20 million less GST because of rescaling (for this assessment year only), and Victoria was assessed to need $42 million more GST due to the effects of rescaling.

Table 8 Calculation of assessed other investment, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Assessed change in stock ($m)	102	268	-11	27	-45	-49	-6	-103	183
Cost factor	1.003	0.976	0.979	1.071	0.994	0.970	1.028	1.219	1.000
Unscaled expenses ($m)	103	261	-11	29	-45	-47	-6	-126	158
Assessed expenses ($m)	119	303	-13	34	-52	-55	-7	-146	183
Effect of rescaling ($m)	16	42	-2	5	-7	-8	-1	-20	25

Source: Commission calculation.

105 It is easier to see the potential problem with this assessment if we imagine that in 2014-15, net Other investment had been $160 million less, as shown in Table 9. In this scenario, net investment would be $23 million. After applying the cost weights to the assessed change in stock, the unscaled assessed State expenses sum to -$3 million. However, resolving this $26 million discrepancy involves multiplying each State's unscaled investment needs by -8. After this rescaling Victoria, instead of needing $225 million, needs to disinvest nearly $2 billion, while the Northern Territory, instead of needing to disinvest $130 million, suddenly receives a gain of over $1 billion.

Table 9 Hypothetical calculation of assessed other investment, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Assessed change in stock ($m)	52	231	-45	9	-57	-53	-8	-106	23
Cost factor	1.003	0.976	0.979	1.071	0.994	0.970	1.028	1.219	1.000
Unscaled expenses ($m)	52	225	-44	10	-57	-51	-8	-130	-3
Assessed expenses ($m)	-436	-1 884	366	-84	477	428	70	1 087	23
Effect of rescaling ($m)	-489	-2 109	409	-95	534	479	78	1 216	26

Source: Commission calculation.

106 To address this problem, staff intend to recommend the Commission calculate the difference between the assessed change in stock, and the unscaled expenses ($25 million in Table 8) and distribute that EPC. As shown in Table 10, this reduces the impact of rescaling significantly. Staff consider this approach should be taken in any assessment where there is a risk of different States having different signs on their assessed expenses. This is only the case in investment (Net lending can have different signs, but there is no cost disability, and so the issue does not arise).

Table 10 Proposed calculation of assessed other investment, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Assessed change in stock ($m)	102	268	-11	27	-45	-49	-6	-103	183
Cost factor	1.003	0.976	0.979	1.071	0.994	0.970	1.028	1.219	1.000
Unscaled expenses ($m)	103	261	-11	29	-45	-47	-6	-126	158
Difference in total expenses ($m)									25
Assessed expenses ($m)	111	268	-6	32	-43	-47	-5	-126	183
Effect of rescaling ($m)	8	6	5	3	2	1	0	0	25

Source: Commission calculation.

107 Table 11 shows that in the 2017 Update making this change would have been material for the Northern Territory. We consider that in most years this adjustment will not be material. However there is a risk that in some years it could be highly material, as shown in Table 9. This effect is virtually restricted to changes in the other investment component. In roads, where all States had positive investment needs, the effect of the change was less than 20 cents per capita for most States, and $1.40 per capita for the Northern Territory. However, all investment components could, at some stage, have positive and negative investment needs. Therefore, while the impact will be negligible in most years, staff are inclined to recommend the change to all investment components.

Table 11 Redistribution from EPC, Investment, 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
U2017	51	591	-192	139	-260	-162	-51	-95	771
Proposed	46	574	-188	139	-256	-159	-51	-86	749
Change ($m)	-5	-17	4	1	4	3	0	9	22
Change ($pc)	-1	-3	1	0	2	6	1	37	1

Source: Commission calculation.

Recommendation

Staff propose to recommend that the Commission:

- **rescaling in the Investment assessment be undertaken by distributing the difference between the assessed change in stock, and the unscaled expenses on an equal per capita basis.**

TREATMENT OF MINING ROYALTIES WHERE BANS HAVE BEEN INTRODUCED

108 In its 2015 Review report, the Commission said it would monitor developments in State mining policies to:

- ensure its mineral by mineral assessment was not influencing State behaviour
- check whether other minerals had become material
- ensure the mining revenue base it observed was consistent with average policy.

109 The Commission will continue to monitor developments in State mining policies in the lead up to the 2020 Review.

110 In the 2015 Review, the Commission assessed mining revenue capacity using a mineral by mineral approach. It included Coal Seam Gas (CSG) in the Onshore oil and gas component and uranium in the Other minerals component. Value of production was used as the capacity measure for both components. States that banned the exploitation of certain minerals were, therefore, assessed to have zero revenue capacity because they had zero production. This was consistent with treating 'bans on environmental grounds' as average policy.

111 Since the Review, a number of States have reinstated bans on CSG and uranium.[8] These minerals are now banned in a majority of States. It is difficult to conclude that State-wide bans are all environment-related when two States have no such bans. Commission staff are seeking State views on whether this development warrants a review of the treatment of CSG and uranium.[9]

Should the Commission change its treatment in the 2018 Update?

112 Staff Research Paper 2017-04-S said the Commission would review what average policy was in the 2020 Review. This would include what average policy meant in cases where States banned an activity. The paper foreshadowed the Commission could:

- estimate the missing value of production for those States that ban a mineral
- assess zero capacity for States that ban a mineral (the current approach), or

8 The change in State mining policies since the review was discussed in Staff Research Paper 2017-04-S *State mining policies*.

9 Commission staff do not propose recommending to the Commission that it review the treatment of all mineral bans in the 2018 Update. Some bans affect the exploitation of minerals in certain areas of a State. Recent examples include Western Australia's ban on coal exploration near the Margaret River township or New South Wales's purchase of a majority share in the exploration licence for Liverpool plains. These bans reduce, rather than eliminate, the level of mineral activity. The issue of State decisions in regards to revenue streams States choose not to pursue will be considered fully in the 2020 Review.

- assess States to have equal capacity in relation to the banned mineral. This could be implemented by applying an equal per capita (EPC) assessment.[10]

113 The difficulty of making an assessment of the missing production is that there is no policy neutral measure of State capacity. States that ban mining have no revenue or production. The Commission could use the value of known reserves, but that is not what States tax.

Would a change be material?

114 In 2015-16, States raised $22.5 million in CSG royalties and $27.8 million in uranium royalties. The level of royalties was insufficient for a separate assessment of either mineral to be material.

115 Table 12 shows the change in GST shares if a different capacity measure had been applied to CSG royalties in the 2017 Update. None of the measures would have produced a GST outcome materially different from the current assessment (of including CSG value of production in the Onshore oil and gas component).

Table 12 GST effect of changing the capacity measure for CSG, 2017 Update

Based on	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
Value of production - CSG	0	0	0	0	0	0	0	0	0
Value of production - Coal (a)	-1	0	2	0	0	0	0	0	0
Known reserves (b)	0	0	0	0	0	0	0	0	0
Actual per capita	0	0	0	0	0	0	0	0	0

(a) The value of coal production was included as capacity measure since CSG occurs in underground coal seams.

(b) Geoscience Australia (GA), Australia's identified mineral resources 2009, GA, Canberra, page 23. This publication can be viewed on Geoscience Australia's website (www.ga.gov.au).

Source: Commission simulations.

116 Table 13 shows the change in GST shares if a different capacity measure had been applied to uranium royalties in the 2017 Update. None of the measures would have produced a GST outcome materially different from the current assessment approach (of including uranium value of production in the Other minerals component).

10 Under this approach, the Commission would ask States to provide their coal seam gas and uranium data separately. They would be included in a new Mining revenue component and assessed EPC.

Table 13 GST effect of changing the capacity measure for uranium, 2017 Update

Based on	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
Value of production	0	0	0	0	-1	0	0	1	0
Known reserves (a)	0	0	0	0	2	0	0	-9	0
Actual per capita	0	0	0	0	-1	0	0	1	0

(a) This information was extracted from the Geoscience Australia website.
Source: Commission simulations.

117 At some stage the royalties raised could become large enough for mineral bans to materially affect States' GST shares. They are not at that level yet. The Commission will continue to monitor the level of royalties and to test the materiality of these bans in the lead up to the 2020 Review.

118 Table 14 shows the change in GST shares had States been assessed to have equal per capita revenue capacity to raise royalties from CSG and uranium in the 2017 Update.

Table 14 GST effect of assessing States to have equal per capita revenue capacity, 2017 Update

Based on	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
CSG	-1	-1	5	-1	-1	-1	-1	-1	1
Uranium	-1	-1	-1	-1	12	-1	-1	0	1

Source: Commission simulations.

119 Commission staff are seeking State views on whether the Commission should change its treatment of CSG and uranium and, if it should change, what that change should be.

120 Commission staff propose to recommend to the Commission that it not change its treatment of mineral bans as it is not material to do so.

Recommendations

Staff propose to recommend that the Commission:

- **not change its treatment of royalties where bans on extraction are in place in most States in the 2018 Update, as it is not material to do so**
- **consider the treatment of State mineral bans as part of its 2020 Review.**

TREATMENT OF THE NEW COMMONWEALTH PAYMENTS COMMENCING IN 2016-17

121 Staff have examined the Commonwealth payments that commenced in 2016-17, as listed in *Australia's Federal Relations, Budget Paper No.3, 2017-18,* 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 on the relativities.

Recommendation

Staff propose to recommend that the Commission:

- **approve staff proposals on the treatment of each of the Commonwealth payments commenced in 2016-17 listed in Table A-1 of Attachment A**

COMMONWEALTH PAYMENTS COMMENCING IN 2017-18 OR 2018-19

122 Table A-2 of Attachment A provides a list of new payments that will commence in 2017-18 or 2018-19. Although the payments shown will affect the year in which the 2018 Update relativities will be applied, Commission staff do not propose to backcast any of them because they are 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 2017-18 or 2018-19 listed in Table A-2 of Attachment A**

ATTACHMENT A

Table A- 1 Proposed treatment of Commonwealth payments commenced in 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2017-18*

Commonwealth payment	Description	2016-17 $m	Proposed treatment	Reason for No impact treatment
HEALTH				
Health services				
Mersey community hospital	The Commonwealth will provide funding to support the transfer and operation of the Mersey Community Hospital for the next 10 years. Funding will also support the delivery of rehabilitation and palliative care services. The National partnership payment of $730.4 million made in 2016-17 will cover the operating costs of the hospital for 10 years. The funds will be provided to the Tasmanian government which will transfer the full amount to the Tasmania Public Finance Corporation (TasCorp) as a one-off equity contribution to the Mersey Community Hospital Fund. TasCorp will make annual dividend payments to the Tasmanian government equivalent to the indexed operating costs of the hospital from 2017-18 until the Fund ceases. (See discussions earlier in this paper.)	730.4	No impact	Expected U2018 terms of reference requirement[11]
Indigenous health				
Addressing blood borne viruses and sexually transmitted infections in the Torres Strait	Funding for addressing blood borne virus and sexually transmissible infections to increase the number of ongoing primary health care staff in the Torres Strait to undertake disease prevention activities, surveillance, testing and treatment, sexual health checks, and to deliver a culturally appropriate sexual health education campaign.	1.1	Impact	

11 A letter from the Treasurer to CGC dated 12 April 2017 asked the Commission exclude this payment from the calculation of relativities for the distribution of GST and a formal direction will be included in the 2018 Update Terms of reference.

Table A-1 Proposed treatment of Commonwealth payments commenced in 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	2016-17 $m	Proposed treatment	Reason for No impact treatment
EDUCATION				
Quality Schools funding	The Commonwealth provides Quality Schools funding to government and non-government schools through a new needs-based funding model for schools which delivers a consistent Commonwealth approach for all schools in all States and Territories, adjusted on the basis of need. This includes recurrent funding, capital funding, special circumstances funding for non-government schools, funding for non-government representative bodies, and other prescribed purpose funding. The actual funding formula is broadly based on the model recommended in the Gonski report of 2013 but its final form will be determined by a newly established National Schools Resourcing Board. The measure ensures Commonwealth funding will be tied to reforms to support better outcomes for students. It will also require State and Territory governments to deliver their share of a total public funding level of at least 95% of the Schooling Resource Standard for all schools by 2023. (See discussions earlier in this paper.)	17 094.9	Impact for government schools; No impact for non-government schools	Needs for non-government schools are not assessed
COMMUNITY SERVICES				
Family advocacy and support services	The Commonwealth will support the establishment and the operation of Family Advocacy and Support Services by Legal Aid Commissions. It will provide integrated duty lawyer and family violence support services at locations across Australia.	4.2	No impact	Needs not assessed. Commonwealth purchase of State services
Women's safety package — Technology trials	Funding to support a series of trials to test new technologies or innovative uses of existing technologies to improve the safety of women and children affected by family and domestic violence.	1.3	Impact	

Table A-1 Proposed treatment of Commonwealth payments commenced in 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	2016-17 $m	Proposed treatment	Reason for No impact treatment
INFRASTRUCTURE				
Developing Northern Australia	Funding to provide incentives for private sector investment to improve the road network and transport logistics in Northern Australia.			
	• Improving cattle supply chains — the Commonwealth will provide $101.3 million of 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 (CSRIO) state-of-the-art logistics modelling, as well as input from livestock transport and beef industry experts, to identify deregulation opportunities and investment priorities.	1.7	Impact	
	• 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.	12.0	Impact	

Table A-1 Proposed treatment of Commonwealth payments commenced in 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	2016-17 $m	Proposed treatment	Reason for No impact treatment
ENVIRONMENT				
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). • Feasibility studies — funding to support delivery of feasibility studies that inform investment decisions on water infrastructure.	13.3	Impact	
OTHER				
Heffron Park Centre of Excellence	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. Randwick City Council will contribute $3 million towards the construction, the NRL $3 million and the Rabbitohs between $2 to 7 million.	1.0	Impact	
Northern Queensland Stadium	Funding to support the delivery of the North Queensland Stadium, including a site master planning and services infrastructure within the stadium site to allow for a future entertainment centre. The North Queensland Stadium is a joint project of the Queensland Government ($140 million), Australian Government ($100 million) and Townsville City Council (land and enabling infrastructure) and is supported by both the National Rugby League and the North Queensland Cowboys ($10 million). Stadiums Queensland will operate the stadium on behalf of the Queensland Government. The project is included in the Townsville City Deal.	10.0	Impact	

Table A-1 Proposed treatment of Commonwealth payments commenced in 2016-17, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	2016-17 $m	Proposed treatment	Reason for No impact treatment
North Queensland Strata Title Inspection Scheme	The Scheme will provide funding on addressing insurance costs in North Queensland to undertake engineering assessments of strata title properties. The assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks. Body corporate managers will be able to use the assessment in obtaining insurance quotes from a range of providers. The Queensland Government will develop and administer the assessment program for strata properties in North Queensland.	6.3	Impact	
Tasmanian tourism growth package	Funding to support the delivery of feasibility studies for three tourism ventures to boost Tasmania's tourism industry.	1.1	Impact	
Tourism demand driver infrastructure recovery package	This payment is in addition to Queensland's current allocation under the Tourism Demand Driver Infrastructure program. This program will support projects that deliver additional tourism infrastructure in affected tourism regions of Queensland as part of a recovery package to address the impacts of Tropical Cyclone Debbie.	3.5	Impact	

Table A-2 Commonwealth payments commencing in 2017-18 or 2018-19, *Federal Financial Relations, Budget Paper No. 3, 2017-18*

Commonwealth payment	Description	New in 2017-18 $m	New in 2018-19 $m
HEALTH			
Proton Bean therapy facility	Funding to support the establishment of a Proton Beam Therapy Facility in Adelaide. The payment will support the purchase of accelerator equipment and two treatment rooms in support of the establishment of a proton beam facility at the South Australian Health and Medical Research Institute precinct. This will deliver new research capabilities to help Australian researchers develop the next generation of cancer treatments, including for complex children's cancer. The facility will also be an alternative to conventional radiotherapy for the treatment of certain types of cancer.	68.0	
Encouraging more clinical trials in Australia	The Commonwealth will provide funding to increase the number and value of clinical trials to deliver health benefits, provide jobs and improve the nation's innovative capacity.	2.5	
Suicide prevention	The Commonwealth will provide funding to assist in reducing the risk of suicide by funding infrastructure projects, such as barriers, fencing and lighting, at identified locations.	3.0	
SKILLS AND WORKFORCE DEVELOPMENT			
Skilling Australians fund	The Commonwealth will support the training of Australians through a range of projects focused on skills priorities. These include training in occupations in high demand that currently rely on skilled migration, future growth industries, and rural and regional areas. There will also be a strong focus on apprenticeships and traineeships. The fund will support a range of projects which are focused on Commonwealth priorities and are designed to support growth in trade and non-trade apprenticeships and traineeships in target areas. This fund will support up to 300 000 more apprentices, trainees, and higher level skilled Australians over the next four years when matched with funding from the States.	350.0	
COMMUNITY SERVICES			
Transition to independent living allowance	The Commonwealth is helping young people make the transition from formal out of home care to independent living.		3.5

Table A-2 Commonwealth payments commencing in 2017-18 or 2018-19, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	New in 2017-18 $m	New in 2018-19 $m
Transition to NDIS in Western Australia	From 1 July 2018, Western Australia is transitioning to full scheme NDIS. The Commonwealth will support Western Australia to make progressive changes to roles, responsibilities and governance in delivering disability services from 1 July 2017. Funding from 2020-21 is subject to ongoing negotiations with the Western Australian government on full scheme NDIS. The Intergovernmental payments currently provided by the Commonwealth to Western Australia for the purpose of providing disability services to individuals will be paid to the WA NDIS authority on behalf of the Commonwealth by Western Australia, in line with clients transitioning to the NDIS.	169.7	
INFRASTRUCTURE			
Asset recycling – energy infrastructure	The Commonwealth will provide funding to target energy infrastructure in South Australia. Funding will be provided for agreed energy infrastructure projects under a bilateral Asset Recycling agreement. This forms part of the Government's *Energy for the Future Package*.	18.3	
Wifi and mobile coverage on trains	The program will establish mobile and internet connectivity along the train route between Hornsby and Wyong.	5.0	
ENVIRONMENT			
National fire danger rating system	The Government will provide $0.7 million over two years from 2017-18 to the New South Wales and South Australian Governments to develop a National Fire Danger Rating System (NFDRS). The NFDRS will deliver nationally consistent fire danger ratings that use the best and latest available modelling and fire science. The funding is to develop the prototype of the NFDRS and to conduct social research regarding communicating fire danger information to the public.	0.5	

Table A-2 Commonwealth payments commencing in 2017-18 or 2018-19, *Federal Financial Relations, Budget Paper No. 3, 2017-18* (Continued)

Commonwealth payment	Description	New in 2017-18 $m	New in 2018-19 $m
OTHER			
Financial assistance for New South Wales Police	The Commonwealth will provide four years of transitional funding for the equal sharing of the costs of reimbursing New South Wales police officers who incur an additional tax liability from making voluntary superannuation contribution that exceed the concessional contributions cap. The funding will also contribute to the cost-sharing of any fringe benefit tax that results from reimbursing police officers in these situations.	0.1	
Regulatory reform	The Commonwealth will provide funding to deliver reforms that drive Australia's economic performance, including reforms that reduce the regulatory burden on small businesses and competition. Reforms delivered through the National Partnership on Regulatory Reform will be based on bilateral agreements to be negotiated with signatory States and Territories. As part of this funding, the National Competition Council will receive additional funding of $12.9 million over six years from 2017-18 to assess the adequacy of State and Territory reform proposals and their achievement of reform commitments. This measure builds on the Government's response to the Harper Competition Policy Review.	125.0	