

CHAPTER 27

CROSS-BORDER COSTS

WHAT ARE CROSS-BORDER COSTS?

- 1 Cross-border costs are incurred when residents of one State use the services provided in another. Usually, the cross-border flow of services is in both directions. For example, some New South Wales residents use ACT services and some ACT residents use New South Wales services. If the incoming and outgoing flow of services were exactly the same, the net effect would be zero and neither State would incur additional service delivery costs. However, the flow of some ACT services to New South Wales residents exceeds the flow of New South Wales services to ACT residents and the ACT incurs additional service delivery costs for which it may not be reimbursed by New South Wales.
- 2 A cross-border disability is assessed when a net cross-border flow of services results in a State incurring a material level of extra costs and it is not reimbursed by other States. The disability factor increases the number of people deemed to access services in one State and reduces the number deemed to access services in the other.
- 3 Cross-border flows can occur across any border (for example, the New South Wales-Queensland border around the region of Tweed Heads-Coolangatta, or the New South Wales-Victoria border around Albury-Wodonga). However, we have assessed separate cross-border disabilities to recognise the additional costs incurred by the ACT only. This is because Canberra acts as a major regional centre for south-eastern New South Wales and the net costs incurred by the ACT are material. There is no evidence to suggest the net impact of other cross-border flows is material.

ASSESSMENT APPROACH

- 4 The ACT argued that Canberra is the principal service centre for government, commercial, tertiary education, retail and transport services for residents of the surrounding local government areas. It said that significant numbers of New South Wales residents regularly used ACT Government education, health and welfare, law and order, recreational and transport

services. Reasons include convenience, employment in the ACT, unavailability of service in the local area, and a higher quality service provided by the ACT relative to that in surrounding New South Wales areas. Since these residents do not reside in the ACT, they do not generally contribute to ACT Government revenue through the payment of ACT taxes and charges.

- 5 The ACT also said the demand from the surrounding region for ACT services will increase in the future as new residential developments occur in these regions.
- 6 In total, the ACT estimated the services used by residents of New South Wales cost it approximately \$172 million. However, half of those costs arose from the use of ACT hospital services by New South Wales residents and, under provisions in the renegotiated National healthcare agreement, New South Wales is to reimburse the ACT for the use of its hospitals. However, the ACT said that reimbursement does not cover the actual costs it incurred, leaving a shortfall of \$25 million for hospital services.
- 7 The ACT considered that cross-border factors should be assessed in relation to schools, post-secondary education, the shortfall for hospital services, community health, welfare, police, civil and criminal courts, corrective services, culture and recreation and transport.
- 8 New South Wales accepted that where reliable data indicate greater cross-border use by its residents of ACT services, those data should be used to make an assessment consistent with the Commission's materiality and reliability guidelines. But it said cross-border influences should not be assessed if reliable data were not available.
- 9 New South Wales also said that where States have a reimbursement arrangement with each other, as in the National healthcare agreement, that mechanism should obviate any need for cross-border considerations in the assessments.
- 10 Other States that commented on this issue acknowledged that the ACT incurs additional costs because residents of New South Wales use its services and that those costs should be recognised in the assessments.

The conceptual case

- 11 A considerable and growing number of people live in the towns, rural sub-divisions and rural areas surrounding the ACT. For example, the population within about an hour's drive of the ACT is approximately 100 000¹ and that population has been growing faster relative to the ACT. Over the last 5 years, the population of this region has increased by 7.4 per cent while the growth of the ACT population has been 6.7 per cent. While they choose to live in New South Wales, many people have close connections to the ACT, often revolving around employment, retail and service facilities or family connections. People also come to the ACT expressly to use the State government services (especially education, hospital and related health facilities). The result is that there are substantial flows of traffic into and out of the ACT on a daily basis.

¹ Includes residents of the Statistical local area (SLAs): Queanbeyan, Yass Valley, Palerang, Cooma-Monaro and Goulburn-Mulwaree.

- 12 There are also cross-border flows from the ACT to New South Wales. While these are unlikely to be related to the use of New South Wales education services, they will relate to health and law and order services. The attractions of Sydney, including for work and specialist health services, the coast and snow offset, at least in part, the impact of people coming to the ACT.
- 13 We accept there is a strong conceptual case for assessing a cross-border factor based on net flows. However, while records of the place of residence of users for some services are very good, in others the nature of the service means records of service use are often not feasible or those that are taken may not be accurate. In the face of this variability in the amount and quality of data available, we have adopted a number of methods to calculate cross-border factors where a conceptual case for a net flow has been established. We adopted different approaches when:
 - reimbursement arrangements are in place;
 - reliable data on net flows are available; and
 - where only partial data are available.

Where reimbursement arrangements already exist

- 14 We consider that when reimbursement arrangements exist there is no need to assess a cross-border allowance.
- 15 This is the case for hospitals where the new National healthcare agreement (which replaces the Australian healthcare agreements) has continued to provide for bilateral agreements between States covering reimbursement of the costs of cross-border use of services. An individual bilateral health agreement has been negotiated between New South Wales and the ACT covering costs, including an allowance for the opportunity cost of capital, associated with services provided to admitted and non-admitted patients.
- 16 Despite this, the ACT is concerned that its costs are not fully recovered. However, we do not consider it our role to overturn these arrangements already in place between States. We recognise instead that cross-border costs for hospital services have been addressed through provisions in the National healthcare agreement.

Where reliable data are available

- 17 In a few cases where service use is based on actual use, cross-border effects are automatically captured. For example, in the Roads category, the allowance for road use measures the actual use of roads by residents and cross-border travellers alike. Also, in Schools education, service use in the compulsory years is measured using actual enrolments, regardless of where the students live. In these cases, there is no need to assess a separate cross-border factor.
- 18 However, in most cases we assess service use on the basis of the characteristics of each State's population and a separate factor must be assessed if there is a strong conceptual case that there

is a material net cross-border use. Where reliable data on the cross-border use of services are available, we have used them. This is the case for:

- Schools education, where the assessment uses data provided by the ACT on the actual numbers of New South Wales residents enrolled in ACT pre and post-compulsory school education services; and
- Post-secondary education, where the assessment uses National Centre for Vocational Education Research (NCVER) data on the net number of hours the ACT training system supplies to New South Wales residents.

- 19 For Justice services, we received data from New South Wales and the ACT that showed there is no net cross-border effect. Data provided by the ACT for 2006-07 indicated that between 7 and 11 per cent of police, criminal and civil court and prison services provided by the ACT were used by New South Wales residents. On the other hand, data provided by New South Wales for 2006-07 showed that ACT residents used New South Wales justice services in similar numbers to New South Wales residents using ACT justice services. As a result, the net cross-border effect is not material for police or criminal courts, is negative for corrective services (but not material for New South Wales) and could not be measured for civil courts.
- 20 In contrast with the views of previous Commissions, the receipt of data from both States for the first time has shown that it is difficult to support a cross-border adjustment for justice services. As a result, the Commission has not assessed a cross-border allowance in the Justice services category. For more detailed information, see the Justice services chapter.

Where only partial data are available

- 21 In other cases, the ACT used illustrative information for some services to mount a conceptual case that there are material levels of cross-border use of those and related services. The information it presented included the following.

Community and other health services

- 22 Data in the ACT submission indicated that, in 2006-07, 9.5 per cent of community health services in the ACT were provided to non-ACT residents. In 2007-08, this figure increased to 11.0 per cent. However, there was much variability in the use of specific ACT community health services by New South Wales residents. For example, non-ACT residents used around 40 per cent of the post-natal services provided in the Queen Elizabeth II facility but only 6 per cent of alcohol and drug programs.
- 23 While the vast majority of the non-ACT service users would have been residents of New South Wales, some may have been residents of other States. In addition, the figures do not allow for the use by ACT residents of community health services provided by New South Wales, although we expect those numbers would be small. Overall, we conclude that, on a net basis, approximately 8-10 per cent of ACT community health services are used by New South Wales residents.

Welfare services

- 24 Indicative evidence provided during the ACT State visit pointed to the cross-border flow for some welfare services having a material impact on ACT costs. However, data to quantify these costs are limited. The ACT has undertaken a pilot data collection on the consumption, by cross-border residents, of relevant ACT welfare services from non-government and government organisations. However, when the service user was asked whether they had been residing in the ACT continuously for more than 12 months, over a quarter of them did not provide an answer. The feedback suggested that many respondents had concerns that their eligibility for access to services depended on the answers provided. As a result, collecting data on the address of the users of welfare services is difficult.
- 25 As such, we believe that, despite the lack of actual data, there is a conceptual case that some welfare services provided by the ACT are used by New South Wales residents and not vice versa.

Other services

- 26 Data provided by ACT Library and Information Services indicated that there are currently 6622 interstate members of ACT libraries and this represented four per cent of all ACT library memberships. However, it noted that the majority of library services available to the public do not require a user to be a member of the library.
- 27 In the case of buses, the user pays processes reduce the net cost to the ACT of its transport system unless extra capacity must be provided. In the absence of information to demonstrate that use by non-residents requires increased capacity, we do not propose to extend the allowance to transport services.

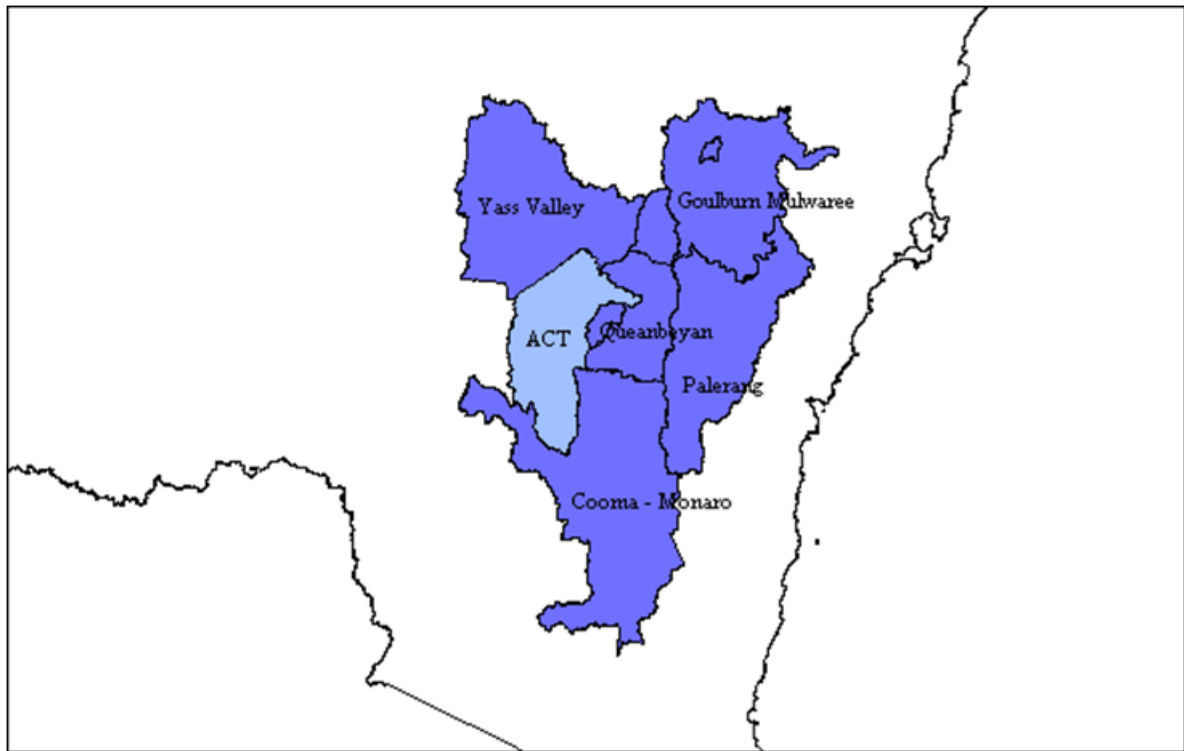
The general method

- 28 Taken together, the conceptual arguments and the available information suggest that, on a net basis, between seven and ten per cent of community health, some welfare, and cultural and recreational services provided by the ACT are used by New South Wales residents.
- 29 We have used a simple general method to allow for cross-border use of ACT services. Under this method, we propose to increase the ACT population by an amount which, given national average use rates, would be equivalent to use of seven to ten per cent of ACT services. That is, for services where we consider there is material net cross-border use, the assessed use of services in the ACT will be determined on the basis of the ACT population plus a proportion of the population of surrounding areas of New South Wales. The population of New South Wales is reduced by the same amount.
- 30 With an ACT population of 342 000 and national average use rates, a seven to ten per cent cross-border use of ACT services is equivalent to approximately 32 000 extra residents. This equates to about 30 per cent of the population of the following statistical local areas (SLA) in the surrounding parts of New South Wales and which are shown in Figure 27-1:
- Queanbeyan;

- Palerang;
- Cooma-Monaro;
- Goulburn-Mulwaree; and
- Yass Valley.

- 31 The SLAs we have used were chosen on the basis that they are within around an hour’s drive of the ACT and it is not unreasonable to assume that many of their residents travel to the ACT on a daily or weekly basis for various purposes. While many New South Wales residents from outside this catchment area may also use ACT services, they would tend to do so on a less frequent basis. In the absence of better data, we consider the areas chosen reflect a reasonable compromise.
- 32 Basing the assessment on a proportion of the population of surrounding areas is a relatively simple approach which has the added advantage of recognising the ACT’s argument that demand for ACT services will increase in the future as new developments occur in these areas as their population grows. We propose to update the population estimates of the surrounding regions annually.

Figure 27-1 Catchment for the Cross-border assessment



Source: Commission illustration.

- 33 By simply adjusting the ACT population, the proposed method implies the socio-demographic profile of the cross-border users is the same as that of the ACT population. We acknowledge there might be a case to say the population of areas surrounding the ACT has a different socio-demographic profile and the actual profile should be reflected in the calculation.

However, that would add complexity to the assessment and would imply more precision than is justified by other aspects of the assessment. Moreover, the indications are that it would not be material. We have decided, therefore, not to make such an adjustment.

- 34 The general method has been used in the following categories.
- Community and other health services — the Cross-border factor is discounted so that it does not affect the emergency department and outpatients expenses in the category because they are covered in the bilateral agreement between New South Wales and the ACT for public hospital services.
 - Welfare and housing — the Cross-border factor is discounted to ensure it is not applied to the housing, child protection or aged care services expenses in the category because, normally, people must be a resident in the ACT to receive those services.
 - Other expenses — the Cross-border factor is discounted to ensure it is not applied to the other expenses in this category.

THE ASSESSMENT METHOD

- 35 Table 27-1 shows the 2010 Review categories where a cross-border disability has been assessed and the method of calculation.

Table 27-1 Cross-border assessment, 2010 Review

Category	Expenses	Method
Schools education	All service delivery expenses	Actual data
Post-secondary education	All service delivery expenses	Actual data
Community and other health services	Out-of-hospital health services (a)	General method
Welfare and housing	Welfare (b)	General method
Roads	All service delivery expenses	Use measure
Other expenses	Culture and recreation	General method

- (a) The National healthcare agreement provides for States to compensate each other for cross-border use of hospital services, therefore no cross-border assessment is required for Admitted patients or emergency or outpatient services.
- (b) Excluding 'in home' services, child protection and aged care services expenses.

- 36 Table 27-2 details the general method calculation for the raw cross-border factor for 2008-09. These factors are then discounted in the category to reflect the proportion of expenses affected by cross-border costs. The calculations of the cross-border factors for Schools education and Post-secondary education are in their respective chapters.

Table 27-2 Raw cross-border factor calculations, 2008-09

	NSW	ACT
	No.	No.
A. State population	7 041 393	347 843
B. Total population of catchment area (a)	105 758	
C. Cross-border weight (30 per cent)		
D. Cross-border population [D = B * C]	-31 727	31 727
E. Adjusted population [E = A + D]	7 009 666	379 570
F. Weight raw factor [F = E / A]	0.99549	1.09121

(a) Total cross-border population includes residents of the SLAs: Queanbeyan, Yass Valley, Palerang, Cooma-Monaro and Goulburn-Mulwaree.

The surrounding New South Wales population figures are available only for the June ABS Estimated resident population (ERP). As a result, this figure could be adjusted to ensure that it is comparable with the ABS December ERP for New South Wales. However, it would only minimally increase the ACT population, so for simplicity purposes this adjustment has not been made.

Source: Total State population December ERP, ABS.

New South Wales surrounding region population, June ERP, ABS.

WHAT IS THE IMPACT ON THE GST DISTRIBUTION?

37 Table 27-3 shows the extent to which the assessment moves the distribution of the GST for the 2010 Review away from an equal per capita distribution. As New South Wales and the ACT are the only States affected by this assessment, GST revenue is redistributed to the ACT from New South Wales. The impact on the distribution of GST for the Schools education category is not included in the table because actual enrolments are adjusted to allow for cross-border costs to the ACT.

Table 27-3 Impact on the GST redistribution of the Cross-border assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
Dollars million	-34.5	0.0	0.0	0.0	0.0	0.0	34.6	0.0	34.6
Dollars per capita	-4.84	-0.01	-0.01	-0.01	-0.01	-0.01	98.11	-0.01	1.57

Note: The difference from an equal per capita assessment, derived using 2006-07 to 2008-09 assessed revenue and 2009-10 GST.

There is a small redistribution for the other States because the redistribution is calculated on the 2009-10 populations while the cross-border factor is calculated using the 2008-09 populations.

Source: Commission calculation.

38 Table 27-4 shows the size of the GST redistribution due to cross-border influences in each category.

Table 27-4 Impact on the GST of the Cross-border assessment by category

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Post-secondary education	-13.4	0.0	0.0	0.0	0.0	0.0	13.4	0.0	13.4
Community and other health services	-11.2	0.0	0.0	0.0	0.0	0.0	11.3	0.0	11.3
Welfare and housing	-5.6	0.0	0.0	0.0	0.0	0.0	5.6	0.0	5.6
Other expenses	-4.3	0.0	0.0	0.0	0.0	0.0	4.3	0.0	4.3
Total	-34.5	0.0	0.0	0.0	0.0	0.0	34.6	0.0	34.6

Source: Commission calculation.

39 Table 27-5 provides a summary of the main reasons for changes between the recommended and the 2009 Update distributions arising from the Cross-border assessment. They include:

- removing the cross-border allowance from the Justice services category;
- applying the cross-border factor to only those welfare services not provided in the home or to child protection and aged care services; and
- receiving updated data on the number of post-secondary students.

Table 27-5 Changes since the 2009 Update, Cross-border assessment

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Redist
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shortening the review period	-0.8	-0.1	-0.1	-0.1	0.0	0.0	1.1	0.0	1.1
Method changes	25.8	0.0	0.0	0.0	0.0	0.0	-25.8	0.0	25.8
State circumstances	-0.7	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.7
Total	24.4	-0.2	-0.1	-0.1	0.0	0.0	-24.0	0.0	24.4

Source: Commission calculation.

UPDATE PROCESS

40 We recommend that data used in these assessments be updated annually to ensure the relativities remain contemporary and consistent with the circumstances of the States. This would include:

- where we use actual data to derive a cross-border factor; and
- the New South Wales population surrounding the ACT.

SIMPLIFICATION

41 In the Cross-border assessment, simplification has been achieved by using one catchment area and one measure of increased population where data are not available. In the 2004 Review, the model used two catchment areas and a variety of population proportion estimates.

FURTHER INFORMATION

42 Background material in support of this assessment is published on the Commission's website. That material includes the following documents, released for comment in the development of this assessment, together with State submissions responding to those documents:

- Staff discussion paper *2007/01-S Disabilities mainly affecting the ACT – cross-border and national capital*;
- Commission position paper *2008/13 Disabilities mainly affecting the ACT*; and
- *2010 Review Draft Report*.