

# Victorian Response to New Issues for the 2018 Update

October 2017



# 1. Introduction

The Commonwealth Grants Commission (the Commission) has circulated a staff discussion paper outlining a number of issues that the Commission considers relevant for the 2018 Update.

Victoria notes that these issues have been identified in the absence of terms of reference for the 2018 Update, and that once these terms of reference are issued further issues may be identified.

The issues identified in the discussion paper are:

- use of new Census data;
- wage cost assessment – Commonwealth Superannuation Scheme adjustments;
- NDIS related payments;
- health assessment;
- Quality Schools payment and the Schools assessment;
- rescaling in the Investment assessment;
- treatment of mining royalties where bans have been introduced; and
- treatment of Commonwealth payments.

The Victorian responses to these are presented in the following sections.

## 2. Use of new Census data

### Total population estimates

Victoria notes that an independent panel established by the Australian Bureau of Statistics (ABS) concluded that 2016 Census data are fit-for-purpose. Census data are being progressively released from mid-2017. Victoria believes that the most up-to-date population data should be used by the Commission in the 2018 Update, including the official population measure, the estimated resident population (ERP).

Following release in 2012 of the 2011 Census-based ERP estimate for June 2011, the ABS advised that population growth up to June 2011 was best calculated by summing natural increase and migration and ignoring the intercensal difference component. The ABS concluded that population levels based on previous censuses spanning at least two decades had been overstated. Consequently, it was prudent at that time for the ABS to advise to ignore the intercensal difference (and therefore not use the difference between two levels) when calculating population change. As a longer term fix, the ABS subsequently revised ERP levels back 20 years.

After the most recent Census, the ABS placed no qualification with respect to calculating population change based on 2016 Census ERPs, nor has the ABS cast doubt on the quality of historical population levels. It is highly unlikely that the ABS will (further) significantly revise the current set of ERPs spanning 2011 to 2016. Therefore changes in population calculated by taking the difference in levels of the current set of ERPs are “fit-for-purpose”.

Consequently, Victoria does not support the recommendation to derive State ERPs for estimates before June 2016 using published components of growth that ignore the intercensal difference. As the ABS has not advised otherwise, population changes should be calculated using the most up-to-date ERP levels.

### **Indigenous population estimates**

Victoria notes that the 2013 Update used 2011 indigenous ERPs, indexed for growth at the same rate as the total population. Victoria supports the recommendation to take a similar approach in the 2018 Update and use the 2016 indigenous ERPs, updated for growth.

### **Socio-economic classifications**

As new Census data become available, several indexes of disadvantage can be updated, including the Indigenous Relative Socio Economic Outcomes index (IRSEO), the Non-Indigenous Socio-Economic Index for Areas (NISEIFA) and the Socio-Economic Indexes for Areas (SEIFA).

Victoria notes that the SEIFA classification based on the 2016 Census will not be available to be used for the 2018 Update so the 2011 Census version is proposed to continue to be used for various calculations to the health category assessment.

The IRESO and NISEIFA classifications can be updated for 2016 Census and so appropriately classified hospital use data can be used for the health assessment and various education datasets for the schools and post-secondary education assessments.

Victoria supports using the most up-to-date data in assessments when available.

### **Other geographic classifications**

Victoria notes that 2016 Census-based small area data on discrete Indigenous communities will not be available for the 2018 Update. However, new data for urban areas and low density areas will be.

Victoria supports using the most up-to-date data in assessments when available.

### **Social housing**

Victoria supports the use of 2016 Census data for housing assessments where available.

Victoria supports the use of the 2011 remoteness classification in the housing assessment due to the 2016 Census remoteness classification not being available in time.

## **3. Wage cost assessment – Commonwealth Superannuation Scheme adjustments**

In the absence of any information to indicate that an adjustment for the Commonwealth Superannuation Scheme would be material Victoria supports the Commission continuing its current approach.

Victoria expects that there will be a later paper discussing the updated regression results to be used for the interstate wage costs adjustment.

## 4. NDIS related payments

The convention is that no changes are made to assessment methodologies between reviews unless new data make a method change material. No information has been presented regarding the materiality of any change in the method of assessing disability expenses. The current methodology, involving a dual approach, seems to be sufficiently flexible to cater for the changes that are occurring in the delivery of disability services.

Accordingly, Victoria supports the recommendations to:

- make no change to the assessment methods for disability services in this update; and
- 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.

## 5. Health assessment

### **The Emergency department data**

Given the information presented regarding the reduction in the number of 'non-reporting hospitals' between 2013-14 and 2014-15, and the efforts being made by the Independent Hospital Pricing Authority (IHPA) to improve the coverage of its data collections, it is quite likely that in 2015-16 the number of 'non-reporting hospitals' and associated ED occasions will be less than those estimated for 2014-15. This suggests that an adjustment for under-reporting would remain immaterial.

Accordingly, Victoria supports the recommendations to use IHPA's data 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 would be negligible.

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

Victoria notes that the follow-on implications of the Commonwealth payment (change to net financial worth and annual dividend payments and operating expenses) would not (if implemented) have had a material impact for the 2017 Update and, therefore, is unlikely to have a material impact for the 2018 Update.

Victoria also notes that the directions to the Commission were silent on the treatment of the \$10 million asset transfer from the Commonwealth to Tasmania and the ongoing support for the delivery of rehabilitation and palliative care services in the Hospital.

Accordingly, Victoria supports the recommendations to:

- treat the \$730.4 million payment as not affecting the relativities provided the Commission is directed to treat the payment as such;
- not make any additional adjustments to Tasmania's financial data 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; and
- have the payment for the delivery of rehabilitation and palliative care services affect relativities.

## 6. Quality Schools payment and the Schools assessment

Victoria notes that the Students First funding was replaced with Quality Schools funding in the Commonwealth's 2017–18 Budget. This means that the payments received in the assessment years of the 2018 Update would be under either the National Education Reform Agreement (NERA) or Students First.

Victoria also notes that the 2018 and 2019 distributions of Quality Schools funding are not yet known and may not be determined in time for 2017-18 MYEFO.

As a result of the above, Victoria supports the recommendation that the historical payment distributions of funding be used for the assessment, as the distribution of entitled payments in the application year (2018-19) cannot be reliably measured in advance.

Victoria considers that as the funding amounts and distributions are based on what the states received under NERA or Students First, the 2015 Review terms of reference requiring that measures of educational disadvantage not be unwound continue to apply. Under these circumstances Victoria considers that the recommendation to determine that Quality Schools is sufficiently NERA like that the terms of reference continue to apply is not required.

Should the Commission decide that the terms of reference relating to the NERA payments should not apply for the 2018 Update then Victoria considers that the appropriate treatment would be to expand the state-funded schools education assessment to include the Commonwealth schools education funding.

Victoria supports the proposition that using historic Schooling Resource Standard (SRS) patterns is consistent with the terms of reference requirement not to unwind measures of educational disadvantage. At this stage the measures of education disadvantage that might be embodied in the application year funding under Quality Schools funding is uncertain.

Victoria supports the recommendation that the Commission assesses Commonwealth funded school expenditure using SRS weights and student numbers from the assessment years. However, Victoria does not support the recommendation that revenue from Commonwealth payments be assessed using the share of payments States were entitled to in the assessment years rather than what they received. Victoria does not consider that the terms of reference direct the Commission to do so. The 'no windfall gains' clause of the terms of reference relates to non-participation in NERA rather than to the extent of participation in the funding agreement. A state's fiscal capacity is

affected by the funding it actually received from the Commonwealth, not the funding it is entitled to receive.

## 7. Rescaling in the Investment assessment

The issue with the rescaling of the investment assessment is that the cost adjustment is being applied to a flow rather than a stock. A stock will be positive for all states so that the impact on the total of applying factors that have a population weighted sum of 1 will be insignificant. However, as flows can be positive for some states and negative for others, the application of the cost adjustment can result in a total which is significantly different to the unadjusted total.

As the total across all states of cost adjusted value of the flow has to agree with the total value of expenses, some adjustment is required. As the example in the new issues paper illustrates, rescaling the cost adjusted values for the states can lead to differences from the unadjusted values larger than warranted by the cost adjustment.

The approach suggested in the paper essentially results in the difference in the total value between the unadjusted and cost adjusted expenses not having an impact on relativities. The reason of the cost adjustment is to better achieve HFE through the recognition of differences between the states in the cost of acquiring physical assets. An EPC treatment of the difference resulting from the cost adjustment could be viewed as resulting in a better HFE outcome than would be obtained from rescaling.

Accordingly, Victoria supports the recommendation to rescale the Investment assessment by distributing the difference between the assessed change in stock and the unscaled expenses on an equal per capita basis.

## 8. Treatment of mining royalties where bans have been introduced

Victoria notes the Commission's approach to the treatment of mining royalties where (some) states have introduced bans on extraction. Victoria supports the current approach of an assessment of zero capacity for states that ban a mineral. There have been no material changes in coal seam gas or uranium royalties since the 2015 Review.

Accordingly, Victoria supports the recommendations to:

- not change its treatment of royalties where bans on extraction are in most states in the 2018 Update; and
- consider the treatment of state mineral extraction bans as part of the 2020 Review.

## **9. Treatment of the new Commonwealth payments commenced in 2016-17**

The guidelines for the treatment of Commonwealth payments are well established. As the proposed treatments are consistent with these guidelines Victoria supports the recommendation to accept the proposed treatment of each of the Commonwealth payments commenced in 2016–17 as listed in Table A-1 of Attachment A.

## **10. Commonwealth payments commencing in 2017–18 or 2018–19**

Victoria supports the recommendation that the Commission not backcast the Commonwealth payments commencing in 2017–18 or 2018–19 listed in Table A-2 of Attachment A.







Treasury  
and Finance