

Commonwealth Grants Commission 2018 Update

Tasmanian Government Submission in response to:
Staff Discussion Paper CGC 2017-23-S
New Issues for the 2018 Update
Further Consultations

December 2017



Tasmania
Explore the possibilities

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Tasmania welcomes the opportunity to have input into the Commission's Staff Discussion Paper - *New Issues for the 2018 Update Further Consultation* - and provides the following comments.

I. ESTIMATED RESIDENT POPULATION (ERP)

Staff do not yet have a settled view on which approach to measuring population growth is more appropriate for the Commission's purposes and therefore on which approach to recommend to the Commission to apply in the 2018 Update.

Staff seek any further comments from the States on this issue for the Commission to consider when it makes its decision on the appropriate measure of growth for its Investment and Net Lending assessments.

Tasmania supports the use of published ABS population data based on the 2016 Census for total population counts for each assessment year.

For measuring population growth for the Investment and Net Lending assessments it is noted that the Commission is undecided on whether to use the change in closing State populations based on the 2016 Census ERP, which includes an intercensal difference adjustment (up until June 2016), or to derive total State ERPs excluding the intercensal difference in all years by deducting the published growth components (births, deaths and net migration) for each year prior to June 2016.

Tasmania supported the latter option in its response to the Commission Staff New Issues Paper for the 2018 Update, and continues to support it in this response to the Further Consultations Paper. Tasmania considers that a more consistent population series is achieved by subtracting the components of population growth. This is also consistent with the approach taken in the 2013 Update (after the 2011 Census was released).

2. NEW CENSUS DATA IN THE HEALTH ASSESSMENT

In this update the Commission has decided to use 2016 defined measures of socio-economic status (SES) for the Indigenous (IRSEO) and non-Indigenous (NISEIFA) populations. Due to the limited amount of time between when the 2016 defined measures of SES become available and the finalisation of the relativities, the Independent Hospital Pricing Authority (IHPA) is unable to provide revised data on the new basis for the first two assessment years (2014-15 and 2015-16). It will be able to provide data on the new SES basis for 2016-17. Since the service use data for the first two assessment years will be on the 2011 measures of SES, it will be necessary to use disaggregated population data based on the 2011 defined measures of SES for those years. The disaggregated population data will be scaled to match the revised State ERP totals.

IHPA expects to be able to provide revised data for 2015-16 using the 2016 defined measures of SES later in 2018, which staff propose to use in the 2019 Update.

Tasmania agrees with the Staff approach.

3. WAGES ASSESSMENT - REGRESSION RESULTS

The wage costs disability recognises that comparable public sector employees in different States are paid different wages, partly due to differences in labour markets beyond the control of State governments. The Commission estimates the impact of those differences using an econometric model of the wages paid to private sector employees in each State, controlling for differences in education, industry, experience and other attributes known to affect wage levels.

The modelled outcomes for 2016-17 and accompanying statistics are provided in an attached spreadsheet.

Tasmania acknowledges the modelled outcomes for 2016-17 and the accompanying statistics provided by the Commission.

Tasmania has previously expressed its concern with the approach adopted by the Commission in respect to measuring public sector wages, particularly in relation to how well private sector wages act as a proxy for public sector wages.

During the course of the recent telepresences, the Commission acknowledged that there were a number of issues for which it was undertaking additional research to answer the following questions:

- Does a national labour market for public sector employees exist?
- Is there evidence that wage setting policy and wage outcomes are driven by public sector outcomes in other States?
- Has any evidence of uniform wage levels across the States been found since the 2016 Update?
- How can we measure the influence of national markets on the level of wages paid?

These questions support Tasmania's view that the current method has shortcomings and that they will need to be resolved in the 2020 Review. These issues could also account for the difference between the Commission's current modelled outcome that claims to explain 69 per cent of the link between public and private sector wages (as noted by the adjusted R^2) and full explanatory surety (100 per cent).

Irrespective of what additional research is undertaken by the Commission, the current adjusted R^2 suggests that a higher discount factor than the current 12.5 per cent should be used to account for the lack of a greater explanatory power of the model.

4. WAGES ASSESSMENT - COMMONWEALTH SUPERANNUATION SCHEME ADJUSTMENT

Staff propose to recommend that the Commission:

- not reintroduce the CSS disability expanded to include the PSS, since it is not clear that the factors that have increased the cost of the PSS have done so to a greater extent than similar schemes in other States.

In the 2017 Update, the Commission discontinued the disability adjustment for the ACT and Northern Territory in the Wages assessment for the Commonwealth Superannuation Scheme (CSS) as it had become immaterial. In response, the ACT argued that the Commission should reinstate the CSS and

include the Public Sector Superannuation Scheme (PSS) as it had also inherited the scheme from the Australian Government and also imposed higher than average costs, and that the combined schemes in aggregate would be a material disability.

It is noted that since the Commission Staff Paper was released to the States, the ACT subsequently provided additional evidence to support its claim, including advice from the ACT Government actuary and transcripts from the Australian Industrial Relations Commission (AIRC).

While the ACT has provided argument to support its case that the ACT Government did not have policy choice in maintaining access to the PSS public sector defined benefits schemes, its evidence from the ACT Government actuary to support its claim that PSS costs have increased to a greater extent than similar schemes in other States is not convincing.

Tasmania agrees with Commission staff finding that there is uncertainty as to whether factors that have increased the cost of the PSS are any greater than similar schemes in other States, or whether such cost factors outside its control are different from other States. Thus, there is no basis for including a cost disadvantage for the PSS within the wages assessment. Tasmania therefore supports the Staff Recommendation that it will recommend to the Commission that it not reintroduce the CSS disability expanded to include the PSS.

5. REMOTE INDIGENOUS HOUSING

Staff propose to recommend that the Commission:

- wait for a new remote Indigenous housing agreement to be finalised before considering changes to the assessments because there is insufficient information available at this stage on the arrangements for 2018-19.

Tasmania agrees with the Staff Recommendation.

6. NATIONAL HOUSING AND HOMELESSNESS AGREEMENT

Subject to the finalisation of the negotiations, staff propose to recommend that the Commission:

- not backcast payments under this agreement because the quantum and distribution of the payments in 2018-19, as shown in the Final Budget Outcome 2016-17, will not be of a different order of magnitude from the previous payments (specific purpose payment for National Affordable Housing and national partnership payment for Homelessness).

Tasmania understands that this Agreement is still subject to negotiations, but advice from Commonwealth Treasury is that the new funding arrangements are not expected to be substantially different from the current arrangements.

Subject to that being the case, Tasmania agrees with the Staff Recommendation that payments under this Agreement not be subject to backcasting.

7. COMMONWEALTH PAYMENT FOR NSW INFRASTRUCTURE SKILLS CENTRE

Staff propose to recommend that the Commission:

- allow the payment to affect the relativities because it is for a normal State function for which needs are assessed in the Investment assessment.

Tasmania agrees with the Staff Recommendation.