



2017 Update

New Issues for the 2017 Update

Tasmania's Response to Staff Discussion Paper CGC 2016-05-S

Department of Treasury and Finance

September 2016

INTRODUCTION

Tasmania welcomes the opportunity to comment on the new issues under consideration for the 2017 Update raised in the Staff Discussion Paper 2016-05-S. Tasmania's response to these issues follows.

Tasmania is concerned that draft Terms of Reference for the 2017 Update have not yet been released for comment, and nor have draft Terms of Reference for the 2020 Review. Although Tasmania acknowledges that the drafting of Terms of Reference is ultimately the purview of the Australian Government, Tasmania is of the view that such delays risk undermining the transparency and integrity of the Commission's processes and, in the case of the 2020 Review, puts at risk the opportunity to engage in a comprehensive and unhurried Review which enhances the Commission's ability to deliver horizontal fiscal equalisation through the GST distribution.

ISSUES FOR THE 2016 UPDATE

Independent Hospital Pricing Authority (IHPA) data

Tasmania notes that the Independent Hospital Pricing Authority NWAU data, as used by the Commission, continues to be a maturing data set.

For the 2016 Update, the IHPA advised that the final 2013-14 data were more reliable for the Commission's purposes than the 2014-15 preliminary data and the Commission accepted that advice and used the 2013-14 final data in place of the 2014-15 preliminary data.

The Commission staff have yet to undertake a comparative analysis of the 2014-15 preliminary versus final data while the 2015-16 preliminary data will, at best, become available late in the year.

In this context, Tasmania would prefer to see a more qualified Commission staff recommendation to the Commission. The current proposition pre-supposes both the outcome of the staff's analysis of the preliminary versus final 2014-15 data and the comparative reliability of the preliminary 2015-16 data. An amended recommendation could be:

Staff propose to recommend that the Commission:

- *Use preliminary 2015-16 IHPA data in the 2017 Update (subject to availability, **staff findings in relation to preliminary versus final 2014-15 data analysis, and advice from the IHPA as to the reliability of the 2015-16 preliminary data relative to the 2014-15 final data**).*

Delays in natural disaster relief payments

Natural disaster relief expenses are assessed on an actual per capita basis, given that natural disaster expenses are not policy influenced. Tasmania understands that the gross costs of natural disaster expenses are those that are reported under the Natural Disaster Relief and Recovery Arrangements (NDRRA), and that net expenses are assessed by the Commission after deducting Commonwealth reimbursements received by a State under the NDRRA. The Commission only considers natural disaster spending reported under the NDRRA and any State spending outside of the NDRRA is not included in the assessment.

Given these arrangements and the Commonwealth's delay in assessing some NDRRA claims relating to 2015-16, Tasmania supports the Commission staff proposal that States should not report expenses for natural disasters in 2015-16 unless they have been assured by the Commonwealth as being recognised under the NDRRA framework. However, this support is conditional on the Commission recognising any 2015-16 expenses that are subsequently approved under the NDRRA over three assessment years.

Wage assessment data update

Tasmania notes that the new annual survey used by the Commission, the Characteristics of Employment Survey 2015 (CoES), will now include information on educational attainment in the 2017 update and welcomes the opportunity to comment on the 2015-16 wage costs estimates utilising the 2015 survey data.

Further, Tasmania notes that in the 2016 Update Report the Commission discussed the 2010 Review's 25 per cent discount applied to Tasmania's modelled wage outcome because the Commission considered that relative public sector wages in Tasmania could not fall as low as the previous ABS Survey of Education and Training (SET) data suggested Tasmania's relative public sector wages had fallen (2016 Update Report: Wages, State specific adjustments, Tasmania, page 77).

In the 2016 Update Report the Commission noted that based on CoES data Tasmania's private sector wages for a comparable employee were well outside the range found for any public sector wage relativities (8.9 per cent below average, with Victoria being the next lowest at 5.7 per cent below average). The Commission determined that using the previous SET data for 2012-13 and 2013-14 (ie not backcasting) resulted in a three year average that was 6.2 per cent below the average, which was not considered so far below the average as to suggest it was infeasible. The Commission considered that no adjustment was required in the 2016 Update.

The implication Tasmania draws from this is that the 8.9 per cent below average result for Tasmania may have been considered infeasible, but the three year average result of 6.2 per cent below average wasn't infeasible. If the 2015-16 CoES data returns a result similar to 8.9 per cent below average for Tasmania, the three year average will drift further from the national average. Tasmania anticipates that the Commission will have this issue in mind when considering its 2017 Update wages assessment, and whether or not to apply state-specific adjustments.

Tasmania supports the Commission Staff proposal to reconsider the materiality of the Commonwealth Superannuation Scheme adjustment when the 2015-16 wage costs estimates are available, and discontinue the adjustment if it is not material.

Timing of data requests

As Tasmania advised in its response to the Commission Secretary's letter of 25 May 2016, Tasmania was not able to return the majority of its 2016 Update data requests to the Commission by 25 September 2015 due to data availability issues, and some were not completed until mid-November 2015. For this reason, a general extension of the due date for data requests to the end of October is considered a reasonable proposal. Tasmania

supports the proposal to maintain the data request dispatch date but shift back by four weeks the return data for data, noting that some of Tasmania's data may not be available until after 21 October 2016.

Sharing of confidential data

Tasmania supports option 2, to share non-confidential data sets to those states that have similarly not designated their data set as confidential.

Commonwealth payments commenced in 2015-16

Tasmania endorses the staff proposed treatment of payments commencing in 2015-16 as listed in Table A-1 of the Attachment A of the New Issues paper.

Commonwealth payments commencing in 2016-17 or 2017-18

Tasmania endorses the staff proposed recommendation not to backcast Commonwealth payments commencing in 2016–17 or 2017-18 listed in Table A-2 of Attachment A of the New Issues paper.