Commonwealth Grants Commission 2022 Update

Tasmanian Government Submission in response to Staff Discussion Paper CGC 2021-01-S

(2022 Update New Issues)

November 2021

Tasmanian Government

CONTENTS

INTRODUCTION

This submission responds to the Commonwealth Grants Commission (Commission) request for State comments on the Commission Staff Discussion Paper CGC 2021-01-S *2022 Update New Issues (*New Issues Paper).

Tasmania supports the majority of the proposals outlined in the New Issues Paper, but suggests that the Commission could consider alternative options to mitigate the impact of JobKeeper on the wage costs regression model.

Tasmania does not support the Commission Staff proposal to lift a State's annual assessment relativity to zero, should it be assessed as negative in a given assessment year.

Revenue assessments could follow the same approach for the 2021 Update

> Staff propose to recommend that the Commission:
>
> - treat tax waivers, rebates, tax deferrals and JobKeeper payments using the same approach as for the 2021 Update.

Tasmania agrees that the Commission should treat tax waivers, rebates, tax deferrals and JobKeeper payments using the same approach as for the 2021 Update.

The effects on revenue bases of any differences in State policy responses in 2020-21 cannot be reliably measured

> Staff propose to recommend that the Commission:
>
> - make no adjustment to revenue bases for any differences in State policy responses to COVID-19.

Tasmania supports the Commission Staff proposal to make no adjustment to revenue bases for any differences in State policy responses to COVID-19.

New developments in expense assessments

The impact of COVID-19 on hospital activity in 2019-20 will now be included in the health assessment

> Staff propose:
>
> - to wait to hear from States before making a recommendation to the Commission.

For the 2021 Update, the Commission treated the Commonwealth payments under the National Partnership on COVID-19 Response as having no impact on the health assessment because the Commission does not assess COVID-19 related drivers of State health spending. In line with terms of reference for the 2021 Update, which required the Commission to use the methods from the 2020 Review, the Commission applied the 2020 Review health assessment to State-funded spending under the National Partnership on COVID-19 Response.

For the 2022 Update, the Commission is seeking States' views as to whether there were additional costs associated with COVID-19 not captured in assessments or covered by COVID-19 arrangements with the Commonwealth.

Tasmania notes that data capture processes for COVID-19 costs have changed, and that States have been impacted by COVID-19 in different ways, between 2019-20 and 2020-21. Tasmania maintains its position from the 2021 Update that if State's COVID-19 related expenses are to be assessed APC, rather than applying the health assessment, then the Commission will need to be satisfied that the information provided by States to the National Health Funding Body (NHFB) on COVID-19 related expenses are accurate, reliable, not policy influenced, and within the scope of the National Partnership on COVID-19 Response.

States' spending on services to industry is likely to remain high in 2020-21

Staff propose:

- to wait to hear from States before making a recommendation to the Commission.

Subject to terms of reference that allow the Commission to make methodology changes for the 2022 Update, Tasmania would support a recalculation of the split between regulation costs and business development costs in the services to industry assessment, if this has a material impact on the GST distribution.

In the *New Issues 2021 Update*, Commission staff proposed that to recalculate the split in the services to industry assessment, industry regulation expenses would be indexed and the remainder would be attributed to business development on the basis that the majority of the increase in this category related to support for businesses in response to COVID-19.

In Tasmania, regulation costs are largely unchanged, while business development costs have increased over the past year, primarily reflecting the State's response to COVID-19. As a result, the approach to recalculating the split outlined in the *New Issues 2021 Update* remains reasonable.

Tasmania also maintains its position from the 2021 Update that additional business development expenses in response to COVID-19 should not be differentially assessed. Tasmania's view is that drivers of business development vary between States, and the Commission is yet to identify a policy neutral disability measure.

Wage costs could be adjusted to remove JobKeeper effects

Staff propose to recommend that the Commission:

- remove employees earning $750 per week from the data used in the wage costs regression model.

The Commission's econometric model for assessing public sector wage costs uses data from the Australian Bureau of Statistics (ABS) Characteristics of Employment Survey (CoES). However, the ABS is unable to identify and exclude JobKeeper recipients from this data. As a result, Commission Staff are proposing to exclude all employees earning exactly $750 per week on the basis that these employees are likely to include those who received the $1500 per fortnight JobKeeper payment.

Commission Staff consider JobKeeper payments bear no relationship with the productivity or other attributes of the employee and may impact on the Commission's wage costs regression model's ability to reflect wage pressures in each State. Noting that public sector employees did not receive JobKeeper, Tasmania agrees with the principle that JobKeeper recipients should be excluded from the wage costs regression model. However, Tasmania has some concerns with the approach proposed by Commission Staff.

Tasmania notes that JobKeeper payments have distorted the wages of thousands of employees in the 2020 CoES data. Tasmania considers Figure 6 in the Staff Discussion Paper indicates that many individuals earning less than $750 per week in 2019 earned exactly $750 per week in August 2020, which likely reflects that they were paid JobKeeper. The Figure also suggests that some individuals earning more than $750 per week in 2019 had their earnings reduced to $750 per week in 2020, which likely reflects that these individuals were paid JobKeeper and no additional wages. Tasmania's view is this suggests that the impact of JobKeeper is also reflected in the fewer number of workers earning a particular amount on the distribution between $0 and $1 500 per week in 2020, and not just limited to those individuals earning exactly $750 per week. Therefore, the proposed data adjustment to remove individuals who earned $750 per week from the 2020 data will not allow the Commission to accurately measure the concept it intends to measure.

Tasmania notes that in both the *New Issues 2021 Update* and *2022 Update New Issues - Staff Discussion Paper*, Commission Staff proposed not to attempt to remove JobKeeper payments from its payroll tax base on practicality grounds because the ABS could not separate out JobKeeper payments from other wages and salaries. Tasmania accepts that the 2020 ABS CoES data includes the impact of JobKeeper. However, Tasmania proposes that the Commission consider alternative options to mitigate the impact of JobKeeper on the wage costs regression model, such as using 2019 data as the most recent indicator for employee wages prior to the impact of COVID-19, and a more representative measure of genuine wage pressures.

New Western Australian Native Title Agreements

Staff propose to recommend that the Commission:

- assess Western Australia's expenses relating to the South-West Native Title Agreement and the Yamatji Nation Indigenous Land Use Agreement in the year they are paid.

Tasmania has no concerns with the Commission Staff proposal to assess Western Australia's expenses relating to the South-West Native Title Agreement and the Yamatji Nation Indigenous Land Use Agreement in the year they are paid.

Implications if a State's assessed revenues exceed its assessed expenditures

In a situation where a State's assessed revenues exceed its assessed GST requirement, Staff propose to recommend that the Commission:

- lift the affected State's annual relativity to zero and share the cost of doing this among the other States on a population basis.

The Commission Staff propose to recommend to the Commission that, if a State has a negative relativity in any assessment year, the State's relativity should be lifted to zero and to share the cost of doing this among the other States on a population basis. Commission Staff propose that this be done using the same methodology that is used to transition a State's relativity to the relativity of the standard State.

The Commission staff suggest that this will not affect GST relativities, but could impact the no-worse-off guarantee relativities should the situation arise.

Tasmania is concerned that, for those years where the guarantee is in place, the proposed approach may reduce the difference between the GST payments that States, other than the strongest State, receive compared to the payments that they would have received under the previous arrangements. This may result in those

States receiving a smaller guarantee payment than they would using the existing methodology. Such an outcome would further reduce the level of equalisation achieved by the GST distribution arrangements.

Tasmania acknowledges that a situation where a negative relativity could arise was not necessarily envisaged when the original GST distribution arrangements were developed. However, neither was the new standard of HFE imposed by the new GST distribution arrangements in 2018. Tasmania believes that it is the Commission's role to achieve the highest level of equalisation it can, within the limitations of the new arrangements. For the time being, guarantee payments contribute to HFE from the perspective of most States.

A negative relativity for the strongest State will not, practically, result in that State receiving a negative amount of GST - the relativity floor will override any potential impact on that State's GST payments. However, the proposed approach could reduce the no-worse-off guarantee payments to all other States.

Tasmania does not support this approach, given that it has the capacity to negatively impact guarantee payments. Tasmania considers that this is not consistent with the intent of the guarantee arrangements agreed to with the Australian Government at the time the guarantee was put in place and creates a further level of inequity between the strongest State and all other jurisdictions. Tasmania considers that the Commission should continue to calculate relativities in accordance with the existing methodology, irrespective of whether a negative relativity occurs.

New Accounting Standards

Staff propose to recommend that the Commission:

- use ABS GFS data adjusted to be consistent with the accounting standards AASB 16 and AASB 1059 if doing so is materially different from using ABS GFS data as published.

Tasmania supports the Commission Staff proposal to use ABS GFS data adjusted to be consistent with the accounting standards AASB 16 and AASB 1059 if doing so is materially different from using ABS GFS data as published. However, given States will be adopting the new reporting standards but the ABS will not, Tasmania notes that the consistency of data used for the value of investment in the capital assessments will be a recurring issue each year. While the Commission Staff proposal provides a recommendation for how to account for the differing reporting standards used by States and the ABS in the 2022 Update, Tasmania is unclear how Commission Staff will address this issue in future years. Tasmania notes it is currently unknown whether Commission Staff are proposing to seek adjusted data from the ABS each year in order to test the materiality of the differences in reporting standards, as well as whether the ABS is able to provide the adjusted data each year.

Health assessment - non-admitted patient data

Staff propose to recommend that the Commission:

- include imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment to ensure the scope of services covered by the activity data aligns with the services covered by the expense data.

The Commission currently uses a proxy measure, based on admitted patient (AP) and emergency department (ED) activity, for the non-admitted patients (NAP) component of the health assessment. The proxy is used because the NAP data from the Independent Hospital Pricing Authority (IHPA) national weighted activity unit data (NWAU) has been historically unreliable. In the 2020 Review, the Commission decided it would move away from using a proxy indicator when IHPA data were sufficiently robust. In the 2021 Update, Tasmania raised concerns with using the NAP NWAU data because:

- NAP activity that is out of scope of the NHRA is not provided by States to IHPA, and therefore is excluded from NAP NWAU data;
- the 2018-19 NAP NWAU data did not include a remoteness adjustment; and
- only 2018-19 NAP data was available and the Commission proposed to use this data for all three assessment years.

Tasmania notes that the IHPA NAP data collection has improved, but limitations remain and the data is still not sufficiently comprehensive. Tasmania would appreciate the opportunity to review the Commission's analysis on how it reached this proposal, to ensure the data fully captures the States' contributions.

Tasmania maintains its position from the 2021 Update that the Commission should refrain from using the NAP NWAU data until three years of assessment year data is available to determine the reliability and completeness of the data, given its relative infancy.

New Commonwealth Payments

Treatment of Commonwealth payments commenced in 2020-21

Based on the Commission's 2020 Methodology Review guidelines for the treatment of Commonwealth payments, Tasmania agrees with the Commission's proposed treatment of payments commenced in 2020-21 as listed in Tables A-1 and A-2 of Attachment A of the New Issues Paper.

Treatment of Commonwealth payments commencing in 2021-22

Tasmania agrees with the proposal not to back cast the payments commencing in 2021-22 listed in Table A-3 of Attachment A, as they do not represent a major change in federal financial arrangements.