

Commonwealth Grants Commission 2023 Update

Tasmanian Government Submission to the
2023 Update: New Issues Discussion Paper

November 2022

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Introduction

This submission responds to the Commonwealth Grants Commission (Commission) request for state comments on the Commission's Discussion Paper 2023 Update: New Issues (New Issues Paper).

Tasmania supports the majority of proposals outlined in the New Issues Paper. However, Tasmania considers that the Commission's proposed driver of need for assessing expenditure related to the Response to COVID-19 business support should not be used.

Consistent with our submission to the 2022 Update, Tasmania continues to consider that it is appropriate to allow any negative annual relativities in the three-year assessment period to flow through to the calculation of the average relativity.

Estimated resident population

Commission's preliminary view:

- Use the 2021 Census-based Estimated Resident Population data by state to calculate the total state and sub-state populations for the 2023 Update.
- Retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander Estimated Resident Population by state.

Tasmania supports the Commission's preliminary view to use the 2021 Census-based Estimated Resident Population data by state to calculate the total state and sub-state populations for the 2023 Update, as this is the latest data available and more accurately captures the growth in Tasmania's population.

Tasmania notes that the 2021 Census-based sub-state Estimated Resident Population for Aboriginal and Torres Strait Islander and non-Indigenous Australians will not be available in time to support the 2023 Update. However, Tasmania does not support the Commission's preliminary view to retain the 2016 Census-based projections of total Aboriginal and Torres Strait Islander Estimated Resident Population by state as this data is dated and does not capture the growth in Tasmania's Indigenous population.

The 2021 Census provides that the portion of Tasmania's population that identifies as Aboriginal or Torres Strait Islander people is above national levels and is growing at a higher rate.

In the 2021 Census, 5.4 per cent of Tasmania's population identified as Aboriginal or Torres Strait Islander people, compared to 3.2 per cent of the Australian population. For Tasmania, this represents an increase of 17 per cent compared to the 2016 Census portion of 4.6 per cent. By comparison, the portion of the Australian population increased by 14 per cent compared to the 2016 Census level of 2.8 percent.

Tasmania believes that the current population would best be estimated by applying the 2016 Census Aboriginal and Torres Strait Islander population shares in each status group to the 2021 Census. Despite implying uniform growth across the status groups, this will ensure that the increased population is captured for the 2023 Update.

As such, Tasmania believes that 2016 Census data should only be used to inform regionality in the sub-state populations.

Measures of socio-economic status

Commission's preliminary view:

- Retain the 2016 Census measures of remoteness area and socioeconomic status as these will not be updated to take account of 2021 Census data until 2023.

Tasmania notes that some measures used in the Commission's assessment will not be available in time for the 2023 Update and therefore supports the Commission's use of measures from the 2016 Census.

Urban transport

Commission's preliminary view:

- If 2021 Census data for passenger numbers are not fit for purpose, retain the 2016 Census data for passenger numbers by mode in the urban transport assessment with no adjustment to account for changes in the level of service provision or the addition of new modes of transport.

Tasmania has no concerns with the Commission's preliminary view to retain 2016 Census data for the 2023 Update, should the 2021 Census data not be fit for purpose.

However, we note that the 2016 Census data is dated and may be past the point of reliability. We look forward to consultation to identify data sources that the Commission considers appropriate for future Updates.

Housing

Commission's preliminary view:

- Integrate the 2021 Census data on income and rent in the Housing assessment for the 2023 Update if the Commission considers it reliable. If not, the Commission will engage states on alternative options.

Tasmania supports the Commission's preliminary view to use 2021 Census data on income and rent in the Housing assessment for the 2023 Update.

However, we note our concerns raised in the Estimated Resident Population section regarding the use of the latest available ABS Post Enumeration Survey data for Indigenous status and remoteness area. Tasmania believes that the current population would best be estimated by applying the 2016 Census Aboriginal and Torres Strait Islander population shares in each status group to the 2021 Census data. Despite implying uniform growth across the status groups, this will ensure that the increased population is captured for the 2023 Update.

New data source for the number of motor vehicles

Commission's preliminary view:

- Use BITRE data as the new source of data for the number of registered vehicles in each state.
- Use 2020-21 data from the ABS Motor Vehicle Census for 2021-22 data if BITRE data are not published in time for inclusion in the 2023 Update

Tasmania supports in-principle the use of the Bureau of Infrastructure and Transport Research Economics (BITRE) data as the new source for the number of registered vehicles in each state as the ABS has ceased publication of Motor Vehicle Census data.

Tasmania notes that ideally three years of data from a single data source would be used to calculate relativity assessments. However, this is not available due to ABS ceasing to publish Motor Vehicle Census in June 2021 and BITRE beginning to publish in 2021-22, with no backcasting of data. There may be differences between these data sets due to their differing sources, with ABS data sourced directly from jurisdictions' systems and BITRE data obtained from the Austroads-owned system NEVDIS where data may be stored or classified differently.

Tasmania supports the Commission's assessment of BITRE data should it be available in time for the 2023 Update. However, if it is not published in time or does not appropriately capture Tasmania's circumstances, Tasmania supports the proposed use of 2020-21 data from the ABS Motor Vehicle Census for 2021-22 data in the 2023 Update.

Non-admitted patient service expenses and activity data analysis

Commission's preliminary view:

- Include imputed national weighted activity unit data for GP-type services in the non-admitted patient assessment.

As noted in the New Issues Paper, Tasmania has previously raised concerns that the scope of non-admitted patient services expense data does not match the scope of the activity data.

Tasmania supports in-principle the Commission's proposal to impute GP-type service activities in non-admitted patients in hospitals.

However, Tasmania does not support the proposed data source as it currently does not capture comprehensive data for all states and territories.

Tasmania currently reports non-admitted patient activity using Tier 2 non-admitted services classification data to access funding under the National Health Reform Agreement (NHRA). However, the current practice in Tasmania is to only report under this classification for activities funded under the NHRA, which excludes GP-type services. This explains Tasmania's zero number of 2019-20 GP-type separations shown in Table A1 of

Attachment A and illustrates scope issues associated with this dataset (for Tasmania and other states).

Tasmania notes that other states and territories also appear to not report GP-type services in this classification.

Tasmania is concerned that the limited scope of non-admitted patient data reported using the Tier 2 non-admitted services classification means that assessments based on this data would not consider the entirety of the non-admitted patient segment.

Response to COVID-19 - Health

Commission's preliminary view:

- If terms of reference do not allow for a method change, continue to treat Commonwealth payments under the National Partnership on COVID-19 Response as no impact on the basis that the differences between states in spending on COVID-19 cannot be fully explained by the Commission's health assessment of state spending needs on health services more broadly.
- If terms of reference allow for a change in method to respond to COVID-19:
 - treat the Commonwealth payments under the National Partnership on COVID-19 Response as impacting; and
 - assess state spending associated with the national partnerships on an actual per capita basis.

Tasmania maintains its position outlined in its submission to the 2021 and 2022 Updates.

If terms of reference do not allow for a methodology change, Tasmania continues to support the approach taken by the Commission in the 2021 and 2022 Updates, namely that Commonwealth payments under the National Partnership on COVID-19 Response are assessed as no impact.

As discussed in the New Issues Paper, the Commission notes that no policy neutral drivers of states' spending needs for COVID-19 health services have yet been identified. In the absence of an appropriate driver of need, the only alternative for a different approach would be for the Commission to assess spending on an actual per capita (APC) basis.

Should terms of reference allow for an APC assessment, the Commission will need to be satisfied that the information provided by states to the National Health Funding Body on COVID-19 related expenses is accurate, reliable, not policy influenced and within the scope of the National Partnership on COVID-19 Response.

Tasmania believes that state responses to COVID-19 reflect a combination of the circumstances of a given state and the policy choices of its government. However, Tasmania is of the view that there are complex interdependencies between these two drivers of support. These interdependencies would also impact any APC assessment of state spending.

Tasmania also notes that data capture processes for COVID-19 costs continue to evolve. However, there remains concern regarding data completeness and accuracy, given the previously limited reliability of expenditure data classification.

As a result, Tasmania considers that, should state spending associated with the National Partnership on COVID-19 Response be assessed on an APC basis, a discount is appropriate.

Response to COVID-19 - Business support

Commission's preliminary view:

- If terms of reference do not allow for a method change, treat Commonwealth payments under the National Partnership on COVID-19 business support as no impact, on the basis that the drivers of state spending (and in turn Commonwealth payments) on COVID-19 business support were different from the usual drivers of state spending needs.
- If terms of reference allow for a change in method:
 - treat Commonwealth payments under the national partnerships on COVID-19 business support as impact; and
 - assess state expenses that meet the definition of non-assessable non-exempt using a driver of need based on the reduction in hours worked in each state; or
 - if data on state expenses that meet the definition of non-assessable non-exempt cannot be obtained, assess the state spending associated with the national partnerships on COVID-19 business support on an actual per capita basis.

Tasmania maintains its position from its submission to the 2021 and 2022 Updates 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 there is no suitable policy neutral measure to capture this.

If the terms of reference allow for a change in methodology, one option the Commission has proposed is to consider states' business support expenses that meet the definition of non-assessable non-exempt by the Commonwealth for income tax purposes.

In Tasmania, data relating to state spending to support businesses is not expected to include this level of granularity in order to identify those businesses that would meet such a definition. As such, it is not expected to appropriately capture state business support expenditure.

Additionally, Tasmania is concerned that using a driver of need based on the reduction in hours worked is not aligned to the parameters under which support to Tasmanian businesses was provided.

Tasmanian businesses are predominately small and micro businesses. Tasmanian COVID-19 related grants were assessed based on the reduction in annual turnover from pre-COVID levels. This was considered the criteria most suitable to the Tasmanian context by keeping applications simple to understand and easy to execute.

As noted in the New Issues Paper, the Business Activity Statements used by states to demonstrate reduced turnover is confidential and, therefore, not available for the Commission to use to assess needs. Given this source is unavailable, the Commission is proposing to use hours worked data in the Longitudinal Labour Force Surveys as a driver of need.

A further concern with using this as a driver of need is that the surveys informing this data rely on a snapshot view of the impacted period(s), which in Tasmania's case did not capture the most intense period of impact for businesses.

As stated in the New Issues Paper, another option raised by the Commission is to assess the state spending associated with the National Partnership on COVID-19 business support on an APC basis.

Tasmania did not suffer the prolonged lockdowns to the extent that other larger states did. Tasmania was nevertheless indirectly impacted by the inability of interstate and international travellers to visit Tasmania and contribute to the economy through tourism and other activities. Accordingly, Tasmania provided additional support to businesses that was outside the scope of this NP. Given this, Tasmania considers that if an APC approach based on the subset of spending that occurred under the NP is pursued, a discount is appropriate to reflect the ongoing uncertainty about how accurately the data captures states' expenditure on COVID-19 business support.

Victoria's Zero and Low Emission Vehicle tax

Commission's preliminary view:

- Include revenue from Victoria's ZLEV revenues in the Motor taxes category.

Tasmania has no concerns with the Commission's preliminary view.

Victoria's mental health and wellbeing surcharge

Commission's preliminary view:

- Include Victoria's mental health and wellbeing surcharge in the Payroll tax category.

Tasmania has no concerns with the Commission's preliminary view.

Negative average no worse off relativity

Commission's preliminary view:

- Consider views on how to deal with a negative no worse off relativity.

In the 2022 Update, the Commission allowed a negative assessment year relativity to flow through to the calculation of relativities, including no worse off relativities. Tasmania's position is that this treatment should continue.

In the 2023 Update, there is the possibility that Western Australia's assessed relativity in 2020-21 and 2021-22 will be less than zero before application of the relativity floor. As the strongest state, this would have occurred under the previous, full HFE arrangements, as well as the current arrangements.

However, under the 2018 legislated arrangements, a negative relativity for the strongest state will not, practically, result in that state receiving a negative amount of GST as the relativity floor will override any potential impact on that state's GST payments.

Tasmania notes that the Commission's 2022 Update noted that "On balance, the Commission considered it appropriate to allow any negative annual relativities in the three-year assessment period to flow through to the calculation of the average relativity." The Commission noted the objective of fiscal equalisation and avoiding unnecessary complexity as factors in reaching this decision.

Tasmania remains concerned that, for those years where the guarantee is in place, any approach to offset a state's negative relativity has the potential to 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. As such, this may result in those states receiving a smaller guarantee payment than they otherwise would have done. Such an outcome would further reduce the level of equalisation achieved by the new GST distribution arrangements.

Tasmania considers that this is not consistent with the intent of the guarantee arrangements as agreed with the Australian Government at the time the guarantee was put in place and will create 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.

Treatment of Commonwealth payments commenced in 2021-22

Commission's preliminary view:

- Consider state views on the proposed treatment of new Commonwealth payments.

Tasmania does not support the Commission's proposed treatment of Hydro Tasmania's Tarraleah Hydro Power Station Redevelopment Commonwealth payment.

The redevelopment of the Tarraleah hydropower scheme is a key project under the Battery of the Nation initiative which together with Project Marinus increases capacity and provides more clean energy to the mainland to support Australia's clean energy transition.

As detailed in the New Issues Paper, the Commission has proposed that the Tarraleah redevelopment Commonwealth payment should impact relativities on the basis that the funding is a subsidy for the generation of electricity which the Commission assesses in the 'other electricity subsidies' component of the services to community category.

Tasmania recognises that the Commission's 'other electricity subsidies' include subsidies for electricity networks where the subsidies are likely to be a policy choice, rather than due to an underlying disability. However, Tasmania considers that the funding provided to Tasmania for Project Marinus and Battery of the Nation supports a broader national objective through delivering cleaner and more secure energy across Australia, and bringing down Australia's CO2 emissions by unlocking renewable energy resources. The projects are expected to deliver benefits to all Australians by supporting economic growth and reliability across the National Electricity Market.

This contrasts with other electricity subsidies that are currently assessed by the Commission, such as the Darwin-Katherine network, that only benefits a single state.

The funding agreement *Support for Project Marinus and the delivery of Tarraleah Hydro Power Scheme Redevelopment* between the Australian Government and the Tasmanian Government states that the Schedule "will support the Australian Government's commitment to providing reliable, secure and affordable energy to all Australians through the delivery of two Tasmanian energy projects expected to benefit the National Energy Market".

Notwithstanding this, the negotiations between Tasmania and the Australian Government have been on the basis that the funding arrangements would not adversely impact upon Tasmania's GST allocation.

Tasmania considers that the funding provided by the Australian Government for the redevelopment of the Tarraleah hydropower scheme should be fully quarantined.

