2025 Methodology Review
Tranche 2 Consultation Papers

Tasmanian Government Submission

January 2024

Department of Treasury and Finance

Tasmanian Government

Contents

1 Introduction

Tasmania welcomes the opportunity to respond to the second tranche of the Commonwealth Grants Commission's (Commission) Consultation Papers for the 2025 Methodology Review.

This paper presents the Tasmanian Government submission in response to all Consultation Papers in Tranche 2.

While Tasmania supports many of the preliminary positions expressed by the Commission in the Consultation Papers, there are some areas of concern that are discussed in more detail in the relevant chapters. These include:

Welfare

Tasmania supports the continuation of state-provided data for the assessment of state National Disability Insurance Scheme (NDIS) expenditure.

However, Tasmania considers that, should a homelessness assessment be developed, it should consider the duration of support associated with the proposed drivers.

Housing

Tasmania views the current assessment of social housing expenditure to be more in line with the guiding principle of policy neutrality and supports its ongoing use.

Roads

Tasmania proposes that the urban road length assessment is split to separately assess capital cities using estimated road length per capita.

Services to Industry

Tasmania suggests that the conceptual case for including the number of businesses as a driver of business regulation costs is unclear. As such, Tasmania supports the ongoing use of volume of production.

Investment

Tasmania has a number of concerns with the blended costs used to reflect differences due to regionality in construction costs. Tasmania suggests that a more accurate measure of construction costs in each state would be to use the Rawlinsons construction cost indices only.

Flexibility to consider method changes between reviews

Tasmania would welcome further definition on the criteria for changes between reviews.

2 Payroll Tax

2.1 Do states support assessing revenue from payroll tax surcharges on the same basis as payroll tax?

Tasmania supports the Commission's preliminary view to assess revenue from payroll tax surcharges on the same basis as payroll tax.

2.2 Do states support retaining the 2020 Review assessment method and data sources, noting that the Commission will continue to explore the feasibility of an assessment based on data from BLADE and/or PLIDA?

Tasmania supports the retention of the 2020 Methodology Review approach to the payroll tax assessment.

2.3 Do states support the assessment method including scope for the Commission to move to Business Longitudinal Analysis Data Environment (BLADE) and/or Person Level Integrated Data Asset (PLIDA) data in a future update, in consultation with states, if those data would improve the assessment?

Tasmania supports the inclusion of flexibility in the assessment method for the Commission to consider alternative data such as BLADE and/or PLIDA if the data can be demonstrated to improve an assessment. Alternative data may improve assessments by reducing volatility, increasing reliability/accuracy, increasing comparability between states or being more contemporaneous.

However, States will need adequate opportunity to review the alternative data to ensure that they support the proposed improvement to the assessment.

3 Other Revenue

3.1 Do states agree with the revenues classified to the other revenue category?

The other revenue category includes those state revenues which are not differentially assessed. This currently includes gambling taxes, interest income, dividend income, user charges and fees, fines and forfeits.

Tasmania agrees with the Commission's preliminary view that there have been no developments that warrant changing the other revenue assessment.

3.2 Do states agree that other revenue should be assessed equal per capita?

State revenues included in the other revenue category do not have tax bases where there is a conceptual case and/or a robust data set that can be developed for a differential assessment. The category also includes revenues where states are assessed to have the same per capita capacity to raise revenue and where a differential assessment would not be material.

Tasmania agrees that other revenue should continue to be assessed equal per capita.

4 Gambling

4.1 Do states agree there is no reliable method of differentially assessing gambling taxes? If not, what do states consider to be a reliable method of assessing state gambling taxes?

The Commission identified three possible options for a differential assessment, including an activity-based approach, a population-based approach and a broad revenue approach. However, Tasmania agrees with the Commission's view that there is no reliable method of differentially assessing gambling taxes.

Tasmania has not identified any further options for a differential assessment.

Should robust data become available in the future, and there is a sound conceptual case, Tasmania would support further investigation being undertaken to determine if a reliable, policy neutral measure of state gambling revenue raising capacity can be undertaken.

4.2 Do states agree that state gambling taxes should be assessed equal per capita in the other revenue category?

Tasmania supports the Commission's view that there have been no developments that warrant changing the gambling tax assessment and state gambling taxes should continue to be assessed equal per capita in the other revenue category.

5 Welfare

5.1 Do states agree that the state NDIS contributions can be collected from the Commonwealth Budget papers rather than from the states?

The Commission currently uses state-provided information on contributions to the NDIS.

The NDIS is funded under different arrangements for the Australian and State Governments:

- States' contribution amounts to the NDIS are fixed, with annual indexation. The initial funding contributions were based on population shares of half the estimated cost of the scheme. While states' contributions have recently been rebased to reflect the Australian Bureau of Statistics (ABS) 2021 Census, this has had no impact on the total contribution.
- The Australian Government is responsible for funding the balance of NDIS costs, on a demand-driven basis. This expenditure is shown in Australian Government Budget Papers.

The Australian Government Budget does not include State expenditure on the NDIS. Using Australian Government Budget information and population shares in the welfare assessment will therefore reduce accuracy in the methodology. As such, Tasmania supports continuing the existing approach of using state-provided information on NDIS contributions.

5.2 Do states agree that the current NDIS assessment is fit-for-purpose?

Under full scheme arrangements for the NDIS, all states' policies are aligned, with fixed contributions based on census population shares.

Tasmania's view is that the current NDIS assessment remains fit-for-purpose.

5.3 Do states support the development of a homelessness services assessment?

Tasmania agrees with the Commission that the use of homelessness services varies between states, and as such, an equal per capita treatment is not appropriate. Tasmania believes there is a strong conceptual case to support the development of a homelessness services assessment and supports this development noting that spending on homelessness services is captured in the Report on Government Services (RoGS) (refer below).

5.4 Will states be able to identify spending on homelessness services and identify where that spending is reported in the Government Finance Statistics classifications?

Tasmanian spending on homelessness services is captured in the latest RoGS information. This includes both recurrent (operational) and capital expenditure on homelessness services.

Spending on homelessness services is reflected in the public non-financial corporations sector expenses and is generally costed to housing development (COFOG-A 0611).

5.5 Do states support the proposed drivers to assess homelessness spending, noting further work is to be undertaken on mental health conditions as a potential driver?

The Commission has proposed Indigenous status, age, socio-economic status (income support recipients) and remoteness as potential drivers to assess homelessness spending. The Commission is also considering whether mental health can be included as a driver of need, and whether 2021 Census data relating to people with a mental health condition are fit-for-purpose to be used in the assessment.

Tasmania agrees that the proposed drivers are correlated with increased use of homelessness services. However, Tasmania suggests that the duration of service use associated with the proposed drivers be incorporated in the proposed homelessness assessment. As shown in Table 5.1, the duration of service use varies significantly according to these drivers.

Table 5.1: Support periods by client characteristics

Driver	Median length of support (days)
Overall	56
Indigenous status	58
Age	
15 to 24	64
Over 55	45
Mental health condition	88
Remoteness area	
Major city	54
Inner regional	72
Outer regional	53
Remote	16

Source: Australian Institute of Health and Welfare (AIHW) Specialist Homelessness Services Collection 2022-23.

The Australian Institute of Health and Welfare (AIHW) Specialist Homelessness Services Collection for 2022-23 indicates that overall, the median number of support days for clients was 56 days. For clients with a mental health condition, the median number of support days increased to 88.

Length of service use also varied by remoteness area. The median length of support was highest in inner regional areas at 72 days, whereas in remote areas the median number of days supported was 16. So, while people in remote areas may be four times as likely to access homelessness services when compared to population groups in major cities and inner regional areas, the median length of support received is a quarter of the number of days.

Tasmania strongly supports the inclusion of mental health conditions as a driver of need for homelessness services. There is a strong conceptual case that people with mental health conditions are especially vulnerable to homelessness, and data which indicate that the length of support required for this group is greater. Tasmania supports the use of 2021 Census data for this purpose.

5.6 Do states support combining the other welfare, non-NDIS aged care and national redress scheme components and assessing spending using the 2020 Review method for other welfare (equal per capita assessment method with regional and wage cost factors)?

Under the 2020 Methodology Review approach, other welfare, non-NDIS disability services, aged care and the national redress scheme components are all assessed equal per capita because of the lack of an identifiable driver of need. The assessment currently includes wage and regional cost factors for all elements except national redress.

To simplify the assessment the Commission proposes to include regional and wage cost factors for all elements in the other welfare component. This simplification has been assessed by the Commission to not make a material difference to the assessment.

As such, Tasmania supports the Commission's proposed approach.

5.7 Do states support the Commission ceasing to collect state spending on the national redress scheme?

Tasmania supports the proposal to cease collecting state spending on the national redress scheme.

6 Housing

6.1 Do states agree that the housing assessment remains fit-for-purpose notwithstanding recent developments in the housing market?

Tasmania agrees that the housing assessment remains fit-for-purpose.

6.2 Do states agree that there should be separate assessments for public and community housing if it results in a material change in GST distribution?

Social housing demand at a state level is invariably met by a mixture of public housing and community providers. The proportion of delivery by each sector is determined by a complex range of factors, including policy decisions of state governments. These policies may include whether to provide grants and subsidies, capital or recurrent expenditure to the sectors.

The housing assessment currently considers total expenditure at a state level, which effectively averages the composition of expenditure nationally.

Tasmania is concerned that assessing community housing and public housing separately may inadvertently advantage or disadvantage states for these policy choices.

Tasmania considers the current methodology, effectively considering the average composition of housing expenditure, to be more in line with the guiding principle of policy neutrality and remains fit-for-purpose.

6.3 Is the ABS census data on households with members that have long-term health conditions a suitable proxy for households that have high service needs?

Tasmania continues to note that higher levels of servicing are required for social housing households that include tenants with a disability compared to other social housing households.

Tasmania considers that the 2021 Census includes data that are a reasonable proxy for the need to provide social housing households with additional services and supports the use of these data to develop a driver of need.

6.4 Do states have data on the cost of servicing different household types that would enable the calculation of a cost gradient?

Tasmania holds data on the additional costs of providing social housing services to tenants with high service needs. Once data required by the Commission have been specified, Tasmania will be able to confirm whether the required information can be provided.

7 Roads

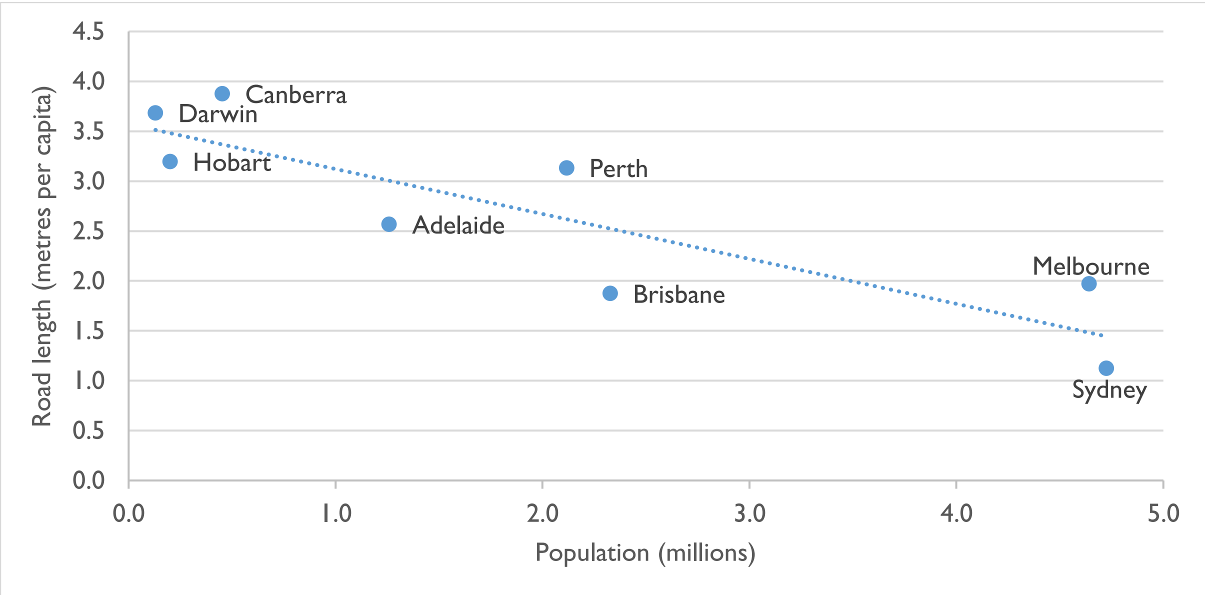
7.1 Do states support retaining the 2020 Review method of assessing urban road length, using population as the driver for large towns?

Tasmania notes that in the 2020 Methodology Review, in the absence of nationally comparable state road length data, the Commission assumed all urban centres required the same length of state road per capita. Urban centres are defined as cities and towns with populations greater than 40 000.

In the Consultation Paper, the Commission presented analysis based on Geoscience Australia's new National Roads dataset on road length per capita by urban centre population. The Commission concluded that there was no strong relationship between population size in all large urban centres and road length per capita.

However, Tasmania notes that these data appear to show a relationship between capital city populations and road length per capita (Figure 7.1). A simple linear regression indicates a negative relationship between capital city population and road length per capita, with a reasonably good fit (R^2 of 0.76).

Figure 7.1: Urban road length per capita and population in capital cities, 2021



Source: Commission data

Tasmania proposes that the Commission investigate an alternative approach to split the urban roads length assessment into:

- urban road length in capital cities using estimated road length per capita; and
- urban road length in non-capital urban centres above 40 000 using average road length per capita (current approach).

Under Tasmania's proposed approach, the urban road length subcomponent would be split between capital cities and non-capital cities over 40 000 using their relative share of total urban road length. To address policy neutrality concerns, road lengths for each capital city would be modelled using a regression model rather than using actual capital city road lengths.

Tasmania considers that this is a more accurate method of assessing capital city urban road length and is superior to the assumption that all urban centres over 40 000 require the same road length per capita.

For non-capital cities, Tasmania agrees there is no clear relationship between urban centre population size and road length per capita and so it is reasonable to use population as the driver. That is, it is reasonable to assume non-capital cities with populations above 40 000 require the same road length per capita.

7.2 Do states agree that the 2020 Review synthetic rural road network should not be updated?

Tasmania agrees that there is no need to manually update the synthetic rural road network as there is unlikely to have been any material change since it was undertaken for the 2020 Methodology Review.

7.3 Do states agree that traffic volume should continue to be assessed using data from the Bureau of Infrastructure and Transport Research Economics and the National Transport Commission?

Tasmania notes that the Commission has not been able to find a more reliable source of traffic volume data than the Bureau of Infrastructure and Transport Research Economics and the National Transport Commission.

8 Services to Industry

8.1 Do states support replacing total factor income as measure of industry size with the chain volume measure of industry value-add to assess the need for spending on industry regulation?

The services to industry assessment considers states' needs for spending on agriculture, mining and other industry regulation and development.

Since 2020, prices for mining and agricultural commodities have experienced increased volatility. Price changes impact the value of production, which is used in the current methodology to consider industry size.

Conceptually, Tasmania agrees that price changes are not expected to influence state spending needs for regulation and enforcement. Therefore, Tasmania supports the Commission's preliminary view to replace the current value of production measure with a volume of production measure. That is, to replace total factor income with the chain volume measure of industry value-add.

8.2 Do states support the development of an average or representative base year to index changes in the chain volume of production?

Each year the ABS rebases the prices used in the chain volume measures to prices in the previous year. Should there be a change to use chain volume of production in the assessment, the Commission will establish a base year in each review and measure the change in production under constant prices to maintain stability in the assessment.

The Commission has identified two potential methods, including an average over time or alternatively, a single year, which reflects the business-as-usual outcomes in commodity markets. Tasmania notes that the Commission will consult with states on this matter.

Tasmania supports the development of an average or representative base year to index changes in the chain volume of production.

8.3 Do states support the reintroduction of the number of businesses as a driver of need for regulatory spending if it is material?

Currently, the assessment recognises that the costs of regulating business activities are affected by industry size, currently measured by the value of production of the regulated industry, such that larger state industries have a greater cost of regulation.

The assessment has previously included the number of businesses as a driver of regulation costs, but this driver was removed in the 2020 Methodology Review as it was not material.

The Commission has noted that a conceptual case exists for including the number of businesses as a driver of business regulation costs. However, Tasmania would suggest that the conceptual case is unclear. It is conceivable that a state with fewer, but larger businesses may have a more complex regulatory task due to the nature and size of the business. For example, large businesses may produce many different products across multiple sites. Conversely, a state with relatively more businesses, which happen to be small, simplistic operations, may have a lower regulatory task due to the simplified nature of the businesses.

Noting that business count was previously not found to be material, Tasmania contends that the use of chain volume of production is the most appropriate approach to assess regulatory spending. The volume of production approach is simple and conceptually sound.

8.4 Will states be able to identify spending on the net-zero transition and provide it to the Commission to develop an assessment?

Tasmania expects to be able to directly identify funding for the range of initiatives that support the net-zero transition, including grants and other concessions to non-government entities. However, it may not be possible to identify funding that is embedded in broader programs, or indirect costs, in the transition to net-zero emissions.

8.5 Can states identify and provide data on potential drivers of state spending on the net-zero transition?

Tasmania has not been able to identify a policy neutral driver of state spending on the net zero transition.

8.6 Do states expect there to be a sufficient increase in state net-zero transition spending to warrant a separate assessment, within or outside of the business development assessment?

The Commission notes that states have announced a range of business development programs and funding to support the transition to net-zero emissions, which may impact employment in emissions-intensive industries like mining and manufacturing. It also notes that it is unclear whether these initiatives will increase assessed state spending compared with unassessed spending such as concessional loans.

It is currently unclear whether state spending relating to net-zero emissions will be material enough to warrant a separate assessment. However, should a new assessment be developed, Tasmania suggests that it will be important not to disadvantage states who have already invested heavily in the sector.

9 Other Expenses

9.1 Do states agree with the expenses classified to the other expenses category?

The other expenses category consists of state expenses not classified in specific expense assessments such as civil protection services, the administration and operation of fire prevention and firefighting services and the control of domestic animals and livestock.

Tasmania agrees with the Commission's preliminary view that there have been no developments that warrant changing the method for the other expenses assessment.

9.2 Do states agree that other expenses should be assessed equal per capita?

Tasmania agrees that other expenses should continue to be assessed equal per capita.

10 Natural Disaster Relief

10.1 Do states support the continuation of the natural disaster relief assessment in its current form?

Tasmania notes that an independent review into Australia's disaster funding arrangement is currently underway to ensure government investment in disaster funding is fit-for-purpose and effective in increasingly frequent and more severe natural disasters.

Tasmania agrees with the Commission's preliminary view that, pending the outcome of the independent review, the 2020 Methodology Review approach to the natural disaster relief assessment should be retained.

11 National Capital

11.1 Do states support discontinuing the national capital assessment if the assessment is immaterial?

Tasmania agrees that if the national capital assessment is immaterial then, consistent with the Commission’s principles, it should no longer be assessed.

12 Investment

12.1 Do states support smoothing user population growth to reduce volatility, with an associated reduction in contemporaneity?

The current investment assessment uses the relative growth in a state's user population as a key driver of investment need. Tasmania and some other states have consistently argued that population growth is not necessarily a good indicator of capital needs each year as state investment does not respond directly to annual changes in population growth.

Tasmania notes that using a moving average of annual growth rates will lead to a reduction in contemporaneity as the data will be up to two years older than under the current approach. Tasmania agrees that investment decisions are generally driven by medium to long term population trends and so a modest reduction in the contemporaneity of the investment assessment would not significantly impact equalisation outcomes.

As such, Tasmania supports the Commission's proposal to reduce volatility of the assessment by smoothing population growth.

12.2 If user population growth were to be smoothed, do states support a 3-year moving average of growth rates?

Tasmania supports a three-year moving average as a reasonable compromise between addressing volatility and contemporaneity.

12.3 Do states support freezing the component shares of the value of assets for the life of the 2025 Review?

To reduce the volatility of the assessment from large year-on-year stock revaluations, the Commission proposes to freeze category-specific shares of the total value of assets over the five-year review period. Component stock values for each category would then increase only by the growth in total assets across all categories, rather than by the specific growth of that component. The Commission notes that changes in the valuation of stocks can be a more significant driver of changes in estimates of stock than investment.

Tasmania supports freezing component shares in a representative base year subject to the Commission ensuring that the shares in the base year are not unduly impacted by recent large revaluations or reclassifications.

12.4 Other issues with the investment assessment - Construction cost factor

The investment assessment currently includes a construction cost factor to account for the relative cost of constructing physical assets in each state. The Commission's construction cost factor is the average of its recurrent wage cost factor and Rawlinsons construction cost indices.

Rawlinsons indices are based on both interstate capital city and regional cost differences for each expense category (except for health, justice, and urban transport categories where only the interstate capital city cost factor is used).

The decision to blend 50 per cent of the Rawlinsons indices with 50 per cent of the Commission's recurrent wage cost factor for each state was noted in the 2020 Methodology Review Final Report due to concerns about the coverage of Rawlinsons indices[1].

While Tasmania accepts that the Rawlinsons indices are not a perfect measure of differences between states in construction costs for state government infrastructure, the following concerns are raised regarding blending the Rawlinsons indices with the Commission's recurrent wage cost factor:

- The Rawlinsons indices already include labour costs. Combining the Commission's wage cost factor with the Rawlinsons construction cost indices would appear to attribute too much of states' construction costs to wages.
- The wage cost factor is a proxy measure intended to capture geographic wage differences in the provision of government services, not in the construction of government infrastructure.
- It is unclear how blending the Commission's wage cost factor addresses uncertainty about the coverage of the Rawlinsons indices.

The Commission's 50:50 blended approach therefore appears arbitrary and has not been demonstrated to be any more accurate than using the Rawlinsons indices on their own.

As such, Tasmania suggests that a more accurate measure of construction costs in each state would be to use the Rawlinsons indices only.

[1] Some regional centres are not explicitly covered by the regional cost indices. Rawlinsons indices are based on a set of commonly constructed buildings that may not be representative of road construction which has a more limited range of materials. Other than air conditioning, the indices do not include other equipment used in Government service delivery. *Commonwealth Grants Commission, Report on GST Revenue Sharing Relativities 2015 Review – Volume 2 – Assessment of State Fiscal Capacities p. 434-436.*

13 Net Borrowing

13.1 Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

Tasmania agrees that the conceptual basis remains unchanged despite the increase in net borrowing and changes in population growth for some states due to the impact of COVID-19.

13.2 Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?

To ensure a consistent approach is taken for both assessments, Tasmania supports smoothing population growth for the net borrowing assessment if a change is made to smooth population growth for the investment assessment.

14 Administrative Scale

14.1 Do states support the continuation of the administrative scale expense assessment in its current form?

Tasmania agrees that there have been no developments that would warrant changing the administrative scale expense assessment and therefore would support continuation of this assessment in its current form.

15 Geography

15.1 Do states support continuing the current methodology for estimating regional costs and service delivery scale effects?

In the absence of data improvements to enable a more accurate measure of the differences in service delivery costs by the remoteness of service delivery, Tasmania supports the current methodology.

While it is unlikely to be an issue for this methodology review, there is likely to be a negative impact on Tasmania if Hobart's urban centre population reaches 250 000 (at the 2021 Census it stood at 197 451). Under the Accessibility/Remoteness Index of Australia Plus (ARIA+) geographic classification, Hobart would be reclassified from inner regional to a major city.

There is a very large range between the minimum size for a major city (250 000) and Australia's largest city (Sydney, 4.7 million) compared to the next regional classification, inner regional, where the population range is between 48 000 and 249 999.

Tasmania suggests that the 250 000 threshold is arbitrary. Realistically, a marginal increase in Hobart's population will not alter the impact of remoteness on Tasmania's service delivery costs.

Tasmania raises this issue now so that the Commission can consider whether flexibility needs to be built into the assessment before Hobart reaches the minimum threshold to be classified as a major city.

15.2 Can states identify any data to measure differences in non-wage costs between major cities?

Tasmania has not identified new sources of data to enable the measurement of differences in non-wage costs for major cities.

16 Adjusted Budget

16.1 Do states agree with the Commission's preliminary view to use:

- *ABS preliminary Government Finance Statistics data for year 3;*
- *A state's year 3 data if the ABS preliminary data are not available; and*
- *The final ABS Government Finance Statistics data for the first 4 assessment years (year minus 1 to year 2).*

The Commission currently uses final ABS Government Financial Statistics (GFS) data for four of the five years of data assessed in its annual relativity updates. The final year (year 3) GFS data are currently sourced directly from states and adjusted to align with ABS data.

However, ABS GFS preliminary data for year 3 are now available earlier than in previous years.

Given the benefits of using one data source that requires fewer adjustments, and reduces the potential for error, Tasmania supports the Commission's preliminary view to:

- use ABS preliminary data for year 3;
- if the ABS preliminary data are not available for a particular state(s), then use state data; and
- use final ABS GFS data for the first four assessment years (year minus 1 to year 2).

16.2 Do states consider the proposed process for implementing adjustments in the 2025 Review adjusted budget is appropriate?

The Commission is proposing to test all existing and new adjustments for materiality at $12 per capita. If the adjustment is material, it will be retained in each update following the 2025 Methodology Review.

Noting that the Commission will discuss any future adjustments, Tasmania considers the proposed process to be appropriate.

17 Flexibility to consider method changes between reviews

17.1 Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?

The existing framework provides the Commission with limited flexibility to change methods between reviews. Typically, the Commission is required to use the existing methodology unless there has been a significant change in data availability or in arrangements governing Commonwealth-state relations.

Tasmania suggests that the existing arrangements are sufficient to cover most situations that may arise. However, it is acknowledged that there is a possibility that unforeseen circumstances in the future may not be adequately covered by the existing framework and flexibility.

Tasmania has consistently supported fiscal equalisation as the overarching principle for determining the distribution of GST revenue. Tasmania also supports the principle that no state should be disadvantaged through a reduced share of the GST distribution as a result of undertaking major reform or experiencing a significant external shock. However, in most instances, Tasmania considers that the appropriate setting to consider these issues will be as part of the Commission's five-yearly methodology reviews.

Tasmania acknowledges that there are instances where the Commission must use its judgement in the application of its guiding principles to determine the most appropriate measure of states' relative fiscal capacities.

Tasmania also acknowledges that there are a number of conceivable benefits in increasing flexibility to change methods between reviews where the existing methodology would lead to an inaccurate estimate of states' fiscal capacities. However, some concern remains with regard to how such flexibility would be implemented in practice. Further detail is included in sections 17.2 and 17.3 below.

17.2 Do states agree that the circumstances supporting the case to extend the Commission's flexibility to change methods between reviews should include: major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required for the Commission to achieve the objective of fiscal equalisation?

Tasmania is not opposed to the circumstances proposed by the Commission, which include major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required to achieve the objective of fiscal equalisation. However, Tasmania suggests it is possible that states may have differing views in terms of what constitutes a major unexpected development and what size impact should be considered significant.

Tasmania notes the Commission's preliminary view that attempting to define specific circumstances in detail may prove too restrictive given the inherent uncertainty of a shock. Conversely, Tasmania suggests that having no agreed criteria may reduce transparency in the methodology and risk being arbitrary or inconsistent.

While there are benefits in introducing more appropriate assessments of fiscal capacities in a timely manner, the recent examples provided by the Commission (New South Wales taxation reform and COVID-19), were both temporary issues. It is unclear whether the Commission would consider changing the methodology for a set period and then revert when the fiscal effects of the shock had subsided.

17.3 Do states agree that any consideration of whether method changes are warranted between reviews be undertaken in consultation with the states and the expectation should be that this flexibility would only be exercised in very limited circumstances?

Tasmania agrees that any consideration of whether methodology changes are warranted between reviews should be undertaken in consultation with states and used only in very limited circumstances.

Nevertheless, it is noted that these very limited circumstances have been characterised rather broadly, in that they are major, unexpected and result in a significant impact on state fiscal positions.

Without further guidance, particularly around the concepts of major development and significant impact, it is conceivable that there may be cases in which states disagree on whether a particular event warrants a consideration of change under proposed flexibility provisions in terms of reference.

17.4 Should the extended flexibility to change assessments between reviews in certain circumstances be operationalised in standing terms of reference for updates?

Tasmania is not opposed in principle. However, Tasmania would like to see the specific wording proposed before making a judgement.

18 Acronym Table

Acronym	Definition
ABS	Australian Bureau of Statistics
AIHW	Australian Institute of Health and Welfare
ARIA+	Accessibility/Remoteness Index of Australia Plus
BLADE	Business Longitudinal Analysis Data Environment
COFOG-A	Classification of the Functions of Government - Australia
GFS	Government Finance Statistics
GST	Goods and Services Tax
NDIS	National Disability Insurance Scheme
PLIDA	Person Level Integrated Data Asset
RoGS	Report on Government Services