

Victorian Response to New Issues for the 2017 Update

September 2016

1. Introduction

The Commonwealth Grants Commission (the Commission) has circulated a staff discussion paper outlining a number of issues that the Commission considers relevant for the 2017 Update.

Victoria notes that these issues have been identified in the absence of terms of reference for the 2017 Update, and that once these terms of reference are issued further issues may be identified.

The issues identified in the discussion paper are:

- Independent Hospital Pricing Authority (IHPA) data;
- delays in natural disaster relief payments;
- wage assessment data;
- timing of data requests;
- sharing of confidential data; and
- treatment of new Commonwealth payments.

The Victorian responses to these are presented in the following sections.

2. Independent Hospital Pricing Authority data

The discussion paper notes that changes from the preliminary 2013–14 IHPA data to the final 2013–14 data did not have a significant effect on assessed health expenses for 2013–14. The same analysis will be undertaken for the preliminary and final 2014–15 data once the final data are available.

Provided the analysis of the preliminary and final 2014–15 data reflects the findings from the analysis of 2013–14 preliminary and final data, Victoria supports the discussion paper recommendation that preliminary 2015–16 IHPA data be used for the 2017 Update (subject to availability).

3. Delays in natural disaster relief payments

The discussion paper notes the Commonwealth Government has delayed the reimbursement of some Natural Disaster Relief and Recovery Arrangements (NDRRA) payments to a number of states that were previously expected to be paid in 2015–16. The Commission does not want states to report expenses for natural disasters in 2015–16 unless they have been assured by the Commonwealth as being recognised under the NDRRA framework.

This may result in the data provided by the states recording natural disaster expenses in the financial year after that in which they were actually incurred, or that later updates will revise natural disaster expenses for a particular financial year.

While this situation is not ideal, Victoria understands that the Commission only wants appropriate natural disaster expenses to be used for assessment. Accordingly, Victoria supports that discussion paper recommendation that only expenses on eligible measures in respect of eligible disasters under the NDRRA for 2015–16 are included if they have been assured by the Commonwealth as being recognised under the NDRRA framework.

4. Wage assessment data

Victoria notes that there are two issues associated with the wage assessment:

- estimation of the wages model using data from the Characteristics of Employment (CoE) Survey 2015; and
- the Commonwealth Superannuation Scheme (CSS) adjustment.

In regard to the first issue Victoria is disappointed that the Commission has not continued its work of revising the methodology of the wage assessment. Victoria notes that in the 2016 Update report the Commission stated that ‘...the consultancy represented an incremental development in the conceptual thinking that has supported this assessment over several reviews. ...The Commission considers that it gave sufficient consideration to the issues associated with the Wage costs assessment, and it is unlikely that further time or consultation would have led to a different conclusion’¹.

Victoria considers that the consultancy report raised issues that should be further explored, including the possibility that factors other than those considered by the Commission’s methodology have an influence on public sector wages. The application of new data to the existing model does not represent any methodological advance.

Victoria looks forward to reviewing the results from the wages model estimated using 2015 CoE data when they become available. It will be interesting to observe if the inclusion of education variables results in any significant differences.

Victoria will also be interested in the degree of rigour that the Commission applies to the interpretation of the results from the model. The results from the 2014 survey indicated that, apart from Western Australia and the Northern Territory, there was no statistically significant difference in private sector wages between the states.

In regard to the second issue Victoria supports the discussion paper recommendation to retest the materiality of including the CSS adjustment and to discontinue it if it is no longer material.

5. Timing of data requests

The Commission’s Secretary wrote to the states seeking views on whether there would be any benefit in shifting back by four weeks the dispatch and return dates of data requests. Victoria responded that there was merit in this proposal and suggested that it be trialled for the 2017 Update.

1 Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities—2016 Update*, pp 63–64.

Accordingly, Victoria supports the discussion paper recommendation that the Commission maintains the dispatch date but shift back by four weeks the return date for data.

6. Sharing of confidential data

The Commission's Secretary also sought state views about sharing non-confidential data for datasets where one state designates its data as confidential. Two options for the sharing of non-confidential data were presented.

Victoria responded that both options were acceptable, with a preference for the first option, to share data with all states. Victoria notes the concern expressed in the discussion paper that, where when only one state designates its data as confidential, other states might be able to back solve the confidential data from the assessment outcome.

After considering the issues raised in the discussion paper, Victoria supports the recommendation to change the current practice of sharing data among states to 'sharing non-confidential data among states which have not designated their data as confidential', provided any confidential data cannot be back solved from the assessment outcome.

7. Commonwealth payments commenced in 2015-16

Victoria has reviewed the Commonwealth payments listed in Table A-1. Victoria supports the discussion paper recommendation that the Commission approve staff proposals on the treatment of each Commonwealth payment commenced in 2015-16 listed in that table.

8. Commonwealth payments commencing in 2016-17 or 2017-18

Victoria has considered the Commonwealth payments listed in Table A-2 to determine whether they represent major changes in federal financial arrangements.

Victoria supports the recommendation that the Commission not back-cast the Commonwealth payments commencing in 2016-17 or 2017-18 listed in Table A-2.

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