

# Department of Treasury and Finance

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Mr J Spasojevic  
Secretary  
Commonwealth Grants Commission  
First Floor  
Phoenix House  
86-88 Northbourne Avenue  
BRADDON ACT 2612

Attention: Tim Carlton

Dear Mr Spasojevic

## **Contemporaneity**

This letter is in response to Tim Carlton's email of 30 October 2014, in which he invited States to make brief supplementary submissions in response to Western Australia's submission on the topic of contemporaneity.

Tasmania is strongly opposed to Western Australia's proposal to "implement HFE without lags", which, at its simplest, would require "the CGC to make projections of the circumstances in the grant year" and a subsequent "correction for actual data in the following year."

Tasmania is of the opinion that contemporaneity achieved by estimates or projections of circumstances in the application year would:

- substantially increase complexity;
- increase the level of judgement required of the commission;
- reduce stability and predictability of GST revenue shares; and
- increase volatility – especially when the impact of subsequent corrections for actual data are added to increased volatility in GST shares for the application year.

Tasmania notes that the basing of relativities on application year data projections is not a new issue, and it was considered and rejected in the course of the 2010 Review. Tasmania considers that the arguments previously made against this proposal remain valid now.

In 2006, the then commission discussed the issue of contemporaneity in its *Issues Paper 2006/04 - Contemporaneity*.

The commission outlined a number of options for giving greater weight to contemporaneity in that paper, and it subsequently elected to shorten the assessment period from five to three years in the 2010 Review.

The commission discussed full contemporary equalisation and noted a number of disadvantages to this option, including:

- the assessment would be complex and data intensive, which would conflict with the simplification objective;
- it would have implications for the stability of States' GST revenue;
- it is unlikely that the commission could accurately predict State's application year fiscal capacities; and
- it could expand the role of judgement in the assessment process.

A number of states addressed this issue in their responses to that paper. None favoured full contemporaneity and several raised the difficulty of forecasting or projecting data for the application year.

Given that Western Australia has proposed the methodology change, it is worth noting their thoughts on the issue in 2006:

*We are strongly opposed to any use of forward estimates or projections of future economic and demographic circumstances to forecast application year relativities. None of this information is sufficiently reliable, there would be opportunities for 'gaming' behaviour by States, and such approaches would add substantial complexity.*

*Such an approach would also require a complex system of 'completion' grants or relativity adjustments to correct the previous estimates when actual data became available, and ensure that equalisation was actually achieved over time.*

Tasmania's response on this issue does not appear on the commission's website. However, Tasmania favoured a reduction of the assessment period from five years to three years, rather than an attempt to achieve full contemporary equalisation. Tasmania's position has not changed.

Tasmania stated that:

*This [full contemporaneity] is effectively dismissed within the Issues Paper as too problematic and Tasmania strongly endorses this conclusion. It is not seen to be a credible proposition for all the reasons the Commission itself cites. It adds to complexity, it adds to uncertainty, it is computationally complex and data intensive; it would require considerably more Commission judgements to be made. Overall it would be de-stabilising to the HFE system.*

Should the commission make a preliminary decision to effect a change in favour of increased contemporaneity, Tasmania will make a more detailed submission when given the opportunity to do so.

Should you have any queries or require any further information regarding this matter, please contact Tristan Patterson on (03) 6166 4269 or email [tristan.patterson@treasury.tas.gov.au](mailto:tristan.patterson@treasury.tas.gov.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Tony Ferrall', with a stylized flourish extending from the end.

*AF* Tony Ferrall  
Secretary

*12* November 2014