

Tasmania's response to Commonwealth Grants Commission Questions on the 2020 Method Review Work Program

Supporting principles

Should the review begin with a reconsideration of 'whether the supporting principles the Commission uses to guide its work remain appropriate, including whether new principles should be adopted and whether different weights should be given to different supporting principles'?

It is noted that in the 2015 Method Review, the Commission did not change how fiscal equalisation is defined nor what it equalises (net financial worth) and that it continued to use the same assessment principles to guide its work. The Commission's methods, as far as practical and feasible, should:

- reflect what States do;
- be policy neutral in that an individual State should not be able, by its own actions, to directly influence its own share of the GST distribution;
- capture as contemporaneously as reliable data will allow, the conditions in the States in the year the GST is distributed; and
- be derived in a practical way, as simply as possible, consistent with achieving horizontal fiscal equalisation and the quality of the available data.

Tasmania is of the view that the current supporting principles are appropriate, and will remain appropriate during the life of the 2020 Review. In the 2015 Review the Commission noted that it has not set rules for how it would trade-off each principle nor has it established a hierarchy among the principles. As required, Commission judgment is used to devise the best overall equalisation result. Tasmania continues to support this approach.

The GST distribution was comprehensively reviewed in 2010, through the 2012 GST Distribution Review, and refined in the 2015 Review. At the request of the then Australian Government Treasurer, the Commission revisited the principle of contemporaneity in the 2015 Review relating to volatile revenues. The Commission concluded that the current three-year averaging remains appropriate and balances the competing considerations of practicality, data reliability, contemporaneity and policy neutrality,

In Tasmania's view, nothing has changed since the 2015 Review that would necessitate change to the supporting principles.

Comprehensive review

What is meant by a 'comprehensive review of methods'? Does this mean that once the supporting principles have been settled, the Commission should begin with a clean slate as it did in the 2010 Review

and ask what functions and related transactions of State are relevant to their fiscal capacity, how they should be grouped for assessment purposes and how they should be assessed? Or should the Commission start with the present scope and structure of assessments and make adjustments consistent with the revised supporting principles?

Tasmania is of the view that the present scope and structure of the Commission's assessments, which as mentioned were comprehensively reviewed in 2010 and further refined in 2015, remain appropriate and reflect what states do.

Nevertheless, it is expected that some assessments may require modification in accordance with the Commission's guiding principles. Tasmania does not consider that there has been significant change since the 2015 Review to warrant a clean slate approach. Rather, the Review should be seen as an opportunity to make incremental refinements to Australia's robust system of achieving comprehensive horizontal fiscal equalisation.

It is noted that the two and a half year time frame for the 2020 Review, while a year longer than the shortened 2015 Review, is significantly less than the four year period available for the comprehensive, clean slate, 2010 Review. This would suggest that given the timeframe available for the 2020 Review, a clean slate approach may not be feasible, particularly for the resource constrained smaller States and Territories.

Iterative or alternative process

Reviews have generally been conducted using an iterative process, with the Commission taking the lead in defining HFE principles and assessment methods, followed by the States providing feedback on the proposed approaches, leading to amended Commission views and so on. Should this review adopt the same iterative process or do States consider alternative approaches, for example with States taking a lead role in some instances, for example the development of assessments, would result in an improved HFE outcome?

Tasmania supports an iterative process, as described above. Experience of previous reviews has shown that when states are free to set the agenda the Commission can spend significant amounts of time and resources investigating issues that either do not prove feasible or do not improve the application of HFE. States will have their own agendas and so it is considered that the Commission, as an independent body, is better placed to fairly manage and arbitrate the review process.

Further, the limited two and a half year timeframe for the 2020 Review may also be a constraint to alternative Review processes, such as allowing states take a lead role in some circumstances, as this may result in unproductive debates on a particular issue of self-interest to one State that could risk derailing the process.

Particular issues Tasmania would like the Commission to explore

Are there particular issues States would like to see the Commission explore?

While the supporting principles and structure of the Commission's assessments are sound, there are a number of issues that the Commission could explore as a result of structural changes since the 2015 Review relating to state responsibilities, out of date or inappropriate data, or were not sufficiently covered because of the truncated 2015 Review.

Welfare

The scope and structure of the welfare assessment is perhaps the most obviously in need of review, given the changes since the 2010 Review and during the 2015 Review due to the transfer of responsibility for aged care to the Commonwealth, and the transition of specialist disability care to the National Disability Insurance Scheme. As the 2020 Review will roughly coincide with full implementation of the NDIS, this an appropriate juncture to conduct a comprehensive review of the welfare assessment.

Wages

Tasmania is concerned that the use of the new Characteristics of Employment Survey (CoES) has resulted in an unrealistically low estimation of Tasmania's comparative public sector wages costs. While Tasmania has advocated a state-specific discount in the 2017 Update, it would also welcome the opportunity for further in-depth consideration of the wages assessment during the 2020 Review.

Administrative scale

The survey data used in the administrative scale assessment is now very old. It appears to be based on a 2004 Review survey. Tasmania suggested that the Commission undertake a new data survey to gauge the administrative scale quantum during the 2015 Review, but because of time constraints the Commission staff decided there was insufficient time to develop a new method to re-estimate the quantum for administrative scale assessment. Tasmania suggests that options to update the administrative scale assessment be explored by the Commission as a priority for the 2020 Review.

Land tax

In the 2010 Review, the Commission elected to apply a 25 per cent discount to the land tax assessment because of residual concerns about the comparability of State Revenue Office data, and continued that discount in the 2015 Review. Tasmania suggests that the Commission review the current comparability of SRO data with a view to discontinuing the 25 per cent discount.

Indigeneity

Tasmania raised its concerns about the use of the Indigenous Relative Socioeconomic Outcomes (IRSEO) Index during the 2015 Review, the focus of which is on "measuring the positive aspects of access to economic resources", as opposed to measuring relative disadvantage across indigenous populations.

Tasmania remains concerned that IRSEO is not a good indicator of the impact of indigenous disadvantage on service use and the cost of service provision.

Tasmania recognises that the Commission was under significant time constraints during the 2015 Review, and recommends that the Commission consider the development of a tailored, fit-for-purpose measure of indigenous disadvantage during the 2020 Review.

Commission visits

Most States have said they would encourage the Commission to visit their State for discussions on a range of matters. Would you want the Commission to visit your State during the review? When during the review would you want the Commission to visit and what is the rationale of this timing? How would the Commission expect to gain guidance in the development of its methods through a visit to your State?

Tasmania would prefer to have the opportunity for face-to-face communication with the Commission reasonably early on in the Review process – perhaps while the supporting principles and the proposed scope of assessments under examination are being considered.

It is proposed that this communication take the form of capital city meetings over one to two days between the Commission (and key staff), Treasury, and agency officials. A return to the “travelling roadshows” of past reviews is not proposed. These meetings would enable the Commission to be appraised of the particular challenges that face each jurisdictions, and the associated costs, and engage one-on-one with people involved in delivering services.

Draft report

A draft report will be part of the process. In recent reviews the Commission has produced this in the June of the year before the final report. This gives the Commission sufficient time to develop well considered methods, the States time to comment on the proposed assessments and the Commission time to react to those comments, including advising States of any major changes since the draft report. Do you have any particular views on this process?

The delayed release of the 2015 Review draft report to the States was less than desirable, as was the late inclusion to the Review of the contemporaneity and alternative mining assessment issues. Tasmania would welcome the release of the Draft Report on GST Revenue Sharing Relativities to the States in June 2019 allowing the States sufficient time for comment and enabling the Commission time to give due consideration to states’ responses. It is also desirable that the States be given sufficient time to properly consider and respond to any subsequent method or data changes before the Review is finalised.

Tasmania would also welcome the inclusion of indicative relativities in the draft report, as they would assist us in briefing the Treasurer on the potential impact of the Review on Tasmania’s GST share. While the

Commission may view the inclusion of indicative relativities as premature, the reality is that Treasuries will be required to brief their Treasurers on the likely impact on GST revenue of the Commission's proposed methodology and/or data changes.

Other meetings

What other types of meetings should be held between the Commission and State representatives, Commission staff and State representatives? For example, should there be a multilateral meeting between the Commission and Heads of Treasury to discuss the supporting principles and how they might interact? Could third parties, such as academics, play a role at such a gathering? Should there be meetings between State and Commission staff to help States understand the assessments set out in the draft report?

Tasmania considers there would be value in the Commission briefing Heads of Treasury as a group in the early stages of the Review, once the supporting principles have been agreed. However, it is considered that this briefing should be limited to Heads of Treasury and Commission staff.

Tasmania would welcome the return of face-to-face, round-table working group meetings in Canberra (or another convenient location) to the 2020 Review. A mix of bilateral and multilateral telepresence meetings to discuss selected individual assessments and the Draft Report should also be scheduled where time permits. There may be value in including independent experts engaged by the Commission in these discussions.

It is noted that in the 2015 Method Review Final Report the Commission flagged further work on improving data quality in a number of areas and that the work be undertaken by data working parties of State and Commission officers as has been the practice in the past. Again, there may be time constraints for establishing dedicated working parties for the 2020 Review, which in the past can be time and resource intensive, and that data issues may be better dealt with as part of the investigation of the assessments under review.

Tasmania also supports the Commission's proposal to host an introductory session for state officers who are new to the Commission's processes. This session could cover what the Commission is trying to achieve, the methodology, and how states can build a case when advocating methodology or data changes. Such a session would build the confidence of state officers and improve the quality of submissions to the Commission.