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THE LEGISLATIVE COUNCIL SESSIONAL COMMITTEE GOVERNMENT ADMINISTRATION A MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON MONDAY 16 SEPTEMBER 2019.

INQUIRY INTO COMMONWEALTH HORIZONTAL FISCAL EQUALISATION SYSTEM

HON PETER GUTWEIN MP, TREASURER WAS CALLED AND EXAMINED:

CHAIR (Ms Forrest) - Thank you for coming. We appreciate you presenting before this committee. I wondered if your staff is going to speak and might take the statutory declaration? You do not need to, obviously as a minister?

Mr GUTWEIN - I do not believe I do, I never have.

CHAIR - No, you are sworn anyway. Is your advisor planning to say anything?

Mr GUTWEIN - I do not know. It depends on what questions are asked.

CHAIR - Maybe he should swear and then we are right? Thanks.

Mr ANDREW FINCH, CHIEF OF STAFF TO THE TREASURER WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - I am sure you are aware of the procedures of a committee, but for Mr Finch's benefit I will ask him to make sure he uses his microphone because he is being recorded for *Hansard*. Evidence said in the committee is covered by parliamentary privilege. If there is anything you wanted to cover in confidence you could make that request and the committee would consider, but otherwise it will be an open session and will form part of the transcript that will be published on the website and form our report.

Did you want to ask anything at the outset, Treasurer? We note the submission from the Department of Treasury and Finance and appreciate your departmental officials coming in on two occasions previously for what is a fairly complicated topic. It is not for the faint-hearted. We have had them back to respond to us on two occasions regarding this submission and also to answer further questions, which we certainly appreciate in terms of trying to understand what excess expenditure and other revenues were particularly.

Did you want to make any opening comments from your perspective, Treasurer?

Mr GUTWEIN - Thank you for the opportunity. I think the submission speaks for itself. I have read the transcript of the presentation made by the Treasury officials, Ms Calvert and Mr Febey. I think they quite comprehensively covered a range of matters. Obviously, there are some issues you want to chat to me about, so I am happy to do my best.

THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION A COMMITTEE - INQUIRY INTO COMMONWEALTH HORIZONTAL FISCAL EQUALISATION SYSTEM, HOBART 16/9/19 (GUTWEIN/FINCH)

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CHAIR - From the outset, I do not know whether you have actually read the other submissions we received that have been published on our website. There have been differing views about how the Commonwealth Grants Commission assessment of our disadvantage has applied, and how we should be spending so much more on for example, health, than we do. Some people who have presented to the committee indicate we are underspending in some other areas, particularly infrastructure.

Do you want to address your mind to this point and those comments in terms of how you understand it and what you would like the committee to understand about it?

Mr GUTWEIN - The submission is pretty clear. The assessment process that the Commonwealth Grants Commission goes through is effectively a mathematical construct. That point was made by Treasury officials when they had the opportunity to speak to you. That is the way I always viewed it. It is an assessment they use to arrive at the relativities through the equalisation process and where it starts and ends, to be frank. The claims we are spending either more or less than we should, based on the Commonwealth Grants assessment, is quite erroneous. In fact, the Commonwealth Grants Commission makes the point itself on its own website those assessments should not be utilised for that particular purpose.

CHAIR - So, it is a mathematical construct that looks at assessing our disadvantaged, as I understand it. It has been described to us in various forms. It is assessing what Tasmania would need to spend to deliver an average level of service. In terms of the delivering of health services, being the one most questioned, does this mean, in your view, we deliver a lesser than average level of service?

Mr GUTWEIN - I make the point that Ms Calvert, in her first appearance before the committee, actually indicated the assessment from the CGC is about arriving at an aggregate level in terms of equivalent service. This was a point she made in her appearance before the committee.

If you are going to look at health, or any other expenditure of the Government, the fact is we spend on health more on a per capita basis than the Australian average. The fact is we spend, based on the CGC's own data, more than every other state and territory bar Western Australia and the Northern Territory on a per capita basis. Those measures, as well as what we see in the Review of Government Services, all indicate compared to the rest of the country and the national average that Tasmania is generally spending above it.

I think you know this full well: the Commonwealth Grants Commission process is not designed to point to states to say what you should spend. Only you can answer why this committee is spending time on that particular issue. It has been made perfectly clear by people far better trained in the mechanics of GST calculations and their methodology and the Treasury officials who have been before you, plus the Treasury paper points that out.

CHAIR - The reason this committee was established was to look at a fairly complicated area where there had been a lot of public commentary.

Mr GUTWEIN - To be quite frank, I think the Treasury submission deals with those issues quite comprehensively.

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Mr VALENTINE - Can I ask a question?

CHAIR - Sure.

Mr VALENTINE - One of the submissions is claiming the Government's per capita health spend was \$176 million less than the national average on health in 2016-17. Thinking in those terms, if the national average spend is at X dollars and we are spending \$176 million under this, how is that justified? We are not going to hit the target, are we?

Mr GUTWEIN - Rob, I do not have those submissions in front of me, but have the report on Government services. Quite clearly, in terms of recurrent expenditure per person, in all the period of time I have been Treasurer and even going back to the previous governments of about 2011-12, we were spending above the national average recurrent per person. The Commonwealth Grants Commission's own data indicates more recently we have been spending above the national average recurrent per person. If you go to the Commonwealth Grants Commission's own data this indicates more recently we have been spending above the national average. The Treasury submission also points this out.

I have not read all of the submissions. I can imagine who it is from. I pay scant attention to that particular gentleman if it is one of his submissions.

Mr VALENTINE - No, it is. It's certainly Mr Goddard's, but I will read you a portion of this if I am allowed? (tbc)

Not only is the health specific GST money not being spent on health, the Government's per capita health spend in 2016-17 was \$176 million less even than the national average. To achieve the level of health funding for Tasmania, which is calculated by the Grants Commission to be needed in order to deliver a national standard of care to the state's population, we need to combine these two series of figures: the difference in state government health funding from the national average, less, and the amount of GST money redirected to this state to cope with its particular health needs.

He goes on to say -

In 2016-17, the most recent year with complete funding data, this state's health budget was \$438 million less than that. Over the seven years from 2010-11 to 2016-17 the health system was underfunded by \$2.733 million.

These are quite significant claims that he has made. I don't know whether you want to comment on those claims.

Mr GUTWEIN - I will, because quite clearly Treasury has provided this committee with advice in its own written submission; in fact, there is a graph in it that indicates that in the 2015-16 year -

Mr VALENTINE - What page?

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Mr GUTWEIN - Page 10 of the Treasury submission. These claims have been made. Treasury has provided a graph there that indicates that in the 2015-16 year we were spending -

Mr VALENTINE - Is that the bottom one?

Mr GUTWEIN - Yes, the bottom one - we were spending \$233 more per capita in 2016-17 and 2017-18. Then you have the Australian average, which shows on the far side of the graph that, over the period 2012-13 to 2017-18, demonstrates that Tasmania spent \$237 per capita more than the national average on Health. We have taken the trouble, because of these erroneous claims out there in the public, to spell it out clearly in the Treasury submission. If you want to question Treasury's integrity that is one thing, but it is there for the committee to take on board. I have paid scant attention to the submissions that have been made by that particular individual because there have been a lot of erroneous statements made.

Mr VALENTINE - Okay.

CHAIR - Going to that table you are referring to, table 2 on page 7 of the Treasury submission, you can see there the figures for 2015-16 to 2017-18. It is interesting that we do not hear an argument mounted that we are underspending in Education - as broadly as we are overspending in Education, we are over - the assessed is \$2.341 million, the actual was \$2.394 million, but the equal per capita was \$2.160 million, so it is interesting there seems to just be a focus on Health really.

Mr GUTWEIN - By one particular commentator.

Mr VALENTINE - It is 2.26 per cent higher.

Mr GUTWEIN - I will make the point on the submission that you have received from Treasury in terms of the process of the Commonwealth Grants Commission goes through, they go through a mathematical construct. If you take the time to have a look - as I have done in recent weeks - at the equations that are utilised by the CGC, the data that is on their website and the process that they go through are quite extraordinary, but they make the point quite clearly that the assessments they do are not pointing to what the state should do. What they are doing is collecting data and they come up through a mathematical construct with a set of numbers - that is it.

Mr VALENTINE - They are not dictating what states should spend is what you are saying?

Mr GUTWEIN - They are not dictating and they caution against people using that data to attempt to make the point that that is what a state should spend. Quite clearly, the Commonwealth Grants Commission makes those statements.

Ms LOVELL - On that, Treasurer, you have said a couple of times the Commonwealth Grants Commission says itself that this mathematical construct it has determined shouldn't be used as, I guess, an instruction on how much a state is to spend towards any particular category. I have been looking at its website myself. What it says is that, the Commonwealth Grants Commission has derived, from data, an Australian average standard of service for each service sector. The commission then looks at the fiscal capacity of each state, so what it is capable of raising from its own revenue sources and what it receives from the Commonwealth in specific payments, and

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identifies the funding shortfall that each state has between its fiscal capacity and what it would require to be able to provide that Australian average standard of service.

The aim of HFE is to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same standard of service as every other State. Our work should not be understood as identifying the desired level of spending that each State should fund for particular services.

I accept what you are saying.

Mr GUTWEIN - Thank you.

Ms LOVELL - It says it is not an instruction or saying that you should spend a particular amount of money, but what it is saying is that its data and the calculations it has developed determine the amount of money or funding that a state should be spending to achieve the Australian average level of service in terms of outcomes.

We talk about Health because Health is in the spotlight quite a bit. This is an example that's raised when we talk about the Commonwealth Grants Commission on a number of occasions because I would hazard a guess that's because people can see quite clearly from health data than in a lot of areas we're not achieving that Australian average level of service.

I'm asking this question because I'm not a Treasury official, I don't understand a lot of this stuff. All I can do is read the information and ask the question, so that's what I'm trying to do. My two questions to you are:

First, do you think we are spending enough money in Health to achieve the Australian average level of service?

Second, given what you've said this afternoon, what is your understanding of the point of this scheme if it's not to give some guidance around how much money is required to spend to achieve that level of service, the Australian standard average?

Mr GUTWEIN - Let me work back from that. The assessments that the CGC uses are quite directly from the Treasury submission. They are designed to ensure that if each state made the same effort to raise revenue from its own sources and operate at the same level of efficiency, that in terms of their assessment each would be able to provide the same level of service. They don't take into account whether you're efficient or inefficient. They don't draw those judgments. In terms of revenue, obviously the same assessment indicates that we are well below the level of revenue-raising capacity of other states.

I come back to the point of what we attempt to do as a government. Every year we have increased the level of spending on Health, in fact, substantially more so than when I first became Treasurer.

Ms LOVELL - Probably every government in the country could argue that.

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Mr GUTWEIN - Not in terms of the percentage share of the budget. If you consider where we were when the previous government was here before us and the level of spending - my understanding is that in 2013-14 around 28 per cent of the total expenditures across the budget and forward Estimate years were spent on Health. Now, it's around 32 per cent. We are increasing the level of spending quite dramatically in terms of our overall expenditures.

If you've got a view that as a policy choice we should remove funding from a particular area, then that's a matter for the committee to suggest, if you want the percentage to go higher.

Ms LOVELL - I guess that comes down to the crux of it and, with respect, Treasurer, percentages of budgets, bearing in mind there are many people in the community watching this inquiry and will be reading the *Hansard* of these hearings and looking at the final report of the committee, trying to keep it as simple as we can for people who are not exposed to this level of detail of budgets and Treasury jargon, I suppose, as some other people at the table might be.

What I'm taking away from what you've said is that there is a calculation done that determines that this is the amount that would be required to achieve the Australian standard. It's not an instruction. The Commonwealth is not saying that's where we should spend the money. Then it comes down to the priorities of the government of the day as to whether they choose to spend that money on Health or on another service category. Is that accurate?

Mr GUTWEIN - I think in terms of any service category, the government of the day could spend more or less -

Ms LOVELL - So, it's a decision of the government of the day?

Mr GUTWEIN - Excuse me. What we've done as a government compared to when Labor and the Greens were last in government, is consistently increase the level of spending each year.

Ms LOVELL - That's not what we're talking about, Treasurer.

Mr GUTWEIN - We are putting a substantial amount more, almost 4 per cent of our overall budget, into Health this year and over the forward Estimates compared to what was occurring under the previous governments. If your question is, do we care about health and are looking to invest more into health? Yes, is the simple answer.

Ms LOVELL - No, that was not my question.

Mr GUTWEIN - If the committee wanted to, I encourage them to go back and have a look at what was occurring under the previous government, at the years when the previous government was not even spending above the national average.

Ms LOVELL - Treasurer, with respect, we are not talking about the previous government. We are talking about your Government, which has had control of the budget for five years.

Mr GUTWEIN - I am just trying to get an understanding of what the committee's actual role is and what it is attempting to do, Ms Lovell.

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Ms LOVELL - I think the Chair explained. It is a complex matter.

Mr GUTWEIN - Whether this is just a political opportunity or whether or not you are actually prepared to have a look at what has occurred. I would have thought any report from the committee should clearly point out under this Government - in the time since I have been Treasurer - we have consistently increased the level of spending over and above what was spent under the previous government to a level to where we are now the second highest spending state in terms of a percentage share of its budget. I would have thought that is something the committee report -

CHAIR - I do not want to get bogged down on this because there are other areas I want to go to.

Ms LOVELL - One last question. No, I can come back to that.

CHAIR - Just following up, Treasurer, in the Treasury submission on page 7, it says:

The services to industry category cover state spending on the regulation and development of businesses and industries and other economic affairs because state expenditure on the business development and economic affairs are highly policy influenced, the Commonwealth Grants Commission does not assess and treats it as equal per capita. However, regulation expenses for agriculture, including forestry and fishing and other industries are assessed.

It is not easy for people to follow and understand.

I would like to ask you a question on the next small paragraph:

Tasmania's actual expenditure on service to industry category is 50 per cent higher than assessed. The highest spending compared to the CGC's assessed spending could reflect policy choice because of the importance the government places on the agriculture and tourism industries.

That statement indicates to me policy decisions do play a part in where you might spend more, as in services to industry in which you spend more than the assessed and significantly more than a national equal per capita.

Mr GUTWEIN - I am not sure if Treasury provided their view on that.

CHAIR - It is a policy question.

Mr GUTWEIN - The CGC separates support to industry that might be in the form of grants and other support, as opposed to regulation. I think that has been made clear to the committee.

CHAIR - Yes.

Mr GUTWEIN - You might have even asked Treasury to provide further advice on that particular issue, I am not sure.

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CHAIR - Treasury officials cannot talk about policy.

Mr GUTWEIN - The point I wanted to make is we do not have the scale other states do, but we are expected to have the same level of regulation and legislative framework around our industries. For example, in terms of biosecurity, we have to have the same framework for a much smaller state compared to a much larger state, and have the same level of regulation. So, scale comes into this. You could argue -

CHAIR - Treasurer, to take you back to the comment in the submission where it talks about policy, I did not pursue this policy question with Treasury officials. It is not their job to answer that and is why I appreciate you coming along. It is said the higher spending compared to the CGC's assess spending could reflect policy choice.

Mr GUTWEIN - It could. Again, we do not have the scale. In terms of those industries, we are expected to have the same level of regulation. The point I would make is, we could make a policy choice and wind back the level of regulation but this would expose our industries and our state to other challenges.

CHAIR - I would like to take you to page 9 of the Treasury submission, table 3. I appreciate the response Treasury officials were able to provide in relation to a couple of these rather nebulous areas which were hard to fully understand, being: depreciation, assessed expenditure, and other revenues. I note from their response, because the Australian Capital Territory rates form part of the Australian Capital Territory revenue, rates are included for all other states. In other revenue on an equal per capita basis -

Mr GUTWEIN - I do not have Treasury's response in front of me so I am going to find it difficult. We are on the same page. I did not realise you were asking me here to talk about Treasury's most recent submission or response to the committee.

CHAIR - We are talking about the revenues. The rates in Tasmania are about \$500 million per annum. One would expect, when you look at these figures in table 3, the bulk of that other revenue in the table refers to rates. Which is fine - I am not saying there is a problem there. I am interested in why our assessed revenue is 20 per cent less than average. What makes Tasmania different in this when we are taking into account similar things?

Mr GUTWEIN - Our assessed revenue overall?

CHAIR - Yes.

Mr GUTWEIN - It is probably easier to look at payroll tax as an example and the assessment that would be conducted there. We do not have the same opportunity to raise payroll tax to the levels of other states. They have larger businesses, larger payrolls. In some cases, they have higher wages, as I know you have explored with Mr Eslake at different times. Our revenue raising capacity is not as high.

I had a look at revenues only this afternoon to refresh my memory. The current taxation system we have state taxes has delivered, albeit transaction-based, about a 23 per cent increase in state revenue over the period since I first became Treasurer. Whilst the budget this year will be about

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\$1.2 billion for state revenue being raised, when we came to government it was around \$980 million. It is a transaction-based system and lots of people argue for broadening the base and doing a whole range of things, but it actually works in a growing economy.

As a Treasurer I would love to have more revenue, but the current system is serving us reasonably well. Apart from the fact we lack scale in a number of areas.

CHAIR - Moving on. I notice the sales of goods and services form a decent part of our own source revenue, which is offset against expenses. We have been informed equity injections into government businesses are not considered. What does this mean for Tasmania where some capital grants come in, like to TasRail and TasIrrigation, and are spent. After equity injections into state-owned companies. Are these grants included in the grants in table 3?

Mr GUTWEIN - My understanding is they would be.

CHAIR - Particularly, in terms of the infrastructure grants offered. Particularly TasRail which actually is infrastructure.

Mr GUTWEIN - Yes. My understanding is they would be, yes.

CHAIR - Okay, so they come in as an expense. But then, when it is an equity transfer, they do not go out. Does that distort it somewhat?

Mr GUTWEIN - That is a very technical question and one perhaps I could seek advice from Treasury and we can get back to you?

CHAIR - What I am looking at is, rather than going to TasIrrigation, which is a state-owned company, or GBE, or whatever that one is?

Mr GUTWEIN - Those grants would flow through the general government sector. But, as you say, the expenses, in some cases will be received as -

CHAIR - That is right.

Mr GUTWEIN - equity as opposed to a direct grant transfer. Some can be treated or dealt with both ways. Some years ago, for example with TasRail, received both a combination of grant and equity transfer. It is broadly equity transfer, because it is generally into infrastructure and below rail. Again, it depends on the treatment of the particular grant, what it is for and what it is expended to end up. In terms of your question, we will have an answer for you on that.

CHAIR - Okay. Along those lines, because we are looking at money coming into a government business, if, for example, the DPIPWE had the responsibility for investing in the infrastructure for irrigation, being relevant to their area, would it be treated the same?

Mr GUTWEIN - In terms of the Commonwealth grants, I'll need to seek advice. I don't know if Fiona is in a position where she can provide that now - I think we'll respond in writing.

CHAIR - Thank you.

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On page 2 of the response, and this relates to table 3 as well, depreciation as assessed is based on the notional amount of infrastructure, that we need to provide an average level of infrastructure. If actual depreciation is less, does this mean that our actual level of infrastructure is less than what would be needed to deliver the average level of service?

Mr GUTWEIN - I am just looking to see. Treasury didn't cover that, Ruth? I am just surprised; if you want that level of detail I am happy to have Treasury provide it. I don't want to take us into an area that at the end of the day is highly complex, as you have noted. When Treasury people have been here, if there are questions of specific detail, I think it is best that we have Treasury and the experts answer those.

CHAIR - Okay. What I am looking at is the investment in infrastructure particularly. We know that over many years we have, and you yourself this year again have said we have a record infrastructure spending in the budget. But the reality is we often don't spend what has been budgeted, for a range of reasons; sometimes it is because the project is not ready or the weather is bad or whatever it is, but it is a consistent pattern and in some years it's greater than in others. When you look at the difference there, I'm trying to understand the difference here. The actual investment is \$60.2 million; the assessed is \$144.4 million, with a difference of \$84 million there, which is roughly what our underspend is most years in budgets, for whatever reason - the budget versus actual. Is that why we are seeing this as part of the assessment of the Commonwealth Grants Commission?

Mr GUTWEIN - Again, this is a mathematical construct. Certainly, from my point of view, the aim is to increase the amount of infrastructure spending that is getting out the door - and historically, it has been challenging, both for this Government and previous governments, to spend its infrastructure. I must admit I am pleased this year that there has been about a 35 per cent increase in infrastructure spending over the previous year, which is quite a step up. In terms of the Commonwealth grants assessment here, that is more properly a question that Treasury can answer, but it is only a mathematical construct.

CHAIR - You have the fiscal strategy that requires investment in infrastructure at or above depreciation.

Mr GUTWEIN - Which, to be honest, we have certainly significantly exceeded most years.

CHAIR - You would hope you would, otherwise you are actually going backwards.

Mr GUTWEIN - You have to maintain your stock of assets; we have a significant stock of assets. We have met that fiscal strategy each year, certainly while I have been Treasurer.

CHAIR - If you don't have a view on this question if it's a Treasury thing - the Commonwealth Grants Commission assessed the level of infrastructure required to deliver an average level of service - which is what all these mathematical construct outcomes are - from your view, why is the actual different from the assessed in the area of infrastructure?

Mr GUTWEIN - You can't cherry-pick from their assessment; it is all a mathematical construct. That is a question you probably should more properly put to the Commonwealth Grants

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Commission. Treasury can provide some further detail if you want. I think they would agree their assessment is not perfect, but it's a system they use that is robust from their point of view. From the point of view of the state, we make no decisions based on what the Commonwealth Grants Commission suggests as per that table - that's not its role. In terms of why it has arrived at that, that is probably more properly a question that you should ask the Commonwealth Grants Commission.

CHAIR - So do you believe they are investing enough in infrastructure?

Mr GUTWEIN - I certainly believe it at the moment, yes, I do. We maintain our stock and with a growing population we have taken a step up in the level of infrastructure investment that we are making. In some quarters we have been criticised for that, but I'm firmly of the view that right now is the time to increase that level of investment, especially in the intergenerational space, which is largely where the state Government operates.

Mr VALENTINE - Can I ask a fundamental question about the depreciation? For instance, take the Midland Highway, it's \$500 million at the end of the day, isn't it, something like that?

Mr GUTWEIN - Around that, yes.

Mr VALENTINE - That's a heck of a lot of infrastructure going in there like those median barriers and the side barriers, the post and wire barriers - you have seen plenty of them, many of them. From a depreciation perspective, is the state actually making allowances for that sort of depreciation? They are not going to last forever and there is a heck of a lot of infrastructure there for the future.

Mr GUTWEIN - I am not sure whether that would be classed as depreciation or if it's just picked up as maintenance. There is a standard for the depreciation rate for roads and that type of infrastructure that I can have Treasury provide.

Mr VALENTINE - I am interested when that figure of \$500 million is bandied around, whether it takes into account the cost to the state for maintenance, or are you expecting that that will come back from the Commonwealth in some form?

Mr GUTWEIN - No, in fact that's the capital construction cost into that road and then to manage that into the future is the responsibility of the state. As a depreciating asset over time it will require significant maintenance.

Mr VALENTINE - I suppose the fundamental question is, do you know how that's taken into account in GST payments?

Mr GUTWEIN - I think that's a technical question that would need to be referred to Treasury.

Mr VALENTINE - I would be interested, if it's possible to get an answer to that.

Mr GUTWEIN - I thought they had provided you with quite a bit on depreciation.

CHAIR - There is some commentary.

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Mr VALENTINE - Yes, on this latest one, but I am not sure if it takes into account those sorts of components.

CHAIR - What is your specific question then?

Mr VALENTINE - It's just about the kilometres and kilometres of barrier fencing on the major highway when it comes to GST assessment in the infrastructure space, whether that sort of maintenance cost - it is going to require maintenance; people run through them and do all of those sorts of things - is actually working against the government, or whether it's going to be taken into account in GST payments further down the track.

Mr GUTWEIN - From an expense point of view, if the barriers had been solid then the capital cost would have been higher or there would be fewer kilometres of road built.

Mr VALENTINE - But their depreciation would be less because it would be a longer period.

Mr GUTWEIN - No, depreciation would still be based on the depreciation rate for a piece of national highway, but we can check whether the ongoing maintenance is picked up in the costs associated with depreciation or whether it's another cost over and above.

Mr VALENTINE - And whether or not it works against or for the state that that sort of infrastructure is put in place which has a shorter life than a more solid barrier than what you have. That is all I am interested in.

CHAIR - The expenditure is what you are talking about, isn't it, Rob, in relation to roads depreciation and investment?

Mr VALENTINE - It's a cost that's provided by the Commonwealth, but in providing that hard infrastructure it might actually be detrimental to the state because they are putting those sorts of elements in it that have a comparatively shorter life than the pavement itself and other forms of safety.

Mr GUTWEIN - We can get you some advice on that.

Mr VALENTINE - I am interested in whether it works against us or for us to be putting that sort of infrastructure in place.

Mr GUTWEIN - Whether it is a hard barrier or a rope barrier, it saves lives -

Mr VALENTINE - I am interested from the GST perspective.

CHAIR - The road and all the roadside furniture depreciate as a combined asset, they are not depreciated separately?

Mr GUTWEIN - I imagine they would be the one asset, but I will seek advice.

Ms WEBB - We were talking about services to industry earlier, Treasurer. You gave a good example of achieving an outcome being different to level of expenditure and that we face a

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challenge of scale, for example, in relation to regulation of services to industry and that might be the explanation for -

CHAIR - Do you have the submission, Treasurer?

Ms WEBB - I am looking at page 7 of the submission. I am reflecting on the things you mentioned earlier when we talked about this. You highlighted that scale is a potential factor in us spending above what was assessed that we might spend to achieve the outcome that is required in that area. I imagine other states could spend less because of fewer challenges of scale. If we applied that same thinking to Health, why would we see a different picture? Regarding scale in our state, a lot of the health challenges we face would also be because of scale and elements of that meaning that expenditure is not necessarily the best indicator of achieving an outcome. Perhaps that is why it is assessed by the Commonwealth Grants Commission that we would need to spend considerably more in Health to achieve those national averages. Do you think that applying that thinking to scale might mean we could look at both those areas in that same way?

Mr GUTWEIN - I am trying to ascertain what the question is. I will come back to my starting premise. What is before us from the Commonwealth Grants Commission, whether it be services to industry, infrastructure, depreciation or spending on Health, is simply a mathematical construct that they run. That needs to be understood. In looking at any outcome in making any determination regarding what they assess versus actual, you have to give credence to the fact that it is more than simply a mathematical construct. The advice I have received from Treasury, my view and that of the other treasurers is that, at the end of the day, that is all it is. It is the best that they can do in the task they have been given, they apply their processes and this is what comes out. As to whether we are spending more in services to industry - I did make the point that scale might be one of the reasons - but that is an assessment that the Commonwealth Grants Commission makes, not me.

CHAIR - They do take scale into account and things like our payroll tax, which you referred to earlier -

Mr GUTWEIN - They do, they are not completely divorced from all processes but it is a mathematical construct -

CHAIR - That takes into account the scale issues and wage issues.

Mr GUTWEIN - That is a matter for them, not for -

CHAIR - They make a determination based on those assessments, Treasurer.

Mr GUTWEIN - No, they provide their view and they make a recommendation as to what a state's relativities should be. I refer back to what was said when Treasury representatives were here, across the board, it is to ensure that the states have equal financial capacity to provide the average level of services in aggregate. In terms of what they are looking at, that is the outcome that they are seeking, but it is a matter for the government to make its choices and its expenditure commitments. The Commonwealth Grants Commission quite clearly -

CHAIR - After taking into account all our disability -

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Mr GUTWEIN - We might argue that we have more disabilities that they should take into account.

CHAIR - Have you ever tried to do that?

Mr GUTWEIN - I am certain that when we make submissions to the Commonwealth Grants Commission, we argue very strongly in terms of those matters that they should -

CHAIR - Which particular disabilities do you raise?

Mr GUTWEIN - Again, if you look at the Commonwealth Grants Commission website at the moment, there are a range of submissions we have put on there. I refer you to those. But the term of reference we have been speaking about, I want to clearly make the point it is a mathematical construct.

CHAIR - It is a construct that takes into account our disability before they spit out the figure.

Mr GUTWEIN - It is a mathematical construct which even the CGC cautions is not them directing states in terms of how they spend. I have the sense from the committee in what is influencing it. Be very cautious in terms of the public commentary going on of what we spend on Health. The Commonwealth Grants Commission assessments are not designed for that.

Mr VALENTINE - How much use to you are the calculations the Commonwealth Grants Commission makes? How much use do you make of this when you are setting your own policy positions? It must be of some use to you.

Mr GUTWEIN - To be honest it is not. It is a mathematical construct.

Mr VALENTINE - I appreciate it is a mathematical construct.

Mr GUTWEIN - That is what it is. It is not about guidance. It is about how they have compiled their view in terms of what is occurring across the country. Our role as a government is to respond and react to the needs we have directly in front of us. We have been doing that. And that is why, under this Government, we spend substantially more than what was spent under the last government in terms of our overall spend on Health.

CHAIR - We will come back to Health, because that is where we seem to keep coming back to -

Mr GUTWEIN - Only because the committee has consistently taken me to that point.

CHAIR - Regarding your submissions to the Commonwealth Grants Commission and your identification of the level of disability we have in this state, in the area of Health what do you see are the key disabilities they may not be adequately considering?

Mr GUTWEIN - I would have to refer back to the submissions. But it is across the board. When I looked most recently at what was on the Commonwealth Grants Commission website - in fact, I had them printed out. I looked at them in the last couple of days. I think there was

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infrastructure - can you just bring up the submissions we have there and we can raise them with you?

CHAIR - I am interested in the areas of disability in Health that you think may not be being fully considered or adequately understood.

Mr GUTWEIN - Ruth, I did not just make the point about disability in health, I meant the point about disabilities overall. Treasury will always argue for a position that is going to provide the state with more funding, as they should.

CHAIR - Yes, we expect you to do that.

Mr GUTWEIN - As they should.

CHAIR - My question, Treasurer, and I will ask it again -

Mr GUTWEIN - I do not have that advice in front of me. These are a sample of what is on the commission's website. I refer the committee to those.

CHAIR - In your view, what are the areas of disability that Tasmania faces particularly, that put us in a more difficult place to deliver health services - I could list you a heap of them - education, infrastructure, the big-ticket items that take a fair slab of the budget?

Mr GUTWEIN - Ruth, it is commonly understood that we have an ageing population, we have a range of disabilities in terms of preventable disease, there are issues of dislocated communities. All of those matters and matters like those are things are argued when Treasury has -

CHAIR - These are not new things Treasurer. You alluded to the fact there are things maybe the Commonwealth Grants Commission should take in -

Mr GUTWEIN - No, I said and again I refer you to the papers on the Commonwealth Grants Commission website.

CHAIR - You believe the Commonwealth Grants Commission fully understands our level of disadvantage, particularly with our ageing demographic, our higher than average incidents of chronic disease, and all those things?

Mr VALENTINE - Older, sicker and poorer.

Mr GUTWEIN - I believe that Treasury has done its job well, both under this Government and previous government. This is not a new concept. They have been arguing these things for the last two decades Ruth, you understand that.

CHAIR - Yes. But my question is do you feel the Commonwealth Grants Commission understand how tough it can be in Tassie?

Mr GUTWEIN - As a treasurer, I would always like to see more money. I am sure all of us would. But that is there process and their construct.

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Ms WEBB - Just to clarify, you feel that their mathematical construct adequately recognises those disability factors Ruth was alluding to there?

Mr GUTWEIN - What I believe is they run through a process and they arrive at an outcome. As Treasurer, I would always like to see more untied GST, but I am confident Treasury puts forward a very strong position for the state each and every year in these matters.

Ms WEBB - Which would make the mathematical construct relatively robust in reflecting our circumstances and the needs we would have?

Mr GUTWEIN - No, what it would do is ensure that the Commonwealth Grants Commission has a good understanding of the view of the state Treasury in those areas we might need additional support.

Ms WEBB - So we could be given confidence in the mathematical construct that they -

Mr GUTWEIN - I am not going to be taken down the path again. You either -

Ms WEBB - You are the one who has asserted it is a mathematical construct and this is just towards whether it is one we can have confidence in.

Mr GUTWEIN - You either believe what Treasury is suggesting and take the Commonwealth Grants' view of how you should use these numbers, or you don't. By the sounds of it, you are not going to do that, so it is a matter for the committee.

CHAIR - We will move onto the second term of reference.

Ms WEBB - I do not really like having it asserted about what I am or are not doing on the committee. We can move on from that.

Mr GUTWEIN - You have just been asserting a range of things.

Ms WEBB - Actually I have not, Treasurer, personally. I have not been sitting here asserting.

CHAIR - Treasurer, I think you have asserted a few things about my beliefs too, so let us let it rest, shall we?

Mr GUTWEIN - That is a matter for the committee, isn't it?

CHAIR - The second term of reference, the impact of direct Commonwealth payments on Tasmania GST receipts, we know from time to time payments are fully quarantined or special deals are done, or however you want to refer to it. For example, we know the funding for the Royal Hobart Hospital was not quarantined at all; Midland Highway is part quarantined, part not. Do you have a view on whether there should be the ongoing quarantining in terms of the impact on the federation as a whole? What is your overall view on how this is dealt with?

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Mr GUTWEIN - I think funding commitments are significant and impact on the state would be quite detrimental. The Royal Hobart Hospital is one, by all accounts that should have been quarantined, because it has a significant impact. The Mersey Hospital was quarantined. The most recent outcome in housing and housing debt, the impact of that will be quarantined. Again, that will be -

CHAIR - That is dependent on the federal treasurer responding.

Mr GUTWEIN - I am certain he will - and will depend on the accounting treatment. There are some large moving parts, there are debts being forgiven, payments from the state and how they qualify that. From the point of view of GST, I am firmly of the belief that should be quarantined. We should not lose money into the future and I believe it will be quarantined. The point of quarantining of payments, as long as it is applied consistently -

CHAIR - You mean for all states?

Mr GUTWEIN - For all states, and Treasury is of the view and I tend to agree, there should be as little quarantining as possible. There are special cases when there are large spending commitments made that would detrimentally affect this state or conversely for other states.

I noted, and I am not sure if I read it in an opinion piece or whether it was part of the transcripts, but some commentary about what happens at elections times and when funding is provided for a particular commitment of x and whether or not there should be some consideration taken as to what the GST implications might be. At election time, this happens in every state. Whilst there are commitments that will be equalised through that process, and we will lose funds back into the pool through the equalisation process, in other states, if I use the example - I think there was one in the paper - where Tasmania receives \$100 million and all we get to keep is our per capita share, which is around 2.1 per cent, and the rest is then equalised away over time. Other states are receiving commitments, in some cases, worth billions of dollars. They will receive their per capita share, but then the rest of that grant is equalised back through the GST process. As long as it's dealt with equitably, I'm not all that concerned about it.

CHAIR - If you take the forgiving - if you want to use that term - of the housing debt as an example, from what I have seen and there may be other examples of it I am not aware of, where normally the grants that are forgiven are grants, they are money coming in. You get it in a big lump sum, like the Mersey money, for example, and it's quarantined. Whereas this is a forgiving of a debt, which means you are not actually giving money back to the Commonwealth that's ours - sort of. How does that work in terms of quarantining? Do you understand the mechanism around that?

Mr GUTWEIN - In forgiving a debt, it is my understanding this could have an impact on the Commonwealth's operating statement, which then could be pointed to Tasmania as being the reason for that in the same way that a grant expense would appear in the Commonwealth's operating statement. Again, it would be a matter for them and the accounting standards how they present it, but we wanted to ensure that there would be no impact on Tasmania, regardless of how it was presented.

CHAIR - It's a bit of a complicated piece of work to be done, potentially, making sure that it is actually quarantined and it doesn't slip back in through some other process.

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Mr GUTWEIN - I think the signature from the federal Treasurer will fix that and I'm confident it will.

CHAIR - I don't quite remember what your words were, but you made the point that ideally there wouldn't be too much quarantining because notionally it undermines the whole system. Are you aware of any other areas, even other states, that have had quarantining that has been of smaller amounts, or is it only really the big-ticket items that this falls into?

Mr GUTWEIN - There can be some smaller amounts; I think one that the state received recently was for biosecurity response -

CHAIR - The response to the fruit fly incident?

Mr GUTWEIN - For this state, they would be the major items, certainly whilst I have been Treasurer. I can certainly get you a list of those that have impacted Tasmania.

CHAIR - That would be helpful. There is probably a fairly recent list in the Commonwealth Grants Commission report.

Mr GUTWEIN - There should be.

CHAIR - An updated list would be more helpful as it's a more current one. On what basis was the biosecurity response to the fruit fly quarantined?

Mr GUTWEIN - It was seen as important at that time. That was a request that was made by I think the then environment minister that if we were to receive funding for that particular purpose, it be quarantined and that was agreed.

CHAIR - The state environment minister?

Mr GUTWEIN - Yes, I think it was, I would have to check that. For obvious reasons, if something is quarantined then it works in our favour.

CHAIR - It does, but if you see that happening in other states, say, one of the other states has this not very big issue and it seeks a quarantining of that grant, then we lose.

Mr GUTWEIN - I accept that. That's where Treasury's view and mine would be that where possible, quarantining be kept to an absolute minimum, just on those where there are significant impacts.

CHAIR - Do you as the Treasurer make that request for quarantining or is that another minister, like the Environment minister in this case?

Mr GUTWEIN - In terms of individual arrangements, I would make the request or the Premier would on behalf of the Government. What recently occurred with the housing debt was something discussed by the state government of what we would need to see as pre-conditions, quarantining was one of them and delivered through discussions with the housing minister.

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CHAIR - Okay. Any other questions from any members on this?

Mr VALENTINE - On page 7 of the Treasury submission, it is an interesting picture it paints of the national average. If you take the national EPC as it is called in that table, as the base of our actual expenditure, it paints a very interesting picture. Schools and education - we are spending 10.85 per cent higher; post-secondary education we are 33 per cent or more lower; health, 11 per cent higher.

CHAIR - We have discussed this already, Rob. Is there any specific question?

Mr VALENTINE - I know but I am looking at services to industry and services to communities and they seem to be really out of whack. In fact, we are only spending in services to communities 33.4 per cent of the base figure. That is a huge difference. Do you have any comment on why services to industry is 61 per cent higher?

Mr GUTWEIN - I do and the processes have been explained by Treasury -

Mr VALENTINE - Its policy though. I am talking about the policy aspect.

Mr GUTWEIN - No, I think the reason again, is the way the Commonwealth Grants Commission assesses services to communities across the country. In larger states there are many remote communities where there are significant costs associated with providing them with basic services such as electricity and other services. In Tasmania, we provide services to the Bass Strait islands for electricity, but you know the rest of our remote locations in Tasmania receive the same price for electricity as anyone sitting in this room would. We do not have the same issue to deal with some of the other larger states do. Fundamentally the -

Mr VALENTINE - It was just those two - services to communities and services to industry - that stuck out. I was interested to know why we would be so far behind the national average on services to communities and yet over on services to industry.

Mr GUTWEIN - The services to communities, again is part of - has Treasury provided some feedback on that?

CHAIR - Yes, they have, there is also more in the submission there.

Mr VALENTINE - There is a heck of a lot of these lower and I was interested in that aspect before you went. Anyway, you have given me what you have given me.

Mr GUTWEIN - It actually touches on it in the submission of geographical dislocation and isolation.

Mr VALENTINE - Thank you.

CHAIR - Otherwise, we are going back over what we covered.

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Mr VALENTINE - I know we covered it before, but I did some percentages and thought they are so high and different, what was the policy reason behind that.

CHAIR - Thank you, Treasurer. We do appreciate your time coming before the committee. The motivation of the committee is to try to put together a coherent report about what it actually is, how it actually works in a fairly complicated area that is a mathematical construct yes, but it has all sorts of other important learnings in it for everybody. People often wonder how it works and we are trying to understand ourselves and inform the public.

Mr GUTWEIN - I would just like to make the point again that I hope the committee is fair in its final report of the fact as a state we do and have spent more than our per capita share on health, every year I have been Treasurer. If you look at the percentage of our budget, that has significantly increased since we came to government. If you are interested in looking at this more wholesomely, you should look back at the previous government as well.

CHAIR - Treasurer, if you draw us to report on the above equal per capita funding on Health each year, surely we should also note there are areas where Tasmania has spent less than the equal per capita assessment.

Mr GUTWEIN - That's a judgment for you and I'd refer you to -

CHAIR - In terms of suggesting how we might approach our report.

Mr GUTWEIN - I feel that this is a very politically motivated committee.

Mr VALENTINE - It's not from my perspective, Treasurer, certainly not from this end.

CHAIR - That is completely wrong, Treasurer.

Mr GUTWEIN - Well, I'm sorry, but that is my view of it, to be frank.

CHAIR - That's very disappointing of you, Treasurer.

Mr VALENTINE - We are trying to understand as much as anyone else.

Mr GUTWEIN - Very good.

THE WITNESSES WITHDREW.