



**Legislative Council Sessional
Government Administration 'A' Committee**

***Inquiry into the impact of the Commonwealth Grants
Commission Horizontal Fiscal Equalisation System in
Tasmania***

MEDIA ADVISORY

24 August 2021

The Legislative Council Sessional Government Administration Committee 'A' (the Committee) Inquiry into the impact of the Commonwealth Grants Commission Horizontal Fiscal Equalisation System in Tasmania has today tabled its Report. The Report is available on the Parliament of Tasmania website at:

https://www.parliament.tas.gov.au/ctee/Council/GovAdminA_CHFE.html

The progress of this Inquiry Report was impacted by the COVID-19 pandemic, when other matters took priority and by the early calling of the State election in March 2021.

The Committee undertook this inquiry seeking to better understand the complex nature and application of the principle of Horizontal Fiscal Equalisation (HFE) and the impact of direct Commonwealth payments on Tasmania's GST receipts. The Committee also sought to respond to public commentary particularly related to the adequacy of funding health services.

The complexity of the HFE system has increased over time adding to the challenge for those seeking to understand its application and impact on the States revenues. The Commonwealth Grants Commission (CGC) utilises a HFE process to assess the relative fiscal capacities of each of the States thus deriving an Australian average standard of service for each service sector. The CGC assessed amount and the State's actual expenditure amount can vary for a variety of reasons as outlined in the Report.

The Government provided explanations of differences between actual and assessed amounts of some categories; an explanation was not provided for the differences between actual and assessed expenditure amounts for health. Rather, the Government noted the State spends above the national per capita average in delivering health services. These measures are not comparable, thus making an accurate assessment of comparable expenditure on health services with other States difficult.

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With regard to Commonwealth funding or payments for specific purposes (PSP's), the Committee noted funding that is not quarantined from CGC assessment processes has a potential negative and distorting impact on future untied GST revenue to Tasmania, effectively forgoing untied GST revenue over subsequent years in exchange for tied Commonwealth funding.

In light of the complexity of this important area and its potential impact on the State's fiscal position, the Committee recommends the Government provide user-friendly information to assist Tasmanians in understanding the relationship between Federal and State Government grant funding. The Committee further recommends the Government publish an annual summary in response to each CGC update.

With regard to Commonwealth funding or payments for specific purposes, the Committee recommends the Government support the judicious use of quarantined payments and the use of strict and principled guidelines for this use.

Please refer to the attached Executive Summary and Recommendations for detailed information.

Interested parties are invited to contact the Inquiry Chair, the Hon Ruth Forrest MLC, for any further discussion or clarification regarding this Report.

MEMBERSHIP OF THE INQUIRY COMMITTEE

FORTY-NINTH PARLIAMENT

Hon Ruth Forrest MLC (Inquiry Chair)
Hon Mike Gaffney MLC (Inquiry Deputy Chair)
Hon Kerry Finch MLC *(to 31/07/2020)*
Hon Sarah Lovell MLC
Hon Rob Valentine MLC
Hon Meg Webb MLC *(from 23/05/2019)*
Hon Josh Willie MLC *(to 23/05/2019)*

FIFTIETH PARLIAMENT

Hon Nick Duigan MLC
Hon Ruth Forrest MLC (Inquiry Chair)
Hon Mike Gaffney MLC (Inquiry Deputy Chair)
Hon Sarah Lovell MLC
Hon Dr Bastian Seidel MLC
Hon Meg Webb MLC

For further information— Hon Ruth Forrest MLC, Inquiry Chair on 0419 879 524

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EXECUTIVE SUMMARY

The Legislative Council Sessional Government Administration Committee 'A' (the Committee) undertook this inquiry seeking to better understand the complex nature and application of the principle of Horizontal Fiscal Equalisation (HFE) and the impact of direct Commonwealth payments on Tasmania's GST receipts. The complexity of the HFE system has increased over time adding to the challenge for those seeking to understand its application and impact on the State's revenues.

The intent of this Inquiry has been to seek clarification as to the matters noted in the terms of reference:

To inquire into and report upon the impact of the Commonwealth Horizontal Fiscal Equalisation (HFE) system as assessed by the Commonwealth Grants Commission (CGC) as it applies to Tasmania's expenses and delivery of services with particular regard to:

- 1. Tasmania's assessed and actual expense per capita per category compared to the National average expense per capita per category; and*
- 2. Impact of direct Commonwealth payments on Tasmania's GST receipts.*

The progress of this Inquiry Report was impacted by the COVID-19 pandemic when other matters took priority, and by the early calling of the State election in March 2021 for 1 May 2021, thus dissolving all Parliamentary Committees. The Committee was re-established on 24 June 2021 and this Report finalised.

In responding to the complexity of this area the Committee has provided a summary of the history and a glossary of key terms and concepts to assist readers. The Report should be read in its entirety to gain a more thorough appreciation of the key aspects of the Commonwealth HFE System and the impact this has on Tasmania's expenses and revenues in relation to the delivery of services by the State.

The CGC utilises a HFE process to assess the relative fiscal capacities of each of the States. Through this process the CGC derives an Australian average standard of service for each service sector. The CGC then considers the fiscal capacity of each State, identifying any

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

This approach seeks to provide each State with the fiscal capacity, through the distribution of GST revenue, to provide the same (average) standard of service as every other State. The derived amounts are for the purpose of identifying relativities between categories and between States which is the cornerstone of the HFE system. This process is further described in this Report and on the CGC website.

The Committee notes the CGC assessments are mathematical constructs that include assessments for each expense and revenue category. These assessments are not observable amounts that can be identified by examining government accounts.

Differences between assessed and actual amounts arise for a variety of reasons. A State may choose not to fund a particular service which was included by the CGC in its assessment and the State won't be financially penalised if that occurs. As a result, the adoption of different policies across States may explain some differences between actual and assessed amounts.

The Government provided explanations of differences between actual and assessed amounts of some categories including why assessed amounts were greater than actual expenditure in the case of the expense category Services to Communities and less in the category Services to Industry. However, the Treasurer and Treasury officers did not provide an explanation for the differences between actual and assessed expenditure amounts for health, rather reiterating that CGC assessments were mathematical constructs, noting the State spends above the national per capita average on health in delivering health services. These measures are not comparable thus making an accurate assessment of comparable expenditure on health services with other States difficult.

In light of the complexity of this important area and its potential impact on the State's fiscal position, the Committee recommends Government provide user-friendly information to assist Tasmanians in understanding the relationship between Federal and State Government grant funding.

To assist in this the Committee recommends Government publish an annual summary in response to each CGC update. The update should include:

- a. the main changes from the previous report;
- b. details of the State's actual and assessed revenue and expenses for each category alongside the national averages for same; and
- c. an explanation of the differences between:
 - Tasmania's actual expenditure and CGC assessment for each category; and
 - Tasmania's actual expenditure and CGC assessment compared to national average actual expenditure and CGC assessment for each category.

The Committee notes the potential negative and distorting impact on future untied GST revenue to Tasmania, resulting from the granting of significantly more than its per capita share of national programs and/or Payments for Specific Purposes (PSP's) that are not quarantined.

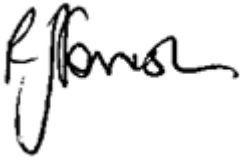
The additional funds received by the State in such circumstances are taken into consideration by the CGC and over time all but the State's per capita share, in Tasmania's case 2.1 per cent, is redistributed to the other States. This has the effect of Tasmania forgoing untied GST revenue over subsequent years in exchange for tied Commonwealth funding for a specified purpose without the flexibility GST revenue enables. The same applies to all other States and as noted in a report of the Productivity Commission may result in a growing tendency to quarantine some Commonwealth payments purely on political grounds.

The Treasurer and Treasury officers stated that the quarantining of PSP's should be used judiciously and only in cases where there are significant impacts for the State, such as the funding provided to the State Government for the operations of the Mersey Community Hospital for at least 10 years.

The Committee notes the Productivity Commission's position whereby decisions by the Commonwealth Treasurer to quarantine certain PSP's would benefit from stricter and principled guidelines.

As Committee Chair, I thank all past and present Members for their contribution to advance and enhance the knowledge of Members of Parliament and other readers of this Report. The Committee thanks and acknowledges the support of the Committee

Secretariat, past and present, including Gabrielle Woods and Julie Thompson during the Inquiry.

A handwritten signature in black ink, appearing to read 'Ruth Forrest'.

Hon Ruth Forrest MLC
Inquiry Chair

12 August 2021

RECOMMENDATIONS

The Committee makes the following recommendations:

1. The Government provide user-friendly information to assist in understanding the relationship between Federal and State Government grant funding.
2. The Government publish an annual summary in response to each CGC update which:
 - a. Describes the main changes from the previous report;
 - b. Details the State's actual and assessed revenue and expenses for each category alongside the national averages for same; and
 - c. Explains the differences between:
 - Tasmania's actual expenditure and CGC assessment for each category; and
 - Tasmania's actual expenditure and CGC assessment compared to national average actual expenditure and CGC assessment for each category.
3. The Government continue to advocate for the judicious use of quarantined payments for specific purposes (PSPs) by the Commonwealth Treasurer utilising strict and principled guidelines.