

**Senate Economics Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**  
**Treasury Portfolio**

Supplementary Budget Estimates 1 - 2 November 2006

**Question:** sbt 81(PC)  
**Topic:** Manipulation of the Commonwealth Grants Commission  
**Hansard Page:** E60

**Senator SHERRY asked:**

But isn't that a governance issue, surely? The scheme has been around now for almost 30 years—just a shade over 30 years, actually. If there are concerns about manipulation of the system, they can be dealt with in governance. It does not necessarily justify abolition, does it?

**Mr Wonder**—Putting aside the option of abolition you have referred to, we do elsewhere in the report refer to design improvements that go to the heart of the issue we are now talking about in respect of possibly striking a single rate of assistance or the like. Whether or not you want to call that 'improved governance', I do not know; it is probably not a governance matter but it is an alternative option that addresses some of the problems that have been identified.

**Senator SHERRY**—I suppose my concern goes to the commentary. It seems to me that there is lack of clear evidence that that is occurring on any significant scale.

**Mr Wonder**—Perhaps we could take it on notice as to what that evidence is and get back to you.

**Senator SHERRY**—Yes, if you could

**Answer:**

***Please note: the Topic is in fact Manipulation of the Tasmanian Freight Equalisation Scheme, not as is listed above.***

In its draft report released on 8 September 2006, the Commission reported that the design of the Tasmanian Freight Equalisation Scheme (TFES) and its parameters provides scope for different ways of structuring rebate claims for the same freight task, resulting in markedly different TFES payments.

Participants expressed concern about the manipulation of subsidy claims through the ability to choose the method of claiming. They provided evidence of how this might occur, and submitted that it was occurring in practice. Other participants said they were aware of allegations of manipulation and expressed concern that these were damaging to the integrity of the TFES. Some relevant submissions are cited in section 5.2 of the draft report. The issue was also raised informally with the Commission during visits to Tasmania. Following the release of the draft report, further views were received in submissions and at the public hearings, acknowledging the potential for these problems to occur and proposing ways to address them.

The root cause of the problem is the design of the scheme, which provides incentives for claimants to rearrange their affairs to maximise their entitlements under the scheme. The draft report concluded that the design parameters of the scheme facilitate 'gaming', set up some adverse incentives and can lead to overestimation of the extent of sea freight disadvantage faced by Tasmanian shippers and overcompensation for it. The extent of this is difficult to

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ascertain. The draft report found that these problems cannot be eliminated within the current design of the TFES and that the scheme should be structured to avoid such distortions.

The Commission forwarded its final report to the Government on 14 December 2006.

Relevant submissions included on the Productivity Commission's website are:

Tasmanian Transport Association, sub. no. 5  
Agricultural Contractors of Tasmania, sub. no. 8  
Warwick Counsell, sub. nos. 18 and DR81  
Net Sea Freight, sub. no. 26 and DR70  
Kelly and Sons, sub. 30  
Victorian Government, sub. no. 60  
Major Tasmanian Manufacturers, sub. no. DR91