



Response to 2010 Review Draft Report:

Regional Location

Department of Treasury and Finance

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Tasmanian Position

- Tasmania has been concerned, throughout the 2010 Review, that the use of SARIA does not adequately address the service delivery disability the state faces due its small decentralised communities.
- Tasmania also understands that state population distributions by SARIA are quite diverse and finding an average policy has not been straightforward.
- The available cost data by SARIA region, showing an upward sloping gradient nationally, together with the approach to service delivery scale, appear to have partially captured Tasmania's issues, albeit inadvertently.
- Tasmania, therefore, does not oppose the general approach as it currently stands, however, the Regional Location assessment is still open to change with new state data forthcoming, and the Commission has declared its intention to apply judgement to the cost curves.
- In principle, Tasmania supports the use of judgement as it can improve equalisation when used appropriately.
- When applying judgement to Regional Location, the Commission should:
 - take note of the available data from states;
 - base the use of judgement on some form of evidence;
 - use judgement transparently; and
 - be confident that it will not result in perverse outcomes or introduce gross distortions.
- Tasmania maintains the view that, nationally, town size is a driver of the incidence of staff housing (as outlined in a previous submission) and therefore the proposed approach to housing ignores the disability that Tasmania faces with its numerous small communities in more accessible areas.
- Tasmania supports the Commission's approach to service delivery scale.

Regional Location

1. The Commission has stated that its largest area of concern is the Location assessment. This concern is not with the methodology, but more with the data that are being used to support the methodology.

2. The Commission is concerned that the national average cost curves by SARIA region are not adequately capturing the costs of service delivery in remote areas.
3. In response to arguments by some states around the costs of urbanisation being significant along with the costs of remote service delivery, the Commission has also said that if states have better data generally, from Highly Accessible to Very Remote, then it would be welcomed.
4. The belief that remote area costs are not being captured is based on the Commission's experiences during Workplace Discussions and partial data provided by some states, especially the Northern Territory.
5. If more data are not forthcoming, and the correct allocation of existing data does not materially change the outcome, the Commission has said it will use judgement to increase the remote end of the regional cost curves. If more data are forthcoming, but do not materially change the gradients, presumably the Commission will use judgement also.
6. The development of the Regional Location assessment has been a long, iterative and consultative process between the Commission and states, spanning most of the 2010 Review.
7. In developing the approach, Commission Staff have investigated numerous data sources including Census data, ATO data and state administrative data.
8. After numerous Location Working Party meetings and extensive analysis by Commission Staff, and within state submissions, it was concluded that the most appropriate data are the state data for education and police.
9. Partial data for other services were provided by a few states, and this suggested that some extrapolation should occur to other categories and, hence, an average of the best available data (education and police) was used for this purpose.
10. Given this extensive 'data mining', the likelihood is low of the CGC receiving data from states that, hitherto, have not been able to provide data, or, states that have provided data being able to provide significantly higher quality data. Whatever new data are provided could only be expected to make marginal improvements to the cost curves. New data of sufficient quality and robustness, which substantially changes the cost curves this late in the Review would be surprising given the exhaustive data mining that has occurred to date.
11. Any new data should be carefully assessed for reliability and any significant divergence from the initial data states provided should be explained.
12. It is also possible that, if the data searching, allocation and quality assurance exercise does not materially change the cost gradients, the

gradients may well be reflecting the reality of service delivery in some cases. This possibility cannot be ruled out.

13. The Commission's position on the 'true' shape of the cost curves is essentially a belief derived from Workplace Discussions. Therefore, while Tasmania supports the Commission's use of judgement, it has to be made in the context of the available data, keeping in mind that a long and in-depth investigation has occurred up to this point in time.
14. The Commission's use of judgement should, therefore, be conservative, transparent, and based on some form of evidence, with states having an opportunity to comment on the outcome.
15. Despite the problems with the available data, a body of evidence is emerging of cost curves that reflect increasing costs with remoteness. The data that are available to date exhibit the following trends:
 - police and schools total cost per FTE curves are upward sloping;
 - the majority of Queensland's total cost per FTE data show an upward slope; and of those curves that are more ambiguous, the majority have accessible higher than highly accessible;
 - police Census and state wage per employee data were similar and both showed an upward sloping gradient.
16. Any 'urban complexity' argument seems unlikely given the evidence available; whether total cost per employee or housing, non-wage and wage per employee, all are generally upward sloping. Very remote and remote being exponentially higher in terms of cost growth is also not clear from the evidence. However, highly accessible as the low cost region is quite clear from the evidence.

Housing data

17. It is Tasmania's understanding that employee housing is an area where some states have argued that existing data are not reflective of the costs faced in delivering housing to employees, especially in remote areas.
18. While Tasmania understands that the Commission will not move away from using a single geographical classification (SARIA) and use national average costs by (SARIA defined) remoteness, Tasmania maintains the view that the methodology is distortionary for Tasmania given Tasmania's unique population distribution.
19. In a previous submission Tasmania presented evidence, using Census data, that, nationally, size of town is a driver of the incidence of employer provided housing. This is probably due to a lack of services generally, including accommodation services.
20. For most mainland states, small towns are generally found in their remote areas, where for Tasmania, small towns are frequently found in more

accessible areas. However, Tasmania did find evidence that employer provided housing is prevalent in small communities in accessible and moderately accessible areas in other states.

21. Due to data confidentiality concerns from some states, a size of centre rather than remoteness approach is unable to be investigated. Tasmania also showed that SARIA is not a strong explanatory variable for the incidence of staff housing. However, these issues were not pursued, Tasmania was considered idiosyncratic and the SARIA approach was considered appropriate for most states.
22. According to Commission Staff, large variability in the rent and cost data provided by states precluded a regional gradient based on the costs in specific states. A single estimate of net cost across all regions was therefore assumed. For the Draft Report, the total number of houses in each SARIA region was then multiplied by the average cost to calculate a total cost in each region.
23. This variability suggests that policy and non-policy influences are affecting the cost per dwelling data. For example, the number of bedrooms, amenities and other factors are not being held constant. However, it is likely that there is far less policy influence in the quantity, or incidence, of staff housing in different regions.

National average cost per employee curve

24. Given that the national cost per employee curve reflects an average, there will be states above the national average and states below for each SARIA region.
25. If new data are received, are the best available and are fit for purpose, but do not seem to accord with preconceived notions, it could be argued that the true costs are being captured. Furthermore, the remote areas national average may simply reflect an average with high spread around the mean. Similar to Tasmania and the costs it faces to service its small decentralised communities in accessible areas; it could be argued that the very high cost observations (states) are idiosyncratic.

Service Delivery Scale

26. Tasmania is of the view that the approach to SDS is an appropriate national approach. Tasmania, therefore, supports the Commission's approach to SDS.
27. The approach picks up the fact that states do have small communities that they service in more accessible areas.
28. For SDS, the conceptual case is quite clear; the available data illustrate that the conceptual case is valid; and the Commission has done its best to overcome data problems.

29. Tasmania is of the view that the Commission has used the available data appropriately. Extrapolation using the average of police and education to Community and Other Health and Welfare and Housing is more appropriate than using data from one state.
30. Tasmania notes that the national average higher staffing levels of small communities located greater than 50 km from a large urban centre for schools and police are reasonably close, at 19 per cent and 14 per cent respectively. Highly divergent results would suggest that individual categories are potentially quite different from each other, but this does not appear to be the case based on the available evidence.