



**Response to
CGC Staff Discussion Paper 2006/06**

“Disaggregating Expenses”

Department of Treasury and Finance

September 2006

INTRODUCTION

1. Tasmania supports the Commission's approach to responding to the terms of reference for the 2010 Review. *Staff Discussion Paper CGC 2006/06, Disaggregating Expenses* is consistent with this approach and Tasmania considers that, with some exceptions, it provides logical levels of aggregation to consider.
2. This submission responds to the specific questions posed by Commission staff in the Discussion Paper and also responds to some additional issues raised at the meeting between Commission staff and states on 7 September 2006.
3. The views expressed in this response represent Tasmania's current thinking on what might be an appropriate disaggregation of expense categories. Just as Commission staff have stated, Tasmania may consider at a later point in time that more or less aggregation may be appropriate for particular expenditure blocks.
4. While Tasmania acknowledges that there needs to be some broad agreement about the category structure to allow work to continue toward meeting the 2010 terms of reference, the Commission and all states should also acknowledge that the further work to be undertaken may result in new information/issues arising that will change the way in which particular aggregations are approached.
5. In this context, Tasmania is of a view that the current task at hand is to develop a 'working' expense category structure. This will allow some flexibility to respond to evolving issues and information as the Review progresses.
6. A summary of Tasmania's current position on disaggregating expenses is attached as Appendix 1 to this submission.

GENERAL APPROACH TO DISAGGREGATION

7. The following responds to questions raised in the Overview section of the Discussion Paper.

Are there other broad indicators to assess one or more of the C6 categories?

8. This six 'blocks' of services (referred to as the C6 categories) identified in the Discussion Paper is a logical starting point to disaggregate expenses. At a broad level, these blocks are very different from each other and are influenced by different cost and use drivers. They are a broad reflection of 'what states do'. Whether or not there should be further disaggregation is an issue discussed later in this submission.
9. Given the above, Tasmania does not believe there is likely to be a broad indicator that will satisfactorily capture the material differences of one or more of the C6 categories.

How could the Commission resolve the trade-off between disaggregating expenses and assessing them using more complex indicators?

10. Tasmania agrees with the Commission staff's proposals in paragraphs 37 and 38 of the Overview section of the Discussion Paper that it would be best to avoid

aggregating categories where that aggregation requires a large number of broad indicators and/or narrower indicators weighted together with use and cost weights. Tasmania considers that such an approach would not, in effect, achieve any real simplification as intended under the 2010 Review terms of reference.

11. In reality, such an approach would merely be a presentation change only, rather than a simplified and aggregated assessment. In fact, such an approach is likely to be counter to the terms of reference and the drive for simplicity, as it would result in more complex and less transparent assessments. In such circumstances, it would be simpler to disaggregate assessments further to show the differences in particular services rather than obscuring them in a broader, complex assessment. Confidence in the Commission's work would also be better served if there were this level of transparency.
12. In this context, the Commission should consider what the terms of reference are actually asking it to do. Clause 3 states that:

“Having regard to the work progressed by HoTs after the 2004 Ministerial Council and providing to do so is consistent with the principle of Horizontal Fiscal Equalisation, the Commission should simplify its assessments by:

 - a. *aggregating existing assessment categories, components and factors, in whole or in part;....*
13. Tasmania's assessment of this clause is that if the Commission cannot find a way of aggregating an assessment that is both consistent with HFE and is simpler, then it must disaggregate. The Commission has established materiality tests to consider whether an assessment is consistent with HFE. However, at present there is nothing to guide judgement on whether an assessment at a higher level is simpler than assessments at a lower level.
14. At the meeting between Commission staff and states on 7 September 2006, there was some discussion under the Education block of services as to whether five or six 'adjustments' (most likely weights for use and/or costs differences) would be an appropriate number that would still allow a simple, aggregated assessment. Presumably, if the number of adjustments were to go above five or six (or whatever the number), the judgement would be that the assessment becomes too complex and should be disaggregated to make it simpler and more transparent.
15. Tasmania, like other states at the meeting, did not oppose the idea that five or six adjustments could be an appropriate number in which to make an aggregated assessment. However, on reflection, establishing a set number of adjustments and applying this across all category assessments may not be appropriate.
16. In principle, there is a case for establishing a simplicity test, just as the Commission has introduced materiality tests. This test could be applied to the number of adjustments (as suggested above), or to evaluating whether the number of moving parts is less at an aggregated level than at a disaggregated level. However, applying these types of tests uniformly may not produce simplicity and could in fact be complex to undertake.
17. From a practical perspective then, it would be better to have some flexibility to ensure that a common sense approach is adopted to deciding whether it is simpler and more transparent to disaggregate. This obviously relies on

judgement, and Tasmania would support the Commission exercising such judgement in consultation with the states.

18. Tasmania, therefore, sees that there should effectively be two tests. A materiality test, whereby if there is a material influence on states' expenses, then those influences must be accounted for in the Commission's assessments if equalisation is to be achieved. Once these material influences are established, the second test is to decide (using judgement) whether it is simpler and more transparent to capture them in an aggregated category, or in disaggregated categories.

EDUCATION

Would ignoring differences in cost and use patterns, if they are material, mean that the broad indicator was not consistent with fiscal equalisation?

19. The Discussion Paper considers that a broad indicator for all education expenses might be to use population aged 4 to 39. However, as the Discussion Paper acknowledges, this broad indicator would not capture a number of differences in cost and use patterns, many of which have been shown in the past to be material and which are likely to continue to be material.
20. It is quite clear in the 2010 Review terms of reference that simplification can only be achieved if it is achieved in a way that is consistent with HFE. Therefore, the answer to the Commission staff's question is obvious in that using just the broad indicator would not be consistent with HFE.

Would the introduction of cost and use weights make the assessment too complex to be considered a broad indicator?

21. Commission staff quite rightly argue that should such a broad indicator be adopted, it would need to incorporate a large number of cost weights to recognise the material cost and use patterns. On this basis, Tasmania agrees with the proposition that the introduction of cost and use weights would render the assessment too complex to be considered a broad indicator and, more importantly, would do nothing to achieve simplification.

Is there a broad indicator or collection of broad indicators, which Commission staff have not identified, which could be used to make a broad assessment of all education expenses?

22. Tasmania has no suggestions for a broad indicator and does not believe that there is likely to be one that can adequately reflect the material drivers of states' education expenditure.
23. Tasmania therefore agrees with the Commission staff's conclusions and their approach now focussing on disaggregating education expenses.

The proposed two education categories

24. Commission staff are proposing to disaggregate education expenses into two categories: Schools Education and Tertiary Education.
25. The proposed Schools Education category would effectively recognise the education expenses currently contained in the separate categories of Pre-School

Education, Transport of Rural School Children, Government Primary Education, Non-government Primary Education, Government Secondary Education and Non-government Secondary Education.

26. The proposal to aggregate these categories into one category is not a particularly new one. The Commission contemplated assessing the primary, secondary, government and non-government categories in one category in the 2004 Review but decided against it on the following grounds:
- states fund government and non-government schools differently and thus it is essential that different cost weights are applied to the policy neutral measure of enrolments in each sector;
 - Commission staff did not support amalgamating non-government and government schools because they believed it would undermine the policy neutrality of the Commission's assessments, and would be inconsistent with the way states funded each sector since states only partially funded non-government schools;
 - the Commission considered that enrolments in government and non-government schools largely reflect community preferences, and are not government policy driven; and
 - the 2004 Review found marked differences in the per unit cost of providing primary education and secondary education (secondary education was found to be about 1.3 times more expensive). The Commission said that it could have captured this difference by introducing cost weights, but that it did not because doing separate assessments was more transparent.
27. Tasmania is of the view that it is very unlikely that much has changed since the 2004 Review and the above issues are all ones that Commission staff have identified as needing to be addressed in whatever form the education categories take in the 2010 Review. Commission staff state in paragraph 22 of the Education section of the Discussion Paper that:
- “If necessary, this difference can be accommodated by introducing cost weights to take account of the different average costs. Using cost weights in this manner produces the same outcome as disaggregating the four categories. Cost weights are another way of pursuing disaggregation. They reduce the number of categories, but lead to a more complicated assessment.”*
28. Tasmania is not opposed to an aggregated Schools Education category. However, if it cannot be done any simpler than it could be done in disaggregated categories, then the conclusion from the 2004 Review that it is more transparent to show disaggregated categories is still relevant.
29. That is not to say that some aggregation cannot occur. The existing Pre-school Education category is likely to be immaterial and therefore will not warrant separate assessment under the materiality guidelines. In the event that the Commission proceeds on the basis of the Commission staff's proposal to have one Schools Education category, it would seem a relatively simple task of accounting for pre-school expenditure through introducing appropriate cost and use weights, just as the Commission would have to do for the other components.

30. If, however, the Commission decides to disaggregate further, it would seem logical that pre-school expenses be aggregated with the government primary education and non-government primary education expenses as appropriate. Given that pre-school leads directly into the primary education sector, and draws on the same demographic of the population, there is probably little benefit anyway from assessing it separately.
31. The proposed Tertiary Education category would effectively comprise of the existing VET and Higher Education categories. Tasmania agrees that it appears that University expenses (which are primarily the expenses under Higher Education) are unlikely to be material and therefore do not warrant separate assessment.
32. Conceptually, it is logical that VET and higher education expenses should be aggregated together. However, Higher Education is currently assessed EPC, and assuming that the conceptual basis for making an EPC assessment remains, it might be more appropriate to continue to assess it EPC rather than apply TAFE disabilities to Universities if those disabilities are not reflective of state expense needs on Universities. Therefore, there is some merit in including University expenses in a miscellaneous category of expenses that are assessed EPC.

Indicators and key drivers

33. Commission staff asked states at the 7 September 2006 meeting to provide their views on what indicators could be used to assess education and what are the material drivers of education expenses.
34. Subject to materiality testing, Tasmania considers the following should be the basis for, or accounted for in, the schools education assessment (whether further disaggregated or not):
 - population of people aged 4 to 17 (population is more policy neutral than enrolments);
 - differences in the cost of primary and secondary schools;
 - differences in the cost of non-government and government schools; and
 - the effect of socio-demographic composition on service delivery costs, particularly low socio-economic status.
35. Subject to materiality testing, Tasmania considers the following should be the basis for, or accounted for in, the tertiary education assessment:
 - population of people aged 18 to 59; and
 - the effect of use rates, particularly by employment status.

Are states able to separate student transport expenses from other expenses?

36. In relation to student concessions for urban transit, a single sum CSO payment is made to the State's main bus service provider, Metro Tasmania, which is a government-owned business enterprise. This to provide concessions to a number of groups of people in the community, not just students. Therefore, it is not possible to separate student expenses from other expenses. However, data on ticketing and student concession pass issues could be used to determine a

reasonable estimate of the notional portion of the CSO payment that is provided for students.

37. Expense data for non-urban student transport are more readily available.

Are all school transport expenses classified to Education?

38. No. The CSO payment is classified to road transport.

Would it be more appropriate on conceptual or practical grounds to classify all student transport expenses to Transport and Communications so they can be assessed together.

39. Conceptually, it seems logical that all transport services to schoolchildren should be assessed together. Therefore, there is some merit on conceptual grounds to either capture all school transport expenses in the Education block or in the Transport and Communications block. However, from a practical perspective there are issues regarding whether there are data to support such an approach, given the issue identified above with regard to not being able to separate expenses.
40. One way that this practical difficulty could be overcome would be to include all student transport expenses in the proposed Transport and Communications category. Conceptually, transport services for students are not a core education expense and, therefore, there are no compelling reasons on transparency grounds for these expenses to be assessed with education expenses. That said, in Tasmania, transport concessions offered to students is linked to the Government's education policy rather than its transport policy.
41. Alternatively, the current assessment approach could be maintained, which would involve assessing transport of rural school children within an Education group of categories (either as a stand alone category or aggregated with other Education categories) and urban transport subsidies to school children within the proposed Transport and Communications category. This would follow current state practice regarding where these expenses are allocated in the GFS.
42. That said, Tasmania notes the Commission staff's preference to keep all student transport expenses together in Education. Tasmania is not opposed to this approach but the Commission needs to be aware of Tasmania's data limitations if it chooses to progress with this idea.

HEALTH AND WELFARE

Do states agree that the CGC should not pursue a single aggregated assessment further?

43. Tasmania is strongly of the view that the Commission should not continue to pursue a single aggregated assessment of all health, welfare, housing and community amenities services. It is very unlikely that a satisfactory assessment of disabilities can be made for such a single aggregated category. The services are too disparate in terms of their target populations, their delivery structures, and their user unit cost and demand profiles.
44. In this context, Tasmania also endorses the Discussion Paper's conclusions that EPC and APC assessments would not satisfy HFE considerations, a single broad

indicator would be unable to capture all the material disabilities, and that a factor assessment based on a multifactor model would be ‘simple’ only in a presentational sense (its underlying computation would be complex and lack transparency).

Could the CGC use intra-state resource allocation formulas (such as that of NSW) as a starting point for building a model that captures the main drivers of interstate differences on health services?

45. Tasmania is of the view that a disaggregated assessment of the Health block would produce the best possible HFE outcome (for the reasons discussed below). A disaggregated assessment would better capture the material disabilities more simply and transparently than a multifactor aggregated approach “informed” by complex resources allocation formulas.

Do states agree that disaggregating the health block into two categories would be a better approach than a single assessment?

46. Assuming that a single aggregated assessment for health and welfare is not pursued, the logical disaggregation (as identified by Commission staff) is to separate health expenses from welfare, housing and community expenses. Commission staff have asked whether health should be disaggregated further.
47. Tasmania does not oppose investigating whether a single assessment of the health block can be made (as discussed at the 7 September 2006 meeting). However, Tasmania is of the view that further disaggregation is likely to be warranted.
48. Tasmania agrees with the Commission staff’s assessment that admitted hospital services are clearly distinct from community health type services. Delivery structures differ with greater variety in the way that community-based services are delivered both within and between states.
49. Therefore, Tasmania supports the proposed split into Admitted Patients versus Community, Public and Non-admitted Health Services. This split reflects fundamental differences in cost and delivery structures, related substitutability of services, and client groups. In Tasmania’s view, an aggregated assessment of the Health block would either miss material differences in disabilities or be too complex.
50. Admitted patient needs tend to reflect more acute/severe conditions and multiple needs. This is underpinned by the vastly different average cost structures attached to an episode of care for an admitted patient relative to that for a client in a community health setting. Admitted patient cost structures reflect average costs relating to admission, technology, drugs and diagnostically driven procedures that are simply not incurred within a community health setting.
51. Public acute hospital services are distinct from those provided in community settings tending to reflect different levels of need/different levels of service. Admitted patient services are more akin to specialist services whereas those provided in a community setting are more “substitutable”. Only private hospitals provide the same services and in most instances they do not cater for emergency or complex admissions while many outpatient and community health

services are substitutable by Medical Benefits Scheme (MBS) related services and private allied health practitioners.

52. For community health services, the eligibility requirements mean that services are often restricted to a range of concession card holders and specific target groups, but for admitted patients the services are spread across a wider socio-demographic profile as public hospitals are required to cater to the general population.
53. In terms of whether the appropriate division is hospital/non-hospital or admitted and non-admitted services, Tasmania considers that the more appropriate division is between admitted and non-admitted services.
54. Data for admitted patient services are of good quality and cover all services provided while non-admitted data is of lesser quality and there are large variations in reporting between jurisdictions. There is a fairly clear line between admitted and non-admitted services but not between non-admitted and community services. For example, non-inpatient dental, alcohol and drugs, rehabilitation and mental health services are in the community sector in Tasmania but in the hospital outpatient non-admitted sector in most other jurisdictions.
55. For this reason, the splitting of the two categories as proposed by Commission staff would mostly overcome the data issues associated with an approach which required identifying expenses on non-admitted versus community health, and doing so on a policy neutral basis.

Do any GPCs at either the 3 or 4-digit level need to be moved to a different category to that proposed in the Discussion Paper? For example, should Patient Transport stay in Community, Public and Non-admitted Health Services or should it be moved at the 4-digit level to a transport related category?

56. Tasmania's understanding is that the grouping of 2543 *Patient Transport* under the proposed structure will be with its GFS classification (254 *Community health institutions*) in contrast to its current grouping (with 251 *Acute care institutions*). Tasmania has yet to reach a position on whether this re-grouping is more appropriate from a functional perspective (as distinct from a GFS data classification one).
57. However, Tasmania is very clearly of the view that patient transport should be assessed within the Health block and not in the Transport block. Patient transport is part of the general functional delivery of health services and has more in common with this in terms of relevant disabilities than with the transport function, which, broadly speaking, is more about the provision of roads and public transport services.
58. The treatment of 2514 *Non-admitted patient services in acute care institutions* remains to be determined. Its GFS classification is to 251 *Acute care institutions* (ie hospitals). However, as discussed above, Tasmania considers it is more appropriate to aggregate non-admitted patient services with community and public health services (ie. with 254 *community health institutions* et al) as this will result in more consistent, policy neutral expenses groupings between states.

59. Depending on how treatment of community amenities develops, this may necessitate the grouping across GFS 2 and 3 digit classifications of some specific aboriginal community services-related 4-digit GFS data items.

Do states agree that a single assessment of the Welfare, Housing and Community Amenities block would work?

60. There appears to be a set of commonalties which, in principle, could be possible to incorporate in a broad indicator to capture the material disabilities in this block, at least in relation to the welfare and housing elements.
61. Tasmania does have some concerns, though, as to whether keeping this group at a single aggregated level is achievable. Of specific concern is the community amenities component which, *a priori*, lacks commonality with the other two components (welfare and housing). While it is acknowledged that these community amenity services are small relative to the rest, they are nonetheless material for some states and therefore should be accounted for in the Commission's assessments.
62. There may also be issues around 'capital' disabilities in relation to housing. This may well result in this block needing to be broken down further.

Indicators and key drivers

63. Broadly speaking Tasmania endorses the target groups and user profiles outlined by the Productivity Commission (as reproduced in Table 9 and Table 15 of the Health and Welfare section of the Discussion Paper), with some minor variations of detail. Subject to materiality testing, the following reflect key drivers that Tasmania considers should be accounted for in health and welfare assessments (irrespective of the category structure).
64. Clearly discernable use/cost drivers in admitted patient services in Tasmania are:
- the 0-4 age group;
 - the aged;
 - people from lower socio-economic backgrounds; and
 - women of child-bearing age.
65. The proposed Community, Public and Non-admitted Patient Services category (incorporating community health services, emergency, outpatient, public and preventative health services) represents a miscellaneous collection of whole-of-population and more targeted programs. However, within the Tasmanian setting, certain demographic groups are noted as relatively high users in relation to these services. These are:
- the frail elderly;
 - the disabled;
 - the mentally ill; and
 - those on low incomes/socio-economically disadvantaged.

66. Costs of service provision are also impacted by rural/urban influences and the degree of “non-state” sector-provided substitutes.
67. In relation to the proposed Welfare, Housing and Community Amenities block, elements which Tasmania’s experience suggests are key drivers are:
- population aged 65 plus;
 - the disabled;
 - those on low incomes/socio-economically disadvantaged;
 - 0-17 year olds;
 - single parents/families with children under 14; and
 - population location factors (rural/urban).

LAW AND ORDER

Can states propose broad indicators that could be used to capture differences between the states and which would be consistent with fiscal equalisation?

68. Tasmania cannot suggest any broad indicators for a single Law and Order category that would adequately capture interstate differences in the cost of service provision. Tasmania agrees with the Commission staff’s conclusion that law and order expenses are split between justice type expenses and public safety and emergency management type expenses. Using total population would not be consistent with equalisation because there are other influences, particularly in relation to population sub-groups, which have a material effect on justice type costs.
69. On the other hand, Tasmania agrees that public safety and emergency management are targeted predominantly at the entire population and that, unless there are material differences in use and/or cost, it may be appropriate to assess these expenses EPC.

Subject to finding a broad indicator, do states agree that assessing law and order expenses as one category would not result in a satisfactory outcome?

70. Tasmania agrees with Commission staff that a single assessment would not be appropriate and would not be consistent with equalisation. This is likely to be the case regardless of whatever broad indicator is suggested.
71. Paragraph 41 of the Law and Order section of the Discussion Paper notes that it would only be possible to adopt a single assessment if different weights were applied to the various population groups. This is likely to be too complex and would do little to improve simplicity or transparency.

Can states provide data to estimate the average expenses of the two proposed categories?

72. Commission staff have stated that their proposal to have a Justice Services category and a Public Safety and Emergency Management category rests with the ability to separately split police expenses between these two groups. The

proposal would see Justice Services assessed on a needs basis and Public Safety and Emergency Management assessed on an EPC basis. Taking into account the comments above, Tasmania is cautiously accepting of this approach at this point in time.

73. Tasmania agrees with the conclusion that police services are provided to support both groups and, therefore, allocating the expenses along these lines would be conceptually sound.
74. A preliminary examination of police data suggests that it is collected in Tasmania along the functional lines mentioned in paragraph 8 of the Law and Order section of the Discussion Paper. It should therefore be possible for Tasmania to split and provide police expenses as proposed by the Commission staff.
75. However, as was discussed at the 7 September 2006 meeting, the proportion of police expenses that states identify to justice type services versus public safety and emergency management type services are likely to differ due to policy and/or political reasons. Some states suggested that most police expenses were likely to in fact be devoted to justice services.
76. Tasmania does not agree with this assertion. While it is acknowledged that the Productivity Commission's *Report on Government Services*, which indicates a 60-40 split of police expenses between public safety type expenses and justice type expenses, has data comparability issues, the fact is that the data is based on those provided by states. It is therefore puzzling that some states now suggest most expenses are related to justice services.
77. Tasmania's police expenses data suggest that police services are directed more at public safety and emergency management. While the Productivity Commission's work is not perfect, it at least is an attempt to standardise where police expenses should be allocated between both groups – a task the Commission would have to attempt to do in any event.
78. Tasmania understands that the current GFS data can support the allocation of all remaining law and order expenses other than police expenses into a two-category structure at the 3-digit GPC level.

What broad indicators may be appropriate for the assessment of justice services?

79. In the Discussion Paper, Commission staff present evidence from several independent sources suggesting that certain population groups (indigenous persons and male youth) drive the cost of providing law and order services. This is consistent with findings in previous Reviews.
80. Tasmania supports the use of indicators based on the population groups mentioned in paragraph 45 of the Discussion Paper, these being:
 - males aged 10 to 29 years; and
 - Indigenous people.
81. Tasmania notes that the age group suggested is broader than males aged 17-25, as currently assessed in the Police category. However, the broader age group is

consistent with the other justice services target groups. For example, offending rates for juveniles aged 10 to 17 are 50 per cent higher than rates for adults, while most males in correctional facilities are aged between 18 and 30.

82. In previous reviews, Tasmania has argued that low income and unemployment are key drivers of crime and has suggested that socio-economic status should be included in the assessment of some law and order categories. Tasmania is firmly of the view that, while young males do disproportionately affect justice costs, there is significant evidence to show that most of the young males in question are from low socio-economic status.
83. Tasmania notes that the Commission currently recognises socio-economic status as a driver of the Corrective Services category in relation to the juvenile offenders component. It does not seem logical that the socio-economic status of offenders would be vastly different between juvenile and adult offenders. Longitudinal studies demonstrate that young offenders are much more likely to re-offend in their adult lives than other youth.¹
84. During the 2004 Review, Tasmania provided data on the number of convicted offenders by local government area over a six-year period.² The data showed that local government areas with a relatively low socio-economic status (as measured using the ABS index of socio-economic disadvantage) had a relatively high proportion of offenders. It is understood that the Commission did not recognise this data as sufficient evidence because it could not be replicated on a national basis.
85. However, now that the Commission is seeking greater use of broad indicators, it would be appropriate to reconsider socio-economic status as a powerful explanatory indicator of crime. Tasmania's case for including socio-economic status as a broad indicator, along with supporting evidence, is included in Appendix 2.
86. At the 7 September 2006 meeting, some states suggested offence rates as a possible broad indicator of the law and order task. This suggestion has some appeal, but also has some drawbacks.
87. The first is that, depending on the data source, offence rates can be policy influenced. An examination of ABS offence rates data (such as that from the Crime and Safety Survey) suggests that offence rates do not vary greatly between the states. State-provided data on the rate of reported crime, however, tends to differ significantly between states. This suggests that the community's willingness to report crime is impacted by other factors, possibly including state policy. If the Commission were to use offence rates as a broad indicator, a more standardised and policy neutral measure of offences, such as ABS data, would be preferable to the use of reported crime figures.

¹ See, for example, Lynch, Mark, Julianne Buckman and Leigh Krenske, 'Youth Justice: Criminal Trajectories', *Trends and Issues in Crime and Criminal Justice*, Australian Institute of Criminology, Canberra, September 2003. This paper reports findings from a project that tracked recidivism among young offenders in Queensland over a seven-year period (1994-95 to September 2002). The researchers found that 'the vast majority of young offenders on supervised orders progress to the adult correction systems with half of them having served at least one term of imprisonment.' The article also cites Australian and overseas studies that found clear links between juvenile and adult offending.

² Tasmanian Workplace Discussions, 12-16 August 2002.

88. The method of aggregating crime rates is also an issue. The cost of responding to different types of crime is likely to vary. Investigating, prosecuting and imprisoning homicide offenders, for example, is likely to occupy more justice-type resources than, for example, petty theft. If there is evidence that there are material differences between states in the proportion of different offences occurring, it may be necessary to introduce cost weights for different offences. This may introduce added complexity and limit the usefulness of offence rates as a broad indicator.

TRANSPORT AND COMMUNICATION SERVICES

What types of transactions do states include under construction in the transport group?

89. For Tasmania, capital expenditure under construction in the transport group of the GPC classification predominately relates to infrastructure development. Other types of transactions included under construction relate to infrastructure maintenance, asset management and traffic signal maintenance.

Do states believe that Commission staff have adequately covered the material drivers of the size of the transport task and the costs to state budgets of delivering transport services?

90. Commission staff have generally captured the material drivers of the size of the transport task and associated costs for delivering transport services. In addition, however, the physical environment has a material and differential impact for states in undertaking the transport task. For Tasmania at least, topography and climatic conditions influence the size and cost of the transport task. For example, terrain and climate impact on road construction and road maintenance tasks, as well as the number of bridges that must be maintained (which cost more to maintain when compared to equivalent road lengths).
91. In relation to rail, it should be noted that where states do not have a population to support a rail transport system (such as Tasmania), the size of the road infrastructure tasks is impacted to take into account the additional road vehicle traffic. Given the very high capital cost associated with rail, its use is highly dependent on a substantial demand threshold. Further, with heavy road vehicle registration charges being set nationally, and with a heavy influence from the Australian Government, this had led to interference in price signals between the use of rail and road. In the case of Tasmania, its road network has experienced a disproportionately high heavy vehicle use because of the difficulties in achieving sufficient commercial demand for rail use.
92. Commission staff have suggested that population density has an impact on the cost of the transport task for states. Staff have specifically posited that increasing urban density leads to higher road maintenance costs and greater use of transport services (rail and bus) leading to a greater level of operating subsidy.
93. Tasmania argues that increasing population density has, in fact, the capacity to reduce the need for subsidies, as greater density increases demand for urban transit services and therefore revenue. Tasmania also maintains that the amount that commuters are willing to pay increases, as the cost of alternative transport

also increases with population density. Therefore, in considering population density, it is also necessary to recognise the disadvantage of smaller cities, in terms of revenue raising capacity in providing urban transit services.

Is 50 000 persons still an appropriate threshold for the provision of state-subsidised urban transport services?

94. A standardised criteria for urban size within the Transport block would be beneficial from a simplicity and transparency perspective. In this regard, urban centres could be defined as ones with a population of 40 000 or above in accordance with the ABS 2001 Census. This approach would also be more consistent with the Commission's assessment of roads, which defines urban arterial roads based on an urban size of 40 000 persons (which is also the basis for NAASRA and Austroads classifications).

States are invited to comment on the validity of the proposed broader measures and their suggested use in assessing transport as one category?

95. The drivers that affect the size of the transport task and the relative cost of undertaking that task vary between the states. These differences relate to the level of road maintenance, the amount of roads that a state provides given the dispersion of the population and the extent to which a state is able to choose modes of transport service.
96. Commission staff have suggested that a differential assessment of the transport group of services could be made using a broad measure of the size of the task. This approach does not take into account important costs associated with delivering the task. These include the density of the centres in which people live, the level of socio-demographic concessions required for the residents or the physical environment that influences the standard and nature of the transport task.
97. Tasmania is not convinced that those broad indicators suggested by the Commission in paragraphs 33 to 40 of the Transport and Communications section of the Discussion Paper sufficiently captures the transport tasks of the states. That is, these suggested broad indicators do not appropriately capture "what states do".
98. Aside from the policy contamination concerns raised by Commission staff, a per capita factor income measure would also potentially be an unreliable indicator, given the volatility of factor income by industry data, particularly for small states such as Tasmania.
99. Commission staff have suggested that a measure of the freight task for each state, using Bureau of Transport and Regional Economics (BTRE) estimates could provide a proxy indicator of the extent of the rail or road network required and the associated maintenance task. Tasmania considers that there are other material influences that, if not accounted for, would result in the use of such a proxy alone being inconsistent with equalisation.
100. As noted by Commission staff, a broad indicator based on kilometres travelled by people, while capturing the people-moving task, may face data constraints. More importantly, distances travelled do not appropriately reflect the size of the

transport task alone, as usage will also have a significant impact on costs. For example, heavy vehicles utilising a shorter road network may have a more significant cost impact than light vehicles using a longer road network. Tasmania agrees with Commission staff that ensuring data comparability and availability may prove challenging under a kilometres travelled indicator, given that most of the data would need to be collected from private providers.

101. The use of population-weighted distances, on a more abstract basis, relies on a basic assumption that the greater the distances the population are required to travel and that goods must be moved, the greater the transport task faced by a state. As with the other broader indicators suggested by Commission staff, this ignores the cost of delivering the transport task by not having regard to cost drivers such as population density, socio demographic composition, topography, economic factors, climate and traffic and network features.
102. Tasmania remains unconvinced that it is possible to deliver an outcome that is consistent with fiscal equalisation without either disaggregating the proposed Transport and Communications category or creating a complex aggregated assessment.

States are invited to offer other potential broader measures that could form the basis of an assessment of the Transport category.

103. Tasmania does not have any suggestions of broader measures that could form the basis of an assessment of the Transport category.

States are invited to comment on the inclination to assess Transport and Communications as one block. If this is not supported, then states should indicate what disaggregation should be attempted, how reliable data on expenses might be obtained, what disabilities should be measured for each sub-group and how they might be measured.

104. Transport services vary significantly between states unlike most other services, where the service provided by each state is not significantly different.
105. At the conceptual level, Tasmania believes that there is a case for disaggregating the proposed Transport and Communications category further to reflect the very different cost and use drivers affecting roads compared to transport services.
106. Commission staff have acknowledged that an obvious distinction in services might be between road maintenance expenses and the subsidies paid to the providers of road and rail services. This would better reflect the different cost and use drivers.
107. Nonetheless, it is recognised that obtaining satisfactory data to underpin a disaggregated assessment may be problematic. Despite this, further investigation of the availability of reliable measures to support a disaggregated assessment is supported by Tasmania. In this context, the work to be progressed by the Roads Data Working Party, particularly following the meeting on 8 September 2006 which agreed to proceed with further evaluation of Queensland's proposal to derive states' road shares, is likely to have some influence as to whether or not data would be acceptable for use in a separate roads assessment.

Key drivers

108. Subject to materiality testing, Tasmania considers the following should be accounted for in the transport assessment (whether further disaggregated or not):

- urban size defined according to a threshold of 40 000;
- road length and use;
- physical environment (and the affect this has on road network placement, the need to seal roads and the number of bridges required);
- population that transport concessions are targeted; and
- urban density (noting Tasmania’s arguments that smaller cities may in fact be more disadvantaged than larger cities that have greater capacity to cross-subsidise concession fares).

Can states address the inconsistent coding of bus expenses?

109. In Tasmania’s case, the rationale for coding its bus expenses to the Road Transport classification reflects the fact that the CSO paid to Metro Tasmania is a single sum payment to cover subsidies in relation to students and other concession groups. Historically, Tasmania has coded its subsidies paid to buses in this way based on informal advice from the local ABS office. Tasmania understands that some states follow this practice, while others code the bus expenses to “Multi-mode Urban Transport Services”.

110. Grants paid by the Department of Infrastructure, Energy and Resources (DIER) to private school bus contractors are appropriately coded to the “Transport of Non-Urban Students” within the Education classification.

111. Tasmania could change the coding of its bus expenses from the Road Transport classification to Multi-mode Urban Transport Services. However, the decision regarding where these expenses should be coded is a secondary one to ensuring that a consistent approach is taken. In this context, this issue should be progressed in consultation with the ABS to determine the most appropriate approach.

SERVICES TO INDUSTRY

Is it better to assess all concessions to individuals in one welfare assessment or to assess them wherever they are classified by GFS. If the former, are states able to provide reliable expense data to allow them to be classified together?

112. Conceptually, it is logical to assess all concessions to individuals together in a welfare assessment. However, from a practical perspective and taking into account the Commission’s strong desire to keep its assessments consistent with GFS classifications wherever possible, assessing them according to GFS may be an appropriate approach.

113. If the concessions were to be included in a general welfare assessment, Tasmania should be able to provide reliable expense data to allow the expenses to be classified together.

Can states provide a sound conceptual case and supporting data for use of other broad indicators that would be demonstrably better at achieving HFE than an equal per capita assessment? If so, what would this case be and what is the evidence for it? Is the Commission likely to be able to develop a reliable assessment using your approach?

114. Commission staff consider that services to industry expenses fall broadly into two categories: regulation and control type expenses and business development and support type expenses. Commission staff suggest that the latter are policy influenced and therefore there is a case to treat these expenses EPC.
115. Commission staff suggest that the broad indicators that could be used to assess disabilities for regulation and control type expenses, such as business counts, GSP or factor income, suffer from data reliability problems and/or may not accurately reflect disabilities.
116. In light of this, Commission staff suggest that an EPC assessment of all services to industry expenses may be just as appropriate to achieve equalisation than attempting to use unreliable data and/or methods.
117. Tasmania does not share this opinion. At least for the Primary Industries component of this group of services, which is the largest component, there are disabilities which can be measured reliably.
118. As such, Tasmania is of the view that assessing Services to Industry as one category is not appropriate, unless Primary Industries needs can be assessed within such a category in a simpler way than disaggregating the assessment.

State views are sought on whether further disaggregation of Services to Industry is appropriate and, if so, how would we go about it?

119. At a conceptual level, the idea of disaggregating according to regulation and control expenses and business development and support expenses has some appeal. However, from a practical perspective, Tasmania does not believe that data are available to support this approach. The logical approach would be to disaggregate according to industry. This more closely reflects the assessments the Commission currently makes but it would aggregate those categories that are immaterial on a stand-alone basis. On simplicity grounds, this approach would be less complex than splitting regulation/control costs from business support/development costs, and would more easily follow the GFS structure.
120. Tasmania acknowledges the Commission staff's concerns that business/development costs could be policy influenced. Nevertheless, a better HFE outcome would be achieved by applying disabilities to the combined business support/development costs and regulation/control costs than treating the whole as EPC. The Tasmanian Department of Primary Industries and Water advise that a greater proportion of costs are likely to be associated with regulation/control expenses than business development/support expenses.

121. Commission staff suggest in paragraph 26 of the Services to Industry section of the Discussion Paper that a split by industries could be made by separating agriculture from other services to industry expenses, as the evidence suggests this is material on its own (ie it accounts for about one third of all services to industry expenses) and that there are likely to be disabilities that are material (but this would need to be confirmed). Commission staff argue that all other expenses could be assessed together.
122. Primary Industries are important in Tasmania due to the fact that these industries contribute proportionally more to Tasmania's economy than they do for the national economy. This reflects, in part, the fact that Tasmania has a higher proportion of good quality agricultural land (and forestry and fishing resources), supported by other natural resources (ie water/rain).
123. The number and size of primary industries establishments are a result of physical/natural features of the land. That is, establishments locate where the resources are. Tasmania tends to have a higher proportion of small establishments (ie farms) because the natural features of the land effectively remove the possibility of creating larger fields/paddocks/etc through merging farms. This therefore affects the regulatory task.
124. The regulatory task is also a need and not a matter of policy choice. Government's regulate certain industries where there are significant public health and/or environmental concerns. This applies to animal slaughter, dairy, eggs, etc. Often the standards to which regulatory checks are made are national standards.
125. In terms of reliable data that would allow for the measurement of disabilities, the data currently used to assess the primary industry category are considered by the Commission to be reliable and fit for purpose. This is reflected in the Commission's decision when it introduced the use of the current data (establishment counts from ABS publication 7121.0 Agricultural Commodities), in the 2006 Update to replace Australian Business Register data.
126. It would seem a backward step in relation to robustness and transparency to use factor income or GSP as an indicator for primary industries when reliable data that are likely to more accurately reflect the regulatory task are available.
127. Tasmania agrees that all other services to industry could be assessed together as EPC if each of the industries is not material in its own right and that reliable data are not available. Tasmania suspects that mining, fuel and energy may be material for some states and that these states may argue there are disabilities associated with this industry.
128. Where a separate assessment for mining, fuel and energy may face problems is with obtaining reliable data to measure disabilities. In the 2006 Update, the Commission found that business register counts for mining, fuel and energy were not fit for purpose and instead introduced factor income as the basis to measure these disabilities. Tasmania opposed, in principle, using factor income (or GSP) because it did not capture the influence the Commission is attempting to measure. However, Tasmania stated that, pragmatically, should business register data be found to still be not fit for purpose, it accepted that the Commission had no other alternative but to replace the data. Assuming there

are no better data to measure mining, fuel and energy, the use of factor income post 2010 would need to be questioned in light of the more stringent reliability tests required under the 2010 Review terms of reference.

Western Australia's proposal to enlarge the Services to Industry block

129. At the 7 September 2006 meeting, Western Australia raised the idea of enlarging the Services to Industry block to incorporate both economic and environmental services, and effectively bring across some services from other blocks (such as national parks and water subsidies, regulation and planning).
130. Conceptually, this idea has some appeal but Tasmania suspects that there are likely to be some practical difficulties. Some of these difficulties might not be that great if it were decided that all expenses should be assessed EPC, but this is not Tasmania's view, and is unlikely to be the view of some other states. If there is a case to assess disabilities for services such as primary industries, mining, national parks, etc, then it would make it difficult to account for the disabilities in a simple way within one Services to Industry block. In this event, it would be simpler and more transparent to disaggregate.
131. Aside from the complexity of an aggregated assessment, it is doubtful whether there are reliable data to support this approach.

OTHER SERVICES

Do states agree with an EPC assessment for all expenses (excluding the common factors which are not considered in this Paper) under Other Services? If not, how would you go about the assessment, and on what basis?

132. The proposed Other Services block contains services that are heterogenous and distinct services. These include general public services (such as expenses on the parliament and treasury), recreation and culture (including national parks, recreational facilities, cultural facilities and broadcasting/film), debt charges and natural disaster relief.
133. While the administrative and whole-of-state nature of some of these expenses are driven by the size of the population, the following expense categories have very different cost drivers:
 - *national parks and wildlife* – where quantity of services may be affected by the physical and biological characteristics of a state and demand for the services;
 - *debt charges* – affected by the quantity and cost of borrowings; and
 - *natural disaster relief* – influenced by features of the national environment.
134. Tasmania believes that a broad indicator, based on total population may suffice as an indicator of the size of the task for general public services, much of the recreation and culture expenses and part of the miscellaneous and other purposes expenses (assuming common factors, such as administrative scale, are still recognised where appropriate). However, for national parks and debt charges, there are specific disabilities that need to be recognised if an outcome that is consistent with fiscal equalisation is to be achieved.

135. Tasmania has a disproportionately greater number and area of national parks. Visiting national parks is a major attraction for most visitors to Tasmania and is a regular event for many resident Tasmanians (due to close proximity to the parks from their place of residence). Tasmania is of the view that there are disabilities that should be accounted for, whether in a stand-alone category or within an aggregated category.
136. It is necessary to establish a measure that links service levels to aspects of the physical environment. The major driver of costs in national parks is persons visiting the parks, because states need to manage the environmental impact that visitors can have as well as ensuring safe and appropriate access to the parks.
137. Tasmania recognises that data comparability relating to visitor number statistics provided by the states continues to be problematic. As an alternative, further investigation of the annual survey data that is produced by the former Bureau of Tourism Research (BTR), now known as Tourism Australia, on the number of international and domestic tourists who visited national parks may be warranted. Commission staff examined this data in the 2004 Review and noted that “the figures submitted by the states produced more or less similar rankings of the states.”
138. Natural disaster relief expenses could be assessed on an APC basis. Tasmania believes that actual state expenditures (net of Commonwealth natural disaster support) may be an objective and reliable measure of needs. It may be possible to combine an assessment of natural disaster relief expenses with other APC assessments.

Do states believe that disabilities can be reliably determined and applied for debt charges? If so, how would you propose doing this?

139. A strong conceptual case exists for assessing debt charges separately. A variety of socio-demographic and environmental influences and access to other funding affect the quantity of borrowings that states need to make to obtain assets used to provide services. These influences clearly vary across states, with the cost of borrowings also differing.
140. Debt charges are also material, with average gross expenses being around \$280 per capita. The Commission acknowledges that gross debt charge expenses are available at the 3-digit level. It is the disaggregating of the proportion attributable to non-financial assets which is problematic.
141. Debt charges should be assessed on a net basis. The level of a state's gross debt is a product of both policy choice, in that most states maintain a level of gross debt significantly greater than their net debt requirements, and the need to hold financial assets for cash management purposes and to meet liabilities such as superannuation.
142. Tasmania suggests that there is potential for operating disabilities to be used as a proxy for the drivers of the need for new capital expenditure. Recurrent disabilities can be used in relation to capital needs. Tasmania has consistently argued that factors such as employment status, education and income level and source contribute to the demand for state government services. Demand for

government services is generally higher for individuals and/or households with a low socio-economic status.

143. A state with a relatively high demand for services would require a relatively higher level of capital (and consequently debt) in order to deliver the high level of services. Recurrent disabilities (such as service delivery and administrative scale and socio-demographic composition) provide a reasonable starting point from which to measure the relative demand for capital stock and the resultant debt charges expense.

APPENDIX 1 - SUMMARY OF TASMANIA'S POSITION ON DISAGGREGATING EXPENSES³

Block	Categories	Indicators	Key Drivers
Education	Schools Education (possibly disaggregated further on simplicity and transparency grounds)	Population	Population aged 4 to 17 Cost differences – government/non-gov Cost differences – primary/secondary Low socio-economic status
	Tertiary Education (possibly VET only, with Universities assessed EPC with other EPC assessments)	Population	Population aged 18 to 59 Employment status
Health	Admitted Patients	Population	Very young (aged 0 to 4) Aged persons Low socio-economic status Women of child bearing age
	Community, public and non-admitted health services	Population	Aged persons Disabled persons Mentally ill persons Low income/low socio-economic status Availability of substitute private services

³ The key drivers are those that Tasmania considers are important factors influencing service delivery costs in Tasmania. The list is not intended to be an exhaustive list of key drivers affecting service delivery for all states. Tasmania acknowledges that there are likely to be other key drivers for other states. The list does not include common factors which may apply, such as administrative scale and input costs.

	Welfare, Housing and Community Amenities (possibly disaggregated further on simplicity, transparency and data availability grounds)	Population	Aged persons (65 plus) Disabled persons Low income/low socio-economic status Young persons (aged 0 to 17) Single parents/families with children under 14 Location factors (rural/urban)
Law and Order	Justice Services	Population	Young males aged 10 to 29 Low socio-economic status
	Public Safety and Emergency Management	EPC	None
Transport and Communications	Roads	Road length/state shares of road lengths	Road use Cost differences - Urban versus rural arterial roads Physical environment
	Transport Services	Population	Low income/low socio economic status Aged persons (pensioners) Students Urban size
Services to Industry	Primary Industries	Establishment counts	
	Other Industries (possibly disaggregated further to assess needs for mining, fuel and energy, if material and reliable data available).	EPC	None

Other Services	Debt Charges	Net Debt	Low income/low socio economic status
	National Parks	Visitors to national parks	
	Other (Natural Disaster Relief could be assessed APC).	EPC	None

ATTACHMENT 2 - SOCIO-ECONOMIC STATUS AND LAW AND ORDER

1. In Staff Discussion Paper 2006/06, *Disaggregating Expenses*, Commission staff identify males aged 10 to 29 and indigenous persons as the main drivers of demand for law and order services. This pattern is broadly consistent with the CGC's current assessment methods.
2. Notwithstanding, an examination of time series data reveals significant variation in crime rates over time, both at an aggregated and a disaggregated level. The population of male youth and indigenous people, on the other hand, evolves only slowly over time. The relatively small changes in the proportion of these population groups over any given period cannot explain the large variations in crime rates. Clearly there are other factors at work.
3. Tasmania suggests that the socio-economic status of the population, and especially of young males, has a large impact on offence rates. A measure of socio-economic status could thus be a very suitable broad indicator for the 2010 Review.
4. Research suggests that socio-economic conditions can affect the incidence of crime both directly and indirectly. While there is evidence that relative economic adversity motivates some individuals to offend for purely financial gain, there is also evidence that economic stress, whether in the form of low income, unemployment, or both, creates conditions conducive to offending. For example, economic stress can have significant effects on the prevalence of child neglect and abuse in the community. This abuse and neglect is itself strongly linked to the propensity to commit crime.⁴
5. Tasmania notes that the Commission considered and tested for the impact of socio-economic status on some law and order expenses during the 1999 Review, and did not establish a link between the two. It also found that the research literature was inconclusive on the subject.
6. However, measures of the link between socio-economic status and crime are very sensitive to the methodology used, the socio-economic variable tested, the crime or crimes tested against, how the crime rates are aggregated, and the availability of data. For example, while some studies have found a link between *absolute income* and crime, many others have found that no link, or only a weak link, is apparent. However, studies of the link between *income inequality* (or relative disadvantage) and crime, or unemployment and crime, usually find strong positive links, suggesting that some socio-economic variables have a far greater impact on criminality than others.⁵
7. In terms of methodology used, many *time series* studies of socio-economic status (unemployment in particular) and aggregate crime rates have found that there is little relationship between the two. Cross-sectional studies, however, have

⁴ Weatherburn, Don and Bronwyn Lind, 'Poverty, Parenting, Peers and Crime-Prone Neighbourhoods', *Trends and Issues in Crime and Criminal Justice*, Australian Institute of Criminology, April 1998.

⁵ Weatherburn, Don, 'Economic Adversity and Crime', *Trends and Issues in Crime and Criminal Justice*, AIC, August 1992.

overwhelmingly identified a significant positive relationship.⁶ The link between unemployment and crime becomes even clearer at the level of the individual offender.⁷

8. Some researchers have also attempted to resolve the generally weak case for a time series relationship between unemployment and crime by examining more critically the measure of unemployment used.⁸
9. The Commission has noted in previous reviews that a number of studies have found a neutral or even a negative relationship between indicators of socio-economic status and crime. However, according to Weatherburn, the results of at least some of these studies can be attributed to 'poor study design, inappropriate methodology and crude measures of the incidence of offending'.⁹ There is evidence that when the most methodologically 'flawed' studies are removed from any sample reported in the literature, the case for a positive link between socio-economic status and crime becomes significantly stronger.¹⁰
10. Tasmania acknowledges that the relationship between socio-economic status and the law and order task is more difficult to study than that of male youth or indigency. For this reason, if further evidence is needed, it may be appropriate for the CGC to engage the services of a specialist in this area, preferably a criminologist with a background in quantitative methods.

⁶ Collins, Mark F. and Don Weatherburn, 'Unemployment and the Dynamics of Offender Populations', *Journal of Quantitative Criminology*, vol 11, no. 3, 1995, pp 231-232.

⁷ See, for example, Weatherburn, 'Economic Adversity and Crime'. Weatherburn cites several studies that find high levels of former unemployment and socio-economic disadvantage in offender populations.

⁸ Kapuscinski, Cezary A., John Braithwaite and Bruce Chapman, 'Unemployment and Crime: Toward Resolving the Paradox', *Journal of Quantitative Criminology*, vol 14, no. 3, 1998, pp 215-243.

⁹ *Ibid.*

¹⁰ *Ibid.*