



Queensland Government
Treasury

Queensland Treasury Response to Commonwealth
Grants Commission Issues Paper 2006/11

Initial Views on Assessment Structure and Approaches

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Introduction

Queensland broadly supports the Commission's proposed top-down approach to determine an appropriate level of disaggregation and identification of broad indicators for categories in the 2010 Review of Methodology.

Queensland believes that this approach will substantially simplify the assessment process and improve transparency. The 2010 Review is an opportunity to establish innovative methods to undertake the assessments while still retaining the objective of equalisation. It should be noted that substantial change to the assessment category structure is not the only way to achieve simplification, and in some cases minor changes to the current assessment methodology may be the best approach.

Queensland supports the development of a suite of simple assessments that use readily available, robust and reliable data. Queensland believes that the Commission's guidelines are appropriate to ensure robust and workable assessments are created, although it remains to be seen how the materiality thresholds are applied during the process of creating the new assessments.

The Approach

Queensland believes the overall objective of the 2010 Review process is to achieve a simplified assessment while still achieving equalisation. In keeping with this aim, disaggregating categories, and using adjustments or weights should only be done where necessary to improve the overall results.

By using broad indicators it should be possible to keep the assessments at a higher level of disaggregation and achieve simplification compared with the current assessments. It is however important that the indicators are not so broad that they no longer reflect an accurate measure, or significantly change the equalisation result. If the indicators are too broad it is also likely that adjustments will be required to allow for differences between states and this will inevitably add to complexity.

By using data from independent sources where possible, the Commission can also ensure that assessments are transparent and comparable between states. Queensland's preference is for the Commission to avoid using state based data in expenditure assessments because experience shows that this is a major cause of data comparability problems.

Common Factors

Queensland believes that the location effects should be examined separately as a common factor rather than as adjustments to populations as proposed in some assessments. The effects of dispersion particularly are large and warrant separate examination to ensure that the full effects are acknowledged.

In saying this however, Queensland believes all of the current location based disabilities should be examined with a view to simplifying these common factors. A similar methodology should be used whereby a conceptual case is established before identifying an appropriate methodology and supporting data availability.

Structure of Assessments

Queensland would like further information about how the assessments will be structured. In particular, advice is sought for assessments that have been proposed to be treated as EPC.

Queensland would like to know whether categories proposed to be treated as EPC will:

- assess the entire category as EPC;
- assess parts of the category as EPC and other parts as differential assessments; or
- take account of common factors such as dispersion.

The treatment of these categories may impact the simplification and equalisation result of the assessments and therefore Queensland would like further information before it can provide definitive comments on these categories.

Revenue

Queensland notes that at this point the Commission is still investigating category structure and indicator issues, so it is not possible to provide comment on all aspects of the revenue assessments. Nonetheless, Queensland wishes to raise a number of issues which the Commission may find useful in its ongoing investigations. In particular, there are some areas where it would be useful if the Commission can provide more information. Where possible, these have been mentioned below.

Payroll Tax

The Commission proposes to include a separate category for payroll tax revenue assessment. The broad indicator proposed would be compensation of employees (COE) with adjustments to exempt government activity and small businesses to account for the exemption thresholds in states. The main change from the current method is making a broad allowance for the effect of the tax free thresholds by weighting the COE of certain industries to reflect the fact these industries are more likely to be over the tax free thresholds.

Queensland supports the separate assessment of Payroll Tax and considers compensation of employees to be an appropriate broad indicator of capacity to raise revenue. However, some of the adjustments that are proposed will require more explanation or exploration before Queensland can fully support them.

The use of compensation of employees as a broad indicator means that the assessment will be relatively simple and robust. These data are readily available from the Australian Bureau of Statistics (ABS) or the individual states and, more importantly, are reliable and comparable between states.

The Commission has proposed making adjustments to the compensation of employees' data to reflect the average exemption policy of states and also to reflect the different impacts of the government sector on this indicator. The concept supporting these adjustments is sound. However the use of weightings to make the adjustments will result in a less transparent assessment.

Queensland considers that the reduced transparency incurred in using weights will reduce the robustness and acceptability of the proposed assessment, while the current assessment provides an appropriate balance of suitability, reliability and transparency.

Land Tax

The Commission is proposing a fundamental review of the assessment and is seeking policy-neutral broad indicators of the revenue base, but has not yet identified a suitable indicator.

Queensland has concerns about the interstate comparability of land value data and supports the Commission seeking a more robust base for the assessment, involving either more reality checking on existing data, or possibly by developing a policy neutral indicator of land values.

In principle, the use of state provided land values is an appropriate base for the proposed assessment because these are the values that are used to levy land tax. However, land values are influenced by a broad range of policy as well as non-policy factors and the policy effects are likely to be difficult to identify.

Despite potential limitations, land value data are readily available from state valuers and/or state revenue agencies and therefore, at this point in time, this measure appears to best represent ‘what states do’.

Queensland looks forward to receiving further advice regarding possible policy neutral indicators.

Mining Revenue

The Commission is considering the merits of the alternative indicators of value of production, total factor income of mining industry, and gross operating surpluses.

Queensland's view is that the Commission can either progress with partial simplification or a substantial overhaul of the current mining assessment. Both options would result in simplified assessments of mining revenue but it is questionable if a significant change to the current methodology is required.

Queensland remains opposed to using profitability, or a proxy measure of profitability, as an indicator of the mining revenue base. There are a number of external factors that can affect profitability which are not directly related to states ability to raise revenue from mining.

Profitability, or gross operating surplus, has little correlation to mining revenue as in most cases states base their royalty regimes on value or volume and not profitability. Obtaining reliable and timely profitability information from mining companies is likely to prove difficult. Further, the data are highly likely to be variable in quality, and variable over time, and between states.

A key conceptual concern with profitability data is that States have no constitutional capacity to tax profitability (income). Profit is therefore not a valid basis for a revenue assessment.

Queensland has concerns about the proposal to use factor income as a broad indicator of revenue raising capacity. As an indicator it has the same problem as profitability in that States do not have any power to levy taxes on profitability (or operating surpluses).

Queensland also has concerns about the reliability of the factor income data. The Queensland Office of Statistical and Economic Research has publicly raised concerns about the accuracy of the current ABS state-level data.

Value of production is a conceptually sound indicator because it is the most accurate reflection of ‘what states do’. The majority of revenue raised in the mining assessment is from royalties, which are calculated using value of production.

Data on the value of production from the mining industry are available from the ABS and if used it would allow the Commission to source these data from non state sources. Queensland supports the Commission working with the Australian Bureau of Statistics (ABS) to develop the reliability of their mining data.

Stamp Duty on Conveyances

The Commission is investigating using a policy-neutral approach by using secured housing finance loan commitments to measure the revenue base. If this does not prove satisfactory then a simplified version of the existing method will be sought.

Queensland supports the creation of a separate category for stamp duty on conveyances, separate from the other transaction taxes such as stamp duty on motor vehicles, and insurance tax. The drivers of stamp duty on conveyances and the revenue raising capacities of states are conceptually different enough to require a separate assessment.

The current stamp duty on conveyances assessment uses the total number and value of transactions as an indicator of revenue base. The concept of using this indicator is sound as it directly relates to the calculation of duty and therefore state revenue raising ability. However, due to different rates of tax and thresholds in each state there are a number of adjustments that are required to arrive at an average policy.

The Commission is currently investigating using secured housing finance loan commitments as a broad indicator of the conveyance duty base. Queensland has some concerns that the proposed indicator does not provide a conceptually valid and complete base on which to base the proposed assessment. If it is pursued, it would need to be clearly demonstrated that a strong link between these factors exists.

If the Commission were to use housing finance commitments as an indicator it is also proposes to apply weights to the data to account for different investor behaviour in different states. The rationale for using such weights is not clear, and likewise it is not clear how the weights would be calculated. Generally, the use of weights for an assessment adds complexity through the addition of another moving part. Queensland would appreciate more information explaining why these weights are to be used, how the weights proposed in the Discussion Paper were calculated and whether such an adjustment would be material. An alternative proposal suggested by the Commission is to compare the long term patterns of land price and payroll base changes which can explain longer term patterns with conveyance duty. Queensland does not believe that there is a sufficiently robust relationship between these factors to enable an assessment to be built around the resulting data. Queensland does not support this option.

Queensland believes that the current data provides a sufficiently robust starting point for this category, although there is scope for the Commission to investigate any problems it believes may exist with the State provided data.

Insurance Taxes

The Commission proposes to assess insurance tax separately to the other transaction taxes. The proposed broad indicator of revenue base is total insurance premiums from all sources.

Queensland supports the disaggregation of insurance tax from the proposed transaction/turnover tax category. The drivers and measures of revenue base of insurance and stamp duty on conveyances are too different for them to be assessed together.

There is no easily identifiable way of aggregating insurance tax with any other tax source due to differing data requirements, sources of data and drivers of insurance. Unlike other revenue

streams it appears difficult to create a link between economic factors (such as income or population) and trends in insurance revenue.

The use of total insurance premiums as an indicator of revenue base appears sound as the data compiled by the Australian Prudential Regulation Authority (APRA) is available for all states and comparable between states. Insurance tax is levied by states based on the insurance premium data that it receives from insurance providers.

It would be useful if the Commission could clarify the proposed treatment of fire insurance levies, which are currently included as Public Safety and Emergency Services user charges.

Motor Vehicle Taxes

The Commission proposes a single motor vehicle taxes category which would include the current categories of light and heavy motor vehicles registration and motor vehicle transfer fees. The proposed indicators are new vehicle sales and vehicles on register. This data is to be gathered from the ABS annual census of vehicles. It is suggested that these indicators are weighted to reflect the common higher taxes on heavy vehicles. The proposed weights are 1 for light vehicles and 10 for heavy vehicles.

Queensland supports the conceptual basis for including vehicle registration and transfer fees in this category. The data compiled from the ABS annual census of vehicles as the basis for the proposed indicator appears to be a valid and comparable source of data

The Commission's proposal to weight the two vehicle categories could be viewed as a further disaggregation of the category. However, assuming that the weights that are applied within each of the current motor vehicle assessment categories are not applied, substantial simplification could be achieved. To ensure transparency, the Commission would need to explain how it has derived the weights it intends to use.

Miscellaneous Revenue

The Commission has proposed a miscellaneous revenue category that will encompass gambling tax, financial transaction taxes, and stamp duty on marketable securities, user charges and fines.

Queensland supports the Commission's proposed aggregation of the other revenues into a miscellaneous revenue category. However Queensland does not agree with the proposal to treat this category on an EPC basis. Queensland's view is that a broader indicator such as GSP or Household Disposable Income is likely to give a better indication of the States' residual capacity to raise revenue.

There are two major assumptions that could be made about states' capacity to raise Miscellaneous Revenues. The first is that all states have equal capacity to raise Miscellaneous Revenues. This assumption is not consistent with current revenue categories which indicate that there are substantial differentials between the states revenue raising capacities.

In principle it is more likely that states residual capacity is related to either the size of their economies or household disposable income. Queensland would support the use of an indicator which reflects known differences between the states, in preference to using EPC, which assumes that differences do not exist.

The Commission's paper is not clear on how user charges are to be dealt with as in the discussion paper. The only reference to these charges in the discussion paper is to them being included in 'miscellaneous revenue or some mixture of these'. It would be useful if the Commission could clarify its intentions in relation to the treatment of these user charges.

Expenses

Education

The Commission proposes to disaggregate the education assessment into the two categories of:

- **Schools education; and**
- **Post-secondary education**

Queensland recognises that the conceptual bases of these two categories are sound, as the services of each category are distinct and targeted to different population groups. Compulsory schooling forms the basis of the school education category and so includes younger sections of society and provision of core education skills. Post-secondary education is the provision of job specific training and skills enhancement and can encompass a broad spectrum of the population.

Schools Education:

In the school education assessment, the Commission proposes the broad indicator of:

- **population aged 4 to 17**

Queensland supports a broad population indicator as this will provide an appropriate measure of the school education task faced by states. Queensland considers the use of enrolments data would not provide a policy-neutral indicator of the demand for school education. It is possible that enrolment rates could be policy influenced, for example interstate differences in compulsory school attendance.

Queensland notes that the proposed education assessments could include adjustments for:

- differences in per unit costs of government and non-government students; and
- differences in the cost of providing services to students with indigenous, low socio-economic or remoteness characteristics.

In this regard, Queensland notes that transport of rural school children is a location based disability which could be treated as part of a common factor location based disability assessment, as this disability will not be apparent from either enrolment or population data.

Further clarification is required of the proposed adjustment for ‘differences in retention rates.’ If the broad population indicator is used as a measure of demand for school education, it is not clear why an adjustment is required for retention rates. These rates are heavily influenced by policy decisions of states about the school ‘leaving age’ and in any case, the majority of states are expected to have broadly consistent ‘learning or earning’ policies in place by 2010. As a result, a retention rate adjustment is unlikely to have a material impact on the assessment.

Post-secondary education:

The Commission’s proposed use of enrolment rates as a broad indicator in this assessment category is consistent with the approach proposed in the school education assessment category. Enrolments and contact hours would not be policy neutral measures and it would also require a very fine level of detail, which states would have to provide. This approach is not in line with the simplification agenda.

Queensland supports in principle an age-based broad indicator. The proposed age range of 15 to 59 years is a sensible starting point. It is worth noting that in 2005, more than half (53.2%) of government-funded VTE students nationally were 25 years of age or older¹.

Population characteristics alone may not capture all state differences affecting the cost of service provision, especially the differences in the ability of individuals to attend post-secondary education institutions.

Location and Indigeneity both have significant impacts on the costs of service provision and the Commission has addressed these in its proposed adjustments:

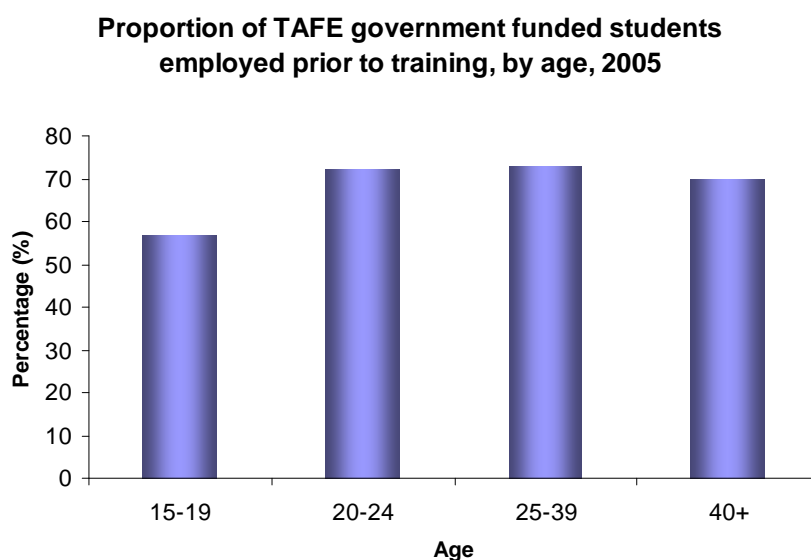
- differences in employment status, location and indigeneity on the use of services; and
- differences in the cost of providing services to students who are indigenous, or who live in sparsely populated areas.

Queensland supports the Commission's proposal that location and remoteness influence the cost of service provision, although this may be better addressed under a broader location based disability.

Queensland does not believe that the proposed adjustment of 'differences in employment status' is appropriate. In 2005, 87% of all government-funded VTE students nationally were part-time students¹. This suggests that of VTE students, only 13% were considered unemployed. Unemployment status is not a key driver of demand for post-secondary education services:

- people who are employed are equally likely to attend post-secondary education facilities;
- people under-taking post-secondary courses often work on a part-time basis; and
- persons undertaking apprenticeships offered through post-secondary education facilities are considered to be 'employed.'

Of government-funded TAFE graduates in 2005 72% of 20-24 year-olds, 73% of 25-39 year olds and 70% of those 40 years and older were employed before TAFE training (see figure below).



¹ Data source: The Annual National Report of the Australian Vocational and Technical Education System 2005.

Further, enhancing the skills of those already in the workforce is an increasing priority for the system. The emerging skills shortage is becoming widely acknowledged. Recent research undertaken nationally by all jurisdictions indicates that, looking ten years out, there is a need to increase the number of skilled Australians in the workforce.

With demographic ageing, there will be relatively fewer new entrants to meet this need for more skills in the workforce. There is a need for an increasing emphasis on up-skilling those already in the workforce, not just new entrants and the unemployed.

Health and Welfare Services

The Commission proposes the disaggregation of health and welfare services into four categories:

Health

- **Admitted patient services; and**
- **Community and other health services.**

Welfare Services

- **Welfare and housing; and**
- **Services to communities.**

Queensland supports the proposed categories. It is noted that the Commission is yet to discuss some important aspects of the assessments, such as, which age groups in particular the Commission intends to use in the Admitted Patients assessment. Similarly, the Commission has not finalised a methodology to determine demand for community and other health services. Until these details are clarified it is difficult to make a considered response to the proposed approaches.

Admitted patients:

The Commission proposes to adjust total population for differences in the intensity of use and cost of services among:

- **different age groups;**
- **people who are Indigenous or not Indigenous; and**
- **people living in different locations.**

As mentioned earlier, the Commission has not provided details of which age groups it intends to use to adjust the broad population indicator. Simplification of this assessment category will be strongly influenced by the Commission's decisions about which age groups to use. Queensland supports an adjustment for age, in principle, but requires additional information before that support is unconditional.

An adjustment should be made for socio-economic status as it is widely recognised that people from low socio-economic backgrounds are, generally, heavier users of public health care services, including hospital services. Queensland considers that an adjustment of this nature would have a material impact on equalisation.

Queensland anticipates that the methodology for this assessment category can be simplified substantially, and encourages the Commission to investigate options that are determined by the drivers of costs, rather than by data sources

Community and other health services:

The Commission has not identified an appropriate broad indicator for the assessment of Community and other health services. Queensland does not support the proposal of using mortality as a broad indicator of health status. This measure was discussed at a staff conference in 2006 and was criticised by all states.

In part, mortality was not supported because it is a outcomes based measure, which states and the Commission agreed was not an appropriate measure in the equalisation process, as this would impinge on the sovereignty of states. Of more concern is that mortality could be viewed as a measure of failure, rather than the demand for community and other health services. Morbidity or incidence of disease, although not ideal, would be a preferred broad indicator. Although there is the issue of isolating hospital admitted diseases from the indicator in order to accurately assess community health services alone. Queensland does not support an EPC assessment for the Community and other health services category and encourages the Commission to consider all possible broad indicators.

The Commission has outlined both a 'health needs approach' and a 'minimum level of service' model, Queensland has concerns with both these proposed methods of assessment.

The proposed health needs approach appears to be more data driven than conceptually based and is heavily policy influenced. Queensland notes the following statement in the Discussion Paper: "the administrative data available on the use of community and other health services by various groups in the population appear to be heavily affected by State policy choices on service delivery arrangements". This is likely to be the case, which is why Queensland encourages the Commission to identify the primary cost drivers for these services to determine the appropriate assessment methodology for this category.

The underlying conceptual basis for the minimum level of service approach cannot be supported by Queensland. While it certainly true that the availability of alternative health services influences the need for states to provide health services, it is an element of the costs faced by states, not the primary driver of costs. Even if the conceptual basis was valid, the approach would not be policy-neutral. Queensland considers that certain groups within the community disproportionately seek community and other health services, such as indigenous people and people from a low socio-economic status background. Queensland seeks further information regarding how these assessments would be constructed and what data would be used in doing so. At this stage, Queensland can only encourage the Commission to carefully evaluate the proposed methodologies, including the use of a broad indicator(s).

Welfare

Queensland supports in principle the disaggregation of welfare categories to the two category structure of 'welfare and housing' and 'services to communities.' Demand drivers for welfare for welfare and housing services tend to be income related and as such are distinct from the drivers for community amenities. While welfare and housing services are provided to individuals or groups from disadvantaged groups of the population, community amenities are provided to the larger population and whole communities. These communities are often in remote areas and the need for services is often determined by the physical environment and location.

Welfare and housing:

The Commission proposes to assess the welfare and housing category by adjusting a broad indicator of total population with differences in the proportion of priority user groups between states. The main user groups suggested are:

- **low income people;**
- **indigenous people;**
- **people in different age groups; and**
- **people living in different parts of the State.**

Queensland supports in principle the proposed broad indicator of total population. On the whole Queensland finds the adjustments to be conceptually valid as disadvantaged groups are the main users of welfare services. The adjustment for people living in different parts of the State may not be necessary as it could be treated as a location-based disability and assessed as a common factor. Further consideration of which age groups have the greatest impact on demand for services is required.

Services to Communities:

The proposed indicators for the assessment of services to communities are a weighted combination of the:

- **impact of the physical environment on the need for water and sanitation subsidies;**
- **impact of physical distance from the grid on the need for electricity subsidies; and**
- **Special community service needs of discrete indigenous communities.**

Due to the diverse nature of expenses in this category, no single broad indicator for this category is apparent. Queensland supports the Commission exploring the suggested indicators further to establish their reliability.

The Services to Communities category broadly appears to be an issue of remoteness and location-based disability. Each of the proposed indicators includes some mention of physical environment and distance.

Law and Order

Queensland understood that at the Officers Conference of 7th September 2006 it was agreed by all states that there was no benefit in disaggregating Police Services into different categories. This issue was discussed in detail, with states and the Commission reaching the view that the drivers for police costs and justice services were so similar that they could be assessed together.

The proposed use of data provided by the Productivity Commission (PC) to split the police services expenses also seems to be at odds with the Commission's preference of using reliable and comparable data in assessments. The PC report itself points to data comparability issues between states and a number of states have either not responded or have shown dramatic fluctuations across the three year period examined. It will need to be confirmed that the data are accurate, reliable and comparable before they can be used for the basis of splitting expenses.

The Commission's proposal to disaggregate the Law and Order category appears to be inconsistent with the direction in the terms of reference to simplify assessments and to where

possible use only 2 and 3 digit GPC's. To create the proposed assessment will require splitting one 3 digit GPC into two 4 digit GPC's and then further splitting one of these 4 digit GPC's into two categories. While this may be an appropriate end point, it should only be arrived at after the Commission has thoroughly examined the other options available.

The proposal to split Police expenditure degrades the simplicity and transparency of the Law and Order assessment category. Splitting Police expenditure would be consistent with the Commission's assessment guidelines if the split was justifiable on materiality grounds, but Queensland doubts the impact of the split will be material.

Justice Services

The Commission has proposed assessing justice services separate to the remainder of the law and order expenses by using an indicator based on young males and indigenous population. Police expenses are also to be split 40% in this category and the remainder in Public Safety.

If the disaggregation is pursued, then more detail regarding the appropriate broad indicators and proposed adjustments should be provided. The current proposal is to use a broad indicator of total population with adjustments for differences in the intensity of use by, and cost of providing services to young males and Indigenous people. Queensland would expect that more details regarding the actual adjustments to the population will be provided in the Commission's next Discussion Paper.

Queensland believes that adjustments to populations as proposed to account for "people living in different parts of the state" could be dealt with as common factors in a separate location based disability factor.

Queensland supports, in principle, the use of young males as they are proportionally higher users of this service than other segments of the population. The question would be how to define the group 'young males' as there was no reference to a proposed age range in the most recent discussion paper. In the initial discussion paper an age range of 10-29 years was proposed and Queensland's statistics indicate that this group is over-represented in crime statistics.

It is not clear whether the same drivers of cost and use would be consistent for all the components of the Justice Services category. Queensland supports the Commission's further investigation into whether the effects of treating civil court expenses consistently with other judicial expenses will have a material impact on the equalisation result.

If disabilities associated with civil courts are material, Queensland would like further advice as to how these expenses would be assessed. Treating civil court expenses as a separate component in the Justice Services assessment category would increase the complexity of the assessment by adding another 'moving part'.

Services to Industry

The Commission proposes a single assessment for ‘Services to industry,’ and does not intend to further disaggregate the category to distinguish between primary industry and other industries.

Queensland supports the single category approach for Services to Industry. A differential assessment may be appropriate if states can demonstrate that particular industries incur material disabilities.

Queensland has concerns with suggestions that economic development constitutes a disability, and particularly notes that the drivers of development expenses are highly policy-influenced and so any approach to the assessment must take this into consideration.

The Commission’s intended survey to states to identify drivers of expenses in services to industry may be unnecessary, as states with suggested indicators for the assessment can forward them to the Commission themselves.

Roads

The Commission has proposed a separate assessment of roads expenses with the following options for determining the size of the task:

- **a simplified network based on actual roads;**
- **a synthetic network; and**
- **proxy measures (such as fuel consumption and population weighted distances).**

At a conceptual level, Queensland supports the disaggregation of roads from other transport services due to the differing nature of the two services provided. The expenses for Roads are mainly for maintenance and rehabilitation areas whilst Other Transport contains subsidies for transport services, water transport, pipelines and also communications.

Due to the different nature of the expenditure and drivers of use of the services, maintaining a single Transport and Communication category would most likely result in an unsatisfactory assessment. Queensland supports the proposed separation of the two categories into Roads, and Other Transport services.

The use of either a simplified network based on actual roads or a synthetic model would eliminate any policy influence and data discrepancies that exist currently. Once such a model is fully developed it would enable a simple assessment whilst being totally transparent.

Queensland commends the Commission’s current work in developing a simplified model to calculate the road maintenance task in the Update process. This approach is in keeping with the Commission’s clean slate approach and desire to simplify the assessments. This kind of approach would fit well with the Commission’s 2010 Review objectives.

The use of proxy measures such as fuel consumption or population weighted distances represents a step away from simplification of the assessment. Sourcing reliable data that directly measures fuel consumption and road use is likely to result in similar issues to those being faced in the current Roads assessment.

Other Transport Services

The Commission is planning to assess Other Transport services expenses separately from roads expenses and is looking to develop an assessment based on the drivers of subsidies by looking at urban populations by size and the number of concession holders.

As described above in 'Roads', the separation of Other Transport Services into a discrete category is conceptually sound. The main expenses in this category are subsidies provided to providers of transport services in both urban and non-urban areas. These subsidies are of a much different nature, and have different drivers than roads.

Queensland considers that the proposal to base an assessment on urban populations with weightings for concession card holders and the size of the urban centre has merit. The main contributors to this category are subsidies to providers of urban transport services and a model that captures the main drivers of these subsidies warrants further investigation.

Queensland supports further examination of the drivers of the differences in the intensity of use by, and cost in providing services to different segments of population. Queensland agrees that initial areas of focus should include the differences for rural and urban populations in centres of differing sizes and densities and concession card holders.

The Commission has proposed the use of a population measure of 50,000 people to determine urban centres for the transport assessment. The Commission could remove a small inconsistency between the Roads and Transport categories by standardising the criterion for defining an urban centre. In the roads assessment 40,000 is used as the criterion for defining an urban centre. There are only six centres with populations between 40-50,000 (Albury, Wagga Wagga, Bundaberg, Tweed Heads, Bunbury, and Mandurah).

Neither the Roads nor Transport assessments are likely to be materially affected by standardising the urban threshold.

Other Services

The Commission acknowledges heterogeneity of the services in Other services and does not propose to further disaggregate the category as no conceptual basis has been made. However the Commission does recognise that there are some specific disabilities affecting some services, namely debt charges, national parks and natural disaster relief.

Queensland questions whether depreciation and debt charges should be reviewed with a view to recognising the impact on states which have large infrastructure programs. There is an issue here in that current infrastructure designed for future higher populations has relatively higher per unit operating costs than it will when an optimal service population is reached. This is an economy of scale issue with infrastructure delivery, which introduces an additional cost to states with rapidly growing populations.