Commonwealth Grants Commission
2020 Methodology Review

Tasmanian Government Submission in response to the CGC's *Staff Draft Assessment Papers*

31 August 2018

Tasmania
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Contents

Introduction

Tasmania welcomes the opportunity to respond to the Commonwealth Grants Commission (Commission) Staff Draft Assessment Papers along with the Commission's Position Paper on the Principle of Horizontal Fiscal Equalisation (HFE) and its implementation for the 2020 Methodology Review (Review).

This paper presents the Tasmanian Government's submission in response to the *2020 Methodology Review Staff Draft Assessment Papers, CGC 2018-01/01-S* to *CGC 2018-01/25-S,* (April 2018).

A separate paper is also provided in response to the Commission's position paper, *The Principle of HFE and its Implementation Commission Position Paper CGC 2017-21*.

While Tasmania supports many of the Commission staff proposals there are some areas of concern that are discussed in more detail in the relevant Draft Assessment Paper chapters. These include:

Land tax

Tasmania considers that there is no justification for a 25 per cent discount for State Revenue Office (SRO) land valuation data because of availability and reliability issues given the Commission now has eight years of data.

Mining revenue

Tasmania recognises that the lack of data inhibits the Commission from implementing a profit based assessment, and accepts that value of production data provides a reliable source of data suitable for the Commission's needs. However, Tasmania still remains concerned that value of production data used in the assessment does not capture the higher costs and lower profitability of Tasmanian mines, and is therefore overstating Tasmania's revenue raising capacity. Tasmania considers that its circumstances warrant the application of a jurisdiction-specific adjustment.

Discretionary changes to royalty rates

Tasmania considers that there is no requirement to introduce an adjustment to enable States (Western Australia as an example) retain at least half its mining revenue from a discretionary change in mining royalty rate because:

- it is inconsistent with HFE;
- unclear how, and in what circumstances it would be implemented; and
- would be unnecessary in the event the Commonwealth Government Interim Response to the PC inquiry into HFE is adopted.

School education - specification of the regression model

Tasmania agrees with the Commission staff recommendation to progress the development of an appropriate model that overcomes the shortfalls inherent in the current model, however it has raised some concerns with the application of Indigenous Relative Socio-economic Outcomes (IRSEO) and Non-Indigenous Socio-economic Index for Areas (NISEIFA) groupings for measuring the impact of SES, and the treatment of Indigeneity measures.).

School education - data source for student numbers

a) Tasmania would like clarification as to whether the timeliness issue for the Australian Curriculum Assessment and Reporting Authority (ACARA) data relates only to the published ACARA data or the unpublished data.
b) Tasmania does not accept that there are no policy influences on the number of post-compulsory enrolments.

School education - moving student transport assessment to urban transport

Tasmania is concerned with this recommendation, as it is unclear why school transport should be assessed within the Urban transport assessment given the different cost drivers and need compared to other urban transport users. Tasmania's position is that student transport should remain in the Education assessment, despite the Commission staff concerns about the quality of the data and the complexity of the assessment. If data issues conclusively suggest some change from the current assessment, Tasmania would prefer to have the costs of student transport included in other expenses and not differentially assessed.

Health - category structure

Tasmania does not support the Commission staff proposal to adopt a single Public hospital services category that includes expenses on admitted patients, emergency departments and outpatient services, and a separate Community and public health category as the residual health category.

Services to Communities - split utilities component

Tasmania is concerned that the quality of State-provided data has not improved sufficiently to justify the splitting of the utilities component.

Justice

Tasmania has raised a number of concerns with the feasibility of moving from the current assessment of policing costs to one which incorporates a number of cost drivers, both geographic and socio-demographic based on the assessed number of offences and cost per offence.

Tasmania has a number of concerns with the staff recommendation to assess criminal matters using criminal court use rates by Indigenous status, SES and age characteristics based upon State data. Tasmania's court system does not presently maintain inclusive data on indigeneity to support this recommendation. Further, although estimates by age and traffic versus non-traffic offences are available, and can be disaggregated by Local Government Area, estimates of locality are typically low in the number of observations for the majority of localities, raising data quality issues.

Roads - National Network Roads

Consistent with Tasmania's views since the 2010 Methodology Review, Tasmania does not support the partial exclusion of certain Commonwealth Government road or rail funding because it is deemed by the Commission to be of national significance and would seek the entire, or partial, removal of the 50 per cent discount.

Transport - drivers of expense and increasing per capita expenses

Tasmania considers that the small sample size and the econometric uncertainty surrounding the model used by the Commission justify applying a 50 per cent discount as was used as a placeholder in the 2015 Methodology Review Draft Report. Tasmania also supports further investigation of other urban transport cost drivers apart from urban density.

Physical and financial assets - functionalising the assessment

Tasmania reserves its in-principle support for such a change until there is further clarity as to what the impact on the overall change in the Goods and Services Tax (GST) distribution is as a result of functionalising assessments.

Physical and financial assets - removing the 3-year average for stock disabilities

Tasmania considers that the Commission staff have not made a strong case as to why averaging should be removed other than to address an issue with averaging rural road stock disabilities. An alternative to the Commission staff proposal could be to retain averaging for all disabilities except for rural roads and only in that case use a single year disability.

Physical and financial assets - net versus gross investment

Tasmania notes that there is an implicit change to the way depreciation is being handled if it is to be subsumed within a gross investment assessment in that it will, in effect, apply a population dilution disability to depreciation expenses where currently it does not.

Wages costs

Tasmania believes that the continued use of the Compensation of Employee Statistics (CoES) data requires the Commission to reconsider its 2011 Update decision to discontinue the State specific adjustment for Tasmania.

Administrative scale

Tasmania supports the proposal to re-estimate the quantum of administrative scale costs as a priority for the 2020 Methodology Review, although it has a number of concerns that lead it to believe that the current administrative scale assessment underestimates the minimum administrative costs incurred by the smaller States and Territories (States).

Tasmania reserves the right to make further comment as the 2020 Methodology Review progresses and the effects of the proposed amendments are released to States in greater detail. Tasmania considers that any proposed changes will need to have a sound conceptual base, be backed by robust data and allow for a suitable period of consultation.

Commission Staff Quality Assurance Strategic Plan

Tasmania continues to support the existing quality assurance framework within which the Commission operates. In its response to the Commission's Staff Discussion Paper - *The Principle of HFE and its Implementation* - Tasmania reaffirmed its view that the framework was a practical approach to ensuring assessment methods are conceptually sound and based on robust and reliable data.

Tasmania notes that the *2020 Review Quality Assurance Strategy* has continued to embrace the elements adopted in the 2015 Methodology Review (and subsequent updates) to ensure that quality assurance guidelines are established. Tasmania also recognises that the major issues identified in the external auditing of the *2015 Review Quality Assurance Strategy*[1] have largely been addressed.

State concerns about the consistency of discounting applied by the Commission, and disclosure of how discounting has been applied have been addressed by the Commission by it providing *'an evaluation of the consistency of the application of assessment guidelines, especially on the consistency of application of discounts, to its assessments.'* The Commission has indicated that it will engage external consultants to ensure this strategy is achieved.

Tasmania also notes that there are several new strategies contained in the *2020 Review Quality Assurance Strategy* that have been designed to improve the timeliness of assessments and the availability of information on which those assessments are made. These include seeking input from the States on the development of equalisation principles, and ensuring consistency with the Terms of Reference (ToR).

Guidelines have also been developed to ensure improved practices in the management of data that supports the Commission's assessments. These include the use of a consistent data format and the inclusion of automated error checks.

The *2020 Review Quality Assurance Strategy*, overall, contains a number of new strategies that will ensure that the framework will continue to assist the underlying principles of equalisation by ensuring that assessment methods are conceptually sound, consistently applied and free from error. These supporting comments have also been made in response to previous Commission Discussion papers.

Tasmania, therefore, supports the *2020 Review Quality Assurance Strategy* as set out by the Commission.

[1] Lace Wang, *2015 Methodology Review - Audit of Staff Compliance with Quality Assurance Processes*, January 2015 and Glenn Poole, *Audit of the Commission's decision making process in the 2015 Methodology Review*, January 2015.

A Broader Assessment Approach

Simplifying the revenue approach

Tasmania agrees with the conclusions drawn by the Commission staff in relation to the potential use of a broader assessment approach, such as global measures of revenue raising capacity, to assessing the fiscal capacity of the States.

The global measures considered by Commission staff were found to produce outcomes which underestimated the revenue capacity of fiscally stronger States and overestimated the revenue capacity of the weaker States. Commission staff conclude that the global measures tested were therefore inconsistent with the principle of HFE.

Tasmania agrees that the current tax approach, which is based on what States do, is consistent with the Commission's requirement to distribute GST in accordance with HFE.

Tasmania has maintained this argument in its various submissions to the Commission and to other inquiries over a number of years.

Commission staff note that if the Commission's ToR were to change, then it would have to give more consideration to broader revenue assessments. Tasmania considers that if a lesser form of equalisation is introduced, such as reasonable equalisation, it would be difficult to implement and the Commission will need to make potentially contentious judgements about whether method changes such as broader revenue assessments are consistent with the revised HFE objective.

Simplifying the expense approach

Tasmania agrees with the conclusions drawn by the Commission staff in relation to the potential to simplify expense assessments. The Commission staff found that it was difficult to find an approach to this task that was simpler and still consistent with the principle of equalisation.

Tasmania, therefore, agrees with the Commission staff approach set out in the Staff Draft Assessment Paper.

The Commission's current approach to simplification

Tasmania recognises that the Commission's primary tool for increasing the simplicity of its assessments has been its disability materiality threshold.

Tasmania has previously expressed its opposition to any further changes to the materiality threshold levels as part of the 2020 Methodology Review, particularly in light of the significant increases that were made as part of the 2015 Methodology Review. Tasmania is concerned that incremental simplification of assessments through higher materiality thresholds will erode the HFE process, as more assessment categories are removed from the equalisation process.

Tasmania's concerns have been confirmed by analysis undertaken by Commission staff, which indicates that an increase to a $100 per capita materiality threshold would *'disproportionally affect the least populous States,'* and that an increase to $200 per capita would have a large cumulative negative impact for the smaller States, and a positive impact for the larger States.

Tasmania therefore agrees with the Commission staff view that *'while increasing the thresholds would remove more disabilities and simplify the existing assessments……there is an underlying trade-off between simplicity and capturing States' fiscal capacities'.*

Tasmania supports the Commission's proposal to set materiality thresholds at $35 per capita for the 2020 Methodology Review and would also support materiality thresholds being adjusted so they are maintained in real terms. However, any increase above real terms would potentially undermine HFE.

Chapter 1 **Payroll Tax**

1.1 Issues and analysis

Staff propose to recommend the Commission:

- retain the 2015 Review payroll tax assessment.

Tasmania supports the Commission staff recommendation to retain the 2015 Methodology Review payroll tax assessment, which assesses States' payroll tax revenue capacity using Australian Bureau of Statistics (ABS) Compensation of Employees data, with the inclusion of a tax-free threshold adjustment.

Tasmania notes that the ABS is developing the Business Longitudinal Analysis Data Environment (BLADE) with the Department of Industry, Innovation and Science that may provide a richer source of data for future payroll tax assessments beyond the 2020 Methodology Review period.

Chapter 2 **Land Revenue**

2.1 Which revenues should be included in the category?

Staff propose to recommend the Commission:

- include all land based taxes in the Land revenue category, except those taxes deemed to be user charges:
  - treat planning and development levies and Victoria's Growth areas infrastructure contribution as user charges
- include Australian Capital Territory (ACT) replacement revenue in the category, provided the ACT can provide an estimate of the revenue
- include property based Fire Emergency Services Levies (FESLs) in the Land revenue category, insurance based FESLs in the Insurance tax category and motor vehicle based FESLs in the Motor taxes category.

Tasmania supports the Commission staff recommendations outlined above to maintain consistency and simplicity.

2.2 What are the drivers of revenue capacity?

Staff propose to recommend the Commission:

- continue to use land values as the basis of the Land revenue capacity.

Tasmania supports the Commission staff recommendation to continue the use of land values as the basis of the Land revenue capacity. Tasmania believes that using land values will most appropriately reflect the revenue raising capacity of the States.

2.3 Land tax, progressive rates of tax and foreign owner surcharge

Staff propose to recommend the Commission:

- assess the Land tax component using adjusted land values
- adjust land values for:
  - the scope of taxation, excluding land values relating to principal places of residence and land used for primary production, general government and charitable purposes;
  - State policies on aggregation, including the treatment of jointly owned land, if it can be done reliably; and
  - the progressivity of Land tax
- not make a separate assessment of foreign owner surcharges, but allow the surcharges to affect the assessment through increased effective rates of tax.

Tasmania supports the Commission staff recommendations to assess land tax using adjusted land values, including adjusting for scope, aggregation and progressivity as it closely reflects how States levy land tax. Additionally, Tasmania supports not making a separate assessment of foreign owner surcharges as allowing surcharges to affect the assessment through increased effective rates of tax would not be materially different from assessing it separately.

2.4 Other land based taxes

Staff propose to recommend the Commission:

- assess other land based taxes using land values for residential, commercial and industrial properties.

Tasmania supports the Commission staff recommendation on this issue.

2.5 Which source of data should the Commission use to assess revenue capacity?

Staff propose to recommend the Commission:

- seek views from the Officer Working Party (OWP) on which is the most appropriate source of land value data and what adjustments may be required to make States' measured tax bases comparable.

Tasmania supports the ongoing use of SRO data, as the use of the Valuer-General's data or ABS data would result in a poorer assessment of Tasmania's land tax base and be less reflective of how States levy land tax than is possible using Tasmania's SRO data. The only data capable of capturing State policies in relation to non-taxable land, aggregation, joint ownership and group provisions is the taxable land data provided by the SROs.

During the 2015 Methodology Review, Tasmania expressed concern that the Commission still had reservations about the comparability of SRO data between States, and was continuing to discount the assessment by 25 per cent as a result of those reservations. The Commission now has eight years of SRO data with which to review the comparability of data between States. Tasmania believes that there is not sufficient evidence to suggest that there are inherent errors or inconsistency in contemporary SRO data, or that any inconsistency has a material impact on the assessment outcome.

Tasmania believes that, rather than examining alternative data sets and recommending which is the most appropriate, the Officer Working Party should be asked to examine the SRO data with a view to determining the accuracy of this data, whether ongoing discounting is warranted, and if so, how the data can be improved with a view to removing the need for discounting.

2.6 Other issues considered

Staff propose to recommend the Commission defer consideration of:

- an elasticity adjustment until it has considered the consultant's report on elasticities
- a discount until the assessment method is settled.

Tasmania supports the Commission staff recommendations on this issue. However, as mentioned previously, Tasmania is of the view that the current discount is no longer warranted.

Chapter 3 **Stamp Duty on Conveyances**

3.1 Which revenues should be included in the category?

Staff propose to recommend the Commission include in the category:

- revenue from duties on the transfer of real and non-real property, including foreign owner surcharges
- an amount equal to the concessional duty provided to first home owners.

Tasmania supports the Commission staff recommendations outlined above. It should be noted that from 1 July 2018 Tasmania introduced a foreign owner surcharge of 3 per cent on residential property purchases and a surcharge of 0.5 per cent on primary production property purchases, joining New South Wales, Victoria, Queensland, Western Australia and South Australia.

From 7 February 2018, Tasmania has introduced, for a period of twelve months, a 50 per cent duty concession for first home buyers of established homes with a property value of $400 000 or lower.

Additionally, a 50 per cent duty concession is also available for eligible pensioners, for a period of twelve months from 10 February 2018, who sell their existing home and downsize to a new home valued at $400 000 or lower.

3.2 What are the drivers of revenue capacity?

Staff propose to recommend the Commission:

- assess stamp duty on conveyances using the value of property transferred
- adjust the value of property transferred:
  - − to remove values relating to non-real property, corporate reconstructions and sales of major State assets;
  - − for the wider scope of unit trusts and commercial real property in selected States; and
  - − for the progressivity of transfer duty
- assess duty from transactions on non-real property, corporate reconstructions and sales of major State assets in the equal per capita (EPC) component.

Tasmania supports the Commission staff recommendations on these matters and believes that this sufficiently recognises the additional revenue capacity of States and recognises there are differences in the type of transactions that are taxed in each State.

3.3 Other issues considered

Staff propose to recommend the Commission defer consideration of:

- an elasticity adjustment until it has considered the consultant's report on elasticities.

Tasmania supports the Commission staff recommendation on this issue.

Chapter 4 **Insurance Tax**

4.1 Issues and analysis

Staff propose to recommend the Commission:

- retain the 2015 Review insurance tax assessment, but include workers' compensation duty in the category and assess it using the general insurance base.

Tasmania supports the Commission staff recommendation to retain the 2015 Methodology Review insurance tax assessment, but include workers' compensation duty in the category and assess it using the general insurance base to maintain the simplicity of the assessment.

Tasmania notes that the alternative of assessing workers' compensation insurance premiums in the general insurance base would not be materially different from assessing it EPC. Tasmania therefore agrees that, for simplicity purposes, revenue from workers' compensation duty should be left in the insurance tax category and assessed using the general insurance base rather than continue to be assessed EPC in the current Other revenue category.

Chapter 5 **Motor Taxes**

5.1 Issues and analysis

Staff propose to recommend the Commission:

- retain the 2015 Review Motor taxes capacity measures
- present the assessment of stamp duty on motor vehicles transfers in the Motor taxes category.

Tasmania supports the Commission staff recommendation to retain the 2015 Methodology Review Motor taxes capacity measures, and to bring stamp duty on motor vehicle transfers back into this category, from the stamp duty category where it was assessed in the 2015 Methodology Review. Tasmania notes that presenting vehicle transfer duty in the Motor taxes category is consistent with its treatment in Government Finance Statistics (GFS) and allows for a simpler tax revenue assessment. Tasmania notes that Commission staff consider this change to be presentational only and it will not affect the GST distribution.

Tasmania also supports the intention of the Commission staff to work with the States to determine whether reliable data is available to update the allocation of revenues between light and heavy vehicles, given that the current split is based on data provided in the 2009 Update.

Tasmania also supports the intention of the Commission staff to examine whether data is available to measure the impact of progressive rates of duty on the transfer of motor vehicles, given that this category of revenue is recommended to be brought back into the Motor taxes category.

Chapter 6 **Gambling Taxes**

6.1 Proposed assessment structure

Staff propose to recommend the Commission:

- continue to investigate a disaggregated gambling assessment based on the Household, Income and Labour Dynamics in Australia (HILDA) data
- continue to investigate an aggregated assessment based on broad measures of gambling capacity
- pending the outcome of these investigations, assess gambling taxes EPC.

Tasmania supports the Commission continuing to investigate a gambling assessment as outlined above. Tasmania does not have any suggestions regarding the construction of a reliable and material assessment of gambling revenue and as such agrees the assessment of gambling taxes should remain EPC if the outcomes of the investigations are inconclusive.

Tasmania has concerns regarding data reliability, policy neutrality and the degree of substitutability between different forms of gambling. Tasmania notes the method for taxing gambling activities varies in each jurisdiction with little consistency, and therefore believes there is no simplistic and reliable way to determine an average policy setting that might apply to all jurisdictions. It is also noted that State policies vary in relation to gambling activities, licence fees and levies and other contributions applied to gaming operators.

Additionally, there continues to be concerns about the reliability of ABS and Australian Gambling Statistics (AGS) data which include distortions in the collection process (for example, online operators licensed in one jurisdiction with customers in other jurisdictions) and capturing various financial arrangements between governments and gambling operators such as GST rebates, product fees or better tax rates for promised capital investment. In addition, the use of the AGS data would only allow a complete comparison between jurisdictions for casino and lotteries gaming, as these two forms of gambling are the only ones that are completely data consistent. None of the racing wagering activities (TAB, bookmaker sports betting, TAB fixed odds, TAB tote odds, on-course bookmakers, off-course bookmakers and on-course totalisators) have complete coverage in the AGS data collected.

Tasmania notes that Commission staff have suggested a disaggregated assessment could be based on the socio-demographic characteristics of gamblers using HILDA data, the number of people in particular age groups or the number of people in particular income brackets. Tasmania agrees with the Commission's comments regarding the limitations of the HILDA data, including the lack of representation from non-response to the HILDA survey.

Tasmania also agrees that recall regarding activity and spend in a typical month may mean one-off gambling participation has not been captured and therefore not all gambling is being captured.

There is also research that supports the suggestion that players under-report the extent of their gambling activity and the amount spent. Tasmania notes that most States conduct a prevalence survey to provide a consistent point of comparison. However, the timing and method used by each State would make it difficult for this data to be used as an alternative tool to assess information about gamblers. Tasmania notes that the most recent prevalence survey undertaken in Tasmania used for the first time an 'in the moment' assessment tool using smart phones involving 98 regular gamblers (randomly chosen from the 5 000 survey participants) to measure gambling participation and at risk gambling. Over a four week period, the participants tracked their gambling episodes and their motives, which is considered a more reliable measure than HILDA which relies on recall and an estimate of what a typical month looks like.

For Tasmania, the latest Social and Economic Impact Study on Gambling in Tasmania (SEIS) released in December 2017 showed there had been a progressive decline in the proportion of adults participating in any gambling activity (71.7% in 2008 down to 58.5% in 2017). Regular gamblers represented 5.7 per cent of the Tasmanian adult population and 9.5 per cent of Tasmanian adult gamblers. The prevalence of regular gambling was significantly higher among males (8.7%), those in paid full-time employment (7.9%), born in Australia (6.2%), who did not complete Year 12 (7.4%) and with annual personal incomes between $80 000 and $120 000 (9.6%). The SEIS noted that problem or at risk gamblers typically participate in more than one type of gambling which would support the Commission's observation that there is a degree of substitutability. Additionally, the SEIS showed that participation in online gambling has increased from 7.0 per cent in 2013 to 10.8 per cent in 2017, which Tasmania believes further weakens the link between gambling expenditure by residents of a State and the revenue raised by that State. Tasmania agrees that the high degree of substitutability between different forms of gambling and the significant policy influence could hinder the Commission's ability to develop a reliable disaggregated assessment.

Tasmania believes there is a lack of suitable policy neutral proxies to develop a reliable assessment for an aggregated assessment, as suggested by the Commission staff. Tasmania believes it is difficult to accurately identify the drivers of gambling behaviour. In particular it is difficult to separate factors such as disposable income, motivation, propensity to engage, other demographic issues and for the at risk category of gamblers, comorbidity factors (e.g. mental health problems and substance abuse). Tasmania does not agree that the lower socio-economic status cohort is the predominant gambler. It is difficult to accurately describe the different population cohorts that participate in the various gambling activities. Additionally, building an assessment based on a broad measure of capacity, such as gambling expenditure, gambling turnover or population, may not accurately reflect State's capacity or how a State taxes its revenue base. For example, Tasmania does not charge any taxes based on turnover and this is estimated for the AGS statistics.

Chapter 7 **Mining Revenue**

7.1 **Which revenues should be included in the category**

Staff propose to recommend the Commission the Mining revenue category continue to comprise:

- state royalty revenue
- grants in lieu of royalties.

Tasmania supports the Commission staff recommendation above, although it continues to have concerns about the Commission staff assumption that mining royalty is based on the value of mine production. In Tasmania and the Northern Territory, mining royalty revenue is based on profitability rather than production. This issue is discussed in section 7.2.

7.2 **What are the drivers of revenue capacity?**

Staff propose to recommend the Commission:

- use value of production as the capacity measure for mining revenue
- collect value of production data from States on a free on board basis.

Tasmania reiterates its previously stated concerns that the use of value of production data to calculate the mining revenue base ignores a fundamental issue in that it does not account for differences across States in the cost of production and the profitability of mining activity.

A mine's value of production is not an accurate reflection of its capacity to pay royalties. Value of production is determined by commodity prices in the (usually international) market which do not alone necessarily reflect relative differences in the cost of extraction between mineral types, nor relative differences in the profitability of any particular region or for any particular mining operation.

While an assessment based on value of production data tends to reflect what most States do currently in imposing royalties (with the exceptions of the Northern Territory and Tasmania to a more limited extent), it does not adequately recognise interstate differences in underlying extraction cost structures relative to a profitability based measure. In Tasmania's case, the use of value of production data means that the high costs and low profitability of Tasmania's mines are not effectively recognised in the Commission's assessment, resulting in an overstating of Tasmania's revenue raising capacity.

The majority of Tasmania's mining activity takes place at ageing mines, and in areas of difficult terrain and climate, which incur high costs of production and low profitability as they move toward the end of their life cycle. This greatly affects Tasmania's capacity to apply average royalty rates to its mining operations, and yet this is not reflected in the assessment.

Tasmania recognises that the lack of data inhibits the Commission from implementing a profit based assessment, and accepts that value of production data provides a reliable source of data suitable for the Commission's needs. However, Tasmania still remains concerned that value of production data used in the assessment does not capture the higher costs and lower profitability of Tasmanian mines, and is therefore overstating Tasmania's revenue raising capacity. We consider that Tasmania's circumstances warrant the application of a jurisdiction-specific adjustment.

Tasmania notes that, in the 2004 Review, the Commission concluded:

> *… that there was a conceptual case that the observed value of production overstated the revenue raising capacity of Tasmania because of the age and low profitability of many mines... [and] an adjustment to Tasmania's revenue base was justified for all years.*

In the 2004 Review, a 35 per cent discount was applied to Tasmania's revenue base for value-based minerals for the first four years included in the assessment (1998-99 to 2001-02), with a 70 per cent discount in the 2002-03 year. Despite Tasmania reiterating these issues in its submissions to the 2010 and 2015 Methodology Review, the Commission opted not to address this issue in these reviews.

Tasmania contends that the issue of low profitability recognised in the 2004 Review is still highly evident in Tasmania's mining sector, and that the conceptual case for an adjustment to Tasmania's revenue raising capacity is warranted.

For example, in 2016-17 Tasmania's assessed mining revenue was $80 million based on its value of production multiplied by the national average mining royalty rate for each mineral type. However, Tasmania's actual revenue for 2016-17 was $43 million.

7.3 What is the appropriate balance between what States do and policy neutrality?

Staff propose to recommend the Commission:

- assess mining revenue capacity using a mineral by mineral approach.

On a first principles basis, Tasmania considers that the assessment should aim to balance the competing principles of 'what States do' and 'policy neutrality' in a way that delivers an outcome that is most closely aligned with HFE.

Tasmania supports the Commission staff recommendation on this issue as Tasmania believes that HFE would be most closely achieved through a mineral-by-mineral assessment, with little or no grouping. Tasmania reiterates its position taken in the 2015 Methodology Review that the assessment should be disaggregated to the greatest extent that the data and materiality considerations will allow. This will ensure the assessment effectively recognises the differences in relative revenue raising capacities, including the large differences between States with strong mineral bases, and those with weaker capacities.

However, Tasmania recognises that this approach is highly exposed to policy neutrality issues given one or two States dominance of certain mineral bases, and that this supports the perception that States will 'game' their GST outcomes when making related policy decisions.

7.4 Policy neutrality and discretionary changes to royalty rates

Staff propose to recommend that, if a dominant State makes a discretionary change to its royalty rates, the Commission:

- assess a portion of the revenue increase EPC
- use the formula (set out in Attachment A) to calculate that proportion.

Commission staff note that in most cases, each State has only a limited influence on the average policy of all States. However, the Commission also notes that over the last decade there has been a significant exception in the case of mining revenue where a tax base is concentrated in one or two States and that this may conflict with its principle of policy neutrality. This is particularly pronounced in its impact in relation to iron ore royalties and Western Australia's GST distribution.

Tasmania is of the view that HFE is the overriding objective for the Commission and that policy neutrality is one of the guiding principles to achieve HFE.

Tasmania has concerns with the Commission's proposal to limit the extent that tax or royalty changes impact a State's own GST distribution by allowing the State to keep at least half of the own-revenue effects of the royalty or tax change.

Firstly, this approach would be a departure from the Commission's objective of full equalisation. By allowing a State to retain at least half of its own source revenue that would otherwise have been redistributed to other States, would leave that State with a stronger fiscal capacity than if it was equalised to the same fiscal capacity consistent with the current definition of HFE.

Second, it is not clear what would trigger such an approach. Would it apply to a change to a State's tax or royalty rates that would have the direct effect of reducing its GST share irrespective of how significant the GST effect was, or would there need to be a materiality test? On what basis would the amount retained by a State be determined by the Commission? The Commission staff proposes that at least half of the own-source revenue effects be retained by the State which suggests that this percentage could go higher.

Should the Commonwealth Government's interim response to the PC Inquiry into HFE and its proposed changes to equalisation to equalise to the strongest of NSW or Victoria instead of the strongest State (currently WA) be adopted, Tasmania considers that there would be no requirement to further change the Commission's methodology to address this issue. Under the proposed change to HFE, if Western Australia was to increase its royalty rates then it would retain most of its GST share from such a change compared to the current system of HFE.

Western Australia will therefore receive a considerable improvement in its GST relativity from these changes and so will not be disadvantaged if it changes its royalty rates.

This issue is also discussed in Tasmania's response to the Commission position paper, *The Principle of HFE and its Implementation Commission Position Paper CGC 2017-21*.

7.5 Policy neutrality of State development policies

Staff propose to recommend the Commission not make adjustments for differences in State:

- development policies
- compliance efforts.

Tasmania supports the Commission staff recommendation to not make adjustments for differences in State development policies. The Commission staff correctly argue that, while the revenue from Western Australia's North West Shelf example can be identified, it is not possible to identify the extent of the revenue from that project that is due to Western Australia's development policy efforts. Similarly, the use of a discount would lead to the simplistic conclusion that the ACT's lack of a mining industry is due, at least in part, to its lack of effort in developing such an industry, not to any lack of mineral resources.

In a similar vein, Tasmania supports the Commission staff argument against making any adjustment to mining revenue assessments to account for differences in State compliance efforts. Tasmania agrees that States will generally weigh up the cost of compliance against the level of mining tax receipts and determine a relevant compliance environment.

7.6 Policy neutrality and the uncertain distribution of State revenue bases

Staff propose to recommend the Commission:

- assess revenue from banned minerals EPC, from the commencement of the 2020 Review
- apply this treatment to coal seam gas and uranium royalties
- present the banned minerals assessment in the Mining revenue category.

Currently, the value of production of banned minerals such as coal seam gas and uranium is not material and so there is no differential assessment and consequently no redistribution of GST. Commission staff note that to date they have not yet had to decide on how to treat this issue because it is currently immaterial.

An option would be to assess royalty revenue from banned minerals EPC, as has been recommended by Commission staff, as there is no consistent basis to differentially assess State capacity to generate revenue. Thus, there would be no redistribution of GST from those States that allow mineral extraction to other States than ban it.

This would appear to be a reasonable approach. However, there may be cases where this may not achieve HFE. For example, if all States except one allowed the extraction of a mineral, such as uranium, and the revenue base differed materially between those States, an EPC assessment would not be consistent with HFE. States with a greater uranium mineral reserve, and hence a stronger revenue base would have greater fiscal capacity than those with a weaker or non-existent revenue base.

In this case, compared to an EPC assessment a differential assessment may be superior in achieving HFE even though there is an inequity in redistributing some of the GST to the one State that bans its extraction and is assessed as having no capacity.

Tasmania therefore considers that some judgement will be required by the Commission in order to assess whether an EPC or differential assessment achieves the best HFE outcome.

Tasmania supports the Commission staff recommendation to assess revenue from minerals that are restricted in their mining capacity as EPC (where this is demonstrated to be equitable and does not diminish HFE) from the commencement of the 2020 Methodology Review, and to apply this treatment specifically to coal seam gas and uranium. It also supports the presentation of that assessment in the Mining revenue category.

7.7 Other issues considered

Staff propose to recommend the Commission defer consideration of:

- an elasticity adjustment until it has considered the consultant's report on elasticities
- a discount until the assessment method is settled.

Tasmania supports the Commission staff recommendation on this issue.

Chapter 8 **Other Revenue**

8.1 **Issues and analysis**

There are no major issues in this assessment. The only possible change that staff are exploring for the 2020 Review is whether a differential assessment of gambling revenue can be made. This issue is examined in *Staff Draft Assessment Paper CGC 2018-01/07-S, Gambling taxes*.

Tasmania notes the Commission staff comment.

Tasmania has made separate comment on the possibility of the Commission making a differential assessment of gambling taxes in Chapter 6.

Chapter 9 **School Education**

9.1 Specification of the regression model

Staff propose to recommend the Commission:

- use an appropriate regression model reflecting State funding models once further developed following consultation between staff and the States.

Tasmania notes that the 2015 Methodology Review used a regression model of ACARA school level data to estimate cost weights for different groups of students. The model estimated an Indigenous and a non-Indigenous version for each school. The Commission staff noted that the alternative, simpler approach of using a single record for each school produced counter-intuitive results that showed that Indigenous students in disadvantaged areas were funded at significantly lower rates than Indigenous students in less disadvantaged areas.

The Commission staff propose to make use of certain variables from the ACARA dataset, together with other variables available from the Department of Education and Training dataset, which the Commission staff have yet to consider. As such, the documentation details provided by the Commission staff are limited at this stage, and raise technical issues that require further clarification as the Commission staff progress this issue further.

At this stage, the Commission staff raised three variables available from the ACARA dataset that are discussed as potential determining factors in a new regression equation that it is hoped will alleviate the previously mentioned counter-intuitive result - school type and size, attendance and socio-economic status.

School administration (School size and type)

The Commission staff propose to not use school type as a determinant of GST allocation, arguing that school type is a reflection of State policy choice. Whilst Tasmania accepts this argument, Tasmania has operated a separate, more centralised Year 11 and 12 school system (college system) to take advantage of economies of scale. More recently however, the Tasmanian Government has committed to extend every Tasmanian High School to Year 12 by 2022. Currently, a total of 38 schools have been extended to Year 12, with 19 remaining to be extended over the next four years. Tasmania is of the view that the school type factor should take account, at least to some extent, Tasmania's arrangements in the proposed regression model.

The related issue of school size is also dismissed by the Commission staff as a factor influenced by policy choice, with the suggestion that States can choose to have a few large schools or many smaller schools. Thus, the school size factor is accounted for, according to the Commission staff, by the service delivery scale factor acting as a proxy for school size. Tasmania agrees that the costs of providing education services to small communities increases with remoteness. However, there are other cost disadvantages that influence school size, and for the Commission staff to exclude school size itself from the regression model would be an over simplification of the proposed model.

In this educational context, Tasmania must retain a number of small schools in remote rural communities to cater for cultural and social attitudes that act as barriers to students in a number of Tasmanian communities from travelling to neighbouring communities for school. The point that Tasmania makes is that not all school size factors are accounted for simply through the service delivery scale factor.

Attendance

The Commission staff also suggest that a re-specification of the regression model that includes attendance as well as enrolments, and a variable for students enrolled but not attending, improves the forecasting strength of the model. Tasmania accepts the conceptual argument of the Commission staff that additional resources are required to assist absenting students to catch up on lost work, or to support them through the issues leading to their absence from school.

Socio-economic status (SES)

Socio-economic measures need to be treated carefully in the proposed regression model. The Commission staff have a preference for the use of the IRSEO and NISEIFA groupings for measuring the impact of SES, given that they will allow the separate Indigenous and non-Indigenous measurement of SES. However, Tasmania notes the contradictory results found with the IRSEO and NISEIFA regression, as outlined in the Commission staff paper.

While Tasmania accepts the Commission staff preference for the IRSEO and NISEIFA groupings, it should be acknowledged that the Index of Community Socio-Educational Advantage (ICSEA) and Socio-Economic Advantage (SEA) quartiles have improved in data quality nationally since 2013.

There is a lack of clarity in the assessment discussion as to whether the Commission staff will use student or school level SES data, the differences between ICSEA and SEA quartiles in the ACARA data, the use of geography/rurality at student or school level, and the treatment of how these might interact or compound at both student and school levels. The assessment also makes no mention about the thresholds to be used, including the possible use of the second lowest SEA quartile that was part of the former Gonski model.

Tasmania also has some concerns about the treatment of Indigeneity measures. The rationale for the separation of students into Indigenous and non-Indigenous is not clear from the discussion. There may also be the potential to introduce bias in the regression model using the two different subsets of the school population. It is also unclear to Tasmania about the source and nature of the absenteeism data and whether this would be constituted at the student level or the aggregate level. Some of the surprising findings in the Draft Assessment Paper (discussed previously) may indicate concerns with the absenteeism data.

Tasmania may have additional comment once the Commission staff have progressed the development of a more appropriate regression model, and there is more detailed information in relation to the variables that are included in that model.

At this stage, Tasmania agrees with the Commission staff recommendation to progress the development of an appropriate model that overcomes the shortfalls inherent in the current assessment.

9.2 User charges

> Staff propose to recommend the Commission:
>
> - net user charges off the State funded government school assessment
> - model student cost weights with a regression that predicts State government recurrent funding.

Tasmania agrees with the staff recommendation to net user charges off the State funded government school assessment unless the application of this move shows obvious anomalies between States. The ACARA State government expenses data obviously relates to GFS State expenses net of user charges (as well as Australian Government payments) and the Commission staff recommendation should ensure greater consistency on this issue.

9.3 Commonwealth funded government schools

> Staff propose to recommend the Commission:
>
> - use the Commonwealth's SRS to assess need for Commonwealth funded government schools.

The 2015 Methodology Review ToR directed the Commission to 'not unwind' the measures of educational disadvantage in the National Education Reform Agreement (NERA). Tasmania agrees that the Commission is still bound by this ToR and agrees, therefore, that it should continue to assess this expenditure based on the Commonwealth Government's schools funding intent, using the Commonwealth's school resourcing standard as it currently does.

Tasmania therefore agrees with the Commission staff recommendation.

9.4 Commonwealth funded non-government schools

> Staff propose to recommend the Commission:
>
> - assess Commonwealth funding to non-government schools in the same way as for other Commonwealth payments that do not affect State shares of GST revenue.

Tasmania supports the Commission staff recommendation to assess Commonwealth funding to non-government schools in the same way as for other Commonwealth payments that do not affect State shares of GST, that is, the payment is excluded from the assessment as both a revenue and an expense. In the 2015 Methodology Review, Tasmania supported the assessment of Commonwealth funding for non-government schools on an average per capita basis, thereby not impacting on GST distributions. This latest change being recommended by the Commission staff is a further move in simplifying this assessment without impacting HFE.

9.5 Data source for student numbers

> Staff propose to recommend the Commission:
>
> - continue the 2015 Review practice of using ABS data using splits of geographic distribution based on ACARA data.

Tasmania had a number of concerns with the use of ACARA data in the 2015 Methodology Review, which at the time was considered to be not sufficiently mature to provide a reliable basis to estimate cost weights for its regression model, and recommended that a comprehensive comparison be conducted with State government centralised data and the ABS Schools Census Collection.

Tasmania notes that Commission staff suggest that the ACARA data is the richer dataset, as it incorporates data on remoteness and socio-economic status and attendance rates. The one drawback noted by the Commission staff is that the ACARA data is not as timely. Tasmania no longer has concerns with the ACARA data with respect to information quality and timeliness, and is of the opinion that it is a preferable data source when considering SES indicators.

9.6 Students with disabilities

Staff propose to recommend the Commission:

- not incorporate students with a disability into the Schools education assessment unless it is clear these data are comparable across States.

Tasmania notes the concerns of the Commission staff with the quality of the Nationally Consistent Collection of Data on School Students with Disability (NCCD) data, and the fact that spending on students with disabilities, if assessed, would be highly material.

Work undertaken by Price Waterhouse Cooper (PWC)[2] has identified that the quality of the NCCD data was a direct result of how well student identification and assessment processes are understood and applied at the school, jurisdiction and sector levels. PWC also indicated that the rigour and extent of the process over time in Tasmania was clearly producing a more accurate reflection of students with a disability than was the case in other States.

Until there is clear evidence of the rigor and compatibility of this data across all States, Tasmania supports the Commission staff recommendation to not incorporate students with a disability into the Schools education assessment. Tasmania supported the non-assessment of students with disabilities in the 2015 Methodology Review because of similar data concerns.

9.7 Policy effects on States' shares of government and non-government students

Staff propose to recommend the Commission:

- use the actual numbers of government and non-government students in each State.

Tasmania notes that the differences between actual and expected non-government shares of school enrolments in each State may be due to a variety of factors, including funding policies, increasing family incomes, cost of living and the existence or otherwise of a religious influence in a State. Thus, Tasmania agrees that much of the difference between actual and expected enrolment patterns reflect circumstances beyond the control of State governments.

Tasmania therefore supports the Commission staff recommendation to use the actual numbers of government and non-government students in each State.

[2] PWC, *2016 NCCD Continuous Quality Improvement Project - a study prepared for the Commonwealth Department of Education and Training,* February 2017.

9.8 Student transport

Staff propose to recommend the Commission:

- include transport of school children expenses with transport expenses and assess this using the same disabilities as those for the urban transport assessment.

The Commission staff consider that the current assessment of student transport is based on poor data and is immaterial. Data quality is impacted by the inability of some States to separate the cost of transport of school students from the overall cost of transport of other groups within the population.

The Commission staff consider that this unreliability and immateriality means that student transport expenses should not be considered separately within the Education assessment, but should either be:

- considered as part of Other expenses and thus treated EPC;
- grouped with school expenses and assessed under school education disabilities;
- included in the Transport category and assessed using the urban transport disabilities.

Commission staff have considered the above options and on balance, intend to recommend including school transport expenses within the urban transport assessment.

Tasmania is greatly concerned with this recommendation. It is unclear why the urban transport assessment has been chosen above the non-urban assessment. The urban transport assessment is based on the population size within urban areas and the non-urban assessment is based on State shares of population outside capital cities. The nature of Tasmania's decentralised population means that Tasmania benefits from the non-urban transport assessment and is disadvantaged by the urban transport assessment. Tasmania cannot see the Commission staff rationale for choosing one assessment over the other.

The other issue that is currently unclear from the Commission staff assessment is the method that will be used to allocate the student transport expenses to the urban transport assessment. The Commission staff could have chosen to allocate to the States in the urban transport 'pool' in the same proportions as they are currently assessed, or they could have chosen to allocate to the urban transport 'pool' and assessed according to the shares currently expended by the States in that urban transport 'pool'. The first method produces little, if any, disruption to the GST allocation, whereas the second alternative results in significant re-direction of GST away from Tasmania, Queensland, South Australia and the Northern Territory.

As such, the Commission staff should provide further substantiation of their decision to assess student transport through the urban transport methodology alone. It is not apparent to Tasmania why such a significant change to the existing methodology has been recommended by Commission staff.

Tasmania's preference would be for student transport to continue to be separately assessed within the current Education category. However, if Commission staff concerns about the quality of the data and the complexity of the assessment are significant enough to warrant a change to the current assessment, Tasmania would prefer to have the costs of student transport included in other expenses and not differentially assessed.

Tasmania will continue to investigate whether an alternative material school transport assessment can be made using reliable data.

Chapter 10 **Post-Secondary Education**

10.1 Indigenous cost loading

Staff propose to recommend the Commission:

- retain the Indigenous cost loading but update the loading using State provided data reflecting current spending allocations.

Tasmania notes that the 35 per cent loading for Indigenous contact hours was introduced in the 2015 Methodology Review to recognise the additional costs associated with providing services to Indigenous students and considers there is a conceptual case for its continued inclusion. Tasmania supports the staff recommendation to collect new data from the States and recalculate the Indigenous cost loading to ensure that the quantum of the loading is contemporaneous.

10.2 Remoteness cost loading

Staff propose to recommend the Commission:

- adopt the new category specific regional cost loadings and use them in the assessment on an undiscounted basis.

Tasmania notes that the remoteness cost loading for remote and very remote contact hours was introduced in the 2015 Methodology Review in recognition of the higher costs associated with providing Vocational Education and Training (VET) services in remote regions. A general cost loading with a 25 per cent discount was used as there were no post-secondary cost data available at the time.

Commission staff are now able to calculate a post-secondary regional cost loading based on National Centre for Vocational Research (NCVER) data.

Tasmania does not apply remoteness loadings for training delivered by Registered Training Organisations (RTOs) located outside major cities, although TasTAFE is paid an additional Community Service Obligation funding to cover regional and remote area costs. Tasmania notes that Commission staff have increased the number of remoteness areas to cover remoteness factors in Major Cities, Inner Regional Areas and Outer Regional Areas. This results in Tasmania's remoteness loadings being generated by reference to Hobart being classified as Inner Regional.

Tasmania supports the Commission staff recommendation to adopt the new category specific regional cost loadings with no discount.

10.3 Qualification level loading

Staff propose to recommend the Commission:

- investigate if a qualification level loading should be included in the assessment to recognise that different level courses attract different subsidies.

The Commission staff have noted that there are considerable variations in subsidies provided for different qualification level courses and that there is evidence that certain socio-demographic composition (SDC) groups are more likely to enrol in lower level qualification courses.

Consequently, the Commission staff have indicated that they will attempt to obtain data from the States relating to subsidies paid according to qualification level before any other loading is added.

Tasmania would have no concerns with the inclusion of a qualification cost loading provided that all States are able to supply reliable data and that the assessment meets the Commission's materiality threshold. It is understood that funding classified by qualification levels will be included in the revised NCVER Funding Collection that will be released for the first time for 2017 data in September 2018.

10.4 **Industry mix**

Staff propose to recommend the Commission:

- not include a State course mix disability because States are unlikely to be able to provide the necessary cost data and there is potential for State subsidy policies to influence the course mix.

Tasmania agrees that there may be a case for investigating whether the economic profile of particular States has an impact on the types of courses that students choose and, therefore, State spending on those courses. Tasmania recognises that there are difficulties in obtaining relevant data to pursue these proposed amendments. Tasmania also agrees with Western Australia's concern that State pricing policies for particular courses may influence the demand for those courses, and Tasmania itself uses policy decisions to prioritise investment in particular industries.

Tasmania therefore supports the Commission staff recommendation to not include a State course mix disability because of data issues and potential policy neutrality concerns.

10.5 **Public RTO loading**

Staff propose to recommend the Commission:

- not investigate a disability based on the sector of training providers because most States provide the same subsidy to all providers regardless of sector, and the mix of public and private providers is highly policy influenced.

Tasmania supports the Commission staff recommendation to not investigate a disability based on the sector of training providers, given that most States provide the same subsidy to RTOs regardless of sector.

10.6 **User charges**

Staff propose to recommend the Commission:

- make a data adjustment to ensure only fee-for-service revenue is netted of expenses, if it is material.

In the 2015 Methodology Review, the Commission made a decision to net off all post-secondary education revenue, producing a GST distribution not materially different from that which would result if it only netted off fee-for-service students.

Tasmania supports the Commission staff recommendation, as long as it does not result in significant disparities between the States.

Chapter 11 **Health**

11.1 Assessment approach

Staff propose to recommend the Commission:

- consider retaining the direct approach to assess all components of health expenses in the 2020 Review rather than reverting to a subtraction approach because the direct approach utilises reliable data to directly assess State health spending and focuses on what States do while appropriately recognising the influence of the non-State sector
- not scale the outcomes of the direct assessment method based on a very broad interpretation of what constitutes State-like services.

In the 2015 Methodology Review Tasmania supported the Commission's decision to replace the subtraction method with the direct method for all health expenses changing its assessment from using Australian Institute of Health and Welfare (AIHW) data to the Independent Hospital Pricing Authority (IHPA) data established under the National Health Reform Agreement (NHRA). While there were data issues with both methods at the time, on balance the direct method was considered superior. The scope and attributes of IHPA and AIHW data collections used in the health assessment are summarised in Table 11.1.

Tasmania agrees with the Commission staff that the proposal by Western Australia to revert to the subtraction method is inconsistent with the Commission's approach to HFE. That is, the Commission equalises to State Budgets rather than to other broader measures such as community health outcomes as proposed by Western Australia. Tasmania agrees that the direct method reflects actual substitutability with the non-State sector whereas the subtraction method assumes State and non-State sector provision of State-like services are fully substitutable, which clearly is not the case. For example, State-provided public dental services are only available to disadvantaged adults. Therefore there is no requirement for scaling the direct method for substitutability with the non-State sector, as proposed by Western Australia, as this would overstate the impact of the non-State sector.

Tasmania supports the Commission staff recommendation to retain the direct approach to assess all components of health expenses in the 2020 Methodology Review. The IHPA data on which the assessment is based has become more reliable over time, will continue to improve and remains fit for purpose as indicated in Table 4 of the Health Draft Assessment Paper.

Planned future developments, particularly the National Integrated Health Service Information (NIHSI) Analysis Asset (AA), integrating Medicare Benefits Scheme (MBS), Pharmaceutical Benefits Scheme (PBS), hospital, aged care and deaths data at the person level, and work to develop the Australian non-admitted care classification are expected to significantly extend and improve the scope and quality of data available to the Commission for use in the direct method over the life of the 2020 Methodology Review period.

Tasmania is therefore of the view that data reliability and quality is high for age, indigeneity and remoteness (postcode and SA2) in the IHPA data collection and is therefore suitable for the SDC assessment. However, it should be noted that while States supply unit record data for admitted patients and emergency departments (ED), Tasmania is in the minority amongst States in supplying unit record data for non-admitted patients (NAP).

Table 11.1.1: IHPA and AIHW data collection scope and attributes

Data Collection	IHPA	AIHW
Admitted Patients	Unit record data (age, indigeneity, geolocation SA2; no income/employment) for: • Public patients in public hospital • Private funded patients in public hospitals • Contracted out public hospital patients	Unit record data (age, indigeneity, geolocation SA2; no income/employment) for: • Public patients in public hospital • Private funded patients in public hospitals • Contracted out public hospital patients • Private patients in private hospitals
Emergency Department	Unit record data (age, indigeneity, geolocation SA2; no income/employment) for: • Non–admitted patient activity	Unit record data (age, indigeneity, geolocation SA2; no income/employment) for: • Non–admitted patient activity
Emergency Services	Aggregate data (no age, geolocation, SES) for: • Non-admitted patient activity • Unplanned service • Rural hospitals	No data
Non admitted patients	Unit record data (age, indigeneity, geolocation SA2; no income/employment) (TAS/NT/WA/ACT) • Aggregate data (VIC/NSW/QLD/SA)	Unit record data (age, indigeneity, geolocation SA2; no income/employment) (TAS/NT/WA/ACT) Aggregate data (VIC/NSW/QLD/SA)
National Hospital Cost Data Collection	Used to determine NWAU/NEC/NEP Episode data (age, indigeneity, geolocation SA2; no income/employment) for: • Public patients in public hospital • Private funded patients in public hospitals • Contracted out public hospital patients • Excludes ORPs • Care type – inpatient, outpatient, DRG, URG, same-day/overnight • Demographic obtained by linking record to admitted patient data set	No data
Public Health Establishments	Has access to expenditure data by stream by hospital via AIHW and utilises for funding and costing purposes where NMDS is inadequate	Aggregated data for: • Granular expenditure, revenue and staffing FTE by hospital (geo-location) • Expenditure by NHCDC product stream (e.g. Acute, sub-acute, ED, residential aged care)
Government Health Expenditure	No data	Aggregated expenditure and revenue State data for all health services excluding HACC and other Commonwealth directly funded programs e.g. Aged Care
National Weighted Activity Unit (NWAU)	• Based on activity • Price is based on actual cost • NEC to calculate NEP NEC based on 3year rolling average NWAU hospital size group (regionality) => block funding	

11.2 SDC assessments - *Non-admitted patient services*

Staff propose to recommend the Commission:

- continue to use IHPA's National Weighted Activity Unit (NWAU) data for the SDC assessments of admitted and ED services because the data provide a reliable basis for measuring the material factors which influence State spending on these services
- use IHPA's NAP NWAU data for the SDC assessment of NAP expenses instead of admitted patient separations because the data should be sufficiently reliable by the 2020 Review and it will provide a better measure of the material factors which influence State spending on NAP services.

As noted previously, Tasmania is of the view that there has been a significant improvement in the quality of IHPA data. This means that there is greater confidence in continuing to use IHPA's NWAU data for admitted patients and ED services.

Tasmania provides qualified support for the continued use of IHPA's NWAU data for the socio-demographic composition assessment of admitted and emergency department services. While Tasmania (NT, WA, and the ACT) supplies unit record data to IHPA, many other States only provide aggregate data. A summary of limitations for the non-admitted patient care data is also provided by AIHW.[3]

While IHPA data may have the potential to replace the use of proxies used in the 2015 Methodology with NWAU data for NAPs, Tasmania is not convinced that the coverage and reliability of the data is sufficient.

The net effect in the health assessment for Tasmanian non-admitted patient expenses compared to other States is difficult to quantify. Tasmania suggests that Commission staff need to determine what is missing through an enumeration of the non-admitted patient data for the States supplying unit record level data and then compare this result with the aggregate data.

For NSW, Victoria, Queensland and South Australia, almost 30 per cent of data is missing (AIHW 2018 Table 1.1, page 9). In addition, the Commission staff need to provide more information on inclusions/exclusions that they have applied to the IHPA data. It is for these reasons that Tasmania does not support assessing hospital services in one component using aggregate NWAU data for all hospital services.

11.3 SDC assessments - *Community and other health services*

Staff propose to recommend the Commission:

- investigate whether sufficiently comparable and reliable administrative data on community health services are available from States to build a national SDC profile for community health services
- in the absence of suitable data, staff will consider whether ED triage category 4 and 5 remain the best proxy for measuring the SDC disability for community health services.

Tasmania agrees that the SDC profile for community and other health assessments is the most problematic of all the health components of the SDC profiles. In the 2015 Methodology Review, Tasmania agreed that, because of the lack of reliable and comprehensive community health data, the Commission use ED NWAU's for triage categories 4 and 5 as a proxy for community and other health SDC profiles.

[3] AIHW (2018), *Non-admitted patient care 2016-17: Australian Hospital Statistics,* 20 August 2018, https://www.aihw.gov.au/getmedia/a6c9c592-4e8b-4b53-b7f6-3a01d91ed801/aihw-hse-206.pdf.

The Commission staff note that there is still no national data set available, however it has provided Community health use and cost data supplied by the Victorian Government. However, the Commission staff note that Victorian data should be used with caution as it is a subset of community health program (CHP) services (and does not include dental, drug programs, breast screening and immunisation).

Tasmania does not collect complete or robust data for community health services and is therefore unable to supply use and cost data to the Commission to build a national SDC profile for this component of the assessment. Tasmania is unaware of alternative data sources that would support this assessment. Therefore, Tasmania supports the Commission staff proposal to use emergency department triage category 4 and 5 as a proxy for measuring SDC for this assessment component. Triage category 4 and 5 patients have minor illnesses and less serious injuries that would be treated and/or cared for in the community and therefore it is an appropriate proxy measure. Further, the use of triage category 4 and 5 will facilitate the assessment of SDC because data for age, indigeneity and remoteness have a high reliability.

However, a caveat is that while Tasmania agrees that ED data may provide the best (available) proxy for community health usage, it could be expected to understate the community health usage of residents in remote areas due to the comparative absence of EDs in these areas. This is evident in the Tasmanian data. Whether the 25 per cent discount applied to the community health expense would sufficiently compensate for this is not clear as this has not been directly addressed in the Draft Assessment Paper with respect to the community health SDC profile.

11.4 Remoteness and service delivery scale (SDS)

Staff propose to recommend the Commission:

- note the changes to IHPA's adjustments for 2018-19 NWAU data, which will affect the assessment for the first time in the 2020 Review
- ensure all hospital remoteness and SDS costs for small rural block funded hospitals are recognised in the SDC assessments for hospital services (admitted patients, ED and NAP)
- take steps to ensure that the proxy indicator used in the SDC assessment for community health adequately recognises remoteness and SDS costs
- re-test the materiality of splitting remote and very remote areas in the SDC assessments.

The Commission staff have raised an issue as to whether the way they are using IHPA data is capturing all remoteness and service delivery scale (SDS) costs. Specifically:

- whether remoteness and SDS costs for small block funded hospitals, which are reflected in the national efficient cost (NEC) funding model, are being fully reflected in the hospital services (admitted patients, ED and NAP assessments); and
- whether remoteness and SDS costs are adequately recognised in the community health assessment.

The Commission staff note that there will be changes to the specification to the Nationally Efficient Price (NEP) for 2018-19. This will include a number of changes to remoteness loadings or adjustments for admitted patients and EDs and will include an adjustment for patient remoteness for ED services for the first time. There will also be a new adjustment in relation to the location of the hospital where treatment is provided for acute admitted patients in remote and very remote areas.

The Commission staff are concerned that NWAU data does not fully capture all remoteness and SDS cost for block funded hospitals.

The Commission staff intend to undertake modelling of NWAU data for block funded hospitals to estimate costs associated with remoteness and size of rural block funded hospitals. Preliminary estimates by the Commission staff indicate that the weighted average cost for hospitals in very remote areas is 1.1 times that of hospitals in inner, outer regional and remote areas. This additional cost is not currently being captured, although the Commission staff say caution is needed in interpreting this ratio as it is heavily influenced by NWAU data from very small block funded hospitals, where the NWAUs are less reliable.

Tasmania welcomes and will review the results of the Commission staff investigation into small block funded hospitals to determine whether remoteness and SDC costs are adequately recognised. In particular, it will advise on any double counting of remoteness and SDC costs.

The Tasmanian Department of Health reports remoteness (geo-location code, postcode, SA2) at unit record level for both patients and hospitals to IHPA and AIHW. However, given that data is continually improving and IHPA calculates a three rolling average for NEC, there will be issues relating to incomplete data.

Small, often rural and remote, hospitals are block funded. In Tasmania, rural hospitals require a minimum staffing level to be met to open their doors and to meet accreditation and safety standards, which are separate from actual activity.

Tasmania agrees with the analysis provided by the Commission staff on cost weights for hospital groups, where very remote hospitals are generally more costly and that cost per activity unit is higher for hospitals with low volumes. Further, that due to poor data capture in very small block funded hospitals, results can be easily skewed and caution should be exercised when drawing inferences and interpreting results. In these situations the re-testing of the materiality of splitting remote and very remote areas in the SDC assessments are welcome.

11.5 **Disaggregation of age groups**

Staff propose to recommend the Commission:

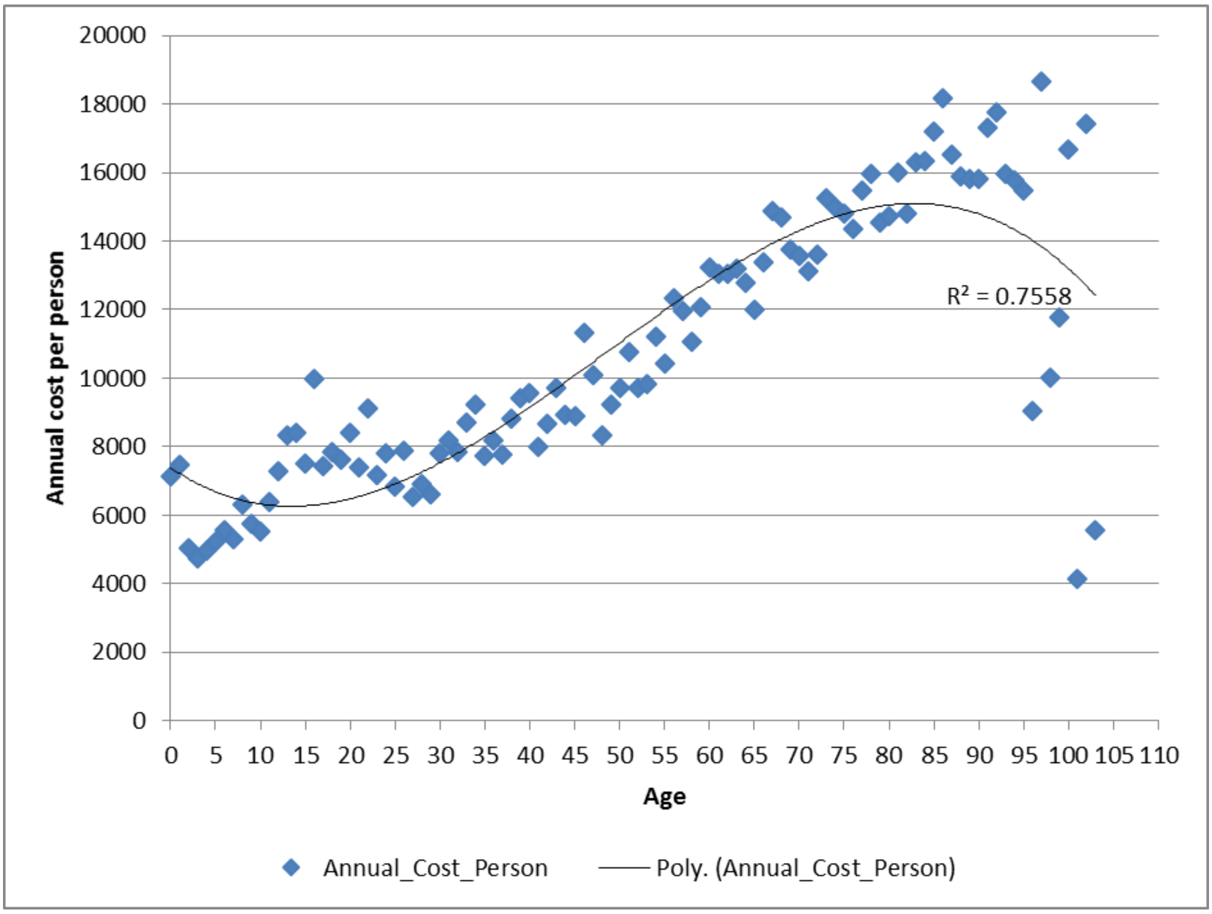
- re-test the materiality of splitting the older age group (75+ years) to have a 75-84 years age group and an 85+ age group.

The Commission staff are considering splitting the current older age group cohort of 75+ into 75-84 and 85+ subject to distribution impacts meeting materiality thresholds.

Tasmania supports the Commission staff recommendation to use the age grouping of 0 to 14 years, 15 to 44 years, 45 to 64 years, 65 to 74 years, 75 to 84 years and 85+ years. The disaggregation of the 75 years and over population into two aged groups is significant to this assessment. Tasmania has the oldest population in Australia, and when combined with low socio-economic status there is a higher burden of disease in the community. This is a key cost driver in health service delivery.

Tasmanian Department of Health analysis shows in Figure 11.5.1, the age/cost profile of Tasmanian public hospital patients. The cost distribution by five year age groups shows that costs continue to increase beyond 75 years and remain high until 85 years. Beyond this age group the number of patients begins to reduce, but the cost does not noticeably reduce until around 95 years. The major hospital costs for patients 85 years and over relate to length of stay rather than diagnostic services or interventions. For people 85 years and over there are less interventions due to increasing risk to overall health and wellbeing.

Figure 11.5.1: Annual admitted patient cost by age, 2015-16 (Tasmania)



Source: Tasmanian Department of Health, calculations from internal data

11.6 Substitutability

Admitted patients - substitutability

Staff propose to recommend the Commission:

- continue to recognise the influence of the non-State sector on admitted patient expenses using a direct assessment approach
- confirm the level of substitutability and data used to calculate the non-State sector adjustment after staff analysis has been completed and States have been consulted.

Tasmania supports the Commission staff proposal to continue to recognise the influence of the non-State sector on admitted patient expenses. In Tasmania the private sector is small and provides a narrower range of services compared to public hospitals in Tasmania located in the north, north-west, and south. Tasmania agrees the substitutability rate for admitted patients should be no higher than the 15 per cent suggested by the Commission staff.

The reason for this low substitutability rate in Tasmania is due to diseconomies of scale resulting from a small and dispersed population rather than due to planning or accreditation restrictions. Diseconomies of scale see only one major tertiary referral hospital providing a full range of services with the exception of some super-specialties which are not delivered in Tasmania and require patients to be transferred interstate. The full range of clinical services are not available in Tasmanian private hospitals. This results in privately funded patients seeking to access services through clinicians with private practice rights in public hospitals in the more specialised and expensive areas.

In Tasmania there are no emergency department or critical care services provided in the private sector in the north and north-west. For example, interventional cardiology is only performed at the Launceston General Hospital (LGH). Obstetric (birthing) services are only provided at the LGH and not in the private sector in the north. In the north-west, public obstetric (birthing) services are provided under contract at the North-West Private Hospital. These examples underscore the narrower scope of private hospital service provision in Tasmania and hence low levels of substitutability.

Tasmania will review the non-State sector adjustment for admitted patients once further analysis by Commission staff becomes available.

Emergency Department – substitutability

Staff propose to recommend the Commission:

- investigate if there are any new studies examining the relationship between GP and State provided ED services to support or otherwise indicate a different level of substitutability for ED services
- investigate to what extent private ED services are substitutable with State ED services.

Tasmania notes that, in Tasmania, approximately 38 per cent of all emergency department presentations are GP-type (triage category 4 and 5) patients.[4,5] However, Tasmania proposes that this should only be considered the potential rate of substitutability for emergency department services. Therefore, the 15 per cent substitutability proposed for this assessment by the Commission staff is supported in principle but Tasmania will review the non-State sector adjustment for admitted patients once further analysis by Commission staff becomes available.

Non-admitted patient services – substitutability

Staff propose to recommend the Commission:

- confirm the current level of substitutability for NAP using the same approach used in the 2015 Review
- investigate if service bundling or non-State allied health services have any implications for State provided NAP services.

Tasmania continues to support a rate of 40 per cent substitutability being applied to the summed weighted proportions for the broad category groups (allied health; specialists; pathology and imaging; and other) used for the 2015 Methodology Review. In this assessment each group was discounted by the level of bulk billing rates stated by Medicare.

In addition, Tasmania supports the Commission staff investigating the bundling of pathology and imaging with specialist consultations and bulk-billed allied health services and will review the data when it becomes available.

[4] Productivity Commission (2018), *Report on Government Services - (Table 10A.31 Selected potentially avoidable GP-type presentations to emergency departments).*

[5] AIHW (2018), *Emergency Department Care 2016-17: Australian Hospital Statistics - (Table 4.1: Emergency Department presentations)*, 20 August 2018, https://www.aihw.gov.au/reports/hospitals/ahs-2016-17-emergency-department-care/data.

Community health services – substitutability

> Staff propose to recommend the Commission:
>
> - re-estimate the substitutability level for community health using a bottom-up approach which examines each major service area on a case-by-case basis
> - investigate if bulk-billed GP benefits data, which is currently being used to estimate the availability of non-State community health services, is the best available indicator for this purpose.

Tasmania notes that Commission staff propose to review the overall substitutability level for this component. Further, the Commission staff are proposing to use a bottom-up approach to re-estimate each major service area. Tasmania will review the result of this assessment when it becomes available.

In the absence of specific data with which to compare the current approach, Tasmania supports the rate of 70 per cent substitutability for the community health services assessment, as determined in the 2015 Methodology Review. However, the socio-demographic profile of people using these services is highly likely to be different to those using non-State provided services due to age and income. Tasmania therefore agrees with the application of a 25 per cent discount as suggested by the Commission staff. However as mentioned earlier, whether this adjustment understates the community health usage of residents in remote areas due to the comparative absence of EDs in these areas is not clear as this has not been directly addressed in the Draft Assessment Paper with respect to the community health SDC profile.

11.7 Cross-border service use

> Staff propose to recommend the Commission:
>
> - note the current arrangements ensure that States are reimbursed for the cost of providing hospital services to residents of another State
> - review the approach to the cross-border assessments for community and other health services as outlined in the *Staff Draft Assessment Paper CGC 2018/25-S*.

Cross-border service use - hospitals

Tasmania agrees that the cross border impacts of providing hospital services are already captured through the National Health Reform Agreement and so no cross-border factor is required in the hospital assessments.

Cross-border service use - Community health services

Tasmania notes that the Commission staff intend to retain the cross-border assessment for community health expenses (ACT-NSW) and to work with the ACT to identify and update the net level of cross-border use of ACT and NSW community health services. Tasmania agrees that where material, and costs are not captured elsewhere, the cross-border costs should be assessed.

11.8 Non-hospital patient transport

> Staff propose to recommend the Commission:
>
> - retain the current method for accessing non-hospital patient transport expenses but collect new data to benchmark patient transport expenses and re-calculate the remote patient loading.

Tasmania does not have any comments to make on this recommendation at this stage.

11.9 Other health expenses

> Staff propose to recommend the Commission:
>
> - consider whether expenses for pharmaceuticals, medical aids and appliances and health administration not elsewhere classified components of other health services should be included in community and other health component or admitted patients.

Tasmania agrees in principle with the Commission staff proposal to include pharmaceuticals, medical aids and appliances and health administration from the 'Other health expenses' component into the admitted patients component. These services mostly relate to the delivery of hospital services.

11.10 Component expenses

> Staff propose to recommend the Commission:
>
> - consider options for deriving annual estimates of ED and NAP expenses.

The Commission staff note that two approaches are possible for deriving annual estimates of ED and NAP expenses:

1. use total GFS NAP expenses and deduct ED expenses from either the NHCDC or AIHW data to calculate other NAP services as a residual; or
2. use NAP NWAU data shares for ED and NAP to split total GFS NAP into ED and other NAP expenses.

Tasmania does not support the residual approach for deriving annual estimates of ED and NAP expenses as there will be problems reconciling the two data sources. Instead, it supports the use of NAP NWAU data because of the increasing reliability of IHPA data from which NAP NWAU is calculated. Tasmania will review the assessed expenses once the Commission staff make the information available.

11.11 User charges

> Staff propose to recommend the Commission:
>
> - continue to offset all user charges against expenses to maintain simplicity and because:
>   - fully compensable patients have no effect on State fiscal capacities and it is appropriate to remove these expenses from the assessment; and
>   - only the residual cost of private patients in public hospitals affect State fiscal capacities and the NWAU data used in the SDC assessment recognises that private patients in public hospitals are less costly.

Tasmania supports the direct assessment approach. Consistent with this approach, Tasmania therefore supports the Commission staff recommendation to continue to offset all user charges for hospital services and community and public health services.

The Commission staff note that only the net costs of the States of private patients in hospitals is reflected in the NWAU data and that they will offset revenue from partially compensable patients from hospital expenses.

Tasmania agrees with the Commission staff concerns about reliability of community health revenue data sourced from GFS and question whether some States may be reporting hospital revenue in the community health category classification of GFS. This situation arises because general purpose classification codes are attributed to the major activities at a given cost centre which, in Tasmania, could result in under reporting for community health due to the co-location of services in rural hospitals.

Tasmania will review the user charges assessment once further analysis by Commission staff becomes available.

11.12 **Category structure**

Staff propose to recommend the Commission:

- consider assessing all hospital services in a single component if IHPA's NWAU data for NAP services is considered sufficiently reliable by the time of the 2020 Review.

This proposal would see the category assessment simplified by combining Admitted Patients, Emergency Departments and Non Admitted Patients into a single hospital services category.

Non-State sector substitution adjustments would still be estimated separately for each component.

In addition to concerns raised earlier about the current reliability and coverage of IHPA's NWAU data for Non Admitted patients to enable it to be aggregated with Admitted Patients and Emergency Department data, Tasmania has previously raised concerns with a similar proposal in the 2015 Methodology Review for a single hospital assessment.

Specifically, Tasmania does not support the Commission staff proposal to adopt a Public hospital services category that includes expenses on Admitted Patients, Emergency Departments and Outpatient Services, and a separate Community and public health category as the residual health category.

At a conceptual level, Tasmania considers that, even if the same type of high quality data were available for other hospital services, similar to those available for admitted patients, it is arguable whether the Commission should employ the same expenditure methodology to assess those services within a single Public hospitals category.

It is not self-evident that the most natural grouping of health services is 'Public hospitals services' versus 'Community and public health services' or that this is the only or best interpretation of 'what States collectively do'.

Past Commissions have recognised that a significant range of outpatient hospital services are also offered in community health settings. For these services, it is a matter of individual State context as to whether they are offered in a community health setting or within a non-admitted patient hospital setting.

The boundary between these two settings is also becoming increasingly difficult to identify as the concept of a public hospital moves from a 'bricks and mortar' physical location to a public hospital services setting and, associated with this, the range of public hospital services delivered within community or even home settings is accelerating.

In terms of deriving needs-based equalisation assessments, community health and outpatients' services and the populations they service have some natural and growing synergies. While the Commonwealth Government funding arrangements may seek to differentiate between the two, the Commission should be looking through the funding source differences to the underlying population needs and service characteristics.

11.13 Other issues

Staff propose to recommend the Commission:

- not include a cost adjustment for culturally and linguistically diverse (CALD) patients because any additional cost for CALD patients compared with non-CALD patients appear to be small.

Tasmania supports the Commission staff recommendation not to include a CALD cost adjustment until such time that a material measurement can be made.

11.14 Data and information sought by the Commission

The following information is provided in response to specific questions raised by the Commission staff.

How is funding allocated to public hospitals?

A Service Level Agreement between the Department of Health and the Tasmanian Health Service funds activity derived from the IHPA national model. Major hospitals are funded using activity based funding (ABF) and NEP with top-up grants for sub-acute and non-acute services. Rural hospitals are funded through block grants which are based on historical funding levels with an annual index factor applied. Not all costs are funded; for example, community service obligations which arise from Tasmania's dispersed and aging population. Community service obligations arise mostly in relation to small rural hospitals where individual services would not be considered economically viable. Small hospitals provide services that are more costly because they must meet staffing and safety and quality standards to open their doors. Small hospitals are located close to the populations they serve and primarily provide lower acuity care including step-down care from major hospitals to assist people return to their homes. For example, the Department meets its community service obligations at St Helens Hospital through the provision of GP services, acute beds, and residential care to a dispersed and aging population.

IHPA determines price weights and adjustments for public hospital services by first constructing a cost model based on actual activity and costs data from public hospitals in Australia. Costing information used to determine the NEP is drawn from the National Hospital Cost Data Collection (NHCDC). This data is submitted to IHPA by States.

The process to then transform each year's cost model into its associated pricing model involves:

- identification and exclusion of costs and activity regarded under the National Health Reform Agreement as out of scope for the purpose of ABF;
- derivation of a reference cost used to transform the cost model into a cost weight model;
- derivation of an annual indexation rate used to inflate the cost model to a level reflective of the estimated cost of delivering hospital services in the year of the pricing model; and
- transformation of the cost model to the pricing model using the reference cost and indexation rate.

How do IHPAs modelled costs compare to State actual costs? To what extent are differences between actual costs and modelled costs due to non-policy influences?

Tasmania will investigate how IHPAs modelled costs compare to State actual costs and provide a separate response to this submission after further consultation with the Tasmanian Department of Health.

Chapter 12 **Welfare**

12.1 Family and child services

Staff propose to recommend the Commission:

- retain the current assessment methodology for family and child services but stay in contact with the AIHW on developments concerning their unit record database, including whether data might become available for New South Wales and a possible CALD and/or disability measure.

In the 2015 Methodology Review, Tasmania supported the need for the new AIHW data source that was eventually accepted by the Commission. Tasmania supports the retention of the current methodology for family and child services. Tasmania also supports the Commission staff recommendation to appraise further developments in the AIHW data base, particularly in relation to a possible cultural and linguistic diversity and/or disability measure.

Tasmania (along with all other States excluding NSW) supplies unit record level data for this collection to AIHW. Tasmania therefore supports the Commission staff seeking unit record data from NSW to improve this assessment. Tasmania agrees that the key drivers in this assessment are indigeneity, socio-demographic composition, remoteness and service delivery scale. In Tasmania, known risk factors for children entering the child protection system are SES, indigeneity and remoteness.

State spending on family and child services is predominantly for Child Protection Services and Out-of-Home Care. Data for this Commission assessment is sourced from the AIHW child protection collection. The data in this collection is generally fit for purpose, but does have some limitations. For example, in Tasmania data quality is poor for Indigenous status for children who were subjects of substantiations of notifications. AIHW's Child Protection Australia 2016-17 Table S13[6] provides the number and rate per 1 000 children where the Indigenous status was 'unknown'. The Report on Government Services (RoGS) 2018[7] provides recurrent costs for Out-of-Home Care including Intensive Family Support Services and notes problems with data capture and the limitation of comparing services across States.

12.2 Aged care

Staff propose to recommend the Commission:

- merge States' residual aged care expenses with other general welfare expenses and assess them using a general low SES measure.

Tasmania supports the Commission staff recommendation to merge States' residual aged care expenses with other general welfare expenses and assess them using a low SES measure given that the responsibility for HACC and specialist disability services for older people are no longer a significant State responsibility.

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[6] Australian Institute of Health and Welfare 2018, *Data Tables: Child Protection Australia (2016-17)*, 20 August 2018, https://www.aihw.gov.au/getmedia/f1fdc2f8-5831-4abd-8436-906fb435769c/aihw-cws-63-data-tables.xlsx.aspx.

[7] Productivity Commission, *Report on Government Services - chapter 16 - attachment tables - 16A.6 and 16A.31*, 2018.

12.3 **Disability services - *NDIS***

Staff propose to recommend the Commission:

- assess National Disability Insurance Scheme (NDIS) expenses APC at full implementation in the 2020 Review, subject to decisions on this issue taken in the 2019 Update.

Tasmania agrees with the Commission staff proposal to assess NDIS expenses actual per capita (APC) at full implementation of the NDIS for the 2020 Methodology Review.

From 1 July 2019, Tasmania will be at full scheme and the State Government will no longer provide specialist disability services for the expected 10 587 eligible NDIS participants.

12.4 **Disability services - *Non-NDIS disability services***

Staff propose to recommend the Commission:

- re-allocate non NDIS expenses to the other general welfare component and assess them using the same measure of low SES as that used for other general welfare expenses after the full implementation of NDIS, subject to decisions on this issue taken in the 2019 Update.

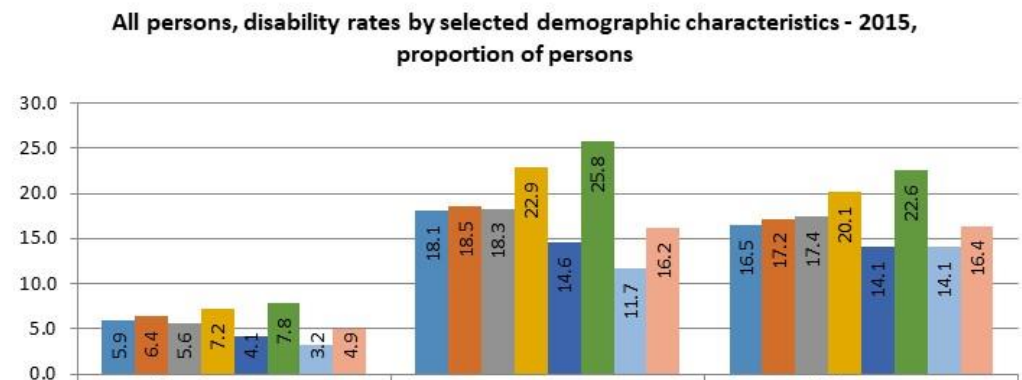
Tasmania notes that the Commission staff have tested the materiality of the current non-NDIS disability expenses assessment by comparing it to an assessment using the low SES assessment used in the other general welfare component. The two assessments are not materially different from each other, using the Commission's intended $35 per capita materiality threshold for the 2020 Methodology Review. Tasmania, therefore, generally supports the Commission staff recommendation to re-allocate the remaining non-NDIS disability expenses to the other general welfare component and to assess them using a low SES population measure (such as that used for other general welfare expenses) after the full implementation of the NDIS.

A key issue for Tasmania is the overall high disability rates in addition to NDIS participants and their use of main-stream government services. For example, high levels of disability may require higher levels of expenditure in housing, health, transport, infrastructure, education, training, justice, corrections and emergency services. This higher service need arising from having a disability is not directly captured in the Commission's assessments for these service delivery categories

ABS figures indicate that Tasmania and South Australia have significantly higher proportions of persons with disability than other States. Results from the Survey of Disability, Ageing and Carers (SDAC) 2015[8] indicate that Tasmania has the highest proportion of persons with disability (25.8%) and the highest rate of persons with a severe or profound activity limitation (7.8%). As shown in Figure 12.4.1.

[8] ABS (2015), *Disability, Ageing and Carers, Australia: Summary of Findings, 2015* (cat. no. 4430.0) – (*see Data Cubes – Disability tables – Table 4.1*).

Figure 12.4.1: Disability Rates (by State)



	Profound or severe core activity limitation rate (%)	Disability rate (%)	Disability rate, age standardised (%)
NSW	5.9	18.1	16.5
VIC	6.4	18.5	17.2
QLD	5.6	18.3	17.4
SA	7.2	22.9	20.1
WA	4.1	14.6	14.1
TAS	7.8	25.8	22.6
NT	3.2	11.7	14.1
ACT	4.9	16.2	16.4

Whilst disability rates may be affected by ageing populations in Tasmania and South Australia, age standardised SDAC figures also indicate that Tasmania has the highest rate of persons with disability

In the instance that some type of adjustment has not already been factored into each relevant Commission assessment, high disability rates may affect Tasmania's ability to provide a similar level of services to other jurisdictions.

12.4 General welfare - *Concessions*

Staff propose to recommend the Commission:

- retain the current assessment methodology for concessions.

Tasmania supports the Commission staff recommendation to retain the current assessment methodology for concessions. Tasmania agrees that the assessment is practical and policy neutral, being based on the number of pensioner concession card and health care card holders' in each State as a proportion of State populations.

12.5 General welfare - *Other general welfare*

Staff propose to recommend the Commission:

- retain the homelessness related expenses within the other general component of the Welfare category
- if the ABS updates the Socio-Economic Indexes for Individuals and Families (SEIFI), use it to measure needs for other general welfare expenses. If an updated SEIFI is not available for the 2020 Review, use the relative proportions of State populations in the bottom quintile of the 2016 Census individual income.

In its submission to Staff Research paper *CGC 2016-14-S*, Tasmania presented a detailed argument opposing the inclusion of homeless services as part of the housing assessment. Tasmania concluded that 'the need for social housing or homelessness support and housing assistance is driven by different socio-economic pressures, resulting in quite different policy interventions, for example, affordable supply or support services. These require differentiated funding, monitoring and reporting arrangements'.

Tasmania therefore supports the Commission staff recommendation to retain the homelessness related expenses within the other general component of the Welfare category because the assessed disabilities are different to those for housing.

12.6 User charges

Staff propose to recommend the Commission:

- assess revenues from user charges on an EPC basis in the Other revenue category.

Tasmania supports the Commission staff recommendation to assess revenues from user charges on an EPC basis in the Other Revenue category, as the amounts involved are small and largely relate to aged care services, which do not impact on GST shares.

Chapter 13 **Housing**

Tasmania supports the Commission staff proposal to separately assess service expenses and revenue before calculating total net assessed expenses. The data sources available for this assessment each have limitations which have not reduced since the 2015 Methodology Review, in particular for community housing and Indigenous status in social housing collections.

In Tasmania, the key cost drivers for delivering social housing services are income, low socio-economic status including people with a disability, age, and location/regionality. These drivers accord with those identified by the Commission staff for expenses and revenue with the exception of disability. Tasmania has the highest rate of any State of people with a disability who require support and have been assessed as having special needs, and will therefore require more costly modified/specialist housing.

The NDIS is also creating demand for more social housing through increasing expectations for independent living as an outcome of the scheme.

13.1 *Census data versus AIHW data*

Staff propose to recommend the Commission:

- agree to develop an approach which scales the more detailed Census data to accord, to the extent possible and appropriate, with available AIHW data for each State on households in State housing (public housing plus SOMIH) and community housing (mainstream community housing plus ICHOs)
- agree to staff undertaking further investigations into the possible scaling of Census rent data to accord with available AIHW data.

Tasmania has investigated the impact of the key Tasmanian cost drivers in the two principal data sets that will be used for the housing assessment. Tasmania supports the findings of the Commission staff in respect to the reliability of the data in the two data sets for this assessment and the conclusion that each single data set is not fit for the intended purpose. Whilst the AIHW data for Tasmanian public housing and State Owned and Managed Indigenous Housing (SOMIH) is robust, the data for community housing and Indigenous community housing is incomplete and/or unreliable. Given the size of the community housing sector in Tasmania, this would have an impact on the assessment.

Tasmania supports the Commission staff recommendation to develop an approach that scales the Census data to accord with AIHW data in each State on households in State housing and community housing. This was an issue that Tasmania supported in the 2015 Methodology Review where it suggested that both data sources could be used by the Commission and that it should explore the possibility of applying the socio-economic characteristics obtained from the Census data to the AIHW dataset.

The AIHW data is more complete as it is provided by State housing authorities, while the ABS data relies on respondents accurately self-identifying as living in public or community housing. However, it is noted that '*sufficient work has not yet been completed to determine what, if any, adjustments might be desirable'* and therefore Tasmania would want to review this when additional information becomes available.

Tasmania believes that the Census data is less comprehensive when it comes to assessing housing status. There is typically a significant undercount of those living in public or community housing when compared to AIHW or Housing Tasmania data. This may be due to tenants not understanding who owns the property in which they live. The self-reporting style of the Census opens it to inaccuracy due to misreporting.

In this context also, Tasmania notes the Commission staff recommendation to investigate the possibility and practicality of scaling Census rent data to accord with the available AIHW data. However, it is not possible to comment on the relative merits of this approach or impacts on the assessment of revenue at this time.

13.2 The impact of the cost of land

States are welcome to develop a case for the assessment of the impact of land prices on the costs of providing housing services. Staff propose to recommend the Commission:

- not pursue a differential assessment of housing related land costs because recurrent expenses would not be affected by land prices and net investment in land is too small for an assessment to be material.

Tasmania agrees with the Commission staff recommendation to not pursue a differential assessment of land costs as these costs do not impact on recurrent expenses and net investment in land is too small to be material.

13.3 The impact of policies on affordable housing

Staff propose to recommend the Commission:

- not pursue a separate assessment of affordable housing because State expenses are likely to be small.

Tasmania agrees with the Commission staff recommendation to not undertake a separate assessment of affordable housing, given that State expenses in this area are likely to be small.

In Tasmania's view this is a sub-set of social housing.

13.4 The assessment for First Home Owner Grants (FHOG) and stamp duty concessions

Staff propose to recommend the Commission:

- retain the EPC assessment of FHOGs and stamp duty concessions expenses.

Tasmania agrees with the Commission staff recommendation to continue to assess FHOGs and stamp duty concessions on an EPC basis. When the FHOG Scheme was introduced, there was a consistent policy across all jurisdictions and an average per capita assessment was appropriate. However, there are now sufficient policy-driven differences between the schemes across jurisdictions to significantly outweigh the effect of demographic needs on expenditure. Retention of the EPC assessment is considered appropriate.

13.5 Updating weights ahead of the Draft Report - *Indigenous cost weight and location factor*

Staff propose to recommend the Commission:

- agree to update the Indigenous cost weight and the location factor using the latest available data.

Tasmania supports the proposal by the Commission staff to recommend that the Indigenous cost weight and the location factor be updated using more recent data. Tasmania expressed a concern in the 2015 Methodology Review that the 25 per cent cost weight for Indigenous households in relation to operating and maintenance expenses was to be retained at that level. Tasmania argued that, in Tasmania, there was no material difference in the cost of providing housing for non-Indigenous tenants compared to Indigenous housing.

Tasmania supports the Commission staff recommendation to seek more up-to-date data from the States on this issue.

Finally, Tasmania can supply the data requested by the Commission staff to update the Indigenous cost weight. Data is already supplied to the PC for the RoGS for net recurrent costs per dwelling (including administrative, maintenance and capital) and to make comparisons between SOMIH and public housing.

Chapter 14 **Services to Communities**

14.1 Utility expenses

Staff propose to recommend the Commission:

- split the utilities component into electricity subsidies and water subsidies, recognising that average subsidies for these services are likely to be different
- update the split between electricity and water subsidies annually using data already available from the States.

Split Utilities Component

Tasmania understands that Commission staff propose to split the combined utilities expenses (electricity and water subsidies) into separate assessments to better reflect their differences. Commission staff recommend using State-provided data to achieve this, as was the approach taken in the 2010 Methodology Review.

In the 2015 Methodology Review, Tasmania supported the staff proposal to combine the water and electricity subsidies assessments into one assessment and rename it the *Utilities Subsidies* assessment, with common subsidies assessed EPC and differential subsidies assessed using population share. The decision to combine the assessments was due to a lack of reliable data for estimating how subsidies in different classes of communities vary from the average subsidy.

Tasmania is concerned that the quality of State-provided data has not improved sufficiently to justify the splitting of the utilities component. Tasmania notes that the majority of State-provided water subsidy data does not accurately disaggregate to the community level, thus weakening the analysis and the basis on which to propose a new assessment structure. Tasmania further notes that Commission staff analysis of electricity data remains incomplete and a determination of how the electricity assessment will be structured remains unknown.

While Tasmania is not opposed in principle to the proposed recommendation, Tasmania would expect that any proposal to enhance this assessment would require a sound conceptual base, and comparable and reliable data. Accordingly, Tasmania would expect further consultation to occur with States once the effects of the proposed recommendations have been released to States in greater detail.

Update Split Annually using State Data

Tasmania understands that staff propose to update electricity and water subsidies annually using State data. Tasmania supports this approach, in principle, although it reiterates its concerns regarding data quality and comparability (particularly at the community level).

14.2 Electricity subsidies

Staff propose to recommend the Commission:

- determine at what point full cost recovery for electricity services is not feasible
- differentially assess electricity subsidies which are the result of unavoidably high costs recognising that subsidies vary by community size and remoteness area
- not differentially assess electricity subsidies when the decision to not fully cost recover is due to State policy choice.

As Tasmania understands, Commission staff are continuing to analyse State electricity data by community and service areas in order to confirm the conceptual case for a single electricity subsidies assessment. Commission staff contend that this data will enable them to better recognise the non-policy influences on the need for electricity subsidies.

As noted previously, Commission staff analysis of State electricity data remains incomplete and the potential effects of the proposed changes are not yet known. Tasmania notes that Commission staff are also completing additional investigation into the influence of Indigenous status and fuel types, though this remains secondary in the overall analysis of the electricity subsidies component.

Tasmania would expect that any changes to the existing assessment method will be clearly articulated, backed by robust data and allow time for sufficient comment from the States.

14.3 Water subsidies

Staff propose to recommend the Commission:

- determine at what point full cost recovery for water services is feasible
- not differentially assess water subsidies when the decision to not fully cost recover is due to State policy
- differentially assess water subsidies which are the result of unavoidably high costs.

Tasmania understands that similar to the electricity subsidies assessment, Commission staff propose to develop a separate assessment for water subsidies based on State water and wastewater data. Although Tasmania and the ACT do not provide water subsidies, as defined by the Commission, Tasmania notes that the majority of States have so far not been able to provide data at the community level, which will limit the reliability of Commission staff analysis, and in turn, the ability to develop a separate assessment method.

Tasmania understands that if it is not possible to develop a separate assessment for water subsidies, Commission staff intend to retain the current approach, although checking that the current population thresholds are still appropriate. In the 2015 Methodology Review, Tasmania accepted the proposal to move from an assessment based on water availability and quality to population living in communities with populations from 50 to 1000 in remote and very remote areas. This is a position Tasmania would continue to support in the event a new assessment method is not developed.

In the past, Tasmania has supported the proposal to no longer recognise that water availability and quality have an impact on water subsidies, but rather to recognise that water subsidies increase as the population size of the communities serviced diminishes. Tasmania has provided the Commission with data that supports the notion that delivering water services is more costly in smaller population catchments. An assessment based on water availability and quality that has previously been used by the Commission does not accurately reflect Tasmania's position in relation to providing water subsidies. While it is true that Tasmania has good water availability at a State level, the quality and availability of water varies markedly between regions. This cannot be overcome by the interregional transportation of water, as it is not feasible in a mountainous State like Tasmania. In addition, there are regions in Tasmania that have limited water supply and which have experienced prolonged drought/dry conditions. Small communities are prevalent in these zones.

Consistent with our views for the proposed electricity subsidy changes, Tasmania would expect any adjustments to be based on reliable and comparable data, and that further consultation will be undertaken with all States as the development of a separate water subsidies assessment continues.

14.4 Community development and amenities - *Indigenous expenses and measuring disability*

Staff propose to recommend the Commission:

- expand the scope of Indigenous community development expenses to include general revenue grants to local councils with a predominantly Indigenous population because the driver of these expenses is communities with a significant Indigenous population
- collect data from the States for Indigenous community development expenses to evaluate the quality of GFS data and to decide the best approach for estimating annual component expenses
- assess Indigenous community development expenses in a separate component of the Services to communities category to improve transparency and simplify the assessment
- continue to use the Indigenous population living in these communities as the disability for the Indigenous community development, and applying wage costs and regional costs disabilities
- continue to define discrete Indigenous communities as SA1s with populations that are more than 50% Indigenous.

Inclusion of General Revenue Grants to Local Councils

Tasmania notes the Commission staff recommendation to include general revenue grants to local councils with a predominately Indigenous population.

Tasmania welcomes the opportunity to work further with the Commission staff to ensure Tasmania's data for discrete Indigenous communities is accurately captured.

Collect data from the States for Indigenous Community Development expenses

Tasmania understands that Commission staff propose to collect State expense data for the administration, operation or support of Indigenous community development and amenities in discrete Indigenous communities. Tasmania further notes that the primary issue is accurately measuring this data from GFS records and that the ABS and States have previously advised that the detailed data is unreliable.

In its response to the 2017 draft State data request, *Services to Communities - Indigenous Community Development and Amenities*, Tasmania noted that it would supply Indigenous development expenses data when Commission staff send a final data request in 2018.

Tasmania further understands that this information will form the analysis on which the Commission staff will formulate the best approach for estimating annual spending, if the GFS data continues to be unreliable. Tasmania supports this approach although it reserves the right to provide further comments at a later date.

Assess Indigenous Community Development expenses as a separate component

Tasmania is supportive of the staff proposal to continue including Indigenous community development expenses in the *Services to Communities* category, as a separate component, in order to improve the transparency and simplification of the assessment. Tasmania understands that this is a presentational change only.

Wage Costs and Regional Costs Disabilities

Tasmania supports the continued use of a wages cost disability and a regional cost disability for Community development and amenities - *Indigenous expenses and measuring disability.* However, Tasmania re-affirms its opposition to the method by which the Commission calculates the extent of wages cost disability by using private sector wages as a proxy for public sector wages which is discussed in chapter 21 in this submission.

Definition of Discrete Indigenous Communities

Tasmania understands that the Commission staff do not propose any change to the definition of discrete Indigenous communities by retaining the definition of SA1 populations that are more than 50 per cent Indigenous. Tasmania is supportive of this approach.

14.5 **Community development and amenities - *Other community development and amenities***

Staff propose to recommend the Commission:

- continue to assess community amenities expenses EPC
- assess other community development expenses EPC because these services apply to all communities including discrete Indigenous communities
- continue to apply wage costs and regional costs disabilities to other community development and community amenities expenses
- include other community development and amenities expenses in the Other expenses category because this is where most other State expenses which are assessed on the basis of population are classified.

Tasmania supports the Commission staff recommendations with regard to *Community development and amenities,* including the continuation of an EPC assessment for community amenities expenses and community development expenses.

Tasmania supports the continued use of a wages cost disability, although as noted it re-affirms its opposition to the method by which the Commission calculates it.

Tasmania supports the continued application of a regional costs disability factor.

14.6 Environmental protection - *Disabilities and classification of expenses*

Staff propose to recommend the Commission:

- continue to assess environmental protection expenses EPC because it is not practical to disaggregate expenses or possible to identify a single broad indicator for assessing spending on this function
- continue to apply a wage costs disability
- consider applying the regional costs disability to some or all environmental protection expenses, especially in light of changes to the scope of these expenses, which now include national parks and wildlife expenses
- include environmental protection expenses in the service expenses component of the Other expenses category because this is where most other State expenses which are assessed on the basis of population are classified.

Continue the Assessment of Environmental Protection Expenses EPC

Tasmania supports the proposal by the Commission staff to continue to assess environmental protection expenses on an EPC basis. Tasmania notes that, despite the new GFS classification enabling improved identification of expenses, the results remain varied, and, as such, it is not deemed practical to disaggregate these expenses accurately.

Continue to apply a Wage Costs Disability

Tasmania supports the continued use of a wages cost disability, although it re-affirms its opposition to the method by which the Commission calculates it.

Application of a Regional Cost Disability

Tasmania is not opposed to the Commission staff proposal to consider the application of a regional cost disability. Tasmania has long argued that it does not receive due recognition for expenses related to national parks which are exclusive of policy influences. However, like any proposal to enhance an assessment, it will need to have a sound conceptual base and be material, and Tasmania would expect further consultation and comment to follow.

Inclusion of all Environmental Protection Expenses in the Other Expenses category

Tasmania is not opposed to the staff proposal to include environmental protection expenses in the services expenses component of the *Other Expenses* category for consistency and presentation, as was done in the 2015 Methodology Review. Tasmania also notes that this will only occur if it is material to do so.

14.7 User charges

Staff propose to recommend the Commission:

- include all user charges for the activities covered by the existing Services to communities category in the Other revenue category and assess them on an EPC basis.

Tasmania supports the staff proposal to include all user charges in the *Other Revenue* category and assess them on an EPC basis. Tasmania understands that this is a presentational change to simplify the calculations and that it will not have an effect on the redistribution.

14.8 Location, SDS and wages

Staff propose to recommend the Commission:

- discontinue the regional cost weight and SDS factor for electricity subsidies, as the influence of remoteness and SDS will already be captured under the new assessment
- ensure that regional costs and SDS costs are captured in the water subsidies assessment
- retain the 2015 Review assessments of wage costs and regional costs for the remaining components, and consider applying a regional costs disability to environmental protection expenses.

Regional Cost Weight and SDS Factor for Electricity and Water subsidies

Tasmania understands that the Commission staff recommend the removal of the regional cost weight and SDS factor for electricity subsidies as staff intend to develop a cost gradient that includes the influence of remoteness and community size based on actual electricity subsidies. Further, staff propose a similar approach for water subsidies or the application of a general regional costs gradient and SDS factor.

Although Tasmania is not opposed to these recommendations, it reserves the right for further comment until the Commission staff complete their analysis of State data and provide greater detail that shows the effects these amendments will have on the overall assessment.

Wage Costs and Regional Costs

Consistent with our position in the 2015 Methodology Review, Tasmania accepts the staff recommendation to retain the wage costs and regional costs factors.

14.9 Other issues considered - Non-State sector provision for electricity and water

Staff propose to recommend the Commission:

- not to assess the effect of the non-State sector on the level of electricity, water and wastewater subsidies.

Tasmania accepts the Commission staff position that, although non-State sector spending is likely to influence the level of State spending on electricity and water, accurately measuring this effect is not likely to be achievable.

14.10 Other issues considered - *Private protection of environmental protection services*

Staff propose to recommend the Commission:

- not to assess the effect of the non-State sector on the provision of environmental protection services because it is impractical to develop an assessment.

Tasmania accepts the Commission staff position not to assess the effect of the non-State sector on the provision of environmental services as it is unclear whether or not there is a differential level of private provision across States and that developing a simple and reliable measure would appear impractical.

Chapter 15 **Justice**

15.1 Proposed approach

Staff propose to recommend the Commission:

- further develop a model incorporating socio-demographic drivers of offences and geographic based model of cost per offence.

Tasmania understands that Commission staff propose to move from the existing assessment, which splits police expenses 50:50 between criminal and community policing, to a model which incorporates a number of drivers, both geographic and socio-demographic, to better reflect what States do.

The Commission staff seek to estimate the difference in costs between the different demographic groups, remote and regional effects and the community/specialised split from data provided by the States. Commission staff propose to use the *assessed number of offences* and *cost per offence* as the units of measure for its analysis.

Tasmania notes that the issues uncovered during the 2010 and 2015 Methodology Reviews are still present, in that there is still no National dataset on which to base an estimate of the effect of various influences, and apparent disparities between the resources allocated in different States to community and specialised policing activities. This has resulted in the Commission determining that, in the absence of more definitive data, judgement was required, and the result was an equal split between community and specialised policing.

In calculating a cost per offence from State-provided data, Tasmania notes that Commission staff have only used data from New South Wales, Western Australia and the Northern Territory. Presumably, this is because other States could not provide the data, or, if they have, the data is not comparable between all jurisdictions. Tasmania maintains that the comparability issues evident in previous Methodology Reviews still exist and that there are limitations on the quality of the data and that these are magnified when the data is dissected into small subunits.

The implied assumption in the methodology is that the distribution of offences is roughly equal everywhere so that areas with a greater number of offences have an overall greater demand for policing services. Tasmania contends that the distribution may vary significantly, especially with socio-economic status, remoteness and Indigenous status. Tasmania would argue that offences require greater disaggregation in order to accurately reflect their level of severity.

Further, the cost per offence approach can be greatly influenced by changes in policing practices that impact on efficiency or effectiveness in very different ways. In particular, there has been a trend to concentrate resources towards the more serious crimes. This approach is believed to improve effectiveness but it increases the cost per offence significantly. If the objective was to reduce the cost per offence it would be possible for police to reverse this approach and reduce the cost per offence.

Cost per offence can also be negatively correlated to police resourcing. Tasmania has recently had the experience of increasing numbers of offences as the number of police officers was increased. The reason is that police officers detect and report crime as well as prevent and solve crime. Conversely, one of the most important reasons that many crimes are not reported is that there is a community perception that police would not or could not help.

Tasmania understands that staff propose to recommend the Commission retain the current approach (possibly with minor modifications) if the proposed model cannot result in a reliable assessment. Tasmania also notes that Commission staff still consider the current assessment method to be reliable, and in the absence of a sound conceptual case backed by robust data, Tasmania would therefore caution against any change to the current assessment.

Tasmania will have additional comments once the Commission staff further develop the proposed model incorporating socio-demographic drivers of offences and geographic based model of cost per offence, and release this analysis to the States.

15.2 Courts and legal services

Staff propose to recommend the Commission:

- divide legal service expenses into those associated with criminal matters and all other legal services
- assess criminal legal matters using use rates based upon State data on the Indigenous status, SES and age characteristics of criminal court defendants
- not apply any cost-weights to population groups.

Divide legal service expenses

Tasmania understands that Commission staff propose to rename the *Courts* component the *Legal Services* component in order to better reflect the range of services provided. Tasmania understands that this will result in a differential assessment/EPC ratio of 60:40.

While Tasmania is not opposed to this change, it is however, unclear what effect this will have, and Tasmania therefore reserves the right to provide further comment once more details are available.

Assess criminal matter using use rates

Tasmania has a number of concerns with the Commission staff recommendation to assess legal expenses relating to criminal matters using criminal court use rates by Indigenous status, SES and age characteristics based upon State data.

Tasmania's court system does not presently maintain inclusive data on indigeneity to support this recommendation (which is consistent with the ABS assessment on data quality for smaller jurisdictions). Further, although estimates by age and traffic versus non-traffic offences are available, and can be disaggregated by Local Government Area (LGA), estimates by locality are typically low in the number of observations for the majority of localities, raising data quality issues.

Commission staff propose to assess any available data on Indigenous status of traffic and offence defendants before determining the most appropriate treatment of these offences. Until such time that Commission staff release more detailed information and the effects of the proposed change, Tasmania reserves further right to comment and would expect a consultative process due to the significant issues regarding data reliability and comparability.

Cost Weights

Given Commission staff concerns surrounding the availability of the data and its quality, Tasmania supports the recommendation not to apply any cost-weights to population groups.

15.3 **Prisons**

Staff propose to recommend the Commission:

- retain the 2015 Review method used to assess Prisons.

Tasmania supports the Commission staff recommendation to retain the current methodology to assess prisons.

Tasmania agrees that the assessment is practical and that updating the composite dataset annually with new prisons data does not add to the complexity of the assessment.

15.4 **Other issues considered**

Staff propose to recommend the Commission:

- apply the wage costs assessment in the Justice category
- retain the 2015 Review method for regional costs and service delivery scale
- assess the influence of the use of AFP officers by the ACT on police expenses.

Wage Costs

Tasmania supports the continued use of wages adjustment in the Justice category, although Tasmania re-affirms its opposition to the method by which the Commission calculates the wages cost disability.

Regional Costs and Service Delivery Scale

Tasmania notes that Commission staff propose to retain the regional costs and SDS, as was the approach in the 2015 Methodology Review. However, until the method of calculation for police services has been developed, Tasmania reserves the right to provide further comments at a later date.

AFP Officers

Tasmania supports the Commission staff recommendation to not change the current approach in its treatment of the higher wages cost of Australian Federal Police (AFP) in the ACT, and to fully incorporate it into the Justice assessment. Tasmania notes the Commission staff confirmation that the Commonwealth legislation that requires the ACT to use the AFP for policing to justify the allowance in past Reviews remains unchanged and that there is no evidence of any intention by the Commonwealth Government to change it.

Chapter 16 **Roads**

16.1 Rural road length, adjusted road network, Austroads and synthetic network

Staff propose to recommend the Commission:

- consider whether it should adopt a new approach to measuring State road length in a way that more closely reflects the actual length of roads that States manage and, if so, to:
  - use State actual road networks adjusted to ensure the inclusion of roads commonly classified as State roads and the exclusion of roads commonly classified as local roads to reflect average policy; and
  - as a fall-back, retain the mapping algorithm approach with changes to incorporate all connections between urban centres, connections to smaller population centres and connections to certain areas of significance
- provide a draft data request to States by early 2019 to see whether States can provide road length information based on the definitions and formats set out in the Austroads Standard.

Measurement of State Rural Road Length

Tasmania understands that Commission staff are considering whether to adopt a new approach to measuring State rural road length from the current synthetic rural road network which was developed as part of the 2010 Methodology Review. Commission staff contend that it is now possible to more comparably identify State roads and do so in a way that better reflects actual State road lengths. In addition, Tasmania notes that staff propose to adjust individual State road networks to match average policy.

For Tasmania, there is a significant difference between the road lengths in the Commission's synthetic network compared to the State's actual network. Tasmania has previously raised concerns with regard to the apparent inconsistencies between how States and the Commission classify rural (and urban roads) arguing that this may result in differences when comparing the lengths of roads in Tasmania, what is classified as State managed roads and local roads, and the subsequent expenditure per capita for rural and urban roads.

Tasmania notes that the synthetic network currently omits rural road length connecting populations of 400 or less due to a lack of reliability in the geospatial data for populations of this size. For the 2020 Methodology Review, Tasmania understands that Commission staff have reviewed updated State Road Authority geospatial data (from that used in the 2015 Methodology Review) and believe that it may be possible to include connections to smaller populations, consistent with the ABS definition of 200 people or more. Tasmania supports this view, particularly as Tasmania's population is highly dispersed, remote and consists of many smaller communities.

If a new approach is not feasible, then Commission staff propose to retain the existing synthetic network with some changes to the current roads mapping algorithm. As Tasmania understands, this could include incorporating connections to smaller population centres, national parks and areas of significance, as well as data on lane-kilometres. Tasmania would support any attempt, underpinned by quality data, to better reflect the actual rural road lengths.

With regard to *dead-end* roads, it is unclear to Tasmania what the definition covers and how an adjustment to the network would be determined. Tasmania is unsure whether Commission staff are implying that network length will be adjusted by deleting the length of any dead-end road entirely. For example, is a State road that ends at a town, but continues on as a local, Hydro Tasmania, Sustainable Timber Tasmania or National Parks road, defined as a *dead-end* road? The ambiguity in the definition and treatment could have a significant impact on the deemed length of road.

Tasmania considers that any proposal to alter the rural roads assessment will need to have a sound conceptual base and Tasmania would expect a consultative process to follow. Tasmania reserves the right for further comment once the effects of the proposed changes are better known and the Commission staff have addressed the data quality and comparability issues that will underpin the proposed new approach. Nonetheless, Tasmania supports further investigation to ensure Tasmania's rural road network length is being accurately captured.

Draft Data Request

Tasmania notes the staff proposal to provide States with a draft data request to determine whether road data (as set out in the Austroads Standard) is available.

Tasmania notes that the Austroads board has not completed a harmonised road asset dataset across all jurisdictions and, even once it is completed, individual States are not required to implement the Standard within their own data holdings. Tasmania would question whether there is sufficient time for the Standard to be completed, let alone adequate consultation with States to occur.

16.2 Urban road length

Staff propose to recommend the Commission:

- retain the definition of urban areas as UCLs of more than 40 000 people
- use State actual road networks adjusted, to the extent possible, to ensure the inclusion of roads commonly classified as State roads and the exclusion of roads commonly classified as local roads to reflect average policy
- as a fall-back, continue to use urban population as a proxy measure of urban road length needs.

Definition of urban areas

Tasmania notes the Commission staff proposal to retain the definition of urban areas as Urban Centres and Localities (UCLs) with a population over 40 000 as the same definition is used in the ABS's Survey of Motor Vehicle Use (SMVU) and by the National Transport Commission (NTC) to collect expense data for urban and rural areas.

Tasmania has previously raised concerns that the definitions of UCLs and SMVUs may lead to some road use being incorrectly classified as urban when it should be rural, though the Commission staff have stated that they believe this effect to be minor. Nonetheless, Tasmania accepts the proposal to retain the urban areas definition.

Urban Road Length

Tasmania understands that Commission staff propose similar options for measuring urban road length as discussed in the previous section. Consistent with its views, Tasmania supports any approach to better capture actual urban road lengths. However, Tasmania reiterates its concerns regarding data comparability, quality and the inconsistencies between Commission and States' definitions of urban roads.

Tasmania reserves the right for further comment as staff release more detail of the effects of the proposed changes as the 2020 Methodology Review progresses.

Population as a Proxy Measurement

Tasmania notes, that in the absence of State actual lane-kilometres from the Austroads Standard, staff propose to retain the current population proxy measure as a fall-back position. Tasmania is not opposed to this approach.

16.3 Local road length

Staff propose to recommend the Commission:

- ensure that the local roads component includes only expenses relating to maintenance of local roads in areas of States where there is no local government (unincorporated areas) or where there is insufficient population for the local government to support road maintenance
- update the estimates of local road length using actual road length in unincorporated areas and sparsely populated areas.

Local Roads Expenses

Tasmania understands that the Commission has concerns that expenses in the local roads component may be overstated, and that some States may be classifying local roads that other States would classify as State Roads.

Accordingly, Tasmania supports the Commission staff proposal with regard to the appropriate allocation of local roads maintenance expenses. Tasmania agrees that spending on roads that are not council managed and not in unincorporated areas, should therefore not be included as part of the local roads component.

Update of Local Road Length

Tasmania supports the staff proposal to update the estimates of local road length, excluding that which is already captured in the rural road network.

16.4 Road use - traffic volume and heavy vehicle use

Staff propose to recommend the Commission:

- retain the current methodology for calculating urban and rural traffic volume
- treat light commercial vehicles as passenger vehicles because they do not fit the definition of heavy vehicles
- combine rigid and other trucks, and buses into another heavy vehicles class
- not pursue the issue raised by the ACT.

Urban and Rural Traffic Volume Methodology

Tasmania supports the Commission staff proposal to retain the current measures of traffic volume and heavy vehicle use.

Light Commercial Vehicles

Tasmania supports the Commission staff recommendation to exclude light commercial vehicles from the definition of heavy vehicles to better align with the definitions set out in the Australian Heavy Vehicle National Law and that used by the NTC.

Rigid and Other Trucks

Tasmania supports the Commission staff proposal to reduce the number of heavy vehicle classes by combining rigid and other trucks, and buses. Tasmania notes that the Commission staff proposal will simplify the assessment and that the proposed change does not have a material effect on the GST distribution when applying the $10 per capita threshold for data adjustments.

ACT Comments

Tasmania supports the staff recommendation not to investigate further the ACT's comments regarding a possible correlation between States with higher urban area per capita and increased expenditure per capita.

16.5 Bridges and tunnels

Staff propose to recommend the Commission:

- agree to staff considering options for a bridge and tunnel factor based on State spatial data
- if no satisfactory options are found, reallocate bridge and tunnel expenses and investment to the relevant urban and rural road components and apply the disabilities for those components.

Bridge and Tunnel Factor

Tasmania understands that Commission staff propose to consider options for a bridge and tunnel factor based on State spatial data. Tasmania is supportive, in principle, as it remains unclear whether the existing EPC approach adequately captures Tasmania's expenditure.

Tasmania has a high number of structures on its road network because of its highly dissected topography and high rainfall regions. The Tasmanian State Road network has a significant structure for every 3.1 kilometres of road. Structures form a relatively high component of the value of the road asset, with the replacement cost of Tasmanian bridges at 30 June 2018 comprising $2.3 billion out of a total asset replacement cost for State roads of $7.8 billion: that is, around 28 per cent of the total value. Bridge construction cost and maintenance expenditure is a major part of the road network and cannot be ignored. This cost is exacerbated by a small market sector, with relatively low levels of competition, limited innovation and higher costs associated with remote regional construction.

Tasmania further notes that Commission staff have already collected spatial data, though no calculations have yet been formed. Tasmania notes that any proposal to enhance the assessment will need to have a sound conceptual base and Tasmania would expect a consultative process to follow once the effects of the assessment are better known.

Alternative Options

Tasmania understands that if the Commission staff are unable to develop a simple, reliable and policy neutral measure of needs for bridges and tunnels, it is proposed that bridge and tunnel expense and investment will be allocated to the urban and rural roads components (with applied disabilities). Although Tasmania is not opposed to this, it is unclear at this stage what effects this would have, and, as such, Tasmania reserves its right of comment until more detailed information is provided.

16.6 Other services

Staff propose to recommend the Commission:

- remove the other services component from the roads category and reallocate other services expenses to the other components of the *Roads category* on a proportional basis and apply to them the component disabilities.

Tasmania supports the staff proposal with regard to *Other Services.*

16.7 National network roads

Staff propose to recommend the Commission:

- defer a decision on the treatment of Commonwealth payments for investment on national network road and rail projects until State comments on the issue have been received and examined.

Tasmania notes that the treatment to apply a 50 per cent discount to the assessments of Commonwealth Government payments for National Network Roads (NNR) has been contentious.

In the 2015 Methodology Review, Commission staff considered that its preferred option was for the Commission to continue its current approach of ensuring all relevant and material needs were assessed and for treating Commonwealth Government payments as having an impact on the relativities. If needs were not assessed, the payment or a part of it should not impact on the relativities. If, for particular reasons not relating to HFE, the Commonwealth Government and the States jointly agree that certain payments should not impact on the relativities, then these could be specified in the ToR.

Tasmania endorses the treatment of Commonwealth Government payments from the perspective of HFE and the general principle that all Commonwealth Government payments should impact the relativity assessments.

The 2010 Methodology Review decision to discount the NNR payments reflected the fact that, though differential needs were assessed in relation to roads, some part of these payments funded roads that crossed interstate boundaries and effectively served a national population/interest not simply the State resident population interest. In the 2015 Methodology Review this treatment was extended to national rail infrastructure payments.

Tasmania has previously opposed the institution of *nationally significant project* or similar *no impact* criteria and argued that this would be a 'slippery slope' for the Commission in terms of the judgements inherent and the difficulties in clearly and unambiguously defining guidelines. In the 2015 Methodology Review, Tasmania shared the concerns of the Commission staff with regard to the Commission's capacity to quantify the size of the benefits or apportion project expenditure to that outcome.

For the 2020 Methodology Review, Commission staff raised this issue of the treatment of Commonwealth payments in its Discussion paper - *The Principle of HFE and its Implementation (2017-02-S).*

In its response to the paper, Tasmania commented on the issue of the treatment of NNR and this is repeated below.

Tasmania reiterates its previous concerns regarding the Commission's 2010 Methodology Review decision to exclude 50 per cent of Commonwealth payments for National Network Roads projects, and its extension to exclude 50 per cent of Commonwealth payments for National Network Rail project payments in the 2015 Methodology Review. While it is acknowledged that such payments can reflect national as well as State specific transport needs, the decision to exclude from equalisation 50 per cent of National Network road and rail projects that are funded by the Commonwealth is arbitrary and may capture funding directed toward State arterial roads which States would have ordinarily built and upgraded using their own funds.

The Commission concluded in the 2015 Methodology Review final report that it would be conceptually and practically difficult to develop and implement a framework to identify payments for nationally significant transport infrastructure projects and that the Commission would rely on advice from the Commonwealth Department of Infrastructure and Regional Development to decide which projects and payments related to the national networks.

As noted by Commission staff in the Draft Assessment Paper, the Grattan Institute in its submission to the 2017 Productivity Commission Inquiry into HFE, raised the issue of bias in Commonwealth transport infrastructure payments and the GST treatment of National Network projects to the States.

It noted in its submission that:

> *The special treatment of spending on the National Network is only justifiable if it is limited to nationally important roads and railway lines. The National Network legislation prescribes that it applies to roads and railway lines that connect capital cities, major centres of commercial activity, and/or inter-modal transfer facilities.*
>
> *But in reality, while there are roads and rail lines on the National Network (that) are certainly important, others in fact carry very little freight or passenger traffic. For instance, the National Network includes the 89-kilometre Princes Highway West, a spur from Geelong to Colac. While Geelong is an important centre of commercial activity, it is hard to see how Colac, with a population of 11,939 and no heavy industry, could qualify as a transport hub or commercial centre. While some traffic from beyond Colac uses this section of road in transporting freight to Melbourne, its total use, measured as vehicle kilometres, is much lower than most other National Land Transport Network roads.*[9]

The Institute concluded that:

> *Until there is a more disciplined and fair approach to the allocation of Commonwealth transport infrastructure funding, the case is strongest for all relevant payments to be fully included in the assessment of GST shares.*[10]

Tasmania shares some of the concerns raised by the Grattan Institute and supports reconsideration of the current partial equalisation approach by the Commission.

Consistent with its views since the 2010 Methodology Review, Tasmania does not support the partial exclusion of certain Commonwealth Government road or rail funding because it is deemed by the Commission to be of national significance and would seek the entire, or partial, removal of the 50 per cent discount.

16.8 Other issues considered and settled - *Physical environment*

Staff propose to recommend the Commission:

- not pursue the development of a physical environment assessment for road maintenance expenses.

Tasmania continues to have concerns regarding the lack of importance given to the physical environment, despite evidence showing a correlative impact on the cost of roads maintenance.

In its response to the consultant's report[11] (as part of the 2015 Methodology Review) Tasmania argued that the report did not adequately recognise the topographical importance for road and bridge maintenance expenses, particularly in the Tasmanian environment. The report stated that differences in weather zones were unlikely to have any material impact on maintenance costs. Tasmania contended that in high rainfall areas, especially areas that are consistently wet such as the West Coast of Tasmania, the pumping action of tyres on wet road surfaces accelerates the widening of hairline cracks and quickly increases the size of potholes. This not only increases the need for maintenance, but because water can penetrate and damage the pavement, for

[9] Grattan Institute, *Submission to the Productivity Commission Inquiry into Horizontal Fiscal Equalisation - section 1.2.1*, 30 June 2017.

[10] *ibid*. Conclusion.

[11] Pottinger Co Pty Ltd and AECOM, *Optimising GST allocations - Final Report,* 2013.

wet area roads carrying the same freight task as dry area roads, the road life will be shorter before rehabilitation becomes necessary.

The consultant's report then supports this view regarding the impact of water degradation on roads maintenance by stating that high levels of precipitation can increase overall cost by up to five per cent. Due to the need for larger culverts, more sub-soil drainage, thicker pavements and larger bridges, Tasmania contended that the cost is likely to be significantly higher than five per cent.

Nonetheless, although Tasmania accepts that the Commission staff are proposing not to measure the impact of the physical environment as part of the 2020 Methodology Review, it does urge that consideration be given to the impacts that the physical environment has on road and bridge maintenance in future Reviews.

16.9 Other issues considered and settled - *Location factor*

Staff propose to recommend the Commission:

- continue to apply the wage costs factor to all components of the Roads category
- continue to apply the regional costs factor to the rural roads component.

Tasmania supports the continued application of a wages cost factor to all components of the *Roads* category, although it re-affirms its opposition to the method by which the Commission calculates it.

Tasmania supports the continued application of the regional costs factor to the rural roads components.

16.10 User charges

Staff propose to recommend the Commission:

- continue to assess roads user charges on an EPC basis in the *Other revenue* category.

Tasmania continues to be supportive of the staff proposal to continue its assessment of road user charges on an EPC basis, due to the degree of policy variation between the States.

Chapter 17 **Transport**

17.1 **Conceptual case - *Drivers of expense and increasing per capita expenses***

Staff propose to recommend the Commission:

- retain the current general approach to the assessment of recurrent and infrastructure urban transport expenditure because the conceptual case that city population is a major driver of net expenses and assets for public transport systems is strong and supported by data.

Tasmania continues to have concerns regarding the general approach to the urban transport assessment within the Transport category.

In the 2015 Methodology Review, the Commission's conceptual case to assessing urban transport costs is that urban transport assets and operating costs per capita increases as city population increases. That is, greater use is made of urban transport in larger cities with rail investment occurring, at some point, as city size becomes increasingly large (with rail being the most expensive urban transport infrastructure to build and maintain).

Tasmania's concern with the approach in the 2015 Methodology Review was with the uncertainty regarding how much per capita urban transport infrastructure the Commission's model estimated was required for each State. As part of the 2015 Methodology Review, an independent econometric consultant[12], reviewed the Commission's econometric approach and considered the sample size to be small (65 urban centres with over 20 000 population).

Furthermore, there are only two very large cities in Australia with the majority of other urban centres in the sample clustered at the lower end of city population sizes. The consultant stated[13] that '*given the small number of cities, the regression results will always be sensitive to some observations*' and '*observations with big values influence the results quite significantly*'.

The Commission showed that the assumptions that assets per capita are determined by a linear relationship to city populations, and that the line passes through the origin, led to a result that State shares of assessed assets, and assessed investment, are independent of the slope of the linear relationship (and therefore insensitive to the data from any one city or set of cities). The Commission stated that the data points available from States are consistent with an upward sloping linear relationship that passes closely to the origin.

However, the consultant showed the functional form to be dependent on several data points given that the sample size was so small. A tapering off at the high end, i.e. some form of quadratic equation, is conceptually appealing as the share of trips on public transport cannot increase ad infinitum, and should a data point move year-to-year, such an equation maybe more appropriate.

In the *Transport Services Assessment* and in the Urban Transport Infrastructure component of the *Investment Assessment*, many States argued that Sydney was a clear outlier. In response, the Commission stated that it had no basis to determine that Sydney was an outlier and that, in fact, Melbourne may be the outlier. Tasmania

[12] Xiaodong Gong, University of Adelaide, *Report on Econometric Work Conducted by the CGC,* June 2013.

[13] *Ibid*, page 8.

argued that while it may have been the case that Melbourne was the outlier, not Sydney, (or that neither were outliers) there were not enough data points in the scatter diagram to provide confidence in the results.

At the time, Tasmania argued that the small sample size and the econometric uncertainty justified retaining a 50 per cent discount. Accordingly, Tasmania would again argue that the Commission consider discounting as part of the 2020 Methodology Review, as the issues still remain relevant. Tasmania supports further investigation into the models used by the Commission to assess urban transport expenses and infrastructure requirements which is discussed in section 17.2.

17.2 Urban transport expenses and infrastructure models

Staff propose to recommend the Commission:

- provide the report on stage 2 of the consultancy to States for comments. After receiving those comments, staff will develop assessment proposals for net expenses and investment for the Commission.

Tasmania supports the Commission staff recommendation to provide States with stage 2 of the consultancy report prepared for the Commission by Jacobs Australia Pty Ltd[14].

Tasmania contends that the current assessment for urban transport should consider additional factors (such as topography, lower socio-economic characteristics, low density development, proportion of concession customer base, etc.) rather than just urban centre size and population growth.

The Commission staff note that if the consultant is unable to develop simple and intuitive models that better capture State needs than the current ones, staff would propose to retain the current approach and update it using current State data. Tasmania maintains that, by updating the existing approach, all the drivers of urban transport expenditure will not be captured.

Accordingly, Tasmania will withhold further comment upon alternate approaches until stage 2 of the consultancy report has been released to States.

17.3 Definition of urban areas

Staff propose to recommend the Commission:

- retain the 2015 Review definition of urban areas: ABS UCLs contained within SUAs
- include all SUAs in the assessment of urban transport because most of them have public transport services
- decide whether or not some satellite cities should be amalgamated with their principal city based on the results of the analysis using the two quantitative criteria proposed by the consultant.

Definition of Urban Areas

Tasmania accepts the staff proposal to retain the definition of urban areas, which is defined using ABS UCLs contained within Significant Urban Areas (SUAs).

[14] Jacobs, *Modelling of Urban Transport Recurrent & Infrastructure Expenditure Requirements - Stage 1 Report to the CGC,* September 2017.

Inclusion of all Significant Urban Areas

Tasmania notes that for the 2020 Methodology Review Commission staff propose to include all SUAs. This is an increase on the 2015 Methodology Review, where the Commission only included SUAs with a population above 20 000 persons. This change will increase the number of urban areas from 65 to 106. For Tasmania, this will result in the inclusion of only one additional SUA (Ulverstone) compared to a greater number for other jurisdictions.

Whilst Tasmania is not opposed to this approach, it reserves the right for further comment as the 2020 Methodology Review progresses and the Commission releases more information regarding the effects of this change.

Satellite Cities

In the 2015 Methodology Review, Tasmania agreed with the Commission's treatment of Newcastle, Wollongong, the Central Coast, the Sunshine Coast and the Gold Coast as separate cities, rather than amalgamating them with their principal city. This was because the demand for travel by public transport between these satellite areas and the principal city was low relative to public transport travel within each satellite area. Tasmania notes that this approach was also supported by consultants as part of the 2010 Methodology Review.

However, as part of the 2020 Methodology Review, stage 1 of the Jacobs consultancy report[15], the consultants have developed criteria for amalgamating satellite cities with their principal city and found eight potential satellite cities. Tasmania notes that amalgamating satellite cities with their principal city will increase the overall population of the city and so will result in higher per capita expenses than if the principal city and satellite cities are assessed separately. As such, Tasmania notes that amalgamating satellite cities generally favour larger cities.

Tasmania, in its response to stage 1 of the Jacobs consultancy report, raised concerns over the validity of the quantitative criteria proposed by the consultants with which they were assessing potential satellite cities. The consultant's report also listed a number of qualitative criteria they deemed *could* be used to determine whether a satellite city be amalgamated in GST assessment[16]. The consultant's report did not provide any further information regarding the derivation of its findings.

Accordingly, Tasmania will provide further comment once the results of the analysis have been released to States and a decision on the proposed satellite cities has been formed by the Commission staff.

17.4 Non-urban expenses

Staff propose to recommend the Commission:

- retain the 2015 Review assessment of non-urban transport services, which is based on State shares of population outside capital cities.

Consistent with our view in the 2015 Methodology Review, Tasmania supports the Commission staff recommendation to retain the assessment of non-urban transport services based on State shares of population outside capital cities.

[15] *Ibid,* pages 52-56.

[16] *Ibid,* page 53.

Chapter 18 Services to Industry

18.1 Business development expense

Staff propose to recommend the Commission:

- continue to assess business development expenses EPC
- continue to apply the wage costs disability to State business development expenses
- continue to recognise that there are minimum fixed costs associated with the normal range of business development activities States perform.

Tasmania supports the Commission staff recommendation to continue to assess business development expenses on an EPC basis, given the difficulty of determining a common policy in relation to economic development. This issue was also extensively canvassed during the 2010 and 2015 Methodology Reviews, and Tasmania supported the EPC approach in the 2015 Methodology Review.

Tasmania supports the continued use of a wages cost disability to State business development expenses, although it re-affirms its opposition to the method by which the Commission calculates it.

Tasmania also supports the Commission staff recommendation to continue to recognise that there are minimum fixed costs associated with the normal range of business development activities that States perform.

18.2 Estimating business development and regulation expenses

Staff propose to recommend the Commission:

- use State data on business development expenses and GFS data to estimate business development and regulation expenses for agriculture and other industries
- continue to assess agriculture and other industries regulation separately because the way States regulate these sectors is different, but only if a separate agriculture assessment remains material
- send draft data requests for agriculture and other industries in May 2018
- send final data requests to the States in September 2018 to collect the final data for three financial years from 2015-16 to 2017-18
- retain the business development and regulation weights obtained from data for 2015-16 to 2017-18 for the period of the 2020 Review.

Tasmania notes that Commission staff are not proposing any changes to the methodology for estimating business development and regulation expenses for the 2020 Methodology Review. Tasmania supports the Commission staff recommendations as outlined above.

18.3 Weighting the drivers of regulation expenses

Staff propose to recommend the Commission:

- continue to differentially assess industry regulation expenses because the size of the regulation task for industry is related to the size of the sector
- use information from State line agencies to inform the decision on the relevant drivers of State spending on industry regulation.

Regulation expenses are currently driven by population, value of production and business count (for agriculture) or private non-dwelling construction (for other industries). Many States argued that there was significant judgement used in determining the level of influence for each driver, a contention that the Commission staff acknowledge. Tasmania agrees with the Commission staff recommendation to not utilise the very detailed approach adopted in the 2010 Methodology Review, but to use informed, high level judgement to determine the disability weights.

Tasmania also supports the Commission staff decision to request information from the States in relation to the relative importance of different drivers of regulation expenses.

18.4 Regression approach for identifying and weighting drivers

Staff propose to recommend the Commission:

- not use a regression approach to determine drivers and associated weights due to the nature of the available data and initial regression results lacking statistical significance.

Tasmania notes the difficulties recognised by the Commission staff evident in the suggestion by Western Australia to make use of a regression approach to determine disability weights for the Services to Industry assessment, particularly the presence of policy influence in agricultural regulation. There is also the difficulty of isolating regulation expenses from business development expenses.

Tasmania therefore agrees with the Commission staff recommendation to not use a regression approach to determine disability weights.

18.5 Planning and regulation for major infrastructure projects

Staff propose to recommend the Commission:

- continue to assess planning and regulation expenses for major infrastructure projects in the Services to industry category using State shares of private non-dwelling construction expenditure as the disability
- collect data from States to update the current spending estimate.

The assessment of planning and regulation costs associated with major infrastructure projects was introduced in the 2015 Methodology Review, using a disability based on State shares of private non-dwelling construction expenditure. Tasmania notes that the assessment was material for Western Australia and the Northern Territory in the 2018 Update because of its mining focus.

Nevertheless, Tasmania agrees with the Commission staff recommendation to continue to assess planning and regulation expenses for major infrastructure projects using State shares of private non-dwelling construction expenditure as the disability. Tasmania supports the collection of data from the States to update this disability.

18.6 Other R&D expenses

Staff propose to recommend the Commission:

- not remove R&D expenses identified in the new COFOG-A classification from the relevant functions on simplicity grounds, unless it is material.

Tasmania supports the Commission staff recommendation as outlined above.

18.7 **User charges**

Staff propose to recommend the Commission:

- deduct all user charges from expenses because most relate to regulation activities and the same disabilities apply to expenses and revenue
- collect data on State agricultural levies to confirm they are not material.

Tasmania supports the Commission staff recommendations as outlined above.

18.8 **Administrative scale assessment**

Staff propose to recommend the Commission:

- retain the administrative scale assessment for the category but re-estimate the costs using the approach outlined in *Staff Draft Assessment Paper CGC 2018-01/25-S, Administrative scale.*

Tasmania supports the Commission staff recommendations as outlined above.

Chapter 19 **Other Expenses**

19.1 Natural disaster relief, mitigation and measurement issues

Staff propose to recommend the Commission:

- continue to assess natural disaster relief expenses on an APC basis
- not make an assessment for natural disaster mitigation expenses, due to the difficulty in obtaining expense data and identifying a reliable driver
- continue to make adjustments to the adjusted budget to ensure:
  - − natural disaster relief expenses under the NDRRA framework are only assessed once;
  - − net natural disaster relief expenses funded from local government revenue are not included in the assessment because they do not affect a State's fiscal capacity; and
  - − Commonwealth NDRRA assistance payments through States to local government (for example, for roads) are not included in category expenses.

Assessment of Natural Disaster Relief on an APC basis

As in previous Reviews, Tasmania continues to be supportive of the proposal to assess natural disaster relief on an APC basis.

Under the existing methodology, States' net expenses are assessed under the Natural Disasters Relief and Recovery Arrangements (NDRRA). Tasmania notes that a new agreement (*NDRRA Determination 2017)* replaced the *NDRRA Determination 2012 (version 2)* as of 1 July 2017. Tasmania further notes that the Commission does not expect any significant changes to occur that would preclude an APC assessment.

Mitigation Expenses

Tasmania supports the Commission staff proposal not to make an assessment for mitigation spending due to the difficulties in adequately determining reliable drivers and accurate State expense data.

Accordingly, Tasmania supports the continued assessment of mitigation expenses on an EPC basis.

Continued Adjustments

Tasmania supports the Commission staff proposal to continue to make necessary adjustments to ensure natural disaster relief expenses under the NDRRA framework are not duplicated, and that Local Government funded, or Commonwealth 'through payments' to local government are not included in State NDRRA net expenses.

19.2 Capital grants to local government for community amenities

Staff propose to recommend the Commission:

- cease assessing the capital grants to local governments for community amenities component because the driver of this spending is unclear.

Tasmania supports the staff proposal to cease assessing the capital grants to local governments for community amenities components and agrees that the drivers of this spending are unclear.

19.3 **National parks and wildlife services**

Staff propose to recommend the Commission:

- not assess national parks and wildlife services, due to uncertainties surrounding the policy influences and difficulty in obtaining reliable data to measure cost influences and expenses.

With regard to national parks and wildlife expenses, Tasmania believes there are material disabilities that need to be recognised if an outcome that is consistent with fiscal equalisation is to be achieved. In past Reviews, Tasmania has provided detailed comments and evidence to support the conceptual case for a differential assessment for national parks and wildlife expenses.

However, Tasmania notes the Commission staff position that robustly measuring such disabilities is currently not achievable as part of the 2020 Methodology Review.

19.4 **Cross-border expenses**

Staff propose to recommend the Commission:

- not assess a cross-border disability for library, sports grounds and other cultural and recreational services provided to New South Wales residents unless the ACT is able to provide current data to substantiate an assessment.

Tasmania supports the Commission staff decision to not assess cross border disabilities for service provided to NSW unless the ACT can provide evidence to support its claims.

19.5 **Other issues including location**

Staff propose to recommend the Commission:

- include most State expenses which are assessed EPC in this category
- continue to apply location disabilities to the same expenses as the 2015 Review.

Tasmania accepts the staff decision to include additional expenses in Other Expenses (if the Commission continues to assess them EPC) to simplify the presentation of functional categories.

Tasmania supports the Commission staff proposal to continue applying regional and wage cost disabilities to the same other expenses as the 2015 Methodology Review, noting that staff are not recommending any changes to the current treatments, either for expenses currently included in Other Expenses, or for expenses staff are proposing to include in Other Expenses as part of the 2020 Methodology Review.

Chapter 20 **Physical and Financial Assets**

Tasmania notes that Commission staff propose to recommend the following changes to the Investment assessment:

- functionalising all service categories (not just urban and rural roads, urban transport) by including a separate investment assessment in each category;
- replacing the current overall population dilution disability with category specific growth factors;
- replacing averaging of infrastructure disability factors with a single year stock disability;
- not recognising changes in stock disability factor changes during the year. That is, freezing disabilities by using the opening stock factor for the year instead of opening and closing stock factors; and
- assessing gross investment instead of net investment and depreciation separately

The Commission staff argue that the proposed changes will improve the current assessment because they will result in:

- a more easily understood and explained distribution of the GST; and
- a more accurate and appropriate distribution of the GST.

The Commission staff seek feedback from the States on whether the proposed changes make the assessment easier to understand and explain.

Tasmania would clearly support the changes if they provide a more accurate and appropriate distribution of the GST.

In principle, it would seem reasonable to assume that assessing investment need by each service expenditure category will provide greater clarity in relation to what service categories drive investment need. However, it is not clear from the information provided thus far whether such an approach, together with the other proposed changes, will result in a material change to the overall Investment assessment outcome. For this reason, until the methodology is further developed and indicative comparisons can be made between the current method and the alternative method, Tasmania's position on this proposal remains neutral.

Based on the information provided to the States in the Draft Assessment Paper and through the OWP, Tasmania makes the following comments in respect of each of the proposed changes to the Investment assessment.

20.1 **Functionalising the assessment**

Staff propose to recommend the Commission:

- separately assess investment in all category and component service areas.

The Commission staff indicate that the proposed change to functionalise the investment assessment will be of a presentational nature rather than a change to the methodology that could also change the GST distribution outcome.

For example, in the Draft Assessment Paper, Commission staff note '*that functionalising the assessment will introduce more steps in the Investment assessment for what is essentially a matter of presentation…*'

The OWP paper[17] notes that '*currently most of the assessment is grouped into a single "other investment" assessment. Splitting this into schools, health, justice etc. of itself does not change the GST distribution*.'

However, an example is given where there would have been a significant difference of $37 million for the Northern Territory between the current assessment and a functionalised assessment.

As noted, Tasmania reserves its in-principle support for such a change until there is further clarity as to what the impact on the overall change in the GST distribution is as a result of functionalising assessments. It is noted that there may be significant changes within expenditure categories because, for example, of targeted investment growth drivers and other methodology changes such as averaging stock disabilities being used under a functionalised approach. These changes in GST distribution within a category may be offset by changes in other categories.

However it is not clear what the net effect of all these changes will be until further work on the alternative approach has been undertaken.

To assist States gain a better understanding of the proposed changes, it would be beneficial if Commission staff could back cast previous assessment years under the proposed functionalised assessment so that a comparison can be made with the current method. This will enable the States to have a better understanding of the potential impacts of the proposed changes before indicating support or otherwise for this approach.

20.2 Refining the assessment of infrastructure needs

Staff propose to recommend the Commission:

- remove three year averaging of stock disabilities
- capture the change in circumstances through the use of category specific growth measures, where methods can be developed and reliable data are available. If no alternative measure is available, use total population growth as a proxy:
  - where population growth is used, specify change in population levels, rather than births, deaths and net migration, as the measure of population growth
- where there are considered to be additional stock requirements not captured by the growth indicator, use the assessment year's stock disability for both opening and closing stocks.

Tasmania has raised concerns in previous Methodology Reviews that assessing infrastructure investment need using overall State population growth may not be the most appropriate driver of demand. If suitable measures of the growth in the demand for State government services can be developed as a better driver of the need for associated infrastructure, then Tasmania supports the Commission staff recommendation that a category specific measure of growth could be used where it is appropriate.

Averaging disabilities - the CGC propose to no longer average stock disabilities over three years

It is not clear why Commission staff consider it necessary to remove three-year averaging for all stock disabilities. It appears to be driven by the Commission's desire to address an issue where, for rural roads, averaging is not appropriate. The Commission staff argue that this is because averaging creates a misalignment between changes in rural road stock disability (road length per capita) and population growth and this can

[17] CGC - Officer Working Party, *Assessment of Physical Assets*, 29 June 2018.

create volatility in the stock factor. The rural roads stock factor should be constant as both population drivers are the same (road length per capita and population growth) but with three-year averaging they are not.

Three-year averaging was introduced in the 2010 Methodology Review and retained in the 2015 Methodology Review to reduce the volatility in the year-to-year changes in the disabilities and to recognise that States do not necessarily respond immediately to changing circumstances.

The Commission staff have not made a strong case as to why averaging should be removed other than to address the issue with rural roads. No other cases are given where this is an issue.

An alternative to the Commission staff proposal could be to retain averaging for all disabilities except for rural roads and only in that case use a single year disability. Again, it would be helpful to States if a comparative analysis was undertaken to assess the impact of these changes with the current methodology.

Capturing changes in State circumstances within the year (freezing disabilities)

The Commission staff propose to apply the same stock disability to both the beginning and end of year stocks. Thus, the impact of a change in stock disability during the year will not be captured (such as a change in the demand for health infrastructure due to a change in the need for recurrent health services). Commission staff consider that this is an improvement to the current method because it no longer picks up changes in the disability stock factor that may, for example, be due to unreliable data or data revisions.

By freezing the stock disability, a change in State circumstances is not captured. However, the Commission staff consider that because changes in stock disabilities can occur through changes in the way the data is collected rather than actual changes in circumstances, inappropriate outcomes can occur.

Freezing stock disabilities could significantly impact a State's share of GST if its stock disabilities grow faster than the average of all States during a year. This can have a significant impact on net investment because the stock disability factors are multiplied by a very large number (the opening and closing stock values). Holding them constant could mask this impact.

Commission staff, however, argue that changing stock disabilities will be captured in the service demand growth factor instead of the stock disability factor. For example, changes in the proportion of State school enrolments can be picked up in the schools education growth factor rather than through the education infrastructure stock disability factor.

At this stage it is not clear in the Draft Assessment Paper whether the loss of recognition in State circumstances from freezing the stock factor will be completely picked up by the growth factor. Tasmania would argue that the growth factor should capture all the disabilities that would have otherwise been captured in the stock factor disability.

Again, while Tasmania can see some merit in the Commission staff proposal, without further analysis being provided as to its potential impacts it is difficult to reach a firm position on this issue.

Volatility of stock disability factors

The alternative to the current Investment assessment proposed by the Commission staff both introduces and reduces volatility as shown in the following table.

Treatment of stock disability factors

Current Method	Impact on Volatility
Averaging disabilities	Reduces volatility
Recognising changes in disability during the year	Introduces volatility
Commission Staff Alternative Method	
Single year disability (no averaging)	Introduces volatility
Freezing disabilities (with a corresponding recognition of changing disabilities in the growth factors)	Reduces volatility (removal of potentially volatile or unreliable estimates)

As noted, perhaps averaging could be retained except for rural roads

Commission staff alternative method (Tasmania's suggestion)	Volatility
Averaging disabilities (except rural roads use single year)	Reduces volatility
Freezing disabilities (with a corresponding recognition of changing disabilities in the growth factors)	Reduces volatility (removal of potentially volatile or unreliable estimates)

Category specific measures of growth

Tasmania supports the Commission staff proposal to examine the use of service category specific measures of growth in the demand for infrastructure to replace the current global indicator of total population growth used to determine States' need for investment across all categories.

Tasmania has, in past Reviews, raised concerns with the Commission's current approach to assessing infrastructure need that assumes that the demand for infrastructure is largely driven by the relative rate of population growth between the States.

While the Commission staff proposal retains the 'up-front and immediate' infrastructure needs assessment that has been implemented since the 2010 Methodology Review, that, in Tasmania's view, does not reflect all of the drivers of State government investment in infrastructure. Nevertheless, it addresses the concern that infrastructure is simply driven by overall population growth.

Clearly the specific growth category factor will need to be chosen so that it best reflects what drives infrastructure spending in the specific category. It is noted that Commission staff have not yet settled on appropriate category growth factors, although its preliminary views are provided in the paper.

Tasmania's initial comments on the proposed category growth factors are set out in Table 20.2.1:

Table 20.2.1: Proposed category growth factors

Category	Proposed Growth Indicator of Infrastructure Need	Comment
Schools	Government school enrolments	This could be reasonable when enrolments are growing. However, if enrolments are declining, States cannot easily disinvest in schools.
Post-Secondary Education	SDC weighted population	Agree that changing socio-demographic composition of the population will affect the demand for post-secondary education infrastructure.
Health	SDC weighted population	Agree that changing socio-demographic composition of the population will affect the demand for health infrastructure.
Housing	Total population	Do not agree that total population is the sole driver. SDC factors would also affect the demand for social housing infrastructure.
Welfare	Total population	Do not agree that total population is the sole driver. SDC factors would also affect the demand for welfare infrastructure.
Services to Communities	Total population	Agree.
Justice	SDC weighted population	Agree that changing socio-demographic composition of the population will affect the demand for Justice infrastructure.
Transport		
- Urban Transport	Urban population (10,000+)	Do not agree urban growth is sole driver. SDC factors will also affect the demand for urban transport
- Non-Urban Transport	Non-capital city population	No comments at this stage
Roads		
- Rural	None	Agree.
- Urban	Urban area population (40,000+)	Agree.
Services to Industry	Total population	Industry sector growth could be a better driver.
Other Expenses	Total population	Agree.

20.3 Other issues considered

Staff propose to recommend the Commission:

- not consider differential assessment of investment in land for any category other than roads
- assess the suitability of recurrent disabilities in assessing capital stock needs when assessments are further progressed
- consider whether to assess depreciation expenses with net investment expenses in an assessment of gross investment
- continue to assess the impact of population dilution on net financial assets, remove the 12.5% discount and not recognise any other disabilities.

Privately provided assets

Commission staff seek State views as to whether there is material disability faced by the smaller States in not being able to attract Public and Private Partnerships (PPPs).

Tasmania considers that there is a conceptual case that smaller States do not have the same access to PPPs as larger States do, and hence that small States do not have access to the potential efficiency and cost savings that PPPs can deliver governments. However, Tasmania agrees with Commission staff that currently it is difficult to quantify the disability faced by smaller States.

New and Old assets

States are provided with the fiscal capacity to provide services and associated infrastructure at the same standard if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.

Economic efficiency is about maximising the collective wellbeing of the members of the community, including in the provision and utilisation of public infrastructure. It has three components, as follows:

- Productive efficiency is achieved when delivery of infrastructure services is at the lowest possible cost. An example of an improvement in productive efficiency is where improved work practices lead to less labour being required to build a road.
- Allocative efficiency is about achieving the highest possible net benefits to the community from the provision of public infrastructure in aggregate. For example, if there are two infrastructure project proposals that would be equally costly to build, prioritising the one that would produce the greatest benefits would improve allocative efficiency.
- Dynamic efficiency refers to the improvement of productive and allocative efficiency over time. For example, infrastructure procurement processes that encourage innovation can lead to new technologies and design solutions that are then available for future projects, and this improves dynamic efficiency

The Commission's approach is to give each State the capacity to acquire the observed national average per capita stock of infrastructure as it changes from year-to-year, which would give them the capacity to deliver average services. It makes no judgment as to why infrastructure levels should rise or fall as populations change. It observes the average State response and gives all States the capacity to achieve the average outcome. As the GST is untied, States can use this capacity as they see fit, including accumulating it to finance 'lumpy' infrastructure investment as it occurs.

However, the Investment assessment provides States with the fiscal capacity to acquire assets at the average depreciated stock value. In reality, States use GST to acquire new assets, not assets at their average depreciated value. For faster growing States this is likely to result in an increase in the relative stock of new versus old infrastructure and this will enable the State to operate at higher than average efficiency. This is because new investment is likely to be more efficient than the capital it replaces because it creates an opportunity to adopt the latest improvements in technology and the lower maintenance costs of a new asset (that is, it is further up the age-efficiency profile). Examples of this are energy efficiency improvements in public buildings, greater durability and capacity of roads and bridges, lower fuel consumption in public transport and more efficient IT systems leading to reduced labour inputs or greater output.

In a report for Infrastructure Australia by GHD[18] it was noted that there is a close link between infrastructure renewals expenditure and maintenance expenditure.

> *For example, regular preventative maintenance can increase the life of infrastructure assets. However as an asset gets older, the cost to maintain it increases to the point where, in net present value terms, it will be more cost effective to replace the asset. Once the asset is renewed, the maintenance cost will drop considerably.*
>
> *As the condition of older assets deteriorates, there is an increasing risk of a marked decline in the quality of service offered by the asset. For example, load limits placed on road bridges, road closures, and speed restrictions on old rail lines may be implemented.*

While there would appear to be a conceptual case that faster growing States may achieve an efficiency or maintenance cost saving advantage from having a younger average age of infrastructure than a slowing growing State, there is a lack of comparable data to be able to measure this difference and to assess its impact on reducing the per capita cost saving in delivering services. Again, Tasmania reserves the right to raise this issue in the event more evidence becomes available.

Treatment of land

The Commission staff intend to investigate whether there is a case to include a disability for the acquisition of land by State governments because it notes that States with large cities face significant costs in acquiring land for road construction.

Under the current Investment assessment, land investment is not differentially assessed. That is, it is treated EPC. The reason for this was given by the Commission in its 2010 Methodology Review draft report, where the Commission decided:

> *to ensure that State general government land holdings have no impact on the relativities and investment relating to them (they) have been assessed EPC. The Commission argued that there is no consistency across States in how public land is valued and what land is included in State balance sheets.*

It is not clear why there should now be a differential assessment of the cost of acquiring land to reflect higher land values in some States when the Commission has in the past decided to treat land investment EPC because of concerns about the consistency of land valuation in State balance sheets.

Net vs gross investment

The Commission Staff propose that the current net investment and depreciation assessments be replaced with a single gross investment assessment (gross investment = net investment + depreciation).

The reason Commission staff propose this is a gross investment assessment:

- reduces the number of moving parts within the assessment; and
- reduces the frequency of a State having a negative assessed investment. The Commission notes that a negative assessment is a conceptually valid outcome in the current model, but is counter-intuitive and difficult for the Commission to explain.

It is not clear whether the current GST redistribution for net investment plus depreciation will give the same result as a single assessment of gross investment.

[18] Infrastructure Australia, *Infrastructure Maintenance - A Report for Infrastructure Australia*, March 2015.

It is also noted that there is an implicit change to the way depreciation is being handled if it is to be subsumed within a gross investment assessment.

The current method for assessing depreciation does not utilise a differential population growth disability factor (population dilution factor) whereas in the alternative method a differential population growth factor is assumed because there is no separation of net investment and depreciation disability factors in the gross investment approach (which uses population growth factor disabilities).

The following is an extract from a Commission staff Discussion Paper on the proposed assessments for the 2015 Methodology Review[19]

> *The Investment and Depreciation assessments are driven by different factors.*
>
> - *The Investment assessment is driven by factors which change the level of infrastructure required - population growth, changes in other factors affecting capital stock requirements and changes in the average capital stock per capita.*
> - *The Depreciation assessment is driven by the size of the capital stock at a point of time and the expected useful life of assets, as reflected in the average depreciation rate.*

So the alternative approach appears to be treating depreciation differently by subsuming it within a gross investment assessment. That is, it will in effect apply a population dilution disability to depreciation expenses where currently it does not. Tasmania loses GST because of the population dilution in the investment assessment and so the proposed change to assess gross investment, instead of separately assessing net investment and depreciation, is likely to reduce Tasmania's GST share. The rationale for this is not clear other than for presentational purposes.

Recurrent versus capital specific disabilities

Tasmania notes that, except in the case of roads and urban transport where capital specific stock disabilities are already used, Commission staff are considering whether capital specific disabilities can be developed for other service assessment. This would replace the current method of using recurrent expenditure in each service category as a proxy for stock disabilities where they are considered to affect the stock of infrastructure needed.

In the 2015 Methodology Review, Tasmania generally supported the choice of recurrent disabilities.

At this stage Tasmania has no comment on the Commission staff proposal until further work has been undertaken by Commission staff into the identification of appropriate capital specific disabilities.

Effect of population growth on financial assets (net borrowing)

For the Net borrowing assessment, Commission staff recommend the retention of the current Net borrowing assessment which has the effect of population dilution as its only disability.

The Commission staff also intend to remove the current 12.5 per cent discount on this assessment which was introduced to reflect the concerns about data quality and the coverage of the disability. The concerns raised by States were about the coverage of the disability. Some States argued that population growth can also lead to advantages for a faster growing State as well as the disadvantage of diluting its net financial worth on a per capita basis. The advantages raised by some States, including Tasmania, were that faster population growth could lead to the revaluation of financial assets and this could result in a higher net financial worth.

[19] CGC, *2015 Methodology Review Staff Discussion Paper CGC 2013-07S*, page 189.

The objective of the discount was to recognise that some of the advantages of population growth would in effect offset the disadvantage of population growth diluting net financial worth (which would distribute GST to the faster growing States). However, as noted by Commission staff, as States are predominately in a situation of negative net financial worth, faster population growth dilutes net borrowings rather than savings. Thus, GST is now redistributed away from the faster growing States to the slower growing States and the effect of the discount is to reduce this redistribution to the slower growing States.

Tasmania therefore agrees that the removal of the discount is warranted.

20.4 Issues considered and settled

> Staff propose to recommend the Commission:
>
> - retain the 2015 Review method of assessing capital costs through a combination of construction cost indices and recurrent cost factors.

Capital cost factors

Commission staff propose to recommend that the Commission not change the way it measures capital cost factors.

To address regional capital cost variations Commission staff developed a capital cost factor based on Rawlinsons capital city building cost indices. Because the index does not capture all types of government building, construction and equipment, the Commission applies a 50 per cent discount for roads and urban transport and a 25 per cent discount for other services. The resulting assessed construction index is then averaged with assessed recurrent wage and regional cost factors to produce an assessed capital cost factor.

In the 2015 Methodology Review Tasmania supported the Commission staff developing a construction cost index and noted that because of data and scope limitations a discount should be used. The averaging with other cost factors and the discounting of the construction index is a reasonable approach to addressing the limitations of using the Rawlinsons cost index alone for assessing regional variations in capital costs.

Tasmania therefore supports the Commission staff recommendation to retain the 2015 method of assessing capital costs.

20.5 Presentation

> Staff propose to recommend the Commission:
>
> - determine the best presentation framework based on staff and State recommendations.

The Commission staff seek States' advice on how best to present the proposed functionalised assessment framework.

If the Commission staff recommendation is accepted by the Commission, then having a separate calculation of investment need within each service expenditure category may assist in understanding the total GST impacts for each category. This is because States' assessed GST funding is for both recurrent and capital expenditure for a particular service category, for example in the Health category. The assessed recurrent and capital expenditure needs can be positive or negative depending on whether the State is assessed as being above or below the national average assessed expenditure.

For example, a State such as Tasmania has below average population growth which results in a less than EPC share of GST for capital such as in infrastructure and equipment. However, for many recurrent expenditure categories it has above average assessed recurrent expenditure. So it will be assessed as requiring an above EPC share of GST for its recurrent expenditure need, and a less than EPC share for its infrastructure needs due to its slow population growth.

This difference in the drivers for assessing need is not always appreciated by some observers who see a State receiving GST based on their recurrent expenditure need for a particular service category such as Health, without appreciating that GST is also being redistributed away from its infrastructure assessment due to having slower population growth.

As noted earlier, Tasmania has some concerns with the Commission staff proposal to combine net investment and depreciation into a single gross investment assessment. A single gross investment approach is also incompatible with presenting recurrent expenses (which includes depreciation) and capital expenditure within each expenditure category.

The Commission staff note that assessing investment within each category is likely to introduce volatility into the category assessments and its impact could dominate the redistribution in a category. Tasmania accepts this may be the case, and depending on the outcome of a functionalised investment assessment it may be better to assess investment separately from recurrent expenditure. Volatility could be tested by the Commission staff by back casting previous assessments using the functionalised assessment approach.

Chapter 21 **Wages Costs**

21.1 **Issues and analysis**

Staff propose to recommend the Commission:

- retain its approach to estimating differences in wage costs using the 2016 Update econometric model, updated with new CoES data each year.

Tasmania believes that the continued use of the ABS CoES data requires the Commission to reconsider its 2011 Update decision to discontinue the State specific adjustment for Tasmania.

In the 2016 and 2017 GST Relativity Updates, Tasmania noted that it had a number of concerns with the CoES data that replaced the ABS Survey of Employment and Training (SET) data in 2014-15. In the 2016 Update, Tasmania's modelled outcome using 2014-15 CoES data indicated that its relative private sector wages were 8.9 per cent below the average, and well outside the range found for public sector wages at that time.

However, the Commission considered that using an average of the indexed SET data for 2012-13 and 2013-14 and the new CoES data for 2014-15 mitigated the effect of the new CoES data, and generated Tasmania's average relative private sector wages as being 6.2 per cent below the average, a standard that the Commission considered not infeasible, relative to Victoria that was the State with the next lowest public sector wage differential of 5.7 per cent (later adjusted to 5.6 per cent) below average.

The 2015-16 CoES data for Tasmania produced an outcome that suggested that Tasmania's private sector wages were 7 per cent below the average. The combined average using the indexed SET estimates for 2013-14 and the CoES data for 2014-15 and 2015-16 placed Tasmania's average relative private sector wages for the 2017 Update at 7 per cent below average, the same divergence as the single 2015-16 figure. Again the Commission did not believe that this outcome was so extreme as to warrant any adjustment in addition to the general 12.5 per cent discount. The next lowest public sector wage level for the 2017 Update was 3.7 per cent, shared by both Victoria and South Australia.

More importantly, in the 2017 Update, the Commission reverted from a methodology based on its usual 3-year averaging approach to one in which it simply highlighted the change in wage cost differentials between 2012-13 and 2015-16, noting that

> *The Commission's measure of wage pressures beyond the control of State governments shows Tasmania's relative wage costs decreased between 2012-13 and 2015-16, reducing its GST share.*

The Commission made no comment on whether the modelled outcome for Tasmania's private sector wage divergence (7 per cent) lay outside acceptable bounds beyond which public sector wages would fall.

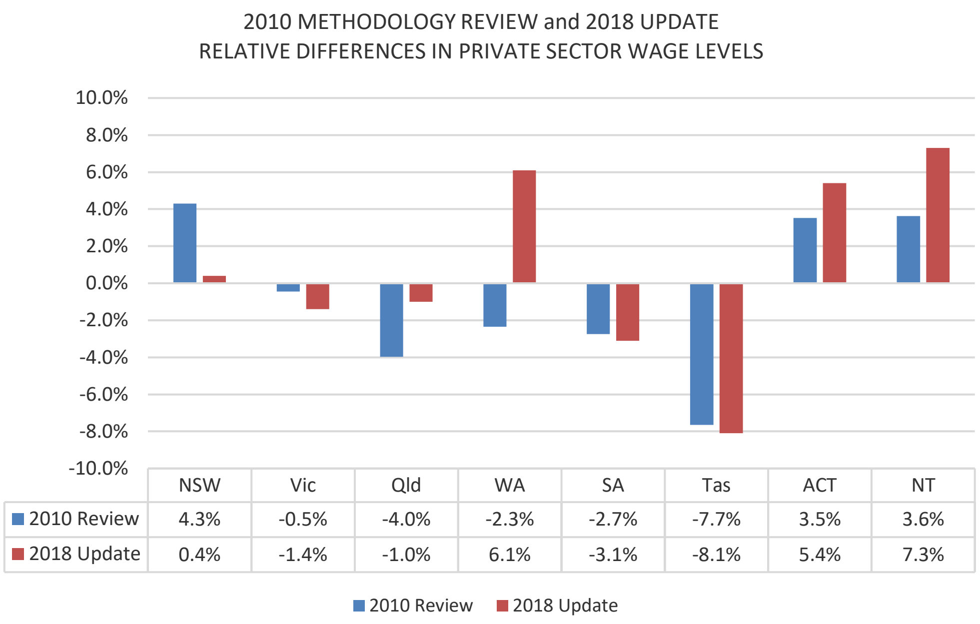
The 2018 Update now suggests that Tasmania's modelled outcome for 2014-15 to 2016-17 is 8.1 per cent below the average. Tasmania would argue that its relative public sector wages could not fall as low as the CoES data suggests that private sector wages have fallen. The next lowest public sector wage differential for the 2018 Update is South Australia, being 3.6 per cent below the average - less than half the estimated differential for Tasmania using the private sector proxy. Victoria, which was the 'benchmark' for the 2016 Update at 5.6 per cent below the average, now has a wage differential that is only 2.5 per cent below the average[20].

In the 2010 Methodology Review, the Commission argued that there were constraints on the variation of public sector wages and suggested that there were likely to be bounds within which public sector wages would lie. In the 2010 Methodology Review, Tasmania's relative private sector wages were assessed as being 7.7 per cent below average, leading the Commission to apply a 25 per cent discount to Tasmania's modelled outcome.

The 2018 Update figure of 8.1 per cent again suggests that Tasmania's assessment would appear to lie significantly outside the bounds of what its relative public sector wages would, in all practicality, be expected to lie, and it raises the question that Tasmania asked during the 2017 Update discussions: at what point does Tasmania's result become infeasibly extreme as to warrant a specific adjustment?

Figure 21.1.1 below compares the 2005-06 estimate (from the 2010 Methodology Review) with the calculated result for the 2018 Update. It highlights the fact that the 2018 Update outcome results in a more extreme change in the relative differences in private sector wage levels for Tasmania than the 2005-06 outcome (for the 2010 Methodology Review) which the Commission agreed needed to be rectified by a State specific adjustment for Tasmania of 25 per cent in addition to the 12.5 per cent general discount.

Figure 21.1.1 - Private Sector Wages Levels



[20] The public sector wage differentials were provided, on request, by the CGC. They are as follows:

YEAR	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2016 Update	2.2%	-5.6%	0.0%	7.8%	-3.4%	-4.6%	11.6%	4.4%
2017 Update	2.7%	-3.7%	-1.5%	5.3%	-3.7%	-3.8%	6.6%	4.2%
2018 Update	1.3%	-2.5%	-0.9%	6.5%	-3.6%	-5.0%	0.9%	7.6%

It is evident that the gap between the bounds within which public sector wages lie and the extent of the variation in the modelled private sector wages for Tasmania has widened significantly since the Commission first conceded that a State specific discount was required for Tasmania. Table 21.1.1 indicates the increasing gap between the lowest public sector wage deviation and the modelled private sector results for Tasmania.

Table 21.1.1 - Gap between public sector wages and Tasmania's modelled private sector deviation from average

YEAR	Private Sector (TAS)	Next Lowest Public Sector	State	Difference
2016 Update	-6.2%	-5.6%	Vic	-0.6%
2017 Update	-7.0%	-3.7%	Vic & SA	-3.3%
2018 Update	-8.1%	-3.6%	SA	-4.5%

Source: ABS 6302.1. Average Weekly Earnings Australia (various years) and public sector wage differentials provided the CGC.

Inconsistency between the SET data and the CoES data

Tasmania's concerns about the CoES data are further reinforced by a comparison between the average of the last three years of the previous SET data and the first three years of the CoES data. Table 2 suggests that there has been a significant step change from -4.8 per cent to -8.1 per cent in Tasmania's relative private sector wages, with the gap widening. This is not evident in any other State, with the exception of South Australia, but to a lesser extent.

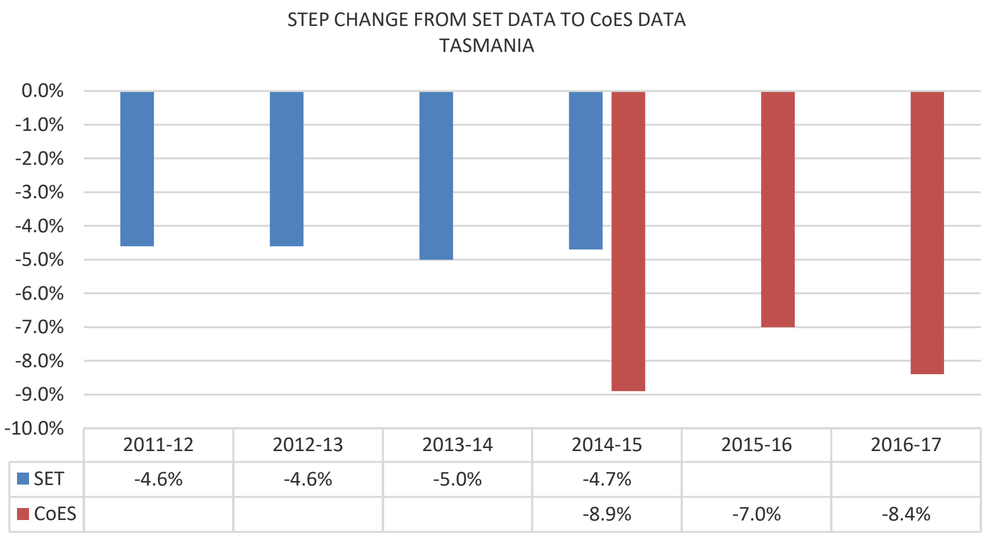
Table 21.1.2 - Average Movement in Private Sector Wages

YEAR	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
AVERAGE MOVEMENT								
2012-13 to 2014-15 (SET data)	0.9%	-2.2%	-2.1%	7.1%	-1.8%	-4.8%	4.2%	7.8%
2014-15 to 2016-17 (CoES data)	0.4%	-1.4%	-1.0%	6.1%	-3.1%	-8.1%	5.4%	7.3%

Source: ABS 6302.1. Average Weekly Earnings Australia (various years)

Figure 21.1.2 highlights the significant change in the private sector wage differential for Tasmania as a result of the change from SET data to CoES data.

Figure 21.1.2 - Set Data to CoES Data (Tasmania)



Tasmania believes that the CoES data is producing results for Tasmania that are inconsistent with the results for other States. The modelled outcomes for Tasmania are consistently falling outside the bounds within which public sector wages should lie.

For the purposes of consistency with the Commission's argument in the 2010 Methodology Review when it applied a 25 per cent discount to Tasmania's modelled outcome, and given the inherent bias of the new CoES data, an adjustment to Tasmania's current assessment is needed in addition to the general 12.5 per cent discount. Given that the next lowest public sector wage differential is South Australia with 3.6 per cent, the State specific adjustment for Tasmania should be 50 per cent.

Staff propose to recommend the Commission:

- update the wage proportions of service delivery expenses based on GFS expense data in the review, but not update these proportions in subsequent updates.

Tasmania agrees with this staff recommendation.

Chapter 22 Geography used by the Commission

22.1 Issues and analysis

Staff propose to recommend the Commission:

- continue using ABS remoteness areas geography across all categories.

Tasmania supports the Commission staff recommendation to continue using the ABS remoteness areas geography across all categories. Tasmania agrees with the Commission staff conclusion that the alternative Modified Monash Model classification was not a better proxy of State spending than the ABS remoteness areas, and that the additional two categories of remoteness did not add any additional explanatory power to this assessment.

22.2 Broadening the evidence base on regional costs

Staff propose to recommend the Commission:

- develop a regional costs assessment using data from schools, police, post-secondary education and hospitals
- test whether there are significant differences in the cost gradients between these services and, if not, use a single measure for all categories.

Tasmania supports the Commission staff proposal to broaden its regional cost gradients to include post-secondary education and hospitals where reliable data is available. The two current calculated regional cost gradients for police and government schools education require extrapolation to other services and so broadening the range of cost gradients should reduce the extent of extrapolation required, and thus improve HFE.

22.3 Extrapolation

Staff propose to recommend the Commission:

- send a data request to States for current data on State spending by region by service
- continue applying a regional cost disability to services where a conceptual case has been identified.

Tasmania notes that Commission staff intend to test whether a conceptual case exists that a regional cost disability should apply to a range of other service categories, and where validated, apply an appropriate extrapolation using other calculated cost gradients. The Commission staff will seek data from the States to undertake this validation exercise.

At this stage Tasmania has no comments to make and will provide the data to the Commission staff.

22.4 Measure of Indigenous socio-economic disadvantage

Staff propose to recommend the Commission:

- look into the merits of Indigenous Relative Socio-economic Outcomes Plus (IRSEO+) as a better measure of Indigenous SES once this becomes available.

Tasmania supports the Commission staff recommendation to examine the merits of the newly developed IRSEO+, which is based on the current IRSEO. Tasmania notes that States will be invited to participate in the consultative process on the development of IRSEO+.

In the 2015 Methodology Review, Tasmania accepted that the use of an Indigenous-specific area based measure may potentially better recognise Indigenous disadvantage for the commission's purposes. However, Tasmania raised several issues regarding the use of the existing IRSEO.

The focus of the IRSEO is one of 'measuring the positive aspects of access to economic resources', as opposed to measuring relative disadvantage across Indigenous populations. The variables are constructed as positive aspects of socio-economic status, meaning the Index is primarily advantage-focussed, and can be viewed as somewhat aspirational. Tasmania considered this to be disconnected from the aim of recognising the socio-economic differences the Commission was attempting to measure, and therefore, could be at odds with the Commission's needs. However, Commission staff note in the Draft Assessment Paper that while the two indices are not identical, IRSEO is currently the best available measure of social advantage (albeit inverted to measure disadvantage).

Nonetheless, Tasmania welcomes the opportunity to participate in the consultative process to further develop IRSEO and will provide comment once more information is released to States.

22.5 Other issues considered and settled - *Service delivery scale, SEIFA, NISEIFA and Interstate non-wage costs*

Staff propose to recommend the Commission:

- continue to use SEIFA and NISEIFA for the total and non-Indigenous population, respectively
- maintain 2015 methods for Service delivery scale
- maintain 2015 methods to measure Interstate non-wage costs.

SEIFA and NISEIFA

Tasmania has no issues at this stage with the Commission staff recommendation to continue to assess SES characteristics for total population and non-Indigenous using SEIFA and NISEIFA as appropriate.

Service delivery scale

Tasmania supports maintaining the 2015 methods for service delivery scale and notes that Commission staff are also investigating whether IHPA data is sufficiently capturing all service delivery costs for hospitals and community and other health services.

Interstate non-wage costs

The introduction of the ABS Accessibility and Remoteness Index Australia (ARIA) based remoteness geographic classification in the 2015 Methodology Review enabled the Commission to better capture interstate non-wage costs, such as freight and travel costs. Under ARIA, capital cities with populations of less than 250 000 are categorised as either inner or outer regional rather than major cities and thus recognising higher costs associated with being a smaller city. This enabled interstate non-wage costs to be removed from the assessment as the Commission had strong concerns about data reliability used in its assessment.

However, the Commission considered that an adjustment was necessary to address some shortcomings in the ARIA regional/remoteness geographic classification in recognising interstate non-wage costs. The Commission considered Perth and Canberra did not have the same cost savings as the larger capital cities, being more isolated in the case of Western Australia, or much smaller in the case of the ACT. It also considered that Hobart and Darwin enjoyed some cost advantages of major cities even though they are not classified as major cities under the ARIA geographic classification.

The Commission therefore adjusted regional costs by increasing Western Australia and the ACT by $70 million respectively. In the case of Hobart and Darwin the Commission reduced the impact of the regional cost assessment by 50 per cent ($30 million and $55 million) respectively, based on judgement.

Tasmania agrees that there is a conceptual case for non-wage regional costs to be recognised and it supported the Commission's move from SARIA to ARIA. ARIA provides the Commission with a superior geographic classification that, to a degree, captures these interstate non-wage cost differences without needing a separate interstate non-wage assessment. While the Commission's adjustment to the regional cost assessment for under/over estimation of interstate non-wage costs is somewhat arbitrary, Tasmania cannot suggest a superior alternative approach.

Commission staff propose to continue to apply an adjustment to regional costs as determined in the 2015 Methodology Review and to index it using the growth in total State expenses.

Chapter 23 **Other Disabilities (Cross Border, National Capital and Native Title and Land Rights)**

23.1 **Cross Border - Issues and analysis: *Services where comprehensive actual data exist***

Staff propose to recommend the Commission:

- retain the 2015 Review approaches to cross-border disabilities for schools, post-secondary education, roads and hospitals.

Consistent with our view in the 2015 Methodology Review, Tasmania supports the Commission staff recommendations in relation to these cross-border issues.

23.2 **Cross Border - Issues and analysis: *Community health***

Staff propose to recommend the Commission:

- retain a cross-border assessment for community health expenses
- collect updated evidence on cross-border use of ACT community health services by residents from New South Wales and use of New South Wales community health services by ACT residents.

Tasmania notes that Commission staff intend to retain the cross-border assessment for community health expenses (ACT-NSW) and to work with the ACT to identify and update the net level of cross-border use of ACT and NSW community health services. Tasmania agrees that, where material, and costs are not captured elsewhere, the cross-border costs should be assessed.

23.3 **Cross Border - Issues and analysis: *Other services***

Staff propose to recommend the Commission:

- not apply a cross-border factor to residual State disability expenses, other general welfare expenses and recreation and culture expenses, unless the ACT provides evidence of significant cross-border use and that use leads to identifiable costs for the ACT.

Tasmania supports the Commission staff decision not to apply a cross-border factor to residual State disability expenses and other expenses, unless the ACT can provide evidence to support its claims that material cross-border use exists and subsequent costs can be identified.

23.4 Cross Border - Issues and analysis: *General method*

Staff propose to recommend the Commission:

- consider whether a community health specific method could be assessed to measure a cross-border factor or whether the general method, subject to a review of the proportion of the population from surrounding areas who are considered to use ACT services, should continue.

Tasmania notes the Commission staff intention to consider an assessment method to measure a cross-border factor for community health or whether the general method (subject to a review) should continue.

23.5 National Capital Allowances - Other issues considered and settled

Staff propose to recommend the Commission:

- discontinue all the planning allowances unless the ACT can make a case for their continuation
- retain the police allowance and the 2015 Review method for calculating it and assess it as a separate factor in the Justice category.

ACT Planning Allowances

Tasmania supports the Commission staff recommendation to discontinue all planning allowances unless the ACT can provide appropriate arguments to support its continuation.

Police Allowance

Tasmania supports the Commission staff position not to change the approach to this assessment, and notes staff confirmation that the legislation used to justify the allowance in past Reviews remains unchanged and that there is no evidence of any intention to change it.

Tasmania further notes that the roads allowance will cease in the 2019 Update.

23.6 Native Title and Land Rights - Issues and analysis: *Native title*

Staff propose to recommend the Commission:

- continue to assess the native title component of the Native title and land rights assessment on an APC basis, subject to State views on alternative assessments.

Consistent with our views in the 2015 Methodology Review, Tasmania supports the continued APC assessment for the Native title component of the *Native Title and Land Rights* category.

Tasmania agrees with the Commission staff that the ACT's alternative assessment proxy is not robust and does not capture all the drivers that influence expenses.

Tasmania further agrees with the Commission staff that land title processes are moving more from litigation to negotiation. In the past, Tasmania has advised the Commission that it does not have any Native title applications or Indigenous Land Use Agreements. Aboriginal claims to land and waters in Tasmania are managed via return of land and collaborative management processes. For example, the Commonwealth statutory authority, the Indigenous Land Corporation, has a land management program which assists Indigenous landholders to sustainably manage land and develop land uses.

Further, *the Aboriginal Lands Act 1995 (Tas),* when established, did not contain a claims process, rather it has vested 15 areas in the Aboriginal Land Council of Tasmania (ALCT) to be held on trust for the benefit of Aboriginal people.

Subsequently, Tasmania agrees that the current APC assessment remains appropriate.

23.7 **Native Title And Land Rights - Land rights**

Staff propose to recommend the Commission:

- decide on whether land rights expenses should be assessed for all States and, if so, how, after collecting State expenses on land rights.

Tasmania notes the staff proposal to examine whether land rights expenses should be assessed for all States, and how, after collecting State expense data on land rights.

Tasmania would expect, if the Commission staff develop an alternative assessment based on State expense data, appropriate consultation and opportunity for further comment would follow.

Chapter 24 **Administrative Scale**

24.1 The conceptual case for the administrative scale and definition

Staff propose to recommend the Commission:

- retain the 2015 Review definition of administrative scale.

Consistent with our view in the 2015 Methodology Review, Tasmania is supportive of the proposal to retain the existing definition of administrative scale costs.

Although the conceptual case for the administrative scale assessment has evolved, Tasmania notes the Commission's continued recognition that States face an administrative scale disability in providing services, and that this has always related to the cost of administering the various departments of government independent of the size of the service population.

Tasmania further notes that the Commission has long acknowledged that States with smaller populations have intrinsically higher per capita costs as the minimum functions of government are spread over a smaller number of residents. Tasmania agrees with this rationale as the administrative scale assessment captures the cost of providing services (independent of the service population) indicating that each State therefore has the same requirement, and that this requirement is therefore greater in smaller jurisdictions.

24.2 Re-estimating the administrative scale costs

Staff propose to recommend the Commission:

- to the extent possible, re-estimate administrative scale expenses for each expenses category using the bottom-up and top-down approaches.

Tasmania supports the proposal to re-estimate the quantum of administrative scale costs as a priority for the 2020 Methodology Review.

Tasmania notes that the administrative scale costs were last re-estimated as part of the 2004 Methodology Review, and have been indexed since in both the 2010 and 2015 Methodology Reviews.

Tasmania considers that the current administrative scale assessment underestimates the minimum administrative costs incurred by the smaller States. Tasmania continues to be supportive of a robust and sustainable administrative scale assessment that is supported by quality data, particularly from the smaller jurisdictions which provide the closest representation of minimum head office costs.

Tasmania has long been concerned that the Commission's administrative scale assessment simplifies the increasingly complex organisational structures, resulting in an unrealistic estimate of the number of functions contained within each organisational structure, and subsequently the number of scale affected employees.

Since 2004 there has been growth in the number of functions of State governments in responding to national initiatives such as health and education reform, other intergovernmental relations, responses to terrorism, and domestic violence as well the increasing cost of information systems.

Tasmania supports the proposed approach by the Commission staff to re-estimate the administrative scale quantum using a bottom-up approach to build a minimum size head office from the ground up, as was done in the 1999 and 2004 Methodology Reviews. However, while the average machinery of government, stylised organisational structure, and staffing per unit costs are based on what States do, it is unclear from previous

Commission papers[21] how minimum staffing numbers have been calculated. Tasmania has expressed concern over the derivation of numbers for scale affected staff and would expect a more robust explanation of these calculations going forward.

Further, Commission staff have stated previously[22] that the bottom up approach can be validated by applying a top down approach through the examination of the size of the head office and State-wide services in the smallest States adjusted to exclude staffing/expenses considered inconsistent with the stylised minimum structure. Staff deem that this would establish an upper limit based on observed staffing levels for the smallest State's head offices when compared with the PC's annual RoGS.

Tasmania does not support this view. In the Staff Research Paper, *Proposed approach to estimating administrative scale costs for the 2020 Methodology Review*, there was a significant disparity (in the case of the smallest head office States of Tasmania and the ACT) in the staffing levels shown in the PC's 2016 RoGS[23] and the Commission's estimates.

24.3 **Adjustments for the Northern Territory and the ACT**

Staff propose to recommend the Commission:

- continue to adjust the ACT's scale expenses to reflect its minimal spending needs for Indigenous communities, non-urban transport, primary industries, and mining and mineral resources other than fuels
- decide whether to retain the adjustments for the Northern Territory based on State provided evidence about the existence of dual service delivery models.

Australian Capital Territory

Tasmania does not oppose the continued adjustment of the ACT's scale expenses if available data continues to reflect its minimal spending needs for Indigenous communities, non-urban transport, primary industries, and mining and mineral resources other than fuels.

Northern Territory

Tasmania does not oppose the retention of adjustments for the Northern Territory if appropriate evidence is available to support the existence of dual service delivery models.

As noted by the Commission staff, it would need to be established that unique circumstances in the Northern Territory create a need for extra administrative, policy and related staff in its head offices.

[21] CGC, *Staff Research Paper - Proposed approach to estimating administrative scale costs for the 2020 Review (*CGC 2017-06-S), April 2017.

[22] *Ibid,* pages 23-24.

[23] Productivity Commission, *Report on Government Services, 2016.*

24.4 **Indexing the administrative scale expenses**

> Staff propose to recommend the Commission:
>
> - keep the administrative scale expenses up-to-date in updates following the 2020 Review by indexing them using the ABS State and local government final consumption expenditure deflator.

Tasmania supports the re-estimation of the administrative scale expense at each Methodology Review (every five years) to avoid the quantum becoming again an unreliable measure of scale disability.

For the period in-between Methodology Reviews, Tasmania supports the Commission staff proposal to update the existing quantum following the 2020 Methodology Review using the ABS State and local government final consumption expenses deflator.

24.5 **Presentation**

> Staff propose to recommend the Commission:
>
> - staff seek State views on whether administrative scale expenses should all be included in a component of the Other expenses category or separately identified in each expense category.

In the 2015 Methodology Review, Tasmania did not oppose the Commission staff proposal to include all administrative scale expenses in the *Other Expenses category* (rather than assessing them in a number of categories for presentational purposes) as this was intended to simplify the calculations by having just one administrative scale assessment.

However, given the proposal by Commission staff to functionalise investment expenditure in each expenditure category, there now may be merit in separately identifying the administrative scale disability within each expenditure category. While as previously noted it may increase complexity, it would also aid transparency in being able to gain a fuller understanding of all the redistributive impacts for each assessment category.

Acronym Table

Acronym	Definition	Acronym	Definition
AA	Analysis Asset	NCVER	National Centre for Vocational Education Research
ABF	Activity based funding	NDIS	National Disability Insurance Scheme
ABS	Australian Bureau of Statistics	NDRRA	National Disasters Relief and Recovery Arrangements
ACARA	Australian Curriculum, Assessment and Reporting Authority	NEP	Nationally Efficient Price
AFP	Australian Federal Police	NERA	National Education Reform Agreement
AGS	Australian Gambling Statistics	NHCDC	National Hospital Cost Data Collection
AIHW	Australian Institute of Health and Welfare	NHRA	National Health Reform Agreement
ALCT	Aboriginal Land Council of Tasmania	NIHSI	National Integrated Health Service Information
APC	Average per capita	NISEIFA	Non-Indigenous Socio-economic Index for Areas
ARIA	Accessibility and Remoteness Index Australia	NNR	National Network Roads
BLADE	Business Longitudinal Analysis Data Environment	NTC	National Transport Commission
CALD	Culturally and linguistically diverse	NWAU	National Weighted Activity Unit
CGC	Commonwealth Grants Commission	OWP	Officer Working Party
CoES	Compensation of Employees Statistics	PBS	Pharmaceutical Benefits Scheme
COFOG-A	Classification of the Functions of Government - Australia	PC	Productivity Commission
ED	Emergency Department	PNFC	Public sector non-financial corporations
EPC	Equal per capita	PPP	Private Public Partnership
FELs	Fire and Emergency Services Levies	PWC	Price Waterhouse Coopers
FHOG	First Home Owner's Grant	RoGS	Report on Government Services
GFS	Government Finance Statistics	RTO	Registered Training Organisation
GST	Goods and Services Tax	SA1	Statistical Area 1
HACC	Home and Community Care	SDAC	Survey of Disability, Ageing and Carers
HFE	Horizontal Fiscal Equalisation	SDC	Socio-demographic composition
HILDA	Household, Income and Labour Dynamics Survey	SEA	Socio-economic advantage
ICHO	Indigenous Community Housing Organisation	SEIS	Social & Economic Impact Study on Gambling in Tasmania
ICSEA	Index of Community Socio-Educational Advantage	SES	Socio-economic status
IHPA	Independent Hospital Pricing Authority	SET	Survey of Education and Training
IRSEO	Indigenous Relative Socio-economic Outcomes	SMVU	Survey of Motor Vehicle Use
LGA	Local Government Area	SOMIH	State Owned and Managed Indigenous Housing
LGH	Launceston General Hospital	SRA	State Road Authority
MBS	Medicare Benefits Scheme	SRO	State Revenue Office
MMM	Modified Monash Model	SUA	Significant Urban Areas
NAP	Non admitted patients	UCL	Urban Centres and Localities
NCCD	Nationally Consistent Collection of Data on School Students with Disability	VET	Vocational Education and Training